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ABSTRACT

This report presents the Children's Defense Fund's (CDF) recommendations for spending the fiscal year 1998-1999 Minnesota state budget surplus. The intent of the CDF plan is four-fold: (1) emphasizing long-term investments in children's well-being; (2) address children's immediate health and safety concerns; (3) contribute to the continued development of the state's workforce and economic development efforts; and (4) improve the state budget's stability. The report contains: (1) "Federal State Fiscal Overview," which outlines welfare bill changes, federal budget changes, children in poverty, children in working poor families, demographic/productivity issues, and the state budget; and (2) "CDF Biennial Budget Recommendations." The chief components of the recommendations are: (1) remove the caps placed on K-12 spending and provide for other initiatives in education; (2) increase the state's investment in child care; (3) update tax policies relating to children; (4) put increased monies toward reducing the incidence of birth defects and child abuse and neglect, and respond more quickly in cases where abuse has occurred; (5) supplement lost food assistance for poor legal immigrants; (6) increase access to higher education for low-income students and parents; (7) strengthen welfare reform efforts; and (8) maintain budget stability. Two appendices present "CDF Budget Spreadsheet" and "FY96-97 State Budget Pie." (SD)

Minnesota's Fiscal Years 1998-1999 Budget:

An Opportunity for Children & Their Families

Children's Defense Fund-Minnesota
February/March 1997

Revised March, 1997

Executive Summary

This paper presents the Children's Defense Fund (CDF) recommendation for spending the Fiscal Years 1998-1999 budget surplus. The original CDF recommendations were based on the November 1996 forecast, which projected a $1.4 billion surplus. Since then, the state Department of Finance has released its February 1997 forecast which revised the projected surplus upward to $2.3 billion. The additional $892 million projected in the February forecast is primarily the result of increased tax revenues, especially income taxes, and lower human services spending than previously projected.

The improvement in the February forecast means that the state is in an even better position than was previously thought to make children and their families a priority in its budget setting process.

The CDF recommendations for the surplus present a balanced, feasible plan for allocating the money which places children and their families as the highest priority. It leaves over a billion dollars for other state priorities and a positive bottom line at the end of the following biennium.

Several findings drive the budget recommendations in this report:

- Federal budget reductions and policy changes will have important direct and indirect effects on the state's children.
- State and federal tax policies have failed to keep up with the changing economic realities of raising children.
- Spending on some of the major programs serving children have fallen way behind in terms of cost of living increases.
- Spending for most children's programs have not kept up with increases in total personal income in the state.
- The poverty rate for children is higher than for any other age group.
- Having parents who work does not necessarily mean children will not be impoverished--the poverty rate for working families with children grew faster than the poverty rate for workers in general over the last twenty years.
- Poverty by itself, regardless of other family characteristics, has very negative consequences for children's development.
- Demographic changes make the future productivity of children being born today critical to tomorrow's economy.
- Minnesota has the experience and knowledge to run a strong and effective anti-poverty program.
- The state budget and economy is healthy (the February forecast projects a balance before reserves of over $3 billion by the end of Fiscal Year 2001).

The intent of the CDF budget recommendations are to:

- Emphasize long-term investments in children's well-being
- Address children's immediate health and safety concerns
- Contribute to the continued development of the state's workforce and its economic development efforts
- Improve the state budget's stability

The chief components of the recommendations are:

- Removing the caps placed on K-12 spending and providing for other initiatives in education ($668 Million--amount updated to reflect legislative action)
- Greatly increasing the state's investment in child care ($147 Million)
- Updating tax policies relating to children ($110 Million)
- Putting more money into efforts to reduce the incidence of birth defects, child abuse and neglect and to respond more quickly in cases where abuse has occurred ($41 Million)
- Supplementing lost food assistance for poor legal immigrants ($25 Million)
- Increasing access to higher education for low income students and parents ($40 Million)
- Strengthening welfare reform efforts ($69 million)
- Maintaining budget stability ($261 Million)

With the additional money available in the February forecast, CDF recommends that some areas be addressed more comprehensively than they were in the original budget recommendations, especially housing, transit and child nutrition programs. CDF also recommends changes in the state's budget practices, reorganization of its employment and training efforts and delays in school start times.

Report Contents

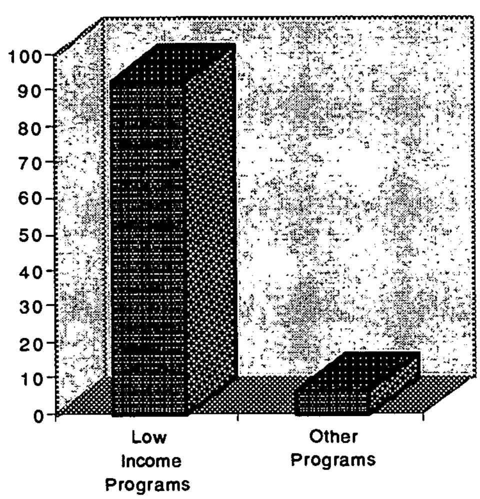
Federal/State Fiscal Overview

Since early 1995, Congress and the President have been engaged in an effort to eliminate the federal deficit by the year 2002. Although they have not yet succeeded because they have been unable to reduce spending for programs like Social Security and Medicare, significant spending reductions have been made in smaller programs, especially those serving low income people. In fact, the majority of spending reductions in both mandatory and discretionary programs at the federal level, as well as policy changes, have occurred in programs serving low income individuals, families and children.

These changes are occurring in the context of large numbers of children in poor families, regardless of whether their parents work. They are also occurring in the context of demographic changes which mean that each child born today will have to support a greater number of non-working older adults than has occurred in the past. Finally, these changes are also occurring in the context of a strong state economy and budget.

This portion of the paper provides background information on these issues.

Federal Entitlement Budget Cuts

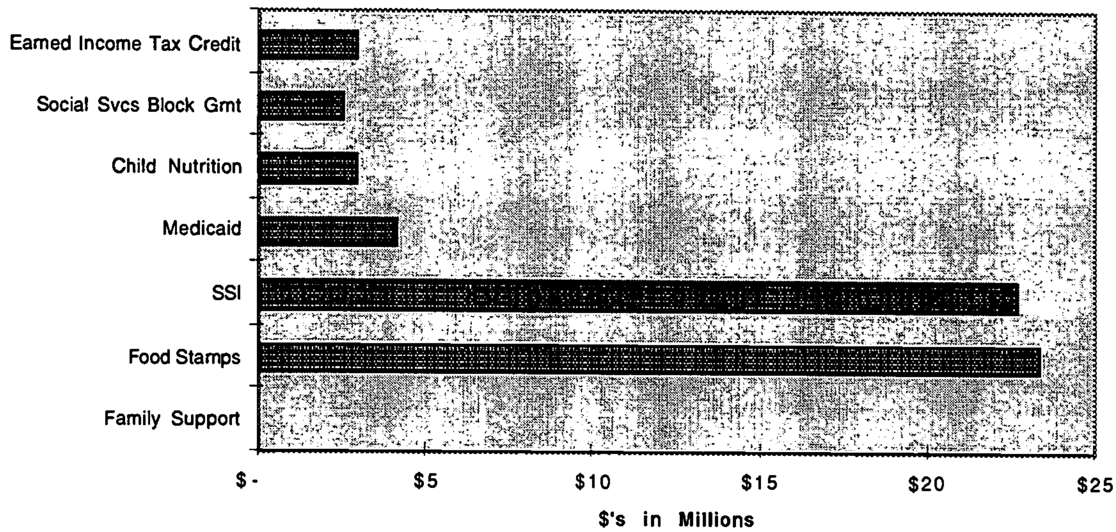


I. Federal Entitlement Programs

More that 93% of the federal budget reduction in entitlement programs have come from programs for low-income people, even though these programs account for only 23% of all entitlement spending. The food stamp program and the Supplemental Security Program for the elderly and the disabled poor experienced the largest reductions.

Over half of the budget savings in the welfare reform bill passed last summer came from reducing services to legal immigrants. By program, the biggest proportion of cuts came from the Food Stamp program.

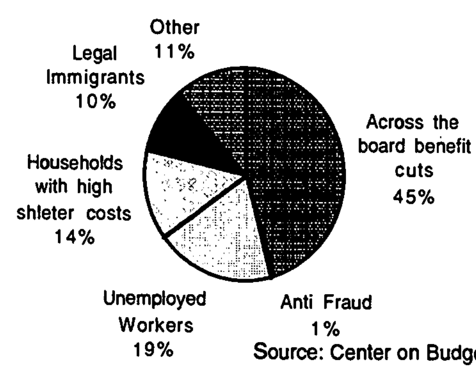
Where the Federal Welfare Savings Came From



Summary of Welfare Bill Changes

Food Stamps: Half of the savings ($23 billion over six years) in the welfare bill came from the cuts in the food stamp program. ***About 70% of the food stamps cuts will be borne by families and children.*** However, people without children ages 18-50 (12,000-18,000 people in Minnesota) will completely lose food stamps after three months if they are not working, regardless of the availability of employment.

Distribution of Federal Food Stamp Cuts (FY2002)



Source: Center on Budget and Policy Priorities/Congressional Budget Office

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- Approximately 15,900 legal immigrants (over 5000 children) will lose food stamp benefits beginning in April 1997. Of these people, nearly half are in families where no one will be eligible for food stamps. The average benefit is about $63 per month per person.

- Nearly half of the cuts in the food stamp program come from changes in the way the benefit is calculated, resulting in across the board cuts which will affect all Food Stamp recipients. The Center on Budget and Policy Priorities estimates that in 1998, the first full year the cuts will be in effect, nearly seven million poor families with children nation-wide will lose an average of $435 in food stamp benefits that year. Working poor families will lose an average of $355 in 1998 and the poorest of the poor (those with incomes below half of the poverty level--less than $6,259 for a family of three) will lose $655 per year in food stamp benefits. All of these reductions will grow by the year 2002, when working poor families will lose about 20% of their benefits (elderly recipients will see a 25% cut in benefits). ***These reductions are the equivalent of reducing the average food stamp benefit from its current level of 80 cents per person per meal to 66 cents per person per meal (in 1996 dollars).***

  Food stamps are used by many working families with children to supplement low wage incomes. Families go on and off Food Stamps during the year as their income varies, especially if the wage earners are in seasonal occupations. The loss in food stamp income from these changes will mean that families whose incomes were just barely above poverty will fall into poverty. In 1996, 121,000 households on average (218,000 people) used Food Stamps in Minnesota.

AFDC (Aid to Families with Dependent Children): The changes in the AFDC program are the most dramatic in terms of public policy, but as chart 2 illustrates, this is not where the greatest savings are coming from in the welfare bill--at least in the short-term. ***The major policy change in the bill is the elimination of the entitlement to federal cash assistance for poor children and their families. State spending on poor families will no longer be matched by the federal government. Instead a block grant (Temporary Assistance to Needy Families--TANF) will give the state a fixed amount of money*** ($268 million/year through 2002, regardless of the state's welfare caseload.) ***The federal legislation gives more authority to the state to determine eligibility and benefit levels, but several federal requirements are still included for which the state can be sanctioned for not meeting***:

- Parents are required to work or participate in work activities within two years of receiving aid or their family will lose benefits.
  - States may exempt some categories of parents from work requirements, but all families receiving assistance will be counted in determining whether a state meets mandatory work participation rates. Child only grants and families with children under one may be excluded from the formula; in Minnesota, this currently constitutes 26% of the state's AFDC cases.
- Minnesota must meet work participation requirements; that is specific percentages of the case load must be working by certain dates.

Federal Work Participation Requirements

	Percent of Families That Must be Working	Hours of Work Required to Meet Federal Law	Percent of Two-Parent Families Required to Work	Hours Per Week Required	Estimated Number of Mn. Families Required to Work
1997	25%	20	75%	35	12,000
1998	30%	20	75%	35	15,700
1999	35%	25	90%	35	19,200
2000	40%	30	90%	35	22,700
2001	45%	30	90%	35	26,000
2002	50%	30	90%	35	29,000

Source: Department of Human Services

For instance, by federal fiscal year 1998, 30% of all families who are not exempt (projected to be 16,000 in Minnesota) must have a parent participating in approved work activities at least 20 hours/week. By 2002, 50% (29,000 Minnesota families) must be working at least 30 hours per week. States that do not meet their work participation rates are subject to a 5% penalty in the first year with penalties increasing to a maximum of 21% of the state's block grant. Families who completely leave welfare because they obtain a better job will not be counted as working under the federal calculation and will not help a state meet its work participation requirement.

Parents with infants under one are exempt from the requirements. Families with children under age six cannot be sanctioned for not working if they cannot find child care. However, they will still be counted in the formula as people not working for purposes of the calculation of the state's work participation rate.

- The use of federal funds is limited to five years for any family, although the state may grant hardship exemptions for up to 20% of its average caseload. The five-year "clock" for Minnesota recipients will begun running when the state submits its plan on July 1, 1997.

  The Department of Human Services estimates that when the first five year period ends in 2002, 13% of the families may end up losing benefits; by 2006, 31% of the caseload may lose benefits. These estimates are consistent with information supplied by case workers who believe that about one-third of the caseload has significant personal barriers to work (i.e., mental illness, physical health limitations, poor English, social or literacy skills, low intellectual ability, chemical dependency, learning disabilities or family violence). They estimate that one-sixth of the caseload has multiple problems. ***Children in these families will lose benefits as well as their parents.***

The Congressional Budget Office has estimated that the federal legislation is $13 billion short of providing enough funding to allow states to meet the work requirements.

Child Care: Under the welfare law changes, the federal guarantee of child care assistance is eliminated for families on welfare that need child care to work or train to work, as well as for families who leave welfare for work and were previously eligible for one year of transitional child care help. Instead, ***new child care funding is combined with the existing Child Care and Development Block grant (CCDBG) into a capped block grant***. Total funding for this new program is $22 billion over 7 years. However, according to federal budget estimates, this amount is approximately $2 to $4 billion less that what it is estimated will be needed.

Minnesota will receive approximately $12 million additional federal funds for child care this year, and that amount will increase by approximately $2 million/year through 2002. However, not all those funds will be available for direct subsidies and they fall far short of the projected child care needs resulting from the federal bill's work requirements.

Minnesota Planning estimates that nearly 13,000 additional children will need child care in 1997, increasing to 35,000 by 2002, if the state is to meet its work participation requirements.

Supplemental Security Income (SSI): Major changes are occurring in the SSI program, which provides income assistance to very low income disabled and/or elderly people. Two of the components having an effect on children are the changes in eligibility for children with disabilities and the cut-off of aid to legal immigrants.

- Through a change in the way eligibility is determined for children with disabilities, ***it is estimated that up to 3,200 children may lose SSI benefits effective July 1, 1997***. According to the Department of Human Services (DHS), many of these children are in low-income or welfare families (40% are in AFDC families). Their families will lose on average $300 (net) per month to help with their care. Depending on the stresses that result from the lost income on families that already have low incomes, it is expected that some of these children may be at increased risk of being removed from their homes, either because their parents can no longer care for them or because they are at risk of abuse. According to DHS, for each 1% of children losing SSI or Medical Assistance that move to out-of-home placements, the costs to counties will increase by approximately $800,000 per year.

  Some (450-950) of the children losing SSI or their eligibility for TEFRA (which will also change its eligibility requirements as a result of the federal legislation) may also lose their health care coverage through the Medical Assistance program and will likely switch to state funded health care programs, if their family's income is low enough. However, some of the services used by children with disabilities (e.g., personal care attendant) are not covered by MinnesotaCare.

- It is projected that about 5,400 legal immigrants (including 3,400 disabled adults and children and 2,000 seniors) in the state will lose their SSI benefits by August, 1997; an additional 1,600 are likely to lose their Minnesota Supplemental Assistance (MSA) benefits. Children will be affected because many of these individuals are living with their younger families and their support from SSI has been contributing to the family's financial well-being. Under current law, many of these people will probably qualify for the state-funded General Assistance program; others will be eligible for the program that replaces AFDC (Temporary Assistance for Needy Families--TANF); both of these programs provide benefits at a significantly lower level than the SSI program.

II. Other Federal Budget Changes

In addition to the welfare changes, Congress and the President made spending reductions in many federal programs in the 1996 and 1997 appropriations bills. Most of these cuts are reductions in the level of funds available for the programs and are not accompanied by policy changes such as those which are occurring in the welfare programs. Programs serving low income people were disproportionately cut in both the first and second rounds of cuts, and these programs (known as "low-income discretionary programs") continue to be where Congress and the President look for future cuts.

The Center on Budget and Policy Priorities has analyzed the cuts and determined that

- Thirty-four percent of the reductions in nondefense programs that are not entitlements (i.e., "nondefense discretionary programs") came from programs for families and people with low incomes, even though those programs account for only 21 percent of the overall funding in this category.

- When looking at funding levels without accounting for inflation, total funding for nondefense programs other than programs for low-income households was slightly higher in federal fiscal year 1997 that it had been in federal fiscal year 1995; while overall funding for low income discretionary programs was actually lower in federal fiscal year 1997 than in 1995.

The programs hardest hit were low-income housing and employment and training programs for which a significant constituency is families and children. These programs saw real cuts, not just reductions in their rate of growth. In addition, many other low income programs were not granted inflationary increases.

Housing: Less federal funding is coming to the state to operate public housing programs, and provide rent vouchers for low income and poor families. Housing related programs, such as low income energy assistance, also saw major reductions: between 1995 and 1997, the state lost nearly one-third of its funding for energy assistance; the weatherization program was cut nearly in half. Programs for the homeless, including for youth education, adult education, mental health, and emergency shelters saw major reductions.

Summer Youth Employment: Funding for this program was cut from nearly $16 million in 1994 to $6.8 million in 1996. Almost a million dollars was added back in FY97, but the program is far short of its funding level two years earlier.

Social Services Block Grant: Funding for the block grant was cut by 15% between FY95 and FY96, from $48.9 million to $41.5 million. Two million dollars were added back to the FY97 appropriation, but this still leaves a reduction in real dollars between FY95 an FY97, and when 3% inflation is applied, the reduction is approximately 16%. Some child welfare programs also saw real reductions in funding.

Other programs which children and families use that either saw actual reductions or did not receive cost of living increases include transit assistance, Legal Aid, start up and development funds for school breakfast programs, and community health programs.

Many of these reductions and policy changes will have effects beyond those felt by low-income families and children. Fewer people with food stamps will mean less income *for grocers, lower housing subsidies means less money for rent to operate housing programs, fewer youth working in summer youth employment programs means less public service projects completed, etc.*

III. Children in Poverty

The effects of this myriad of program and policy changes affecting children is likely to be cumulative and magnified because they are occurring simultaneously. These changes will occur in the context of large numbers of families and children in poverty despite the fact that many parents are already working.

Many children in Minnesota are already living in poverty, before any of the federal changes discussed above are implemented. In Minnesota, the latest estimate by the Census Bureau is that approximately 15% of the children under 18 are living in families with incomes below the poverty level. The state ranks twenty-fifth nationally in its child poverty rate.

Minnesota Poverty Statistics--1995

Number of Adults in Poverty	Percent of Adult Pop. In Poverty	Number of Children in Poverty	Percent of Children in Poverty	State Poverty Rank
316,000	9.9%	176,000	14.5%	25

Source: U.S. Census Bureau

Our child poverty rate, as well as the rest of the country's child poverty rate, is higher than the rate of poverty for adults, and higher than that for children in similarly well-developed countries. In addition, children make up nearly half (48%) of the chronically poor. To be considered in poverty, a family of four must have a total annual income of less than $13,000.

Federal Poverty Guidelines

Family Size	Monthly Income	Annual Income
1	$645	$7,740
2	$863	$10,360
3	$1,082	$12,980
4	$1,300	$15,600

Source: Federal Register, March 4, 1996

According to Census data, even more children would be in poverty if not for the existence of government programs. In 1995, 24.2% of all children nationally would have been in poverty, but government programs (especially means-tested programs) lifted 8% of them out of poverty.

Poverty has many implications for children's development and future productivity. ***Numerous research studies have shown that poor children fare worse in many areas when compared to non-poor children with the same family structure, race and parents' general level of education.*** Researchers have found that:

- Each year spent in poverty while growing up significantly worsens the risk that a child will fall behind a grade level in school, and increases the chance that a child will be in special education. Living with a single parent was not a significant factor when long-term poverty and other key factors were held equal. Poverty's effects include malnutrition, living in substandard housing, more frequent moves, exposure to cockroaches, molds, allergies, peeling paint (including lead-based), crowded housing, etc.

- Studies have controlled for other factors and determined that poor children's lower academic scores cannot be attributed to their mother's lower academic skills, less formal education, teen childbearing, race, single parent status or the mother's drinking or smoking behavior.

Nationally, the Urban Institute estimated that 1.1 million children would fall into poverty as a result of the welfare changes, and that 70% of these children are in working families. How many children in Minnesota end up in poverty depends on the policies adopted by the 1997 Legislature in response to welfare reform.

IV. Children in Working Poor Families

Most poor children are in families where one or both of their parents work. Simply requiring parents to work will not end child poverty.

The number of working families who remain poor, despite their earnings, has increased substantially over the last twenty years. The poverty rate among all workers was nearly 20% higher in 1995 than in the late 1970s; among families with children in which the household head works, the poverty rate increased 40%. Below are some statistics on the working poor in Minnesota, supplied by the Center on Budget and Policy Priorities, based on the most recent Census data available.

- Sixty-six percent of poor families with children in Minnesota had at least one parent who worked part or all of the year. *This represents 113,000 children in working poor families.* In fact, twenty-two percent (or 17,000 poor families with children) had a parent who worked full time (or two parents who combined worked the equivalent of full-time).

- Many families who are not currently on welfare have incomes very close to poverty. In Minnesota, there are approximately 100,000 families with children in which the parents are not ill, disabled or retired with incomes between 100% and 200% of the poverty line (the "near-poor"). Virtually all (99.2%) of these families had at least one parent who worked. Seventy-three percent (73,000) of these families had a full-time, year-round worker (or two parents who worked the equivalent of at least a full-time year-round job).

- A recent survey of Minnesota welfare recipients, found that most people on welfare in this state worked in the past and continue to look for work once they are on assistance.

- Data on job openings indicate that most of the welfare recipients who will be employed as a result of the changes in the welfare bill will still be poor. The table below shows a likely budget scenario for a family where the parent finds a job at the wage level most likely for the typical AFDC recipient with a high school diploma ($6.25/hour), according to the Department of Economic Security.

Income	
Monthly Gross Income ($6.25/hour @ 30 hours/week)	$781
Monthly Net Income	$721
Earned Income Tax Credit (monthly value)	$304
Food Stamps	$242
Expenses	
Housing/Utilities	$621
Food	$351
Child Care (assumes family in home, PT care for 2 children)	$800
Health Care (assumes MnCare)	$23
Phone	$20
Basic Clothes/Misc.	$155
Work Expenses (assumes a 1987 car)	$232
Income minus Expenses	-$935

As these figures indicate, even with state subsidized health care, food stamps and the earned income tax credit, families will need additional assistance to survive at even a minimal level.

V. Demographic/Productivity Issues

These changes are also occurring in the context of major demographic changes. Congressional Budget Office projections show the importance of the future productivity of the children affected by these changes to the future of the economy. As the table below shows, the ratio of working age people to non-working age people will decline sharply, beginning in 2030, when the children being born now will be starting their most productive working years.

Ratio of Working Age People to Retirement Age People: 1950-2050

	1950	1970	1990	2010	2030	2050
Number of People Age 20 to 64 for each Person Age 65 or Older	7.3	5.4	4.8	4.7	2.8	2.7

Source: Congressional Budget Office

VI. State Budget

These changes are also occurring in the context of a healthy state economy and state budget showing a surplus for the next four years-- the length of the forecast period.

The chart below shows the updated forecast. It has been adjusted to reflect the removal of the spending caps on K-12 education, to which the Governor and the Legislature have already agreed.

State General Fund Balance: February, 1997
$'s in 000's

	FY1998	FY1999	FY2000	FY2001
Revenues	$11,826,090	$12,754,525	$13,520,110	$14,289,878
Spending	$9,660,661	$10,226,816	$10,700,185	$11,144,897
Balance Before Reserves	$2,165,479	$2,527,709	$2,819,925	$3,144,981

Source: Department of Finance

While some of the revenues adding to the state's positive budget situation are the result of one-time positive collections, a substantial part of the surplus is the result of permanent revenue gains. In addition, although some of the specific one-time gains to the treasury are not likely to happen again, other, different, one-time benefits are likely to occur. The most recent revenue projections show receipts continue to be higher than projected, even after the February adjustment.

Even with higher revenues, the "price of government" is declining. That is, total personal income in the state is growing faster than tax revenues.

Minnesota Price of Government Estimates--November Forecast

	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001
Mn. Personal Income	$107.7 Billion	$114.4 Billion	$119.7 Billion	$125.5 Billion	$131.6 Billion	$137.6 Billion
State/ Local/ School Revenue as a % of Personal Income	18.5%	18.3%	18.1%	18.0%	17.8%	17.8%

Source:Department of Finance

Summary and Conclusions

- As a result of federal actions, children are going to be affected not only by the welfare policy changes, but also by the cutbacks in many other programs which have been assisting their families. In addition to children in welfare and working poor families, other children will be affected directly and indirectly by the changes in education, health, etc.

- Work is a major component of the welfare changes soon to be implemented by the state. However, current experience indicates that having working parents does not necessarily keep children out of poverty unless other supports are provided.

- Failure to address issues of child well-being not only has the potential for very negative long-run implications for children, but for the rest of the economy as well, as the population ages and fewer working age people are available to support older, non-working age people.

- The state is in a strong position to respond to these challenges.

Our specific recommendations follows.

CDF Biennial Budget Recommendations

The Children's Defense Fund Budget Recommendations:

- Encourage long-term fiscal stability
- Emphasize long-term investments in children and families
- Facilitate work for both those on welfare and the working poor
- Strengthen the state's economic development efforts
- Leave money for allocating to other state priorities not listed
- Are made within existing state revenues

Fiscal Stability

Increase the Budget Reserve to $522 million ***$261 Million***

Increasing the state's reserve is important as the state takes over more financial liability for public assistance programs. In the past, when the economy went into a downturn and the need for public assistance programs increased, the federal government matched increased state spending on a nearly dollar for dollar basis. Now, with the implementation of a capped welfare block grant and the reduced federal commitment to provide assistance to legal immigrants and people receiving food stamps, any future economic downturn will put greatly increased demands on state resources. In this event, the state's reserve may need to be tapped.

CDF recommends that the statutory language indicating when the reserve is to be used be amended to include increased enrollment in public assistance programs (M.S. 16A.152 subdivision 4a).

Other budget practices recommendations are:

- Spending caps should no longer be used to control spending. Caps mask the true spending pressures the state is facing and make forecasts inaccurate. They also have not generally been effective in changing behavior in ways necessary to control future spending and they confuse planning efforts.
- Labeling appropriations as "one-time" should not be used as a way to control future spending unless there will truly be no pressures for continued funding.
- Global budgeting should not be adopted since it appears to be based on the assumption that current spending priorities will continue into the future. The Legislature and the Governor need to maintain maximum flexibility to respond to changing state budget needs.
- The practice of making spending contingent on future financial circumstances (e.g., using potential future surpluses to buy down the K-12 property tax shift) should also be discontinued to maintain flexibility to respond to changing priorities in the future.

Long-term Investments in Children

Remove Caps on K-12 Education FY98-99 Spending ***$270 Million***

Removing the caps placed on K-12 education during the 1995 session will eliminate the scheduled reductions in the general education formula and secondary pupil weighing. It is important to reverse this trend in K-12 spending per student. According to the Finance Project, Minnesota's per pupil spending between 1970 and 1992 grew at the sixth lowest rate in the country.

Note: The spending caps were removed by legislation early in the 1997 session.

Reconsider the 85/15 Shift Reversal ***-$150 Million***

School districts have made accommodations in their budget practices to account for the short-term cash flow issues created by this provision. Minnesota's school children would benefit far more from having these funds used to increase direct per pupil funding than undoing this accounting shift. Although the shift buydown is scheduled to occur soon, CDF recommends that the 1985 provision undoing the shift be deleted and the ***money used to help cover education inflationary increases.***

CDF also strongly recommends that school districts be required to delay high school start times to no earlier than 8:00 A.M. Research has shown that adolescents learn better when the school day begins later than it currently starts in many districts. A later start time also reduces the length of time students are without supervision at the end of the school day. Several school districts in Minnesota have already made or are currently considering the change. To ensure that Minnesota students have the opportunity for improved functioning at school, an 8:00 or later start time should be mandated beginning with the 1998-1999 school year.

Edvest ***$30 Million***

Governor's Initiative. (Parental contributions should not count against eligibility for public assistance in the event a family's income falls.)

Expand Charter Schools ***$10 Million***

Governor's Initiative

Improve Technology in the Schools ***$50 Million***

Governor's Initiative
CDF recommends that allocations under this proposal take into account the fact that

some schools have higher proportion of students without home computers.

Provide for Library Outreach — *$5 Million*

Use of libraries has been positively related to reading scores, but many low income families do not use library services.This money would be used to increase outreach to low income families and children to increase their use of libraries. It would build on a smaller existing program currently funded at $50,000/year.

Maintain and Expand School Nutrition Programs — *$4.4 Million*

The food stamp and welfare changes, as well as the cutbacks in federal child care food monies, mean that increasing numbers of children will be at risk of arriving at school inadequately nourished. This recommendation includes money to support the summer school program, continue and expand the school breakfast pilots and provide start-up and outreach funds for school breakfast programs.

Provide additional higher education financial assistance — *$40 Million*

College educations are becoming increasingly important to success in our economy. Census data indicate that college graduates earn more over their lifetimes than those with two year degrees and high school educations (by $800,000) and those with two year degrees earn more than those with just a high school diploma (by $400,000). The effect of higher education on incomes is especially strong for women.
The educational attainment of parents is related to their children's educational attainment. As education increases family income, it decreases the likelihood that the children in a family will drop out of high school. Research also shows that some college education is a significant factor in keeping former welfare recipients off welfare.

Non-traditional students (especially parents with children) and low income students (especially students of color) will be making up an increasing proportion of high school graduates. Based on their economic circumstances, they face a number of barriers when they try to pursue higher education. Targeting increased financial assistance to them (including those who are parents themselves) improves their potential for long-term financial independence. CDF also recommends that the financial aid guidelines be reexamined to ensure that they take into account the additional costs borne by students with children.

Increase Funding for the Non-AFDC Child Care Grant Program in the Higher Education System — *$4 Million*

The Non-AFDC Child Care Grant Program provides child care assistance (currently up to $1700 per year) based on financial need to students in the state higher education institutions. In the 1993-1994 school year, the maximum amount students could receive was reduced to $1700. Experience at the campuses indicates that this amount is not sufficient to help the most needy students, creating a substantial barrier to pursuing further education. The amount recommended here would provide enough funding to provide grants at the level of the average award granted the last year the program provided child care assistance based on student expenses.

Expand Early Childhood Programs — *$10 Million*

Early Childhood Family Education and Head Start are two successful programs aimed at working with children and their families early in their lives together. Both programs are currently serving only about 40% of the eligible children in the state. The funding levels recommended here will allow the programs to serve more children, but still do not attain full funding. A high priority should be placed on using the money to expand services to groups that are undeserved.

CDF recommends that Department of Children, Family and Learning be charged with developing a way to integrate the state's early childhood programs and child care efforts. Now that the services are largely housed in one agency, the state should be in a better position to increase coordination of programs and services.

Establish Family Service Collaborative Performance Standards — *$.5 Million*

Minnesota has been involved in an important effort to increase collaboration with communities to improve services for children and their families. Many of the collaboratives have made significant progress in increasing communication across service providers and broadening an understanding of what is needed at the community level. It is now time to consider how to move the collaboratives to another level to accomplish the goal of integrating funds and services. CDF recommends that specific performance standards be adopted by the Legislature to allow both the collaboratives and the public to evaluate their progress. CDF also recommends that increased authority be given to the collaboratives to integrate funding. The state should provide for technical assistance to the collaboratives to make progress toward these goals.

CDF also supports the Governor's recommendation to increase funding for the children's mental health collaboratives by $2.5 million.

Grants to Non-Profit Organizations to Respond to Federal Changes — *$1.5 Million*

Non-profit organizations serving families and children will be seeing the effects of the federal changes in the years to come--both in terms of the needs presented by families and the level of funding they may be receiving. This money would be used to help these organizations plan and reorganize their mission and focus to respond most effectively to these changes.

Basic Child Health and Safety

Expand Family Preservation Efforts; Expand Foster Care and Adoptive Parent Recruitment Efforts, Privatize and Expand Adoption Efforts $38 Million

CDF recommends $12 million more than the Governor has requested for family preservation funds. (The Governor's request maintains current efforts.) Out of home placements are still above their level just four years ago, and the slight drop noted in the most recent year for which data is available is difficult to interpret. Informal data from people working in the field is that lack of money for both family preservation and out-of - home placements is leaving some children in very dangerous situations. The increase here should strengthen the counties ability to target those family where family preservation is likely to make a difference, and to help determine as early as possible where it is not likely to be successful, so that children can be moved to stable, permanent homes. The balance of this recommendation ($8 million) is in the Governor's budget and is intended to move children to safe and permanent homes more rapidly so they can form new stable and healthy family relationships before they are further hurt.

Continue State Support for Crisis Nurseries and Home Visiting $3 Million

Crisis Nurseries provide respite and support for parents who are at risk of abusing their children. This level of funding will continue the state share of support for the thirty existing crisis nursery programs and provide start-up funding for additional sites across the state. Home visiting programs provide support services to all families during pregnancy and shortly after the birth of a child. In addition to offering support on a voluntary basis to all families, the service will identify those families who could benefit from additional help to avoid future neglect or abuse.

Food Supplement for Legal Immigrants Cut Off Food Stamps $25 Million

It is estimated that 16,000 legal immigrants will lose their food stamps this year. Over 5000 of these recipients are children, and many of the adults recipients live in families with children who rely on their support to help the family meet their needs. This is the amount necessary to maintain the value of the Food Stamps they currently receive.

The national CDF office continues to work with other advocates in Washington to reverse these cuts. In the event these efforts are successful and some of the money is restored, the state appropriation would cancel to the general fund.

Housing Programs for Families — *$7 Million*

CDF recommends $3 million to develop a new program within the Home Ownership Fund to target down payment assistance to low income families. Data from the Minnesota Housing Finance Agency indicates that there are several families in public housing that could afford homes if they were given assistance with the down payment costs. The balance of the recommendation is to increase funding for the Rental Assistance for Families Stabilization Fund to help families on welfare who are participating in self-sufficiency programs who are at risk of losing their housing. It is recommended that families who have recently left welfare be included in those eligible for this assistance. Children now out number men and women in homeless shelters today, and families with children are the fastest growing group of homeless.

Establish and Maintain Birth Defect Registry — *$1.7 Million*

Birth defects are the most common cause of death in children under age one and are responsible for 25-30% of all hospitalizations in childhood. Unfortunately, the state has very little information on birth defects--including the cause in approximately 65% of the cases, the rates of various defects, whether they are increasing or decreasing and whether or not there are regional differences.

Money was appropriated last session to begin to investigate ways to set up a birth defect surveillance system. The system should greatly increase the state's understanding of the incidence of birth defects with the hopeful result that better prevention methods will be developed and children who need assistance will find help easier. The money requested here will allow for the registry to be put in place on a demonstration basis.

Federal Changes Study — *$.5 Million*

CDF strongly recommends that the state contract with an independent, non-partisan research group with expertise in human services issues to determine the well-being of those children and families affected by federal policy and funding changes. Many of these families will no longer be in the state's information systems, making it difficult to determine their well-being. The information should help in future program design and provide early indications of problems which may be developing.

Make Work A Possibility for More Parents/ Strengthen the State's Economic Development Efforts

Move Toward Full Funding of the Basic Sliding Fee Scale Child Care Program — *$85 Million*

The basic sliding fee scale program provides child care assistance to families who are not on welfare. The amount parents must contribute to their children's care is based on a sliding fee sale, determined by income.

To ensure that 1) no families are forced to go onto welfare in order to obtain child care assistance and 2) to increase the number of children cared for in safe and quality child care environments, CDF recommends full funding for the basic sliding fee scale program. To accomplish this goal within limited state resources, CDF supports the reexamination of the sliding fee scale, especially to ensure that low income, non-welfare parents do not pay more for child care than working parents who are in the TANF program. This will make the system more equitable and eliminate incentives to go on welfare to receive child care assistance.

Expand Child Care System's Capacity — *$8 Million*

There are significant gaps in the current child care system which make it hard for many working parents to find safe and quality child care for their children. The system will be further stretched by the expansion that will have to occur to accommodate the additional demand for care created by the welfare changes. These funds can be used in a variety of ways to meet the needs identified locally, including developing more child care openings which will operate during non-traditional hours (e.g., evenings and weekends), and additional openings for infants and children with special needs.

Reorganize and Maintain Funding for Employment and Training Funds for TANF recipients — *$23 Million*

The Governor's proposal for employment and training funds reduces the average yearly amount spent per slot from the current $1600 to $1000. This amount is likely to be inadequate, especially as the state begins to work with recipients with more substantial barriers to employment. CDF recommends that the state provide an additional $23 million in new funds for this purpose, supplemented by the reallocation of employment and training funds from existing employment and training programs in the state.

Money provided for this purpose should follow the client; that is, clients should be given information to allow them to choose the employment and training provider most likely to match their goals and needs. CDF recommends the adoption of a screening instrument that more closely links workforce needs to client assessments. An example is "SCANS" which identifies specific skill components needed by employers and matches them to client training needs.

CDF also urges the Legislature to reconsider the organization of employment and training services at the state level. By reassigning specific employment and training responsibilities to the state agency most responsible for overseeing the general area (e.g., TANF services to DHS, youth employment to DCFL, vocational rehabilitation to DHS), enhanced coordination and efficiency may result, along with administrative savings to apply to direct services.

Finally, CDF recommends that a task force be formed including business representatives to determine how best to train welfare recipients for the state's work force and that system accountability measures be enhanced.

Change Tax Policies Relating to Children — $110 Million

Neither state nor federal tax policy has been updated to reflect the increased costs of raising children. CDF recommends that this occur in one of the following ways:

- Provide for a $1000 increase in the dependent exemption. According to the state Department of Revenue, approximately 750,000 dependent exemptions are claimed each year, mostly for children. The exemption, which is a flat amount for each dependent is deducted from gross income to determine taxable income. Very high income taxpayers do not benefit from the exemption. The cost of increasing the deduction to $1000 is approximately $55 million a year.

or

- Make changes in the child and dependent care tax credit, which targets low and moderate income families by helping them offset the costs of child care, by 1) increasing the credit from $720 to $1500 per child, to move closer to acknowledging the costs of child care, 2) de-linking the state credit from the federal credit so that it does not begin phasing out such a low income ($17,000), and 3) increasing the upper income limit from $30,000 to $40,000 in order to assist more moderate income families. The cost of this proposal is also approximately $55 million per year.

Reduce Exit Point for MFIP to only 127% the Federal Poverty Level and Reduce Transitional Standard by just 3.5% ***$45 Million***

The current MFIP program has an exit point of 140% of the federal poverty level, which means that a family of three on welfare can have a combined income of up to $18,172 from earnings and aid before they lose public aid. The Governor's proposal reduces that exit point to 122% of the federal poverty level and reduces the transitional standard (i.e., the basic grant) by 7%. CDF recommends a somewhat higher exit level and a change in the way that level is calculated for two reasons: 1) a higher exit level means that children of working parents will be in better financial situations before their parents lose benefits and, 2) for those children in the estimated one-third of AFDC families where the parents have significant emotional, personal or physical barriers to employment which make their future employment uncertain, to maintain those families at a slightly higher living standard than that proposed in the Governor's budget.

It is important to note that the Governor's proposal is used as the base for calculating the cost of this proposal. However, CDF urges careful examination of the effects of the reductions proposed in the housing allowance and the child support pass-through in the Governor's budget, especially if this recommendation, or one like it, is not adopted.

Child Care Increase for TANF Recipients ***$50 Million***

The Department of Children, Families and Learning estimates that this is the amount of money necessary to meet the child care needs of parents required to participate in work activities or work under the federal requirements. This is in the Governor's budget.

Conclusion: The CDF budget recommendation above represents tradeoffs between competing priorities and needs. It should be considered as one potential plan for spending the surplus that represents a fiscally responsible alternative and puts children as a priority. Other combinations or program decisions could serve as well.

It should also be noted that this budget plan leaves money available in FY98-99 for allocating for other state priorities not identified here. The CDF proposal also does not take advantage of the savings identified in the Governor's budget (aside from those noted) which could be used to offset other spending in FY98-99 and FY2000-2001. Two important

areas which are not addressed in specific recommendations here, but need to be considered in more depth are the transportation system and housing, including property tax reforms which will encourage the provision of low income housing options.

CDF also supports an increase in the cigarette tax, both for the additional revenue it will bring to state programs and for its contribution to discouraging smoking, especially among young people. We recommend that any additional revenues be used to increase K-12 education spending, in addition to anti-smoking efforts.

Projected Fund Balance: $'s in Millions

	FY98 CDF	FY99 CDF	FY 2000-2001 CDF
Balance Forward	$1,469	$1,470	$1,344
Revenues	$9,946	$10,398	$22,010
Total Resources	$11,415	$11,868	$23,354
Spending	$9,945	$10,524	$22,420
Balance Before Reserves	$1,470	$1,344	$934

Note: The February forecast improves the CDF balance before reserves by $782 million, for a total balance before reserves of $2,126 million in FY99.

	CFL	CDF	CDF	CDF	Gov	Gov	Gov
cfl	Remove K-12 caps	$ 118.0	$ 152.0	$ 270.0	$ 118.0	$ 152.0	$ 270.0
cfl	K-12 Inflation	$ 100.0	$ 120.0	$ 220.0	$ -	$ -	$ -
cfl	Charter Schools	$ 5.0	$ 5.0	$ 10.0	$ 5.0	$ 5.0	$ 10.0
cfl	Technology	$ 50.0		$ 50.0	$ 50.0		$ 50.0
cfl	Delay high school start times	$ -	$ -	$ -	$ -	$ -	$ -
cfl	Library Outreach Programs	$ 2.5	$ 2.5	$ 5.0	$ -	$ -	$ -
cfl	Targeted Breakfast Program	$ 0.5	$ 0.5	$ 1.0	$ -	$ -	$ -
cfl	Summer Food Program-reimbursement rates	$ 0.2	$ 0.2	$ 0.4	$ -	$ -	$ -
cfl	School brkfst and outreach grants--$15,000/yr	$ 0.0	$ 0.0	$ 0.0	$ -	$ -	$ -
cfl	Start-up funds school breakfast & summer food program	$ 1.0	$ 1.0	$ 2.0	$ -	$ -	$ -
cfl	Family Service Collaboratives-Technical Assistance	$ 0.5	$ -	$ 0.5	$ -	$ -	$ -
cfl	Expand ECFE	$ 2.2	$ 3.0	$ 5.2	$ 2.2	$ 2.0	$ 4.2
cfl	Expand Head Start	$ 2.0	$ 3.0	$ 5.0	$ 2.0	$ 2.0	$ 4.0
cfl	Basic Sliding Fee Increase	$ 25.0	$ 60.0	$ 85.0	$ 7.0	$ 7.0	$ 14.0
cfl	Child care for TANF Recipients	$ 10.0	$ 40.0	$ 50.0	$ 10.0	$ 40.0	$ 50.0
cfl	Expand child care system capacity	$ 4.0	$ 4.0	$ 8.0	$ -	$ -	$ -
CFL	TOTAL	$ 320.9	$ 391.2	$ 712.2	$ 194.2	$ 208.0	$ 402.2
	MHFA						
mhfa	Rental & Home Ownership Assistance	$ 3.0	$ 4.0	$ 7.0	$ -	$ -	$ -
	Higher Ed						
highed	Increase Financial Aid available for low income students	$ 20.0	$ 20.0	$ 40.0	$ -	$ -	$ -
highed	Expand child care for low income students enrolled in higher educatior	$ 2.0	$ 2.0	$ 4.0	$ -	$ -	$ -
HIGHER ED	TOTAL	$ 22.0	$ 22.0	$ 44.0	$ -	$ -	$ -
	MnPlan						
MnPlan	Non-profit redesign	$ 0.5	$ 1.0	$ 1.5	$ -	$ -	$ -
MnPLan	Outside study of fed impacts on people outside of system	$ 0.5	$ -	$ 0.5			$ -
MNPLAN	TOTAL	$ 1.0	$ 1.0	$ 2.0	$ -	$ -	$ -
	Health Dept.						$ -
mdh	Birth Defect Registry	$ 0.7	$ 1.0	$ 1.7	$ -	$ -	$ -
mdh	Home Visiting	$ 0.1	$ 1.7	$ 1.8	$ 0.1	$ 1.7	$ 1.8
MDH	TOTAL	$ 0.8	$ 2.7	$ 3.5	$ 0.1	$ 1.7	$ 1.8
	DHS						
dhs	Increase Family Preservation Funding	$ 10.0	$ 20.0	$ 30.0	$ 8.9	$ 8.9	$ 17.8
dhs	Expand foster care and adopt recruit; Priv. adopt svcs & expand w ou	$ 2.8	$ 4.8	$ 7.6	$ 2.8	$ 4.8	$ 7.6
dhs	Collaboratives--mental health	$ 0.8	$ 1.3	$ 2.1	$ 0.8	$ 1.3	$ 2.1
dhs	Crisis Nurseries	$ 0.6	$ 0.6	$ 1.2	$ 0.6	$ 0.6	$ 1.2
dhs	Increase tran std to -3.5% from MFIP--127% Exit	$ 15.0	$ 30.0	$ 45.0	$ -	$ -	$ -

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dhs	Food supplement in cash grant for legal immig	$ 12.4	$ 12.4	$ 24.8	$ -	$ -	$ -
dhs	Employment and Training @ $ 2000--1/2 reallocated	$ 7.5	$ 15.0	$ 22.5	$ -	$ -	$ -
DHS	*TOTAL*	$ 49.1	$ 84.1	$ 133.2	$ 13.1	$ 15.6	$ 28.7
	Total	$ 396.8	$ 505.0	$ 901.9			
	Note: Early in the session, the Legislature removed the caps on K-12						
	education, increasing spending by $600 million in FY98-99.						
	Total, excluding cost of removing the K-12 caps	$ 178.8	$ 233.0	$ 411.9			
	Revenues						
rev	Child tax reduction	$ 55.0	$ 55.0	$ 110.0	$ -	$ -	$ -
rev	EdVest	$ 15.0	$ 15.0	$ 30.0	$ 15.0	$ 15.0	$ 30.0
rev	Revenues	$ 70.0	$ 70.0	$ 140.0	$ 15.0	$ 15.0	$ 30.0
	Budget Stability						
	Maintain the 85/15 shift in K-12 education	$ (150.0)		$ (150.0)	$ -	$ -	$ -
	Increase Reserve	$ 261.0		$ 261.0	$ 261.0		$ 261.0

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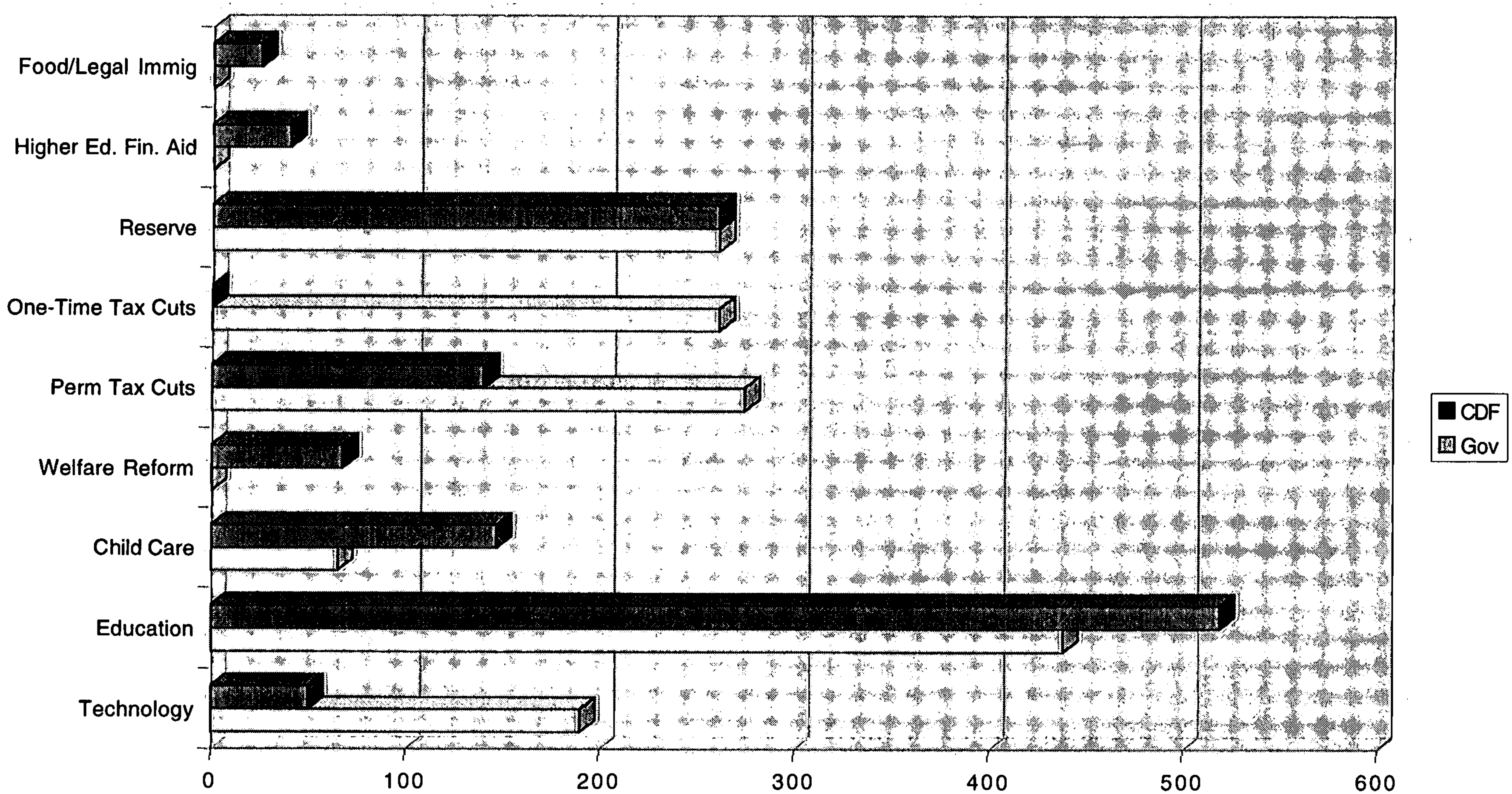
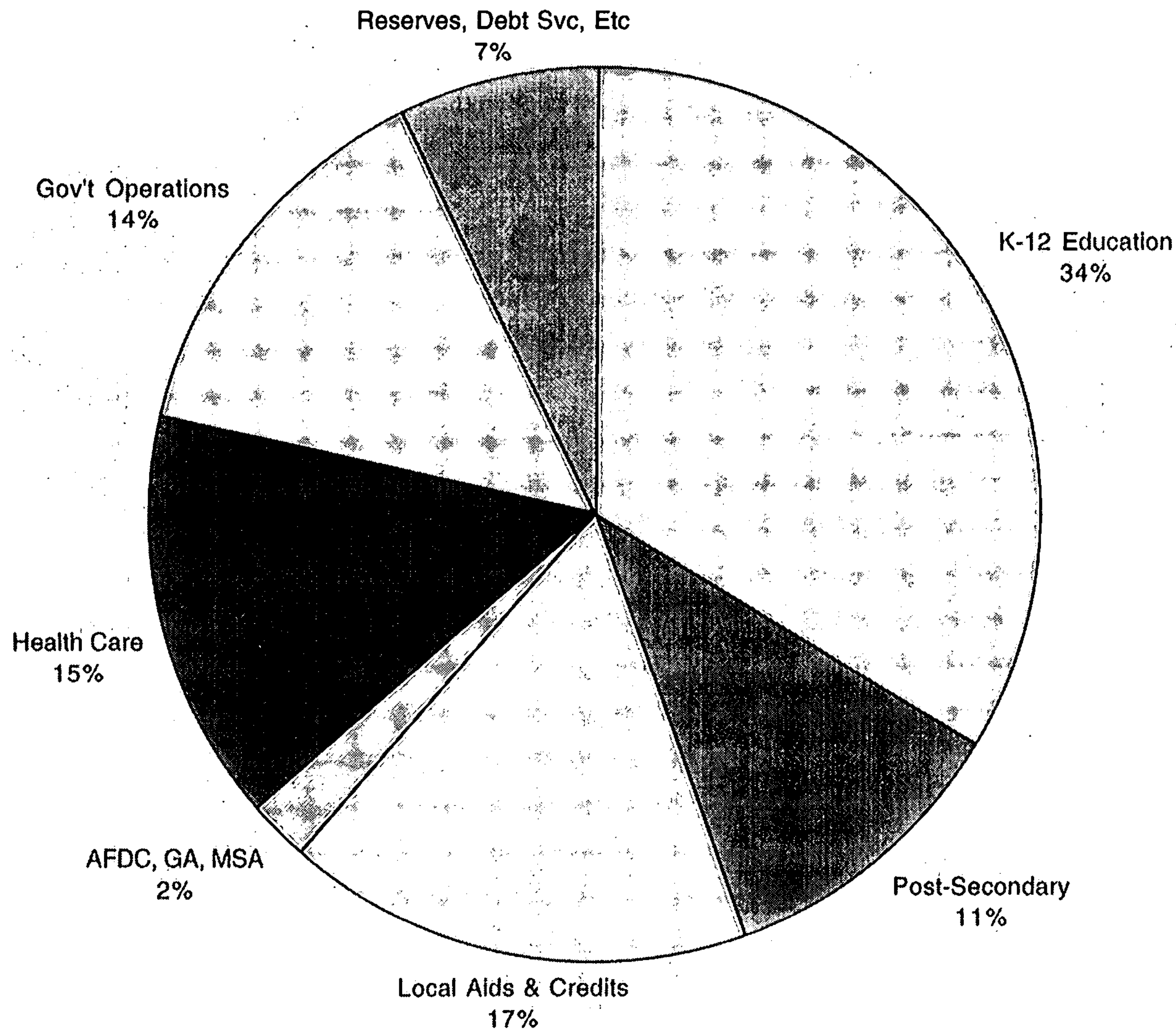
Spending the Surplus: Gov v. CDF
Major Initiatives



Based on the Governor's January Budget Recommendations

State General Fund Spending: $19.6 Billion FY96-97



Nov. Forecast

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