

Budget Solutions Policy Brief

Real State Budget Reform

A Proposal for Solving Minnesota's Budget Deficit Without Raising Taxes

Prepared by The Minnesota Budget Solutions Coalition
www.MinnesotaBudgetSolutions.com

YES WE CAN

# About the Minnesota Budget Solutions Coalition

## Who We Are

The Minnesota Budget Solutions Coalition is an informal alliance of non-profit organizations formed to solicit ideas from the public and members of the coalition on the state budget. The objective was to produce a proposal to solve the state's budget deficit without raising taxes. Many in the state legislature seem to be in a rush to propose tax increases without first even considering serious efforts at budget reform.

The coalition has identified many opportunities to reform state spending and we believe the state legislature should also be able to do so. Our coalition has only begun to explore the possibilities for reform and greater efficiencies. Many aspects of state spending haven't even been examined yet, but we offer this document as a blueprint to begin the process of meaningful budget reform.

- **Associated Builders and Contractors**
- **Campaign for Liberty Minnesota Chapter**
- **EdWatch**
- **Freedom Foundation**
- **Minnesota Family Council**
- **Minnesota Free Market Institute**
- **NFIB Minnesota Chapter**
- **Minnesota Majority**
- **Taxpayers League of Minnesota**

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# Budget Solutions Policy Brief

## Foreword

The government of the state of Minnesota is now wrangling with a biennial budget deficit of historic proportions. The commonly used figure is \$4.8 billion, but that figure assumes \$1.6 billion in federal bailout money. The actual projected **\$6.4 billion** hole is the result of waning revenues due to an overall flagging economy and a legislature that failed to consider that reality.

The pattern of growing government in boom years and raising taxes to cover the new expansions in bust years is unsustainable as poignantly demonstrated by the record-setting budget deficit. General fund spending has grown \$8 billion (29%) since just 2004 and now revenues are expected to fall short of the next biennial budget by \$6.4 billion.

In economic conditions such as Minnesotans now face, increasing taxes is a very poor option that could prolong the recession, or, more likely, worsen it. Fundamental reforms in the nature of state spending are needed. Governor Pawlenty's budget succeeds on one level in that it doesn't raise taxes, but it is only a temporary solution that relies heavily on one time money, including billions of dollars from the federal government, bonding and spending shifts. Current proposals essentially enable a broken budgeting process to continue for a short time without addressing the underlying issues. The same budget crisis will only reemerge in the next biennium if the budget isn't seriously reformed.

The two budget items that are consistently held as untouchable are Health & Human Services and Education, but these expenditures combined account for 77% of the state's general fund budget. Realistically, there can be no substantial budget reform without looking for greater efficiencies in these areas.

Both the Senate DFL and the House DFL caucuses have proposed plans that mix across the board spending reductions with tax increases. Besides the obvious impact on individuals and businesses, the Senate DFL plan to raise taxes by \$2 billion and the House DFL plan to raise taxes by \$3 billion are risky in light of current economic conditions. New taxes have the strong potential to suppress economic activity when it's most needed and could backfire by creating a further decline in revenue and bigger deficits.

Minnesota's unemployment rate has reached 8.1% and state economist Tom Stinson projects that it may climb to 10% or more by the end of 2009. Incomes are in decline and businesses are downsizing, closing or moving out of state. Inflation is likely to accelerate due to extraordinary federal deficit spending. Minnesota's families and businesses face tremendous financial challenges and are cutting back. This document recommends budget solutions that are sensitive to these realities. While Minnesota citizens are responding to reduced income by reducing spending, these suggestions are predicated on an expectation that government should do the same and live within its means instead of adding to the already heavy burden carried by Minnesota's taxpayers.

## Budget Reforms Could Save Over \$6 Billion

The Budget Solutions Coalition has identified several potential reforms and cost savings to close the current budget shortfall and prevent future deficits. Elimination of redundant and ineffective programs, structural budget changes and economic reforms are recommended for billions of dollars in savings to the Minnesota taxpayer. These reforms are also designed to encourage economic growth that will ultimately lead to higher, more consistent state revenues in the long term. Some additional recommendations are for one-time money that will provide the state an immediate boost in revenues without any requirement for federal “stimulus money” that will come with strings attached and provide the federal government more control over our local affairs.

All told, this plan, if fully implemented, will provide the state of Minnesota biennial budget savings of \$6.6 billion. The 2010-2011 budget shortfall can be solved without raising taxes. In fact, some taxes can be cut (which would spur personal savings and economic growth) and the state would still maintain a budget surplus.

## Health and Human Services

### \$4.32 BILLION IN SAVINGS

The two largest areas of spending in this department are in health care services and long term care. Health care spending grows at 8% each year (Kaiser Foundation) and the graying of the population portends an increase in the rate of growth for long-term care. Additionally, welfare encourages a culture of dependency that does not assist people to improve their lives. People's lives are changed through relationships, not handouts, and charitable organizations can change habits and hearts in a way that government is not able. The ideas for savings return the responsibility for care and compassion to the individual, whether in one's health, the care of family members, or the civic obligation to each other.

- Provide Health Insurance Subsidies, not Health Care Services and Payments. The average single premium in 2006 was \$3,981 (Kaiser Foundation); this demonstration would provide a \$6,000 subsidy to each client on the four medical assistance programs (to be combined for efficiencies). This idea has the potential to cover all currently uninsured Minnesotans, as the subsidy could be adjusted to income. Additionally, the Legislature would need to remove the restriction for purchasing health insurance only within Minnesota: \$2.85 billion
- Eliminate certain state assistance programs and replace them with a 10% tax credit for donations to Minnesota charities (see appendix): \$578.4 million
- Reform the Social Security Title IV-D program so child support services are paid only to parents who qualify for public assistance: \$258.3 million
- Eliminate intrusive and ineffective home visiting and mental health screening programs: \$30.2 million
- Merge three Child Care assistance programs into one for efficiencies: \$21.3 million
- Eliminate Family, Friend and Neighbor Grants - This program puts the state in charge of monitoring and directing childcare by relatives. \$743,000
- Eliminate Early Childhood Professional Development - \$496,000
- Eliminate Home Visiting Programs - \$7,785,000
- Hold MFIP/DWP grants to 2008-2009 funding levels: \$58.3 million

## K – 12 Education

### \$1.16 BILLION IN SAVINGS

Weighing in at nearly \$14 billion, K-12 education is the state's largest single area of spending, making up about 40% of the general fund budget. Current state-funded education programs include many redundancies, and some exhibit questionable effectiveness or necessity.

- Eliminate Compensatory Aid - This program does not take any academic measurement into account when prioritizing funding. The program also favors urban school districts over other school districts when using poverty measurements: \$346 million
- Eliminate Integration Revenue - The Integration Revenue program, a component of the K-12 education funding formula, is supposed to provide money to certain school districts for integration-related activities: \$132 million
- School Districts Share Administrative Staff - By consolidating Superintendents alone so that there is one for every 10,000 students, you reduce 260 positions at a salary savings of roughly \$100,000 per year, per position. Reducing overall administrative costs by 10% would save state money: \$140 million
- Early Graduation Incentives - If an estimated 1000 students used the proposed program which would pay students to graduate early, the state would save an estimated \$2600 per student per year: \$5.2 million
- Eliminate Kindergarten Readiness Assessment and Intervention Program - This program uses vague, subjective criteria based on the highly questionable assessment, The Early Childhood Indicators of Progress that asserts 50% of Kindergarten-age children are not ready to start Kindergarten: \$574,000
- Eliminate Preschool Screening - This program is redundant. Preschool screening could be transferred to health care providers as part of school physicals and Medicaid already does this screening as part of EPSDT. \$6,576,000
- Eliminate Educate Parents Partnership - This program amounts to the state telling parents how to raise their children: \$100,000
- Eliminate ECFE (Early Childhood Family Education) - ECFE offers classes such as "adventures in parenting," and "terrible twos" for parents of children aged 2-5 years. According to the legislative auditor, the program shows no evidence of developmental gain. \$51,850,000
- Eliminate Early Childhood Literacy - This program was established in 2007 and there is still no data on its effectiveness: \$3 million
- Eliminate After School Community Learning Grants - This program was established in 2007 and can be eliminated without any noticeable impact: \$5,233,000
- Eliminate International Baccalaureate Program - IB is a needless duplication of services offered by the more effective, efficient and locally controlled Advanced Placement and Concurrent Enrollment programs. \$2,250,000
- Repeal the public school staff development mandate: \$175 million
- Two-year compensation freeze for public school employees: \$300 million

## Higher Education

### \$146 MILLION IN SAVINGS

- Reduce the number of MNSCU campuses – With such an overlap of Minnesota State College Campuses, the cost of maintaining all the campuses is not financially feasible in tough economic times. By closing campuses that have very low enrollments, the state saves money while prioritizing the role of nearby regional technical colleges: \$11 million
- Freeze U of M employee pay increases for two years (via reduction of U of M’s “General Compensation” appropriation request): \$95 million
- 10% pay reduction for higher education staff with salaries of \$100,000 or more: \$40 million

## Economic Development

### REVENUE NEUTRAL

Net Savings: neutral over two years; does not account for long term growth through the creation, expansion and relocation of business to MN, or how it will ripple affect through the economy (increases in sales tax revenue, property tax revenue, decrease in state services due to increased employment, etc)

Estimated Costs of Tax Reductions: \$564.7 million

Savings: \$499.2 million

Extensive research by the Mackinac Center for Public Policy has shown that targeting particular firms or industries with special favors does not improve a state’s economy. Corporate welfare may create an advantage for one business but does so at the expense of another that cannot realize the same benefit. Therefore, the greatest chance for long-term growth is to get state government out of the business of picking winners and losers in business.

- Eliminate all corporate welfare including corporate subsidies, incentives, and credits; close 16 Workforce Centers; direct retraining through MNSCU and local community education: \$233.4 million
- Encourage the creation, expansion and relocation of business in Minnesota by eliminating the corporate income tax over four years.
- Sell Giants Ridge Resort; end the taconite tax and divest IRRR Fund and Douglas Johnson Fund to a private/public foundation: \$25 million plus \$60 million one time sale
- Merge and eliminate Boards and Commissions: \$3 million
- Fund the Historical Society and Arts Board with Arts and Cultural Heritage Tax: \$54.9 million
- Return other departments to 2006-07 biennium levels: \$122.8 million

## Environment, Natural Resources & Energy

### \$277.8 MILLION IN SAVINGS

- Require the DNR to fully self-fund via fees: \$247.8 million
- Abolish Ethanol Grants (direct producer payments): \$30 million
- Sell excess state lands – the DNR, the DOT and the IRRB together hold millions of acres of idle, acquired, “Con-Con” and commercial lands that should be sold back to private parties.

## State Government

### \$74.2 MILLION IN SAVINGS

- Eliminate Political Contribution Refund (PCR) Program: \$12.5 million.
- Allow localities to opt out of costly unfunded mandates.
- Set sunset dates for all boards and eliminate per diems for all boards.
- Eliminate state vehicles – reimburse state employee mileage instead.
- Eliminate Payment in Lieu of Taxes (PILT) on state land and require standard property taxes instead.
- Freeze state employee salary increases for two years: \$18.7 million
- Restore Met Council to its original advisory mission and reduce budget by 25%: \$41.3 million
- Restrict Enterprise Technology Office to dedicated funding (remove General Fund appropriation): \$15 million
- Shift all public employees to defined contribution retirement plans.
- Restrict Labor & Industry Department to dedicated funding (remove General Fund appropriation): \$1.96 million
- Reduce legislators’ and constitutional officers’ pay by 5%: \$676,441

## Tax Aids & Credits

### \$595 MILLION IN SAVINGS

Reducing LGA payments by weaning local units of government off over a four-year period would save the state of Minnesota substantial amounts of money and push cities to enact more responsible, locally oriented budget priorities.

- Eliminate Local Government Aid: \$1.069 billion over 2 biennia.
- Replace capital equipment refund with up-front exemption.
- Reduce capital gains tax if dollars are reinvested back into a Minnesota business.
- Change Renters Tax Credit to actual percent of rent paid toward property tax: \$60 million

## Public Safety and Judiciary

### **\$83.3 MILLION IN SAVINGS**

Minnesota's courts appropriate nearly three quarters of a billion dollars from the general fund each biennium. All public safety spending totals another billion dollars for a total public safety and judiciary budget of over \$1.7 billion.

- Reduce court appropriations and increase attorneys' annual law license fees to make up the difference: \$50 million
- Two-year salary freeze for judicial branch employees: \$5.5 million
- Reduce Human Rights Department funding – This board only processes about 800 files, currently receiving funding equivalent to \$6,000 per file: \$4.9 Million
- Change Sentencing Guidelines Commission meeting schedule from once a month to quarterly: \$708,000
- Hold Corrections Department funding to 2008-2009 levels: \$22 million
- Fund Private Detectives Board entirely by license fees: \$264,000

# Budget Solutions Policy Brief

## Conclusion

The \$6.6 billion in savings created by these recommended reforms will solve the current 2010-2011 budget deficit and set Minnesota down a more stable and prosperous economic path. This can be accomplished without creating new income tax brackets, raising tax rates or expanding the tax base. Moreover, federal tax dollars that come from Washington DC with strings attached are not required to solve our current state budget deficit.

There are a myriad of additional cost-saving reforms that can be examined and implemented to go beyond what is required to solve the current deficit. Through eliminating outmoded or unnecessary programs, increasing efficiencies and prioritizing government services, tax reductions can be considered while still maintaining essential state government programs.

Our current unsustainable state spending levels are the result of past failures by the legislature and the governor to live within government's means and plan for future economic downturns. State government has historically spent every dollar of revenue raised each biennium. Budgets have been built around revenue forecasts, which have led to enormous increases during good economic times. Now, in a time when Minnesota families and businesses are suffering historic losses in income, employment and net worth, the governor and legislature must do its part and move forward with bold leadership to transform the state's spending model into one that responsibly accounts for available resources and doesn't add to the burden on taxpayers.

# Appendix: Budget Department Narratives

## Health & Human Services

### Big Idea - Provide Health Insurance Subsidies, not Health Care Services and Payments

Potential Savings: \$2 billion per year

There are approximately 662,000 people served by four different medical assistance plans (MNCare, two medical assistance programs and general assistance). The Big Idea would combine these programs for administrative efficiencies and provide an annual subsidy to a Health Savings Account (HSA) for the client to purchase health insurance on the open market, requiring the state to remove the restriction of purchasing health insurance only in Minnesota.

According to the Kaiser Foundation State Health Facts, the average single premium for an individual in 2006 was \$3,981. If a \$5,000 annual subsidy was placed into a HSA for each medical assistance client, it could be possible to save almost \$2 billion just in direct payments.

662,000 clients x \$5,000 MSA subsidy = \$3,310,000,000

FY2010 spending on four current plans = \$5,287,828,000

Even a more generous \$6,000 MSA subsidy still yields great savings (\$1.3 billion).

This Big Idea returns the responsibility for health care on the client, introduces competition for coverage, and has the flexibility to cover all uninsured Minnesotans as the subsidy can be adjusted by client's income.

### Big Idea - Encourage a Culture of Charity, not Welfare

Potential Savings: \$285 million in the first year

"If some great and sudden calamity befalls a family, the purses of a thousand strangers are at once willingly opened."

- Alexis de Tocqueville, a reflection during his visit to America, 1831

People's lives are changed through relationships, not handouts. If society's goal is to assist people to improve their own lives, then this goal cannot be reached by creating dependency. Charitable organizations can change habits and hearts in a way that government is not able. Local organizations such as Scholarship America (Bloomington), Hope for the City (Minnetonka) and Sharing and Caring Hands (Minneapolis) receive no government support but change lives, help people reach their goals and help where it's most needed in meaningful and measurable ways.

The Big Idea is to phase out as many inefficient state assistance programs as possible and replace them with tax credits for donations to Minnesota charities. Savings to the state as cash payments and their corresponding administrative supports are eliminated will be offset by the cost of tax credits. However, there may be anticipated benefits that

# Appendix: Budget Department Narratives

## Health & Human Services, cont.

won't be reflected in the state's budget. Agencies that spent time and money to lobby the Legislature for funding can use those resources on programming. Citizens will need to take a greater and more direct responsibility for helping their community than when they believe that "government will take care of it." Giving the taxpayer the choice of charity will respect their right to property (income), as well as respect their beliefs and priorities.

In 2006, Minnesotans donated \$4.068 Billion (MN Council on Foundations, 2008 report). Savings are difficult to demonstrate, but assuming a 10% tax credit for individuals charitable donations (\$407 million expense) against the current total grants-only spending (\$690 million in FY2010) and assuming administrative savings as government agencies are merged or closed yields the estimate. The benefits to the culture of our state when citizens have a direct and compelling interest in the welfare of their neighbor, and when charity is a means to an improved end, will be impossible to measure but well worth the effort.

Examples of affected programs and grants:

- Children's Mental Health Grants
- Group Residential Housing Grants
- Other Children's and Economic Assistance Grants
- Other Health Care Grants
- Minnesota Sex Offender Program
- Aging and Adult Services Grants
- Alternative Care Grants
- Adult Mental Health Grants
- Deaf and Hard of Hearing Grants
- Other Continuing Care Grants

### Big Idea - Re-evaluating Continuing Care

FY2010 spending: \$1.0 billion on facility grants; \$2.2 billion on waivers and home care

"The Medical Assistance program adds a large number of consumers to the nursing home market whose demand is not affected by the price of care... The result is to shift the market-wide demand curve outward and... the market equilibrium price of care will rise."

"What Works: Stronger Policies for Public Services in MN," Humphrey Institute of Public Affairs, 2005, p37.

# Appendix: Budget Department Narratives

## Health & Human Services, cont.

Minnesota is only one of a handful of states that requires nursing homes to charge the same rates to MA and private pay patients; what should be considered is the affect of letting the market set the rate. Many Adult Service Grants are not means tested; the potential impact of means testing should be evaluated. Assets can be protected when qualifying for Medicaid by converting them to annuities. As annuities aren't generally common in the low-income elderly, this should be considered when evaluating payments for long-term care.

There should be an active effort from the MN Congressional delegation to address the inequities in the current Medicare payment system. A Dartmouth University study shows no systematic relationship between costs in fee-for-service Medicare and the health status or health outcomes of beneficiaries (Health Affairs, October 7, 2004).

### Smaller Ideas for Reform and Savings

\$129,144,000 Reforming the Title IV-D program: no child support services to parents ineligible for public assistance

\$30,237,000 Eliminating various home and mental health screenings (EdWatch)

\$21,320,000 Merge three Child Care assistance programs into one; require co-pays of all participants

\$4,031,000 Fold Podiatry Board into Medical Practice Board; Merge 11 other boards into one Medical Professionals Board

Regionalize Social Services

Enforce client eligibility requirements (income, residency, citizenship)

# Appendix: Budget Department Narratives

## K-12 Education

### Compensatory Aid

This program does not take any academic measurement into account when prioritizing funding. The program also favors urban school districts over other school districts when using poverty measurements, in other words not making it student based.

### Integration Revenue

The Integration Revenue program, a component of the K-12 education funding formula, is supposed to provide money to certain school districts for integration-related activities. A 2005 Legislative Auditor Report reported the following criticisms;

- Neither the state nor school districts have adequately assessed the results of the Integration Revenue program.
- The Minnesota Department of Education has not provided consistent or required oversight of the program, although it has made some improvements in the past year.
- The Integration Revenue funding formula has some unintended and potentially negative consequences.

### Early Graduation Incentives

If an estimated 1000 students used the proposed program, which would pay students to graduate early, the state would save an estimated \$2600 per student per year.

### School Districts Share Administrative Staff

By consolidating Superintendents alone so that there is one for every 10,000 students, you reduce 260 positions at a salary savings of roughly \$100,000 per year, per position. Reducing overall administrative costs by 10% would save state money. \$140 million in savings could be realized by setting up shared administrative staff for school districts.

# Appendix: Budget Department Narratives

## Economic Development

Potential Savings: \$219,746,000 (FY2010)

Estimated Costs of Tax Cuts: \$153,581,000 (FY2010)

Net Savings: \$66,165,000 - does not account for long term growth, expansion, relocation of businesses

### Two BIG IDEAS:

Department of Employment and Economic Development (DEED)

Eliminate the corporate tax rate in four years - eliminate all corporate welfare (subsidies, incentives, credits, etc.)

Eliminate Workforce Development assessment (.10/yr on all taxable wages, payable by employers)

Eliminate Economic Development; rename Dept of Employment - Workforce Redevelopment function to be vouchers issued for classes at libraries, school district community education, community colleges and/or MNSCU (close 16 workforce centers) paid with federal unemployment funds

Cost Savings: \$43,260,000 (General Fund, FY2010) and possibly \$26,614,000 from three other funds

Cost from tax cut: \$146,008,000 (FY2010)

Iron Range Resources and Rehab

Eliminate taconite tax over four years; divest Giants Ridge Ski and Golf; merge IRRR Fund (240) and Douglas Johnson Economic Protection Fund (580) - turn over to public/private foundation (like a school district educational foundations)

Savings: \$9,084,000 (FY2010) - General Fund transfer; \$60,000,000 estimated sale of Giants Ridge

Cost from tax cut: \$7,573,000 (FY2010)

### Two small ideas:

#### Combine/eliminate boards and commissions

Accountancy Board

Architecture/Engineering Board

Barber/Cosmetology Board

Find efficiencies by eliminating or combining boards: perhaps one professional licensing board?

Savings: \$1,035,000 (FY2010) - assumes cutting these three boards in half

#### All 'charitable' funding from new sales tax

Eliminate General Funding over two years; possible support from Arts & Cultural Heritage Tax

*Historical Society*

Savings: \$12,272,500 (FY2010), \$25,485,000 (FY2011 and beyond)

*Arts Board*

Savings: \$5,583,000 (FY2010), \$11,166,000 (FY2011 and beyond)

# Appendix: Budget Department Narratives

## State–Owned Excess Lands

### Iron Range Resources

- Giants Ridge – 1,000 acre state-owned golf and ski resort – Extrapolating from recent adjacent property sales, selling this property to private interests could bring \$60 million, plus property tax collections of approximately \$762,000 per year.
- Iron Range Resources Board owns 2.4 acres of land occupied by a Delta Dental facility. Property valued at \$650,000 with improvement (building), \$70,000 for land only.
- Iron Range Resources owns 225 acres of land, held to be developed into a motor racetrack. Approximate value, based on nearby property \$315,000, plus property tax benefit to the county of \$4,000 per year.

### Department of Natural Resources

- DNR possesses over 2.9 million acres – 12,856 DNR acres designate their public use as “currently unclassified.” At a very modest \$500 per acre estimate, the value of these unclassified lands would be \$6.43 million.
- Con-Con Land (Consolidated Conservation) – 1.5 million acres owned by state. Until the 1930s, this used to be private land, mostly lost to the state due to tax delinquency during the depression. Most of this land is now designated for “wildlife management.” The state currently compensates the counties for the loss of use and tax base of this land. Transferring this land back to the counties would save the state money in annual compensation. Selling what useful land there is directly to private parties instead could also generate significant one-time money.

### U of M

- UMore Park 7,686 acres in Rosemount (population 20,000) awaiting development into a University-founded community of 20,000 – 30,000 people. Umore Park is envisioned as “sustainable community” that “integrates environmental, socio-cultural and economic opportunities with a specific focus on innovations in renewable energy, education and lifelong learning, health and wellness, the natural environment and regional economic development.” - Value of the land is approximately \$11 million. \$139,700 per year in potential property taxes. University-owned land doesn’t fall under the direct oversight of the legislature, but this serves as an example of university spending and financial management that could be reformed for greater efficiency, reducing the need for general fund appropriations.

# Appendix: Budget Department Narratives

## State–Owned Excess Lands, cont.

### MNSCU

- 2,700 “non-maintained” acres of land. At a low estimate of \$500 per acre, the land’s value would be \$1.35 million, worth \$17,145 per year in property taxes.
- Total sales potential of findings: \$829 million
- Total Annual savings: \$14 million

Note: Where property value information was not available, a low estimate of \$500 per acre was used to produce a very conservative value. When all property values are more accurately determined, the sales potential could be in excess of \$1 billion. In addition, this paper only considers a small portion of all state-owned lands.