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**NEW GUIDE TO STATE GOVERNMENT SPENDING IDENTIFIES WHERE
THE MONEY GOES AND HOW IT IS USED**

The Minnesota Center for Public Finance Research, a supporting non-profit research and education organization of the Minnesota Taxpayers Association, has released a comprehensive guide to Minnesota state government spending profiling the specific programs and activities that make up the State's \$23 billion annual operating budget.

State Government Spending: 2003-2005 -- A Taxpayers Guide breaks down government spending from the general fund and 33 other funds which comprise the operating funds for Minnesota state government. The 180-page guide is designed to be a concise, easy-to-use resource providing insight into the specific programs and activities funded within major spending categories such as "K-12 Education" and "Health and Human Services"

"We wanted to increase taxpayers' awareness and understanding about the complexity of government, the multitude of government programs and the tremendous diversity of services provided," said Lynn Reed, Research Director of the Minnesota Taxpayers Association. "Given our extraordinary budget circumstances and the difficult choices we face, it is crucial that citizens gain a better understanding of where and why the state spends as it does. We hope this guide increases the quality of public debate on spending, taxes, budget solutions, and ultimately the quality of public policy."

Chapters are organized by state appropriations bills. Each chapter is divided into major spending areas and programs within the spending areas. Program entries feature:

- current year spending totals,
- spending forecasts for the '04-'05 biennium,
- budget impacts from changes enacted in the last session,
- employee totals
- concise descriptions of the nature and purpose of the spending program.
- further breakdown and descriptions of specific spending activities within the program

Also included is opinion and commentary from the Center identifying and discussing selected opportunities for improvement in state spending efficiency, strategy, and outcomes.

State Government Spending: 2003-2005 -- A Taxpayers Guide is available for \$29.75, which includes sales tax and postage. Orders can be placed by calling 224-7477 or sending a check to the Minnesota Center for Public Finance Research, 85 E. Seventh Place, Suite 250, Saint Paul, MN 55101.

The **Center for Public Finance Research**, previously known as the **Minnesota Tax Foundation**, is the 509(a)(3) supporting research and education organization for the Minnesota Taxpayers Association. The Center's mission is to provide objective research and analysis on state and local tax and spending issues in support of effective, efficient, and accountable government.

Since 1926, the **Minnesota Taxpayers Association** has been an independent voice for good government and sound tax policy. MTA is a non-profit, nonpartisan organization and membership is statewide, open to all, and representative of every category of taxpayer. MTA provides state and local policy makers with objective, non-partisan research about the impacts of tax and spending policies; and advocates for the adoption of rational public fiscal policy.

[\[Attachments with the Introduction of the Guide, a sample page, and order form follow this announcement.\]](#)

State Government Spending

for Fiscal Years 2003 – 2005

A Taxpayers Guide to State Spending in Minnesota

INTRODUCTION

During the fiscal year that ends June 30, 2003 (referred to throughout this guide as FY2003), Minnesota state government will disburse an average of almost \$65 million per day in state and federal funds to pay for a wide range of government programs. Over three-quarters of that amount (more than \$18 billion) is funded from state revenue sources (taxes, fees, and other state income). The remaining \$5.3 billion is federal money.

Where does all that money actually go? The typical response to this question is a pie chart breaking down the state budget into its major spending areas. While appealing in simplicity, pie charts provide little more than the barest overview of state spending. Alternatively, one can review thousands of pages of state budget documents and agency reports to get some understanding of where and why the state spends as it does. This can be an informative and educational experience, but also extraordinarily tedious and time consuming.

PURPOSE

The goal of this report is to provide taxpayers with an easy-to-use guide to state spending programs. This spending guide weds the pie chart approach with a manageable amount of detail about each slice, presented in a clear format.

We hope this publication will increase taxpayers' awareness of the complexity of government, the multitude of government programs, and the diversity of public sector clients – all of whom make a claim on tax revenues. We also hope that heightened taxpayer awareness of government programs will increase the quality of public debates on spending, taxes, and ultimately the quality of public policy. During a budget crisis such as this, it is crucial for all citizens, not just legislators and program insiders, to be part of this debate.

SCOPE OF THE GUIDE

This is a directory of spending from the State General Fund and from 33 other state operating funds. Together, these funds constitute the operating budget for Minnesota state government.

We have tried to present accurately what the program does, where the money comes from, where the money goes, and how it is used. In developing this guide, we reviewed thousands of pages of program descriptions and budget documents. We had to make numerous professional judgments about the amount of detail necessary to convey spending program information fairly and accurately without completely overwhelming users. In the process of condensing and summarizing information, some important facts, history, or details may have inadvertently been omitted. The Minnesota Center for Public Finance Research regrets any errors or misrepresentations stemming from such omissions and takes full responsibility for them.

STRUCTURE OF THE GUIDE

The guide is organized according to nine state omnibus bills in the order they appear in the Department of Finance's Consolidated Funds Statement.

Each omnibus bill is assigned a chapter, and each major spending area in the bill is assigned a two digit item number. When program-level detail exists, a third digit is included. For example:

- 5 Environment and Agriculture (the omnibus bill)
- 5.4 Department of Natural Resources (a major spending area, in this case, an agency)
- 5.4.1 Land and Minerals Management Program (a program within the DNR)

If program spending is broken down further by specific activities, a brief description of the activity and its share of program spending is also provided. The amount of activity-based reporting varies from agency to agency. In some programs – especially in the K-12 and Health, Human Services, and Corrections areas – activity-level spending can be very large and deserving of more detailed description. In these circumstances, a more comprehensive description of the activity, the clients served, and budget issues is provided.

The following information is provided at both the spending area and program levels:

2003 Total State Spending – This is the total amount the state expects to spend on the program or agency in FY2003. It includes General Fund appropriations, money from State Special Funds that is either dedicated by statute or appropriated biennially by the Legislature, funds from the federal government, and money received and spent from various other sources.

2003 General Fund Spending – This is the portion of total state spending that comes specifically from the state’s General Fund. It includes both direct appropriations and statutory appropriations from the General Fund. (**Direct appropriations** require an affirmative act by the Legislature every biennium. **Statutory appropriations** make an amount of money continuously available for a specific purpose until the legislation creating the appropriation is changed or a sunset takes effect. The General Fund has a limited number of statutory appropriations, but these are very common in State Special Funds. For additional information, see Chapter 10.)

2004-05 General Fund Spending Estimate – This is the amount of General Fund money that the Department of Finance estimates will be spent in the 2004-05 biennium. The estimate is based on current law.

Changes Enacted in 2002 for 2004-05 – This documents the financial impact of legislative actions taken in last year’s session on spending during the next biennium. Most of the time these changes are spending cuts and are shown in parentheses as reductions; however there are some funding increases. There are three important qualifications regarding these entries and their interpretation:

- o The total reflects the impact of *all actions by the Legislature in the 2002 session that have implications for 2004-05 spending*. In addition to these cuts, agencies and programs may have already experienced other cuts in 2002-03 that applied to this biennium only. These “one-time” cuts are not included in this guide. (Note: Actions by the 2003 Legislature regarding the remaining FY2003 shortfall were not finalized in time to be included in the body of this publication.)
- o The “change” total is the net impact of changes in both General Fund and Special Fund appropriations and dedications. They may partially or wholly offset each other. For example, a program might have received a \$500,000 base cut from the General Fund, but the Legislature may have also appropriated \$300,000 in new Special Fund revenue to offset some of this impact or to increase funding for some specific activity within the program. The change total entry would be a cut of \$200,000. On rare occasions, the change total will also be affected by the transfer of a spending program from one agency to another.
- o The sum of the change totals for individual spending programs within a spending area may not add up to the change total for the entire spending area. This is because some cuts and reductions could not be linked to specific programs. Examples include merger savings, agency restructurings, or cuts that have not yet been specified.

FTE employees (2003) – “Full time equivalent” employees totals are based on agency narratives on the Department of Finance website and include both full- and part-time workers. For the purposes of this report, FTE totals were rounded to the nearest “whole” employee.

At the end of each chapter is a section entitled “MCPFR’s Perspective” which contains some opinion and commentary from the Minnesota Center for Public Finance Research on selected spending issues within the chapter. Typically these perspectives identify and discuss potential opportunities for improvement in state spending efficiency, strategy, and/or outcomes. They are not, however, meant to be an exhaustive critique of the programs themselves. A lack of comment should not be interpreted as MCPFR endorsement of the program or its current spending levels.

Chapter 10, “Other State Operating Funds,” profiles the 31 State Special Funds, a school endowment fund, and the State Debt Service Fund, which together with the General Fund make up all of the operating funds for Minnesota state government. (Other miscellaneous cancellations and adjustments appear in the chapter on State Government.)

Appendix A describes four other notable state spending programs that were not captured in the omnibus bill chapters because their administrative activities do not receive support from state operating funds.

Appendix B provides a brief overview of tax incidence in Minnesota, showing on whom the tax burden actually falls.

REFERENCE SOURCES AND DATA EXPLANATIONS

Agency and program descriptions and the corresponding spending information is taken from the **2004-05 Biennial Operating Budget: State Agency Profiles, Program Narratives and Fiscal Reports**, located on the Department of Finance’s state budget website (<http://www.budget.state.mn.us>). Users of this guide are strongly encouraged to visit the website for additional information on any of the programs or activities we describe. The information in this guide is a starting point for further analysis.

The Department of Finance also prepares a Consolidated Funds Statement that provides spending information at the omnibus bill, agency, and program level. Although the Consolidated Funds Statement and the fiscal reports cover the same spending areas and programs, the spending totals differ because of some accounting and reporting differences. Following are the major reasons for any discrepancies between the Consolidated Funds Statement and totals reported in this spending guide.

- o **Accounting for agency funds** – All “total spending” figures in this guide include spending from self-supporting, internally managed funds (such as agency loan funds) as well as other agency fund spending (for example, when one agency collects a fee and transfers the revenue to another agency to spend the money.) The Consolidated Funds Statement does not report on spending activity from these funds.
- o **Accounting for open appropriations** – An open appropriation is a statutory appropriation that makes an unlimited amount available to pay for a specific obligation. Often, an appropriation is open because the amount needed to pay for the obligation is based on conditions that are outside the control of government (e.g., the number of forest fires that would need to be fought in the coming year). For budgetary purposes, an amount for the appropriation is specified, but the actual spending could be higher or lower. In this spending guide, we have included any open appropriations with the spending totals of the agency responsible for managing them. However, the State Consolidated Funds Statement may break out open appropriations as a separate line item. For example, we have included the ethanol subsidy with the Department of Agriculture’s total agency spending since the ethanol program is managed through that department. The Consolidated Funds Statement, however, reports this as a separate line item. As a result, total agency spending is significantly larger in this spending guide than that reported in the Consolidated Funds Statement.
- o **Accounting for statutory appropriations from the General Fund.** The General Fund spending totals in this spending guide include direct appropriations and any statutory appropriations from the General Fund. The Consolidated Funds Statement only reports direct appropriations from the General Fund. (In the Consolidated Funds Statement, statutory General Fund expenditures are found in a line item called "Dedicated/Unallotted/Other." This guide allocates them back to their original programs.)

GETTING STARTED: THE BIG PICTURE

A global review of state revenue sources and program expenditures provides a useful backdrop to the contents of this directory.*

State Revenues for Fiscal Years 2000-05 Tax Revenues, Non-Tax Revenues, and Federal Grants

<i>State Tax Revenues</i>	'00-'01 Biennium Actual	'02-'03 Biennium Forecast	'04-'05 Biennium Forecast	Change Over Three Biennia
Individual Income Tax	\$11,471,860,000	\$11,013,542,000	\$12,172,900,000	6.11%
General Sales Tax	6,157,671,000	7,718,082,000	8,229,960,000	33.65%
Corporate Income tax	1,529,099,000	1,071,158,000	1,348,000,000	-11.84%
Gasoline & Special Fuels Tax	1,224,964,000	1,268,510,000	1,321,916,000	7.91%
Motor Vehicle License Tax	1,061,398,000	960,849,000	1,023,471,000	-3.57%
Motor Vehicle Sales Tax	1,087,118,000	1,212,447,000	1,212,400,000	11.52%
Statewide Property Tax	0	893,837,000	1,207,147,000	N/A
Health Care Taxes	318,349,000	367,652,000	622,892,000	95.66%
All Other Taxes	1,942,868,000	2,175,799,000	2,177,465,000	12.07%
Total State Tax Revenues	\$24,793,327,000	\$26,681,876,000	\$29,316,151,000	18.24%
<i>Non-Tax Revenues</i>				
Fees and Charges	\$1,050,608,000	\$1,237,974,000	\$1,298,466,000	23.59%
Investment Earnings	620,973,000	435,023,000	355,030,000	-42.83%
Post Secondary Tuition	1,060,076,000	1,372,212,000	1,471,029,000	38.77%
Tobacco Settlements	235,180,000	314,295,000	391,955,000	66.66%
Other Revenue	1,822,604,000	1,613,525,000	1,669,296,000	-8.41%
Total Non-Tax Revenues	\$4,789,441,000	\$4,973,029,000	\$5,185,776,000	8.28%
Federal Grants	\$8,650,388,000	\$11,045,495,000	\$11,693,127,000	35.17%
Total All State Revenues	\$38,233,156,000	\$42,700,400,000	\$46,195,054,000	20.82%

State Expenditures for Fiscal Years 2000-05 By Omnibus Appropriations Bill (including dedications and adjustments)

<i>State Expenditures</i>	'00-'01 Biennium Actual	'02-'03 Biennium Forecast	'04-'05 Biennium Forecast	Change Over Three Biennia
K-12 Education	\$8,920,905,000	\$10,849,778,000	\$13,461,425,000	50.90%
Family & Early Childhood Education	742,927,000	819,287,000	872,329,000	17.42%
Post Secondary Education	2,748,316,000	2,848,756,000	2,974,541,000	8.23%
Health, Human Services, and Corrections	12,341,515,000	15,690,090,000	18,102,942,000	46.68%
Environment and Agriculture	1,114,996,000	1,221,930,000	1,244,393,000	11.61%
Economic Development	1,427,515,000	1,624,897,000	1,466,559,000	2.74%
Transportation and Public Safety	4,558,256,000	5,694,472,000	5,309,909,000	16.49%
State Government	893,160,000	1,039,389,000	981,334,000	9.87%
Property Tax Aids and Credits	3,239,991,000	3,294,970,000	3,197,345,000	-1.32%
Debt Service and Other	801,129,000	751,478,000	847,122,000	5.74%
Dedicated/Unallotted/Cancellations/Other	319,917,000	88,934,000	163,070,000	N/A
Total Expenditures By Appropriation Bill	\$37,108,627,000	\$43,923,981,000	\$48,620,969,000	31.02%

*Some significant changes in tax and spending policy took place during these years, which helps explain some of the notable changes in the figures from biennium to biennium. For example, the reduction in individual income tax collections in '02-'03 can be linked to tax cuts enacted during the 1999 and 2000 legislative sessions, while the forecasted increase in health care taxes is due to time-delayed rate restorations passed several years ago. On the spending side, the increase in K-12 spending can be linked partially to the state takeover of the General Education levy as part of the 2001 property tax reforms. Significant increases in health care spending in recent years are primarily the result of growing costs of Medical Assistance health care services and higher General Assistance Medical Care caseloads. **Note:** The \$4.5 billion dollar deficit being reported for 2004-2005 is only for the State General Fund, which is approximately 60% of total state spending. This table includes spending from all of the state's other operating funds as well.

K-12 Education Spending at a Glance

	'03 Total State Spending	'03 General Fund Spending	General Fund Planning Estimates '04-'05	'02 Changes Enacted for '04-'05*	FTE Employees
1.1 General Education	\$4,721,763,000	\$4,702,481,000	\$10,501,344,000	(\$9,672,000)	0
1.2 Education Excellence	271,866,000	102,985,000	250,023,000	(6,402,000)	0
1.3 Special Education	693,702,000	565,594,000	1,344,719,000	(962,000)	0
1.4 Facilities and Technology	62,862,000	57,593,000	122,585,000	0	0
1.5 Nutrition Programs	168,713,000	13,658,000	29,178,000	0	0
1.6 Libraries	14,374,000	10,211,000	21,325,000	200,000	0
1.7 Children, Families, & Learning	74,751,000	28,491,000	55,932,000	(7,842,000)	498
1.8 Minnesota State Academies	12,987,000	11,265,000	23,042,000	0	165
1.9 Perpich Center for Arts Education	9,625,000	7,813,000	15,632,000	0	77
TOTAL	\$6,030,643,000	\$5,500,091,000	\$12,363,780,000	(\$24,678,000)	740

*Local levies were allowed to rise by \$46.2 million to offset cuts from the general fund, but are not shown in this guide.

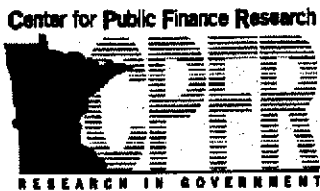
1.1 Spending Area: General Education

2003 Total State Spending	\$4,721,763,000
2003 General Fund Spending	4,702,481,000
'04-05 General Fund Spending Estimate	10,501,344,000
Changes Enacted in 2002 for '04-'05	(9,672,000)*

The General Education spending area is the single largest component of the state general fund budget. Within this spending area, general education aid (see item 1.1.1) is by far its largest component. The remainder of this spending area consists of smaller, more specialized aid programs.

*A note about K-12 cuts made in the 2002 legislative session: Though the general education program shows only a \$9.7 million cut for changes enacted in 2002, the Legislature changed the proportion of general aid payments recognized for the current school year versus the following school year. Prior to the 2002 changes, only 10% of aid was distributed during the current school year. Now, 17% is so distributed, meaning that the following year's payments dropped from 90% to 83%. School districts do not receive less money than before, but the shift resulted in a one-time savings of \$437.5 million for FY2003, with some follow-up savings for FY2004-05 (shown in the \$9.7 million reduction above). These are not true reductions in funding, but merely accounting shifts.

Where the Money Comes From			Where the Money Goes*		
	\$	%		\$	%
General Fund	4,702,481,000	99.59	Employee Compensation	0	0.00
Special Funds	19,282,000	0.41	Other Operating Expenses	0	0.00
Federal Funds	0	0.00	Capital Expenditures	0	0.00
Bonding	0	0.00	Payments to Individuals	0	0.00
Other:	0	0.00	Payments to Governments	4,721,763,000	100.00
			Payments to Organizations	0	0.00
			Other	0	0.00
TOTAL	\$4,721,763,000	100.00	TOTAL	\$4,721,763,000	100.00



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