

Reforms

Budget Bills, Reforms & Achievements -

What Legislative Republicans were able to do in 2011 budget legislation to affect long-term structural change

IN SUMMARY...

Republicans prioritized reforms that resulted in **long-term structural cost savings**.

Each finance area of the budget has reforms that will **improve service delivery and results**.

Major fiscal reforms such as repealing the health care provider tax will result in a **cost savings of \$10 billion over 10 years**.

Republicans balanced a \$5 billion deficit without raising taxes.

By contrast, Governor Dayton's initial \$3.35 billion tax increase, and subsequent proposals sought to impose the 2nd highest income tax rate in the country.

In the FY2012-13 spending picture: forecast spending started at \$39 billion; Gov. Dayton's budget originally proposed \$37 billion; **Legislative Republicans ultimately brought that figure down to \$34.3 billion in General Fund spending.**

HEALTH & HUMAN SERVICES

This bill represents generational change in health care reform. It bends the curve on health care spending to slow the massive growth in the fastest growing part of the state budget. It repeals the provider tax, creates a defined contribution to privatize public health care for some MinnesotaCare recipients, and provides increased funding to small, rural nursing homes and rural pharmacies. It prevents welfare fraud by strengthening welfare eligibility requirements and placing greater restrictions on the use of EBT cards. It also provides flexibility to ensure effective, quality, accessible health care.

FUTURE SPENDING. One of the most significant components of the Health and Human Services budget agreement is the overall FY 14-15 future spending (tails) reduction. Tails spending was reduced from a projected 11.5 percent increase to a significantly lower 4.8 percent. Major provisions agreed upon to achieve significant structural reform are:

Total repeal of nursing facility and hospital rebasing. Rebasing will no longer show up in the tails and will reduce the tails by more than a half a billion dollars. Rebasing, which is the mechanism by which hospitals are supposed to keep up with medical inflation over time, has been delayed for the past several years. As a result, rebasing has falsely inflated forecasted spending for health and human services.

Medical Assistance fee-for-service caps and management. This puts a limit on the Medicaid fee-for-service spending for the next four years and manages the population in hopes of achieving the best possible outcome and cost effective care.

Management and limitations on Elderly and Developmental Disability Waivers will control the number of people allowed on the waiver programs and seeks encourage the most effective use possible of the limited waivers.

PERSONAL RESPONSIBILITY. A version of the Healthy Minnesota Defined Contribution program was included in the bill, covering adults without children at above 200 percent Federal Poverty Guidelines (FPG) in MinnesotaCare. All other populations including elderly, disabled, and children will remain on Medical Assistance. **This is a significant step, as it allows this portion of MinnesotaCare to accept personal responsibility for their own health care and enroll in the private market.**

COST CONTAINMENT. The budget bill includes the Governor's executive order to enroll early in Medical Assistance, but also ensured that reforms and cost containment efforts would be done to serve the adults without children below 75 percent FPG.

FEDERAL WAIVERS. The bill asks the federal government for a series of waivers but no savings can be attributed to the waiver requests that allow for reform, cost containment and future savings within Minnesota's public health care system. The following are areas of reform we hope to achieve through the approval of these waivers:

Promoting personal responsibility and encouraging and rewarding healthy outcomes, encouraging utilization of high quality, cost effective care through Medicaid and MinnesotaCare enrollee cost sharing, empowering and encouraging work and housing independence for the disabled and elderly.

Redesign home and community based services: This project involves realigning existing funding, services and supports for people with disabilities in order to ensure a more sustainable system.

Changes to the Elderly Waiver to improve access to housing, redesign of assessment tools, transition and relocation efforts, refinancing of Alternative Care and Essential Community Supports, and providing Medigap coverage for those not eligible for MA.

Health Care Delivery Demonstration Projects: This project involves testing alternative payment service and delivery models for Minnesota Health Care Plan fee-for-services recipients and managed care enrollees and support an improved primary care coordination model for recipients.

COUNTY CONSOLIDATION. A strictly policy related reform was the inclusion of County Service Delivery Authority. This proposal is a significant reform and allows multiple counties to consolidate human service departments into a single delivery authority.

PROVIDER TAX RELIEF. The Health and Human Services agreement includes tax relief from the MinnesotaCare provider tax with a blink-on or off depending on the financial structure of the Health Care Access Fund. The current rate of 2.5 percent is adjusted accordingly depending on the fund's balance. **At the end of 2019, the provider tax is repealed.**

EBT CARD FRAUD PREVENTION. This provision requires the recipients name on an EBT card, prohibits purchase of alcohol and tobacco, and stipulates that fraudulent use of the card will result in loss of benefits.

MFIP CHANGES. This makes changes for recipients such as: political campaign work cannot count toward work requirements; requires people with vehicles that have a value of \$10,000 to claim them as assets.

STATE GOVERNMENT/VETERANS

Government reforms begin within the state agency. Governor Mark Dayton and the DFL attempted to block nearly every attempt Republicans made at reforming government, showing loyalty to union state workers over efficient and effective use of taxpayer dollars. The reforms Republicans achieved this session lay the foundation for long-term costs savings and start to change how state government operates and delivers services.

PAY FOR PERFORMANCE. Though a pilot project, Minnesota Management & Budget (MMB) may issue up to \$10 million in appropriation bonds for performance contracts with nonprofits that achieve savings in excess of their grant amount.

STATE AUDITOR PERFORMANCE REVIEW. The State Auditor must report to the Legislature regarding the timeliness, cost, and customer satisfaction of audits done by the office.

IT CONSOLIDATION. The Office of Enterprise Technology is given the responsibility of managing the state's data center, servers, desktops, data network, and other information technology activities. All state agency employees who work primarily with IT are made employees of OET.

E-VERIFY. Businesses that contract with the state are required to use the E-verify citizen status check system to verify legal residency of employees.

EMPLOYEE GAINSHARING. State agencies are allowed to offer one-time cash bonuses to state employees for cost-saving ideas. The funding would come from accrued savings.

HEALTH CARE SAVINGS. MMB may offer an incentive program to SEGIP (State Employee Group Insurance Program) participants if the group achieves collective health care cost savings. One-half of the savings may be paid to the employees' health care savings accounts as a reward.

JOB RE-CLASSIFICATION. MMB must redesign and consolidate the job classification plan for executive branch employees, with a goal of assigning all classified positions to no more than 50 job families.

SEGIIP DEPENDENT AUDIT. MMB is required to issue a request for proposal (RFP) for dependent eligibility verification audit services for the state-paid medical benefits provided to state employees and their dependents. Removing ineligible dependents from state-paid insurance coverage has an estimated savings of \$1.7 million to the General Fund.

IBM EFFICIENCIES & FRAUD DETECTION. The Department of Administration must contract with private firms to provide recommendations for efficiencies in state buildings and vehicle fleet management. Similarly, the Department of Revenue is required to issue an RFP to help prevent and detect tax fraud and increase delinquent tax revenue collection.

DEBT COLLECTION. The Department of Revenue is authorized to enter into an agreement with the United State Secretary of the Treasury to participate in the federal offset program for the collection of debts owed to state agencies. This type of agreement allows state debts to be recovered by withholding (and submitting to the state) federal refunds that would have otherwise been paid to the debtor. This proposal is estimated to provide the state with \$4.3 million in General Fund money over the FY 2012-13 Biennium.

PENSION COMMISSION. The Legislative Coordinating Commission on Pensions and Retirement membership is expanded from five members of each body to seven for greater transparency.

STATE EMPLOYEE PERFORMANCE LINKED TO PAY. State agencies are required to perform performance appraisals for all state agency employees, making salary increases subject to improved ratings.

TAXES

Republicans beat back every attempt to raise job-killing tax increases. Governor Mark Dayton started the session with a \$4.1 billion tax increase that would have made Minnesota an outlier in economic competitive, job creation and business development. The Republican tax bill provides direct tax relief to homeowners, farms and small businesses, sales tax exemption for townships, sales tax exemption for public water safety, minimizes cuts to local government aid, and provides tax incentives for job creation. Long-term spending reform is achieved by adopting permanent spending reductions including \$746 million in the FY 2014-15 "tails" - a more than 20 percent reduction. The projected \$3.5 billion state aids and credits spending for FY 2012-13 is reduced by \$600 million, a 17 percent decrease.

DIRECT PROPERTY TAX RELIEF. Targeted property tax relief is preserved by providing more direct property tax relief to middle and lower-income homeowners through an increase in the homeowner's property tax refund program.

TAX CONFORMITY CHANGES. Important federal tax conformity is included to simplify taxpayer filing and tax administration. Notably, marriage penalty relief is not conformed to, partial list of provisions that Minnesota would conform to includes the higher education tuition credit, health benefits to age 26, working family credit for 2011 only, and the classroom educator expenses credit.

NET TAX RELIEF. The bill provides for \$30 million in net tax relief including estate tax relief for farms and

small businesses, sales tax exemption for townships, sales tax exemption for public safety water, and sales tax exemption for resale ticket purchases.

HOMESTEAD CREDIT REFORM. Major reform is achieved by replacing the current broken market value homestead credit program and converting it to a comparable exclusion on homeowners' property tax.

LOCAL FLEXIBILITY. Other important reform is achieved including modifying county maintenance of effort (MOE) requirements to allow for greater flexibility and cost savings in delivering local services.

NO POLITICAL SUBSIDY. The Political Contribution Program is suspended for two more years.

LGA STABILITY. By freezing funding at 2010 levels, cities and counties are given stability and are spared from further reductions.

LOOKING AT THE BIGGER PICTURE. Federal taxes will be included in the Tax Incidence Study. Families and businesses completing their tax returns right now fully understand federal taxes are a big part of their total tax burden. This bill includes a provision that requires future tax incidence reports to include that federal burden.

JOBS/ECONOMIC DEVELOPMENT

Reform is created in the area of economic development area with the creation of competitive grants rather than the bureaucratic process of pass-through grants (legislative earmarking), with start-up capital directed toward small businesses.

EARMARKING REFORM. The Legislature eliminated earmarking by focusing on real reform (supported by the Legislative Auditor) through the creation of three competitive grant programs in the Department of Employment and Economic Development (DEED): Business & Community Development, Adult Workforce Development & Youth Workforce Development.

SMALL BUSINESS EXPANSION. Legislation jump starts small business expansion by creating a small business loan guarantee program to help secure much-needed capital.

EDUCATION

Given the new funding being provided to education, Republican legislators insisted on several reform measures in order to do more than "business as usual." In spite of the Governor's deference to the teacher unions and the Twin Cities school districts, solid reforms prevailed.

MANDATE RELIEF. Despite numerous hurdles, mandate relief sought by school district and school administrator associations prevailed with the repeal of the contract settlement deadline (January 15) and penalty (\$25 per pupil), the repeal of the safe schools levy maintenance of effort restriction (no change to total amount of funding), and a two-year extension of the relief from requiring local districts to spend two percent of their basic revenue on staff development.

FAIRER FUNDING. Integration Revenue will end after FY 2013, to be replaced with a yet undetermined program and spending distribution. This revenue source has been criticized by the Legislative Auditor and treats districts unevenly.

FOCUS ON READING. Literacy Incentive Aid and increased investment in the MN Reading Corps, beside emphasizing the need for reading mastery at a young age, incentive aid is unique in that it requires school districts to “earn” these funds through student reading test scores in the early elementary grades (once received it may be used by the school district for any locally-determined purpose).

INCENTIVE TO EXCEL. Early Graduation Scholarships will allow students who are academically capable and hard-working to complete their high school education early and to take the funds that would have been spent on them for additional schooling to the college of their choice.

REGULAR REQUIRED EVALUATIONS OF STUDENTS AND TEACHERS. In the case of teachers, student test scores must be connected the rating of the teacher. As even Education MN has acknowledged, “Many teachers go years without a performance review.” Regular evaluations will remedy this issue.

REPEAL OF SAME-YEAR BORROWING AUTHORITY. This bill repeals the state’s authority to borrow from school districts with reserves during a single fiscal year (the payment shift is different because that splits payments over two different fiscal years).

HIGHER EDUCATION

The Higher Education bill includes reforms that will require the U of M and MnSCU institutions to meet performance benchmarks before they can receive a portion of their funding. It increases funding for work study, and made no reductions to the need-based state grant program and post-secondary child care grants.

STRENGTHENING NEED-BASED STUDENT AID. The bill includes strengthening of the vital, need-based State Grant program at the Legislature’s proposed \$21.1 million increase. A strong State Grant program means more choices in higher education for lower-income students that their families. Also, the Work Study program would see a bigger appropriation than it had in FY 2010-2011. Both of these programs are in high demand. Off-campus jobs are hard to find in tough economic times, so protecting Work Study as much as possible would mean that more students who would like to work their way through college and avoid amassing more loan debt are able to do so.

CAPPING TUITION INCREASES. The bill includes a tuition limitation at MnSCU’s two-year institutions that will allow for a reasonable increase in tuition, but also require the system to reform and become more efficient.

SETTING PERFORMANCE BENCHMARKS. U of M and MnSCU will be required to meet performance benchmarks to receive a portion of their funding including: more students taking online courses, increasing completion rates, and increasing 4-year and 6-year graduation rates.

ENVIRONMENT, ENERGY & COMMERCE

The Environment Finance bill funds priorities without any fee or tax increases. It addresses critical issues including aquatic invasive species and chronic waste disease, as well as provides budget flexibility to maintain Minnesota's strong tradition of outdoor heritage.

STREAMLINE PROGRAMS. State agencies are forced to review water management to streamline and consolidate water programs within the agencies. The PCA, DNR, BWSR, Department of Health and Department of Agriculture all have water programs and they must devise a strategy to reform and streamline.

NON-COMPETE. This bill reforms the state tree nursery program and takes them out of competition with the private sector. Also, it forces them to devise a business plan to be sustainable long-term without competing with the private sector.

BANK WATCH. Under the Financial Institution Division of the Commerce Department are an additional 5 employees to help with financial examinations of banks and insurance companies. This will not have an impact on the General Fund because the cost is billed back to the entities being examined. The Department of Commerce has seen an increase in financial institutions being added to their "watch list" and the addition of the staff may help **identify banks headed into financial problems or default.**

JUDICIARY/PUBLIC SAFETY

During tough budget times we have to make core services like courts and public safety a priority. They are basic foundations of government, the things we are constitutionally and morally bound to do.

ABILITY TO PAY. In forma pauperis (indigent persons filing civil lawsuits) reforms in the bill now allow judges to be able to look at a person's entire financial picture and require appropriate payment for these services as clients are able to pay.

PRIORITIZE STATE CASES. The Legislature was able to keep part of a civil legal services rider, which will prioritize the use of state funds on state cases over federal cases.

DEDICATED FUNDING TO CASELOADS. After the salary freeze was dropped out of the state government bill, legislators had concerns that the public defenders would use their increase in the bill to just bump up salaries. Everyone, including the Board and Gov. Dayton, agreed to a rider specifying that the Board must use the increase over base to alleviate caseloads and pay for specified costs, including transcript costs, expert witness costs, and immigration law services/training (services/training forced by a recent U.S. Supreme Court case).

INMATE CO-PAY. A change will require a co-pay for prison inmate initiated health care; the first time this has been increased in 15 years.

COUNTY SAVINGS. Counties will be allowed to reimburse costs of medical services to local prisoners at the medical assistance rate, rather than the negotiated provider rate. This will save counties considerable money.

SAFE HARBOR. Juveniles sold into sex trafficking will be treated as victims, not criminals.

TRANSPORTATION

This fiscally responsible transportation bill focuses on preserving current systems and putting the brakes on light rail expansion the state cannot afford to build or operate.

IMPROVES TRANSIT FINANCING DISCLOSURE & PUBLIC TRANSPARENCY. This bill requires transit corridor development planners to provide the total cost of proposed transit systems, including both capital and long-term operating expenses.

AGRICULTURE (signed in April)

Minnesota's agricultural industry is an integral component of our state's economy. Our bill prioritizes funding to maintain the integrity and safety of the food supply in Minnesota, and minimized reductions to programs and services that benefit farmers.

ENDS ETHANOL SUBSIDIES. This bill provides \$15 million for the final ethanol producer deficiency payment in FY12, but discontinues state subsidies for ethanol going forward after FY2012.