

Congresswoman McCollum Public Hearing on the Impact of the President's Budget Proposal
Remarks from Executive Branch/ State of Minnesota
Eric Hallstrom, Deputy Commissioner, Minnesota Management and Budget
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Good Morning. For the record, my name is Eric Hallstrom and I am Deputy Commissioner at Minnesota Management and Budget, the state's budget agency. On behalf of Governor Dayton and the State of Minnesota, thank you for the opportunity to provide comments on the president's budget proposal.

Federal budget decisions have a direct impact on the services Minnesotans receive. In considering the budget proposal, we appreciate your attention to the profound effects federal budget and fiscal policy decisions have on the State of Minnesota. The president's budget contains deep cuts in programs that have a disproportionate impact on the most vulnerable Minnesotans, including children, the elderly, and those living in poverty.

As you are aware, at the state government level we adopt balanced budgets on a two-year cycle. We make budget decisions based on revenue projections that look out two and four years into the future. Governor Dayton has spent the last seven years working hard to right our state's fiscal ship by ensuring Minnesota's budget is balanced. Under Gov Dayton's leadership, we corrected the 6 billion dollar deficit left by the previous administration. We restored the state's credit ratings to be some of the highest in the nation. And nine out of the last ten budget forecasts showed positive balances, compared to the decade of deficits before Governor Dayton took office. While we always face risk that our revenue projections will fluctuate, we are seeing more uncertainty and risk at what we can expect in federal funding levels than at any other point in recent history.

The President's Fiscal Year 2019 budget cuts domestic programs by a total of \$3.6 trillion. In the absence of substantial new spending by the State, the consequences of these cuts would be an increase in hunger, poverty and inequality in Minnesota. The President's budget cuts would undermine the well-being of children and families, lead to increases to Minnesota's uninsured rate and homeless population. These cuts will result in our land and waterways will being less clean, our economic progress will be slowed, and education opportunities will be denied to many Minnesotans. In order to avoid these outcomes, the cuts would shift costs to the state. Yet even if the State of Minnesota attempts to bear as much of the burden as it can, we will simply not be able to make up for the cuts outlined in the president's draconian proposal.

With the limited time I have, I'd like to discuss a few major areas of the state budget that will experience the most severe impacts. First I will start with health and human services.

Health and Human Services

Over the next decade, the president's budget calls for cutting more than \$800 billion from Medicaid – the federal health program for lower income and persons with disabilities – as well as \$192 billion from nutritional assistance and \$272 billion over all from anti-poverty programs. These cuts create an

enormous shortfall in Minnesota's state budget, taking away billions of dollars per year in federal Medicaid matching funds.

- The budget would rescind the ACA's Medicaid expansion and replace it with a plan similar to the Graham-Cassidy bill that failed in the Senate last year. These changes would create Medicaid block grants to states and a per person spending cap – in effect cutting spending and taking billions of dollars per year away from Minnesota in federal Medicaid matching funds. To make up for these losses, the state would be faced with making difficult decisions to reduce health care eligibility or benefits to make up for the shortfall. These options make coverage uncertain for over 1 million Minnesotans currently under Medical Assistance (MA), Minnesota's Medicaid program, and the 100,000 Minnesotans who purchased low-cost coverage through MinnesotaCare.
- Medicaid cuts of this level will also have a significant impact on Minnesota schools. School districts and charter schools rely heavily on Medicaid reimbursements to provide federally mandated services to students with disabilities. An estimated \$46 million of federal reimbursements is paid to Minnesota for these services annually. Any reduction will be absorbed by a reallocation of school district general education revenue or through increased burden on the state budget or local tax payers.
- The President's budget cuts to the Supplemental Nutrition Assistance Program, or SNAP, by 30%, or \$213 billion over ten years. SNAP is the most effective anti-hunger program in our country and provides food to more than 645,000 low-income Minnesota children, seniors, people with disabilities, and working families. Minnesota would lose \$150 million per year and over a billion dollars over 10 years, causing low-income Minnesotans to lose or reduce their nutrition benefits.
- The President' budget cuts Temporary Assistance to Needy Families (TANF) by 10%, resulting in a loss of \$25 million per year for some of the lowest income Minnesota families. In 2017, an average of 95,000 people – more than 70% of them children – in 34,000 families are receiving assistance from the Minnesota Family Investment Program, our state's TANF program.

The following programs in the area of health and human services are completely eliminated by President Trump's budget. To continue any of the services they provide, the state will have to backfill all of the funding.

- Social Services Block Grants (SSBG), a program that funds child and adult protective services in Minnesota, is eliminated. Minnesota receives \$31 million from this program annually, 95% of which is provided to counties and tribes for direct services for vulnerable children and adults.
- Community Services Block Grants (CSBG) is eliminated. The program funds community action programs that serve every county in Minnesota by providing locally-defined solutions to address poverty. In 2015, more than 514,000 Minnesotans were served by these funds.

- Low-Income Home Energy Assistance Program (LIHEAP) is eliminated. In federal FY 2017, Minnesota received \$114 million in federal funds from LIHEAP and served nearly 320,000 Minnesotans.

The impact of these cuts on the most vulnerable Minnesotans cannot be emphasized enough. However, for the sake of time, I will now briefly touch on the budget proposal's impact on the state in several critical areas, including education, infrastructure, housing, the environment, and agriculture.

Education

All children in Minnesota depend on access to a great education for good jobs and a bright future. Governor Dayton has prioritized investments in education every year he has served as governor, including paying back our schools, increased investments in the K12 funding formula, funding all-day kindergarten across the state, funding pre-K programs for our youngest learners, and investing in our institutions of higher education.

Once again, the president's budget threatens to undo much of this progress. The proposal includes an \$8 billion or 12% cut from FY18 continuing resolution to the U.S. Department of Education. These cuts include:

- The elimination of 29 programs with an annual reduction of \$5.9 billion (from FFY17)
- The cancellation of \$1.6 billion of unobligated balances in the Pell Grant program.

A few of the programs that the president's budget completely eliminates include:

- Supporting Effective Instruction State Grants: Which provided Minnesota \$31.5 million that went to 500 Minnesota schools.
- 21st Century Community Learning Centers: Minnesota currently receives about \$12.2 million that programs programming at 108 community and school-based centers. In the 2015-16 school year the programs service 23,517 students attending 384 different schools, including public, private, charter, and BIE schools.
- Federal Supplemental Educational Opportunity Grant (FSEOG) Program, a campus-based federal grant for undergraduates with exceptional financial need. In Minnesota in 2014-2015, approximately 27,000 postsecondary students received approximately \$19 million of these funds.
- Department of Education GEAR UP Program, which provides funding for services at high-poverty middle and high schools to help students succeed and prepare for college. In Minnesota, over 61,000 students would lose valuable support for postsecondary preparation and access, 158 schools and over 40 higher education partners would be impacted, and about 20 full time employees would be out of a job.

Again, this list is not exhaustive, but instead only illustrates some of the crucial social and economic programs that the president's budget eliminates.

Infrastructure/ Transit

Turning to Infrastructure and Transportation. Throughout his time as governor, Mark Dayton has proposed honest, straightforward policies to fix Minnesota's aging and under-funded transportation systems. The economic success of the state hinges on long-term vision and planning of our infrastructure. The governor welcomes a discussion on increased investments in infrastructure and the state stands ready to use increased funding on worthy projects.

- However, the president's budget is short-sighted and would significantly underfund critical projects. The budget flips the traditional source of federal funding for capital construction from a 20 percent state match to an 80 percent state match. Under this scenario, Minnesota would have trouble finding competitive projects.
- Critical to several ongoing transit projects across the metro area, the President's budget proposes to fund only those projects within the Federal Transit Administration's Capital Investment Grant Program (CIG) that already have existing full funding grant agreements. This policy would prohibit the extension of the Green Line (Southwest LRT), the Blue Line (Bottineau LRT) and Orange Line (Bus Rapid Transit). The CIG program supports and generates regional economic growth, connects workers to employers, relieves congestion, and improves urban air quality. The President's FY2019 budget proposal would essentially stop any of these projects from moving forward by eliminating funding for projects that are in the Capital Investment Grant pipeline but have not yet secured federal funding agreements.

Housing

More than 554,000 Minnesota households struggle to afford quality housing, a 58 percent increase since 2000. Under Governor Dayton's leadership, public and private investments totaling more than \$5 billion has helped nearly 325,000 low- and moderate-income households. He established a task force on housing and has worked to find consensus on policies to help alleviate Minnesota's housing challenges. Significant work has yet to be done and the cuts to affordable housing that are outlined in the president's budget would take us backward. They would significantly impact the stability of the most vulnerable households in Minnesota and would increase the state's homeless population.

The President's budget includes an 11% decrease in Section 8 program funding. Minnesota Housing manages Section 8 project-based rental assistance on behalf of the federal government. In FY 2016, this funding assisted nearly 32,000 households with median incomes of \$12,000, 48% who are seniors, and 22% are families with children. Housing choice vouchers assist another 31,000 households. In addition to cuts, the budget proposal would significantly strain low-income households by increasing the share of income paid towards rent and eliminating utility reimbursements.

The president's budget completely eliminates the several programs that provide funding for affordable housing services, primarily within the Department of Housing and Urban Development (HUD). A few examples include:

- The HUD HOME Investment Partnership, the Low-Income Weatherization Assistance Program at the Department of Energy, and as mentioned earlier, the Community Development Block Grant. These programs have collectively provided roughly \$68 million to Minnesota for affordable rental housing, home rehabilitation, and energy efficiency improvements for low-income family homes.
- In addition, the Interagency Council on Homelessness would be eliminated, which would jeopardize Minnesota's recent successes in effectively ending veteran's homelessness as well as our 17% drops in family homelessness between 2014 and 2015.

Environment

In the area of environmental policy, Governor Dayton has been consistent and outspoken in advocating for climate change prevention, the importance of clean water, and the adverse impacts President Trump's presidency has been on recent progress. The budget's attempt to gut the EPA and funding to states is another step in the wrong direction.

Even as the Trump Administration continues to roll back a decade of hard-fought progress, Governor Dayton has made it clear that Minnesota will not flinch. We will show the nation what can be achieved by working together to solve the challenges facing our people, our economy, and our environment. We will share best practices with other states, and work with them to mitigate the damaging impacts of the President's dangerous and divisive policies.

As the ranking member of the Interior-Environment Appropriations Subcommittee, we sincerely appreciate your efforts to relay Governor Dayton's concerns over the president's enormous cuts to the EPA and programs it supports.

The Environmental Protection Agency is cut by 23% in the President's budget, which equates to a severe 54% cut to the Minnesota Pollution Control Agency (MPCA). The impact to the state would be a loss \$11.1 million in the 2019 federal fiscal year. These grants provide continuing environmental program funding for all areas of work at the MPCA. Programs proposed for elimination at EPA include the Nonpoint Source Implementation Program which targets local watershed studies and implementation projects to reduce or eliminate sources of water quality pollution from diffuse sources; Pollution Prevention Program which targets source reductions; and Underground Storage Tank (UST) Program that targets permitting and compliance activities for regulated USTs.

Included in the cuts to the EPA, the President's budget reduces the Brownfield programs by 33%, limiting redevelopment and restoration of land to commercial uses.

The president's budget also cuts the EPA's Great Lakes Restoration Initiative by 90%. The program supports restoring and protecting watersheds in eight states surrounding the Great Lakes that provide drinking water for over 40 million Americans and drives a \$62 billion annual economy of fishing, boating and recreational activities. The Minnesota Department of Natural Resources and the Minnesota Pollution Control Agency receive Restoration Initiative funding for the following activities:

- Annual grants for prevention and management of Aquatic Invasive Species in the Great Lakes Basin (\$800,000),
- Habitat restoration and remedial action plan implementation activities in the St. Louis River Area of Concern Project (\$4.5 million grant), and
- Lake management activities to protect water quality in Lake Superior Basin through efforts to reduce impairments and toxic chemicals (\$896,000).

In addition, the Coastal Zone Management program through National Oceanic and Atmospheric Administration is cut by 20%. The program funds \$972,000 annually for protecting streams and rivers in the Great Lakes area.

Agriculture

Agriculture is a cornerstone of Minnesota's economy, providing more than 400,000 jobs and \$121 billion in economic activity. The President's FY2019 budget proposes a 16% reduction in USDA discretionary spending and showcases a lack of understanding about what is important to rural America and the agriculture economy. The budget seeks to weaken the safety net of crop insurance during a time of low commodity prices putting our rural economies at risk. Crop insurance provides farmers with the security they need to increase yields, improve efficiencies, and stay competitive in world markets. The President's budget calls for steep cuts to premium subsidies and excludes producers with an Adjusted Gross Income of more than \$500,000.

These budget and policy changes will harm Minnesota's agricultural economy. We are hopeful that the next Farm Bill will focus on fostering a robust farm and rural economy, maintaining a strong nutrition title, and prioritizing conservation and water quality programs.

On behalf of Governor Dayton, the executive branch of the State of Minnesota, and the millions of Minnesotans served by the state, please voice your opposition to these cuts in the President's budget, as well as any other draconian cuts to programs that Minnesotans rely on. Moving forward, we are available to work with you and others to ensure that the 2019 federal budget is a fair approach for the services upon which Minnesotans depend. Thank you for the opportunity to provide these remarks.