AMERICAN EXPERIMENT

A TICKING TIME BOMB:

Minnesota's vast and expanding welfare system

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Executive Summary

In the 2023 legislative session, Minnesota lawmakers approved a substantial increase in the state's budget, raising it by a third from $52 billion in the 2022-2023 biennium to $70 billion in the 2024-2025 biennium. A significant portion of this new spending is allocated to Human Services expenditure to expand the state's numerous public assistance programs — collectively referred to as welfare programs in this report. Overall, in the session, lawmakers dedicated over $6 billion in new funds to Health and Human Services (HHS) over the span of the four years covering the 2024-2027 fiscal years. In that period, $42 in every $100 of new general fund spending will be allocated to HHS, making it the primary driver of growth within the state budget. General fund spending for HHS is expected to grow by nearly $6 billion in the 2024-2025 biennium compared to the 2022-2023 biennium and will increase by almost an additional $8 billion in the 2026-2027 biennium compared to the 2022-2023 biennium. To put it simply, Minnesota's welfare system has undergone a significant expansion.

For any society, providing a robust social safety net for its most vulnerable members is a commendable objective. An excessively broad social safety net can, however, put pressure on the state budget, crowd out other budget priorities, place a heavy burden on taxpayers (hindering economic growth), and trap people in poverty by fostering dependence. This report delves into the current welfare spending landscape in Minnesota, offering insights to assess how recently enacted welfare spending may impact Minnesota's budget, taxpayers, and the broader economy.

Part I: Welfare spending as a share of the budget. Minnesota generally allocates a considerable share of its revenue to welfare programs. Furthermore, Minnesota allocates a larger share of its expenditure toward welfare programs compared to the rest of the nation. In Fiscal Year (FY) 2019,

- HHS accounted for 29 percent of Minnesota's general fund expenditures, making it the second biggest expenditure category after E-12 education. HHS accounted for 42 percent of total state spending (when all other funds, including federal funds are considered), making it the state's biggest expenditure.
- Minnesota spent 27 percent of total state and local direct general expenditure on public welfare according to data from the U.S. Census Bureau's Annual Survey of State and Local Government Finances. At the national level, the share was lower at 22 percent, and among the 50 states, the median share was 21 percent. Minnesota's share of state and local spending dedicated to public welfare was the 10th highest among the 50 states.

Part II: Welfare spending per person in poverty. Due to low poverty rates and higher than average total spending, Minnesota's welfare spending per person in poverty surpassed that of most states in 2019. U.S. Census Bureau data shows:

- Minnesota spent the equivalent of $34,379 on public welfare per person living below federal poverty, ranking third highest among the 50 states. This amount was 80 percent above the national average and more than double the median state's spending.
- Minnesota spent the equivalent of $14,114 on public welfare per person with income below 200 percent of federal poverty, ranking fourth highest among all 50 states. Minnesota surpassed the national average by 75 percent and the median state by 90 percent.

Part III: Looking at specific programs. Among the three programs that this report scrutinizes (Medicaid, TANF, and childcare), Minnesota stands out for its

above-average spending in all areas. Moreover, the state's programs maintain a more expansive income eligibility criteria, resulting in a broader than average social safety net as well. In 2019:

- While median state spending on Medicaid benefits per enrollee was $8,436, Minnesota spent 40 percent more, and ranked fourth highest among the 50 states. Aged Medicaid enrollees cost the median state $18,610 per head, but in Minnesota, they cost $32,854 — over three quarters more. Minnesota spent $43,171 per disabled Medicaid enrollee. This was over double that of the median state and the highest spending level among the 50 states.
- For the country's main cash assistance program — Temporary Assistance for Needy Families (TANF) — the maximum monthly cash benefit a family of three with no income could receive in Minnesota was $532, ranking 18th highest among the 50 states. This exceeds both the national average and the median state benefit amount. Moreover, the maximum income that a family of three could earn in Minnesota and still be eligible for cash assistance was the highest in the country.
- Minnesota's spending on childcare assistance per child aged six and under living below poverty under the ChildCare and Development Fund (CCDF) — the country's main childcare funding scheme — was the third highest in the country.

Part IV: How welfare spending has grown. Over time, Minnesota's spending has consistently grown in both absolute terms and when adjusted for the population in poverty. Additionally, the expansion in welfare spending has often exceeded growth in spending for other programs, gradually increasing welfare's proportion of the budget.

- According to U.S. Census Bureau data, spending on public welfare grew by 92 percent in Minnesota between 2000 and 2019, surpassing all other spending categories. As a share of total direct general expenditure, public welfare grew 42 percent while other programs generally shrank.
- HHS spending as a share of general funds grew 26 percent between 2000 and 2019, again surpassing all other major state spending categories.
- Public welfare spending per person below poverty grew 33 percent between 2005 and 2019. While this growth rate was below the national average and median, Minnesota consistently maintained a lead over the nation during the entire period.

Part V: Cause for concern. Given Minnesota's current high levels of spending, four things are likely to result from Minnesota's increased welfare spending:

- The state's growing welfare system will continue to put pressure on available state resources. This will jeopardize the sustainability of the state budget and put Minnesota at risk for future fiscal imbalances.
- Increased spending on welfare programs will crowd out spending on other budget priorities that are essential to a well-functioning society, such as public safety and infrastructure.
- Recently enacted tax hikes, in addition to the potential need for future tax increases to fund growing commitments, will impose a heavy burden on taxpayers. Higher taxes will discourage work, saving, and investment, and as a result, impede economic growth in the state.
- A bigger state government will crowd out the private sector, making Minnesota's economy less productive.

In summary, Minnesotans need to take note of the state's expansive and continuously expanding welfare system. The heavy and growing burden it imposes on the state budget, taxpayers, and the broader economy should be a cause for concern. If left unaddressed, Minnesota's welfare system is a fiscal time bomb, gradually inching the state toward a fiscal crisis. ■

Introduction

Promoting the general welfare is a central function of government. State-run social benefit programs provide an important safety net to support the general welfare. Minnesota, much like the rest of the country, has people who are unable to work, and therefore unable to support themselves, such as the elderly and the disabled. Even hardworking families can experience periods of hardship and may also need help getting back on their feet.

While a social safety net is important, the Minnesota state government embraces numerous roles, all vying for limited resources. An overly expansive social safety net can, thereby, crowd out other public services and put pressure on the state budget. Raising taxes is the only way to release this pressure without lowering spending. But higher taxes discourage work, saving, and investment, hindering economic growth. Additionally, if not run effectively, these programs can trap people in poverty, preventing them from thriving. Accordingly, an effective social safety net must minimize the extractive damage of taxes, put manageable pressure on the state budget, and successfully target assistance to those who truly need it while directing them toward self-sufficiency and self-fulfillment.

In the 2023 legislative session, Gov. Tim Walz and the legislature voted to spend billions of additional dollars on the state's numerous welfare programs. Specifically, the legislature voted to expand eligibility for some programs, loosen requirements to make it easier for people to get on and stay on some programs for extended times, and increase benefit levels, among other things. This study assesses the impact that this additional spending will likely have on the state budget, the people it purports to help, and the state's economy.

Per its objective, the study creates a profile of Minnesota's recent and past spending on welfare programs, how that spending has changed over time, and how Minnesota compares to other states. Overall, the report finds that Minnesota not only already spends a significant share of its budget on welfare programs, but also allocates a larger share of its budget on these programs compared to other states. Furthermore, Minnesota is a national leader when analyzing welfare spending in per capita terms — that is, adjusted by the number of people in poverty. That generosity is also prevalent when looking at specific welfare programs. Over time, Minnesota's welfare spending has consistently grown, and its growth has outpaced that of all other spending categories.

These findings have important implications for Minnesota, given the additional dollars that state lawmakers have allocated to welfare programs. For one, Minnesota's expanding welfare system will continue to exert substantial pressure on the state budget, potentially leading to continuing future fiscal imbalances. Increased welfare spending will also likely displace other critical budget priorities, constraining the state government's capacity to provide essential public services. Additionally, a growing government has the potential to crowd out the private sector, making the economy less efficient. The elevated tax rates used to finance this new extra spending will likely undermine the economy even further, dragging down Minnesota's already mediocre economic performance.

What welfare spending is (and isn't)

When recording public welfare spending, the U.S. Census Bureau includes money spent on programs that provide cash or in-kind benefits to disadvantaged or low-income individuals. These include cash payment programs like the Temporary Assistance for Needy Families (TANF) and other state-specific programs; money used for the administration of the Supplementary Nutrition Assistance Program (SNAP) — popularly known as food stamps; public healthcare insurance through Medicaid, the Children's Health Insurance Program (CHIP) and state specific programs. Other welfare spending includes childcare assistance (under the TANF Program), low-income energy

assistance, and social and community services block grants. These programs are commonly referred to as social welfare programs, and they differ from social insurance programs like Medicare and Social Security which are universal, and, as the name suggests, are intended to act as an insurance scheme.

Generally, most welfare programs, even those funded solely by the federal government, like SNAP, are administered by each state. In this report, the welfare spending analyzed only includes spending on those programs that are either funded solely by states or jointly by the state and federal government, for which data is available and comparable.

For Minnesota, these include Medicaid, known as Medical Assistance (MA), and its extension program CHIP; MinnesotaCare (a program subsidizing health coverage for low-income Minnesotans); cash assistance programs like the Minnesota Family Investment Program (MFIP) — which is Minnesota's version of TANF — General Assistance (GA), and Minnesota Supplemental Aid (MSA). It also includes childcare assistance programs like the MFIP childcare, basic sliding fee program, Transition Year (TY) childcare and its extension program. Together, these programs cost Minnesotans billions of dollars every year.

In Minnesota, welfare programs are generally run by the Department of Human Services (DHS). In the state budget, spending on welfare is recorded under Health and Human Services (HHS), which includes spending for both the Minnesota Department of Health (MDH) and DHS. In addition to administering welfare programs, DHS oversees numerous programs including child support, childcare licensing, and nursing care licensing. But overall, a key portion of its efforts and spending go toward administering welfare programs in the state.

Minnesota also provides other in-kind means-tested benefits outside of DHS. These include childcare assistance through the Early Learning scholarship and Head Start programs, which are recorded as part of E-12 education spending. Higher Education spending also includes programs that assist students from low-income families with education expenses. The analysis in this report follows those programs administered by DHS and reported as welfare by the U.S. Census Bureau.

Key considerations

The coronavirus pandemic markedly contributed to changes in spending trends between 2020 and 2023 — especially for welfare programs. Consider Medicaid as a case in point. State Medicaid spending is typically matched by the federal government through the Federal Medicaid Assistance Percentage (FMAP). Normally, FMAPs start at 50 percent for states with high incomes, and gradually increase for lower-income states. In 2019, the most recent year prior to the pandemic, FMAPs ranged from 50 percent in Minnesota and other high-income states to 76 percent for Mississippi. In 2020, however, the federal government raised FMAPs with the requirement that states do not disenroll individuals who become ineligible for Medicaid during the duration of the Public Health Emergency (PHE), which ended in May 2023. FMAPs ranged from 56 percent in Minnesota and other high-income states to 83 percent in Mississippi and have stayed elevated throughout the duration of the PHE period.

During the pandemic, the federal and some state governments also shut down the economy, triggering a temporary spike in unemployment. Poverty, which had been on a downward trend prior to the pandemic — reaching a historic low in 2019 — also went up beginning 2020. To assist states in responding to the virus, the federal government passed three stimulus packages that boosted state spending on healthcare services and other programs like childcare.

These extra federal funds, uncharacteristically high levels of poverty, and Medicaid enrollment requirements elevated state welfare spending and enrollment numbers while at the same time reducing the share of spending that states normally contribute to these programs. For that reason, data on welfare spending between 2020 and 2023 would likely skew historical expenditure patterns. To address this, the report predominantly focuses on the pre-pandemic period, with 2019 as the most recent year. Spending and poverty trends began normalizing in 2022, so to the extent that data is available, the report also references the 2020-2023 period. The report also excludes the District of Columbia from state-to-state comparisons, since its demographics and spending patterns more

closely resemble a large metro area than a state.

The 2023 legislative session

In December 2021, Minnesota Management and Budget (MMB) announced that Minnesota was expecting a $7.7 billion budget surplus for the 2022-2023 biennium — the largest surplus in the state's history.[1] The surplus grew to $9.3 billion in February 2022. During the 2022 legislative session, lawmakers spent about $2 billion, leaving $7 billion on the table. "Strong collections and lower than projected spending" in the 2022-23 biennium added "$4.6 billion to the general fund bottom line," bringing the total surplus to be carried over to the 2024-2025 biennium to $11.6 billion. Combined with the $6 billion projected surplus for the 2024-2025 biennium, that brought the total estimated surplus to $17.6 billion.[2]

This number was not substantially changed with the release of the February 2023 budget forecast. However, this is only because a new law requires MMB to account for inflation in their spending estimates. So, despite tax collections coming in higher than forecast at the end of last year, Minnesota's budget surplus stood at $17.5 billion in February 2023, even after removing $1.4 billion to account for inflation.[3]

Under the claim of reducing costs for Minnesotans, Gov. Walz and the Democratic-controlled legislature used nearly the entire $17.5 billion surplus to expand Minnesota's budget. Lawmakers hiked the state's general fund budget for the 2024-2025 biennium by 25 percent from the baseline of $55.5 billion to $69.5 billion. Minnesota's general fund budget grew by a third in the 2024-2025 biennium compared to what it was in the 2022-2023 biennium at the end of the session — $52.2 billion. This massive budget, among others, added billions in spending to programs under HHS to lower poverty, childcare costs, housing costs, and healthcare costs. While some of this extra spending is one-time, baseline spending in the 2026-2027 biennium was also increased from its February total of $59.4 billion to $64.4 billion by the end of the legislative session, an extra $5 billion.[4]

In the February 2023 forecast, HHS programs were estimated to cost $17.8 billion of general funds in the 2024-2025 biennium. This is $2.7 billion higher than what Minnesota spent on HHS in the 2022-2023 biennium. Thanks to the newly passed budget, the HHS budget grew an additional $2.8 billion by the end of the session. And in the 2026-2027 biennium, HHS received an extra $2.4 billion, up from the $19.9 billion baseline from the February 2023 forecast as shown in Table 1. When other sources of funds like the Health Care Access Fund (HCAF) are accounted for, lawmakers dedicated well over $6 billion in additional funds to HHS for the next two biennia.

Prior to the end of the session, the HHS general fund budget was already expected to grow by over $2 billion in each of the 2024-2025 and 2026-2027 biennia. However, according to the November 2023 forecast that MMB released in early December 2023, HHS general fund spending is expected to not only grow much higher than what it was in the 2022-2023 biennium, but also exceed what it was at the end of the session due to higher than end-of-session estimates in some spending areas.

TABLE 1

Enacted HHS General Fund Spending Vs. February Forecast (in billion $)

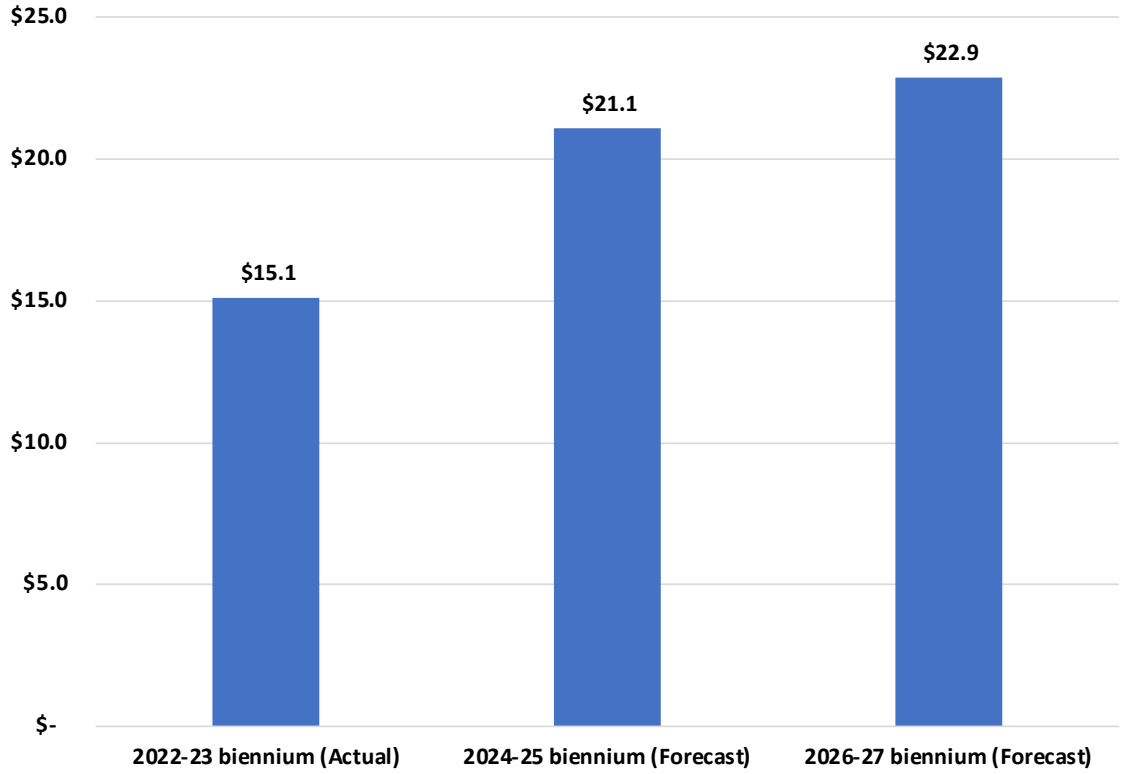
	2024-2025 biennium	2026-2027 biennium
February 2023 Forecast	$ 17.8	$ 19.9
End of Session	$ 20.6	$ 22.3
Difference	$ 2.8	$ 2.4

Source: Minnesota Management and Budget

At the end of the session, MMB estimated HHS general fund spending to total $20.6 billion in the 2024-2025 biennium and $22.3 billion in the 2026-2027 biennium. However, as shown in Figure 1, general fund HHS spending is now estimated to total $21.1 billion in the 2024-2025 biennium — nearly $6 billion higher than what it was in the 2022-2023 biennium. In

FIGURE 1

Actual and Projected HHS General Fund Spending (in billion $)



Source: Minnesota Management and Budget

the 2026-2027 biennium, HHS spending is estimated to be $22.9 billion, nearly $8 billion higher than what it was in the 2022-2023 biennium.[5]

Where the money is going

Some of the new spending on welfare programs will be divided as follows between FY 2024 and FY 2027:

Medicaid: Over $2 billion goes to the Medicaid program, most of it to increase spending on programs for the elderly and disabled. This is done by, among other things, raising reimbursing rates to providers and caretakers. Outside that, some of the funds will be used to eliminate cost-sharing for Medicaid enrollees, including for high-income parents of disabled children who enroll in Medicaid under the Tax Equity and Fiscal Responsibility Act (TEFRA) option. Beginning January 1, 2024, or upon federal approval, the state will also reinstate comprehensive dental coverage to adults in the state's Medicaid program.

Some of the changes that legislators passed are intended to bring Minnesota into conformity with federal law. That does not make them less costly for taxpayers, however. In most cases, Minnesota's adaptation of federal law goes beyond minimum federal requirements. The Consolidated Appropriations Act, which was passed in December 2022, for instance, mandates that states provide continuous 12-month coverage beginning January 1, 2024, to children under 19 who qualify for Medicaid coverage irrespective of changes in their eligibility states. To conform with this requirement, the legislature passed a law that provides continuous coverage to children up to 21 years old and requires that children who qualify for Medicaid at any age under six remain in the program until they reach six years of age.

Federal law also requires that states offer Medicaid coverage to former foster care youth under 26 who turned 18 while in foster care and who were enrolled in Medicaid while in the foster care system. The Minnesota legislature extended this provision

(an option that states have under federal law) to encompass those who turned 19 or 20 while in the foster care system.

Childcare assistance: Over $1 billion of the surplus has been dedicated to childcare assistance programs. Over half a billion dollars will go to the MFIP and basic sliding fee programs to increase reimbursement rates for providers and expand eligibility for childcare assistance to foster caregivers and relative caregivers. Childcare providers will also get over half a billion dollars in the next four years from what is termed "Great Start Compensation Payments."

MinnesotaCare: Starting in 2026, undocumented immigrants can enroll in MinnesotaCare — a program that subsidizes health insurance for low-income people. In the budget, this will cost about $110 million between FY 2024 and FY 2027.

Cash assistance: Programs like GA, MFIP, and MSA will get over $100 million through some provisions that enhance benefits and make it easier for individuals to qualify for and receive benefits for extended times. Newly enacted legislation, for example, adjusts housing assistance benefits under MFIP for the cost of living, increasing the cost of the program. Certain types of incomes are also excluded from consideration in eligibility determinations for cash and childcare assistance. These include Retirement, Survivors, and Disability Insurance (RSDI) benefits and tribal per capita payments.

Currently, hard to employ MFIP beneficiaries who have exhausted their 60-month lifetime limit must comply with MFIP requirements in their 60th month on the program, as well as "develop and comply with either an employment plan or a family stabilization services plan" to qualify for a hardship extension.[6] Beginning May 2026, only the latter condition will apply. Furthermore, penalties associated with non-compliance regarding work and training requirements in the MFIP program have also been significantly reduced, effective May 2026. And recipients enrolled in MFIP, GA and housing support programs will shift from monthly to semiannual income reporting.

In general, persons who are classified as nonimmigrants under U.S. law — which includes people who are in the U.S. temporarily for work, pleasure, or education — are not eligible for MFIP. Under new laws, beginning March 2024, some non-immigrants, such as those who are victims of trafficking, including their family members, will be eligible to receive cash and childcare assistance under the MFIP program, raising the cost of the program further.

Unbudgeted future expenditures

Beyond costs that are accounted for in the newly passed budget, the legislature has passed provisions that will or might introduce new spending programs later. For instance, starting in 2027, Minnesotans with incomes over 200 percent of federal poverty can buy subsidized health insurance coverage under MinnesotaCare through what is called a public option, pending federal approval and other provisions. The HHS budget includes $2.5 million for the state to conduct an economic impact study on how much the program will cost before it takes effect. The state will also conduct a study on how much a single payer health care system would cost in the state, paving the way for socialized medicine (to be potentially administered by the DHS).

Additionally, in 2021, Gov. Walz signed into law the "Great Start Childcare Taskforce" to study how to make childcare in Minnesota more affordable and accessible. The taskforce released a report in February 2023, recommending, among other things, that the state should cap childcare costs for every Minnesota family at seven percent of income through a "Great Start Minnesota Program" and raise wages for childcare workers, costs to be paid for by the state government.[7] The legislature passed a law directing the Commissioner of Human Services to create a cost estimation model that would be used to inform state spending on childcare assistance programs. The model would incorporate some of these recommendations, potentially raising state spending on childcare assistance programs in the future.

Minnesota's massive welfare system grew, and will likely get even bigger in the future. This is problematic for the state budget. As the report shows, Minnesota's spending on welfare programs was already high and expected to grow even without accounting for new funds. ■

Part I: Welfare Spending as a Share of the Budget

For the state budget, MMB records Minnesota's welfare spending under HHS which, as already mentioned, contains spending for both the Minnesota Department of Health (MDH) and the Department of Human Services (DHS). MDH, however, only takes up a small portion of total HHS spending — with most funds going to the DHS. In 2019, for example, total general fund HHS spending was $6.7 billion. About 99 percent of that, or $6.6 billion, went to the DHS.[8] Major welfare spending programs like Medicaid, MinnesotaCare, MFIP cash and childcare assistance, MSA, GA and Housing support totaled $5.6 billion, or 84 percent of all HHS spending.

For the 2024-25 biennium, about 97 percent of all HHS spending will go to the DHS. Major welfare programs — which are the only programs for which the MMB prepares a spending forecast — are estimated to take up about 76 percent of all state HHS appropriations.[9] But even outside of these forecasted programs, a large portion of DHS spending is still going to programs that in one way or another support disadvantaged and low-income individuals in the state. This includes programs like the Basic Sliding Fee (a program providing childcare assistance to low-income parents who are not on MFIP or Transition Year childcare); grants for programs for the disabled; economic support grants; aging and adult service grants; housing grants; long-term care grants; homelessness grants; homeless youth grants; and direct care and treatment. To simplify matters, for the purpose of this report, HHS spending is synonymous with welfare spending, at least when it comes to the Minnesota budget.

So, how does HHS spending compare to the total Minnesota budget?

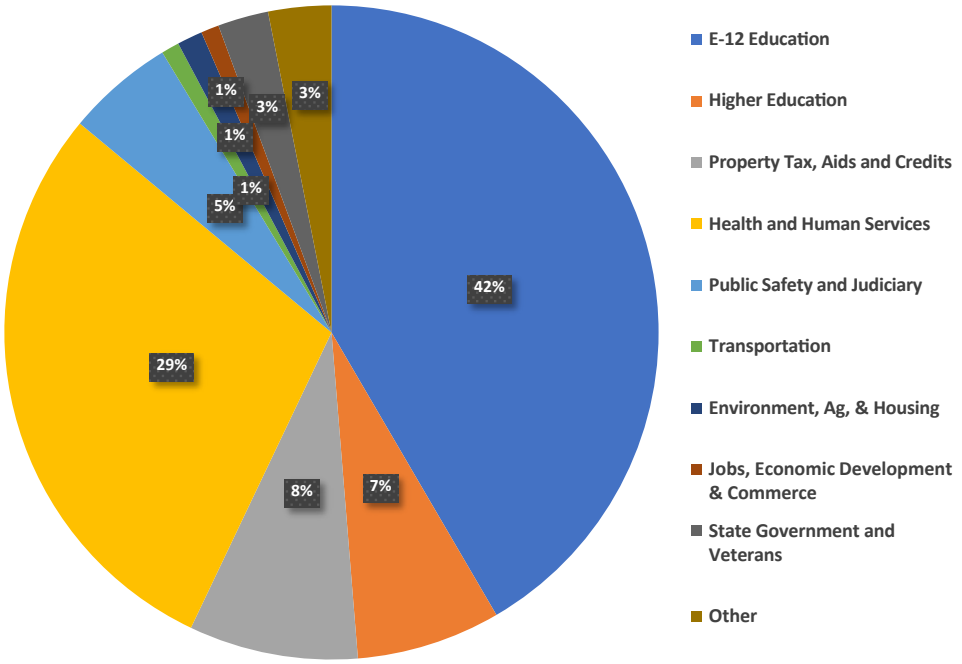
According to MMB, in FY 2019, Minnesota spent $6.7 billion, 29 percent of general funds, on HHS.

[Minnesota Department of Health] however, only takes up a small portion of total HHS spending — with most funds going to the DHS.

This is lower than spending on E-12 Education. Still, as shown in Figure 2, HHS spending was more than three times the next biggest expenditure: Property Tax, Aids and Credits (PTAC). And as shown in Figure 3, when federal funds and other funds are included, total HHS spending was a little over $17.7 billion. This was 42 percent of total state expenditure and almost 70 percent higher than the proportion spent on E-12 Education.[10] For FY 2023, the most recent year for which actual spending data is available, general fund

FIGURE 2

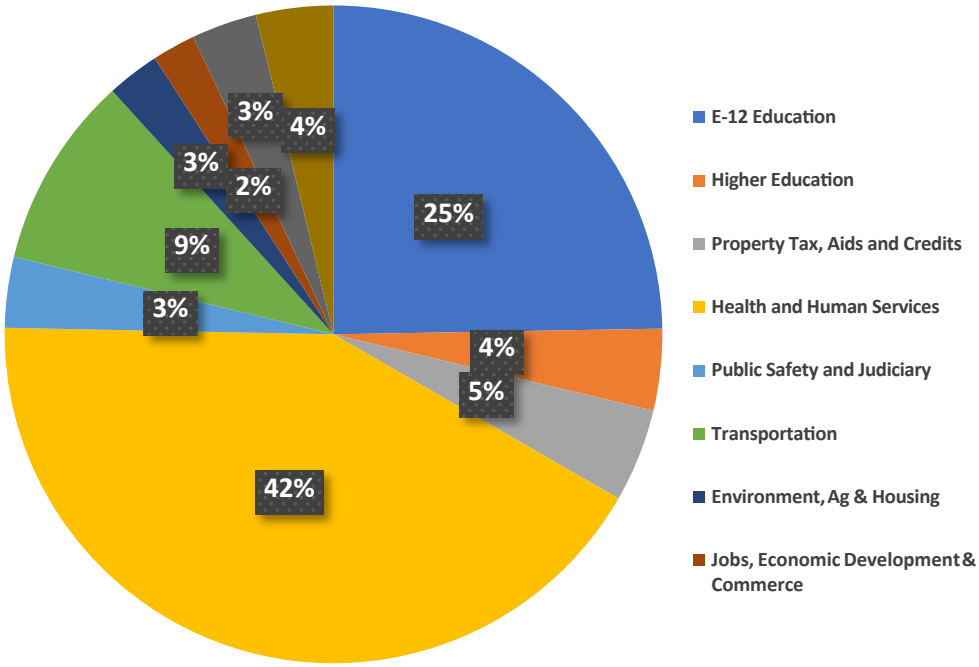
General Fund Spending by Category, FY 2019



Source: Minnesota Management and Budget

FIGURE 3

Total State Spending by Category, FY 2019



Source: Minnesota Management and Budget

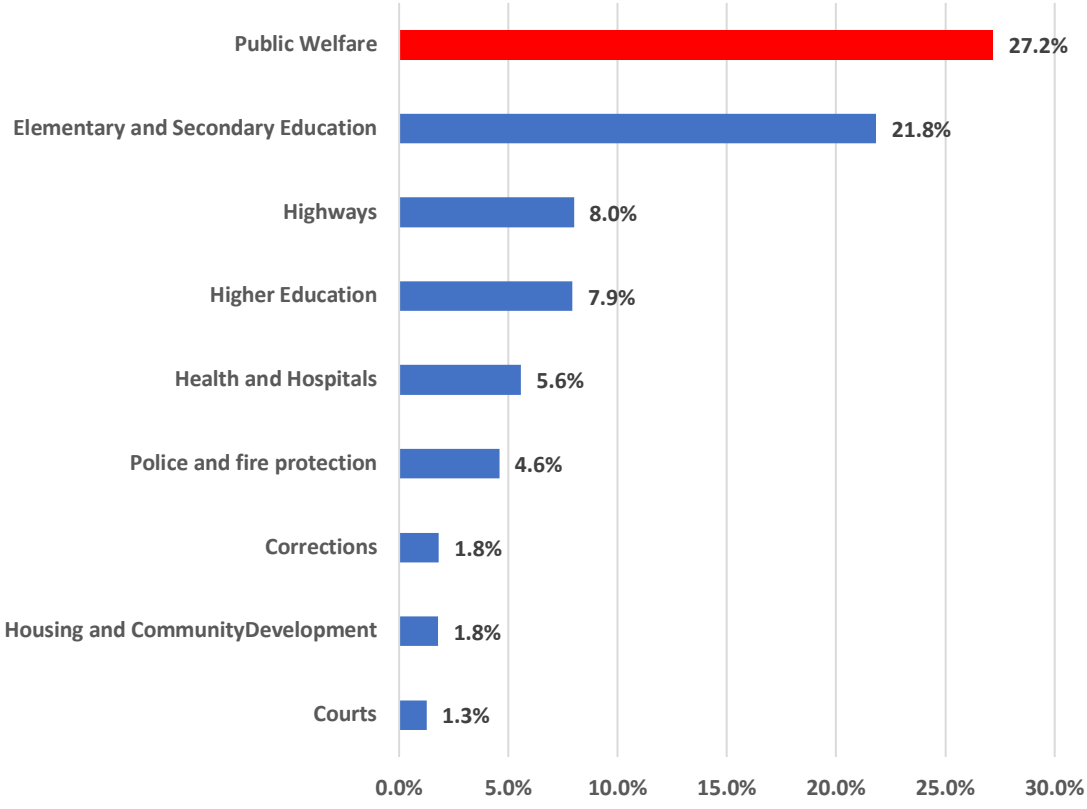
HHS spending totaled $8.2 billion — or 30 percent of general funds. And when all funds were accounted for, HHS spending was 46 percent of all state spending.[11] This is more than double the proportion of spending that went to E-12 education. Higher than normal federal spending on welfare programs likely contributed to higher than normal HHS share of total spending in 2023.

To compare Minnesota's spending to other states, data from the U.S. Census Bureau's Annual Survey of State and Local Government Finances breaks down total state and local government spending by category. In FY 2019, Minnesota's state and local spending (from all sources of funds, including federal) on various functions like corrections, transportation, education, and public welfare — collectively referred to as direct general expenditure — was $62.6 billion. Public welfare made up 27.2 percent of total spending. As shown in Figure 4, no other category spent as much. At the national level, Figure 5 shows public welfare was 22.2 percent of direct general expenditure — lower than Minnesota's share. Among the 50 states, the median share of total spending dedicated to public welfare was also significantly lower at 21.3 percent. In fact, Minnesota had the 10th highest share of its total spending dedicated to public welfare in 2019.

For both Minnesota and the nation, these figures were up in 2021 — the most recent year for which Census Bureau data is available. For Minnesota, 27.6 percent of all direct general spending went to public welfare, while for the entire nation, the share was 23.4 percent. The median was also up at 23.2 percent and Minnesota's share of public welfare spending

FIGURE 4

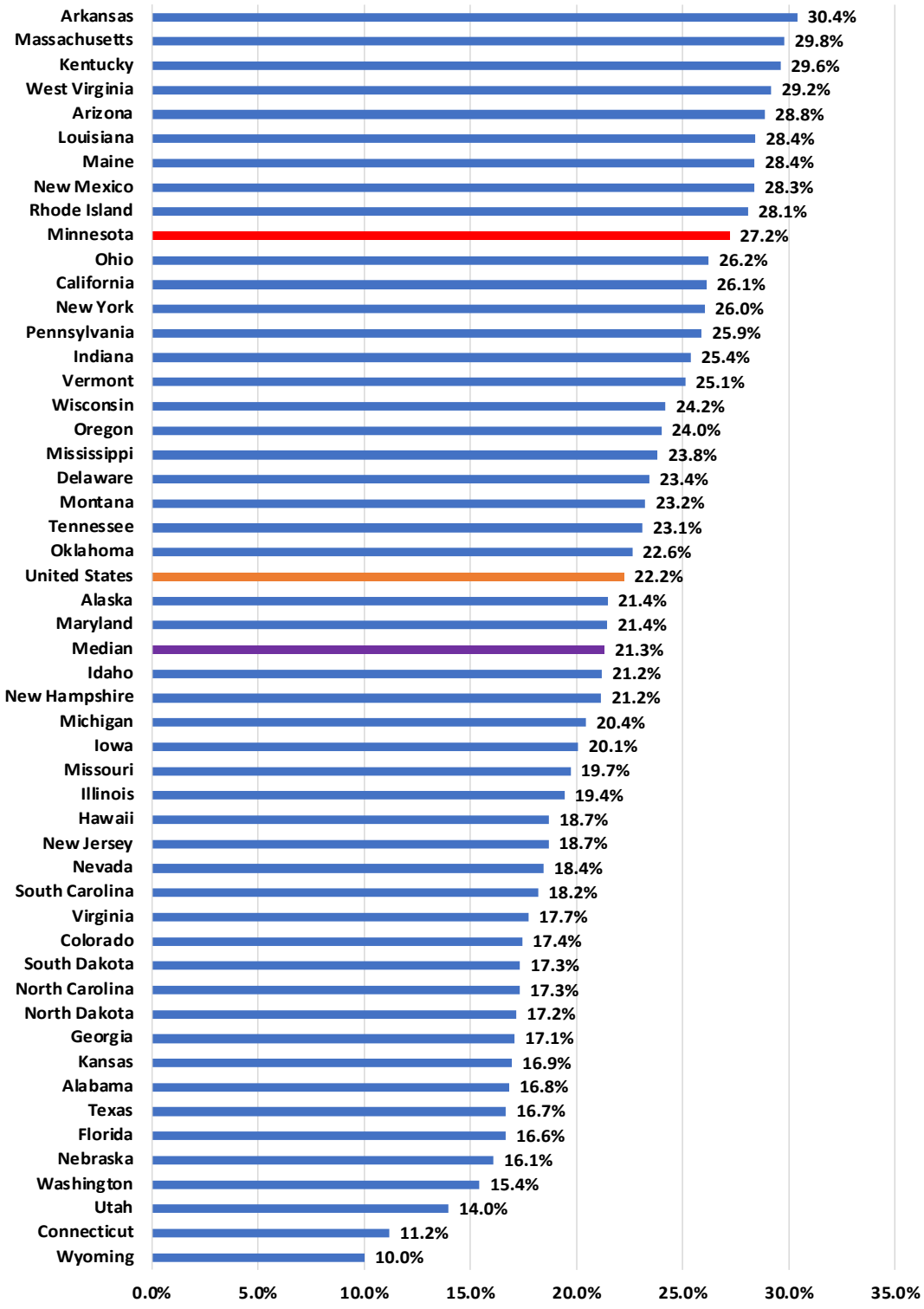
State and Local Direct General Expenditure by Function, FY 2019 (Minnesota)



Source: U.S. Census Bureau

FIGURE 5

Public Welfare as a Share of Total Direct General Expenditure by State, FY 2019



Source: U.S. Census Bureau Survey of State and Local Government Finances

ranked 12th highest among the 50 states. Because the Census Bureau records some Medicaid payments to public hospitals as part of hospital expenditures, it's likely that for both Minnesota and the rest of the country, the share of welfare spending is higher than shown in Figures 4 and 5.[12]

While the U.S. Census Bureau breaks down spending data into state and local categories, it doesn't break spending data by source of funds. To compare state general fund spending on welfare, the report utilizes data from the National Association of State Budget Officers (NASBO). According to NASBO, in 2019, Minnesota spent 22.1 percent of general funds on three welfare programs: Medicaid, TANF, and other cash assistance programs. General fund spending on these three welfare programs was only surpassed by spending on elementary and secondary education. When other funds — including federal funds — are counted, Minnesota spent 31.6 percent of the total state budget on these three welfare programs, surpassing all other specified spending programs including elementary and secondary education. Nationally, 19.7 percent of general fund spending and 30.1 percent of all spending, both lower than Minnesota, went to Medicaid, TANF, and other cash assistance programs. The median state spent 19.5 percent of general funds and 27.2 percent of its total budget on these three programs, also lower than Minnesota.

General fund spending on these three welfare programs was only surpassed by spending on elementary and secondary education.

Comparing welfare spending among states is problematic with NASBO data, however, for a few reasons. First, NASBO only surveys state agencies, so some local government spending is not included with NASBO data. But the apportionment of welfare spending between state and local governments differs among states, making NASBO data insufficient.

Second, NASBO reports a big portion of state spending in a category called "other" without making distinctions on specific programs. In 2019, NASBO reported 26 percent of Minnesota's general fund as "other." Spending on "other" includes welfare spending on programs like CHIP, and childcare assistance. Nevertheless, the data indicate that welfare programs make up a significant share of Minnesota's spending, especially when federal funds are included. Moreover, Minnesota spends a bigger share of general funds on welfare programs compared to the rest of the country. In FY 2022, Minnesota spent 20.7 percent of general funds on Medicaid, TANF, and other cash assistance programs while at the national level, the share was 18.4 percent. Minnesota's share of total spending spent on these programs (26.4 percent) was, however, lower compared to the national average of 28.8 percent.[13] But that's likely due to higher-than-normal federal contributions to big welfare programs such as Medicaid during the pandemic. ■

Part II: Welfare Spending per Person in Poverty

Since welfare programs target those in poverty, state demographics largely determine welfare spending, other factors being held constant. To account for this fact, the report looks at state and local spending on public welfare (as reported by the US Census Bureau's Annual Survey of State and Local Government Finances) in per capita terms — that is, adjusted for the population in poverty.

Generally, the Census Bureau classifies the U.S. population at various multiples of poverty using income thresholds. A household, and every person in the household unit, is considered poor if the household income falls below a certain threshold. This report utilizes the U.S. Census Bureau's official state poverty data from the American Community Survey (ACS), and it looks at welfare spending per capita for two groups: the population living below 200 percent or double the federal poverty threshold as well as the population living below the federal poverty threshold. This is for two reasons. People receiving welfare benefits tend to live below 200 percent of federal poverty. So, welfare spending per person in this group closely estimates actual per person welfare spending levels among states. Second, one can argue that welfare spending should focus on the neediest individuals — those with incomes below federal poverty. Spending on public welfare per person below poverty, thereby, gives an estimate of per person welfare spending if it were only targeted toward those most vulnerable.

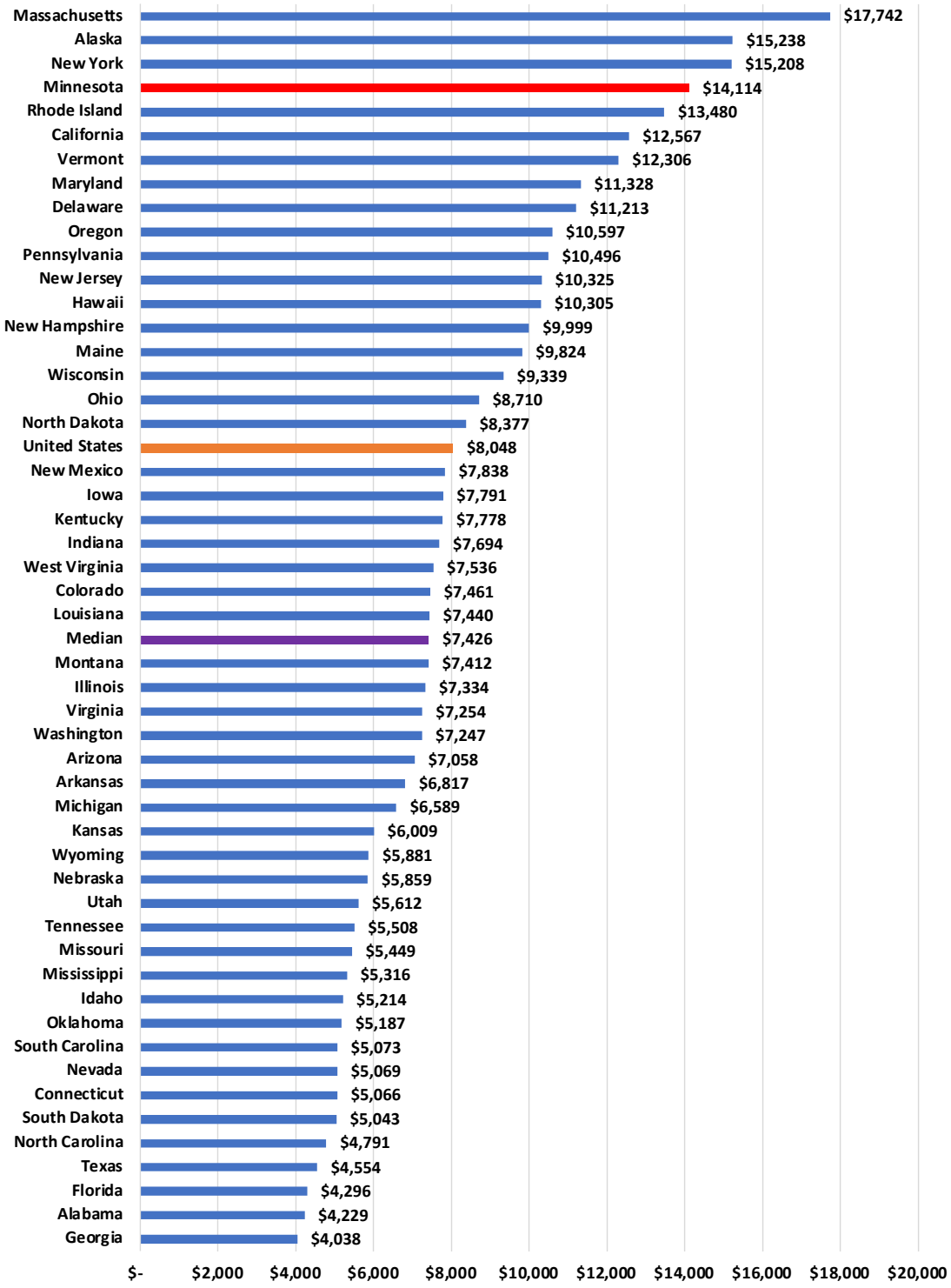
Compared to other states, Minnesota is generally a low poverty state. In 2019, for example, while the national poverty rate was 12.3 percent, Minnesota's rate was 9 percent — the third lowest rate in the country, after New Hampshire and Utah. Not surprisingly, after controlling already high spending for the low poverty rate, Minnesota's spending on welfare flies off the charts.

Since welfare programs target those in poverty, state demographics largely determine welfare spending, other factors being held constant.

In 2019, the national average state and local spending on public welfare per person below 200 percent of federal poverty was $8,048. Spending ranged from $4,038 in Georgia to $17,742 in Massachusetts, as shown in Figure 6. Minnesota had the fourth highest level of spending at $14,114. This is 75 percent above the national average and 90 percent higher than the median state amount ($7,426).[14] Only Massachusetts, Alaska and New York had higher levels of spending. When only those living below poverty are

FIGURE 6

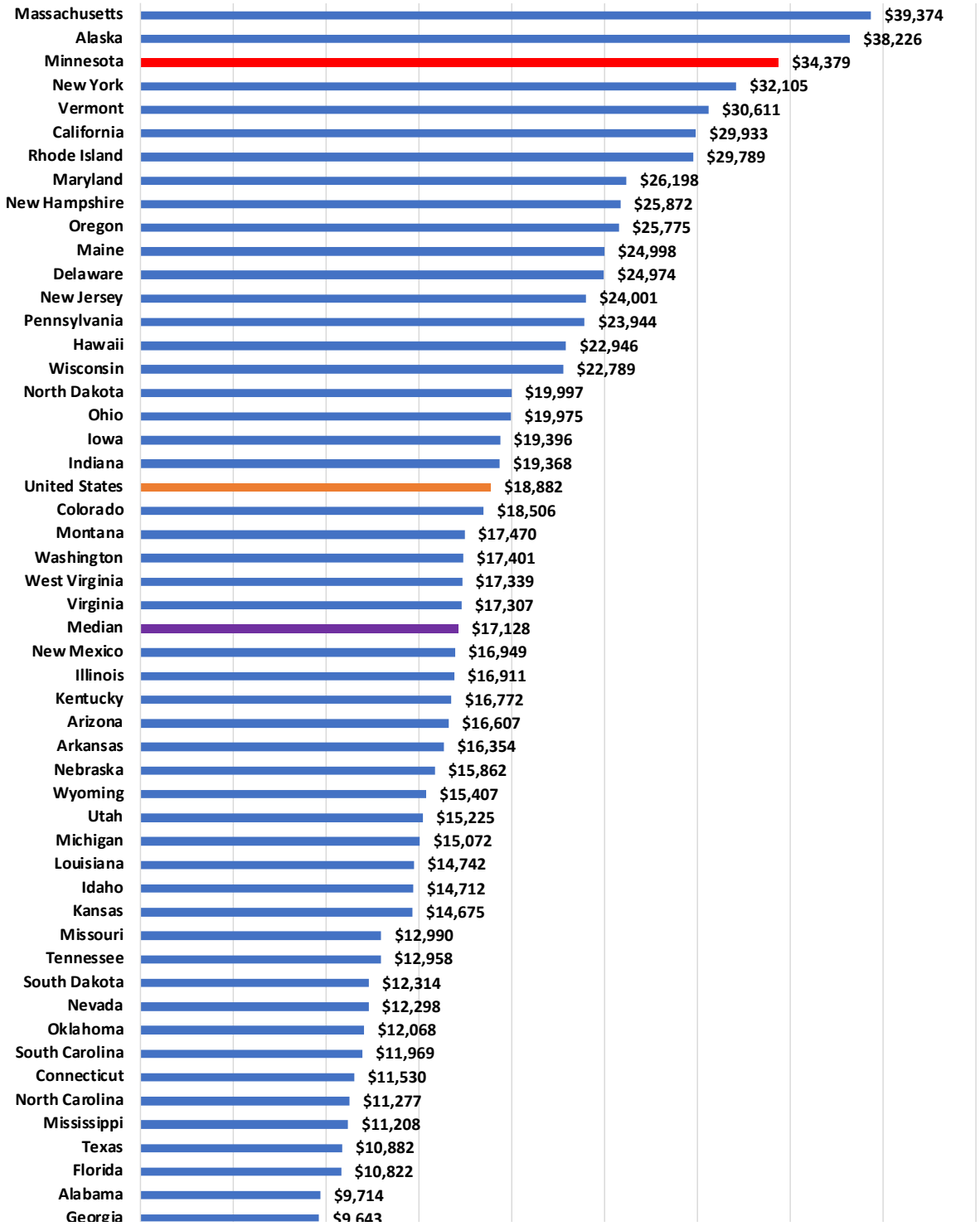
State and Local Spending on Public Welfare per Person Below 200% of Federal Poverty, FY 2019 (2019 $)



Source: U.S. Census Bureau American Community Survey; U.S. Census Bureau Survey of State and Local Government Finances[15]

FIGURE 7

State and Local Spending on Public Welfare per Person Below 100% of Federal Poverty, FY 2019 (2019 $)



Source: U.S. Census Bureau American Community Survey; U.S. Census Bureau Survey of State and Local Government Finances[16]

considered, Minnesota spent the equivalent of $34,379 on state and local public welfare per person in 2019 — third highest after Massachusetts and Alaska. As Figure 7 shows, Minnesota spent over three times as much as the lowest spending state amount of $9,643, two times the median state amount of $17,128 and 1.8 times the national average figure of $18,882. For the most recent year for which data is available — 2021 — spending (in constant 2019 $) remained largely unchanged for Minnesota at $34,347 per person below federal poverty (second highest), and $14,470 person below 200 percent of federal poverty (fifth highest). While the national average spending went up for both groups, Minnesota spending was still 65 percent higher for those living below poverty and 75 percent higher for those below 200 percent of federal poverty. ■

Part III: Looking at Specific Programs

Outside of poverty status, welfare programs can target people based on other characteristics such as disability and age. So, total benefits vary among recipients based on which programs they use. Moreover, most of the money that states spend on welfare programs goes to just one program: Medicaid. This can skew overall per person spending numbers. So, the report looks at spending by the specific program to ascertain Minnesota's generosity even further. Breaking down welfare spending by program also enables us to pinpoint any outlier programs which cost more per person in Minnesota, and if need be, investigate why.

The report focuses on three big spending programs for which data is available and comparable. These are Medicaid and its extension program CHIP, cash assistance (more specifically TANF), and childcare assistance. Data for all these programs show, yet again, that Minnesota is a generous state, as it has some of the country's highest spending and benefit levels, and not to mention higher-than-average income limits, casting a wider safety net compared to the rest of the country.

Medicaid spending

Despite federal funding contributing more than half of all state Medicaid funding, it remains a significant component of state budgets. For Minnesota, the share of state spending going to Medicaid is even higher compared to that of other states. In 2019, for example, 21.4 percent of state general funds in Minnesota went to Medicaid, according to NASBO data. Nationally, the figure was 18.9 percent. When federal funds and other funds are added, Minnesota spent 30.7 percent of its revenues on Medicaid. At the national level, the proportion was 28.9 percent. Looking specifically at how Medicaid operates, over half of all Medicaid spending goes to aged enrollees (those aged 65 and over) and enrollees with disabilities, even though they make a small share of the population enrolled on Medicaid. This is because these two groups also qualify for Medicaid based on health status and not just income. Expectedly, each enrollee under 65 who is not disabled — such as children and adults — generally incurs a substantially lower cost for states compared to what they spend on each disabled or elderly enrollee.

Still, however, Figure 8 shows that Minnesota generally outspends the rest of the country on Medicaid benefits per Medicaid enrollee in every eligibility category. According to data from Centers for Medicare and Medicaid Services (CMS), in 2019, the median state spending on Medicaid benefits per enrollee (regardless of their eligibility group) was $8,436. However, Minnesota spent $11,829 per enrollee — 40 percent more. For aged Medicaid enrollees, the median state spent $18,610 on Medicaid

benefits per enrollee but Minnesota spent $32,854 — over three quarters more. Minnesota spent $43,171 on benefits per enrollee with disabilities, double the median state figure of $21,372.

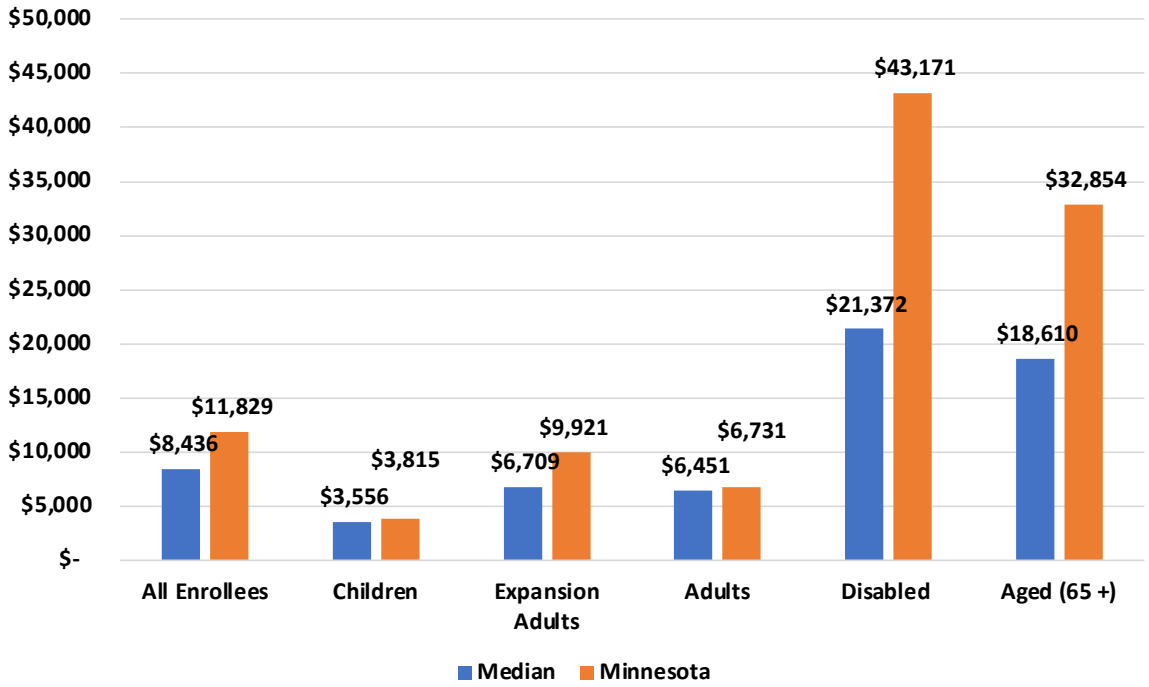
Certainly, among some categories of enrollees, Minnesota ranks well within the average. Among children and adults, for example, Minnesota ranked 21st and 23rd among the 50 states, respectively. But these slightly favorable numbers were eclipsed by Minnesota's ranking among enrollees that are more costly to cover on Medicaid, such as the elderly and the disabled. In 2019, Minnesota ranked first among the 50 states on Medicaid benefit spending per enrollee in the disabled category (Figure 9) and third on Medicaid benefit spending per enrollee in the aged category (Figure 10). And among the 32 states that had expanded Medicaid to adults under 65 through the Affordable Care Act (ACA)—which was passed in 2011 and extended Medicaid coverage to nearly all adults with incomes up to 138 percent of poverty) — Minnesota ranked third on Medicaid benefit spending per enrollee in the expansion group. Consequently, Minnesota ranked fourth on Medicaid benefit spending per average enrollee (Figure 11).

Medicaid Enrollment and eligibility standards

Enrollment: Compared to the rest of the nation, Minnesota also has a higher rate of Medicaid enrollment when adjusted for the population in poverty. In 2019, relative to the population with incomes under 200 percent of federal poverty, Minnesota's yearly average Medicaid enrollment rate was 88 percent — the 16th highest rate among the 50 states (Figure 12). The national average, as well as median rate was 76 percent, however, indicating that Minnesota targets people with higher incomes compared to other states. Indeed, compared to other states, Minnesota's income limits for Medicaid are much higher.

FIGURE 8

Medicaid Benefit Spending per Enrollee by Category of Eligibility, 2019

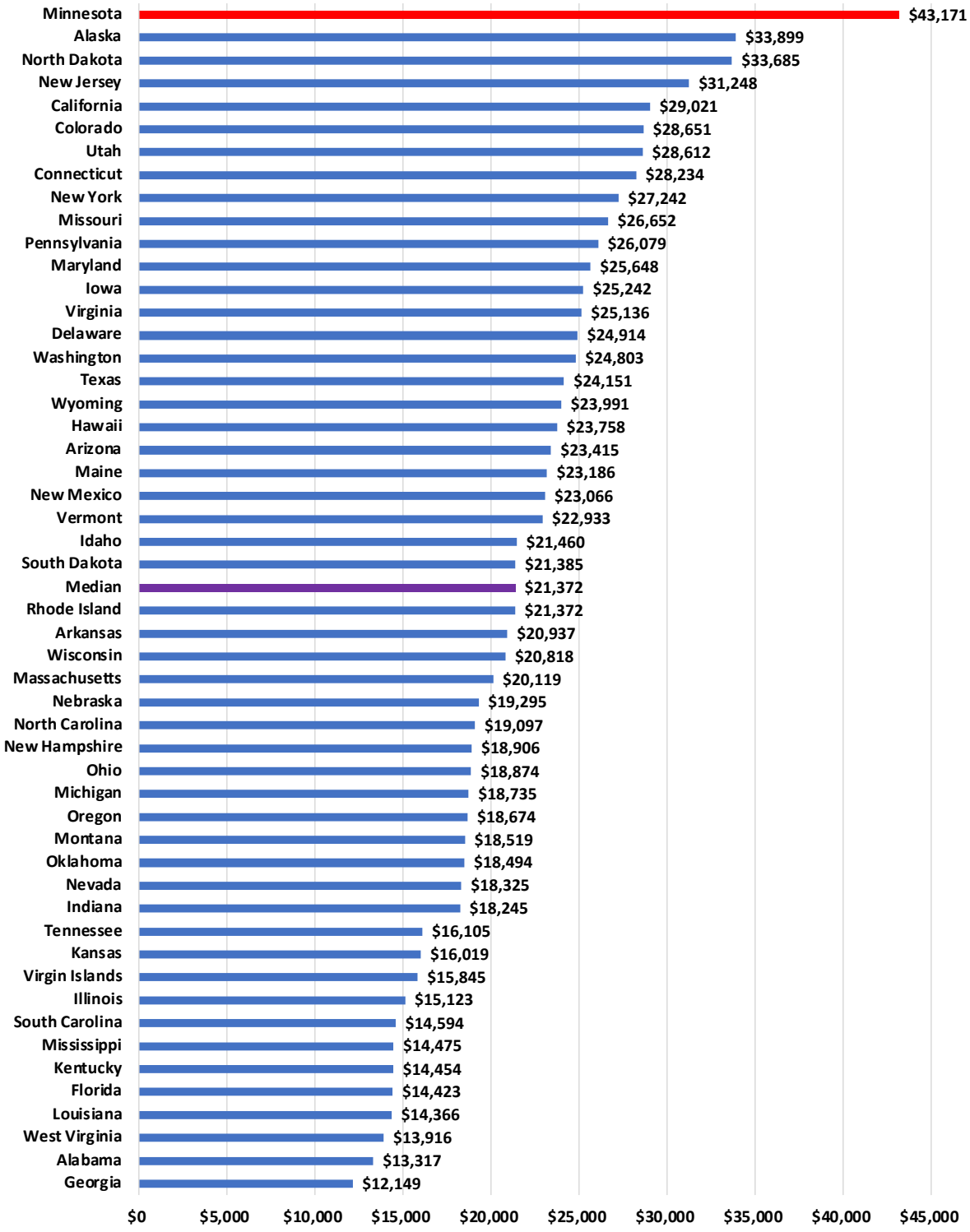


Source: Centers for Medicare and Medicaid Services[17]

Note: Net spending data does not include spending that cannot be linked to individual enrollees. This includes administrative spending, payments sent to hospitals that serve a large number of uninsured individuals and Medicaid enrollees, also known as Disproportionate Share Hospital Payments (DSH), among others.

FIGURE 9

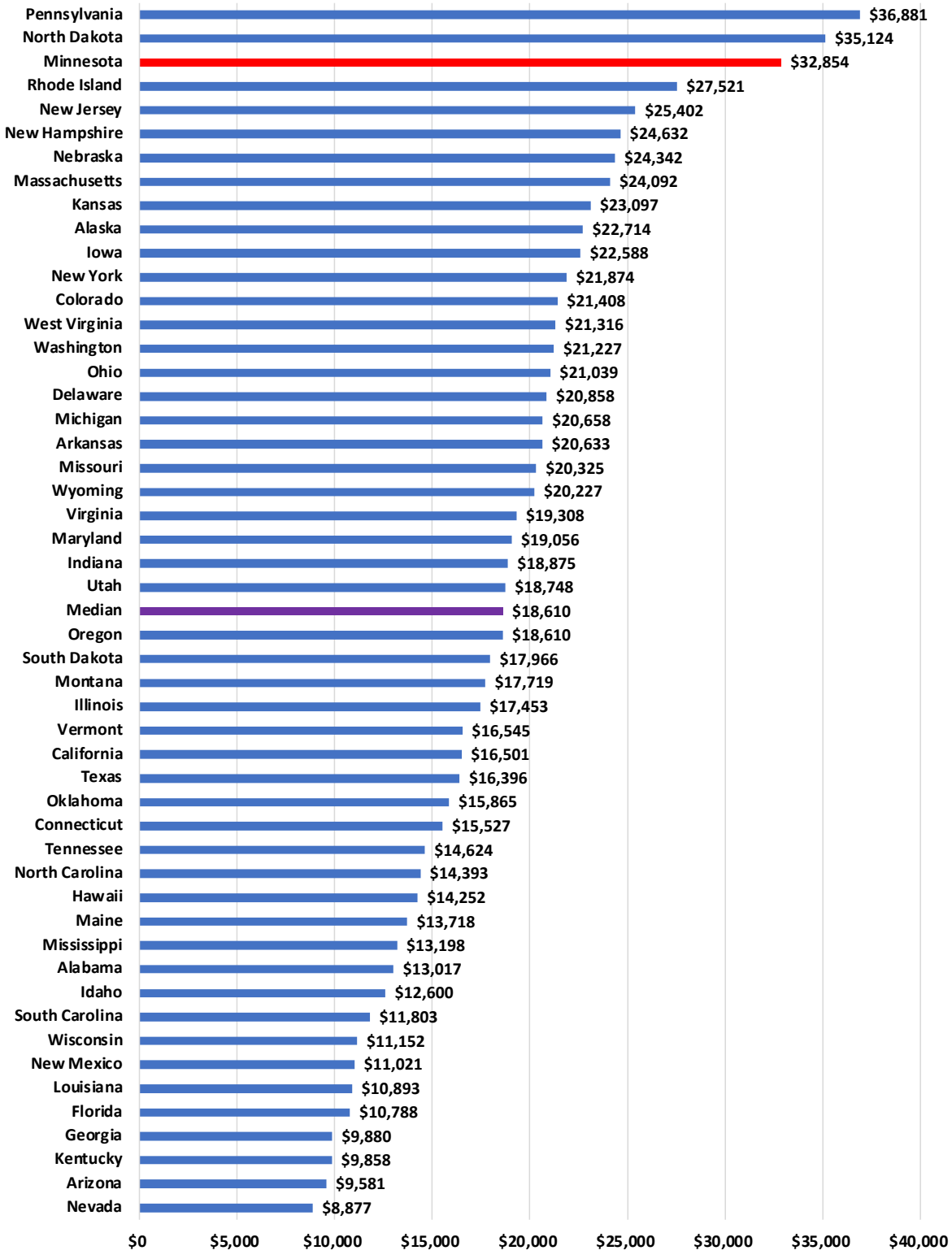
Medicaid Benefit Spending per Enrollee (Disabled), 2019



Source: Centers for Medicare and Medicaid Services (CMS)

FIGURE 10

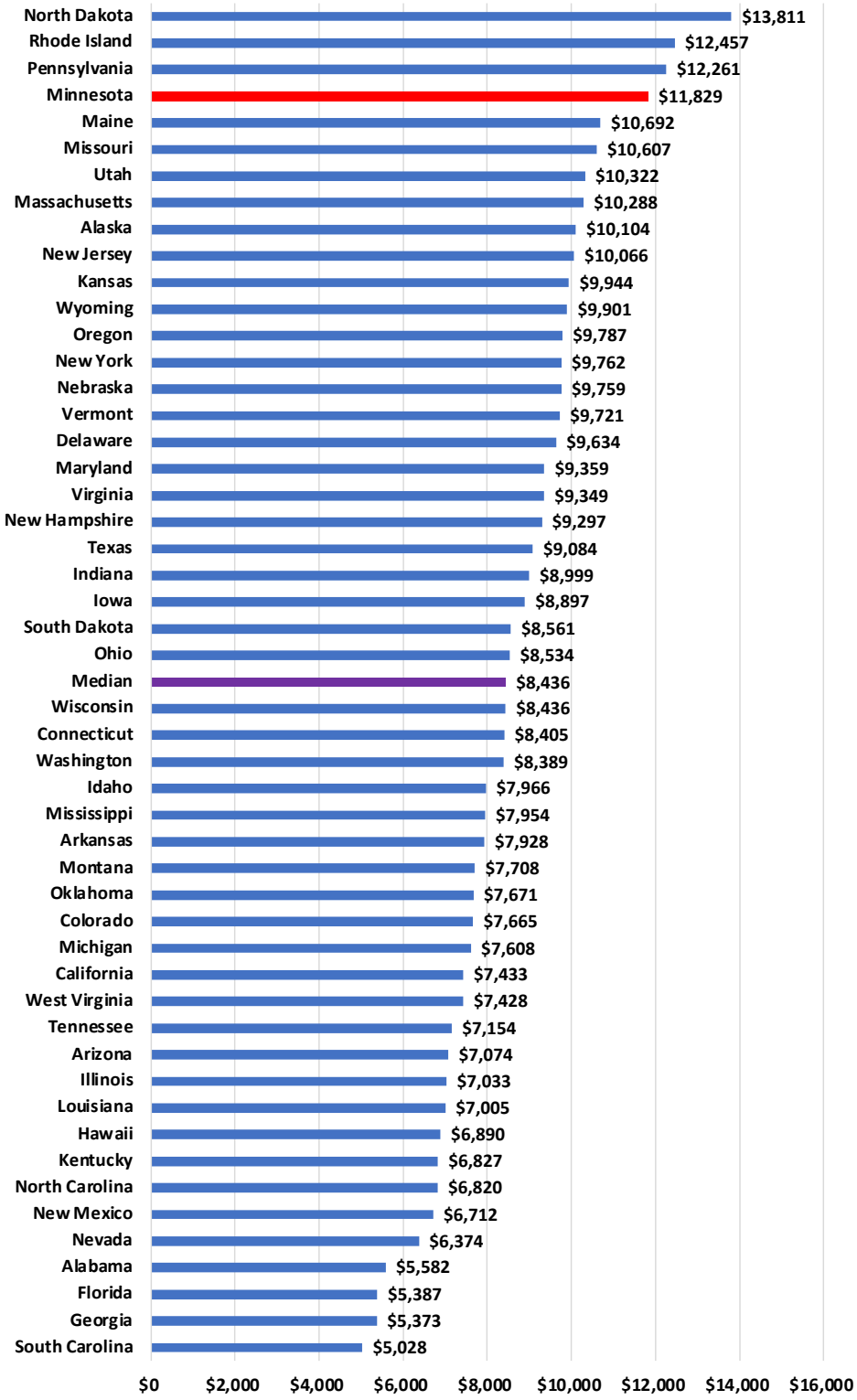
Medicaid Benefit Spending per Enrollee (Aged), 2019



Source: Centers for Medicare and Medicaid Services (CMS)

FIGURE 11

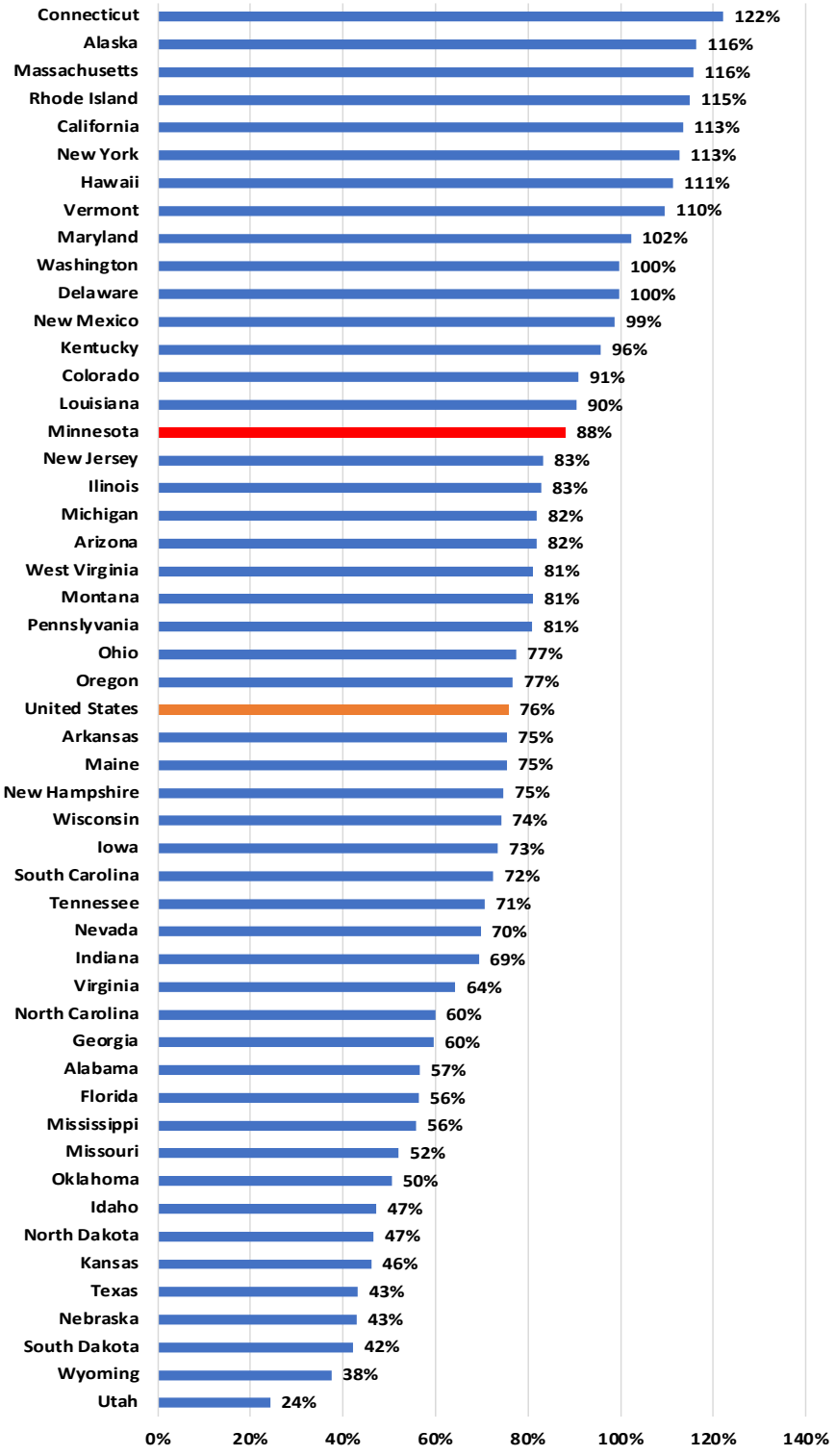
Medicaid Benefit Spending per Enrollee (All Enrollees), 2019



Source: Centers for Medicare and Medicaid Services (CMS)

FIGURE 12

Medicaid Enrollment as a Percent of the Population Living Below 200% of Federal Poverty, 2019



Source: U.S. Census Bureau; Medicaid and CHIP Payment and Access Commission (MACPAC)

Eligibility Standards: Administratively, income eligibility limits for Medicaid are expressed as a percentage of Federal Poverty Guidelines (FPG). Often referred to as the Federal Poverty Level (FPL), the FPG is a simplified poverty measure that the U.S. Department of Health and Human Services creates — using Census Bureau Poverty thresholds — and uses to determine eligibility for various assistance programs such as Medicaid and CHIP. Unlike the US Census Bureau's statistical measure of poverty, the FPG does not vary by age and is not consistent across states. Among the 50 states, Alaska has the highest FPG, followed by Hawaii, and then the other 48 state as well as Washington, D.C. who all share the same FPG.

And as shown in Table 2, in 2019, Minnesota children under 18 in families with incomes up to 275 percent of FPL were eligible for Medicaid.[14] But in many states, the income cut-off was much lower. In fact, Minnesota's income eligibility limit in each child age group was among the top five in the country. When broken down by age, Minnesota's income limit for children aged one to five (275 percent) was 87 percent higher than that of the Median state (146 percent), and for children aged 6 to 18 (275 percent), it was two times that of the median state (133 percent). For infants, Minnesota's income limit (275 percent) was a little over 40 percent higher than that of the Median state (194 percent).

The same is true for pregnant women and deemed newborns (babies born to women enrolled in Medicaid). Minnesota's income eligibility limit for this group (278 percent) was the fourth highest in the country — and over 40 percent higher than the Median state limit (195 percent). Income limit for parents and caretaker relatives with dependent children (133 percent) was only surpassed by Connecticut and was 183 percent higher than the median state limit (45 percent). Among states that have expanded Medicaid, coverage is offered to all adults with incomes of up to 133 of poverty, as per federal law. However, Minnesota is one of only two states that have a Basic Health Program (BHP). The program — called MinnesotaCare — covers adults with incomes between 133 and 200 percent of poverty and has no asset limit.[15]

Among enrollees who qualify based on age or disability, states have three types of eligibility standards that they can use. SSI and Section 1634 states enroll individuals into Medicaid if they receive Supplemental Security Income (SSI). Minnesota is a 209(b) state, so it uses a different type of criteria which is allowed at the federal level under Section 1902(f) of the Social Security Act. All three criteria combined, as a percentage of FPL, Minnesota has a higher income threshold for aged, blind, and disabled Medicaid applicants than all states except for three.

In addition to SSI, Section 1634 and 209(b), states can also provide Medicaid to the aged and disabled through some optional pathways. Under the poverty-level option, states can provide Medicaid coverage to individuals whose income is above SSI but below poverty, which Minnesota does. States can also provide coverage to medically needy individuals — people who incur high medical expenses but whose incomes are otherwise too high to qualify. Minnesota's limit is also one of the highest among states that offer that option. The other option, special income, allows for people with functional needs and high incomes to qualify for Medicaid institutional and/or home-based Long-Term Service and Supports (LTSS). Here, Minnesota's income limit is well within the average range.

Following the pandemic, these eligibility standards have not significantly changed, except for two. Minnesota's mandatory 209(b) income threshold for the aged and disabled was up from 81 percent in 2019 to 100 percent of FPL in 2023, the highest eligibility threshold among the states. The eligibility income threshold for the medically needy option has gradually declined from 81 percent in 2019, reaching 40 percent in 2023, which is the median among the states. Overall, it's safe to say that Minnesota remains among the most generous states when looking at Medicaid income limits.[16]

CHIP

In 1997, Congress created the Children's Health Insurance Program (CHIP) to provide health insurance coverage to children whose family incomes were too

TABLE 2

Income Eligibility Limits for Medicaid as a Percent of FPL by Category, 2019

	Children and Pregnant Women				Non-aged, non-disabled, non-pregnant adults		65 and older, and persons with disabilities			
State	Infants under age 1	Age 1–5	Age 6–18	Pregnant women and deemed newborns	Parents and caretaker relatives of dependent children	Additional individuals age 19–64	SSI recipients and § 209(b) eligibility criteria	Poverty level	Medically needy	Special income level
Alabama	141	141	141	141	13	–	74	–	–	222
Alaska	177	177	177	200	135	133 (age 19-20 only: 135%)	59	–	–	178
Arizona	147	141	133	156	106	133	74	100	–	222
Arkansas	142	142	142	209	17	133	74	80 (aged only)	10	222
California	208	142	133	208	109	133	74	100	58	–
Colorado	142	142	142	195	68	133	74	–	–	222
Connecticut	196	196	196	258	150	133	61	–	61	222
Delaware	212	142	133	212	87	133	74	–	–	185
Florida	206	140	133	191	28	Age 19–20 only: 28	74	88	17	222
Georgia	205	149	133	220	32	–	74	–	30	222
Hawaii	191	139	133	191	105	133	64	100	39	–
Idaho	142	142	133	133	23	-	74	77	–	222
Illinois	142	142	142	208	133	133	100	100	100	–
Indiana	208	158	158	208	19	133	74	100	–	222
Iowa	375	167	167	375	51	133	74	–	46	222
Kansas	166	149	133	166	33	-	74	–	46	222
Kentucky	195	142	133	195	24	133	74	–	21	222
Louisiana	142	142	142	133	19	133	74	–	10	222
Maine	191	157	157	209	51	133 (age 19–20 only: 156)	74	100	30	222
Maryland	194	138	133	259	33	133	74	–	34	222
Massachusetts	200	150	150	200	24	133 (age 19–20 only: 150)	74	100 (aged); 133 (disabled)	50	222
Michigan	195	160	160	195	54	133	74	100	39	222
Minnesota	275	275	275	278	133	133	81	100	81	222
Mississippi	194	143	133	194	23	-	74	–	–	222
Missouri	196	148	148	196	17	–	83	85	85	130
Montana	143	143	133	157	24	133	74	–	50	–
Nebraska	162	145	133	194	58	-	74	100	38	–
Nevada	160	160	133	160	31	133	74	–	–	222
New Hampshire	196	196	196	196	64	133	75	–	57	222
New Jersey	218	142	142	194	30	133	74	100	35	222
New Mexico	240	240	190	250	43	133	74	–	–	222
New York	218	149	149	218	133	133	74	83	83	–
North Carolina	210	210	133	196	42	Age 19–20 only: 42	74	100	23	–
North Dakota	147	147	133	147	50	133	83	–	83	–
Ohio	156	156	156	200	90	133	74	–	–	222
Oklahoma	205	205	205	133	39	-	74	100	–	222
Oregon	185	133	133	185	38	133	74	–	–	222
Pennsylvania	215	157	133	215	33	133	74	100	41	222
Rhode Island	190	142	133	190	116	133	74	100	86	222
South Carolina	194	143	133	194	62	-	74	100	–	222
South Dakota	182	182	182	133	54	–	74	–	–	222
Tennessee	195	142	133	195	98	–	74	–	–	222
Texas	198	144	133	198	15	–	74	–	–	222
Utah	139	139	133	139	42	-	74	100	100	222
Vermont	312	312	312	208	52	133	74	–	111	222
Virginia	143	143	143	143	47	133	74	80	47	222
Washington	210	210	210	193	40	133	74	–	74	222
West Virginia	158	141	133	158	18	133	74	–	19	222
Wisconsin	301	186	133	301	95	95	74	81	57	222
Wyoming	154	154	133	154	52	–	74	–	–	222
Median	194	146	133	195	45		74	100	47	222

Note: A dash means the state does not use that eligibility pathway; pregnant women and deemed newborns can either be covered by CHIP or Medicaid. So, eligibility levels for that group is for both Medicaid and CHIP, for states that do not have separate CHIP eligibility levels; deemed newborns are defined as "infants up to age one who are deemed eligible for Medicaid or CHIP—with no separate application or eligibility determination required—if their mother was enrolled at the time of their birth". Under the special income level option, states have the option to provide Medicaid benefits to people who require at least 30 days of nursing facility or other institutional care and have incomes up to 300 percent of the SSI benefit rate (which was about 222 percent FPL in 2019). The income thresholds listed in this column may be for institutional services, home- and community-based waiver services, or both.

Source: Medicaid and CHIP Payment and Access Commission (MACPAC)

high to qualify for Medicaid but could not otherwise afford private health insurance coverage. Like Medicaid, CHIP is also jointly funded by the states and the federal government, and among the states, it can be run as an expansion of Medicaid, a separate program, or a combination of both. In Minnesota, CHIP is run both as a Medicaid-expansion program and as a separate program. And much like Medicaid, states have some flexibility in how they set and run the CHIP program, leading to varying spending and eligibility levels.

When CHIP was created, Minnesota's Medicaid program already covered most of the children for whom CHIP was intended. The Minnesota legislature, therefore, used CHIP to "extend benefits to a small group of children who did not have coverage at the time: those under age 2 with family incomes between 275 percent and 283 percent of the federal poverty line (FPL)."[17] Over time Congress changed CHIP rules and extended coverage to pregnant women not covered under Medicaid and allowed CHIP funds to be used for children with incomes over 133 percent of poverty who were already enrolled in Medicaid. So, Minnesota CHIP funding has been mainly used for infants, unborn children, and pregnant women — a testament to how generous Minnesota's Medicaid program has historically been. Due to these differences in how CHIP funding is used, per person spending numbers would not provide appropriate figures for comparison between states. However, when considering people covered under CHIP among the states, Minnesota's eligibility limits are unsurprisingly among the highest in the country, making both Medicaid and CHIP outliers.

In 2019, for example, Minnesota infants under age 1 were eligible for CHIP-funded Medicaid expansion coverage for incomes up to 283 percent of FPL.[18] This upper limit was only surpassed by five states. Similarly, for pregnant women and deemed newborns, the upper income limit for eligibility into the CHIP funded Medicaid-expansion program was 278 percent of FPL — fifth highest among the 50 states. For unborn children, the income limit was also 278 percent of FPL, fourth highest among the 16 states that had a similar arrangement for that eligibility category.

Cash Assistance

Temporary Assistance for Needy Families (TANF) is the country's main cash assistance program. In Minnesota, TANF is administered under the name Minnesota Family Investment Program (MFIP). Before TANF was created in 1996, Aid to Families with Dependent Children (AFDC) was the country's main cash assistance program. TANF was created in 1996 with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), a welfare reform bill that emphasized work and personal responsibility as part of the welfare system.[19] When it was established in 1996, the TANF program had four main goals

1. Assist needy families so that children can be cared for in their own homes.
2. Reduce dependence by promoting job preparation, work, and marriage.
3. Prevent out-of-wedlock pregnancies.
4. Encourage the formation and maintenance of two-parent families.

Because TANF was intended to get families off welfare through self-sufficiency and work, it differs significantly from its predecessor, the AFDC. For one, unlike AFDC which provided cash benefits to individuals indefinitely, TANF beneficiaries are generally subject to a five-year lifetime limit. And unlike AFDC, states have more flexibility in how they can set up their programs. States can decide eligibility levels, levels of benefits, and how they divide funds among numerous programs. States can also extend benefits beyond the 60-month lifetime limit set by federal rules, with some restrictions. Additionally, unlike AFDC, states are required to engage TANF recipients in more strict work activities and meet minimum Work Participation Rates (WPR) — which can be reduced if states reduce their TANF caseloads or spend more than their required Maintenance of Effort (MOE) amounts.

Minnesota TANF spending

Consistent with its goal of getting families to work, TANF also provides other forms of assistance mainly meant to encourage and support working parents. These include childcare, subsidized employment

and education training. States have flexibility in how much they spend on each program, and how much to allocate to cash assistance. But looking specifically at the cash portion of TANF, much like with Medicaid, Minnesota is also more generous compared to other states. As shown in Figure 13, in 2019, the maximum benefit that a family of three (with one parent and no income) could receive in Minnesota under MFIP was $532.[20] This was higher than both the median ($477) and average ($471) maximum monthly benefit and was the 18th highest among the 50 states. For the most recent year for which data is available, 2021, Minnesota's maximum monthly TANF benefit (for a family of three with no income) was raised to $632, making it the 12th highest among the 50 states.[21]

Compared to other states, Minnesota also dedicates a bigger share of its budget to TANF in general, and specifically to cash assistance programs. As shown in Figure 14, for example, in 2019 Minnesota spent 0.3 percent of its general funds on TANF, according to NASBO. Minnesota's general fund spending on TANF was nearly two times the share of the budget for the Median state, and slightly above average. But this was mainly because the average was pushed up by a couple of high-spending states like New Hampshire and Massachusetts. Minnesota's total spending on TANF as a share of all spending was also two times that of the median state and 30 percent higher than that of the average state.

For other cash assistance programs outside of TANF, like Minnesota Supplemental Aid (MSA) — a program that supplements income for people who are eligible for the Federal Supplemental Security Income (SSI) —and General Assistance (GA), a program which provides income to individuals who cannot work due to disability or age, Minnesota spent 0.4 percent of general funds. This is 200 percent more than what the median state spent and 11 percent higher than what the average state spent. This trend has generally persisted both during and after the coronavirus pandemic.

NASBO's TANF spending data is somewhat incomplete because it does not provide total TANF spending. But the same trend persists with cash assistance when considering U.S. Census Bureau data — which includes spending from all sources, including federal funds. As shown in Figure 16, in 2019, Minnesota spent 1.2 percent of total state and local direct general expenditure on cash assistance payments. The median value among the states was less than half a percent. The same was true in 2021. Minnesota's spending on cash assistance payments as a share of total direct general spending was more than three times that of the median state.

TANF eligibility standards

In addition to being an outlier on spending, Minnesota's TANF income eligibility levels are also high. In 2019, the maximum monthly income that a family of three (with one parent) could earn and still be eligible for benefits was $2,231.[22] This was the highest income limit in the country, and over two times higher than the median state limit of $857 as shown in Figure 16. In 2021, the maximum income for eligibility for the same family makeup in Minnesota was $2,413, again the highest limit in the country, by far.

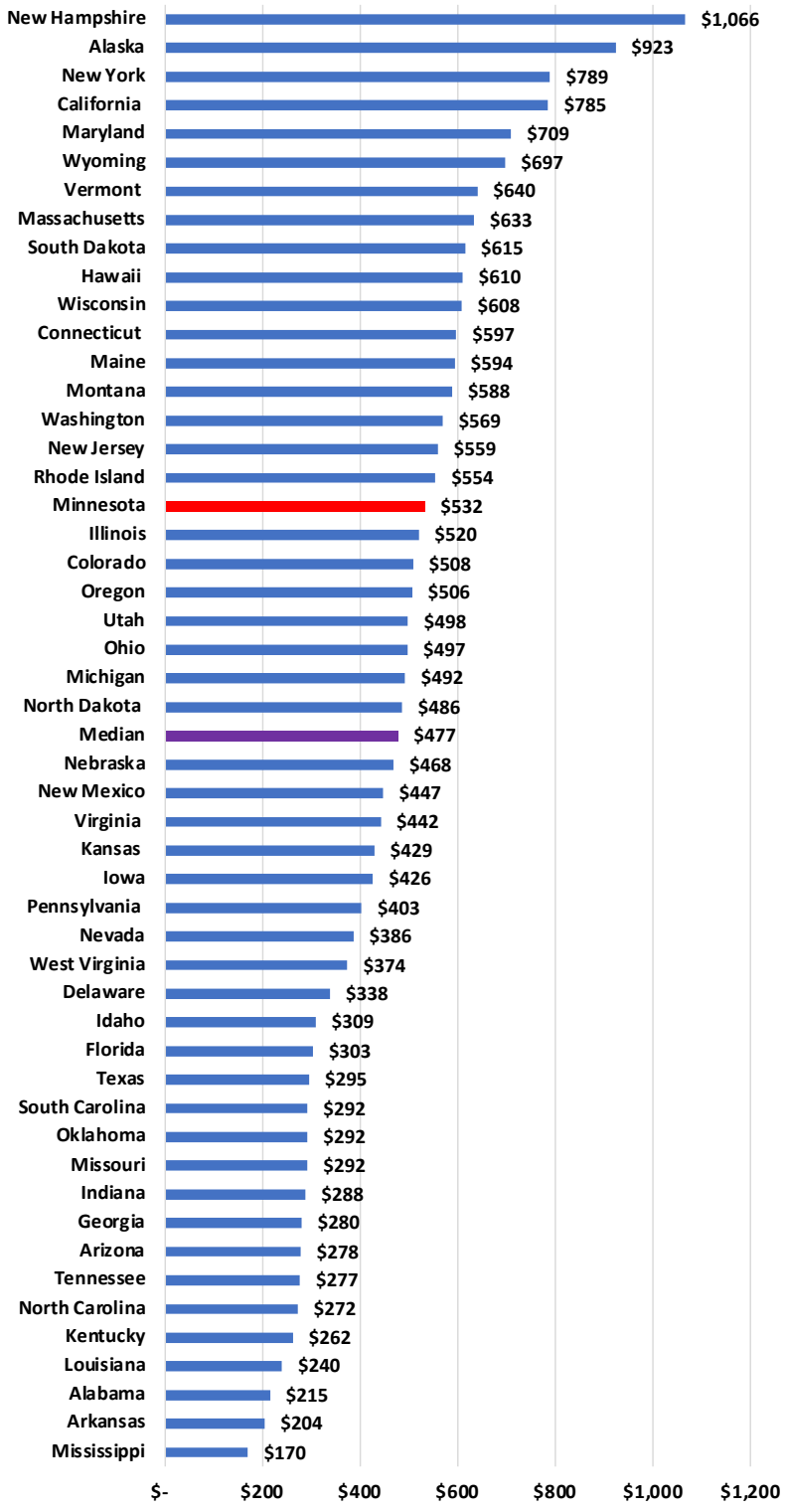
Childcare Assistance

The US federal government and states have multiple programs through which they assist families to access early childhood education. At the federal level, childcare assistance is provided mainly through the ChildCare and Development Fund (CCDF) — a program that consolidated multiple childcare schemes in 1997, after the passage of PROWRA. In addition to programs under CCDF, the Head Start Program provides comprehensive developmental services, including early childhood education, to children under five and pregnant mothers.

CCDDF funding comes from three main sources: the Childcare and Development Block Grant (CCDBG); Childcare Entitlement to States (CCES), which is funded through the Social Security Act; and TANF. CCDF has four types of funds: discretionary, matching, mandatory, and state MOE funds. Discretionary funds mainly come from the CCDBG, which is the country's main funding source for childcare assistance. But states can also transfer up to 30 percent of federal TANF funds to CCDF, which are counted as part of discretionary funding.

FIGURE 13

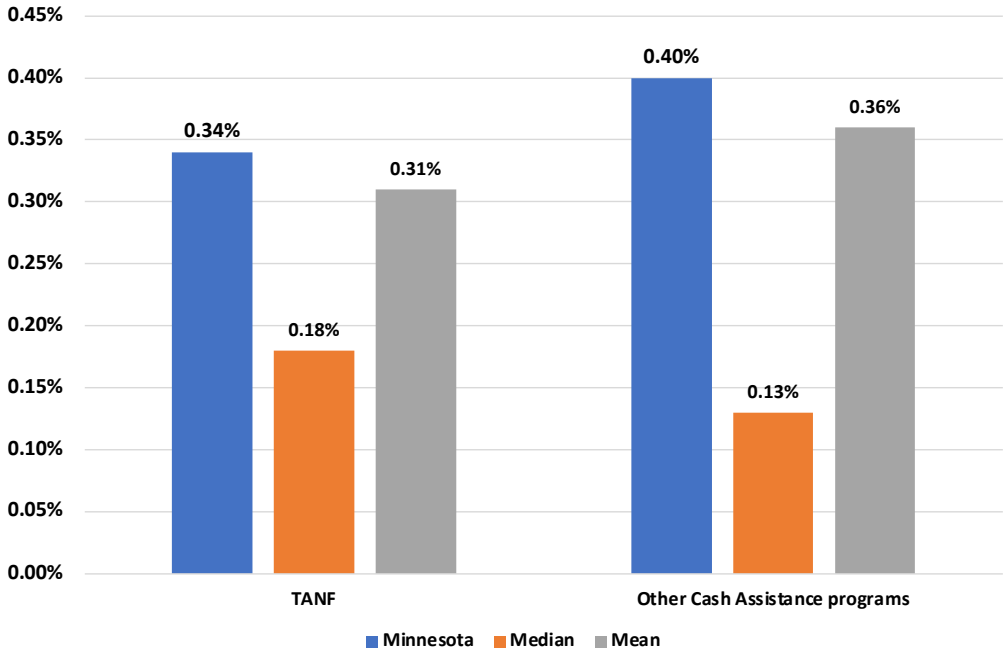
Maximum Monthly TANF Benefit for a Family of Three with No Income, 2019



Source: The Urban Institute

FIGURE 14

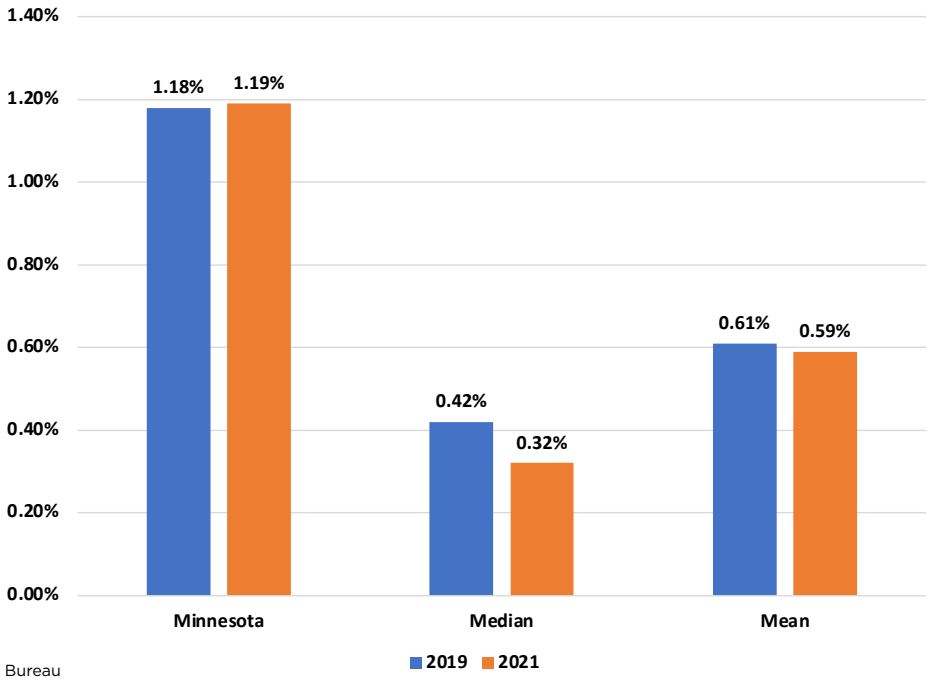
Spending on Cash Assistance as a Share of General Fund Spending, FY 2019



Source: National Association of State Budget Officers (NASBO)

FIGURE 15

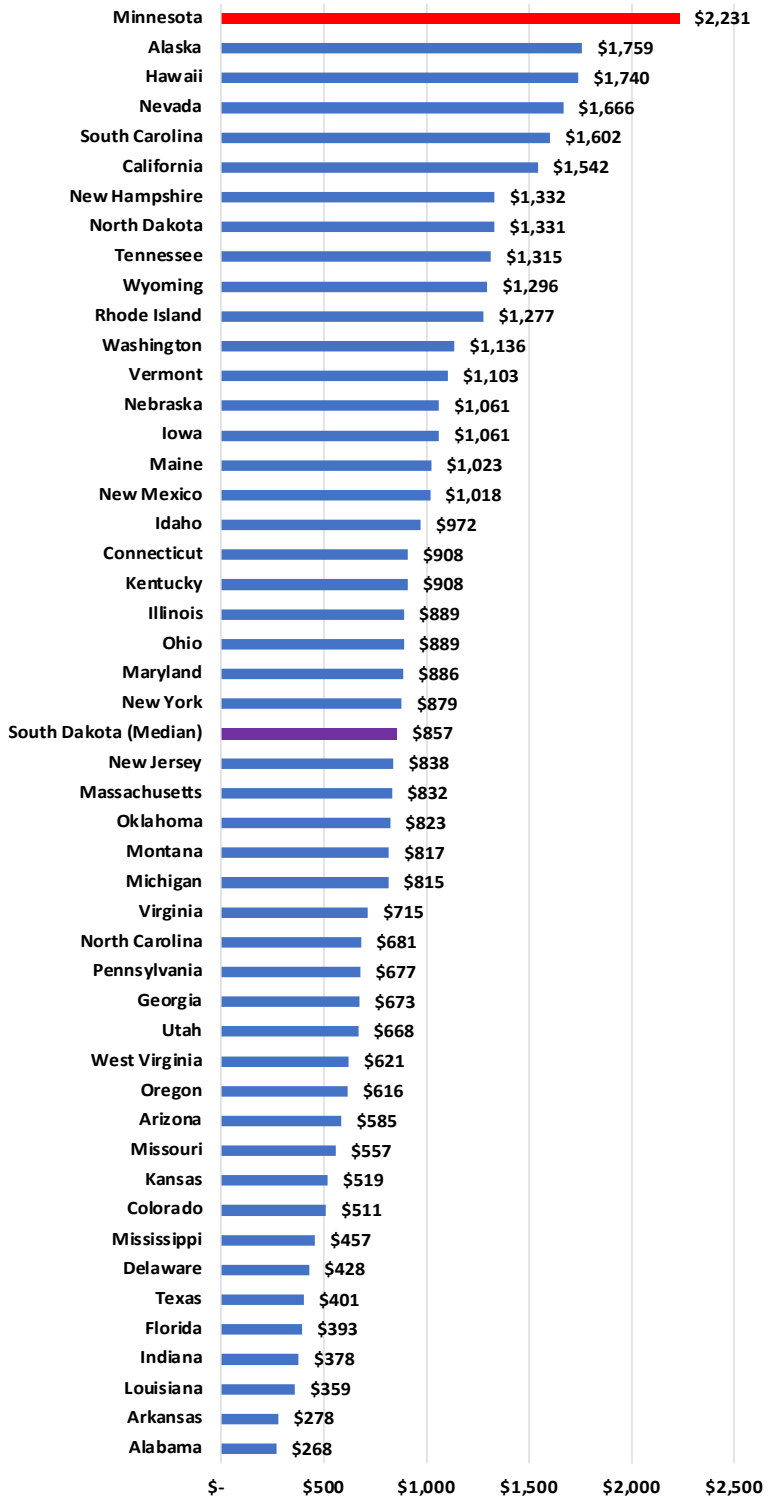
Spending on Cash Assistance as a Share of Total Direct General Expenditure, FY 2019 and FY 2021



Source: U.S. Census Bureau

FIGURE 16

Maximum Monthly Earnings a Family of Three Could Have and Still be Eligible for TANF Cash Assistance



Source: The Urban Institute

Mandatory and matching federal funds come from the CCES. States must provide matching funds for the matching portion of the CCES funding, usually at the Medicaid matching rate called the Federal Medicaid Assistance Percentage (FMAP). In addition, states must satisfy a Maintenance of Effort (MOE) rule which requires them to maintain their pre-1996 level of spending on childcare programs. And apart from transferring federal funds to CCDF, states can use federal TANF and state TANF MOE funds directly on childcare, as well.

Typically, federal discretionary and matching funds are apportioned based on demographic factors like the number of young children, the share of children receiving free or reduced-price lunch, and per capita income levels. After controlling for child poverty, childcare spending still differs across the country because states can exceed MOE requirements for mandatory funds and matching requirements for CCES funds. States can also dedicate extra funds outside of TANF MOE requirements to state childcare programs.

How Minnesota compares

In 2019, Minnesota's total CCDF childcare spending was $198.6 million, of which $138 million was from the federal government and $60 million was state spending from matching and MOE requirements. But outside of CCDF, Minnesota also spent about $117 million on TANF MOE directly on childcare. However, because states can use the same funds to fulfill TANF MOE and CCDF MOE requirements, funds can be double counted. So, only TANF MOE funds above CCDF MOE are counted, which in this case is about $98 million. In total Minnesota spent $296 million on childcare from both CCDF and TANF direct spending.

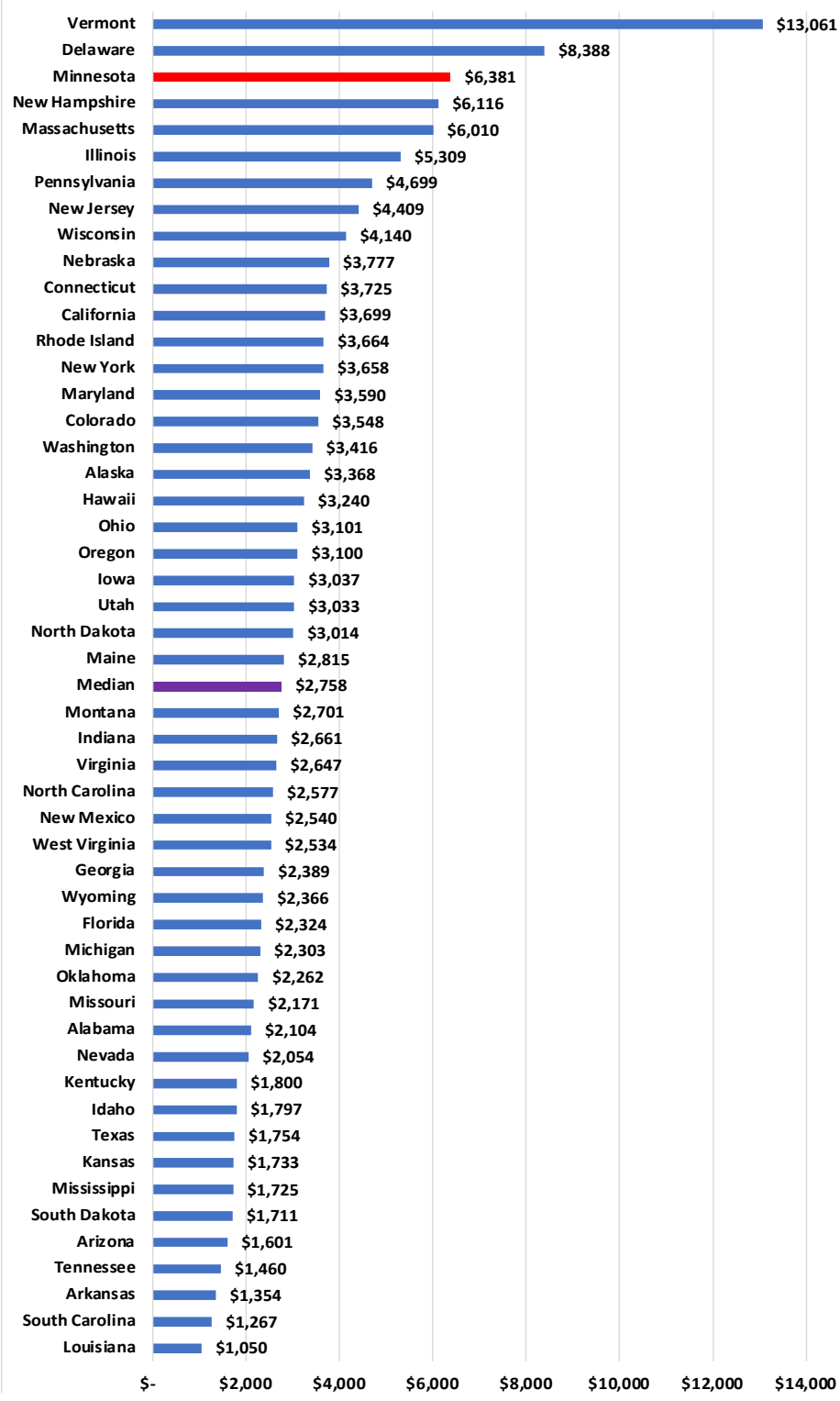
Compared to the rest of the country, Minnesota's CCDF and TANF spending on childcare was the 13th highest. And when controlled for the number of children under 6 living in poverty, Minnesota spent an equivalent of $6,381 in CCDF and TANF funds per child (Figure 17). This is the third highest amount among the 50 states, and more than double the median state amount. Not every young child living in poverty uses childcare assistance, and childcare funds can also be used on older children, but young children still serve as a meaningful benchmark since childcare assistance programs mainly target children younger than six. Overall, Minnesota served a higher proportion of children in poverty on CCDF (44 percent) compared to the average (38 percent) and median (36 percent) state. That remains true even after counting older children. And while spending per child goes down when older children are accounted for, Minnesota still ranks at the top.

Head Start is primarily funded by the federal government on a per-child basis, funding for which states are required to provide a 20 percent match unless they apply for a waiver. But in addition to these federal funds and required state matching funds, states can also dedicate extra state funds to expand their Head start program and increase the number of children enrolled, which Minnesota does. In 2019, Minnesota was one of only nine states to dedicate extra state funds to its Head start program to enroll more children.[23]

In addition to providing extra state funds for Head Start, Minnesota offers free or low cost publicly funded Pre-k mainly targeted to at-risk and/or low-income 3- and 4-year-olds in the state through its Voluntary Pre-Kindergarten and School Readiness Plus (SRP) Programs. According to a report by Rutgers University's National Institute for Early Childhood Research, in the 2018-2019 school year, Minnesota spent $6,738 (adjusted for state cost of living differences) per child enrolled in its state funded Pre-K programs. Minnesota ranked 11th among the 50 states and surpassed the national average spending per child of $5,374.[24] This spending does not include money which Minnesota spent on other state programs, such as $68 million on early learning scholarships — a program that provides low-income parents with scholarships to access highly rated childcare programs. Suffice it to say, much like with its healthcare and cash assistance programs, Minnesota is also generous with its childcare assistance programs. ■

FIGURE 17

CCDF and TANF Childcare Spending per Child Under Six Living Below Poverty, FY 2019



Source: U.S. Census Bureau American Community Survey; US Department of Health and Human Services

Part IV: How Welfare Spending Has Grown

Not only does welfare take a considerable share of the Minnesota state budget, it has also grown in absolute terms and when adjusted for the population in poverty. Additionally, growth in Minnesota's welfare spending has generally exceeded growth in spending on other programs.

To analyze welfare spending, the report utilizes data from the U.S. Census Bureau, as well as the MMB. Specifically, the report looks at welfare spending growth in the two most recent decades, starting from the year 2000. As shown in Figure 18, data from the U.S. Census Bureau shows that in the 19-year period between 2000 and 2019, spending on public welfare grew 92 percent in inflation adjusted terms — surpassing all other spending categories.[25] In 2021, spending on public welfare was more than double what it was in 2000. Consequently, while other spending categories have seen their share of the budget shrink or stay the same, welfare has seen its share of the budget grow disproportionately.

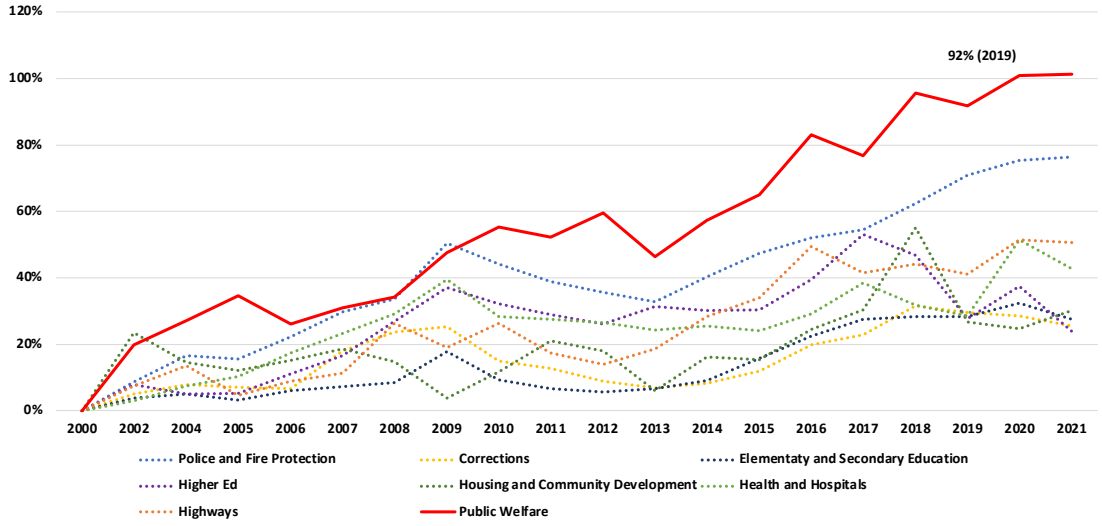
For example, while in FY 2000 spending on public welfare made up 19.2 percent of total direct general expenditure, in 2019, its share was 27.2 percent — a growth rate of 42 percent (Figure 19). By contrast, six of the eight major general fund spending categories saw their share of spending shrink in the same period. Apart from welfare, only spending on highways grew as a share of direct general expenditure, but by only 4 percent, going from 7.7 percent in 2000 to 8 percent in 2019. Nationally, state and local spending on public welfare as a share of total direct general spending also grew at a similar rate between 2000 and 2019, but the share of direct general spending that the U.S. dedicates to public welfare remains lower than that of Minnesota, even in 2021 (Figure 20).

State data from MMB shows a similar trend. In the 19-year period between 2000 and 2019, HHS spending as a share of general funds grew from 23 percent to 29 percent — a growth rate of 26 percent (Table 3). As a share of general funds, spending only grew for two programs and stayed the same or shrank for all the other spending categories.[26] HHS' share of spending was even higher in FY 2023 at 30 percent. Similarly, looking at all state spending — which includes federal funds and other state funds outside of general funds — HHS spending as a share of the budget went from 31 percent in FY 2000 to 42 percent in FY 2019 — a growth rate of 35 percent.

[B]etween 2000 and 2019, spending on public welfare grew 92 percent in inflation adjusted terms — surpassing all other spending categories.

FIGURE 18

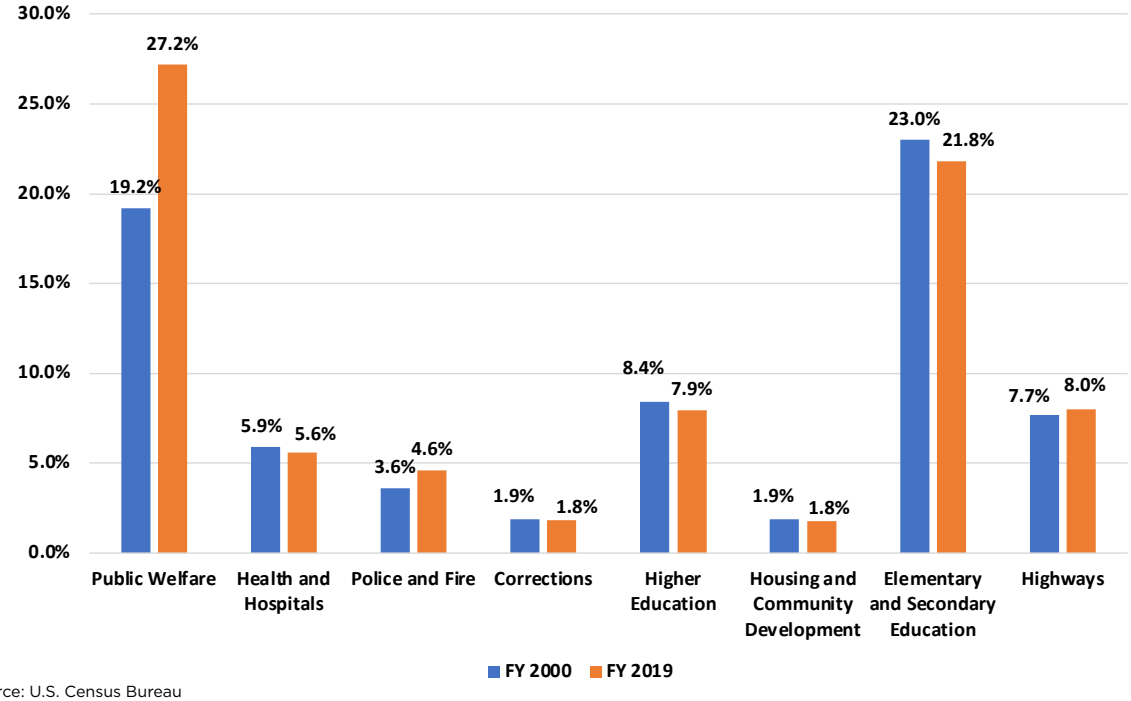
Cumulative Growth in Minnesota's State and Local Direct General Expenditure by Category, FY 2000 – FY 2021 (2000=0)



Source: Urban-Brookings Tax Policy Center State and Local Finance Data tool reporting U.S. Census Bureau Data

FIGURE 19

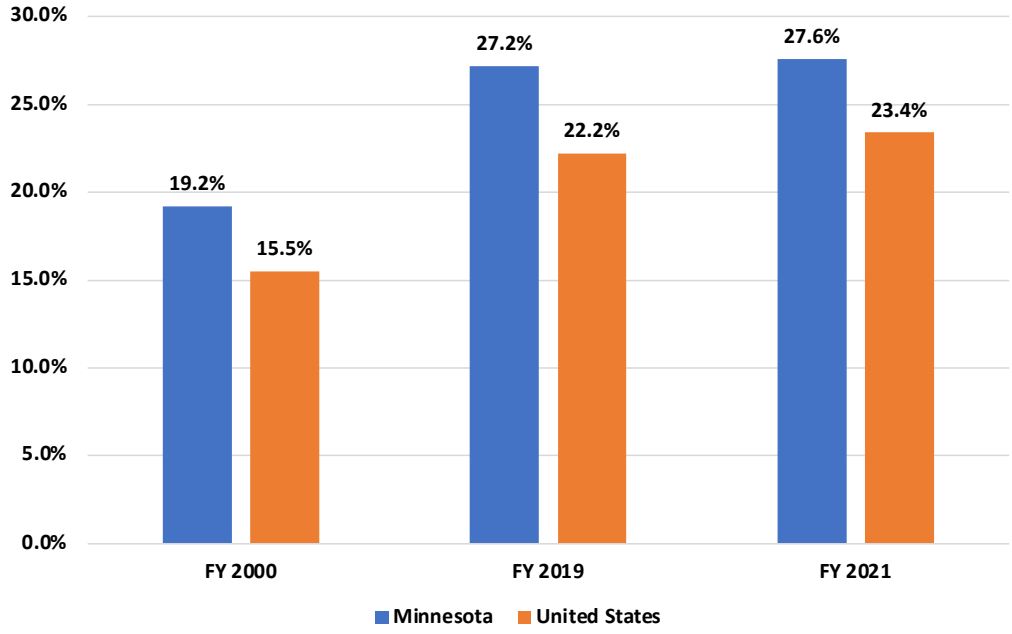
State and Local Spending by Program as a Share of Total Direct General Expenditure, Minnesota, FY 2000 vs. FY 2019



Source: U.S. Census Bureau

FIGURE 20

State and Local Spending on Public Welfare as a Share of Total Direct General Expenditure, FY 2000, FY 2019 and FY 2021



Source: U.S. Census Bureau

Only spending on the state government and veterans grew as a share of the budget by one percentage point. State government and veterans, however, only takes up four percent of total state spending. In 2023, HHS spending remained elevated at 46 percent — growing by 10 percent since 2019. Only spending on state government and veterans grew between 2019 and 2023, while six of the remaining seven spending categories shrank or remained the same (Table 4).[27]

Growth in welfare spending per person in poverty

The American Community Survey (ACS), which provides official poverty data for states, was fully implemented in 2005. So, analysis on growth in welfare spending per person in poverty in this report is limited to the period beginning 2005. For the population living below 100 percent of federal poverty, data is available through the U.S. Census Bureau. However, for the population with incomes below 200 percent of federal poverty, ACS poverty data going as far back as 2005 is available through the Minnesota Population Center's Integrated Public Use Microdata Series (IPUMS), and closely matches poverty data provided directly by the U.S. Census Bureau.

Only spending on state government and veterans grew... while six of the remaining seven spending categories shrank or remained the same.

According to the data, in 2005, Minnesota spent the equivalent of $10,510 on public welfare per person living below 200 percent of federal poverty. This was the highest spending level among the 50 states. Between 2010 and 2019, Minnesota's spending grew 33 percent, from $10,510 to $13,940, as shown in

TABLE 3

Share of General Fund Spending by Category, FY 2000, FY 2019 and FY 2023

Spending Category	FY 2000	FY 2019	FY 2023
E-12 Education	38%	42%	37%
Higher Education	11%	7%	6%
Property Tax Aids and Credits	11%	8%	9%
Health and Human Services	23%	29%	30%
Public Safety and Corrections	3%	3%	5%
Environment, Ag, and Housing	2%	1%	1%
Economic & Workforce Development	2%	1%	2%
Transportation	1%	1%	1%
General Government	4%	5%	4%

Source: Minnesota Management and Budget

TABLE 4

Share of Total State Spending by Category, FY 2000, FY 2019 and FY 2023

Spending by Category	FY 2000	FY 2019	FY 2023
E-12 Education	26%	25%	21%
Higher Education	8%	4%	3%
Property Tax Aids and Credits	9%	5%	5%
Health and Human Services	31%	42%	46%
Public Safety and Judiciary	4%	3%	3%
Economic Development, Energy, Environment, Ag and Housing	7%	5%	5%
State Government and Veterans	2%	3%	4%
Transportation	9%	9%	8%

Source: Minnesota Management and Budget

Figure 21. While this is below the U.S. growth rate, Minnesota maintained its lead over the nation in the whole period between 2005 and 2019. In 2010, for instance, Minnesota's spending on public welfare per person below 200 percent of federal poverty was double the national average of $5,224. While that gap shrunk slightly in 2019, Minnesota still spent three-quarters more per person than the U.S. average of $8,019. Spending was higher for both Minnesota and the U.S. in 2021 but grew at a higher rate for the nation than for Minnesota which shrunk the gap to two thirds.

Similarly, for the population living below the poverty line, in 2005, Minnesota spent on equivalent of $26,130 on public welfare per person. This was the fourth highest spending level among the 50 states. Between 2005 and 2019, Minnesota's state and local spending on public welfare per person in poverty grew 32 percent, from $26,130 to $34,379, as shown in Figure 22. Minnesota still maintained its lead over the nation during that period. In 2005, for example, Minnesota spent more than double the U.S. average of $12,351. In 2019, that gap shrank, but Minnesota still spent 82 percent more than the national average of $18,882 on public welfare per person below poverty.

Minnesota's welfare system has historically been more generous compared to the rest of the nation. In a report about Minnesota's welfare system that the Urban Institute published in 2001, they especially highlighted the state's generosity, stating that compared to the nation, in the period between 1996 and 2000, Minnesota provided higher than average income benefits to TANF recipients, had a higher share of children

TABLE 5

Historical and Projected Share of General Fund Spending by Category, 2018-2027

Spending Category	2018-2019 (Actual)	2020-21 (Actual)	2022-23 (Actual)	2024-25 (Forecast)	2026-27 (Forecast)
E-12 Education	41%	42%	39%	35%	38%
Higher Education	7%	7%	7%	6%	6%
Property Tax Aids and Credits	8%	8%	9%	8%	7%
Health and Human Services	29%	29%	29%	30%	35%
Public Safety and Corrections	3%	3%	4%	5%	5%
Environmental Resources	1%	1%	1%	1%	1%
Economic and Workforce Development	1%	1%	2%	6%	1%
Transportation	1%	1%	1%	2%	1%
General Government	5%	6%	5%	4%	2%

Source: Minnesota Management and Budget

in poverty receiving welfare, had a lower share of children without health insurance, had higher income cutoffs for its Medicaid and CHIP programs, and a higher income cut off for childcare subsidy eligibility. And while MFIP caseload dropped 42 percent in the nation between 1997 and 1999 after the passage of PRWORA, in Minnesota, the decline was only 30 percent.[28]

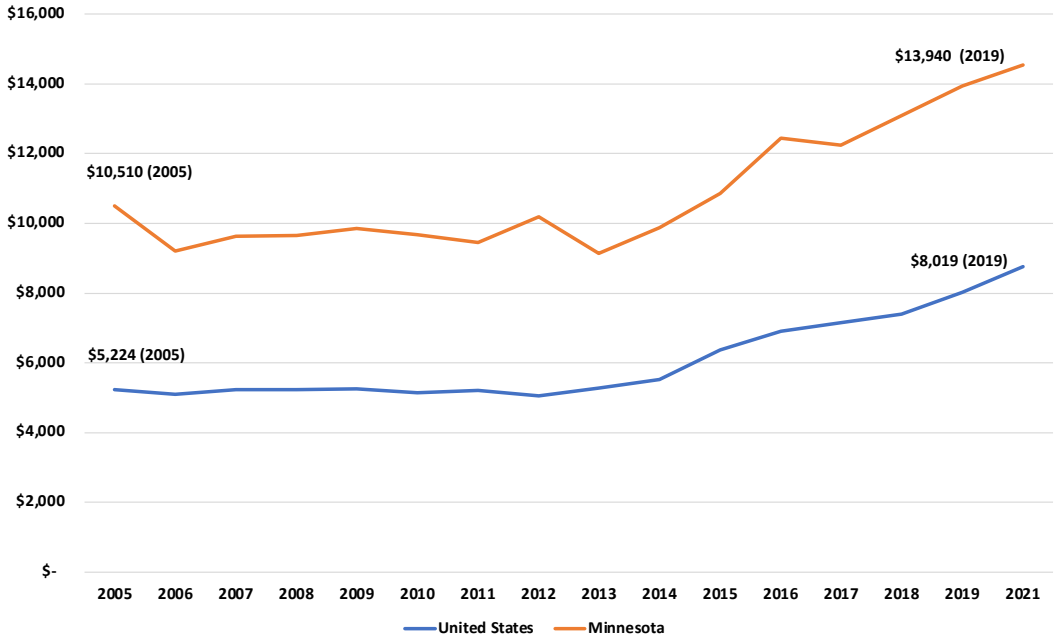
That generosity has not waned as data in this report has shown. Minnesota continues to be one of the most generous places to be on welfare in the country. Not only has the share of the budget that Minnesota dedicates to welfare programs grown, but in fact, state pending on welfare programs has seen the fastest growth among the major spending categories. Spending has also grown significantly both in absolute terms and when adjusted for the population in poverty, cementing Minnesota's position at the top.

Projected future spending

Minnesota's spending on welfare is expected to grow further and take an even bigger share of general funds due to the increased funding that lawmakers dedicated to HHS in the 2023 legislative session. As shown in Table 5, HHS has made up 29 percent of general funds in each of the three bienniums in the last six fiscal years — between FY 2018 and FY 2023. In the current biennium (2024-2025), however, HHS spending is estimated to make up 30 percent of general funds. HHS spending is estimated to grow further to 35 percent of general funds in the next projected biennium (2026-27), assuming no meaningful changes to the baseline budget that lawmakers passed this year.[29] Putting that into perspective, in the next four fiscal years between 2024 and 2027, the share of general funds dedicated to HHS will grow by over 20 percent compared to where it was at the end of FY 2023. During this period, $42 of every $100 in new general fund spending will go towards HHS — making it the primary driver of growth within the state budget. ■

FIGURE 21

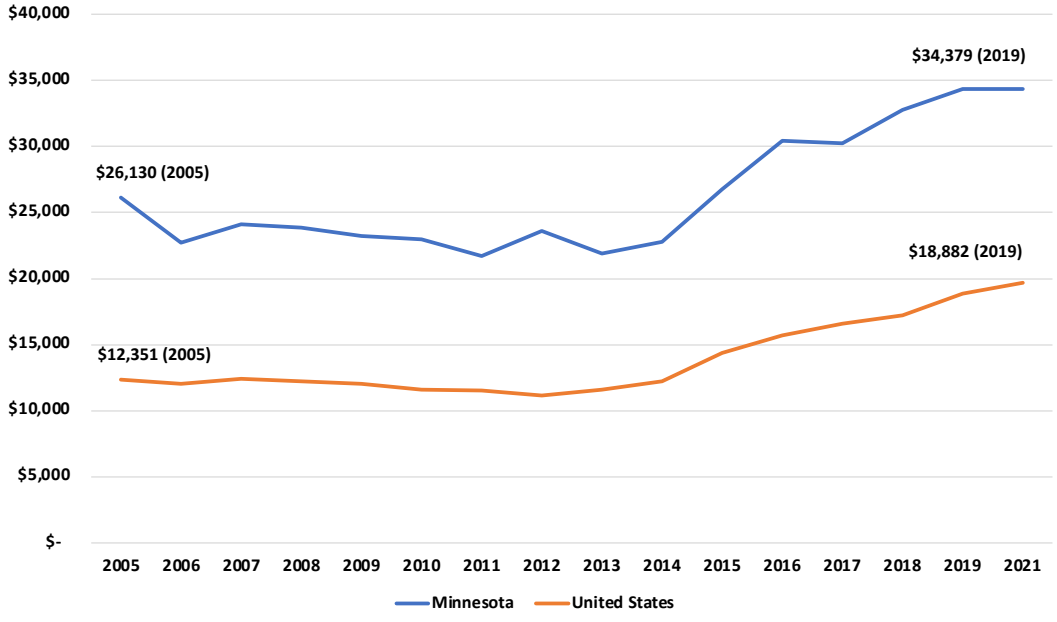
State and Local Spending on Public Welfare per Person Below 200% of Federal Poverty, 2005 - 2021 (2019 $)



Source: IPUMS USA, University of Minnesota; Urban-Brookings Tax Policy Center State and Local Finance Data Tool Reporting U.S. Census Bureau Data

FIGURE 22

State and Local Spending on Public Welfare per Person Below 100% of Federal Poverty, 2005 – 2021 (2019 $)



Source: Source: U.S. Census Bureau American Community Survey; Urban-Brookings Tax Policy Center State and Local Finance Data Tool Reporting U.S. Census Bureau Data

Part V: Cause for Concern

Having a social safety net is important to ensure the general welfare of Minnesota's most vulnerable individuals. However, Minnesota's massive and expanding welfare program will likely jeopardize the sustainability of the state budget, put pressure on other budget priorities, negatively impact the state's economy (through high taxes), and crowd out the private sector.

1. **Ongoing budget sustainability**

Spending estimates published by MMB show that the state's budget is already showing signs of unraveling, putting Minnesota at high risk for future fiscal imbalances. Specifically, at the end of the 2023 legislative session, MMB estimated that total general fund spending in the 2026-27 biennium would outpace revenues collected in that period by almost half a billion dollars (or $1.3 billion after adding inflation).[30] In the November 2023 forecast, MMB estimated that the gap had grown to $2.3 billion due to higher than estimated HHS spending. Certainly, the state's $2.3 billion hole can be filled, for instance by using the expected surplus from the 2024-25 biennium, but current estimates still indicate that the state's growing welfare system is likely going to present a continuing burden to the state's budget. Increased welfare spending is all but guaranteed, especially considering two important spending changes that are likely to increase pressure on general fund revenues in the near future.

First, about $50 million of new spending for some changes on cash assistance programs will temporarily be funded using federal TANF dollars. The full cost of these changes, which might potentially go up, will be reflected in the state budget beginning in FY 2028, increasing general fund spending obligations. Second, an estimated $1.4 billion of new HHS spending in the next four years (the majority of which will go to Medicaid) will be financed by revenues from the Health Care Access Fund (HCAF) — a special revenue fund that has historically been used to subsidize healthcare coverage through MinnesotaCare. If at some point HCAF funds fail to sustain this new Medicaid spending (for instance, due to increased MinnesotaCare spending obligations), it will have to be shifted to the general fund budget, increasing spending obligations even further.

Inevitably, the Minnesota state government will continuously have to reckon with budget deficits, as it grapples with collecting enough revenue to support this new bigger government. Unironically, these budget deficits could jeopardize the viability and long-term sustainability of the state's social safety net, hurting Minnesotans who need help the most.

It especially does not bode well for the state budget that, as the Minnesota Center for Fiscal Excellence explains, "Minnesota's new targeted tax relief/income tax redesign replaces the least volatile sources of state income tax revenue – salaries, wages, and Social Security income – with the most volatile sources." This tax change puts the state in a more precarious position.[31] Moreover, because Minnesota heavily relies on its progressive individual income tax system to fund state government, it is disproportionately reliant on a small portion of the state's high-earning individuals. The recently enacted "tax cuts" have eliminated or reduced income tax liability for select taxpayers, such as social security income recipients and low-income parents with children. This has narrowed the individual income tax base even further, jeopardizing the sustainability of new spending. This is particularly concerning, especially since high-income earners have been leaving Minnesota for low-tax states like Florida.[32]

The risk for potential fiscal crises rises further when other factors at play that will likely exert upward pressure on state welfare spending, reduce the state's productive capacity and narrow the tax base are considered. These factors include the state's aging population, rising healthcare prices, the looming federal debt crisis, potential federal rule changes to Medicaid and other programs, as well as the potential reduced incentives to work resulting from Minnesota's increasingly generous welfare system.

An aging population: The United States, much like the rest of the developed world, is experiencing an aging population, as birth rates decline. Currently, the median age in the U.S. is 38 years old and is expected to grow to 41 by 2050. According to the Minnesota State Demographic Center, "in total, Minnesotans of retirement age (65) and above numbered 930,000 in 2020. This number is expected to roll over 1.26 million in 2070. Minnesota's oldest residents — those aged 85 and above — are expected to rapidly increase, nearly reaching 200,000." And by 2050, the population of retirees (those 65 and older), will outnumber that of children aged 0 to 14 as shown in Figure 23.[33]

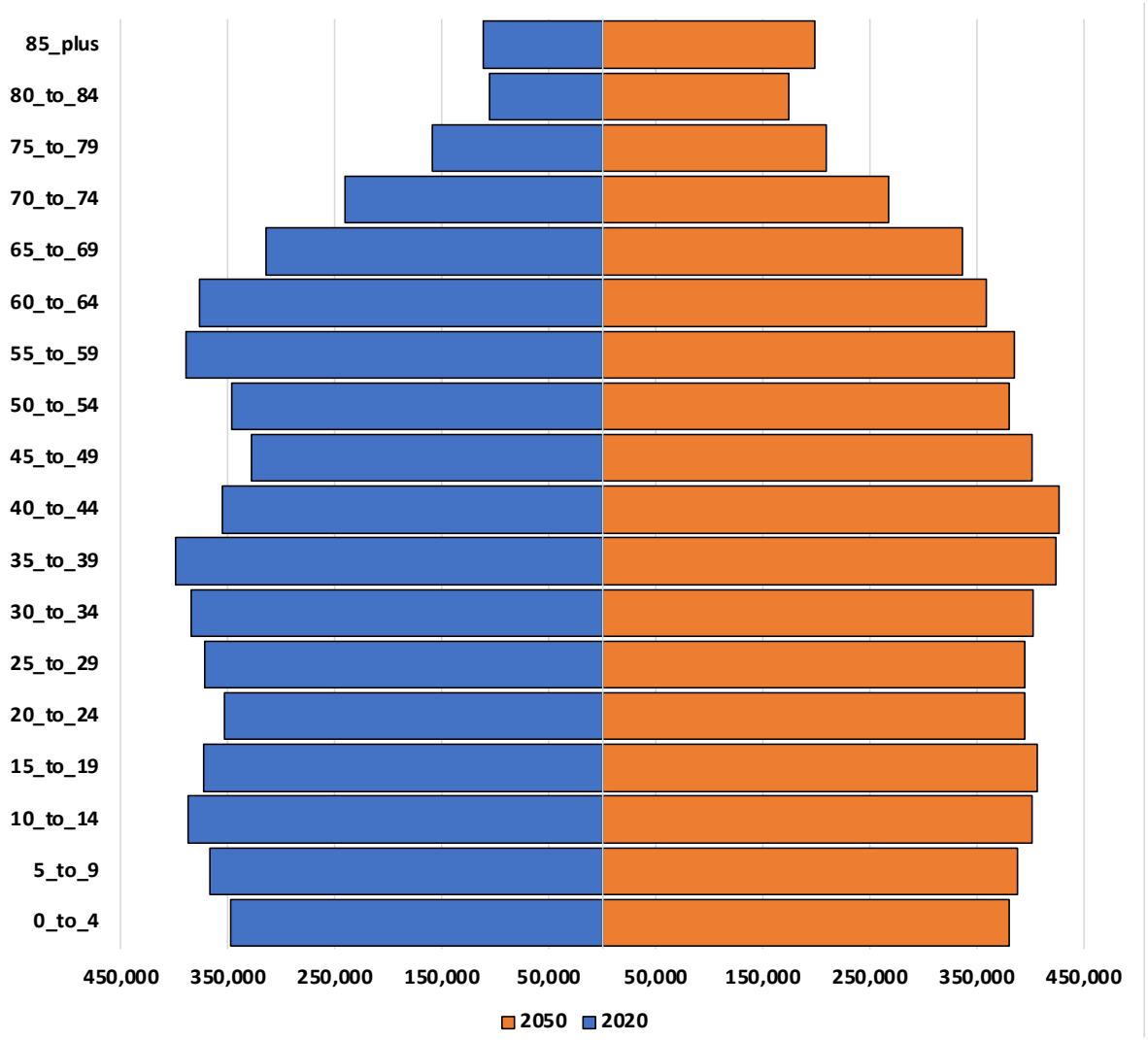
An aging population will require increased spending on services mainly utilized by the elderly, like costly public healthcare programs, while declining birth rates will result in a continuing decline of the workforce and thereby fewer than optimal taxpayers to contribute to these increasing spending obligations. The Minnesota State Demographic Center estimates, for example, that while in 2020, the state had 4 workers for every retiree, that number will drop down to 3.4 by 2050.[34] While other states may make up for their declining birthrates through migration, Minnesota's tax system makes it a less attractive state for people to move to. Furthermore, people who move to Minnesota from other states tend to have low incomes, highly likely a result of Minnesota's generous welfare system.[35] In the likely event that this trend persists and worsens, given that the welfare system has been made even more generous, it will place a bigger burden on the state budget, while at the same time confounding factors like net emigration of high income taxpayers and declining birth rates will continue to narrow and erode the state's tax base.

Rising healthcare prices: Generally, healthcare prices rise faster than general price inflation. In the 22-year period between 2000 and 2022, for example, while prices for all items rose by 70 percent, prices for medical care more than doubled, rising by 110 percent as shown in Figure 24. In part due to expected price inflation of healthcare services and a rebound in the utilization of healthcare services after a temporary slump caused by the COVID-19 pandemic, healthcare spending is expected to rise both nationally and in Minnesota. Nationally, per capita healthcare spending is estimated to grow from $13,413 in 2022 to $20,425 in 2031 — an annual average growth rate of 4.3 percent. Medicaid spending per enrollee will temporarily grow by 7.4 percent in 2024, but from 2025 through 2031, growth is expected to moderate at an annual growth rate of 4.9 percent.[36]

As shown in Figure 25, the Minnesota Department

FIGURE 23

Population Pyramid for Minnesota, 2020 vs. 2050



Source: Minnesota State Demographic Center

of Health estimates that Minnesota's healthcare spending will rise, on average, 5.5 percent per year between 2021 and 2030, reaching $106 billion — $46 billion higher than what it was in 2020 — or "$17,530 per Minnesotan, up from $10,530 in 2020." And "during the period covered by the projections (2021 through 2030), public payer spending is estimated to grow more rapidly than private payer spending (on average 6.0 percent per year, compared to 4.9 percent per year), primarily due to higher per person spending."[37]

By dedicating a bigger share of tax revenues to public healthcare programs such as MinnesotaCare and Medicaid, lawmakers are subjecting a bigger share of Minnesota's budget to high price inflation further increasing the likelihood that growing spending obligations will outpace tax revenues. The impact of these rising prices on the state budget is also amplified when other confounding factors that will put pressure on healthcare spending, such as the state's aging population, are added.

A looming federal debt crisis: Due to years of increased borrowing, the United States federal government is over $34 trillion in debt. Debt is expected to grow as spending on Medicare, Social Security, as well interest to service the debt continues to grow.

To stabilize debt and spending levels effectively and sustainably, the federal government has limited options, which could include (1) cutting the federal government's share of Medicaid spending and (2) raising taxes, options that have already been brought up and studied by the CBO.[38] Currently, the federal government shoulders over half of Medicaid spending for all states, including Minnesota. If the federal government were to reduce its share of spending, states would have to dedicate more tax revenues to maintain their Medicaid programs. For Minnesota, that would likely mean hundreds of millions, if not billions, more in new spending obligations.

In 2019, for example, the federal government's share of Minnesota's Medicaid spending was 56 percent, according to NASBO. If the federal government's share of spending was reduced even to 50 percent, Minnesota would have had to spend an additional $785 million in state funds to maintain the program. And if the federal government's share was lowered to 40 percent, Minnesota would have had to spend over $2 billion to maintain a similar level of service. Certainly, the federal government could decide to raise taxes instead of cutting spending, but that would still put Minnesota in a risky position, considering Minnesota's high levels of taxation. The interplay between potentially higher federal taxes and Minnesota's burdensome state taxes could have severe repercussions for a state that is already on the brink of economic stagnation.

Potential changes in federal rules: The federal government typically sets minimally binding guidelines for jointly funded programs like TANF and Medicaid. As a result, changes made at the federal level to these programs have significant fiscal implications for individual states. The Consolidated Appropriations Act which Congress passed in 2022, for instance, mandates that states provide continuous 12-months Medicaid and CHIP coverage to children up to 19 years of age starting in January 2024. Complying to this rule is partly the reason why Minnesota legislators allocated increased funding to HHS in the 2023 legislative session.

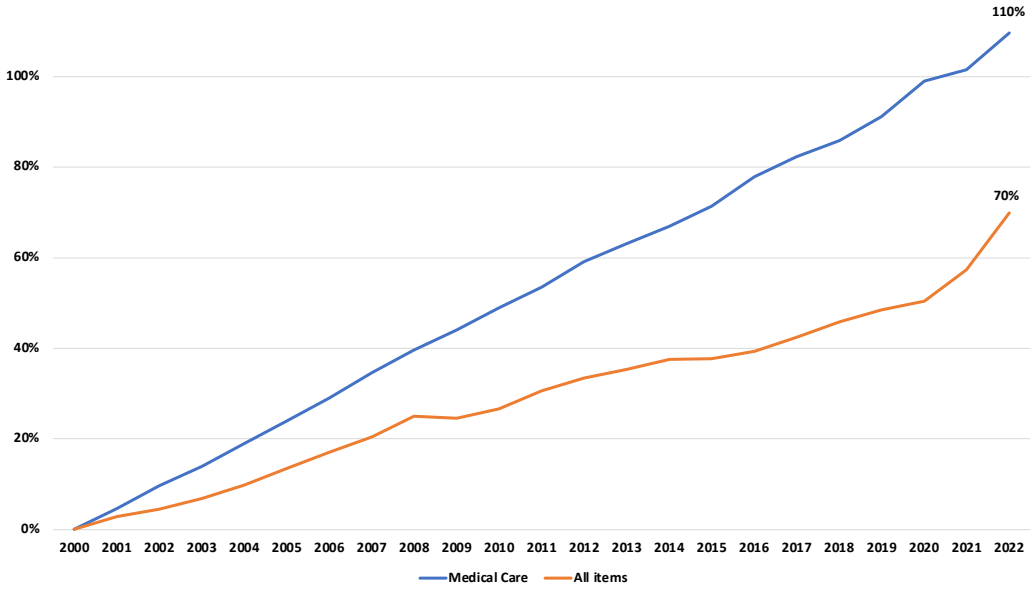
Furthermore, the Biden Administration has proposed streamlining Medicaid rules, making it easier for applicants to enroll and stay on the program. If the proposal was to be successfully implemented, states would face pressure to allocate more tax revenues to support Medicaid.[39] Given that Minnesota already volunteers a larger share of its revenues to welfare programs, it would likely not be as significantly affected. Nonetheless, such legislation would hamstring state governments, limiting their ability to manage their budgets in times of fiscal crisis.

Spillover effects of a generous welfare system on work: Research evidence generally indicates that welfare programs discourage work. Since work is a primary means through which individuals can make income for daily expenses, welfare programs, especially when they are overly generous, can substitute for work by providing people with income or in-kind benefits. During the 2023 session, the Minnesota legislature passed numerous laws making it easier for able-bodied Minnesotans to enroll, and stay on welfare for extended times, which in turn could potentially diminish work incentives. These laws encompassed a wide range of changes including:

- Excluding certain sources of income when determining eligibility for cash assistance programs such as MFIP, GA, and MSA.
- Restricting the types of incomes considered when determining eligibility for the housing support program
- Loosening requirements that hard-to-employ individuals on MFIP who have exhausted their time limits must meet to qualify for extended MFIP payments
- Loosening income eligibility requirements for childcare assistance
- Increasing welfare benefits for GA
- Extending MinnesotaCare eligibility to

FIGURE 24

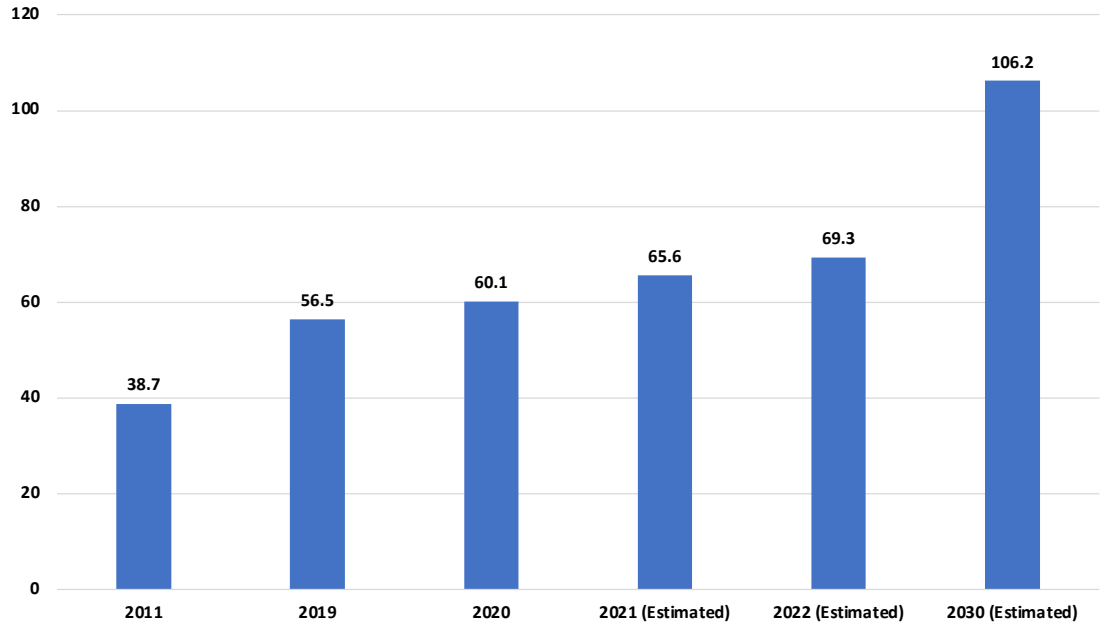
Cumulative Percent Changes in Consumer Price Index for all Urban Consumers (CPI-U), for Medical Care and for All Items



Source: Federal Reserve Bank of St. Louis

FIGURE 25

Minnesota's Actual and Estimated Healthcare Spending, 2011 - 2030 (in billion $)



Source: Minnesota Department of Health

Minnesotans with incomes above 200 percent of poverty through a public option
- Loosening sanction rules under MFIP
- Loosening Medicaid eligibility requirements for former foster care youth.

Reducing incentives to work will reduce the state's productive capacity and narrow the tax base while also trapping able-bodied individuals into welfare dependence, placing the state budget on an unsustainable trajectory.

2. **Impact on other budget priorities**

Apart from maintaining a social safety net for vulnerable individuals, state and local governments perform numerous other services, all of which depend on tax revenues. All these services must compete for limited government resources.

As welfare programs take up a bigger share of government resources, it leaves fewer resources for other, potentially more vital, services like public safety and transportation.

Such budgetary arrangements are particularly challenging to navigate in times of budget shortfalls, as the state is left with little room, if any, to cut, or reprioritize its services. Budgetary shortfalls often result from deteriorating economic conditions, which can push people into poverty. Consequently, during times of diminishing government resources, the state must support an even larger population, leaving fewer resources for other essential services.

It raises concerns that state legislators have expanded the welfare system well beyond the widely accepted traditional mechanisms for helping people and branched into programs such as free college, a refundable child tax credit, and universal free meals in public schools — programs which are untouched in this report. This extended expansion of the welfare system outside the confines of the DHS adds further strain and raises the potential for other public services to suffer neglect.

3. **Impact on the economy: Minnesota is already a high tax state**

To attract skilled workers, investment spending, and businesses, Minnesota must compete not just with other states, but with the rest of the globe. This is a battle which Minnesota has been losing. As a 2021 report from American Experiment showed, prior to the pandemic, Minnesota lagged the nation in both income and GDP growth, as well as rate of new business creation. Minnesota also lost highly skilled, highly productive workers to other states.[40] One major contributing factor to this trend is Minnesota's high tax burden which makes the state a less attractive place for people and businesses to move to.

The new taxes that the Minnesota legislature passed this session (and any potential future tax hikes that might be necessary) to sustain the state's big and growing government, including its expanding welfare state, will likely only worsen this trend and make Minnesota even less competitive compared to the period prior to the pandemic. This is particularly noteworthy since over half of all states — including two of Minnesota's neighbors, North Dakota, and Iowa — have cut taxes in the last three years while Minnesota has moved in the opposite direction. What's more likely is that Minnesota's economy, which is already underperforming, will be dragged down even further.

4. **The crowding out effect**

In general, as the state government expands, it overtakes the economy, pulling resources and workers from the private sector which can hinder overall productivity. To fund public services, state governments must collect tax revenues from both individuals and the private sector. Rising state government spending, therefore crowds out private sector spending as individuals and businesses channel more of their incomes to the state government, funds that could otherwise be privately invested into more productive economic activity. Furthermore, as the state government expands, it draws skilled workers away from the private sector into potentially less productive work in the public sector. Minnesota's growing government will, therefore, likely make the economy less productive, ultimately dampening economic growth. This is especially concerning since Minnesota already lags

the national average in terms of productivity. A slow, stagnant, or declining economy feeds into an especially dangerous cycle when coupled with an expansive welfare system. That is, as the economy gets saddled with a bigger government and fails to create jobs and move people up the income ladder, a larger number of people become dependent on the welfare system than would otherwise be the case. It becomes a self-sustaining cycle, whereby the intent to take care of needy individuals creates more needy individuals through the inhibiting effects of government spending on the economy. ■

Conclusion

In the 2023 legislative session, the idea that the state government should devote more state revenues to programs assisting vulnerable Minnesotans prevailed among legislative majorities at the state capitol, leading to a record increase in spending on Minnesota's welfare programs. This spending is now permanently baked into the state's baseline budget. Among other things, lawmakers passed laws that make it easier for individuals to get and stay on welfare for extended periods of time, raise benefit levels, and extend eligibility to people previously ineligible, changes that are estimated to cost over $6 billion between from FY 2024 through FY 2027.

As the evidence in this report indicates, however, even without accounting for new spending, Minnesota already had a generous social safety net and was an outlier regarding welfare spending. Prior to the 2023 legislative session, Minnesota spent a substantially higher share of its revenues on welfare programs than the national average. Furthermore, Minnesota outpaced almost all states in welfare spending per person in poverty, a trend which persists when looking at spending levels for specific programs such as Medicaid, CHIP, MFIP, and childcare assistance. Over time, Minnesota's spending on welfare has also consistently grown, surpassing the growth of spending on other programs, solidifying Minnesota's position as one of the leading states in terms of welfare expenditure.

Given Minnesota's pre-existing high levels of spending, new additional spending is likely to pose a risk to the long-term sustainability of the state budget, potentially exposing Minnesota to future fiscal imbalances. Increased welfare spending will also likely encroach upon other budget priorities and place a heavier load on taxpayers, further hampering Minnesota's already struggling economy. The growing size of Minnesota's welfare system should raise concerns among every Minnesotan as it carries the potential for increased financial strain on the state budget and its taxpayers, ultimately impacting the state's entire economic landscape. ■

Minnesota outpaced almost all states in welfare spending per person in poverty, a trend which persists when looking at spending levels for specific programs.

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