Government Assistance Programs for Low-Income Families

SUMMARY

Minnesota provides a diversity of economic assistance to lower-income residents, including current and former MFIP recipients. The package of government assistance benefits is composed of cash and non-cash assistance and tax credits. Over the past decade, the state has placed a greater emphasis on benefits for working families rather than non-working families. MFIP has stronger work incentives than AFDC did, including work requirements, time limits, and more generous financial incentives. In addition, between 1989 and 1999, government expenditures for government assistance programs increased 45 percent after adjusting for inflation. Increases in expenditures in four programs supporting working families (child care assistance, MinnesotaCare, the federal Earned Income Tax Credit, and the Minnesota Working Family Credit) accounted for much of this increase.

Low-income Minnesotans are financially supported by a variety of government assistance and tax credit programs. Because these benefits are available to, and in many cases targeted towards, current and former recipients of the Minnesota Family Investment Program (MFIP), they are an important part of understanding the economic status of these recipients. In this chapter, we address the following questions:

- What government assistance programs are available to lower-income Minnesotans?
- How has Minnesota’s package of government assistance programs changed in the last decade?

We answered these questions by examining state and federal statutes and rules, program documents, and funding and caseload data for 1988 through 2000.

PROGRAM DESCRIPTIONS

In this section, we discuss the significant features of the state’s economic assistance programs for low-income families, including eligibility requirements, benefit determination, and program size. Since our analysis of the economic status of MFIP recipients relies on data from the year 2000, we focus on the programs as they existed in that year. However, we also note major program
changes instituted by the Legislature in 2000 and 2001. To examine program changes over the last decade, we also discuss significant changes in the programs since 1988. In reviewing the programs, we found that:

- To assess the economic status of current and former MFIP recipients, more than MFIP must be considered. MFIP is only one part of a much larger system of government assistance benefits and tax credits in Minnesota.

Minnesota offers three types of economic assistance to low-income families: (1) cash assistance, (2) non-cash assistance, and (3) tax refund programs. Cash assistance programs, such as MFIP and Supplemental Security Income, provide a cash grant that recipients can spend any way they wish, while non-cash assistance programs, such as the Food Stamp program and Medical Assistance, provide a subsidy that recipients can use only for a specific good or service. With “refundable” tax credits, such as the federal Earned Income Tax Credit, low-income recipients receive an income tax “refund” even if they pay no income taxes (including withholdings). Table 1.1 shows caseloads, expenditures, and average benefits in 2000 for these programs in Minnesota. Based on total annual payments, MFIP and SSI are the largest cash assistance programs, and Medical Assistance and housing assistance (Section 8 and public housing) are the largest non-cash assistance programs. Of the refundable tax programs, the federal Earned Income Tax Credit and the state Property Tax Refund are the largest. Below we discuss program requirements for each of the assistance and tax refund programs in more detail.

Cash Assistance Programs

Under the various cash assistance programs, recipients receive a cash grant and are generally free to spend the money as they wish. We include MFIP food assistance, which is not a cash grant, in this section because it is part of the MFIP program along with MFIP cash assistance.

Minnesota Family Investment Program (MFIP)

In 1996, Congress replaced the Aid to Families with Dependent Children (AFDC) entitlement program with the Temporary Assistance for Needy Families (TANF) block grant. In response, the Minnesota Legislature enacted legislation in April of 1997 to implement MFIP on a statewide basis as Minnesota’s TANF program. Unlike the AFDC program that provided cash assistance only, MFIP combines cash and Food Stamps into a single program.

MFIP assists low-income families with children. A family is eligible if its monthly net income (income less deductions) is less than the “standard of need” for its family size. The standards of need for 2000 are presented in Table 1.2. The standard of need is divided into cash and food portions, and each year the

2 Laws of Minnesota (1997), ch. 85, art. 1. This law is codified in Minn. Stat. §256J.
Table 1.1: Caseloads, Expenditures, and Average Benefits for Government Assistance and Tax Credit Programs, 2000

<table>
<thead>
<tr>
<th>Program</th>
<th>Year</th>
<th>Monthly Average Cases</th>
<th>Monthly Average Recipients</th>
<th>Total Annual Payments (in Millions)</th>
<th>Annual Average Benefit per Case/Recipient</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Assistance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minnesota Family Investment Programa</td>
<td>SFY</td>
<td>38,833</td>
<td>N/A</td>
<td>$193</td>
<td>$4,981</td>
</tr>
<tr>
<td>General Assistanceb</td>
<td>SFY</td>
<td>9,117</td>
<td>N/A</td>
<td>51</td>
<td>5,604</td>
</tr>
<tr>
<td>Emergency and Diversionary Assistance</td>
<td>SFY</td>
<td>1,433</td>
<td>N/A</td>
<td>14</td>
<td>c</td>
</tr>
<tr>
<td>Supplemental Security Incomee</td>
<td>CY</td>
<td>N/A</td>
<td>64,084</td>
<td>272</td>
<td>4,200</td>
</tr>
<tr>
<td>Minnesota Supplemental Aidf</td>
<td>SFY</td>
<td>N/A</td>
<td>35,851</td>
<td>75</td>
<td>2,102</td>
</tr>
<tr>
<td><strong>Non-Cash Assistance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food Stamps</td>
<td>SFY</td>
<td>94,231</td>
<td>N/A</td>
<td>$171</td>
<td>$1,810</td>
</tr>
<tr>
<td>Child Care Assistance</td>
<td>SFY</td>
<td>26,257</td>
<td>N/A</td>
<td>159</td>
<td>6,056</td>
</tr>
<tr>
<td>Medical Assistance (MFIP and other families only)f</td>
<td>SFY</td>
<td>N/A</td>
<td>244,111</td>
<td>656</td>
<td>2,689</td>
</tr>
<tr>
<td>MinnesotaCare</td>
<td>SFY</td>
<td>N/A</td>
<td>109,031</td>
<td>158</td>
<td>1,447</td>
</tr>
<tr>
<td>General Assistance Medical Care</td>
<td>SFY</td>
<td>N/A</td>
<td>23,347</td>
<td>128</td>
<td>5,471</td>
</tr>
<tr>
<td>National School Lunch (free lunch)g</td>
<td>SFY</td>
<td>N/A</td>
<td>156,407</td>
<td>52</td>
<td>404</td>
</tr>
<tr>
<td>National School Lunch (reduced-price lunch)g</td>
<td>SFY</td>
<td>N/A</td>
<td>63,633</td>
<td>326</td>
<td></td>
</tr>
<tr>
<td>Women, Infants, and Childrenk</td>
<td>FFFY</td>
<td>N/A</td>
<td>90,093</td>
<td>33</td>
<td>363</td>
</tr>
<tr>
<td>Public Housing and Section 8 (1999 data)</td>
<td>FFFY</td>
<td>78,647</td>
<td>N/A</td>
<td>283</td>
<td>3,603</td>
</tr>
<tr>
<td>Energy Assistance</td>
<td>FFFY</td>
<td>84,115</td>
<td>N/A</td>
<td>64</td>
<td>414</td>
</tr>
<tr>
<td><strong>Refundable Tax Credits (1999 data)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned Income Tax Credit</td>
<td>CY</td>
<td>N/A</td>
<td>210,724</td>
<td>$305</td>
<td>$1,450</td>
</tr>
<tr>
<td>State Working Family Tax Credit</td>
<td>CY</td>
<td>N/A</td>
<td>203,032</td>
<td>89</td>
<td>437</td>
</tr>
<tr>
<td>State Dependent Care Tax Credit</td>
<td>CY</td>
<td>N/A</td>
<td>35,893</td>
<td>12</td>
<td>327</td>
</tr>
<tr>
<td>State K-12 Education Credit</td>
<td>CY</td>
<td>N/A</td>
<td>57,962</td>
<td>21</td>
<td>369</td>
</tr>
<tr>
<td>Property Tax Refund (homeowners)</td>
<td>CY</td>
<td>N/A</td>
<td>197,500</td>
<td>64</td>
<td>324</td>
</tr>
<tr>
<td>Property Tax Refund (renters)</td>
<td>CY</td>
<td>N/A</td>
<td>268,000</td>
<td>112</td>
<td>417</td>
</tr>
</tbody>
</table>

NOTE: Data are for state fiscal year, federal fiscal year, or calendar year depending on the program. SFY = State Fiscal Year. FFFY = Federal Fiscal Year. CY = Calendar Year. N/A = Not Applicable. Cases or recipients are shown depending on whether the respective program provided benefits to a household or an individual. For programs that provide a monthly benefit, the average annual benefit is the total annual payments divided by the monthly average cases or recipients. Cases or recipients for the National School Lunch, Energy Assistance, and tax credit programs are annual caseloads rather than monthly average cases.

aMFIP includes federal and state cash assistance.

bGeneral Assistance data includes the GA segment of Group Residential Housing, and Minnesota Supplemental Aid data includes the MSA segment of Group Residential Housing.

cThe monthly average benefit for Emergency and Diversionary Assistance was $831 per case in 2000. An annual average benefit is not presented because Emergency and Diversionary Assistance may not be received for longer than a few months.

dSSI data includes all recipients, not just those in families with children.

eFood Stamps includes regular Food Stamp receipt, MFIP food assistance, and Minnesota Food Assistance.

fData for Medical Assistance is only for families with children and excludes data for the aged, blind, and disabled.

gData are for public schools only.

hPayments include the aggregate payments allocated by the federal government for both free and reduced-price lunches. State funding for all lunches and additional federal funding for paid lunches are excluded.

iThe average benefit includes federal and state funds and is based on the assumption that students received the meal each school day for a nine-month school year.

jExpenditures are included with the free lunches listed above.

aWIC data shows net costs after the infant-formula rebate.

state has increased the food portion of the grant but has not changed the cash portion. For example, for 2002, the food portion for a family of three is now $299, but the cash portion is still $532. In fact, the $532 cash benefit standard has not changed since 1986.³

MFIP encourages work by allowing families to keep a portion of their earnings without losing their grant. For example, MFIP benefits are calculated by disregarding 38 percent of a family’s earnings and then subtracting the remaining income from the “family wage level” listed in Table 1.2. (The “family wage level” is defined as 110 percent of the standard of need.)⁴ The difference is the grant.⁵

MFIP’s expansion of work requirements and creation of sanctions for noncompliance also reflect welfare reform’s new emphasis on encouraging work and discouraging dependency. MFIP requires most adult recipients to participate in employment, job search, or job training activities. Single parents are required to participate in these activities for at least 30 hours per week, and parents from two-parent families are required to participate for at least 55 hours in combination.⁶ Certain groups of recipients are exempt from participating in employment and training activities.⁷ Unless exempted, recipients who fail to comply with work activities or other program requirements are subject to sanctions. In 2000, for the first occurrence of noncompliance, a family’s grant


⁴ For determining eligibility for new applicants, the earned income disregard is 18 percent, and income after the disregard is compared with the standard of need, rather than the “family wage level.”


⁷ Minn. Stat. (Supplement 1999), §256J.56.

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**Table 1.2: MFIP Income Standards, October 1, 1999 to September 30, 2000**

<table>
<thead>
<tr>
<th>Family Size</th>
<th>Cash Portion</th>
<th>Food Portion</th>
<th>Standard of Need</th>
<th>Family Wage Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$ 250</td>
<td>$108</td>
<td>$358</td>
<td>$394</td>
</tr>
<tr>
<td>2</td>
<td>437</td>
<td>192</td>
<td>629</td>
<td>692</td>
</tr>
<tr>
<td>3</td>
<td>532</td>
<td>257</td>
<td>789</td>
<td>868</td>
</tr>
<tr>
<td>4</td>
<td>621</td>
<td>313</td>
<td>934</td>
<td>1,027</td>
</tr>
<tr>
<td>5</td>
<td>697</td>
<td>364</td>
<td>1,061</td>
<td>1,167</td>
</tr>
<tr>
<td>6</td>
<td>773</td>
<td>434</td>
<td>1,207</td>
<td>1,328</td>
</tr>
<tr>
<td>7</td>
<td>850</td>
<td>469</td>
<td>1,319</td>
<td>1,451</td>
</tr>
<tr>
<td>8</td>
<td>916</td>
<td>538</td>
<td>1,454</td>
<td>1,599</td>
</tr>
<tr>
<td>9</td>
<td>980</td>
<td>608</td>
<td>1,588</td>
<td>1,747</td>
</tr>
<tr>
<td>10</td>
<td>1,035</td>
<td>681</td>
<td>1,716</td>
<td>1,888</td>
</tr>
<tr>
<td>(Each additional member)</td>
<td>53</td>
<td>74</td>
<td>127</td>
<td>140</td>
</tr>
</tbody>
</table>

SOURCE: Minnesota Department of Human Services.
was reduced by 10 percent of the standard of need, while for the second or subsequent occurrences, the grant was reduced by 30 percent. Starting in March 2002, counties will have the option to disqualify a family from receiving the MFIP grant after the sixth or subsequent occurrences of noncompliance.

MFIP further emphasizes work and reduces dependency by establishing a lifetime limit of 60 months for cash assistance. In 2000, most caregivers in Minnesota were subject to a lifetime limit of 60 months of cash assistance. The time limit clock began running in Minnesota on July 1, 1997; however, MFIP recipients in certain circumstances, such as caregivers 60 years or older, could have their clock stopped. Also, in 2001, the Legislature made certain groups eligible for cash benefits beyond the 60-month limit. These include recipients deemed to be ill, incapacitated, or hard to employ. In addition, single parents who participate in work-related activities for at least 30 hours per week and are employed 25 hours per week will also receive an extension. The extension applies to two-parent families if the parents participate in work-related activities a total of 55 hours per week and are employed 45 hours per week.

The structure and eligibility requirements of the MFIP program are a significant departure from the AFDC program in 1988. AFDC placed less emphasis on incentives to work by not having a time limit on benefits or as stringent work requirements. For example, AFDC only required recipients to register with the statewide job service in most counties without any obligation to participate. In the few counties operating the Work Incentive Program (WIN), AFDC recipients were required to actually participate in employment and training services. Nevertheless, the exemptions for these programs were very broad, including parents providing full-time care for a child under the age of six. A few other voluntary employment programs were available in some counties. As Chapter 2 will show, financial incentives for recipients to work were also smaller under the AFDC program. AFDC permitted a disregard of one third of earned income for the first four months and $30 per

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9 Laws of Minnesota (1Sp2001), ch. 9, art. 10, sec. 33. Counties will have the option to eliminate both the cash and food portions of the grant or to pay the recipient’s rent directly to the landlord up to the amount of the cash portion and then eliminate the remaining cash and food portion of the grant.
11 Laws of Minnesota (1Sp2001), ch. 9, art. 10, sec. 28. Employed participants must be in compliance with program requirements (not in sanction status) during at least 10 of the 12 months immediately preceding the 61st month on assistance, including the 60th month.
month for the first year, compared with the indefinite deduction of 38 percent allowed under MFIP.\textsuperscript{12}

As shown in Table 1.1, the average monthly number of families receiving MFIP cash assistance in 2000 was 38,833. The average annual cash portion of the grant was $4,981. Total payments for cash assistance were $193 million statewide. Federal funds accounted for 55 percent of the total and state funds for 45 percent.

**Supplemental Security Income and Minnesota Supplemental Aid**

Supplemental Security Income (SSI) is a federally funded and administered program that aids low-income aged (65 years of age or older), blind, or disabled adults and blind or disabled children.\textsuperscript{13} A recipient’s income after allowable deductions must be less than the maximum monthly SSI benefit, which was $512 for an individual living alone and $769 for a couple living alone in 2000. The SSI program requires states to provide supplemental assistance to certain groups of SSI recipients and permits them to provide the same assistance to others. The Minnesota Supplemental Aid (MSA) program provides assistance to aged, blind, and disabled adults and to blind children. MSA recipients must have monthly gross income (income before deductions) below 300 percent of the SSI benefit and monthly income after deductions below the MSA benefit standards. In 2000, the MSA monthly benefit standards were $573 for individuals living alone and $860 for married couples living alone.\textsuperscript{14} Both the SSI and MSA grants are calculated by subtracting the recipient’s net income (income after deductions) from the respective benefit standards.\textsuperscript{15}

**General Assistance**

General Assistance (GA) is a state-funded program providing cash assistance to low-income individuals who are not eligible for MFIP and not receiving SSI or MSA. Single adults, childless couples, and adult children living with their parents are eligible for GA. While families with children were eligible for family general assistance in 1988, these families are currently covered under the MFIP program. GA recipients must meet at least one of a list of categorical requirements indicating that they are unable to work. The income standards for GA have not changed between 1988 and 2002. The monthly income standard is $203 for a single adult and $260 for a married couple with no children. The GA grant is

\begin{itemize}
  \item \textsuperscript{13} Individuals receiving SSI or MSA are not eligible to receive benefits from the MFIP program, but other family members may still be eligible.
  \item \textsuperscript{14} The $860 standard applies to married couples who became eligible for MSA after January 1, 1994. Married couples living alone who became eligible prior to 1994 have a standard of $875. MSA standards differ for individuals and married couples who live with others.
\end{itemize}
calculated by subtracting monthly income after deductions from the GA income standards.16

Emergency Assistance

The state’s Emergency Assistance program offers aid to meet the emergency needs of pregnant women and families with children under the age of 21. In 1988, Emergency Assistance covered a broader list of expenses than the current program.17 The state now limits Emergency Assistance to rental payments to avoid eviction, payments of arrearages on mortgages, damage or utility deposits, moving expenses, home repairs, and utility costs. Emergency assistance is typically not available for more than one 30-day period in 12 consecutive months. Generally, Emergency Assistance is the amount needed to cover the emergency less the income and assets available to the family to cover the emergency need. In addition to the Emergency Assistance program, other government assistance programs (such as General Assistance, SSI, and Minnesota Supplemental Aid) offer emergency benefits above the general monthly grant in specific circumstances.18

Diversionary Assistance

Families that face a temporary loss of income or are unable to obtain or retain employment and are at risk of going on MFIP may receive state Diversionary Assistance. The assistance must resolve the emergency and divert the family from MFIP. The grant can be up to four times the monthly MFIP standard of need, and families are then ineligible for MFIP for a corresponding period of time.19

Non-Cash Assistance Programs

Non-cash programs provide specific benefits to the recipients, such as food, housing, or medical benefits. Unlike cash assistance, recipients cannot spend these benefits as they wish.

Food Stamps

The federal Food Stamp program assists low-income families in purchasing food. Most eligible households must have net income (income after deductions) below 100 percent of the federal poverty level and gross income (income prior to

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17 In addition to the expenses currently covered, Emergency Assistance in 1988 covered storage costs, specific furnishings and household appliances, clothing, food, drinking water, necessary medical and dependent care, transportation necessary for employment or for medical care, and other items. Minn. Rules (1987), §9500.2820.


The Food Stamp program helps low-income families purchase food.

The United States Department of Agriculture (USDA) bases the Food Stamp benefit on its food stamp allotment—the amount needed to purchase an adequate amount of food for a family. The USDA adjusts the allotment each year for inflation. In 2000, the maximum monthly food allotment for a family of three was $335. The program assumes that a family should contribute 30 percent of its monthly income to the purchase of food. Consequently, a family’s benefit level is determined by subtracting 30 percent of net monthly income from the monthly food allotment. The difference is the benefit. As shown in Table 1.1, the average annual benefit in 2000 was $1,810, and the average monthly caseload (including MFIP recipients receiving food assistance) was 94,231. The federal government funds the Food Stamp program, and total expenditures in Minnesota were $168 million, with an additional $3 million from the state for the non-citizens who are ineligible for federal food assistance.

National School Lunch Program

The National School Lunch program is a federal program that subsidizes the cost of school lunches. The program provides a small subsidy for all student lunches, and provides lunches to low-income students on a free or reduced-price basis. Students with household incomes less than 130 percent of the federal poverty level qualify for free meals, and students with incomes between 130 and 185 percent of the federal poverty level qualify for reduced-price meals. All public school districts in Minnesota and over one-third of non-public schools participate in this program. The state requires public schools that participate to provide subsidized breakfasts if at least 33 percent of their lunches are served at a free or reduced price. Students eligible for free or reduced-price school lunch are also eligible for free or reduced-price breakfast if their school participates in the program.

As shown in Table 1.1, approximately 156,000 students in public schools were approved for free meals, and 64,000 were approved for reduced-price meals.

20 Households with disabled or elderly members must meet only the net income test.
21 Families ineligible for both the cash and food portion of MFIP on the basis of income may still be eligible for food benefits under the Food Stamp program.
during the 1999-2000 school year. Twenty-four percent of all lunches served were free lunches, and nine percent were at a reduced-price. Federal funds allocated specifically to free and reduced-price lunches in Minnesota amounted to $52 million in school year 1999-2000.  

The National School Lunch and WIC programs also provide nutritional assistance. 

Women, Infants, and Children

The Special Supplemental Food Program for Women, Infants, and Children (WIC) is intended to supplement the diet of certain groups of low-income individuals who are nutritionally at risk. The program is funded primarily at the federal level, and is administered by the state Department of Health through local WIC agencies. Infants under age one, children under age five, and pregnant and postpartum women are eligible if they meet income requirements and are determined to be nutritionally at risk. Recipients must have family income at or below 185 percent of the federal poverty level. In 2000, the monthly income limit for a family of three was $2,140. Recipients receive vouchers for specific types of food to meet their nutritional needs, in addition to nutrition education and screening.

Section 8 and Public Housing

Both Section 8 and public housing are federally funded programs that provide rental assistance to low-income families. The United States Department of Housing and Urban Development (HUD) establishes regulations and distributes funding for the programs, and local authorities administer them. Section 8 provides rental subsidies to families living in privately-owned housing, while the public housing program provides publicly-owned housing. “Project-based” Section 8 links a family’s assistance to a particular housing unit, while “tenant-based” Section 8 allows a family to

Section 8 is a federally-funded housing program.

25 The state also contributes funds for all school lunches and breakfasts in Minnesota. Total payments in school year 2000 were $8.2 million. Minnesota Department of Children, Families, and Learning, unpublished documents, “FNS Meal Counts by Category by Year, Public School Information Only” and “Meal/Milk Reimbursements Report, 7/1999 through 6/2000,” received August, 2000.


28 Minnesota Department of Health, Minnesota W.I.C. Program Operations Manual (2000), Sections 5.2.2, 5.2.4, 5.3.
choose any available privately-owned housing as long as the housing meets program requirements.

Public housing and project-based Section 8 require that a family’s income be below 80 percent of an area’s median family income at the time of application.\(^{29}\)
Tenant-based Section 8 requires family income to be below 50 percent of the median, with a few exceptions in which the family income must be below 80 percent of the median. However, the incomes of families participating in the programs are generally much lower due to several additional limitations. For example, in 2000, HUD required local authorities to reserve at least 40 percent of their public housing and project-based Section 8 units and 75 percent of their tenant-based assistance for families with incomes below 30 percent of the median.\(^{30}\)

Under these programs, families generally pay up to 30 percent of their income for rent, with the federal government paying for the rest. However, for Section 8 overall rents are generally capped at a “fair market rent” established by HUD. As shown in Table 1.1, the state had about 79,000 Section 8 and public housing units and received about $283 million in subsidies in 1999.\(^{31}\)

**Energy Assistance**

The Low-Income Home Energy Assistance Program (LIHEAP) is a federally funded block grant program that assists low-income families in paying their energy bills. Recipients must be financially vulnerable to increases in home heating costs and have incomes less than 50 percent of the state’s median income. (The income limit was 135 percent of the federal poverty level in 1988.)\(^{32}\)
Depending on family size, income, and type of fuel used, the benefit ranged between 18 percent and 98 percent of a household’s heating costs in 2000. The minimum annual payment per household was $100 while the maximum annual payment was $950.\(^{33}\)

**Medical Assistance**

Medical Assistance (MA), Minnesota’s Medicaid program, is a federal- and state-funded program that provides health care services for low-income families with children and the aged, blind, and disabled. The federal government establishes broad guidelines regarding eligibility and health care services provided through the program, but permits states some flexibility.\(^{34}\)

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\(^{29}\) HUD determines median incomes for various areas in each state.


\(^{31}\) United States Department of Housing and Urban Development.

\(^{32}\) If applied in 2000, the 135 percent of poverty standard would be a more restrictive standard than 50 percent of the state’s median income.


\(^{34}\) Committee on Ways and Means, 2000 Green Book, 889-892.
The income limits for MA vary by category of eligibility. In 2000, parents in households with income below 133 1/3 percent of the last AFDC income standards (a $709 monthly limit for a family of three) were eligible. In contrast, children under age two in households with incomes below 280 percent of the federal poverty level (a $3,239 monthly limit for a family of three) were eligible. Individuals who do not initially meet the MA income limits may become eligible by “spending down,” or incurring medical expenses that would reduce their remaining income to a level equal or less than the income limit. In both 1988 and 2000, families receiving AFDC/MFIP were automatically eligible for MA; however, beginning on July 1, 2002, the state will base MA eligibility for MFIP recipients on their income. Between 1988 and 2000, eligibility categories and the types of services provided were expanded and the income limits were raised. For example, in 1988, the household income limit for all children, including children under two, was 133 1/3 percent of the AFDC standard, which was a $709 limit for a family of three. When adjusting for inflation, this income limit is 213 percent less than the $3,239 limit for children under two in 2000.

As Table 1.1 shows, in 2000, approximately 244,000 individuals from families with children were eligible for MA. Total MA payments for these people were about $656 million (52 percent from the federal government and 48 percent from the state). For families with children, the annual average benefit per person was $2,689.

**General Assistance Medical Care**

General Assistance Medical Care (GAMC) is a state-funded program that provides access to health care for certain groups of low-income individuals. Individuals must be ineligible for MA and either receive General Assistance or meet the income requirements for GAMC. The income standard for GAMC is the same standard used for parents of children under the MA program (133 and 1/3 percent of the AFDC standard). From April 1999 to March 2000, the monthly limit was $467 for a single adult. As with MA, individuals may “spend down” to meet the eligibility requirements for GAMC. Most, but not all, of the services provided under MA are available to GAMC recipients.

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35 Standards given here are those that were in effect between April 1, 1999 and March 31, 2000.
36 Laws of Minnesota (1Sp2001), ch. 9, art. 2, sec. 15.
38 Minnesota Department of Human Services, Reports and Forecasts Division, February 2001 Forecast (St. Paul, 2001), 19.
MinnesotaCare

Established in 1992, MinnesotaCare is a state- and federal-funded health insurance program for low- and moderate-income individuals and families in Minnesota. The program provides coverage to individuals who do not have access to employer-provided health insurance and who typically have income in excess of the limits for Medical Assistance and General Assistance Medical Care. The MinnesotaCare program replaced the Children’s Health Plan, a state-funded program begun in July 1988 that provided primarily preventive health care services to lower-income children. With a few exceptions, MinnesotaCare provides access to the services covered under the MA program.40

As with the MA program, income limits for MinnesotaCare vary by the category of applicant. For example, families with children and pregnant women must have monthly income at or below 275 percent of the federal poverty level (a $3,181 monthly limit for a family of three in 2000). As with private health insurance, MinnesotaCare recipients must pay premiums. Children with household incomes below 150 percent of the federal poverty level have a monthly premium of only $4. Other participants pay a premium based on a sliding fee that varies with family size and income. In 2000, the monthly premium for a family of three with gross annual income of $18,000 was $46.41

As shown in Table 1.1, the monthly average number of individuals receiving MinnesotaCare was 109,031 in state fiscal year 2000. Net annual payments from the state and federal governments were $158 million. Average annual government payments per enrollee were $1,447.

Child Care Assistance

There are three primary child care subsidy programs in Minnesota: (1) the MFIP Child Care Program, (2) the Transition Year Child Care Program, and (3) the Basic Sliding Fee Program. These programs are funded through state funds and the federal government’s Child Care Development Fund and TANF block grant. The MFIP Child Care Program provides assistance to MFIP recipients for the

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41 Standards listed were in effect between April 1, 1999 and March 30, 2000. Minnesota Department of Human Services, unpublished document, 1999 MinnesotaCare, Minnesota MA, and GAMC Income and Asset Guidelines; and Minnesota Department of Human Services, unpublished document, MinnesotaCare Premiums for April 1999 through March 2000.
purpose of employment, job search, and training. The Transition Year Child Care Program provides assistance to families exiting MFIP for one year as long as their income remains below 75 percent of the state’s median income. However, assistance is available only for the purposes of job search and employment. The Basic Sliding Fee Program provides assistance to Minnesotans with incomes at or below 75 percent of state median income ($38,168 annually for a family of three in state fiscal year 2000) for the purposes of employment, job search, or training. Because the Basic Sliding Fee Program is not an entitlement program, counties have waiting lists for their programs. The monthly average number of families on waiting lists statewide has decreased in recent years (6,906 in 1999 compared with 2,764 in 2000).

The benefit received by a family under all three programs depends upon the rate charged by the child care provider and the family’s co-payment amount. All the programs require families to make co-payments if their income exceeds 75 percent of the federal poverty level. Co-payments vary based on family size and income (a family of three with gross annual income of $18,000 paid $48 per month in state fiscal year 2000). The maximum provider rate that a county may subsidize is the 75th percentile rate for similar child care arrangements in that county. Families may choose providers with higher rates but must pay the difference in addition to the co-payments.

The structure of the child care assistance programs has changed significantly since 1988. In 1988, the program for AFDC recipients and the Basic Sliding Fee Program were consolidated within one program, and no Transition Year program was in place. At that time, the program placed special emphasis on certain groups of AFDC caregivers and post-secondary education students by granting counties set-aside funds for these groups. In addition, AFDC recipients were able to deduct a portion of their child care expenses from their income when determining AFDC benefits. Finally, as we will describe later in this chapter, child care assistance has grown dramatically over the last decade.

Refundable Tax Credit Programs

Beside cash and non-cash assistance, the federal and state governments subsidize low-income families with “refundable” tax credits. These credits allow qualifying filers to receive a payment from the federal or state government based on their earnings or types of expenses incurred, such as child care expenses. Filers can receive “refundable” credits even when they pay no income taxes (including withholdings). In contrast, the federal and state governments offer several

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43 In 2000, assistance under this program was available only to families exiting MFIP due to increased income from employment or child or spousal support. The 2000 Legislature removed this limitation.


45 Minn. Stat. (Supplement 1987), §268.91.
“non-refundable” credits that filers can use only to offset their tax liability. In this chapter, we do not discuss the “non-refundable” credits.

**Federal Earned Income Tax Credit**

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit intended to increase the income of low-income working families. The maximum credit and the program income limit depend on whether filers have zero, one, or two or more children. In 1988, only filers with children were eligible for the credit, and the maximum credit and income limit did not depend on the number of children.46

At first, the credit increases as earnings increase, up to a maximum credit. In tax year 2000, the maximum credit was $353 for filers with no children, $2,353 for filers with one child, and $3,888 for filers with two or more children. The credit then stays at the maximum as earnings increase until a phase-out income threshold is reached. For example, the phase-out began at $12,700 in 2000 for filers with two or more children. At this point, the credit declines as earnings increase until the filer is no longer eligible. The maximum income level at which filers were eligible for the credit in 2000 was $10,380 for filers with no children, $27,413 for filers with one child, and $31,152 for filers with two or more children.47

As shown in Table 1.1, approximately 210,000 filers in Minnesota claimed the EITC in tax year 1999. Total payments to Minnesota filers were $305 million, and the average annual credit received was $1,450. Based on an analysis by the Department of Revenue of the Minnesota Tax Incidence Database, 71 percent of income tax filers who met the income eligibility requirements for the EITC in Minnesota in 1998 claimed the credit.48


48 U.S. Department of Treasury, Internal Revenue Service, “Selected Historical and Other Data Tables,” *Statistics of Income (SOI) Bulletin*, 20, no. 4 (Spring 2001): 274; and Analysis by Minnesota Department of Revenue, Tax Research Department. Number of dependents was used as a proxy for number of qualifying children in this analysis.
Federal Additional Child Tax Credit

Certain tax filers with three or more children may qualify for the additional child tax credit from the federal government. The credit is based on a rather arcane formula that includes the filer’s (1) tax savings from the federal $500 per child tax credit (a non-refundable tax credit), (2) Social Security and Medicare payroll tax, and (3) Earned Income Tax Credit. As Chapter 2 will show, very few welfare families receive this credit.

Minnesota Working Family Tax Credit

First implemented in 1991, the Minnesota Working Family Tax Credit (WFTC) is the state’s version of the federal EITC. As of January 2000, only ten other states offered a state earned income tax credit. Minnesota’s credit is refundable like the federal EITC and requires filers to be eligible for the federal EITC; thus, all federal eligibility requirements and income limits apply to the state credit. When first established, the credit was a fixed percentage of the federal credit (10 percent in 1991 and 1992, and 15 percent between 1993 and 1997). In 1998, the credit was restructured as a percentage of earned income. In 2000, the credit was calculated in much the same way as the federal EITC. The income limits were essentially identical, but the maximum credits were lower. The maximum credit was $88 for filers with no children, $706 for filers with one child, and $1,360 for filers with two or more children.

Table 1.1 shows that approximately 203,000 individuals claimed the Working Family Credit in tax year 1999. Payments for the credit totaled $89 million, and the average annual credit received was $437. Based on an analysis by the Department of Revenue of the Minnesota Tax Incidence Database, 68 percent of 1998 Minnesota tax filers who were eligible for the credit based on their income actually claimed the credit.

Minnesota Dependent Care Credit

Minnesota taxpayers may receive a refundable state income tax credit for child or dependent care expenses if incurred for the purpose of employment or obtaining employment. The credit can equal up to 30 percent of expenses, and claimed expenses could not exceed $2,400 for one dependent and $4,800 for two or more dependents in 2000. Thus, the maximum credit was $720 for one dependent and $1,440 for two or more dependents. Because the state decreases the maximum expenses that filers can claim as their income increases, families with incomes over $31,690 were ineligible for the credit in 2000. The maximum income for the state credit was $24,000 in 1988.


51 Analysis by Minnesota Department of Revenue, Tax Research Department. Number of dependents was used as a proxy for number of qualifying children in this analysis.

Minnesota Education Tax Credit

Minnesota income tax filers can also claim a refundable credit for education expenses for children in kindergarten through twelfth grade. Qualifying expenses include computer equipment (up to $200 per family), tutoring, books, and other materials, but tuition for non-public schools may not be claimed. In 2000, households with incomes of $33,500 or less could have claimed expenses up to a maximum of $1,000 per child and $2,000 per family. The maximum credit began to phase-out at $33,500, and families were no longer eligible at an income above $37,500. In tax year 2002, the credit may be taken against only 75 percent, rather than 100 percent, of expenses.

Minnesota Property Tax Refund

Since 1975, the Minnesota Property Tax Refund has provided tax relief for low- and moderate-income households who pay property taxes that are high relative to their income. In tax year 2000, homeowners with household income below $71,700 and renters with household income below $41,820 were eligible for the credit. Filers are eligible for a refund if their property tax exceeds a certain percentage of their income. To determine the property taxes paid by renters, the state assumes that property taxes are a fixed percentage of rent (19 percent in 2000). If it is determined that a household paid “excessive” property taxes relative to its income, it will receive a refund for a portion of the excess. In addition to the general property tax refund, homeowners whose property taxes increase by a certain percentage over the previous year (12 percent in 2000) and by a certain magnitude ($100 or more in 2000) are eligible for the “targeted refund,” regardless of their income level.

In 2000, the maximum refund amount was $510 for homeowners and $1,190 for renters. The 2001 Legislature changed the structure of the property tax refund for homeowners by increasing the income limit from $71,700 to $80,180 and increasing the maximum refund from $510 to $1,500. In 1988, for both homeowners and renters, the maximum income level to qualify for the credit was $35,000, and the maximum refund allowed was $1,100.

As shown in Table 1.1, 197,500 homeowners and 268,000 renters filed for the refund for tax year 1999. Payments for the property tax refund totaled $176 million. The average annual refund for homeowners was $324, and the average annual refund for renters was $417. Based on an analysis of the Minnesota Tax Incidence Database by the Department of Revenue, 25 percent of all households paid high property taxes relative to their income can receive a refund.

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53 Minnesota Department of Revenue, Schedule M-1ED (St. Paul, 2000); Minnesota Department of Revenue, 2000 Minnesota Individual Income Tax Forms and Instructions (St. Paul, 2000), 13; Minn. Stat. (2000), §290.0674; and Laws of Minnesota (1Sp2001), ch. 5, art. 9, sec. 11.
54 In 1988, the amount of property taxes deemed to have been paid by renters was calculated as the actual amount of property taxes attributable to their rental unit. The amount could not exceed 50 percent of the rent paid by the filer during the year. Minn. Stat. (1988), §290A.03, subd. 11.
56 Minnesota Department of Revenue, 2000 Minnesota Property Tax Refund Forms and Instructions (St. Paul, 2000), 12-22; Laws of Minnesota (1Sp2001), ch. 5, art. 4, sec. 2; and Minnesota Department of Revenue, 1988 Minnesota Form M-1PR (St. Paul, 1988).
57 Data for tax year 1999 is based on income for 1999.
(not just those who were eligible) in Minnesota with income below $70,000 filed for the property tax refund in 1998.  

**RECENT CHANGES IN GOVERNMENT ASSISTANCE AND TAX CREDIT PROGRAMS**

To analyze changes in the size of Minnesota’s government assistance and tax credit programs in the last decade, we examined aggregate expenditures (direct program payments) between 1989 and 1999, as shown in Figure 1.1.  

(Because of data availability issues, Figure 1.1 excludes expenditures for housing programs.) We found that:

- Between 1989 and 1999, government expenditures on economic assistance benefits in Minnesota increased 45 percent after adjusting for inflation.

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**Figure 1.1: Total Expenditures for Government Assistance and Tax Credits in Minnesota, 1989-99**

The state has taken over most county funding of government assistance for low-income families.

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58 Analysis by Minnesota Department of Revenue, Tax Research Department. The definition of household used in the database differs from the U.S. Census definition. For example, the 1996 Tax Incidence Study Database included 2,193,971 households while the U.S. Census reported 1,763,000 households. Minnesota Department of Revenue, 1999 Minnesota Tax Incidence Study (St. Paul, March 1999), 18; http://www.taxes.state.mn.us/reports/fiscal/incid99.html; accessed November 15, 2001.

59 Expenditure figures for some federal programs (Energy Assistance and WIC) are recorded for federal fiscal year, and figures for tax credits and Supplemental Security Income (SSI) are recorded for calendar year. Expenditures for each state fiscal year were estimated for these programs.
The allocation of government assistance and tax credit expenditures among the federal, state, and county governments has also changed between 1989 and 1999. As shown in Figure 1.1, state spending increased by 60 percent and federal spending increased by 48 percent. In contrast, spending by counties decreased by 95 percent. The large decline in county spending reflects the state takeover of most county economic assistance funding during this period.\textsuperscript{60}

We also analyzed the extent to which each program contributed to the 45 percent increase in total spending between 1989 and 1999. As shown in Table 1.3, six programs accounted for the majority of the increase. These programs were (1) Medical Assistance, (2) the federal Earned Income Tax Credit, (3) Supplemental Security Income, (4) MinnesotaCare, (5) child care assistance, and (6) Minnesota’s Working Family Tax Credit. In contrast, AFDC/MFIP had a 47 percent decline in spending for cash assistance between 1989 and 1999. (For Figure 1.1, we combined MFIP food assistance with Food Stamps.) Expenditures for other programs remained relatively constant. (Appendix B provides detailed data on cases, expenditures, and average benefit for each program for the years 1988 through 2000.)

When examining program changes more closely, we found that:

- **Compared with 1988, Minnesota’s package of government assistance benefits in 2000 is more focused on assisting low-income working families than providing financial resources to families without jobs.**

Several policy changes in Minnesota’s basic cash assistance programs reflect this shift in emphasis between 1988 and 2000. With respect to families with no income, the cash grant has not changed since 1986. The cash grant for a family of three was $532 in both 1988 and 2000. Adjusting for inflation, this is a 32 percent decline. With respect to families with earnings, MFIP has a more generous earned income disregard than did AFDC. In determining the cash grant, AFDC disregarded $30 per month and then 33 percent of the remaining earned income. The $30 disregard was available for only the first year a recipient received earnings, and the 33 percent disregard was available for only the first four months of earnings. In contrast, MFIP disregards 38 percent of earned income indefinitely. In addition, as discussed in the MFIP section of this chapter, MFIP introduced the “family wage level,” which is a 10 percent increase in the program’s income standard for families with earnings.\textsuperscript{61}

In their funding decisions, the federal and state governments have also placed a greater emphasis on programs for low-income working families. In the analysis of total government assistance expenditures discussed above, four of the six programs that account for the majority of the overall increase (child care assistance, MinnesotaCare, the federal Earned Income Tax Credit, and the state Working Family Tax Credit) are designed to provide assistance to low-income working families. In state fiscal year 1989, these four programs accounted for only 7 percent of government assistance expenditures. (The Working Family Credit had not yet been established, and the Children’s Health Plan, now

\textsuperscript{60} Minn. Stat. (2000), §256.025.

MinnesotaCare, had just begun operation in 1989.) By 1999, the four programs accounted for 27 percent of total expenditures.

In the next chapter, we analyze the use of these programs by a sample of current and former MFIP recipients. This analysis further illustrates the policy shift toward assisting low-income working families.

### Table 1.3: Program Expenditure Changes, 1989-99

<table>
<thead>
<tr>
<th>Program</th>
<th>Expenditure Change</th>
<th>Percentage Change</th>
<th>Percentage of Growth in Total Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Assistance (MFIP and other families only)</td>
<td>$242,434,690</td>
<td>65%</td>
<td>30%</td>
</tr>
<tr>
<td>Earned Income Tax Credit</td>
<td>226,882,281</td>
<td>259</td>
<td>28%</td>
</tr>
<tr>
<td>Supplemental Security Income</td>
<td>142,675,809</td>
<td>111</td>
<td>18%</td>
</tr>
<tr>
<td>MinnesotaCare/Children’s Health Plan</td>
<td>140,307,620</td>
<td>10,295</td>
<td>17%</td>
</tr>
<tr>
<td>Child Care Assistance</td>
<td>122,708,593</td>
<td>355</td>
<td>15%</td>
</tr>
<tr>
<td>Working Family Tax Credit</td>
<td>86,539,033</td>
<td>N/A</td>
<td>11%</td>
</tr>
<tr>
<td>Minnesota Supplemental Aid</td>
<td>25,573,439</td>
<td>54</td>
<td>3%</td>
</tr>
<tr>
<td>State K-12 Education Tax Credit</td>
<td>18,375,565</td>
<td>N/A</td>
<td>2%</td>
</tr>
<tr>
<td>National School Lunch (free and reduced federal funds)</td>
<td>14,074,918</td>
<td>39</td>
<td>2%</td>
</tr>
<tr>
<td>Property Tax Refund</td>
<td>10,366,576</td>
<td>6</td>
<td>1%</td>
</tr>
<tr>
<td>General Assistance Medical Care</td>
<td>9,646,902</td>
<td>8</td>
<td>1%</td>
</tr>
<tr>
<td>Women, Infants, and Children</td>
<td>5,430,450</td>
<td>19</td>
<td>1%</td>
</tr>
<tr>
<td>Food Stamps</td>
<td>3,245,199</td>
<td>2</td>
<td>0%</td>
</tr>
<tr>
<td>Emergency and Diversionary Assistance</td>
<td>-798,291</td>
<td>-6</td>
<td>0%</td>
</tr>
<tr>
<td>State Dependent Care Tax Credit</td>
<td>-2,352,443</td>
<td>-16</td>
<td>0%</td>
</tr>
<tr>
<td>General Assistance</td>
<td>-12,059,357</td>
<td>-20</td>
<td>-1%</td>
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<tr>
<td>Energy Assistance</td>
<td>-33,602,267</td>
<td>-42</td>
<td>-4%</td>
</tr>
<tr>
<td>AFDC/MFIP (cash assistance)</td>
<td>-192,735,042</td>
<td>-47</td>
<td>-24%</td>
</tr>
<tr>
<td>All Programs</td>
<td>$806,713,674</td>
<td>45%</td>
<td>100%</td>
</tr>
</tbody>
</table>

NOTE: Expenditures were adjusted for inflation to year 2000 dollars using the All-Urban Consumer Price Index. All figures are based on state fiscal years. N/A= Not available.

*a* Medical Assistance excludes expenditures for the aged, blind, and disabled.

*b* Costs include state-funded administrative expenses at the county level and part of county-funded administrative expenses in addition to direct program costs.

*c* Minnesota Supplemental Aid includes the MSA segment of Group Residential Housing.

*d* Payments only include the aggregate payments allocated by the federal government for both free and reduced-price lunches. State funding for all lunches and additional federal funding for paid lunches are excluded. Data are for public schools only.

*e* WIC expenditures are net costs after the infant-formula rebate received by states.

*f* Data for MFIP includes expenditures for MFIP cash assistance and Family General Assistance, and excludes MFIP food assistance. Food Stamps includes expenditures for regular Food Stamps, MFIP food assistance, and Minnesota Food Assistance. General Assistance data excludes Family General Assistance and includes the GA segment of Group Residential Housing.