Minnesota Department of Finance

2007 Report of Fastest Growing Expenditures

Based on November 2006 Economic Forecast

February 1, 2007

Fastest Growing Expenditures

Reporting Requirement

This report identifies the fastest growing elements in Minnesota's state budget and reviews factors that have led to the growth. This information is intended to provide Minnesota policy makers and citizens with an understanding of which state programs have been growing the fastest—particularly in the general fund—and the underlying factors that contribute to that growth.

"Fastest Growing Expenditures" is a report required under Minnesota Statutes 16A.103, subdivision 4, first enacted in the 2005 legislative session:

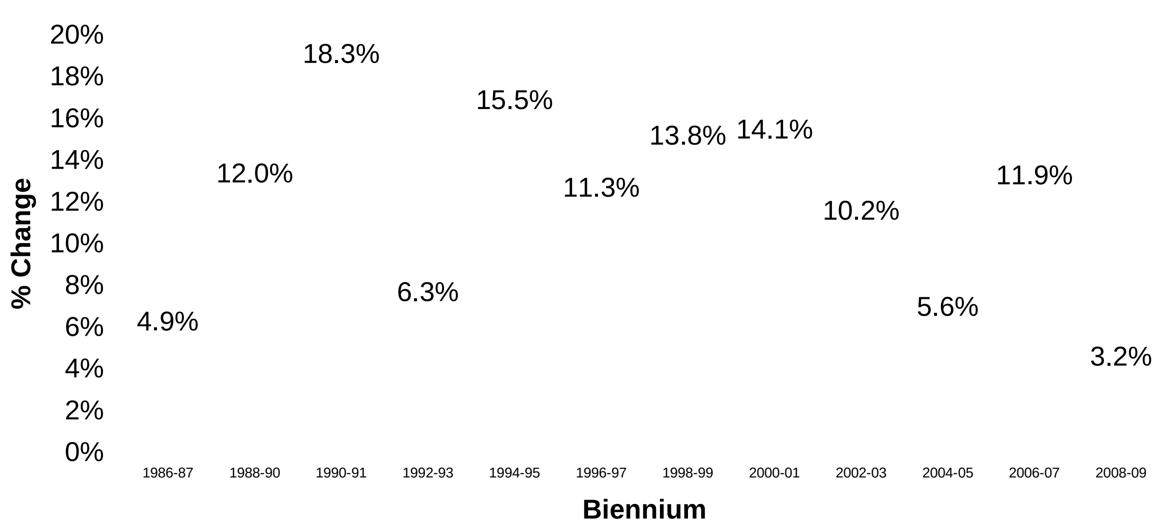
> *Subd. 4. **Report on expenditure increases.** By January 10 of an odd-numbered year, the commissioner of finance must report on those programs or components of programs for which expenditures for the next biennium according to the forecast issued the previous November are projected to increase more than 15 percent over the expenditures for that program in the current biennium. The report must include an analysis of the factors that are causing the increases in expenditures.*

In compliance with the law, this report is based on information from the *November Economic Forecast.* Comparative information is based on actual (FY 2006) and estimated (FY 2007) spending for the current biennium and the projected *current law* appropriations base for the upcoming FY 2008-09 biennium. It does not reflect the impact of changes proposed by the Governor in his FY 2008-09 proposed biennial budget.

Background

The November 2006 current law forecast for state general fund spending for the FY 2008-09 biennium reflects a 3.2 percent increase over the previous biennium.

General Fund Spending: Biennial Increase



Over the preceding decade, the growth in state spending in the general fund has averaged 8.7 percent per biennium, and 10.6 percent over the preceding twenty years.

For this report, FY 2006-07 expenditures are compared to projected current law spending for FY 2008-09, as shown in the November 2006 Forecast. "Fast growing" items were identified if the change was 15 percent or more, biennium to biennium. This should not be confused with *15% annual* increases. For a program to grow 15% biennium to biennium, its average annual growth rates would be closer to 7-8%.

Program Identification and Selection Criteria

Total state spending, excluding federal funds, occurs from approximately 3,897 separate appropriation accounts, of which 837 are general fund. Generally, these represent program-level spending authorizations. To identify initial data on expenditure increases, we relied upon information from the biennial budget system (BBS) on actual spending for FY 2006-07, and forecast baseline spending for FY 2008-09. The 15 percent trigger in the statutory reporting requirement identifies programs that are growing roughly 50 percent faster than the growth in total spending.

The following criteria were applied:

- All state operating funds – excluding federal accounts - were included in the initial identification of spending growth.
- Program or component level was determined by the information available in the enacted appropriation, the biennial budget system, and budgetary-based fund statements.
- All programs were initially reviewed – this report covers forecast and non-forecast spending changes.

Report Format

The report is divided into two parts: *Part One* provides an analysis of some of the largest and fastest growing programs in the state budget. Information is provided for 10 programs that account for almost $1.3 billion of biennial spending growth in the general fund (also included in one program in the health care access fund). The total state general fund budget projects spending growth of $1.0 billion above the current biennium, so these programs explain more than the total biennial growth. The presence of significant one-time costs in FY 2006-07 for school shift repayments offsets this growth to bring the total down to the $1.0 billion level. Each analysis identifies how much was spent and discusses some of the factors contributing to the projected growth, including economic, demographic and socio-economic factors, as well as policy choices.

Part Two is a listing of all programs that met the threshold of 15 percent growth. Abbreviated comments are provided to explain the nature of the expenditure growth. In a number of instances, the explanation points to a technical or two-year budgeting issue that distorts spending growth. For example, a new program may have been created in FY 2007 for which the two-year cost in FY 2008-09 simply doubles in the next biennium. In this case, biennial change will appear to be high, even if the underlying program may not have grown materially.

Additional Information

Information in this report has been prepared by the Minnesota Department of Finance. In some instances, the analysis presented is based on other state agency information and data. Any problems with the reporting or interpretation of data are the responsibility of the Department of Finance.

For further information, please contact Charlie Bieleck at charlie.bieleck@state.mn.us or the Executive Budget Officer listed in the analysis for specific program questions.

HUMAN SERVICES

Medical Assistance Basic Care for Families and Children

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change ’08-’09 vs. ’06-‘07	% Change ’10-’11 vs. ’08-‘09
General Fund	1,244,138	1,526,717	1,892,673	22.7%	24%

MA Basic Care for Families and Children is estimated to reach $1.5 billion in FY 2008-09, up 22.7 percent over FY 2006-07 spending. Expenditures are projected to reach $1.9 billion in FY 2010-11, up 24 percent over estimated FY 2008-09 costs.

Enrollment in this program is expected to grow substantially through FY 2011. Monthly average enrollment in FY 2008-09 is projected to grow by an average of 22,000 enrollees from FY 2006-07 to FY 2008-09, and by another 19,000 enrollees in FY 2010-11. The majority of this growth is due to a projected shift of enrollees from MinnesotaCare to Medical Assistance when HealthMatch is implemented. HealthMatch is an automated eligibility determination system for Minnesota’s publicly funded health care programs. It is designed to streamline eligibility determination and provide greater accuracy in application of complex eligibility rules. Once fully implemented, HealthMatch will automatically assign new and continuing enrollees to the health care program that provides them the most benefits at the least cost to the enrollee. Because a significant portion of MinnesotaCare families are eligible for Medical Assistance, HealthMatch will cause most MA-eligible MinnesotaCare enrollees to move to Medical Assistance. This is expected to shift an average of 14,400 enrollees to MA in FY 2008-09, and roughly $45 million in costs from the health care access fund to the general fund. An additional 22,000 enrollees are expected to shift to Medical Assistance in FY 2010-2011.

Average costs are also projected to increase through FY 2011. Average annual cost per enrollee is estimated to increase by 8.1 percent from FY 2006 to FY 2011. Much of this growth is due to cost pressures similar to the private health care market, including medical inflation, and the changing utilization of health care services.

MA Basic Care for Families and Children Annual Enrollment and Cost Growth

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total State Cost ($000s)	586,471	657,667	716,436	810,281	912,383	980,290
Average Monthly Enrollment	348,040	354,050	361,712	384,679	391,301	393,491

EBO contact: Lisa Mueller #651-201-8036, lisa.Mueller@state.mn.us

HUMAN SERVICES

Medical Assistance Basic Care for Elderly and Disabled

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change ’08-’09 vs. ’06-‘07	% Change ’10-’11 vs. ’08-‘09
General Fund	1,677,088	2,130,481	2,597,164	27.0%	21.9%

Medical Assistance (MA) Elderly and Disabled Basic Care spending is estimated to reach $2.1 billion in FY 2008-09, up 27 percent over FY 2006-07 spending. Expenditures are projected to reach $2.6 billion in FY 2010-11, up 21.9 percent over estimated FY 2008-09 costs.

The growth in MA Elderly and Disabled Basic Care is due to both increasing enrollment and average cost. Public health care programs face many similar cost pressures as the private health care market, including medical inflation and the changing utilization of health care services. However, public health care programs differ from the private market in that public programs must also accommodate higher enrollment when demand increases.

In FY 2008-09, the disabled enrollment is estimated to account for about 64 percent of the total enrollment in this budget activity, with the elderly making up the remaining 36 percent. Roughly 79 percent of the elderly are enrolled in managed care while less than one percent of the disabled are enrolled in managed care. Table 1 displays the average monthly enrollment for both the disabled and elderly populations over the next six years.

Table 1

MA Basic Care for Elderly and Disabled Annual Enrollment Growth

Average Monthly Enrollment	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Elderly	54,216	55,671	56,952	58,725	60,289	61,536
Disabled	95,581	97,713	100,702	103,839	107,109	110,150

Total average monthly enrollment is projected to grow by almost 9,000 (5.9 percent) in FY 2008-09 over the current biennium and by another six percent in FY 2010-11. Within the individual populations – elderly and disabled – enrollment is expected to increase at a comparable rate over the next six years. However, the average cost within the elderly population is expected to rise at a significantly higher rate compared to the disabled population.

From FY 2006 through FY 2011, the average monthly cost in the elderly population is expected to increase 8.1 percent on an annual basis, compared to 3.2 percent for the disabled population. Contributing to the cost growth in the elderly segment of this budget activity is the movement of elderly waiver services into managed care, which shifts costs out of the MA

Medical Assistance Basic Care
Elderly and Disabled - Average Cost

Long-Term Care Waiver budget activity and into the MA Elderly and Disabled budget activity. This shift in payment increases expenditures by approximately $101.5 million in FY 2008-09 and another $52.8 million in FY 2010-11.

EBO contact: Lisa Mueller #651-201-8036, lisa.mueller@state.mn.us

HUMAN SERVICES

MinnesotaCare

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change ’08-’09 vs. ’06-‘07	% Change ’10-’11 vs. ’08-‘09
Health Care Access	551,380	822,122	855,589	49.1%	4.1%

MinnesotaCare is estimated to reach $822.12 million in FY 2008-09, up 49.1 percent over FY 2006-07 spending. Expenditures are projected to reach $855.59 million in FY 2010-11, up 4.1 percent over estimated FY 2008-09 costs.

The growth in MinnesotaCare expenditures in FY 2008-09 and FY 2010-11 is largely due to increasing per person average costs. State costs per person are anticipated to increase at an average annual rate of 19.4 percent between FY 2006 and FY 2011. Roughly 95 percent of MinnesotaCare enrollees are in managed care. Managed care contracts are negotiated on a calendar year basis and each year capitation rates paid to the health plans are increased based on the negotiated agreement.

Contributing significantly to this increased average costs are two shifts among sub-populations in Minnesota’s public health care programs. These shifts are the movement of relatively low cost MinnesotaCare children to Medical Assistance and the shift of relatively higher cost GAMC adults into MinnesotaCare (both explained further below). The combination of the two shifts leaves the MinnesotaCare program with a higher proportion of state-only funded MinnesotaCare enrollees than prior to the shifts. The state share of MinnesotaCare is anticipated to have an average annual growth of 11.7 percent between FY 2006 and FY 2011, even with falling year-over-year enrollment.

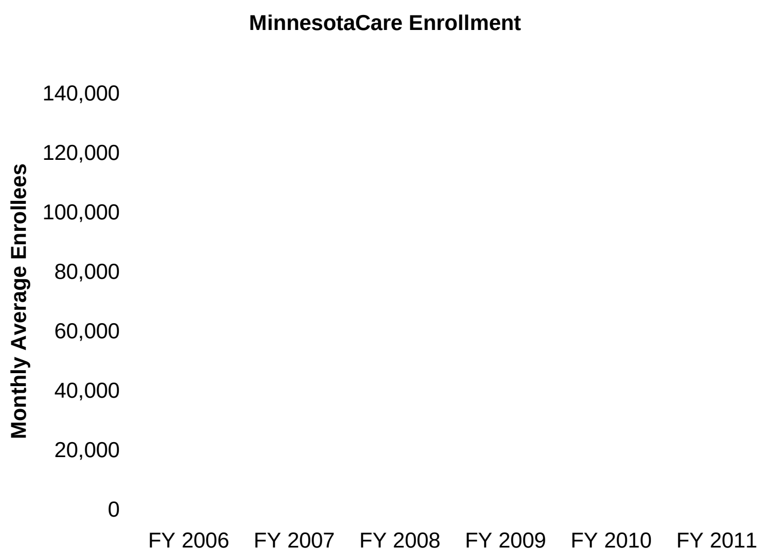
Table 1

MinnesotaCare Annual Cost and Enrollment Growth

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total State Cost ($000s)	251,614	299,766	411,813	410,309	418,601	436,998
Total Avg Monthly Enrollment	128,733	124,448	131,232	106,604	96,227	91,978
Avg Annual Change State Cost	11.7%					
Avg Annual Change Enrollment	-6.5%					

Although average costs are increasing, MinnesotaCare enrollment is declining at an average annual rate of 6.5 percent between FY 2006-11. However, as mentioned above, there are two shifts in enrollment happening in MinnesotaCare that cause enrollment to increase in some years and decline beyond FY 2008. The first is a shift of certain General Assistance Medical Care (GAMC) enrollees into MinnesotaCare. Enrollment in MinnesotaCare is expected to increase by approximately 6,800 enrollees in FY 2008 largely due to this shift. This is in part the reason for a substantial increase in MinnesotaCare expenditures in FY 2008 as seen on table 1.

The second shift is a projected shift of enrollees from MinnesotaCare to Medical Assistance with the implementation of HealthMatch. HealthMatch is an automated eligibility determination system for Minnesota's publicly funded health care programs, designed to streamline eligibility determination and provide greater accuracy in application of complex eligibility rules. Once fully implemented, HealthMatch will automatically assign new and continuing enrollees to the health care program that provides them the most benefits at the least cost to the enrollee. Because a significant portion of MinnesotaCare families are eligible for Medical Assistance, HealthMatch will cause most MA-eligible MinnesotaCare enrollees to move to Medical Assistance. This is expected to shift an average of 14,000 enrollees to MA in FY 2008-09, and roughly $45 million in costs from the health care access fund to the general fund. An additional 22,000 enrollees are expected to shift to Medical Assistance in FY 2010-11.



EBO contact: Lisa Mueller #651-201-8036, lisa.mueller@state.mn.us

DEPARTMENT OF HUMAN SERVICES

Medical Assistance Long-Term Care Waivers

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change ’08-’09 vs. ’06-‘07	% Change ’10-’11 vs. ’08-‘09
General Fund	1,638,950	1,958,451	2,316,010	19.5%	18.3%

Medical Assistance (MA) Long-Term Care (LTC) Waiver expenditures are expected to grow $319.5 million or 19.5 percent in FY 2008-09 over the current biennium. The planning estimates for FY 2010-11 show an increase of $357.6 million or 18.3 percent over FY 2008-09. From FY 2006 to FY 2011, this equates to an average annual increase in the program of 8.8 percent.

The MA-LTC Waiver program consists of five waiver programs[1], home health agency (HHA) services, personal care assistance and private duty nursing (PCA/PDN). These services enable individuals with chronic care needs to receive care in home and community-based settings as opposed to institutional facilities. Table 1 shows the state share of spending within the individual waiver programs.

Table 1

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change ’08-’09 vs. ’06-‘07	% Change ’10-’11 vs. ’08-‘09
DD	896,197	1,005,668	1,110,017	12.2%	10.4%
EW	95,796	65,232	78,166	-31.9%	19.8%
CADI	184,674	307,346	431,891	66.4%	40.5%
CAC	12,861	17,683	21,422	37.5%	21.1%
TBI	73,121	107,676	153,365	47.3%	42.4%
HHA	29,420	31,872	33,765	8.3%	5.9%
PCA/PDN	346,881	422,974	487,384	21.9%	15.2%

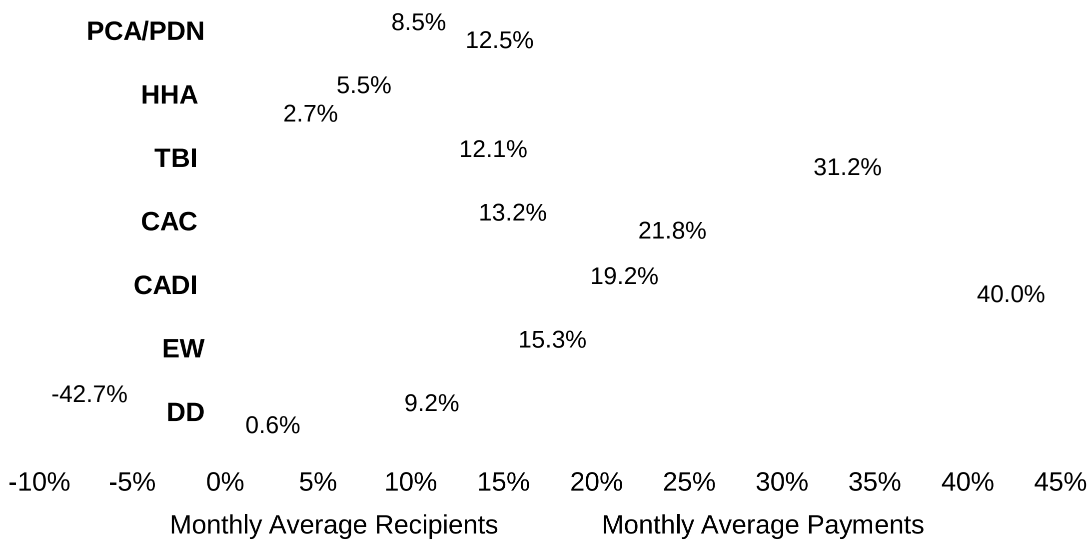
While almost every component of the program is growing at significant rates across each biennium, the DD and CADI waivers account for almost three-quarters of the increase in the next biennium. Individuals receiving EW services are increasingly receiving their services in managed care settings, in which their basic and long-term care are provided by the same health plan. The EW costs paid under managed care for these individuals is accounted for in the MA Elderly and Disabled Basic Care budget activity.

Expanded caseloads and higher average payments per individual are equally contributing to the growth within the program. However, within the individual components, the growth is often attributable primarily to only one factor. For example, the growth in the DD Waiver, in which growth is limited by allocations to the counties, is almost entirely due to increased average payments per individual, whereas

[1] Developmental Disabled (DD) Waiver; Elderly Waiver (EW); Community Alternative for Disabled Individuals (CADI); Community Alternative Care (CAC); Traumatic Brain Injury (TBI) Waiver

the growth in the CADI Waiver is primarily due to increased caseloads. The graph below displays the biennial change in monthly average recipients and monthly average payments within the five waivers, HHA, and PCA/PDN.

MA Long-Term Care Waivers
Monthly Average Recipients and Monthly Average Payments
FY 2006-07 to FY 2008-09 Biennial Change



There are a number of factors affecting the change in caseloads and average cost per individual. Below are just a few examples of factors that impact the MA LTC Waiver program:

- Over the past four years, law limited the number of recipients able to access the CADI and TBI waivers; however, beginning in FY 2008 those limits are no longer in place and it is expected the demand for these programs has been building.
- As individuals move from receiving services in their own homes to out-of-home placements, such as adult foster care, the average cost per individual can more than double.
- Caseloads and average cost are also affected by demographics: the population is not only aging, but individuals with disabilities are living longer as well.

The growth in the waiver program should be considered in the context of the entire population receiving long-term care services. Over the last decade, there has been a conscious policy decision to treat people in home and community-based settings as opposed to institutions, most notably nursing facilities. The evolution is reflected in the MA LTC Facilities program, where the average number of monthly recipients decreases by almost 1,700 (7.5 percent) and expenditures are expected to decrease by almost $27 million (2.7 percent) over the next biennium. Combined, the average monthly recipient increases only 1.5 percent, but expenditures still increase significantly – 10.3 percent – over the current biennium.

EBO contact: Doug Green #651-201-8031, doug.green@state.mn.us

DEPARTMENT OF HUMAN SERVICES

Group Residential Housing

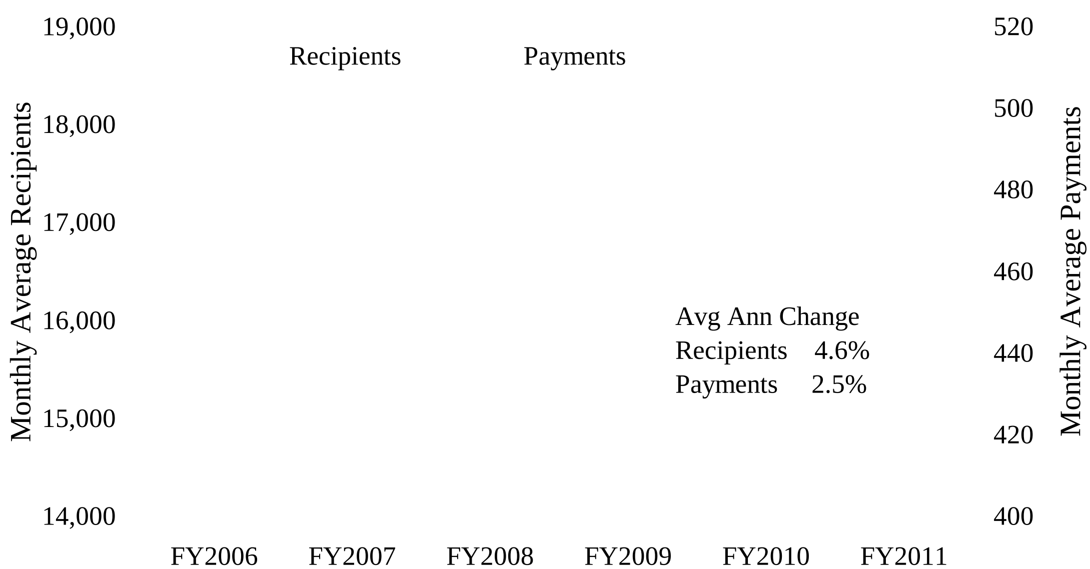
Expenditures ($000s)	2006-07	2008-09	2010-11	% Change '08-'09 vs. '06-'07	% Change '10-'11 vs. '08-'09
General Fund	162,208	189,064	212,261	16.6%	12.3%

Group Residential Housing (GRH) expenditures are expected to grow $26.9 million or 16.6 percent in FY 2008-09 over the current biennium. The planning estimates for FY 2010-11 show an increase of $23.2 million or 12.3 percent over FY 2008-09. From FY 2006 to FY 2011, this equates to an average annual increase in the program of 7.3 percent.

GRH is a state funded program that pays for room and board in a number of licensed settings including adult foster care, boarding and lodging establishments, and other supervised living facilities. There are more than 4,800 GRH settings in the state. The current GRH room and board limit is $737 per month. In addition to room and board payments, GRH makes payments for services provided to individuals if the person cannot access service payments from another source, such as home and community-based waiver programs. The maximum amount an individual can receive for service payments is $478 per month. In FY 2006 the percentage of payments that went to room and board versus services was 67 percent and 33 percent, respectively.

Both increased caseloads and average cost are contributing to the growth in the program. In FY 2006, there were on average 14,466 recipients on the program each month. By FY 2011, it is expected that the

Group Residential Housing



program will serve 18,117 on average each month, a 4.6 percent increase on an annual basis. Monthly average payments are increasing as well, but at a slower rate than recipients. Payments in FY 2006 were $449 per person, compared to an expected $509 per person in FY 2011, a 2.5 percent annual increase.

EBO contact: Doug Green #651-201-8031, doug.green@state.mn.us

DEPARTMENT OF HUMAN SERVICES

Minnesota Sex Offender Program

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change '08-'09 vs. '06-'07	% Change '10-'11 vs. '08-'09
General Fund	$100,821	$126,341	$119,990	25.3%	(5.0%)

After several years of stable population growth, the Minnesota Sex Offender Program (MSOP) has seen the number of individuals being civilly committed rise dramatically over the past few years in response to changes in policy and heightened awareness.

Before 2003, MSOP growth population averaged 18 individuals per year. A murder committed by a sex offender in 2003 changed Minnesota's policy toward sex offenders. In response, the Department of Corrections began referring all level 3 sex offenders for commitment to the MSOP, as well as county attorneys increasing their own referrals for civil commitment. This combination resulted in an increase of 97 individuals committed to the MSOP in FY 2004-05.

The increase in expenditures from FY 2006-07 to FY 2008-09 results from growing numbers of civilly-committed patients in the program. Projections for growth of 58 patients per year were the basis for increasing funding for the MSOP. The cost to provide care to an MSOP patient averages $334 per day for FY 2006-07. This larger population increases costs to provide security, care, and treatment for the additional patients. The department is in the process of adding additional capacity to house these individuals, culminating in FY 2008-09. Session law from 2005 and 2006 increased the department's appropriation and base funding to address MSOP population growth.

Expenditures are projected to drop after FY 2008-09, due to the opening of a new facility designed to provide efficiencies in security and staffing.

EBO contact: Craig Wieber #651-201-8029, craig.wieber@state.mn.us

DEPARTMENT OF EDUCATION

Interdistrict Desegregation Transportation

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change ’08-’09 vs. ’06-‘07	% Change ’10-’11 vs. ’08-‘09
General Fund	13,662	19,747	28,435	44.5%	44%

Interdistrict Desegregation Aid is forecasted to grow over 40 percent in each of the next two biennia. This program provides transportation for public school students to attend interdistrict desegregation and integration schools and low-income Minneapolis students to attend suburban schools through the “Choice Is Yours” program. Transportation is provided between the student’s home or school and the interdistrict program.

While overall transportation costs are likely to rise due to factors such as fuel costs and inflation, program expansion and participation growth are major factors in the rising cost of this program. For example, based on information provided by districts, the Department of Education has estimated that the Northwest Suburban Integration School District is planning to open six magnet schools between 2007-2010. The West Metro Group is also expecting to expand; between them they are expecting the number of participating students to grow by 300 to 500 students per year.

This program is particularly challenging to forecast, as growth in programming and student participation is difficult to predict. Recently the forecast growth has exceeded the actual growth of the program.

EBO contact: Britta Reitan #651-201-8028, britta.reitan@state.mn.us

DEPARTMENT OF EDUCATION

Charter School Lease Aid

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change ’08-’09 vs. ’06-‘07	% Change ’10-’11 vs. ’08-‘09
General Fund	52,828	68,185	86,249	29.1%	26.5%

Charter School Lease Aid is expected to grow between 25 and 30 percent in each of the next two biennia. This is primarily due to growth in the number of students enrolled in charter schools. Total average daily membership (ADM) in charter schools is anticipated to grow from 23,779 in FY 2007 to 38,567 in FY 2011.

Charter schools receive Charter School Lease Aid based on the lesser of 90 percent of the facility lease costs or the product of the number of pupil units times $1,200 or the allowance grandfathered in the 2002 legislative session for specific schools with high costs per pupil unit. The growth in the Charter School Lease Aid program is driven primarily by the growth in the number of charter school pupil units.

In FY 2006, the average charter school lease aid per pupil unit was just over $1,051. In projecting for future years, the average aid per pupil unit shows little change. The growth is due to the total number of charter school pupil units increasing at a significant rate, reflecting an increase both in the number of charter schools and the number of pupil units.

EBO contact: Britta Reitan #651-201-8028, britta.reitan@state.mn.us

PROPERTY TAX AIDS AND CREDITS

Homeowner's Property Tax Refund Program

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change '08-'09 vs. '06-'07	% Change '10-'11 vs. '08-'09
General Fund	384,700	448,100	494,800	16.5%	10.4%

Spending for the regular homeowner's property tax refund program in FY 2008-09 is expected to increase $63.4 million, or 16.5 percent, over expenditures for the program in FY 2006-2007. In FY 2010-11, this program is projected to grow an additional $46.7 million, or 10.4 percent, over FY 2008-09 expenditure levels.

The homeowner's property tax refund program has an open appropriation, and it seeks to provide tax relief to homeowner's whose property taxes are high relative to their incomes. In recent years, property taxes have commonly grown at a faster rate than household income.

The main reason for the significant growth in the homeowner's property tax refund program is that residential homestead property taxes have been steadily increasing, due to rising property values, decreases in homestead market value credit amounts as the average market value of a home increases, local school referenda, and local spending decisions.

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.

EBO contact: Alexandra Broat #651-201-8026, alexandra.broat@state.mn.us

DEPARTMENT OF MILITARY AFFAIRS

Enlistment Incentives

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change ’08-’09 vs. ’06-‘07	% Change ’10-’11 vs. ’08-‘09
General Fund	$17,800	$22,826	$20,626	28.2%	-9.6%

Spending on incentives for enlistment in the Minnesota National Guard is estimated to reach $22.826 million in FY 2008-09, up 28.2 percent over FY 2006-07 spending. Although the agency expects program costs would continue rising through the FY 2010-11 biennium, under current law expenditures would fall by 9.6 percent to $20.626 million.

More frequent and longer active duty deployments increase the need for enlistment incentives to maintain adequate troop levels. Starting in FY 2006-07, the legislature increased the biennial appropriation for enlistment incentives from $9.714 million to $20.414 million in order to fund the full cost of tuition reimbursement and to fund bonuses for re-enlistment. Of the total appropriation, generally 92 percent is spent on reimbursing current National Guard members for the cost of college tuition (up to the University of Minnesota undergraduate tuition rate). An additional 7 percent is spent on annual bonuses for National Guard members who continue to re-enlist after completing between six and twelve years of service. The remaining 1 percent is spent on program overhead—mainly salary costs.

Since the bulk of the appropriation funds tuition reimbursements, spending levels for this program are primarily affected by changes in the University of Minnesota tuition rate. The number and length of deployments also affect program spending, since National Guard members cannot use their tuition benefits while on active duty away from their home area. Although Guard members were eligible to receive 100 percent tuition reimbursement in FY 2006, deployments for a significant portion of Guard membership led to the lowest use of tuition benefits in recent years. Projected increases in spending for FY 2008-09 reflect expected increases in tuition rates and the number of Guard members resuming school after their deployments end. The projected spending increase is also due to a compounding effect from re-enlistment bonuses that began in FY 2006. The cost will increase each year as the agency pays bonuses to those who received them in previous years and to newly eligible Guard members. The agency expects the cost of bonuses to level off after the first wave of recipients reach the five-year limit.

EBO contact: Abigail Read #651-201-8025, abigail.read@state.mn.us

DEPARTMENT OF FINANCE

Debt Service Transfer

Expenditures ($000s)	2006-07	2008-09	2010-11	% Change '08-'09 vs. '06-'07	% Change '10-'11 vs. '08-'09
General Fund	752,098	901,953	1,036,347	19.9%	14.9%

The general fund transfer required to pay debt service on state general obligation bonds is anticipated to grow in the next few years due to the large bonding bills enacted in the 2005 ($886 million) and 2006 sessions ($949 million). This debt service is on total outstanding general obligation bonds of $4.0 billion. Total authorized, and unissued bonds total another $1.3 billion.

Debt service costs are determined by three factors: the cost to pay principal and interest on existing bonds currently outstanding, the cost to pay principal and interest on the sale of bonds that have been authorized but have unissued bond authorizations, and the cost to pay principal and interest on future bond authorizations. Bond authorizations increased by 17 percent in FY 2004-05 and 22 percent in FY 2006-07. The bond sales are estimated to increase over the next biennia due to relatively high levels of bond authorization that were enacted in the 2005 and 2006 legislative sessions. Larger bond authorizations require larger bond sales and higher levels of debt service transfer. Once the bonds are sold for these large capital budgets the debt service cost will stabilize.

Biennial Debt Service Transfer

Forecast Assumption→

Legislative Session	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bond Authorizations ($ millions)	$570	$189	$0	$886	$949	$135	$645	$135	$645	$135

Other cost factors that increase the debt service cost include the reduction in the premiums to be received in future biennia. Premiums are received on bond sales when interest rates are lower than five percent. The lower the interest rate on the bond issue, the higher the premium that will be received. Interest rates for future bond sales are projected to range from 4.2% to 4.8%. Premium bonds have higher than market interest rates. The higher interest rates are offset by the premiums paid to the state.

In previous biennia, outstanding bonds having higher interest rates were refinanced which resulted in debt service savings. As interest rates allow, additional bonds will be refinanced. These savings have been realized with projected savings of $14.5 million in FY 2008-09.

If capital appropriations bills return to forecast levels (see table below for forecast assumptions), in combination with the issuance of remaining bond authorizations from the 2005 and 2006 bills, the cost of debt service is expected to increase by only 1 to 2 percent by FY 2012-2015.

DOF contact: Peter Sausen #651-201-8014, peter.sausen@state.mn.us

Part II—*Listing of programs that meet 15 percent growth threshold*

K-12 Education

Fast Growing Expenditures
FY 2008-09 vs. 2006-07

Agency	Program Name	Component	Biennial Total 2006-2007	Biennial Total 2008-2009	Biennial $Change	Biennial %Change	Cause of Growth
General Fund							
DEPT OF EDUCATION	OTHER GENERAL PROGRAMS	CONSOLIDATION TRANSITION	388	779	391	100.77%	Funding can be sporadic because it is based on the number and size of school districts that voluntarily decide to consolidate.
	CHOICE PROGRAMS	CHARTER SCHOOL LEASE	52,828	68,185	15,357	29.07%	Growth in number of students in charter schools and slight increase in lease costs
		INTERDISTRICT DESEG TRANSP	13,662	19,747	6,085	44.54%	Increased number of students participating at more sites and increased cost of transportation
	SPEC STUDENT & TEACHER PRGS	GET READY, GET CREDITS-CLEP	2,475	3,300	825	33.33%	New program phase in; FY 2006 was the first year and it was at a lower funding level than base.
	SPECIAL EDUCATION	COURT PLACED SPED REVENUE	118	146	28	23.73%	Serves small number of students (12 in 2005) so small changes in student numbers have big percentage impact on cost.
	FACILITIES & TECHNOLOGY	DEFERRED MAINTENANCE	-	6,114	6,114	100.00%	New program
	EARLY CHLDHOOD & FAM SUPPORT	HLTH & DEVELOPMENT SCREENIN	5,578	6,578	1,000	17.93%	Combination of increased student numbers and formula change
		INFANTS & TODDLERS-PART C	203	1,584	1,381	680.30%	New program
		GEN ED COMPONENTS					
	GENERAL EDUCATION	GIFTED & TALENTED	12,392	17,091	4,699	37.92%	New program phase in; FY 2006 was the first year and it was at a lower funding level than base.
		Q-COMP	56,051	153,288	97,237	173.48%	New program phase in; FY 2006 was the first year and it was at a lower funding level than base.
		ONLINE LEARNING	708	1,027	319	45.06%	OLL cap was eliminated leading to rapid program growth.
		EARLY CHILDHOOD PART C	401	2,760	2,359	588.28%	New program

Tax Aids and Credits

Fast Growing Expenditures
FY 2008-09 vs. 2006-07

Agency	Program Name	Component	Biennial Total 2006-2007	Biennial Total 2008-2009	Biennial $Change	Biennial %Change	Cause of Growth
General Fund							
REVENUE DEPT	PROPERTY TAX REFUND	REV COLLECT & LOCAL GOVT AID	382,188	448,100	65,912	17.25%	Rising property taxes without a similar increase in household income and increased program participation.
	SENIOR DEFERRAL REIMBURSEMENT	REV COLLECT & LOCAL GOVT AID	612	1,075	463	75.65%	Increased number of participants in program.
	DNR-PILT	REV COLLECT & LOCAL GOVT AID	33,060	41,063	8,003	24.21%	Reassessment of property.
	FOREST LAND CREDIT PROGRAM	REV COLLECT & LOCAL GOVT AID	5,398	7,329	1,931	35.77%	More enrollees in program and price per acre increase.

Fastest Growing Expenditures

Health and Human Services

Fast Growing Expenditures
FY 2008-09 vs. 2006-07

Agency	Program Name	Component	Biennial Total 2006-2007	Biennial Total 2008-2009	Biennial $Change	Biennial %Change	Cause of Growth
General Fund							
HUMAN SERVICES DEPT	AGENCY MANAGEMENT	MANAGEMENT OPERATIONS	6,950	8,448	1,498	21.55%	Intra-fund reallocation - technical.
	CHILDREN & ECONOMIC ASSIST GR	MFIP/DWP GRANTS	85,146	121,080	35,934	42.20%	Biennial differences driven by federal MOE calculations.
		MFIP CHILD CARE ASSISTANCE GR	83,318	147,642	64,324	77.20%	One-time TANF refinancing in FY 2006-07 and policy changes in the 2005 and 2006 sessions.
		BSF CHILD CARE ASSISTANCE GR	44,015	83,894	39,879	90.60%	Policy change-increases in 2006 session.
		GROUP RESIDENTIAL HOUSING GR	159,602	188,444	28,842	18.07%	Rate increase in 2005 Session; Caseload growth increases 10%, average cost increases 6%.
	HEALTH CARE GRANTS	MA BASIC HEALTH CARE GRANT-	1,244,138	1,528,389	284,251	22.85%	Average cost and enrollment changes.
		MA BASIC HEALTH CARE GRANT-	1,677,088	2,130,481	453,393	27.03%	Average cost and enrollment changes.
	CONTINUING CARE GRANTS	MA LTC WAIVERS & HOME CARE GR	1,638,950	1,958,451	319,501	19.49%	Caps come off in FY08-09. Caseload and average cost.
	STATE OPERATED SERVICES	MINNESOTA SEX OFFENDER SRVCS	100,821	126,341	25,520	25.31%	Costs from growth in forensics population, was appropriated, no forcast adjustment.
Non-General Fund Direct Approp.							
HUMAN SERVICES DEPT	HEALTH CARE GRANTS	MINNESOTACARE GRANTS	551,380	822,122	270,742	49.10%	Rising per person costs, shift of GAMC enrollees
HEALTH DEPT	POLICY QUALITY & COMPLIANCE	HEALTH POLICY	5,670	7,996	2,326	41.02%	Increased spending associated with past fee proposals, not associated with a forecast
	HEALTH PROTECTION	ENVIRONMENTAL HEALTH	34,935	42,358	7,423	21.25%	Increased spending associated with past fee proposals, not associated with a forecast
		INFECT DISEASE EPID PREV CNTRL	257	314	57	22.18%	Increased spending associated with past fee proposals, not associated with a forecast

Public Safety

Fast Growing Expenditures
FY 2008-09 vs. 2006-07

Agency	Program Name	Component	Biennial Total 2006-2007	Biennial Total 2008-2009	Biennial $Change	Biennial %Change	Cause of Growth
Non-GF Direct Appr.							
PUBLIC SAFETY DEPT	911 EMERGENCY SERVICES/ARMER	911 EMERGENCY SERVICES	66,139	83,142	17,003	25.71%	Fee increase by legislature
CORRECTIONS DEPT	CORRECTIONAL INSTITUTIONS	EDUCATION	6,336	7,616	1,280	20.20%	Primarily due to increased Adult Basic Ed. funds (spent in fund 200) from Dept. of Education.

Fastest Growing Expenditures

State Government

FY 2008-09 vs. 2006-07

State Government

Agency	Program Name	Component	Biennial Total 2006-2007	Biennial Total 2008-2009	Biennial $Change	Biennial %Change	Cause of Growth
General Fund							
OFFICE OF ENTERPRISE TECH.	ENTERPRISE IT SECURITY	ENTERPRISE SECURITY	1,900	3,800	1,900	100.00%	Program created in supl. budget with full biennium in 08-09
MILITARY AFFAIRS DEPT	ENLISTMENT INCENTIVES	ENLISTMENT INCENTIVES	17,800	22,826	5,026	28.24%	Biennial carryforward authority/available until spent--significant carryforward from 07 to 08
Non-GF Direct Approp.							
ATTORNEY GENERAL	ATTORNEY GENERAL	SOLICITOR GENERAL	162	290	128	79.01%	Increased use of external money managers
FINANCE NON-OPERATING	ADMINISTRATIVE	ADMINISTRATIVE	506	700	194	38.34%	SOT revenue enacted in suppl. budget with full biennium in 08-009
MILITARY AFFAIRS DEPT	GENERAL SUPPORT	AUXILIARY SERVICES	547	676	129	23.58%	Forecast growth of retirees
VETERANS AFFAIRS DEPT	SERVICES	SUPPORT OUR TROOPS	547	676	129	23.58%	Forecast growth of retirees
MINN STATE RETIREMENT SYSTE	MN STATE RETIREMENT SYSTEM	UNCLASSIFIED EMPL RETMNT	22,173	31,636	9,463	42.68%	Forecast growth of retirees