

December 2008

# The Lost Decade

Taking a closer look at Minnesota's public investments in the 2000s



## Table of Contents

Introduction and key findings	I
The 2000s: Minnesota's recent budget history	5
E–12 education	8
Higher education	14
Child care assistance	20
Affordable housing and homelessness prevention	26
Conclusion	32



The Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits, provides independent research, analysis and advocacy on budget and tax issues, emphasizing their impact on low- and moderate-income Minnesotans and the organizations that serve them. The Minnesota Council of Nonprofits is the statewide association of 2,000 nonprofit organizations. Through its Web site, resource publications, workshops and events, cost-saving programs and advocacy, MCN continually works to inform, promote, connect and strengthen individual nonprofits and the nonprofit sector.

# THE Lost Decade

## INTRODUCTION AND KEY FINDINGS

*No individual person or business alone can provide an adequate supply of safe and affordable housing, quality schools, or a health care system. We pool our resources as a society so that we can have the safe roads and bridges, the skilled and healthy workforce, and the communities we want for ourselves and our families.*

State government is a partner with the nonprofit sector, the business community and Minnesota's residents in building a state with a high quality of life in which all people have the opportunity to succeed. Public investments can help ensure that those who face more serious challenges, including low-income people, can provide a decent standard of living for their families. Minnesota has some of the nation's widest disparities in well-being between its white residents and people of color, and here too public investments can play a role in ensuring that the path of opportunity is open to everyone. When all have the opportunity to succeed, Minnesota's economy and quality of life are stronger.

Minnesotans have been served well by public investments. Minnesota is a leader in covering the uninsured and graduating our students from high school. Our state economy outperformed the national average for many decades.

However, Minnesota's responses to fiscal challenges in this decade raise questions about whether the state has maintained its commitment to public investments. This report asks: what is the status of Minnesota's investments in some of the areas important to the well-being of its residents and ensuring that all have the opportunity to succeed?

*Taking a closer look at Minnesota's public investments in the 2000s*

*What is the status of Minnesota's investments in some of the areas important to the well-being of its residents and ensuring that all have the opportunity to succeed?*

Looking at the largest and most flexible part of the budget, we find that state's general fund spending has increased 5 percent from FY 2000 to FY 2009. (This figure and all measures of changes over time in this analysis have been adjusted for inflation.) But the story varies significantly among different areas of the budget. State general fund spending in transportation, higher education, aids to local governments, health and human services, environmental resources, and economic and workforce development are all lower at the end of this time period than at the beginning. Other areas have grown over time beyond the rate of inflation, including education, health care and public safety.



## Taking a closer look at four areas of investment

But just knowing whether spending in a subject area has grown or shrunk does not tell the whole story. This report takes a closer look at four areas of the budget that significantly impact the well-being of Minnesota families and are important for ensuring that all Minnesotans have the opportunity to succeed. These areas are:

- Early childhood through grade 12 (E-12) education
- Higher education
- Child care assistance
- Affordable housing and homelessness prevention

*The Governor and Legislature enacted considerable cuts in funding in response to deficits, so our finding that all four areas studied showed a decline after FY 2003 is not surprising.*

In each area, we examine state funding trends from FY 2000 through FY 2009, the policy choices that influenced that funding trend, and the implications for Minnesotans' quality of life and access to opportunity.

Minnesota policymakers confronted budget deficits from 2002 to 2005 and again in 2008, with particularly large deficits in 2002 and 2003. The Governor and Legislature enacted considerable cuts in funding in response to these deficits, so our finding that all four areas studied showed a decline after FY 2003 is not surprising.

Whether the decline in funding since FY 2003 has been somewhat modest, as in E-12 education, or more dramatic, as in higher education and child care, the 2000s can be categorized as a lost decade in which many Minnesotans found their opportunities to succeed in school, the workplace, or in providing a decent standard of living for their families were constrained. During these years, Minnesota also lost ground compared to other states.



### Key findings in E–12 education

- **Minnesota is now average in its education spending compared to other states.** In FY 1987, per pupil education spending in Minnesota was 11 percent above the national average. By FY 2006, Minnesota’s per pupil spending was equal to the national average.
- **School districts now rely more on property taxes.** A decline in state aid to schools since FY 2003 has resulted in a modest reduction in total school revenue and a significant increase in school property taxes.
- **State general fund spending on E–12 education rose by 10 percent from FY 2000 to FY 2009.** A major tax reform meant that in FY 2003, about \$1 billion in school funding was taken off of local property taxes and replaced by state funding. However, state E–12 funding has gradually declined since FY 2003.

### Key findings in higher education

- **In-state tuition increased by 68 percent at the University of Minnesota from 2000 to 2007.** Average tuition in the Minnesota State Colleges and Universities system (MnSCU) rose by 55 percent over the same period. At the same time, the average state grant amount actually decreased by 7 percent.
- **Minnesota’s ranking among states in state funding for higher education dropped** from 12th in FY 2001 to 35th in FY 2006, as a share of personal income. And although Minnesota is below-average in state funding for higher education, it is above-average in the cost of attending public institutions.
- **State general fund spending on higher education dropped 16 percent** from FY 2000 to FY 2009. Significant cuts earlier in the decade were partially restored in recent years.
- **State higher education funding per full-time student dropped by 28 percent** from FY 2000 to FY 2007.

*The 2000s can be categorized as a lost decade in which many Minnesotans found their opportunities to succeed in school, the workplace, or in providing a decent standard of living for their families were constrained.*



## Methodology

**Data sources:** The analysis of trends in state spending in this report is based on data from the Minnesota Department of Finance and the Minnesota Department of Human Services.

**Inflation adjustments:** All data used to examine changes over time have been adjusted to reflect changes in the buying power of the dollar using the Implicit Price Deflator for State and Local Government Purchases. As a result, an increase in spending found in this report means that spending grew more than inflation. A decrease in spending includes the nominal cut in funding plus the lost buying power due to inflation.

## Key findings in child care assistance

- **Minnesota severely weakened its child care assistance programs** as a viable support for working families as a result of severe cuts made in the 2003 and 2005 Legislative Sessions. Policymakers tightened eligibility requirements, increased out-of-pocket costs for parents and froze reimbursement rates for child care providers.
- **11,000 fewer children accessed child care assistance** in October 2005 than in June 2003, after deep cuts were made to child care funding.
- **State general fund spending for child care assistance dropped by 26 percent** from FY 2000 to FY 2009. Increased federal funding made up for some of the lost dollars, but total federal and state child care spending in Minnesota in FY 2009 is still 16 percent below FY 2000 levels.
- **The state cut funding for child care assistance by a cumulative total of \$250 million** from FY 2004 to FY 2007.

## Key findings in affordable housing

- **The number of households in Minnesota spending more than half of their income on housing more than doubled** from 1 in 15 households in 2000 to 1 in 8 households in 2006. Minnesota had the fastest growth in the nation in this measure.
- **State funding for affordable housing and homelessness prevention gradually declined**, with the exception of two one-time boosts in funding. From FY 2001 to FY 2009, funding fell by 17 percent.

Decisions about how we spend state dollars matter now more than ever. Indications are that our proud tradition of a strong state economy and a high quality of life is at stake. Since 2004, Minnesota has performed below the national average in key economic indicators such as growth in gross domestic product and personal income. At several points in 2008, Minnesota's unemployment rate was higher than the national average for the first time in the thirty years that records have been kept. And most Minnesotans have seen little improvement in their standard of living since the beginning of this decade. Through a multi-year economic recovery, median household income in Minnesota actually decreased from \$58,400 in 2001 to \$55,800 in 2007, in inflation-adjusted dollars.

Minnesotans need to have a statewide conversation about how we will reverse these trends and maintain a high quality of life and an economy that provides everyone the opportunity to succeed. The findings in this report should provide some context for that conversation.

# THE 2000s: MINNESOTA'S RECENT BUDGET HISTORY

## 2000 and 2001: The last of the surplus years

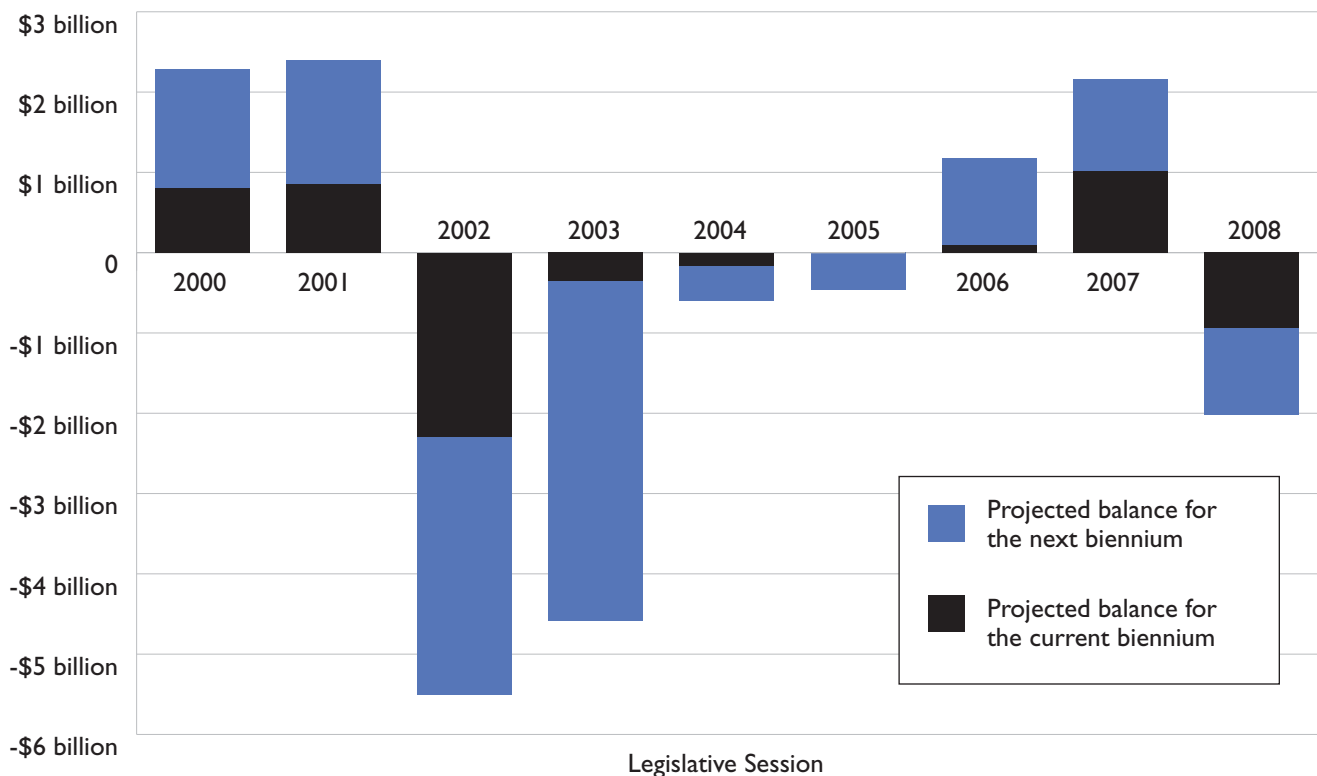
Minnesota entered this decade at the end of a period of strong economic growth in which the benefits of that growth were broadly shared. Workers of all income levels saw real wage gains. As a consequence, the state received greater revenues through the tax system and spending on services for low-income Minnesotans was lower than previously expected. The result was state budget surpluses.

The budget surpluses seen in the early years of this decade were a continuation of surpluses that started in the 1997 Legislative Session. Some of these surpluses showed up as cash in the state's bank accounts, but others were based on projected revenues, assuming the strong economy would continue into the future.

Of the roughly \$13 billion in surpluses on the table in the 1997 through 2001 Legislative Sessions, about half went to permanent tax cuts or one-time rebates. Less

*Of the roughly \$13 billion in surpluses on the table in the 1997 through 2001 Legislative Sessions, about half went to permanent tax cuts or one-time rebates.*

Minnesota's General Fund balance has seen more downs than ups



Data is from Minnesota Department of Finance Forecasts. Forecasts after 2002 do not include the estimated impact of inflation on most expenditures in the projected balance for the next biennium. Data has not been adjusted for inflation.

*The largest changes to the budget came in the 2003 Legislative Session when policymakers faced a \$4.2 billion deficit.*

than one-third of the surpluses was invested in improving or expanding services, with about 15 percent set aside in budget reserves or the tobacco endowment.

During the 2001 Legislative Session, economic news suggested a slowdown was likely on the way. Some argued for caution, saying it would be unwise to allocate projected surpluses that might not actually materialize. Policymakers struggled to reach agreement. They eventually decided to leave a portion of the projected surplus for the upcoming FY 2002-03 biennium unallocated. But they also passed a significant tax reform bill in which the state made a commitment to substantially increase its share of E-12 funding in return for a reduction in local property taxes.

### 2002 to 2005: The deficit years

The state's fortunes changed dramatically in 2002. An economic downturn meant tough times for states across the nation, but Minnesota's deficits were made more severe by the permanent tax cuts passed during the surplus years, and the choice in 2001 to rely on future surpluses that never came about.

In the 2002 Legislative Session, instead of the surpluses that had previously been forecasted, the state faced a \$2.3 billion deficit for the FY 2002-03 budget cycle and an additional \$3.2 billion shortfall for FY 2004-05. Policymakers balanced the FY 2002-03 budget primarily through the use of reserves, fund balances and timing shifts, as well as spending cuts.

Policymakers also agreed to artificially shrink future deficits by changing the way that the state's general fund balance was calculated. Starting in 2003, forecasts would no longer include the impact of inflation on most areas of state spending. This action reduced the future FY 2004-05 deficit by \$1.1 billion, but still left a large projected deficit for the 2003 Legislature to solve.

The largest changes to the budget came in the 2003 Legislative Session. Despite the actions of the 2002 Legislature, policymakers faced a \$4.2 billion deficit for FY 2004-05, equal to 14 percent of the state's general fund spending. Spending cuts made up the largest part of the deficit solution: \$2.5 billion was cut from the FY 2004-05 general fund budget, an 8.1 percent reduction compared to base funding.

When states face budget shortfalls, there are three primary tools they can use: raising revenues, reducing spending and using reserves and other one-time measures. Governor Pawlenty and others made a "no new taxes" commitment that took broad-based increases in state taxes off the table during the deficit years. Those taxes that were raised in this time period disproportionately impact low- and middle-income Minnesotans: tobacco taxes and property taxes. The state also saw significant increases in tuition at Minnesota's higher education institutions, as well as in various fees.

Policymakers confronted smaller deficits in 2004 and 2005, but coming to a resolution was no easier. In fact, the 2004 Legislative Session ended without agreement on how to address the \$160 million deficit for the FY 2004-05 biennium. In 2005, policymakers went through a special legislative session and a partial







government shutdown before reaching agreement on balancing a \$466 million deficit for FY 2006-07.

### 2006 to 2007: A little breathing room

Policymakers had some breathing room in the 2006 and 2007 Legislative Sessions. Surpluses in those years allowed for partial restoration of funding for some areas. However, these surpluses somewhat overstated the state's fiscal health for two reasons. First of all, these forecasts did not include the impact of inflation on most areas of state spending. When inflation is taken into account, the future surpluses projected in 2006 and 2007 largely disappear. And the \$1 billion FY 2006-07 surplus available in 2007 was largely one-time dollars that were not likely to be repeated.

### 2008 and onward: Back to deficits

As the economy deteriorated, Minnesota's state budget fell back into deficit in the 2008 Legislative Session, with a \$935 million shortfall for FY 2008-09. The budget-balancing solution primarily relied on budget reserves and other one-time measures. The Legislature avoided some of the worst proposed service cuts, but still made \$268 million in spending reductions. Policymakers left a large future deficit for FY 2010-11 for the 2009 Legislative Session. And since so much of their budget-balancing solution was made up of one-time fixes, policymakers will have a fewer tools available as they wrestle with a FY 2010-11 deficit that is currently projected at \$946 million, but is expected to become significantly larger when new figures become available in December 2008.

*Minnesota's state budget fell back into deficit in the 2008 Legislative Session. Policymakers will have fewer tools available as they wrestle with a FY 2010-11 deficit.*



# E-12 EDUCATION

*A healthy early childhood, elementary and secondary school system (E-12 education) is critically important to the state's economic vitality and quality of life. The importance of state funding for education is recognized in the state's constitution, which states, "It is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state."*

A report to the Joint Economic Committee of the U.S. Congress emphasizes the importance of E-12 education, noting that, "There is a strong consensus among economists that formal education is an important determinant of individual earnings as well as economic growth. The importance of formal education has been magnified by recent economic trends underlying U.S. labor market demand for skilled workers."<sup>1</sup>

The benefits of E-12 education are not limited to the realm of economics. Individuals who obtain a high school diploma earn significantly more than those who do not, and also report better health status and are less likely to be involved in the criminal justice or welfare system.<sup>2</sup> Given the broad range of benefits accruing from E-12 education, it is not surprising that the public has long recognized and supported funding for the E-12 system.

In this decade, Minnesota's state general fund investments in E-12 education grew by 10 percent.<sup>3</sup> A large share of the increase in funding is the result of reform legislation passed in 2001 in which the state took over roughly \$1 billion in education funding and reduced local property taxes by a similar amount. But the state had trouble maintaining its commitment once fiscal challenges began. Since FY 2003, state general fund investments in E-12 education have declined slightly. Although school districts made up for some of the reductions in state funding through increases in property taxes, total school district revenues are nonetheless lower now than in FY 2003.

Minnesota has become an average state in terms of its investments in education. And Minnesota still has work to do to ensure that all children have the opportunity to succeed. In Minnesota, there are large racial and income disparities in educational achievement—often called the "achievement gap." Low-income children are twice as likely to not be ready for kindergarten compared to children from families with the highest incomes.<sup>4</sup> Among the thirty-seven states that consistently report graduation rates, Minnesota ranks dead last in graduation rates



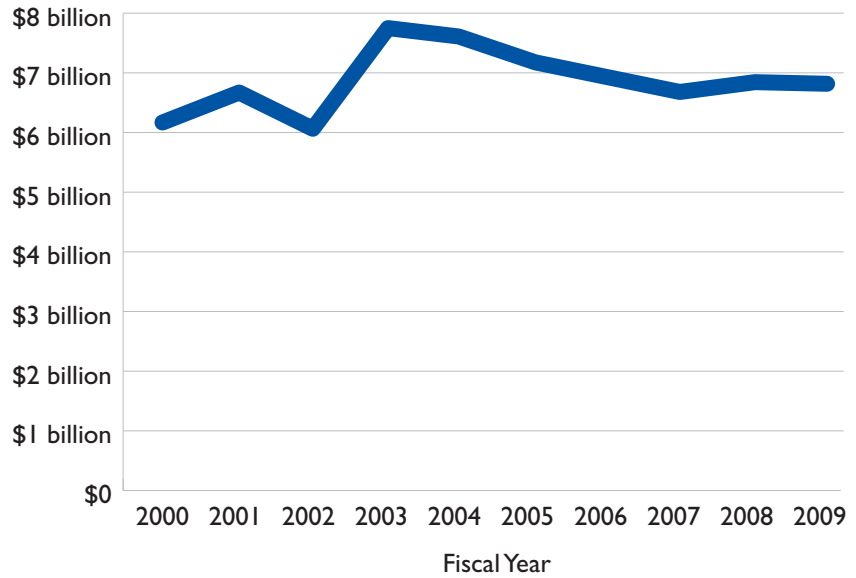
*In Minnesota, there are large racial and income disparities in educational achievement—often called the "achievement gap."*



### Key findings

- Minnesota is now average in its education spending compared to other states.** In FY 1987, per pupil education spending in Minnesota was 11 percent above the national average. By FY 2006, Minnesota's per pupil spending was equal to the national average.
- State general fund spending on E-12 education rose by 10 percent from FY 2000 to FY 2009.** A major tax reform meant that in FY 2003, about \$1 billion in school funding was taken off of local property taxes and replaced by state funding. However, state E-12 funding has gradually declined since FY 2003.
- School districts now rely more on property taxes.** The decline in state aid to schools since FY 2003 has resulted in a modest reduction in total school revenue and a significant increase in school property taxes.

### State spending on E-12 education is down since 2003



General Fund expenditures, adjusted for inflation in FY 2008 dollars.  
 Data Source: Minnesota Department of Finance, General Fund Balance Analysis.

of black students. Minnesota also lags significantly behind the national average in graduation rates of Hispanics, American Indians and Asians.<sup>5</sup> Minnesota's future economic competitiveness is at risk when so many Minnesota children are unable to reach their full potential.

### Major E-12 funding reforms passed in 2001

How Minnesota funds E-12 education changed significantly in this decade. During the late 1990s and the early years of the current decade, the state used general fund resources to reduce general education property taxes. This process culminated with legislation passed in 2001 that included the complete state takeover of what was called "general education costs" and the elimination of general education property taxes in FY 2003.

Consequently, there was a dramatic increase in state spending on E-12 education in FY 2003 and a corresponding decline in school property taxes. Approximately \$1 billion in education spending was shifted off of local property taxes and was replaced by state general fund dollars. As a result, the share of total school district revenues paid by the state rose from 61 percent in FY 2000 to 75 percent in FY 2003.

### State funding has dropped since FY 2003

Just as the state's education finance and property tax reforms took effect, the state started to face budget shortfalls. As a result, since FY 2003, state general fund spending on E-12 education has gradually declined. By FY 2009, state general fund spending on E-12 education had dropped 12 percent.

E-12 education weathered the deficit years better than many other areas of the budget, which saw more dramatic cuts in funding. But E-12 education was not immune from budget cuts. Unfortunately, students who already faced stark

disparities in opportunities were harmed by budget choices made in 2003.

- **Funding to aid students with Limited English Proficiency** was capped at five years, although experts argue that setting a cap ignores the fact that not all children will achieve proficiency at the same pace.

- **Funding for After School Enrichment programs**, which help low-income students and children of color who are struggling in school, was eliminated.

- **Adult Basic Education**, which includes English as a Second Language, citizenship classes, and GED completion, was cut by about 11 percent.

### Policy choices have created greater reliance on property taxes

The constitutional requirement that the legislature establish a general system of public schools does not mean that the state will fully fund E-12 education. Throughout recent history, well over half of the total revenue for the E-12 education system has come from the state, although a significant portion of public school revenues comes from local sources, primarily local school property taxes.

The state's role in E-12 finance has widely been seen as ensuring that all school districts can afford to provide access to schools of

*The state's role in E-12 finance has widely been seen as ensuring that all school districts can afford to provide access to schools of comparable quality.*

comparable quality. The state has administered this responsibility by providing aid to school districts based on property wealth per pupil; the poorer a school district, the more aid the district will receive from the state, all other things being equal. This process is referred to as "equalization." The state has also provided additional resources to school districts that have higher

educational costs. For example, the state provides more aid to school districts with high concentrations of students in poverty. In these ways, the state attempts to ensure that all children have access to quality education.

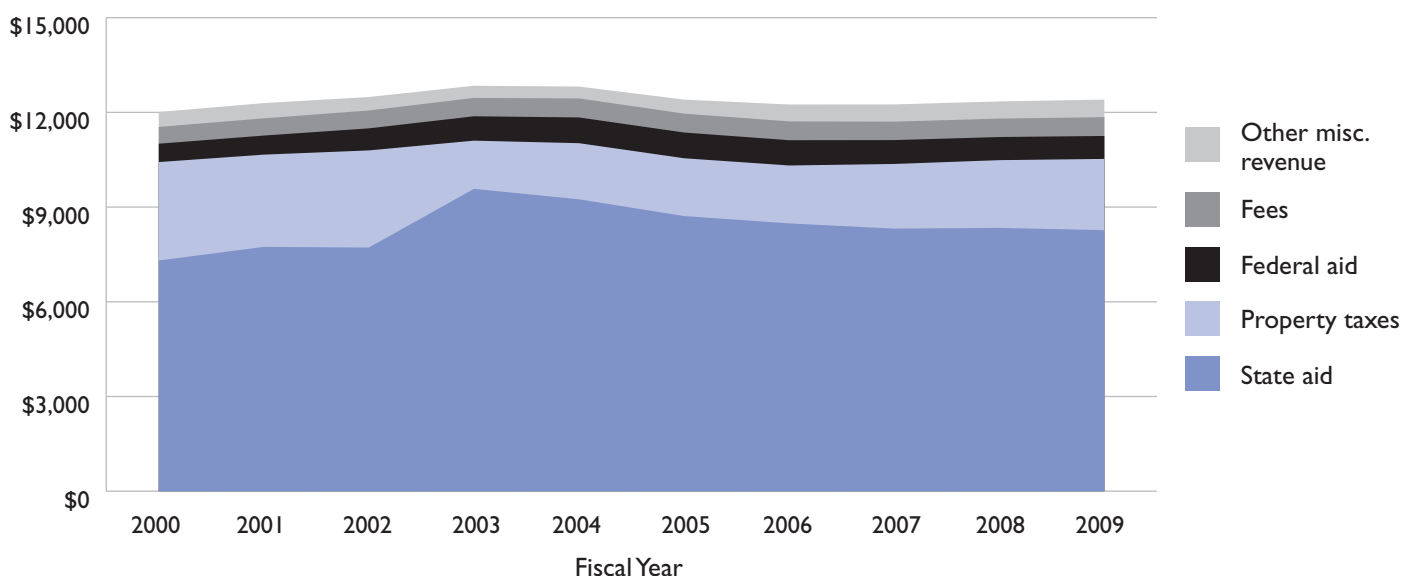
Total school district revenues, and the relative importance of state funding and local property taxes, have seen many changes over this decade. Total school district revenues per pupil increased by 7 percent from FY 2000 to FY 2003. As a result of the reform legislation passed in 2001, there was a dramatic increase in state aid to school districts during this time period and a corresponding decline in school property taxes.

- Per pupil state funding for school districts grew by 31 percent.
- School property taxes per pupil fell by 51 percent.

However, since FY 2003, the share of school district funding coming from the state has declined and reliance on property taxes has grown. The 2007 Legislature passed an increase in state

### Schools are relying more on property taxes

School district revenues per pupil



Adjusted for inflation in FY 2008 dollars. Data source: Minnesota Department of Finance, Price of Government, May 2008, and Minnesota Department of Education.

*In FY 1987, per pupil education spending in Minnesota was 11 percent above the national average. By FY 2006, it was equal to the national average.*

funding for schools districts for the FY 2008–09 biennium that was generous in comparison to previous budget cycles, but it was still below what was needed to keep pace with inflation.<sup>6</sup> From FY 2003 to FY 2009:

- Per pupil state aid to school districts fell by 14 percent.
- School property taxes per pupil rose by 48 percent.

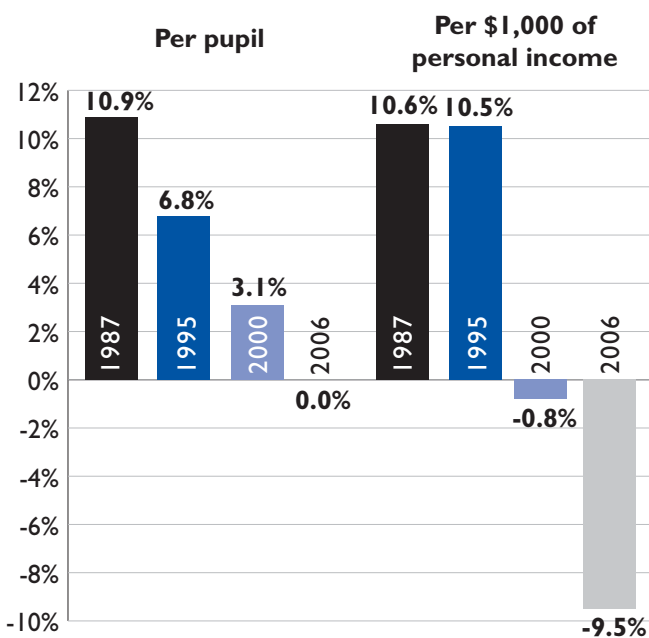
The recent increases in property taxes and a modest net gain among other revenue categories was only sufficient to offset two-thirds of the decline in state aid, so total school revenues per pupil have fallen by 3 percent from FY 2003 to FY 2009. Simply put, property tax increases were insufficient to replace the loss in state aid.

The increased reliance on the property tax to fund E–12 education raises serious concerns regarding tax fairness. The property tax is a regressive tax, meaning that a disproportionate share of taxes is paid by households with the least ability to pay. Increasingly, school districts are relying more on school referenda to fund public schools. While the stated purposes of ballot questions differ from district to district, there is little doubt that the ultimate cause of the increase in the number of referenda is the need to replace declining state aid. As the number of referenda has increased, referenda passage rates have fallen. The decline in passage rates has been attributed to taxpayer resentment over the increase in regressive property taxes.<sup>7</sup>

Increased dependence on property taxes to fund E–12 education also raises issues of transparency. When taxpayers see their school property taxes increasing, they naturally assume that public schools are getting more money. However, too often

this is not the case. School property taxes are generally being used to replace a reduction in state aid and are not providing a net increase in real per pupil funding.

### Minnesota education spending falls compared to national averages



Minnesota public elementary and secondary school current spending per pupil and per \$1,000 of personal income, compared to national averages. Data source: Census of Governments reports and Public Elementary-Secondary Education Finance Data as reported by the U.S. Census Bureau.

### School funding in Minnesota falls compared to other states

Conventional wisdom is that Minnesota funds public elementary and secondary schools at a higher level than the national average. While at one time this assertion was accurate, it is no longer the case.<sup>8</sup>

Over time Minnesota’s public school funding advantage has gradually eroded. In FY 1987, per pupil education spending in Minnesota was 11 percent above the national average. By FY 2006, per pupil current spending in Minnesota was equal to the national average.

An alternative way of examining funding for public schools is per \$1,000 of personal income. This represents the public effort toward funding public education compared to the collective statewide ability to pay. Examining school funding relative to personal income also helps to adjust for higher labor costs in high-income states. In FY 1987, Minnesota education funding per \$1,000 of personal income was 11 percent above the national average. This percentage changed little from FY 1987 to FY 1995, but has fallen since then. By

FY 2006, Minnesota's effort toward funding education was 9 percent below the national average.

Minnesota can no longer claim that it funds its public school system more generously than the national average. Based on the most current Census Bureau data available, Minnesota is a middling state in terms of per pupil support for public education and is considerably below average in terms of the percentage of the state's income that is devoted to public education.

## Conclusion

Compared to the other areas of the budget examined in this analysis, E-12 education funding was not cut as severely during the deficit years. Nonetheless, Minnesota has lost ground in education funding compared to other states, and now falls in about the middle of the pack.

Major tax and education funding reforms passed in 2001 sought to replace a significant share of local property taxes with state funding. This goal proved difficult to maintain during the deficit years, and over time the state's schools have relied more on property taxes as state funding has declined. Greater reliance on the property tax raises questions about whether all districts will be able to provide a quality education for its students. And a persistent achievement gap raises questions about whether all Minnesota children have the opportunity to succeed.



## Endnotes

- 1 Joint Economic Committee, U.S. Congress, *Investment in Education: Private and Public Returns*, 2000.
- 2 *Investment in Education: Private and Public Returns*.
- 3 State general fund spending on E-12 education includes aid for school districts, charter schools, the state academies and the Minnesota Department of Education. State aids include basic general education aid, special education aid, early childhood aids for school district programs such as early childhood family education (ECFE) and Head Start, and an assortment of other smaller state aids for K-12 education. It does not include property tax aids and credits.
- 4 Greater Twin Cities United Way and Itasca Project, *Close the Gap: A Business Response to Our Region's Growing Disparities*.
- 5 Editorial Projects in Education, *Diplomas Count 2008: School to College*, and Minnesota Public Radio, *Study: Minn Ranks at Bottom for Black Graduation Rate*, June 4, 2008.
- 6 State aid and credits to Minnesota school districts will increase by 8.1 percent from FY 2006-07 to FY 2008-09. The rate of inflation over the same period is 9.3 percent.
- 7 Testimony before the Senate E-12 Budget Division on November 27, 2007, indicated that while many voters supported increased school funding, they resented having to pay for increased spending through higher property taxes. According to testimony, many voters feel that property taxes are rising more rapidly than their income. This testimony underscored the problem of relying on regressive taxes to fund essential public services.
- 8 Comparison is of Minnesota public school current spending per pupil. *Census of Governments* reports and online Public Elementary-Secondary Education Finance Data as reported by the U.S. Census Bureau; 1987, 1995, 2000, and 2006. According to the Census Bureau, current spending "comprises current operation expenditure, payments made by the state government on behalf of school systems, and transfers made by school systems into their own retirement funds. This classification is used only in Census Bureau education reports in an effort to provide statistics for users who wish to make interstate comparisons."

## Methodology

- **Data sources:** The analysis of trends in state general fund spending in this section is based on data from the Minnesota Department of Finance's General Fund Fund Balance Analyses. Analysis of school district revenues is based on data from the Minnesota Department of Finance, Price of Government, May 2008, and pupil count data from the Minnesota Department of Education.
- **Inflation adjustments:** All data used to examine changes over time have been adjusted to reflect changes in the buying power of the dollar using the Implicit Price Deflator for State and Local Government Purchases. As a result, an increase in spending found in this report means that spending grew more than inflation. A decrease in spending includes the nominal cut in funding plus the lost buying power due to inflation.





# HIGHER EDUCATION

*Post-secondary education and training contributes greatly to a strong economy by preparing and educating Minnesota's workforce. As John F. Kennedy said, "Our progress as a nation can be no swifter than our progress in education... The human mind is our fundamental resource." Beyond helping create a productive workforce, higher education institutions are also the place where students and professors work on important innovations, such as cures to diseases and new crop development.*

The State of Minnesota invests in higher education by providing funding to the University of Minnesota system and Minnesota State Colleges and Universities (MnSCU), the state's system of community and technical colleges and state universities. The state also provides financial aid to students at both public and private institutions who demonstrate need.

Higher education provides an important opportunity for success, but that pathway does not appear to be equally available to everyone. The achievement gap found in E-12 education persists into higher education. For example, 51 percent of black students do not complete their degree at four-year institutions, compared to 29 percent of whites.<sup>2</sup> Clearly there is much left to do to close the achievement gap.

Minnesota needs all its residents to reach their highest potential in the workforce. People of color will make up a growing share of Minnesota's workforce, yet are severely underrepresented in higher education. The Minnesota Office of Higher Education has noted, "The state's failure to address the achievement gap at all levels of education will constrain future growth and opportunity."<sup>3</sup>

State investment in higher education, like many areas of the budget, dropped significantly when the state faced budget deficits, with large cuts in funding passed in both 2002 and 2003. Funding has been relatively flat since FY 2004. The state's public universities and colleges responded to cuts in state funding by increasing tuition. Financial aid has not kept pace. In fact, the average state grant has fallen over time. Minnesota is now average among states in terms of its investments in higher education.

## State funding cuts mean higher costs for students

State general fund investment in higher education funding in FY 2009 is 16 percent lower than at the start of the decade. Funding dropped considerably after FY 2002, as policymakers responded to large budget deficits.



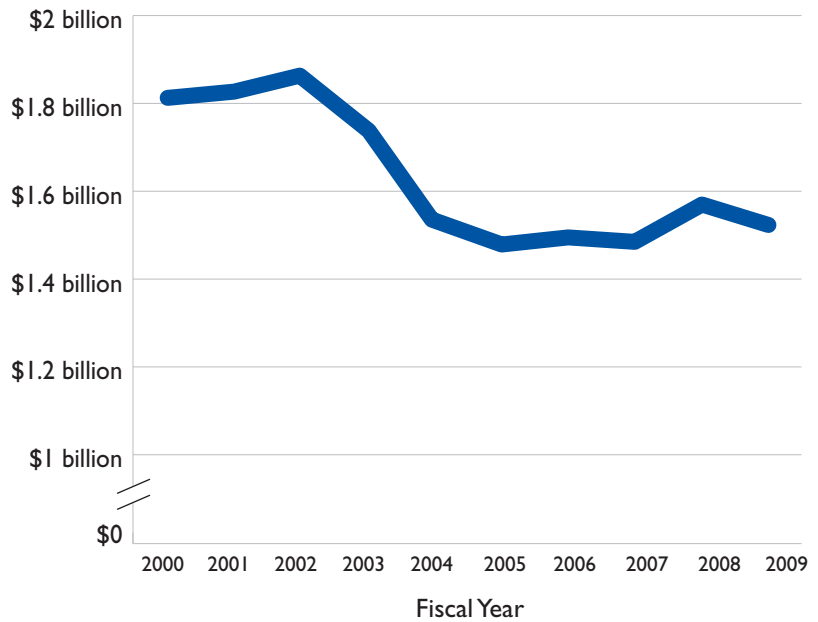
*As state funding has dropped and inflation pressures have mounted, colleges and universities filled the gap by raising tuition and fees.*



**Key findings**

- In-state tuition increased by 68 percent at the University of Minnesota** from 2000 to 2007. Average tuition in the Minnesota State Colleges and Universities system (MnSCU) rose by 55 percent over the same period. At the same time, the average state grant amount actually decreased by 7 percent.
- Minnesota’s ranking among states in state funding for higher education dropped** from 12th in FY 2001 to 35th in FY 2006. And although Minnesota is below-average in state funding for public higher education, it is above-average in the cost of attending public institutions.
- State general fund spending on higher education dropped 16 percent** from FY 2000 to FY 2009. Significant cuts earlier in the decade were partially restored in recent years.
- State higher education funding per full-time student has dropped considerably.** Funding fell by 28 percent from FY 2000 to FY 2007.

**State investment in higher education drops**



General Fund expenditures, adjusted for inflation in FY 2008 dollars. Data Source: Minnesota Department of Finance, General Fund Balance Analysis.

MnSCU and University of Minnesota institutions have had to stretch fewer resources to serve an increasing student population. Over the course of this decade, state funding per full-time student fell by 28 percent from FY 2000 to FY 2007, the latest year for which data is available.<sup>4</sup>

As state funding dropped and inflation pressures mounted, colleges and universities filled the gap by raising tuition and fees. For the first time in University of Minnesota history, annual tuition and fees will top \$10,000 for in-state students in the 2008-09 academic year. From 2000 to 2007, in-state tuition increased an astonishing 68 percent in the University of Minnesota system. Average MnSCU tuition rose by 55 percent over the same period. In contrast, tuition at private four-year institutions grew by 27 percent.

In this decade, Minnesota lost its status as a leader among states in funding higher education. Minnesota’s state funding of higher education dropped from 13th in FY 2001 to 35th in FY 2006, measured as a share of personal income.<sup>5</sup> And although Minnesota is below-average in state funding for public higher education, it is above-average in the cost of attending public institutions. Even after accounting for grants and scholarships, a full-time first-year student at Minnesota’s public universities paid \$4,720 in tuition and fees, which is almost twice the national average.<sup>6</sup>

**State financial aid funding lags behind tuition hikes**

In addition to providing funding directly to public higher education institutions, the state provides financial aid to students at both private and public institutions who demonstrate need, including grants and work study stipends. Over 80,000 undergraduates received a State Grant in FY 2007. Of these, almost three-quarters

came from families with earnings less than \$40,000.<sup>7</sup> Individual colleges and universities offer additional kinds of financial aid to students, including loans, work study stipends and scholarships.

Financial aid is especially important for low-income individuals and adult workers who may wish to go to school and successfully adapt in the global economy. Low-income students struggle to afford the cost of higher education. Adult students often must support their families and work while going to school. Going to school can mean reducing work hours and missing out on much-needed income. Financial aid helps make going to school more possible.

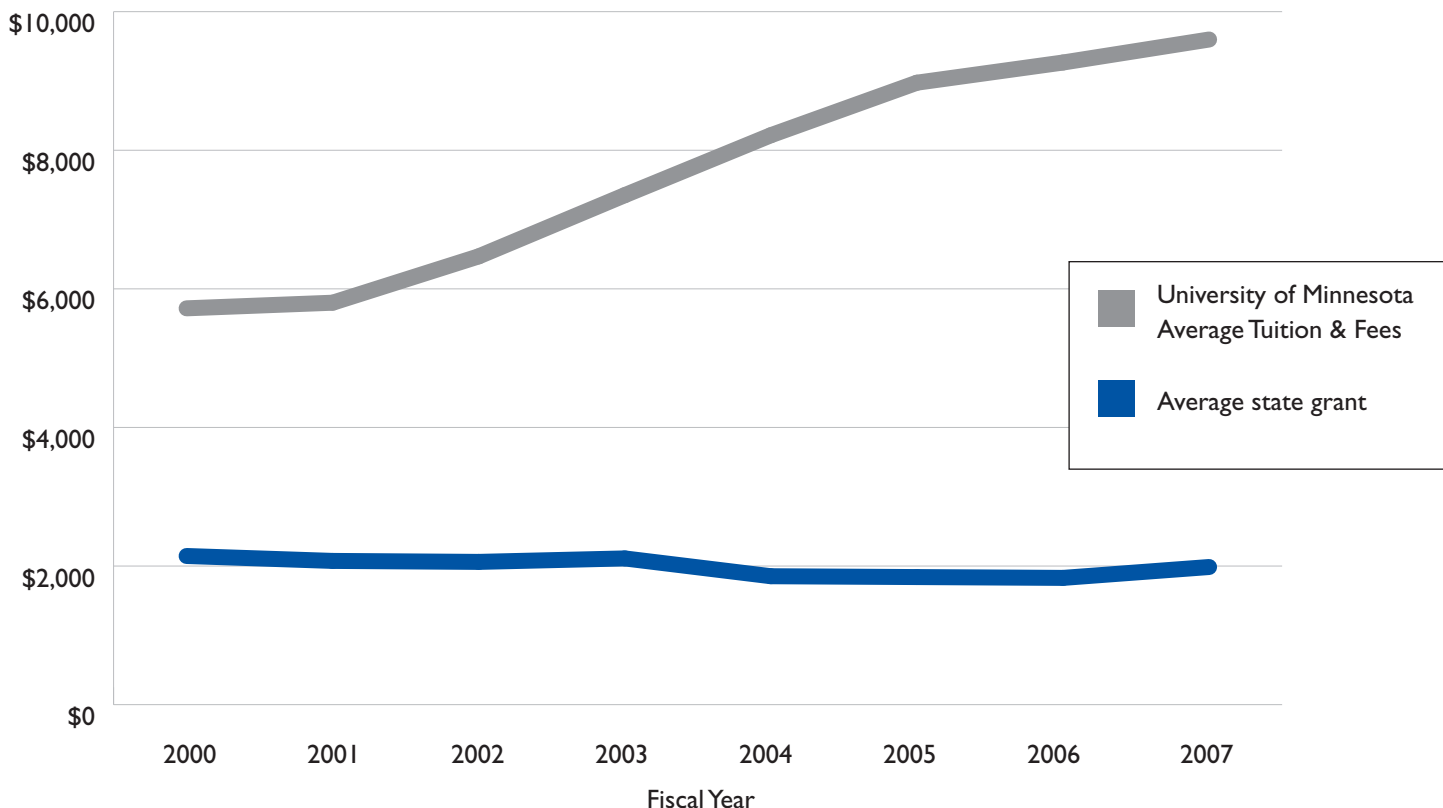
Unfortunately, state financial aid funding has not come close to keeping pace with escalating student tuition. In fact, instead of rising to meet increased costs, the average state grant amount actually decreased by 7 percent from FY 2000 to FY 2007.<sup>8</sup>

*The debt load for students graduating from both public and private institutions in Minnesota is higher than in peer states*

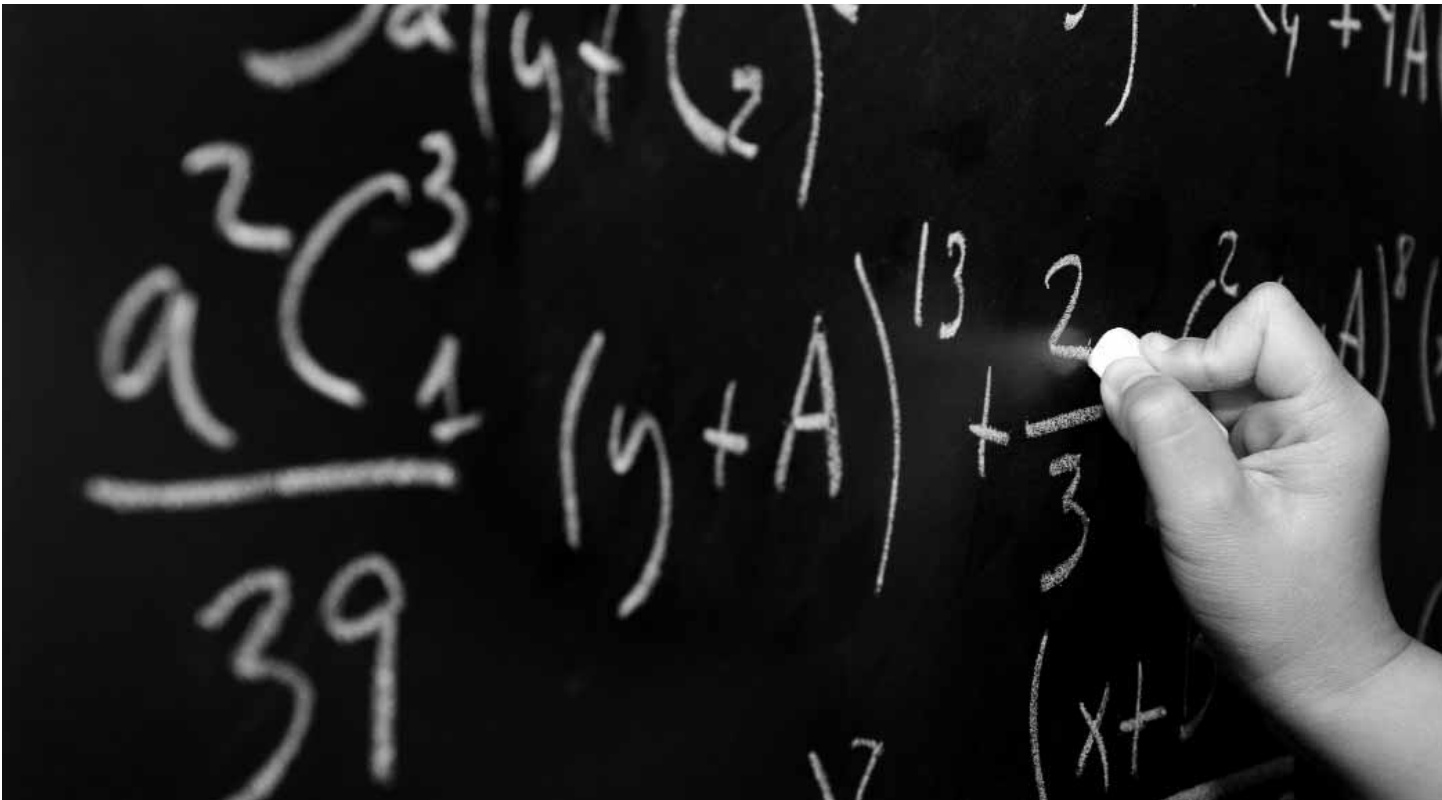
### Higher costs mean more student debt

As state funding for higher education and financial aid has dwindled, the growing costs of a college degree have been shouldered by students. This has led to a greater debt burden on students and sometimes the end to students' college aspirations. In 2006, Minnesota families paid 26 percent of their income, on average, for a four-

State grants do not keep up with skyrocketing tuition



Adjusted for inflation, FY 2008 dollars. Data source: Minnesota Office of Higher Education, Average Annual Resident Undergraduate Tuition & Required Fees, and Minnesota State Grant Program, End of Year Statistics.



*“The state’s failure to address the achievement gap at all levels of education will constrain future growth and opportunity.”*

—Minnesota Office of Higher Education

year public university or college education, even after accounting for financial aid — up considerably from 20 percent in 2000.<sup>9</sup> The 40 percent of Minnesota families with the lowest incomes pay 37 percent of their incomes.

Many students turn to borrowing to fund their college educations. Two-thirds of graduating seniors from Minnesota’s public universities in 2006 carried debt that averaged \$20,933.<sup>10</sup> The debt load for students graduating from both public and private institutions in Minnesota is higher than in peer states.<sup>11</sup>

College debt can limit the type of career a graduate can pursue, which has costs for society as a whole. Graduates with a high debt burden must not only pay the extra interest costs, but must search for a job that will pay enough to allow them to repay the debt. High college debt can close off jobs that benefit society but pay more modest salaries, such as a public school teacher.

High college costs also make it more difficult for students to complete their education. For each \$1,000 in unmet financial need, the likelihood of a first-year student at the University of Minnesota continuing to a third year of college decreases by 1.6 percent.<sup>12</sup> Worse, students who do not graduate will likely have to pay off college loan debt, but without the advantages of a college degree.

Attending college is a critical part of the American dream. Yet as Minnesota has reduced its higher education funding in this decade, Minnesota colleges and universities have become less affordable. This raises real questions about whether the opportunities for success that higher education offers remain available to all Minnesotans, and whether Minnesota employers will find the well-trained workforce they need for the future.

## Endnotes

- 1 John F. Kennedy, Special Message to the Congress on Education, February 20, 1961.
- 2 Minnesota Office of Higher Education, *Minnesota Measures: 2008 Report on Higher Education Performance*, April 2008.
- 3 Minnesota Office of Higher Education, *Minnesota Measures: 2007 Report on Higher Education Performance*, February 2007.
- 4 Full-time students, totaling the MnSCU system and the University of Minnesota system.
- 5 Calculations based on data from the U.S. Census of Governments. FY 2001 is the first year for which the U.S. Census data on higher education spending by state is available, and FY 2006 is the latest year for which data is available.
- 6 *Minnesota Measures: 2008 Report on Higher Education Performance*.
- 7 Earnings figures are adjusted gross incomes as reported on tax forms. Minnesota Office of Higher Education, *Minnesota State Grant End-of-Year-Statistics, Fiscal Year 2007*.
- 8 2007 is the latest year for which financial aid funding data is available.
- 9 The National Center for Public Policy and Education, *Measuring Up Report Cards*.
- 10 *Minnesota Measures: 2008 Report on Higher Education Performance*.
- 11 Peer states are Iowa, Illinois, Indiana, Ohio, Pennsylvania, Michigan, Minnesota and Wisconsin. *Minnesota Measures: 2008 Report on Higher Education Performance*.
- 12 Minnesota Minority Education Partnership, *2006 State of Students of Color Report*.

## Methodology

- **Data sources:** The calculations in this section are based on data from the Minnesota Department of Finance's General Fund Fund Balance Analyses and the Minnesota Office of Higher Education.
- **Inflation adjustments:** All data used to examine changes over time, including changes in tuition and financial aid, have been adjusted to reflect changes in the buying power of the dollar using the Implicit Price Deflator for State and Local Government Purchases. As a result, an increase in spending found in this report means that spending grew more than inflation. A decrease in spending includes the nominal cut in funding plus the lost buying power due to inflation.



# CHILD CARE ASSISTANCE

*The American family has been transformed in the past thirty years. Today, two-thirds of families with children have both parents working.<sup>1</sup> In Minnesota, women work at one of the highest rates in the nation.<sup>2</sup> As a result, child care is a necessity for many Minnesota families—about three-quarters of families with children under the age of 13 are using some form of child care on a regular basis.<sup>3</sup> A child care setting can range from a grandparent caring for their grandchildren several times a week to a child care center providing full-time infant care. Whatever the provider or setting, child care allows parents to work, employers to attract workers and, perhaps most importantly, it can provide the early learning foundation that enables the future success of our youngest citizens.*

Brain development research highlights the importance of good early learning experiences for a child's future success in school and life. Parents are their child's first teacher, but children are learning all the time, including when they are in child care.

In particular, high quality child care can help close the significant disparities between children of color and their white counterparts in academic performance once they begin school. Studies find that quality early childhood care has a substantial impact on a child's readiness to start kindergarten. Research shows that, on average, children from higher-income families or parents with more education perform better at the skills needed for school readiness than children from lower-income families or with less-educated parents. Remarkably, these differences disappeared among Minnesota children enrolled in high-quality, accredited child care centers.<sup>4</sup> The state's child care assistance programs help low-income families afford higher quality child care providers than they otherwise could access, thereby helping to reduce the achievement gap in Minnesota.

The public has a strong interest in ensuring that parents have access to reliable and affordable child care, and that all children have high-quality child care experiences, whatever child care setting they are in. The state recognizes this by funding child care assistance. Parents qualify for assistance if their income is below 47 percent of the state median income (currently \$38,900 for a family of four).<sup>5</sup> Families choose their child care provider and pay a copayment based on their income; copayments make up a larger share of a family's income as their income rises. On top of the



*Brain development research highlights the importance of good early learning experiences for a child's future success in school and life.*



## Key findings

- **Minnesota severely weakened its child care assistance programs** as a viable support for working families as a result of severe cuts made in the 2003 and 2005 Legislative Sessions. Policymakers tightened eligibility requirements, increased out-of-pocket costs for parents and froze reimbursement rates for child care providers.
- **11,000 fewer children accessed child care assistance in October 2005 than in June 2003**, after deep cuts were made to child care funding.
- **State general fund spending for child care assistance dropped by 26 percent** from FY 2000 to FY 2009. Increased federal funding made up for some of the lost dollars, but total federal and state child care spending in Minnesota in FY 2009 is 16 percent below FY 2000 levels.
- **The state cut funding for child care assistance by a cumulative total of \$250 million** from FY 2004 to FY 2007.

copayment, families must also pay any difference between the state's reimbursement rate and the actual cost of care.

As in other areas of the budget, the state cut funding for child care assistance in response to budget deficits in both 2003 and 2005. The ability of child care assistance programs to help families was weakened severely, as eligibility was tightened, costs to parents rose and reimbursement rates to providers were frozen. Many families and children lost child care assistance, and some child care providers closed their doors. While additional federal funding has made up for some of the state cuts, total state and federal funding for child care assistance in Minnesota remains 16 percent lower in FY 2009 than in FY 2000.

## State funding for child care assistance has declined

Early in this decade, Minnesota's child care assistance programs were held up as a national model for how to help parents work and achieve self-sufficiency. But Minnesota lost its title as a national leader after deep cuts to child care assistance programs passed in the 2003 and 2005 Legislative Sessions. The state cut funding for child care assistance by a cumulative total of \$250 million from FY 2004 to FY 2007.<sup>6</sup>

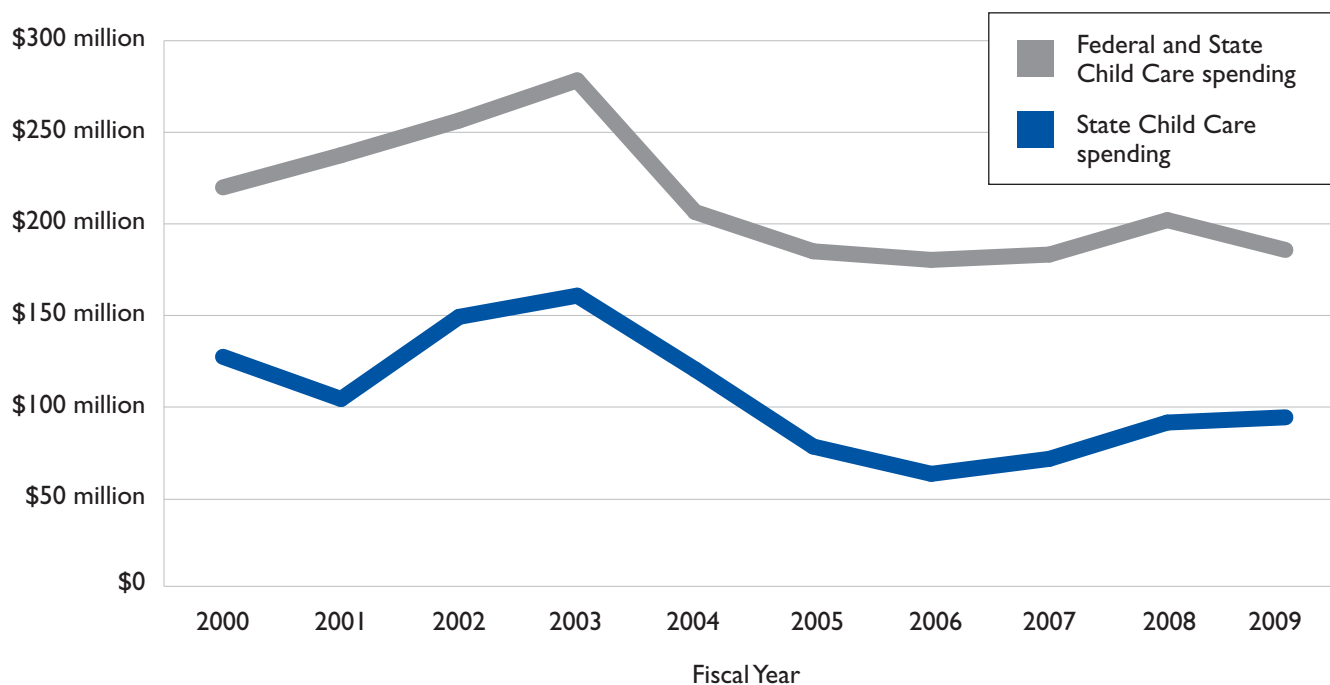
State general fund spending for child care assistance dropped by 26 percent from FY 2000 to FY 2009. The state did increase its use of federal dollars to fund child care assistance, but only partially made up the loss of state funding.<sup>7</sup> Total federal and state child care spending in Minnesota in FY 2009 is 16 percent below FY 2000 levels. It is 33 percent below FY 2003 funding levels, the high point in funding during this decade.

In the 2003 Legislative Session, while facing large budget deficits, decisionmakers dramatically changed the state's child care assistance programs for the worse.

- **Eligibility for child care assistance was reduced.** The maximum income for a family of four to qualify for child care assistance was cut by a third—from \$54,200 to \$32,200.<sup>8</sup>
- **Costs for parents increased.** Families were now required to pay up to 18 percent of their monthly income in child care copayments. This meant that copayments increased by an average of 57 percent for families of three or four.<sup>9</sup>
- **Reimbursement rates to child care providers were frozen.** The maximum amount the state would reimburse child care providers was frozen at 2001 levels, adding an additional financial burden for families and child care providers. In addition to the increased copayments, parents were required to pay the difference between the maximum reimbursement rate and the actual cost of care, which grows each year. By 2007, 60 percent of child care centers and 45 percent of family child care providers were charging rates higher than the state's maximum reimbursement rate.<sup>10</sup> Prior to the cuts, more than 80 percent of all child care providers were at or below the maximum reimbursement rate.<sup>11</sup>



## Investments in child care have been cut severely



State spending is General Fund expenditures. Federal spending is made up of Child Care Development Block Grant and TANF dollars. All numbers adjusted for inflation in FY 2008 dollars. Data Source: Minnesota Department of Finance, General Fund Balance Analysis, and Minnesota Department of Human Services February 2008 forecast.

### Dramatic changes to child care leave families with few options

The impact on families was swift and dramatic. In Hennepin County, a 2004 survey found that 47 percent of families who no longer qualified for child care assistance were getting behind on bills. One-fifth of surveyed families reported losing their jobs after becoming ineligible for child care assistance.<sup>12</sup>

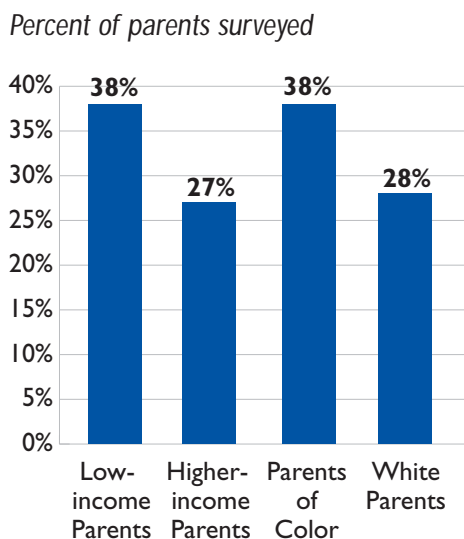
By October 2005, 11,000 fewer children accessed child care assistance than before the cuts were made in June 2003.<sup>13</sup> Federal officials raised questions as to whether Minnesota's provider rates were in fact too low to provide an adequate degree of choice for parents. The U.S. Department of Human Services sent a letter to the Minnesota Department of Human Services in September 2005 stating that, "we are concerned that a system of child care payments that does not reflect the realities of the market makes it economically infeasible for many providers to serve low-income children—undermining the statutory requirements of equal access and parental choice."<sup>14</sup>

The freeze on provider rates likely pushed some child care providers out of the profession. In the two years prior to the cuts, the supply of licensed child care providers remained steady. But by January 2006, the state had lost more than 1,100 licensed child care providers.<sup>15</sup> Not only did this mean fewer child care options, but also a loss of close relationships that had been built between child care providers and children. Continuity of care is very important to a child's healthy development.

*One-fifth of surveyed families reported losing their jobs after becoming ineligible for child care assistance.*

*The waiting list for Basic Sliding Fee child care assistance stood at 6,140 families as of August 2008.*

**Many parents say they “had to take whatever child care arrangement they could get”**



Data source: Wilder Research, *Child Care Use in Minnesota: 2004 Minnesota Statewide Household Child Care Survey*.

Without help affording reliable child care, parents often have few good options. A 2004 Department of Human Services study found that over a third of low-income parents and more than a quarter of higher-income parents said they “had to take whatever child care arrangements they could get.”<sup>16</sup>

Parents of color also face limited child care options. Over one-third (38 percent) of parents of color reported feeling they “had to take whatever child care arrangement they could get,” compared to 28 percent of white parents. The situation is similar for parents of children with special needs and those whose primary language is not English.<sup>17</sup> Nurturing and stable child care is essential for the healthy development of a child, so the fact that such a large share of parents feel they have no choice when it comes to child care is troubling.

In recent years, the state has reversed some of the restrictions put on child care assistance. The 2006 Legislature increased reimbursement rates by six percent, although they remain far below market levels. The 2006 Legislature also restored the accreditation rate differential, which helps parents afford high-quality child care providers.

Further improvements were made in the 2007 Legislative Session, when the maximum copayment for families receiving child care assistance was lowered from 18 percent to 14 percent of income—the lowest level in the decade. In addition, the 2007 Legislature helped fund a small pilot project that provides scholarships for parents to participate in high-quality child care. Unfortunately, eligibility for child care assistance remains at the same level since its drastic reduction in 2003.

**Affordable, reliable child care enables parents to work**

Despite widespread demand, the cost of many child care options is prohibitively high for Minnesota families. Child care for a family with two children—a preschooler and an infant—can cost \$12,000 to \$16,000 in Greater Minnesota and \$15,000 to \$24,000 in the metro area, depending on the type of care.<sup>18</sup>

Without reliable child care, both parents and employers suffer. A 2004 Minnesota Department of Human Services survey found that more than one-third of low-income parents reported that “child care problems had interfered with getting or keeping a job the previous year.”<sup>19</sup> Parents’ missed time at work due to lack of child care means reduced economic productivity. In 1998, U.S. businesses lost an estimated \$3 billion due to employee absences caused by child care breakdowns.<sup>20</sup>

It is estimated that less than a quarter of eligible parents actually receive child care assistance.<sup>21</sup> One reason for this low number is that funding is insufficient to provide child care assistance to all the families that apply, so some families are placed on a waiting list. The waiting list for Basic Sliding Fee child care assistance stood at 6,140 families as of August 2008.<sup>22</sup> The actual number of families who could benefit from child care assistance is likely to be much higher, as many are dissuaded from even joining the waiting list, given its length.

## Minnesota falls far behind other states

Minnesota is exceptional among states in how far it has stepped back from its commitment to child care assistance for working families. In 2001, Minnesota ranked 3rd in the country in terms of income eligibility limits for child care assistance, as a percentage of state median income.<sup>23</sup> By 2007, Minnesota's ranking had dropped to 42nd.

## The success of our children is at stake

Deep cuts in the funding of Minnesota's child care assistance programs have made it more difficult for some working families to afford reliable, quality child care. Additional federal funding and a partial recovery of state funding in more recent years have made up some of the lost ground, but funding remains below FY 2003 levels. Access to affordable child care is essential for many parents to be able to work and for children to be fully ready for school; the future success of our youngest citizens is at stake.

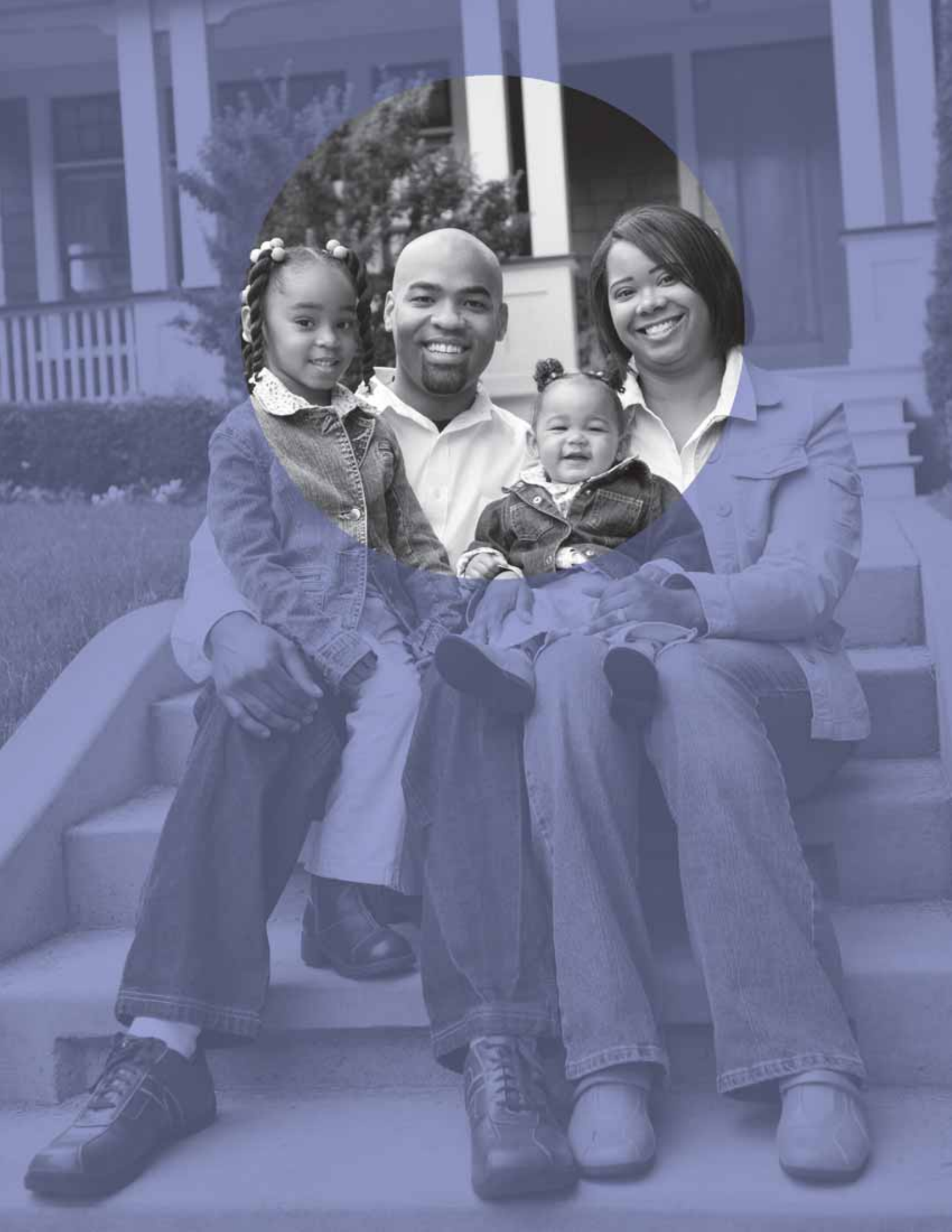


## Endnotes

- 1 Economic Policy Institute, *An Economy That Puts Families First*, May 2007.
- 2 2000 U.S. Census.
- 3 Children's Defense Fund-Minnesota and Child Care WORKS, *Missed Opportunities Still Produce Costly Outcomes*, June 2006.
- 4 Minnesota Department of Human Services, *School Readiness in Child Care Settings*, February 2005.
- 5 Minnesota Department of Human Services Children and Family Services Administration, *Conversion of Child Care Assistance Program (CCAP) Eligibility Requirements and Copayment Schedule to State Median Income*, February 2008.
- 6 Calculations of actual appropriations compared to the forecast base.
- 7 Federal funding sources for child care are the Child Care Development Block Grant and Temporary Assistance to Needy Families (TANF).
- 8 Eligibility figures are for FY 2004. Eligibility dropped from 75% of state median income to 175% of federal poverty guidelines.
- 9 *Missed Opportunities Still Produce Costly Outcomes*.
- 10 Minnesota Department of Human Services, *Child Care Assistance Program Family Profile 2007*, February 27, 2008.
- 11 *Missed Opportunities Still Produce Costly Outcomes*.
- 12 Hennepin County Child Care Assistance, *Preliminary Post-2003 Legislative Session Program Data Update*, December 2003.
- 13 *Missed Opportunities Still Produce Costly Outcomes*.
- 14 *Missed Opportunities Still Produce Costly Outcomes*.
- 15 *Missed Opportunities Still Produce Costly Outcomes*.
- 16 *Child Care Use in Minnesota: 2004 Minnesota Statewide Household Child Care Survey*, prepared by Wilder Research for the Minnesota Department of Human Services, November 2005.
- 17 Minnesota Department of Human Services, *Child Care Use in Minnesota: 2004 Statewide Household Child Care Executive Summary*, November 2005.
- 18 Minnesota Child Care Resource and Referral Network, *Child Care Matters: Quality Care and Education for Every Child*, 2006-07 Annual Report.
- 19 *Missed Opportunities Still Produce Costly Outcomes*.
- 20 Center for Law and Social Policy, *Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment*, April 2006.
- 21 JOBS NOW Coalition, *Bridging the Gaps in Minnesota*.
- 22 Minnesota Department of Human Services, *Child Care Assistance Program Basic Sliding Fee Waiting List*, August 2008.
- 23 Calculated from National Women's Law Center data.

## Methodology

- **Data sources:** The analysis of trends in child care spending in this section is based on data from the Minnesota Department of Finance's General Fund Fund Balance Analyses and the Minnesota Department of Human Services' February 2008 Forecast.
- **Inflation adjustments:** All data used to examine changes over time have been adjusted to reflect changes in the buying power of the dollar using the Implicit Price Deflator for State and Local Government Purchases. As a result, an increase in spending found in this report means that spending grew more than inflation. A decrease in spending includes the nominal cut in funding plus the lost buying power due to inflation.



# AFFORDABLE HOUSING AND HOMELESSNESS PREVENTION

*Though the need for affordable housing increased dramatically in the 2000s, the funding of these programs has been inconsistent. Affordable housing and homelessness prevention funding shows a pattern different from other areas of the budget. It has been one of gradual decline for much of the decade, interrupted by two years with large one-time increases. Like most other areas of the budget, affordable housing and homelessness prevention funding was cut significantly in 2003, but funding has not seen much of a rebound since FY 2004, with the exception of the one-time uptick in FY 2008.*



*Despite increasing need, state investment in affordable housing and homelessness prevention programs has gradually declined in this decade.*

Affordable and safe housing is a foundation for strong families and a healthy economy. The economy suffers when employers cannot fill positions because job seekers are unable to find affordable housing within commuting distance. A child's performance in school suffers when she lives in unstable housing.<sup>1</sup> And the whole family suffers when they are forced to make trade-offs between paying for housing and other basic needs like food or transportation. A major medical expense or a job loss can tip a family already burdened with high housing costs into homelessness. In 2006, it was estimated that at least 9,200 Minnesotans were homeless on a single night, including over 3,000 children and youth.<sup>2</sup>

Minnesota has a high rate of homeownership: in 2007, an estimated 75 percent of Minnesotans owned their own homes.<sup>3</sup> But not everyone has had the same access to the American dream of homeownership. In Minnesota, white homeownership rates are almost double those of blacks and Hispanics.<sup>4</sup> And when people of color do try to buy a home, they may not be offered the best available financing. The Twin Cities ranked as the sixth worst among 167 metropolitan areas for racial lending disparities, where people of color were much more likely to be offered high-cost loans.<sup>5</sup> With the home often being the largest single asset a family has, making sure there is equal access to homeownership is an important piece of ensuring that all Minnesotans have the opportunity to succeed.

Clearly the state has a role to play in preventing homelessness and improving affordable housing opportunities. Minnesota uses state dollars to fund a number of affordable housing and homelessness prevention programs, including affordable rental housing construction, supportive housing, financial counseling and first-time homeowner loans.



### Key findings

- **The number of households in Minnesota spending more than half of their income on housing more than doubled** from 1 in 15 households in 2000 to 1 in 8 households in 2006. Minnesota had the fastest growth in the nation in this measure.
- **State funding for affordable housing and homelessness prevention gradually declined**, with the exception of two one-time boosts in funding. From FY 2001 to FY 2009, funding fell by 17 percent.

## State funding for affordable housing and homelessness prevention has been inconsistent

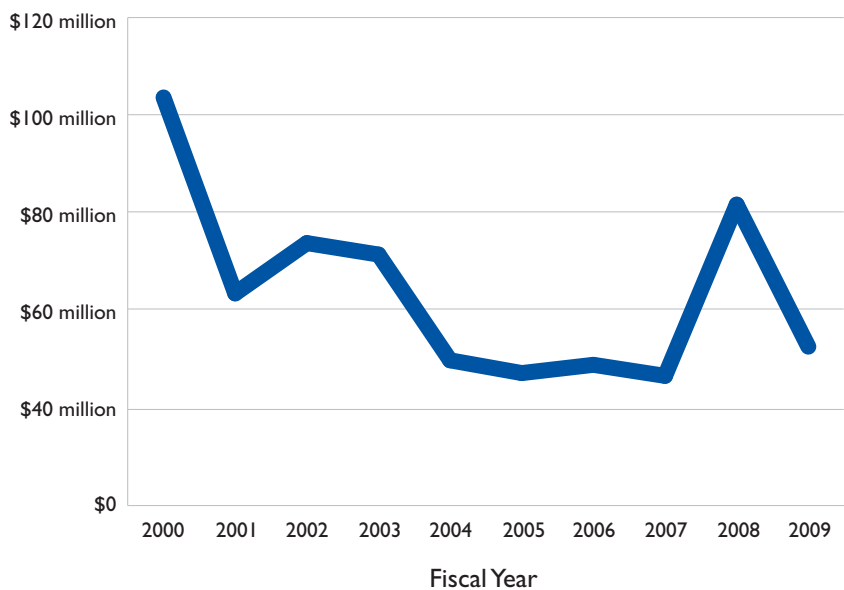
Despite increasing need, state investment in affordable housing and homelessness prevention programs has gradually declined in this decade, a trend that was interrupted by two years in which funding was increased significantly on a one-time basis. In this respect, affordable housing shows a different pattern of funding from many other areas in the budget.

From FY 2001 to FY 2009, state funding for affordable housing dropped 17 percent. FY 2000 was an unusual year, because a large amount of federal TANF dollars was used for a one-year boost in funding. Therefore, it would be misleading to use it as a starting point for understanding funding trends in this decade. There was also a one-year, temporary increase in funding in FY 2008.

As with other areas of the budget, affordable housing and homelessness prevention programs were cut significantly in 2003, as policymakers responded to large budget deficits by cutting services. As a result of cuts in the 2003 Legislative Session:

- The Minnesota Housing Finance Agency’s general fund allocation was cut by a third.<sup>6</sup>
- A 29 percent cut in funding for emergency and transitional housing resulted in hundreds fewer Minnesotans receiving help or shelter.
- The state cut funding for 24-hour emergency housing programs for victims of domestic abuse and their children by 12 percent.<sup>7</sup>

## Funding for affordable housing and homelessness prevention has been inconsistent during the 2000s



General Fund expenditures, adjusted for inflation in FY 2008 dollars. Data Source: Minnesota Department of Finance, General Fund Balance Analysis, and Minnesota Department of Human Services.

The cuts came at a time when these services were clearly needed: in 2003, more than 1,000 people were turned away from shelters each night.<sup>8</sup>

Not only have affordable housing and homelessness prevention programs seen their state general fund dollars drop, they have also become a smaller share of state general fund spending. From FY 2000 to FY 2009, affordable housing and homelessness prevention programs' share of total general fund spending declined by 52 percent. By FY 2009, affordable housing and homelessness prevention programs made up just 0.31 percent of the state's general fund expenditures.

Since FY 2004, funding for affordable housing and homelessness has been relatively flat, with the exception of FY 2008. Even so, the state has taken some steps forward in reaching its goals. In 2004, the Governor initiated a public-private initiative to end long-term homelessness, including the creation of 4,000 housing opportunities for homeless people by 2010. As of October 2008, the state has financed 2,484 housing opportunities, which includes rental assistance and construction of affordable housing units.<sup>9</sup> The state has also provided tax incentives for affordable housing, and in 2005 reinstated a special property tax classification called "4d" that lowers property taxes on some affordable rental housing.

### State general fund dollars are only part of the picture

State general fund investments make up a small portion of the overall public resources for affordable housing in Minnesota. A snapshot of the Minnesota Housing Finance Agency's budget helps put state funding in context with other resources. In FY 2008-09, MHFA's budget was made up of:

- 10 percent state appropriations, which help fund supportive housing programs, rehabilitation and creation of affordable housing, homeownership loans for families and other services.
- 14 percent agency resources (derived from earnings from funds).
- 24 percent federal funding. Federal dollars are largely used for housing vouchers for low-income households (the Section 8 program) and affordable housing creation (the Home Investment Partnership Program).
- 52 percent from the sale of mortgage revenue bonds. The proceeds of bond sales are turned into mortgage loans for first-time homebuyers as well as funding for new rental housing development.<sup>10</sup>

### The need for affordable housing grows

The need for affordable housing in Minnesota grew dramatically in this decade, even while state funding for affordable housing has been relatively stagnant. The number of households in Minnesota spending more than half of their income on housing more than doubled from 1 in 15 households in 2000 to 1 in 8 households in 2006.<sup>11</sup> Minnesota had the fastest growth in the nation on this measure.<sup>12</sup>

The need for affordable housing has grown due to a number of factors, including rising housing costs, the fact that household incomes that have not been able to

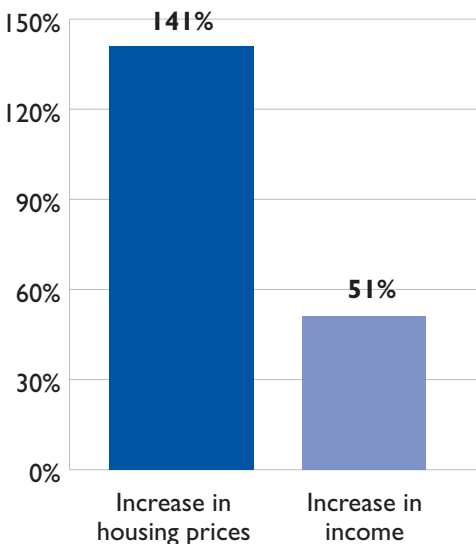
*The number of households in Minnesota spending more than half of their income on housing more than doubled from 1 in 15 households in 2000 to 1 in 8 households in 2006.*

*In 2007, 1 in 5 renters in Minnesota paid more than 50 percent of their income on housing.*



**Increase in Twin Cities metro area housing prices far exceed income gains**

*Change from 1992 to 2005*



Source: Minneapolis Area Association of Realtors.

keep up with inflation, and inadequate federal and state funding. Perhaps the most obvious contributor to the growing need for affordable housing is the housing market itself. Housing prices in the 13-county metropolitan area grew nearly three times as fast as consumer income from 1992 to 2005.<sup>13</sup>

Clearly the rapid rise in housing prices has come to an end. However, the median sales price for a home statewide only dropped slightly from 2006 to 2007, the most recent year for which statewide data is available.<sup>14</sup>

Renters have also faced difficulty in finding affordable housing. In 2007, 1 in 5 renters in Minnesota paid more than 50 percent of their income on housing.<sup>15</sup> Federal funding for Section 8 vouchers, which help families afford to rent units in the private market, has not kept up with demand. Federal policy changes and funding shortfalls from 2004 to 2006 alone resulted in the loss of housing voucher assistance for about 150,000 families nationally.<sup>16</sup> In fact, some Minnesotans have been on the waiting list for Section 8 vouchers for an astonishing ten years.<sup>17</sup>



## Affordable housing is still out of reach for many

The combined effect of less money from the state and rising housing prices yielded the obvious result: fewer affordable housing opportunities for low- to moderate-income households. In 2007, an estimated 28 percent of Minnesota homeowners and 44 percent of renters lived in unaffordable housing, defined as housing that costs more 30 percent of a household's income.<sup>18</sup> The unmet need for affordable housing in Minnesota through 2010 has been estimated at 333,000 low-income households.<sup>19</sup> And the difficulties that families face are not just financial. When families do not have stable housing, it is more difficult for parents to succeed at work and children to succeed at school. Lack of affordable housing is a stumbling block on the path to opportunity.

*When families do not have stable housing, it is more difficult for parents to succeed at work and children to succeed at school.*

## Endnotes

- 1 Greater Minnesota Housing Fund, *The Importance of Stable Housing for Families with Children: Child Success, Workforce Development, Strong Communities*, May 2004.
- 2 Wilder Research, *Overview of Homelessness in Minnesota 2006*, April 2007.
- 3 2007, American Community Survey.
- 4 Minnesota Housing Partnership, *Closing the Housing Gap: Better Communities in Minnesota*, December 2006.
- 5 National Community Reinvestment Coalition, *Study by National Community Reinvestment Coalition Reveals Race Disparities in Lending*, July 10, 2007.
- 6 FY 2004-05 funding compared to FY 2002-03.
- 7 The Minneapolis Foundation, *The Real Costs of Cuts: How 2003 Budget Cuts Have Impacted Real People*, March 2005.
- 8 *The Real Costs of Cuts: How 2003 Budget Cuts Have Impacted Real People*.
- 9 Minnesota Housing Finance Agency, *Heading Home 2010: Minnesota's Business Plan to End Long-Term Homelessness*, October 2008.
- 10 State of Minnesota, *2010-11 Biennial Budget: Housing Finance Agency Profile*.
- 11 Minnesota Housing Partnership, *Affordable Housing: Minnesota (Statewide)*, May 2008.
- 12 *Affordable Housing: Minnesota (Statewide)*.
- 13 Minneapolis Area Association of Realtors.
- 14 Minnesota State Demographic Center, *Minnesota Housing Prices, 2006-2007*, July 2008.
- 15 Minnesota Housing Partnership, *The Quiet Before the Storm*, September 23, 2008.
- 16 Center on Budget and Policy Priorities, *The Section 8 Voucher Reform Act*, October 10, 2008.
- 17 Minnesota Public Radio, *Long Waiting List for Public Housing Gets Longer*, June 12, 2008.
- 18 2007, American Community Survey.
- 19 *Affordable Housing: Minnesota (Statewide)*.

## Methodology

- **Data sources:** In this section, state funding for affordable housing and homelessness prevention is defined as state general fund dollars for the Minnesota Housing Finance Agency and for the following programs within the Minnesota Department of Human Services: Flexible Services Fund, the Runaway and Homeless Youth Act, Emergency Services Grants, Supportive Housing Pilot Project and Transitional Housing Grants. It does not include the \$18 million disaster relief allocated in FY 2008 related to housing. The analysis of trends in state general fund spending is based on data from the Minnesota Department of Finance's Fund Balance Analyses and from Minnesota Department of Human Services.
- **Inflation adjustments:** All data used to examine changes over time have been adjusted to reflect changes in the buying power of the dollar using the Implicit Price Deflator for State and Local Government Purchases. As a result, an increase in spending found in this report means that spending grew more than inflation. A decrease in spending includes the nominal cut in funding plus the lost buying power due to inflation.

# CONCLUSION

Public investment in social goods like a high-quality education system helps makes our society work. This report has asked whether the State of Minnesota is making the investments that Minnesotans expect to help produce a high quality of life and opportunities for all. A robust public debate over how much money is needed to achieve this is to be expected, particularly as Minnesota once again faces budget deficits in 2009. This report provides an important context to that debate: in many areas of investment, state investments have fallen since FY 2003.

Though it is not the focus of this report, the tax system in Minnesota is an important part of the discussion about how we fund our priorities as a state. Policy decisions and economic trends have led to two significant changes in our tax system. First, on average Minnesotans are paying less of their incomes in total state and local taxes than in the mid-1990s. From 1996 to 2000, the average amount Minnesotans paid in taxes, measured as a share of income, dropped by 13 percent. However, since 2002, taxes as a share of income have been rising. And second, more of the responsibility for funding state and local government services has shifted towards those with low- and middle-incomes.

Minnesota is at a crucial decision point. It is time for a statewide conversation between the public and policymakers about what kind of society we want, and how much investment of public resources it will take to achieve it.

## Acknowledgments

The work of the Minnesota Budget Project is made possible by the generous support of the Otto Bremer Foundation, the Ford Foundation, the John S. and James L. Knight Foundation, the McKnight Foundation, the Minneapolis Foundation, the Jay and Rose Phillips Foundation, the STEP Foundation and the Stoneman Family Foundation.

Our thanks to the following people and organizations: James Carlson and Jess Luce, Child Care WORKS; Andi Egbert, Children's Defense Fund–Minnesota; Angie Eilers and Dane Smith, Growth & Justice; Beth Haney; Chip Halbach and Leigh Rosenberg, Minnesota Housing Partnership; Ann McCully, Minnesota Child Care Resource and Referral Network; Liz McNichol, Center on Budget and Policy Priorities; Maureen O'Connell, Minnesota Legal Services Advocacy Project; Tonja Orr, Minnesota Housing; Laurie Possin, Minnesota Department of Human Services; Jermaine Toney, Organizing Apprenticeship Project; Jeff Van Wychen; and the Minnesota House of Representatives' Fiscal Analysis Department.

Their feedback was invaluable in the preparation of this report. The views expressed in this publication are solely those of the authors.





Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits  
2314 University Avenue West, Suite 20, Saint Paul, Minnesota 55114  
Tel: 651-642-1904 • 800-289-1904 • Fax: 651-642-1517 • [www.mncn.org/bp](http://www.mncn.org/bp)