



**A SUMMARY OF
THE FISCAL ACTIONS
OF THE
2017 LEGISLATURE**

Money Matters 17.02
July 2017

This document is a summary of 2017 legislation with fiscal implications. Part One describes the overall budget picture while Part Two gives detailed analysis organized by conference committee jurisdiction. Contact information for the Fiscal Analyst who wrote the summary can be found at the end of each section.

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The Overall Budget Picture

As the 2017 Legislature approached setting a budget for the FY 2018-19 biennium, the state's budget situation was positive. The February 2017 state budget forecast projected a general fund balance of \$1.651 billion on June 30, 2019. That forecast was based on the current law level of revenues and expenditures. Of the \$1.651 billion, \$744 million was a projected balance carried forward from the end of the FY 2016-17 biennium.

The 2017 Legislature enacted two fiscal bills prior to the release of the February 2017 budget forecast. Table 1 below shows the fiscal effects of Laws 2017, Chapter 1, a bill conforming state tax law with certain federal tax laws changes that had recently been enacted and of 2017 Laws, Chapter 2, a bill providing health insurance premium relief. Chapter 2 had no net general fund impact because its total cost of \$327 million was offset by a transfer into the General Fund from the budget reserve. The fiscal effects of these bills were already built into the February 2017 budget forecast.

Table 1 2017 Session Legislative Actions Prior to February 2017 Forecast Dollars in millions					
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Chapter 1 - Tax Conformity					
Tax Revenue Change	-21,730	22,345	-835	-28,445	-62,095
Chapter 2 - Health Insurance Premium Relief					
Premium Relief	311,788	0	0	0	0
Transition of Care Coverage	15,000	0	0	0	0
Legislative Auditor	157	0	0	0	0
Revenue Change - Transfer from Budget Reserve	326,945	0	0	0	0
Total Net General Fund - Chapters 1 & 2	21,730	-22,345	835	28,445	62,095
(Net cost is spending minus revenue loss)					

For the FY 2018-19 biennium, the February 2017 budget forecast projected biennial revenue of \$45.663 billion and spending of \$44.741 billion. For FY 2016-17, the forecast projected a budget balance of \$744.5 million that would carry forward as resources in FY 2018-19. The reserve account for the Vikings Stadium-related payments is projected to increase by \$15.35 million in FY 2018-19. Those numbers resulted in the projected June 30, 2019, budget balance of \$1.651 billion.

For FY 2020-21, the February 2017 forecast projected that revenues would be \$49.357 billion and spending would be \$47.233 billion. The cumulative balance (which includes the \$1.651 billion balance from FY 2018-19) on June 30, 2021, would be \$3.743 billion.

Table 2 illustrates the general fund budget situation as outlined in the February 2017 state budget forecast.

Table 2 General Fund Budget Situation - February 2017 Forecast Dollars in millions			
	<u>FY 2016-17</u>	<u>FY 2018-19</u>	<u>FY 2020-21</u>
Beginning Balance	726,044	744,494	1,651,375
Revenue/Other Resources	42,435,491	45,663,342	49,357,331
Total Resources Available	43,161,535	46,407,836	51,008,706
Expenditures	41,815,620	44,741,111	47,232,785
Change in Reserves	601,421	15,350	41,554
Balance	744,494	1,651,375	3,734,367

Most budget changes enacted in the 2017 regular and special session were for the FY 2018-19 biennium but some changes in spending and revenue affected FY 2017 (the current biennium).

Table 3 shows that general fund spending increased by a net \$14.355 million in FY 2017 and revenue decreased by \$540,000 for that year. The FY 2017 changes were, in general, either cancellations of previously appropriated amounts or appropriations for deficiencies. The revenue change was a retroactive sales tax change.

Table 3 Budget Comparison - FY 2016-17 Biennium - February Forecast versus End of Session Dollars in thousands			
General Fund FY 2016-17	Feb. 2017 Forecast	End of 2017 Session	Percent Change
Balance Forward	726,044	726,044	
Forecasted Revenues	42,435,491	42,435,491	
Revenue Changes	0	-540	
Net Resources	43,161,535	43,160,995	0.0%
Forecasted Spending	41,815,620	41,815,620	
Spending Changes	0	14,355	
Net Spending	41,815,620	41,829,975	0.0%
Changes in Reserves	601,421	601,421	
Balance	744,494	729,599	

Table 4 shows the FY 2017 spending changes by committee area and separates spending and revenue changes.

Table 4 FY 2017 General Fund Spending Changes Dollars in thousands	
Education	-3,135
Tax Aids & Credits	30
Environment	4,833
Agriculture	-694
Transportation	-1,100
Public Safety	10,896
Jobs & Energy	-376
State Government	-7,132
Capital Projects	11,033
Total FY 2017 Spending Change	14,355
Revenue Change - Taxes	-540
Net FY 2017 General Fund Impact	14,895

For FY 2018-19, bills enacted during the 2017 legislative session and the 2017 first special session increased general fund spending \$800.1 million or 1.8 percent above the projected base for that biennium and decreased general fund revenue \$657.2 million or 1.4 percent below the projected base revenue.

However, the enacted budget includes no appropriation for the Minnesota House of Representatives and the Minnesota Senate. The Governor line-item vetoed those appropriations for FY 2018-19 totaling \$129.17 million. If the appropriations for the House and Senate are included in the calculations, at the amounts appropriated in 2017 First Special Session Laws, Chapter 4, and then vetoed, general fund spending for FY 2018-19 increases \$929.2 million or 2.1 percent over the FY 2018-19 base level. As of the time this is being written, the Ramsey County District Court has reinstated the appropriations for the House and Senate but the Governor has stated he intends to appeal that ruling to the Minnesota Supreme Court.

Of the \$929.2 million in spending changes, \$484.8 million is in Education, \$210.0 million is in Higher Education, and \$153.5 million is in Public Safety and Judiciary. Health and Human Services spending is reduced \$471.5 million below the projected base level.

Of the \$657.2 million of decreased revenue, \$249.3 million is in decreased income taxes, \$256.9 million is in decreased sales taxes, and \$96.2 million is in decreased statewide property taxes. A major portion of the sales tax changes occur in the transportation bill.

Table 5 shows the changes in the general fund budget for FY 2018-19 made during the 2017 legislative sessions as compared to the budget situation in the February 2017 state budget forecast. Columns in the table show spending with appropriations as enacted and as enacted but with the vetoed House and Senate appropriations added in.

For the next biennium, FY 2020-21, the February forecast projected that revenue would exceed spending by \$2.083 billion. In the end of 2017 session projections that amount changed to \$212.6 million with bills as enacted or \$83.6 million with enacted bill plus adding in base amounts for the House and Senate. Spending in FY 2020-21 was projected to be \$47.233 billion in the February 2017 forecast. That amount increased by \$784.1 million to \$48.017 billion in the end of 2017 enacted budget numbers or by \$913.1 million to \$48.146 billion in the enacted budget numbers plus adding funding base amounts for the House and Senate.

Table 6 illustrates the revenue and spending information for FY 2020-21 in the February 2017 forecast and in the end of 2017 sessions information. The chart Table 6 does not include any amount that might be carried forward from FY 2018-19.

Table 5 Budget Comparison - FY 2018-19 Biennium - February Forecast versus End of Session Dollars in thousands					
General Fund FY 2018-19	Feb. 2017 <u>Forecast</u>	End of 2017 Sessions, <u>As Enacted</u>	Percent <u>Change</u>	End of 2017 Sessions, As Enacted <u>Plus House & Senate</u>	Percent <u>Change</u>
Balance Forward	744,494	729,599		729,599	
Forecasted Revenues	45,663,342	45,663,342		45,663,342	
Revenue Changes	0	-657,209		-657,209	
Net Resources	46,407,836	45,735,732	-1.4%	45,735,732	-1.4%
Forecasted Spending	44,741,111	44,741,111		44,741,111	
Spending Changes	0	800,061		929,231	
Net Spending	44,741,111	45,541,172	1.8%	45,670,342	2.1%
Changes in Reserves	15,350	15,350		15,350	
Balance	1,651,375	179,210		50,040	

Table 6 Budget Comparison - FY 2020-21 Biennium - February Forecast versus End of Session This chart shows FY 2020-21 numbers only with no carry forward from FY 2019. Dollars in thousands					
General Fund FY 2020-21	Feb. 2017 <u>Forecast</u>	End of 2017 Sessions, <u>As Enacted</u>	Percent <u>Change</u>	End of 2017 Sessions, As Enacted <u>Plus House & Senate</u>	Percent <u>Change</u>
Forecasted Revenues	49,357,331	49,357,331		49,357,331	
Revenue Changes	0	-1,086,298		-1,086,298	
Net Resources	49,357,331	48,271,033	-2.2%	48,271,033	-2.2%
Forecasted Spending	47,232,785	47,232,785		47,232,785	
Spending Changes	0	784,125		913,101	
Net Spending	47,232,785	48,016,910	1.7%	48,145,886	1.9%
Changes in Reserves	41,554	41,554		41,554	
Balance	2,082,992	212,569		83,593	

Tables 7a and 7b show the changes in revenue and spending from biennium to biennium after the 2017 legislative changes. Table 7a shows FY 2018-19 spending amounts as enacted in 2017 legislation, Table 7b shows spending as enacted plus the appropriated amounts for the House and Senate.

As shown on the chart, general fund spending in the FY 2016-17 biennium was increased \$14.4 million in the 2017 sessions.

General fund revenue is projected to increase 6.1 percent in FY 2018-19 over revenue in FY 2016-17 after changes made by 2017 legislation. Revenue amounts are the same in both Tables 7a and 7b.

General fund spending is projected to increase 8.9 percent in FY 2018-19 over spending in FY 2016-17 in the budget as enacted (Table 7a) or 9.2 percent in the enacted budget when appropriations for the House and Senate are included at the appropriated amounts (Table 7b).

In FY 2020-21 general fund revenue is projected to increase 7.3 percent over revenue in FY 2018-19. Spending in FY 2020-21 is projected to be 5.4 percent higher than in FY 2018-19. Percentage changes for spending in FY 2020-21 are the same in both Tables 7a and 7b, but the spending amounts are different.

The projected budget balance on June 30, 2017, is \$729.6 million. That balance carries forward into FY 2018-19. The balance on June 30, 2019, is projected to be \$179.21 million in the budget as enacted or \$50.0 million in the enacted budget with appropriations for the House and Senate added. The balance on June 30, 2021, is projected to be \$391.8 million in the budget as enacted or \$133.6 million in the enacted budget with appropriations for the House and Senate added. That amount assumes the June 30, 2019, balance carries forward in FY 2020-21.

Table 7a As Enacted General Fund Biennial Budget Summary and Comparisons - Biennial Change Dollars in thousands					
	<u>FY 2016-17</u>	<u>FY 2018-19</u>	<u>Percent Change</u>	<u>FY 2020-21</u>	<u>Percent Change</u>
Balance Forward	726,044	729,599		179,210	
Revenue - Base	42,435,491	45,663,342		49,357,331	
Revenue - Change	-540	-657,209		-1,086,298	
Total Current Resources	42,434,951	45,006,133	6.1%	48,271,033	7.3%
Total Available Resources	43,160,995	45,735,732		48,450,243	
Expenditures - Base	41,815,620	44,741,111		47,232,785	
Expenditures - Change	14,355	800,061		784,125	
Total Expenditures	41,829,975	45,541,172	8.9%	48,016,910	5.4%
Balance Before Reserve Changes	1,331,020	194,560		433,333	
Change in Reserves	601,421	15,350		41,554	
Balance After Reserves	729,599	179,210		391,779	

Table 7b As Enacted, Plus Amounts Appropriated But Vetoed for House and Senate General Fund Biennial Budget Summary and Comparisons - Biennial Change Dollars in thousands					
	<u>FY 2016-17</u>	<u>FY 2018-19</u>	<u>Percent Change</u>	<u>FY 2020-21</u>	<u>Percent Change</u>
Balance Forward	726,044	729,599		50,040	
Revenue - Base	42,435,491	45,663,342		49,357,331	
Revenue - Change	-540	-657,209		-1,086,298	
Total Current Resources	42,434,951	45,006,133	6.1%	48,271,033	7.3%
Total Available Resources	43,160,995	45,735,732		48,321,073	
Expenditures - Base	41,815,620	44,741,111		47,232,785	
Expenditures - Change	14,355	929,231		913,101	
Total Expenditures	41,829,975	45,670,342	9.2%	48,145,886	5.4%
Balance Before Reserve Changes	1,331,020	65,390		175,187	
Change in Reserves	601,421	15,350		41,554	
Balance After Reserves	729,599	50,040		133,633	

General Fund Revenue for FY 2018-19 is \$657.2 Million Lower than Forecasted Revenue

General fund revenue for the FY 2018-19 biennium is projected to be \$45.736 billion, \$657.2 million less than was projected in the February 2017 budget forecast.

Table 8 shows the major general fund revenue sources and shows the dollar amounts and percentages of general fund total revenue for each of those revenue sources. Table 8 also shows, by category, changes in revenue made in the 2017 legislative sessions to revenue for FY 2018-19.

Table 8 General Fund Revenue - FY 2018-19 Biennium Based on February 2017 Forecast and 2017 Session Changes Dollars in Millions			
Revenue Type	Total Dollars	Percent of Total	Change From Forecast
Individual Income Tax	24,150.4	53.7%	-249.3
Corporate Tax	2,621.0	5.8%	-1.7
Sales Tax	11,209.4	24.9%	-256.9
Statewide Property Tax	1,646.0	3.7%	-96.2
Estate Tax	279.9	0.6%	-34.9
Liquor, Wine & Beer Taxes	182.1	0.4%	-0.1
Cigarette & Tobacco Products Taxes	1,239.2	2.8%	-12.2
Mortgage Registry Tax	213.3	0.5%	0.0
Deed Transfer Tax	251.1	0.6%	0.0
Insurance Gross Earnings & Fire Marshall	775.8	1.7%	0.0
Lawful Gambling Taxes	132.2	0.3%	0.0
Medical Assistance Surcharges	551.3	1.2%	0.0
Investment Income	38.0	0.1%	0.0
Lottery Revenue	128.7	0.3%	0.0
Tobacco Settlement	306.3	0.7%	0.0
Fees - Department Earnings	383.0	0.9%	9.5
DHS State Operated Service Collections	141.9	0.3%	0.0
Fines & Surcharges	154.2	0.3%	0.1
Other Revenue Including Refunds	240.2	0.5%	-15.6
Transfers Into the General Fund	308.6	0.7%	0.0
Prior Year Adjustments	53.5	0.1%	0.0
Total	45,006.1	100.0%	-657.2

Individual income tax at 53.7 percent and sales tax at 24.9 percent are projected to make up 78.3 percent of total general fund revenue for the FY 2018-19 biennium.

Some changes were made in fees and other charges in the 2017 sessions. Those general fund changes are incorporated into the amounts listed in Table 8. A list of all 2017 session fee and other changes (General Fund as well as other funds) is included in Appendix 1. Appendix 1 shows estimated change information for each of the four years in the FY 2018-19 and FY 2020-21 biennia. The FY 2018-19 changes total \$27.1 million. Within that amount, general fund fee and similar revenue dropped \$6.5 million. Most of the fees increases were in the Environment area where fees were increased for state park admission, hunting and fishing licenses, and snowmobile

and ATV registration. The fee increases in the Environment area are in the Game and Fish Fund and the Natural Resources Fund, not the General Fund.

Table 9 shows the general fund revenue changes enacted in the 2017 sessions by committee area. This chart includes fee changes but also includes tax changes in the Taxes area and the transfer of revenue sources from the General Fund to transportation funds in the Transportation area. It is important to note that some of these reductions in general fund revenue are not reductions in the amount of revenue being collected by the state but rather a change in where that revenue is being deposited. For example, revenue is being deposited in the Highway User Tax Distribution Fund rather than the General Fund as a result of changes in the Transportation bill.

Table 9 General Fund Revenue Changes by Committee Area (Dollars in thousands) (A positive number is a gain to the general fund)		
	<u>FY 2018-19</u>	<u>FY 2020-21</u>
Education	38	-4,150
Higher Education	0	0
Taxes	-447,891	-630,803
Health & Human Services	-8,080	-6,691
Environment & Natural Resources	309	422
Agriculture	-220	-220
Transportation	-205,198	-444,422
Public Safety	-5,126	-5,728
Jobs & Energy	-6,972	-8,204
State Government	15,931	15,198
Capital/Debt Service	0	-1,700
Totals	-657,209	-1,086,298

General Fund Spending for FY 2018-19 is \$800.1 million Higher than Forecasted Spending

Total enacted FY 2018-19 general fund spending is \$45.7 billion, \$800.1 million or 2.1 percent higher than the base budget for FY 2018-19 as projected in the February 2017 state budget forecast. Table 10 shows general fund spending in the enacted budget for the FY 2018-19 biennium by committee area. Table 10 also compares FY 2018-19 enacted spending to spending in the FY 2016-17 biennium. The FY 2018-19 enacted spending of \$45.7 billion is a \$3.84 billion or 9.2 percent increase over the spending in the FY 2016-17 biennium.

The largest dollar increase in spending compared to the forecasted amount is in Education at \$484.8 million or 2.7 percent. Education spending is \$1.333 billion or 7.6 percent higher than general fund spending for Education in FY 2016-17.

Table 10 shows the percentage change amounts for each spending program area and compares enacted FY 2018-19 spending to the base for FY 2018-19 to spending for FY 2016-17. In Table 10 and the numbers in the previous two paragraphs, the FY 2018-19 spending numbers include funding for the House and Senate at the appropriated amounts.

Table 10 Total General Fund Spending (Dollars in thousands)							
	Change FY 2017	Forecast FY 2016-17 as Changed*	Forecast Base FY 2018-19	Enacted with House and Senate added FY 2018-19	Percentage Change: Enacted (2) vs. FY 2016-17 as Changed*	Percentage Change Enacted versus Base FY 2018-19	Enacted (2) FY 2020-21
Education	-3,135	17,423,862	18,271,866	18,756,681	7.6%	2.7%	19,510,097
Higher Education	0	3,081,146	3,069,493	3,279,493	6.4%	6.8%	3,255,802
Tax Aids & Credits	30	3,337,948	3,451,877	3,651,583	9.4%	5.8%	3,686,972
Health & Human Services	0	11,766,111	14,324,310	13,852,758	17.7%	-3.3%	15,728,273
Environment & Natural Resources	4,833	391,646	314,053	322,429	-17.7%	2.7%	319,348
Agriculture	-694	116,654	118,472	123,916	6.2%	4.6%	122,022
Transportation	-1,100	276,799	243,592	339,494	22.7%	39.4%	247,118
Public Safety	10,896	2,175,135	2,165,970	2,319,570	6.6%	7.1%	2,344,986
Jobs & Energy (1)	-376	484,690	369,189	534,466	10.3%	44.8%	405,766
State Government (2)	-7,132	1,366,227	1,033,548	1,095,397	-19.8%	6.0%	1,056,391
Debt Service	0	1,138,500	1,142,817	1,155,301	1.5%	1.1%	1,217,315
Capital Projects	11,033	277,468	255,924	259,254	-6.6%	1.3%	271,796
Other		8,789	0	0			0
Cancellations		-15,000	-20,000	-20,000			-20,000
Net GF Total	14,355	41,829,975	44,741,111	45,670,342	9.2%	2.1%	48,145,886
* FY 2016-17 "as changed" includes changes in FY 2017 spending enacted in the 2017 sessions.							
(1) The Jobs & Energy line includes FY 2018-19 spending of \$142.155 million in Chapter 13, Reinsurance.							
(2) The State Government line in FY 2018-19 includes \$129.17 million of vetoed appropriations for the House and Senate.							

Table 11 Other Fiscal Bills - Committee Area		
Bill	Committee	Fund(s) Affected
Chapter 7 - Wetlands Mitigation	Environment	General
Chapter 7 - Madelia Disaster Aid	Public Safety	General
Chapter 13 - Reinsurance Program	Jobs & Energy	General, Health Care Access
Chapter 14 - Road Construction - Federal Funds	Transportation	Federal
Chapter 36 - Trust Reporting Exemptions	Agriculture	Agricultural
Chapter 50 - Medical Practices Board	Health & Human Services	State Government Special Revenue
Chapter 54 - Lands	Environment	Natural Resources, Special Revenue, Outdoor Heritage
Chapter 55 - Law Enforcement Memorial Plates	Transportation	Special Revenue
Chapter 69 - Memorial Highway	Transportation	Trunk Highway
Chapter 70 - Memorial Bridge	Transportation	Trunk Highway
Chapter 72 - Claims	Public Safety	General
Chapter 76 - Real ID	Transportation	Special Revenue
Chapter 81 - Memorial Highway	Transportation	Trunk Highway
Chapter 82 - Medical Faculty Licenses	Health & Human Services	State Government Special Revenue

Spending amounts in Table 10 include the amounts for the omnibus finance bill for each committee area plus any other bills that affected agencies or programs in the area. Those bills and the committee areas in which they are included are listed in Table 11.

The detailed summaries for each committee area that follow provide more specific information on the fiscal actions of the 2017 sessions in those areas.

For more information on General State Budget issues, contact Bill Marx, Chief Fiscal Analyst, at 651-296-7176 or bill.marx@house.mn.

Agriculture Finance

Laws 2017, Chapter 88 as enacted in 2017 appropriates money for the agricultural activities of the state. Agencies and programs funded include the Minnesota Department of Agriculture, Board of Animal Health, and Agricultural Utilization and Research Institute. Laws 2017, Chapter 88 enacts total General Fund appropriations of \$123.916 million for the 2018-19 biennium; there is also \$474,000 in lost General Fund revenue which needs to be included when discussing total General Fund impact. The total net General Fund impact is \$123.442 million for the 2018-19 biennium. The amount appropriated, including lost revenue, is \$4.970 million over base level funding or an increase of about 4.2 percent. The following chart and agency narrative provides details on the appropriations.

Agriculture Finance							
Total General Fund Spending							
(all dollars in thousands)							
					Percentage Change: Enacted FY 2018-19	Percentage Change: Enacted	
	Change FY 2017	FY 16-17 Forecast with changes	Forecast Base FY 2018-19	Enacted FY 2018-19	vs. FY 2016-17 with Changes	vs. Base FY 2018-19	Enacted FY 2020-21
Department of Agriculture	(694)	96,497	100,418	105,454	9.3%	5.0%	103,524
Board of Animal Health	0	12,871	10,768	10,876	-15.5%	1.0%	10,912
AURI	0	7,286	7,286	7,586	4.1%	4.1%	7,586
Total Expenditures	(694)	116,654	118,472	123,916	6.2%	4.6%	122,022
General Fund Revenue				474			(220)
Net GF Total	(694)	116,654	118,472	123,442	5.8%	4.2%	122,242

Department of Agriculture

The Department of Agriculture received \$105.454 million over the biennium in direct General Fund appropriations in Chapter 88. The total biennial appropriation from all funds is \$199.972 million.

Protection Services:

The biennial total direct appropriation from the General Fund for the Protection Services Division is \$34.856 million, with the total direct appropriations from all funds being \$35.646 million. There were a number of changes in the General Fund and other funds (non-General Fund) that contributed to the total appropriation. General Fund changes included:

- A one-time appropriation of \$500,000 for the expansion of the Department of Agriculture's capacity to respond to plant pathogens and pests.
- A one-time appropriation of \$400,000 to expand the industrial hemp development program.
- A one-time appropriation of \$600,000 over the biennium for transfer to the noxious weed and invasive plant species account in the agricultural fund to assist county weed inspectors with the detection and eradication of noxious weeds.

- A one-time appropriation of \$500,000 over the biennium for transfer to the pollinator habitat and research account in the Agricultural Fund.
- A one-time appropriation of \$240,000 for wolf livestock prevention grants.
- A one-time appropriation of \$250,000 to increase staffing levels in the noxious weed program.
- A biennial appropriation of \$310,000 for crop payment compensation related to elk damage. This represents a biennial increase of \$60,000 over the base.

Non-General Fund Changes included:

- A biennial appropriation of \$776,000 from the remediation fund for operations related to the voluntary clean-up program. This represents a biennial increase of \$14,000 over the base.
- A biennial total of \$1.564 million in fee increases, license increases, or transfers from the Agricultural Fund and Special Revenue Fund.
- The following fee, license, or transfer changes were enacted:
 - Waste pesticide collection fee increase.
 - Food certificate fee increase.

Promotion and Marketing:

The total General Fund appropriation for this division is \$7.992 million for the biennium. This is the only direct appropriation the division receives. No changes to base funding for this division were enacted.

Agriculture, Bioenergy, and Bioproduct Advancement:

The General Fund appropriation for the division is \$45.217 million for the biennium. The total amount appropriated for the Agricultural, Growth, Research and Innovation (AGRI) program was increased \$6.097 million for the biennium above the base. Other changes within the division included:

- A biennial appropriation of \$18.600 million for production agricultural research and rapid response. Of the appropriation, two new riders were added specifying that \$450,000 per year must be directed towards research related to wild rice and \$350,000 per year must be directed towards potato breeding research.
- A statutory appropriation related to wood siding production incentive payments contained in the 2016 supplemental appropriations bill was repealed. Those dollars represent the infusion of new funding for the AGRI program.

Administration and Financial Assistance:

Direct biennial appropriations for the division included \$17.389 million from the General Fund. There were a number of changes in the General Fund amounts that contributed to the total appropriation:

- A one-time appropriation of \$400,000 for the GROW-IT Center located on the campus of Metropolitan State University in St. Paul.
- An increase of funding for the farm advocates program of \$80,000 for the biennium. Additionally, a rider was added to this section specifying that the department spend \$440,000 for this program over the biennium.
- A one-time appropriation of \$150,000 to extend and administer a tractor rollover safety system grants program.
- A biennial operating increase of \$1.859 million.

Board of Animal Health

The Board of Animal Health received a General Fund Appropriation of \$10.876 million for the biennium from the General Fund. The agency received an operating increase of \$108,000 for the biennium.

Agricultural Utilization and Research Institute (AURI)

The Agricultural Utilization and Research Institute received a General Fund appropriation of \$7.586 million for the biennium. The agency received an operating increase of \$300,000 for the biennium.

For additional information on Agricultural Finance issues, contact Ken Savary, Fiscal Analyst, at 651-296-7171 or ken.savary@house.mn.

Education Finance

For the FY 2018-19 biennium, the 2017 Legislature passed a budget signed by Governor Mark Dayton that includes \$18.76 billion in General Fund state aid for K-12 and early childhood education programs (1st Special Session, Chapter 5). This compares with the February 2017 forecast of FY 2018-19 spending of \$18.27 billion. This represents a total increase of \$484.8 million, or 2.7 percent over the forecast base.

Education Finance							
Total General Fund Spending							
(all dollars in thousands)							
					Percentage Change:	Percentage	
	Change	FY 16-17 Forecast	Forecast Base	Enacted	Enacted FY 2018-19	Change: Enacted	
	FY 2017	with changes	FY 2018-19	FY 2018-19	vs. FY 2016-17	vs. Base	Enacted
					with Changes	FY 2018-19	FY 2020-21
General Education	0	13,621,969	13,965,790	14,348,175	5.3%	2.7%	14,710,027
Education Excellence	(1,513)	497,274	502,230	524,700	5.5%	4.5%	527,392
Standards and Assessments	0	37,118	36,806	33,806	-8.9%	-8.2%	33,806
Charter Schools	0	131,407	151,776	152,143	15.8%	0.2%	174,596
Special Education	0	2,443,004	2,773,786	2,773,048	13.5%	0.0%	3,143,402
Facilities and Technology	(1,622)	130,824	242,807	233,107	78.2%	-4.0%	278,528
Nutrition and Libraries	0	88,505	93,860	93,860	6.1%	0.0%	97,765
Early Childhood & Family Supports	0	275,281	310,127	384,795	39.8%	24.1%	342,130
Community Support Services	0	8,755	7,238	8,598	-1.8%	18.8%	8,512
Self-Sufficiency & Lifelong Learning	0	98,113	101,757	101,757	3.7%	0.0%	107,923
Department of Education	0	51,069	44,217	52,032	1.9%	17.7%	44,019
Board of Teaching	0	1,027	1,936	6,974	579.1%	260.2%	1,679
Minnesota State Academies	0	25,672	25,590	28,378	10.5%	10.9%	26,372
Perpich Center	0	13,844	13,946	15,308	10.6%	9.8%	13,946
Spending Total	(3,135)	17,423,862	18,271,866	18,756,681	7.6%	2.7%	19,510,097
GF Revenue (PELSB teacher licensure fees)				38			
GF Revenue transfer to Special Revenue Fund Educator Licensure Account							(4,226)
Net GF Total	(3,135)	17,423,862	18,271,866	18,756,681	7.6%	2.7%	19,514,323

The following summarizes Chapter 5, with costs expressed as a biennial total for FY 2018-19 from the General Fund, unless otherwise noted:

General Education Program

- \$367.3 million for an increase in the basic formula allowance of \$121 per pupil in FY 2018 and an additional \$124 per pupil in FY 2019. The formula allowance for FY 2018 will be \$6,188 and for FY 2019 will be \$6,312. Programs with funding mechanisms linked to changes in the formula allowance will see corresponding increases. These include nonpublic pupil aid, nonpublic pupil transportation, and Early Childhood Family Education (ECFE). The total fiscal impact of the formula allowance increase to these linked programs is \$4.2 million.
- \$13.9 million for the continuation of the compensatory pilot grant program. The pilot program will be part of the compensatory revenue program starting in FY 2018. All schools

in the compensatory revenue program are required to set aside growth in compensatory revenue to be used for extended time activities.

- \$74,000 for the extended time revenue program for students in a summer education program providing on-site services at care and treatment facilities like Prairie Lakes, which is located in the Willmar school district.
- \$3.8 million for a new funding component in pupil transportation services to increase transportation sparsity revenue.
- \$25,000 to extend the Graduation Incentive program for English Learners to FY 2018.
- \$640,000 to cover the transition requirements necessary for the planned sale of Crosswinds school. This includes compensatory revenue, literacy aid, and alternative compensation revenue
- Operating capital levy equalizing factor is increased to \$20,548 for FY 2018 in order to keep total school levies unchanged from the February 2017 forecast, offsetting the levy effect due to the creation of the school readiness plus program.

Education Excellence

- \$200,000 in FY 2018 and FY 2019 only for an African American Registry that will be used to create a partnership between Metropolitan State University and the University of St. Thomas to improve the cultural competency of teaching license candidates.
- \$250,000 in additional funding for agricultural educator grants to make the program ongoing.
- \$750,000 in one-time funding for alternative teacher preparation grants that will be administered through the Office of Higher Education.
- \$440,000 in additional funding for the collaborative urban and greater Minnesota educators of color program. The forecast base for the FY 2018-19 biennium is \$1.56 million.
- \$750,000 for concurrent enrollment teacher training grants.
- An estimated \$410,000 of the \$500,000 appropriated for the Education Innovation Partners Cooperative Center was not expended in the FY 2016-17 biennium. This \$410,000 appropriation will be cancelled on June 30, 2017, and re-appropriated for use in the FY 2018-19 biennium. This is a one-time appropriation.
- \$1 million in FY 2018 only to promote educational stability for kids in foster care.
- \$1 million in additional funding for Grow Your Own—the paraprofessional pathway to teacher licensure. The forecast base for the FY 2018-19 biennium is \$2 million.
- Funding for interdistrict desegregation or integration transportation grants is reduced by \$1.722 million due to the anticipated closure of Crosswinds school.
- \$4.9 million in one-time funding for an intermediate school district mental health innovation program that will be administered through the Department of Human Services.

- \$500,000 in additional funding for the Minnesota math corps program. The forecast base for the FY 2018-19 biennium is \$500,000.
- \$100,000 in one-time funding for the Minnesota Center for the Book.
- \$118,000 in additional funding for the Minnesota Children's Museum. The forecast base for the FY 2018-19 biennium is \$520,000.
- \$400,000 for the Principal's Academy program at the University of Minnesota.
- Funding for Race 2 Reduce Water Conservation grants is eliminated after FY 2018. The base appropriation for FY 2018 is \$307,000.
- \$2.65 million in additional funding for the Minnesota Reading Corps program. The forecast base for the FY 2018-19 biennium is \$11.25 million per year.
- \$500,000 in additional funding for recovery program grants. The forecast base for these grants in the FY 2018-19 biennium is \$1 million.
- \$500,000 in one-time funding for Rock 'n' Read, which is a singing based program to improve student literacy.
- \$3 million for rural career and technical education consortium grants.
- \$1 million in one-time funding for the Sanneh Foundation, which provides all-day (before, during, and after school) academic and behavioral interventions for students.
- An estimated \$253,000 of the \$385,000 appropriated for the Southwest Minnesota State University special education teacher education program was not expended in the FY 2016-17 biennium. This \$253,000 appropriation will be cancelled on June 30, 2017, and re-appropriated for use in the FY 2018-19 biennium. This is a one-time appropriation.
- An estimated \$850,000 of the \$924,000 appropriated for the Starbase program was not expended in the FY 2016-17 biennium. This \$850,000 appropriation will be cancelled on June 30, 2017, and re-appropriated for use in the FY 2018-19 biennium, along with an additional \$500,000 to bring the FY 2018 amount to \$1.35 million. The base will be \$500,000 annually starting in FY 2020.
- \$750,000 for the statewide concurrent enrollment teacher training program, previously known as the Northwest Regional Partnership.
- \$500,000 for grants to encourage low-income and underserved students to participate in STEM (science, technology, engineering, and math) courses offered through advanced placement and international baccalaureate programs.
- \$500,000 in one-time funding for the teacher shortage loan forgiveness program that will be administered through the Office of Higher Education.
- \$3.728 million in additional funding for Tribal Contract Schools formula aid. The forecast base for the FY 2018-19 biennium is \$3.913 million.

Standards and Assessments

- \$3 million in savings due to changes to part of the ACT assessment policy. Districts are only required to cover the cost of the test for students who are free or reduced-price meal eligible.

Charter Schools

- \$367,000 to include students participating in the Postsecondary Enrollment Options Act to count toward a charter school's building lease aid pupil unit calculation.

Special Education Programs

- \$738,000 in savings to reflect programs that closed.

Facilities & Technology

- \$1.772 million was inadvertently canceled from the FY 2017 appropriation for the Long-Term Facilities Maintenance Revenue Program.
- \$150,000 in FY 2017 and \$300,000 in additional funding in the FY 2018-19 biennium for the early repayment aid incentive program. This new funding is used to add the Kelliher school district to the program. The forecast base for the FY 2018-19 biennium is \$4.4 million. The base for the program in FY 2022 is zero.
- \$10 million in savings for the conveyance of Crosswinds school.

Early Childhood Education and Family Support

- \$50 million for the school readiness plus program, for children age four to kindergarten entrance. The new program is designed to prepare children for success in school. This is a one-time appropriation.
- \$20.65 million in new funding for the Early Learning Scholarships program. The forecast base for the FY 2018-19 biennium is \$119.768 million.
- \$1.1 million in new funding for the Parent-Child Home Program. This program sends trained home visitors to work with families in their homes on early literacy skills. The forecast base for the FY 2018-19 biennium is \$700,000.

Community Support Services

- \$200,000 in additional funding for the Northside Achievement Zone, located in North Minneapolis. The forecast base for the FY 2018-19 biennium is \$2.4 million.

- \$200,000 in additional funding for the St. Paul Promise Neighborhood program, located in the Frogtown neighborhood of St. Paul. The forecast base for the FY 2018-19 biennium is \$2.4 million.
- \$960,000 is for the expansion of the education partnership program. Of this funding, \$160,000 each year is for the Northfield Healthy Community Initiative; \$160,000 each year is for the Jones Family Foundation for the Every Hand Joined program in Red Wing; and \$160,000 each year is for the United Way of Central Minnesota for the Partners for Student Success.

Minnesota Department of Education (MDE)

- \$6 million for an agency operating increase.
- \$3.25 million for a mainframe update. This is a one-time appropriation.
- \$1.681 million in savings from the transfer of licensing staff to the Board of Teaching.
- \$246,000 for a dyslexia specialist.

Board of Teaching

- \$1.295 million for the creation of the Professional Educator Licensing and Standards Board (PELSB).
- \$1.681 million for licensing staff from MDE.
- \$268,000 for administrative support to the board from the Department of Administration.
- \$1.794 million to build a new licensing system for the PELSB. This is a one-time appropriation.
- Revenue from teacher and administrator licenses is moved to a special revenue fund account (Educator Licensure account) beginning in FY 2020 and then appropriated to the new board. In FY 2020 this is estimated to move \$2.113 million of General Fund revenue to the Educator Licensure account. General Fund appropriations for the board are reduced accordingly.

Minnesota State Academies for the Deaf and Blind (MSA)

- \$500,000 for facility safety and accessibility improvements. This is a one-time appropriation.
- \$753,000 for an overall operating increase.
- \$217,000 for an operating increase for the Academy for the Blind. This is a one-time appropriation.
- \$1.318 million for an operating increase Academy for the Deaf. This is a one-time appropriation.

Perpich Center for Arts Education

- \$740,000 in savings from an operating reduction. This reduction is one-time.
- \$740,000 for arts integration and the Turnaround Arts program. This is a one-time appropriation.
- \$1.2 million in one-time funds for severance payments to the employees at Crosswinds school, upon its conveyance.
- \$162,000 in one-time funds to the Department of Administration for costs related to the sale of the Crosswinds school.

For further information on Education Finance issues contact Emily Adriaens, Fiscal Analyst, at 651-296-4178 or emily.adriaens@house.mn.

Environment and Natural Resources Policy and Finance

Chapter 93, Article 1 as enacted by the 2017 Legislature appropriates money for the environment and natural resources activities of the state. Agencies and programs funded include the Pollution Control Agency, Department of Natural Resources, Minnesota Conservation Corps, Metropolitan Council Parks, Minnesota Zoo, Board of Water and Soil Resources, Science Museum of Minnesota, and one appropriation to the Department of Revenue. Chapter 93, Article 1 enacts \$322.429 million in total appropriations from the General Fund for the 2018-19 biennium; there are also General Fund revenue changes and transfers with a net gain to the General Fund of \$309,000. The net impact to the General Fund from environment and natural resource appropriations is \$322.120 million. The amount appropriated is \$8.067 million over base level funding. The following chart and agency narratives provide details on the appropriations. In addition to the FY 2018-2019 appropriations, \$5 million in FY 2017 was appropriated in Chapter 7 to the Board of Water and Soil Resources for the local roads wetland replacement program.

Environment and Natural Resources Finance and Policy Committee							
Total General Fund Spending							
(all dollars in thousands)							
	Change	FY 16-17 Forecast	Forecast Base	Enacted	Percentage Change:	Percentage	
	FY 2017	with changes	FY 2018-19	FY 2018-19	Enacted FY 2018-19	Change: Enacted	Enacted Base
					vs. FY 2016-17	vs. Base	FY 2020-21
					with Changes	FY 2018-19	
Pollution Control Agency	0	19,337	11,786	13,345	-31.0%	13.2%	13,388
General Fund Transfer to Closed Landfill Investment Fund	0	63,215	0	0	-100.0%	0.0%	0
General Fund Transfer to Dry Cleaner Account	0	8,100	0	0	-100.0%	0.0%	0
Department of Natural Resources	-167	160,654	151,096	171,207	6.6%	13.3%	169,398
Firefighting and Treaty Payments (OPEN)	0	50,423	47,422	47,422	-6.0%	0.0%	47,422
Transfer to Mining and Environmental Regulatory Account	0	1,924	1,617	1,617	-16.0%	0.0%	1,736
Board of Water and Soil Resources	5,000	32,847	48,328	28,475	-13.3%	-41.1%	28,328
Metropolitan Council	0	6,140	5,740	5,080	-17.3%	-11.5%	5,080
Conservation Corps of Minnesota	0	910	910	910	0.0%	0.0%	910
Zoological Board	0	16,500	16,500	18,210	10.4%	10.4%	18,286
Science Museum	0	2,158	2,158	2,158	0.0%	0.0%	2,158
Explore Minnesota Tourism	0	29,438	28,496	30,005	1.9%	5.3%	28,642
Department of Revenue	0	0	0	4,000			4,000
General Fund Revenue Changes	0	0	0	-309			-422
Net GF Total	4,833	391,646	314,053	322,120	-17.8%	2.6%	318,926

Pollution Control Agency (PCA)

Appropriations to the PCA from the General Fund total \$13.345 million for the biennium. Total direct appropriations from all funds are \$202.027 million. A number of changes are made within the agency as listed below. Structurally, the appropriations for the FY 2018-19 appropriations were made to the agency under the agency operating divisions instead of the five programs as has been done in the past: Water, Air, Land, Environmental Assistance/Cross-Media, and Administrative Support.

Environmental Analysis and Outcomes Division:

The total General Fund appropriation for the PCA's Environmental Analysis and Outcomes Division is \$176,000. The direct appropriation from all funds is \$25.135 million. Funding changes

that were made in the Environmental Analysis and Outcomes Division came from the Environmental Fund and the General Fund. These changes include:

- An ongoing reduction of \$1.646 million per year from the General Fund. Previously this was funding for Environmental Assistance and Crossmedia Program operations and Water Program operations. Additionally, \$1.646 million per year was appropriated from the Environmental Fund for Environmental Analysis and Outcomes Division Funding. The net result of the two changes was change in the funding source but not the dollar amount.
- A portion of the appropriation for air permit fees increase was appropriated to the division. This amounted to \$30,000 in FY 2018 and \$61,000 in FY 2019.
- A new Environmental Fund appropriation was made for \$100,000 in FY 2018 and \$50,000 in FY 2019 for requirements in the bill relating to impaired waters listing. The new requirements provide for more public notice and a public comment period.

Industrial Division:

PCA's Industrial Division does not receive any General Fund appropriations. The direct appropriation for the Industrial Division comes from the Environmental Fund and the Remediation Fund; these appropriation total \$28.279 million, of which \$26.319 million is from the Environmental Fund. The change items for the Industrial Division are:

- An increased appropriation for a portion of the air permit fees increase is: \$120,000 in FY 2018 and \$242,000 in FY 2019 from the Environmental Fund. These amounts are in addition to the amounts listed under the Environmental Analysis and Outcomes Division.
- Administration of the petroleum remediation activities was increased by \$450,000 per year from the Remediation Fund.

Municipal Division:

The Municipal Division within PCA only receives one General Fund appropriation for \$324,000. The primary funding source for the division is from the Environmental Fund. The total direct appropriations from all funds are \$13.249 million. There were no changes made to the funding of the Municipal Division for the FY 2018-19 biennium.

Operations Division:

General Fund appropriations for this division are \$4.951 million. Total direct appropriations from all funds are \$20.821 million. There are several different changes in three different funds.

- The agency is appropriated operating adjustments based on the Governor's budget request. The legislature appropriated these amounts, but reduced them by the amount of pension costs, which were appropriated in separate legislation that was later vetoed. The legislature chose to appropriate all of the operating adjustment to the Operations Division and allow the agency to transfer the funds to each division. The agency is required to notify the

legislature by September 1, 2017, of the resulting transfers. The General Fund operating adjustment is \$2.346 million in FY 2018 and \$2.605 million in FY 2019. The Environmental Fund operating adjustment is \$1.774 million in FY 2018 and \$2.879 million in FY 2019. The remediation fund operating adjustment is \$310,000 in FY 2018 and \$528,000 in FY 2019.

- \$400,000 in FY 2018 and FY 2019 is appropriated from the Environmental Fund for business friendly data services. These funds allow the agency to develop and maintain systems to support permitting and regulatory business processes and to maintain and efficiently utilize agency data.
- A one-time appropriation from the Environmental Fund of \$300,000 is for a grant to the Metropolitan Council for wastewater infrastructure to support waste to biofuel development.

Remediation Division:

The Remediation Division receives one General Fund appropriation for FY 2018-19 totaling \$512,000. The direct appropriations from all funds total \$26.339 million for the biennium.

- \$1.025 million per year from the Remediation Fund is for the administration of petroleum remediation activities. This increase is in addition to the increase listed under the Industrial Division.
- A one-time appropriation from the Closed Landfill Investment Fund of \$3 million is to settle obligations with the federal government, remedial investigations, feasibility studies, engineering, and cleanup-related activities at a priority qualified facility. The purposes of the funds are for use under Minnesota Statutes 2017, Chapters 115B.406 and 115B.407.
- A statutory appropriation from the Remediation Fund of \$814,000 in FY 2018 and \$40,000 ongoing is for the work associated with a closed landfill located in Crow Wing County.

Resource Management and Assistance Division:

General Fund appropriations for this division are \$1.400 million. Total direct appropriations from all funds are \$67.236 million. There is one change being made in the division.

- The competitive recycling grant program created in 2015, in Minnesota Statutes 115A.565, is reduced by \$300,000 per year from the General Fund and increased by \$300,000 per year from the Environmental Fund. In total, the program will continue to receive \$1 million per year for grants of up to \$250,000 for cities of less than 45,000 people outside the seven county metro area.

Watershed Division:

General Fund appropriations for this division are \$3.9185 million. Total direct appropriations from all funds are \$18.440 million. There are no changes being made to the appropriations in the Watershed Division for FY 2018 and FY 2019.

Environmental Quality Board:

General Fund appropriations for the Environmental Quality Board are \$2.144 million. Total direct appropriations from all funds are \$2.528 million.

- An increase of \$250,000 per year from the General Fund is to sustain and augment environmental review efficiency improvements and to develop a local government outreach and training program.
- In addition to appropriation increase listed above the Environmental Quality Board previously had two base riders; one for Board operations and one for silica sand technical assistance. These two riders were removed in Chapter 93, providing more flexibility for the continuation of both purposes.

Department of Natural Resources (DNR)

Chapter 93, Article 1 enacts a General Fund appropriation of \$220.246 million to the department for the biennium. Of this amount, \$171.207 million are direct appropriations, with the remainder coming from the open appropriations the agency oversees. Total agency spending from all sources included in Chapter 9 is anticipated to be \$790.633 million for the biennium, of which \$562.006 million are direct appropriations. There were also a number of revenue changes, primarily from fee increases. These revenues are listed after the Pass Through section at the end of the DNR summary. Specific changes from the base budget to each division include:

Land and Minerals Management:

The division receives \$3.420 million from direct General Fund appropriations and \$50,000 from the General Fund as an open appropriation for the Consolidated Conservation Areas. Direct biennial appropriations from all funds totaled \$11.310 million for the division.

- A General Fund appropriation of \$125,000 per year is for conservation easement stewardship for the department to increase monitoring and enforcement of state held conversation easements.
- An operating adjustment from the Forest Suspense Account in the Permanent School Fund of \$6,000 in FY 2018 and \$12,000 in FY 2019 will be used for the departments work related to the management of school trust lands.

Ecological and Water Resources:

The General Fund appropriation for the division is \$34.259 million. Total direct appropriations from all funds are \$65.369 million for the biennium. Changes are made in this division include:

- A FY 2017 General Fund appropriation to the DNR for a Grant to the Koronis Lake Association for the removal and prevention of aquatic invasive species, primarily related

to Starry Stonewort, is canceled in fiscal year 2017. The amount of the cancellation is anticipated to be \$167,000 and the same amount is appropriated in Fiscal Year 2018 for the same purpose.

- An operating adjustment to the division from the Heritage Enhancement Account in the Game and Fish Fund of \$60,000 in FY 2018 and \$116,000 in FY 2019.
- A grant to the Minnesota Aquatic Invasive Species Research Center at the University of Minnesota of \$410,000 per year from the Heritage Enhancement Account in the Game and Fish Fund to prioritize, support, and develop research based solution that can reduce the effects of aquatic invasive species in Minnesota.

Forest Management:

The Forestry Division's direct General Fund appropriation is \$62.200 million for the biennium. An additional open appropriation of \$30 million for the biennium from the General Fund for firefighting is accounted for in the division. Total direct appropriations from all funds are \$93.166 million. A number of changes from the General Fund, Natural Resource Fund, and Game and Fish Fund are listed below.

- A one-time General Fund appropriation of \$500,000 is for a study to determine the ability to sustainably harvest at least 1,000,000 cords of wood annually from state-administered forest land.
- An increase of \$500,000 per year from the General Fund is for additional private forest management work.
- \$500,000 per year from the General Fund is for forest road maintenance on county forest roads.
- Funding to replace and maintain an outdated forestry data system with a next generation core forestry data system which will be better integrated and efficient is provided from the General Fund at \$1.86 million in FY 2018 and \$1.131 million in FY 2019.
- Appropriations for reforestation of state forests is from the Forest Management Investment Account in the Natural Resources Fund. In FY 2018 and FY 2019, \$2 million is appropriated, with the base for this appropriation in FY 2020 and later at \$1.250 million.
- \$500,000 per year from the Forest Management Investment Account in the Natural Resources Fund is for forest road maintenance on state forest roads.
- An operating adjustment from the Heritage Enhancement Account in the Game and Fish Fund of \$35,000 in FY 2018 and \$69,000 in FY 2019 will increase the appropriation used for the ecological classification system.

Parks and Trails:

The Parks and Trails Division is appropriated \$49.984 million from the General Fund for the biennium. The total direct appropriations for the division are \$160.930 million. Changes include:

- A General Fund appropriation of \$250,000 per year for matching grants for local parks and outdoor recreation areas.
- \$250,000 per year from the General Fund is for matching grants for local trail connections.
- A one-time appropriation of \$130,000 in FY 2018 from the General Fund is for the snowmobile grant in aid program. This appropriation is in addition to the funds appropriated from the Snowmobile Trails and Enforcement Account in the Natural Resources Fund, including an increase of \$1.2 million per year starting in FY 2019.
- \$150,000 per year is from the All-Terrain Vehicle Account in the Natural Resources Fund for the all-terrain vehicle grant-in-aid program.
- An increase of \$4.7 million in FY 2018 and \$5.1 million in 2019 is from the State Parks Account in the Natural Resources Fund. This appropriation is increase available partially from the account balance from increased park attendance and from a fee increase provided in the bill. There are a number of different park fee rates but most common fees are the daily fee which will increase from \$5 to \$7 and the annual pass which will increase from \$25 to \$35.
- \$150,000 in FY 2018 only is from the All-Terrain Vehicle Account in the Natural Resources Fund for a grant to the city of Orr to predesign, design, and construct the Voyageur all-terrain vehicle trail system.
- A grant from the All-Terrain Vehicle Account in the Natural Resources Fund for \$50,000 is to the city of Virginia to plan, design, engineer, and permit a comprehensive all-terrain vehicle trail system in the Virginia area.

Fish and Wildlife Management:

The division receives no direct General Fund appropriations. The General Fund open appropriations accounted for in the division total is \$17.372 million. Total direct appropriations for the division are \$135.957 million which come from the Game and Fish Fund and the Natural Resource Fund. All of the changes made in the division are from the Heritage Enhancement Account in the Game and Fish Fund and include:

- An operating adjustment for the division of \$116,000 in FY 2018 and \$219,000 in FY 2019 from the Heritage Enhancement Account in the Game and Fish Fund.
- \$30,000 from the Heritage Enhancement Account in FY 2018 is for a contract with a private entity to search for a site to construct a world-class shooting range and club house for use by the Minnesota State High School League and for other regional, statewide, national, and international shooting events.
- A study of lead shot deposition on state lands is paid for with \$30,000 in FY 2018 from the Heritage Enhancement Account in the Game and Fish Fund.
- \$500,000 in FY 2018 from the Heritage Enhancement Account in the Game and Fish Fund is for planning and emergency response to disease outbreaks in wildlife. This appropriation is intended to provide resources to work with the recent chronic wasting disease cases found in Minnesota.

Enforcement:

The General Fund appropriation for the Enforcement Division is \$13.280 million for the biennium. Total direct appropriations are \$81.759 million from all funds.

- An increase to the division for the delivery of natural resources law enforcement is from the General Fund in the amount of \$2.5 million per year.
- The operating adjustment for the division from the Remediation Fund totals \$5,000 for the biennium.

Operations Support:

Most of the work of the Operations Support Division is internally billed to the other divisions for the services provided to those divisions. The total General Fund direct appropriation is \$8.064 million and the total direct appropriation from all funds is \$21.233 million. Changes to the division include:

- A one-time appropriation of \$1.965 million from the General Fund to be used for the agency's legal support costs related to water management.
- The department is appropriated operating adjustments based on the Governor's budget request. The legislature appropriated these amounts, but reduced them by the amount of pension costs, which were appropriated in separate legislation that was later vetoed. The legislature chose to appropriate all of the operating adjustment to the Operations Support Division and allow the department to transfer the funds to each division. The agency is required to notify the legislature by September 1, 2017, of the resulting transfers. The General Fund operating adjustment is \$2.204 million in FY 2018 and \$3.895 million in FY 2019. The Game and Fish Fund operating adjustment is \$2.676 million in FY 2018 and \$5.042 million in FY 2019. The Natural Resources Fund operating adjustment is \$1.591 million in FY 2018 and \$3.220 million in FY 2019.

Pass Through:

In past biennia, the Department of Natural Resources did not have a pass through division. The division does not have any General Fund appropriations and there were no changes made for FY 2018 and FY 2019. The division does have \$320,000 per year appropriated to it from the Natural Resources Fund for pass through grants to the Duluth Zoo and Como Zoo.

Revenue Changes:

In order to bring the accounts within the Game and Fish Fund and the Natural Resources Fund into positive budgetary balance, the Governor recommended a number of fee increases. Most of these increases were included in Chapter 93. Below are some of more common fees.

- The fee for a state park permit was increased. The Governor originally recommended an increase of \$1 daily and \$5 annually. The bill that was enacted included a daily increase of

\$2, from \$5 to \$7. The annual pass was increased by \$10, from \$25 to \$35. These increases are estimated to raise an additional \$5.187 million in the FY 2018-19 biennium and \$7.030 million in the FY 2020-21 biennium. These funds are deposited in the State Park Account in the Natural Resources Fund and are directly appropriated out of this account. Second vehicle, daily group, motorcycle, and state parks and trails license plates were also increased by a proportional amount.

- Snowmobile registration fees were increased by \$10 annually. The fee for a three year registration is currently \$75 and will increase to \$105. Annual resident and nonresident registration fees went to up \$15 to a new total of \$50. In total the new fee is estimated to raise an additional \$4.020 million for the biennium. Fees from the snowmobile registrations are deposited in the Snowmobile Trails and Enforcement Account in the Natural Resources Fund.
- ATV registration went up \$15, from \$45 to \$60, for a three year pass. The fee for an annual nonresident trail pass was increased from \$20 currently to \$30. In total, this will increase revenues in to the All-Terrain Vehicle Account in the Natural Resources Fund by \$1.950 million for the biennium.
- A number of fish and wildlife fee increases were also enacted. These include increases the annual fishing license fee from \$22 currently to \$25. Short term, combination, non-resident, and spearing licenses were also increased by proportional amounts. The legislation also requires a \$15 shelter license for non-portable fish houses which previously did not require a permit. Resident deer hunting licenses were increased by \$4 for a new fee total of \$34. Nonresident deer hunting fees were increased from \$165 currently to \$185. Proportional increases were made to the bonus tags. Resident sports, super sports, combines, and lifetime license fees were also increased to reflect to changes made to the fishing and deer hunting fees. The fees for to host a fishing tournament were also increased by \$10 to \$60 based on the size and type of event. In total, the new hunting and fishing related fees are estimated to raise an additional \$12.250 million for the biennium.
- The legislation provided free admission to state parks for anyone who qualifies for a federal parks pass. This results in lost revenue to the State Parks and Trails Account of \$108,000 for the biennium.
- An exemption for golfers at the Fort Ridgely golf course to not require a parks pass will result in lost revenue of \$98,000 for the biennium.
- Non-residents are now exempted from licensing requirements for certain non-motorized boats (for example, canoes and kayaks). This results in an estimated loss of \$90,000 for the biennium to Water Recreation Account in the Natural Resources Fund.
- Hydropower water use fees were modified for nine currently unpermitted facilities. This legislation eliminates back-fees and sets a new maximum annual fee of \$5,000 per year.

Board of Water and Soil Resources (BWSR)

BWSR General Fund appropriations totaled \$28.475 million for the biennium. The General Fund is the only fund from which BWSR receives direct appropriations. BWSR also received an appropriation in 2017 Laws, Chapter 7, for \$5 million which is in addition to the amount listed above. Changes include:

- Minnesota Laws 2017, Chapter 7 appropriated \$5 million in FY 2017 to address the current need of wetland replacement credits for local road projects. This amount is in addition to any funds received in the capital investment bill which historically provided funding for the program.
- The operating adjustment for BWSR is \$482,000 in FY 2018 and \$635,000 in FY 2019 and comes from the General Fund. The operating adjustment is for BWSR administration and is not included for the pass through and grant funding programs.
- \$300,000 in FY 2018 is for improving the efficiency and effectiveness of Minnesota's wetland regulatory programs through continued examination of United States Clean Water Act section 404 assumption responsibilities.
- A grant to the Lower Minnesota River Watershed District of \$240,000 per year from the General Fund is to help defray the cost of operating and maintaining sites for dredge spoil from the lower Minnesota River.
- A General Fund appropriation of \$125,000 per year is for conservation easement stewardship for the board to increase monitoring and enforcement of state held conversation easements.

Metropolitan Council Parks

The Metropolitan Council parks appropriation is \$5.080 million from the General Fund. Metropolitan Council Parks also received an appropriation of \$12 million from the Natural Resources Fund. Changes enacted in 2017 include:

- The General Fund appropriation to the Metropolitan Council Parks was decreased by \$330,000 per year.
- The Natural Resources Fund appropriation from the Metropolitan Parks and Trails Lottery in Lieu Account was increased by \$330,000 per year.

Minnesota Conservation Corp

The Minnesota Conservation Corp has an appropriation of \$910,000 from the General Fund and \$980,000 from the Natural Resources Fund. No changes were made from the base level of funding for the Minnesota Conservation Corp.

Minnesota Zoo

The General Fund appropriation to the zoo is \$18.210 million for the biennium. There is an additional \$320,000 appropriation from the Natural Resources Fund. Total expenditures for the zoo are anticipated to be \$53.693 million with the non-direct expenditures coming from the Special Revenue Fund and the Gift Fund. There was one change made to the Minnesota Zoo funding listed below.

- The General Fund appropriation to the Minnesota Zoo was increased by \$817,000 in FY 2018 and \$893,000 in FY 2019.

Science Museum

The Science Museum receives \$2.158 million from the General Fund for the biennium. There were no changes made to the funding for FY 2018 or FY 2019.

Department of Administration

The Department of Administration typically receives all of its funding from the state government finance bill. However, the Environment Finance Committee made appropriations from the Forest Suspense Account in the Permanent School Fund totaling \$1.1 million. One change was made:

- \$500,000 from the Forest Suspense Account is for the School Trust Lands Director to initiate the private sale of surplus school trust lands.

Explore Minnesota Tourism

Total general fund appropriations to Explore Minnesota Tourism for the biennium are \$30.005 million. Changes made for FY 2018 and FY 2019 include:

- \$500,000 in FY 2018 from the General Fund is to invest in the state's tourism marketing website, develop highly engaging digital content, and making targeted system updates.
- A one-time appropriation of \$900,000 from the General Fund is to secure major new events in Minnesota. State funding would be available for up to one-third of the cost of a bid or event operation.
- The operating adjustment for Explore Minnesota Tourism is \$36,000 in FY 2018 and \$73,000 in FY 2019.

Department of Revenue

The Department of Revenue is not typically funded in the environment finance bill. However, \$2 million per year from the General Fund was appropriated for the purposes of riparian protection aid payments to counties. This amount is in addition to the amount appropriated in the tax bill.

Legislative Citizen Commission on Minnesota Resources

Appropriations for the Environment and Natural Resources Trust Fund were made in Minnesota Laws 2017, Chapter 96. The appropriations made totaled \$64.250 million, including \$8.428 million in FY 2017, \$50.733 million in FY 2018, and \$5.089 million in FY 2019. There are a total of 65 appropriations from the fund. The Environment and Natural Resources Trust Fund is typically appropriated on an annual basis. The FY 2017 appropriations are a result of funds that are available based on line item vetoes from the 2016 session. The FY 2019 appropriations are only a portion of the funds that are available and are a result of two projects added by the legislature. The 2018 Legislature will appropriate the remaining fiscal year 2019 funds.

Detailed funding and project descriptions can be found at the commission's website: <http://www.lccmr.leg.mn/>

Minnesota Laws 2017, Chapter 54 (Omnibus Lands Bill)

Chapter 54 includes a number of parcels of land to be offered for sale. The majority of these parcels have no fiscal impact to the state. The revenues from the parcels typically benefit the county in which the land is located. This year there are four parcels with a state held interest with the potential for revenue from the sale. The largest group of parcels is 704 acres of Consolidated Conservation Land in Roseau County with an estimated value of \$422,400. Fifty percent of the proceeds will be deposited in the Land Acquisition Account in the Natural Resources Fund and fifty percent will be distributed to Roseau County. The most valuable parcel is 9.324 acres in Carlton County estimated to be worth \$594,400, revenues from this sale will be deposited in the Facilities Management Account in the Special Revenue Fund. There is 2.5 acres of land bordering public water in Big Stone County estimated to be worth \$20,000 and will be deposited in the Land Acquisition Account in the Natural Resources Fund. In St. Louis County there is a 2.9 acre parcel of land that was previously tax forfeited and purchased by the state for use as an aquatic management area using Outdoor Heritage Funds. The property no longer serves the intended purpose and will be re-conveyed to the county and the Outdoor Heritage Fund will receive \$45,650.

For additional information on Environment and Natural Resources Finance issues, contact Brad Hagemeyer, Fiscal Analyst, at 651-296-7165 or brad.hagemeyer@house.mn.

Health & Human Services Finance

Laws 2017, First Special Session, Chapter 6, the omnibus health and human services act, includes net General Fund appropriations for FY 2018-19 of \$13.9 billion for all agencies in the Health and Human Services area. This represents a decrease of \$463.5 million (-3.2 percent) from the FY 2018-19 forecast base and an increase of \$2.1 billion (17.8 percent) from FY 2016-17 forecast spending. Chapter 6 has General Fund tails of \$15.7 billion for FY 2020-21. The chart below details Chapter 6 General Fund appropriations and revenue changes by agency.

Health and Human Services Finance Committee Total General Fund Spending (all dollars in thousands)						
	Forecast FY 16-17	Forecast Base FY 18-19	Enacted FY 18-19	Enacted Base FY 20-21	Percentage Change: Enacted FY 18-19 vs. FY 16-17 Forecast	Percentage Change: Enacted FY 18-19 vs. FY 18-19 Base
APPROPRIATIONS						
<u>2017 1st SS, Chapter 6</u>						
Human Services Department	11,633,564	14,192,368	13,699,676	15,559,926	17.8%	-3.5%
Health Department	181,661	182,172	217,103	231,456	19.5%	19.2%
Emergency Medical Services Bd	6,241	6,074	7,263	7,196	16.4%	19.6%
Council on Disabilities	1,251	1,258	1,785	1,714	42.7%	41.9%
Ombudsman for Families	845	906	925	930	9.5%	2.1%
Ombudsman for Mental Health/DD	4,492	4,764	4,834	4,854	7.6%	1.5%
<u>Standing Appropriations</u>						
Compulsive Gambling Funds	2,216	1,322	1,322	1,403		
REVENUES						
DHS Forecast FFP	-64,159	-64,554	-64,554	-64,540		
Change in FFP			-15,596	-14,666		
Change in Non-FFP Revenue			8,080	6,691		
Net GF Total	11,766,111	14,324,310	13,860,838	15,734,964	17.8%	-3.2%

Department of Health

Chapter 6 appropriates a General Fund total of \$217.1 million to the Department of Health for FY 2018-19. This is an increase of \$34.9 million (19.2 percent) over base and \$35.4 million (19.5 percent) over FY 2016-17 forecast spending. Chapter 6 has General Fund tails for the Department of Health of \$231.5 million for FY 2020-21. Specific appropriation (General Fund unless otherwise noted) changes in Chapter 6 for the Department of Health include:

New ongoing appropriations:

- An annual increase of \$6 million in FY 2018-19 for Home Visiting Nursing services focused on pregnant and parenting teens. In the tails, the changeover base increases to \$16.5 million annually for FY 2020-21. This item has a Medical Assistance (MA) impact (see Department of Humans Services section).
- An increase of \$3.2 million for the biennium to expand protection of vulnerable adults in health care settings. The appropriation increases to \$5.8 million over base in FY 2020-21.

This initiative also has a State Government Special Revenue Fund and (anticipated) federal funding increase to expand protection investigations related to vulnerable adults.

- An annual increase of \$510,000 for the Safe Harbor program for prevention of sexual exploitation of youth. Additional funds are appropriated to the Department of Human Services for this program (see Department of Human Services section), and for a strategic plan (see Minnesota Department of Health one-time items below).
- New appropriations for health care workforce development of \$500,000 annually and \$526,000 annually for Home and Community Based Services provider scholarships and Physician Assistant/Advance Practice Registered Nurse clinical training grants respectively.
- Chapter 6 includes appropriations for the Governor's recommended operating adjustment of \$6.3 million in FY 2018-19 and \$7.4 million in FY 2020-21 from the General Fund. This item also includes increased appropriations of \$1.4 million in FY 2018-19 and \$1.6 million in FY 2020-21 from the Health Care Access Fund.

New one-time appropriations:

- \$5 million for a newly established Public Health Emergency Fund. Funds could be accessed under certain emergency conditions in statute. This is modeled on the emergency agriculture and natural disaster funding statutes.
- \$200,000 for comprehensive advanced life support education programs.
- \$88,000 to fund a palliative care advisory council.
- \$73,000 to develop a statewide sex trafficking victims strategic plan.
- \$1 million for accountable community opioid abuse prevention projects.
- \$1 million in additional grants to Federally Qualified Health Centers (FQHCs).
- \$5 million in a biomedical research fund.
- \$2,000 for technical revisions to the abortion data reporting system.

Department of Human Services

Chapter 6 appropriates a General Fund total of \$13.7 billion to the Department of Human Services for FY 2018-19. This is a reduction of \$492.7 million (-3.5 percent) from base and an increase of \$2.066 billion (17.8 percent) over FY 2016-17 forecast spending. Chapter 6 has General Fund tails for the Department of Human Services of \$15.6 billion for FY 2020-21. Specific appropriation (General Fund unless otherwise noted) changes in Chapter 6 for the Department of Health include:

Chemical/Mental Health – Chapter 6 includes several funding items in the area of chemical/mental health. Savings of \$569,000 in FY 2018-19 and new appropriation base of \$6.3 million in FY 2020-21 is for substance abuse disorder continuum of care redesign. \$4.8 million in FY 2018-19 only to redesign intensive mental health services for children. \$896,000 is appropriated in FY 2018-19 for increased lease costs at the existing Child and Adolescent Behavioral Health Services

(CABHS) facility in Willmar. The capital investment bill (Laws 2017, First Special Session, Chapter 8) includes \$7.53 million to construct a new CABHS facility. \$2.2 million is appropriated in FY 2018-19 with a base of FY 2020-21 for mental health innovation grants. \$1 million in FY 2018-19 only is for a demonstration project on chronic rehabilitation therapy. \$2.5 million in FY 2018-19 only is for grant to mental health related services including housing supports, assertive community supports, respite services, and mental health crisis services. \$500,000 in FY 2018-19 only is for fetal alcohol syndrome grants. \$2.5 million in FY 2018-19 only is for housing services including long-term homeless support services, housing for adults with mental illness, transitional housing, and emergency shelter. \$825,000 in FY 2018-19 only is for grants to cover the cost of an injectable drug for chemical dependency treatment. \$1 million in FY 2018-19 only is for grants to expand the first psychotic episode initiative. \$2.4 million in FY 2018-19 and \$2.96 million in FY 2020-21 is for a 1 percent increase in chemical dependency provider rates. \$100,000 is appropriated in FY 2018-19 only for a peer run respite grant in Wadena County.

Nursing Homes/Long-Term Care/Elderly – Chapter 6 includes several items that have costs or savings related to the elderly and long-term care. Appropriations of \$1.1 million in FY 2018-19 and savings of \$541,000 in FY 2020-21 are for an expansion of the Return to Community program. Technical revisions to the nursing facility Value Base Reimbursement system, enacted in 2015, result in savings of \$2.97 million in FY 2018-19 and \$3.44 million in FY 2020-21. \$143,000 is appropriated in FY 2018-19 with a \$410,000 base in FY 2020-21 to cover the MA impact of the MDH protecting vulnerable adults proposal. Savings of \$30,000 per biennium come from the elimination of a nursing home interpreter program. \$2.6 million is appropriated in FY 2018-19 with a base of \$11.5 million in FY 2020-21 for changes to the Elderly Waiver program. \$761,000 is appropriated in FY 2018-19 with a base of \$1.54 million in FY 2020-21 to increase the MA spend down income eligibility by 1 percentage point to 81 percent.

Direct Care and Treatment (DCT) – Chapter 6 appropriates \$22.9 million in FY 2018-19 with a base of \$35.4 million in FY 2020-21 for increased staffing and improved client care at the Minnesota Security Hospital. Also, Chapter 6 appropriates \$10.3 million in FY 2018-19 with a base of \$3.6 million in FY 2020-21 to fund State Operated Services at a sustainable level. \$40,000 one-time in FY 2018-19 is for a grant to conduct a survey of the use of in-home IT for seniors.

Child Care, Child Protection, Child Welfare, and Foster Care – Chapter 6 has many items that are in the area of Children's issues. \$18.6 million in FY 2018-19 and \$29.6 million in FY 2020-21 are for a package of program improvements to the Child Care Assistance Program (CCAP). These changes affect both the Minnesota Family Investment Program (MFIP) and Basic Sliding Fee (BSF) child care programs. In the same programs, a broad package of program integrity changes will ensure that only eligible individuals and providers receive the correct level of benefits and payments from the two programs. These changes save \$15.3 million in FY 2018-19 and \$28.1 million in FY 2020-21. Also, \$6.3 million in FY 2018-19 and \$5.5 million in FY 2020-21 are for licensing and background check compliance in child care programs. \$142,000 in FY 2018-19 and \$149,000 in FY 2020-21 are to change the payment rate for a child care facility in Stearns County that serves families in multiple counties to the highest county payment rate for all children enrolled. Chapter 6 appropriates \$1.4 million in FY 2018-19 with a base of the same amount in FY 2020-21 for a package of improvements in child protection and foster care permanency. \$300,000 in each biennium to expand foster care liability coverage. \$81,000 in FY 2018-19 and \$85,000 in FY

2020-21 is to allow individuals from 18-21 years old to re-enter the foster care system after they have exited. \$75,000 in FY 2018 only is appropriated for a grant for family foster care in Anoka County. \$152,000 in FY 2018-19 and \$142,000 in FY 2020-21 is to improve child welfare services for sexually exploited youth. \$1 million in each biennium is for transfer to the White Earth Nation to administer their tribal child welfare program. The Safe Harbor for Sexually Exploited Youth program is increased by \$1.1 million in each biennium. \$129,000 is appropriated in FY 2018-19 to implement corporate foster care changes. This results in savings of \$123,000 in FY 2020-21. Finally, Chapter 6 includes an appropriation of \$614,000 in FY 2018-19 with a base of \$1.2 million in FY 2020-21 to raise the MA payment rate for nurse home visiting services.

Savings/Payment Delays – Chapter 6 has several notable savings items. A one month delay in payment of managed care costs in May of 2019 and again in May of 2021 creates General Fund savings of \$173.3 million in FY 2018-19 and \$24.4 million in FY 2020-21. Savings of \$32.5 million in FY 2018-19 and \$64.8 million in FY 2020-21 result from language requiring the Department of Human Services to reduce the managed care cost trend line over the next four years. \$16.5 million in savings in FY 2018-19 only result from an assumed transfer of excess funds from the Premium Rebate Account in Laws 2017, Chapter 2 (see below). Savings to the General Fund of \$19.3 million in FY 2018-19 and \$22.3 million in FY 2020-21 result from increasing costs to counties from required assessments in the MNCHOICES program. Savings of \$13.1 million in FY 2018-19 and \$18.7 million in FY 2020-21 result from implementing enrollment verification checks in MA. Additional MA savings of \$11.4 million in FY 2018-19 and \$1.7 million in FY 2020-21 come from advancing the implementation date of periodic data matching by three months. Savings in the MA program of \$2.4 million in FY 2018-19 and \$5.1 million in FY 2020-21 result from a provision to purchase incontinence products in bulk. A one-time savings of \$18 million in FY 2018 results from requiring the use of surplus funds in the CCAP program and a reduction of appropriations for that year of the same amount. In addition, savings of \$9.4 million in FY 2018-19 and \$34.1 million in FY 2020-21 result from implementing a new integrated health partnership program.

Also, because the Health Care Access Fund (HCAF) pays an additional \$388.9 million for MA, costs over the HCAF base for MA in FY 2018-19, General Fund MA costs are reduced by the same amount. In FY 2020-21 the HCAF pays an additional \$309 million over base for MA costs reducing General Fund costs in that biennium by that amount (see Non-General Fund section below).

Other specific appropriation (General Fund unless otherwise noted) changes in Chapter 6 for the Department of Human Services include:

- \$227,000 in FY 2018-19 and \$263,000 in FY 2020-21 is appropriated for implementation of the federal home health care rule.
- \$24 million is appropriated in each biennium to cover the cost of the personal care attendant (PCA) contract.
- \$2.7 million is appropriated in FY 2018-19 with a base of \$1.1 million in FY 2020-21 is for individual community living.
- \$2.1 million in each biennium is for deaf and hard of hearing services.

- \$750,000 in FY 2018-19 only is for grants to food shelves.
- \$380,000 in FY 2018-19 and \$1.1 million in FY 2020-21 is to cover costs for ventilators in the MA program.
- \$300,000 one-time in FY 2018-19 for a co-parenting education grant.
- \$250,000 one-time in FY 2018-19 is for a grant for autism adult education services.
- \$12.4 million in FY 2018-19 and \$12.6 million in FY 2020-21 is for the cost of compliance with federal managed care and access to care rules.
- \$645,000 in FY 2018-19 is appropriated to for compliance with federal asset verification requirements. This results in a savings of \$53,000 in FY 2020-21.
- \$1.03 million in each biennium is to cover the cost of reducing parent fees by 25 percent in the TEFRA program which allows children access to MA services if their family's income does not qualify.
- Savings of \$4.9 million in FY 2018-19 and \$14.7 million in FY 2020-21 come from changes to the Disability Waiver Rate Setting (DWRS) methodology.
- \$31.3 million in FY 2018-19 and \$31.5 million in FY 2020-21 is for the agency operating adjustment.
- \$1.2 million in each biennium is for transfer to the Office of the Legislative Auditor (OLA) for audit requirements related to managed care organizations.
- \$306,000 in each biennium is for transfer to the OLA for audit requirements related to DHS.
- \$17.3 million in FY 2018-19 and \$11.7 million in FY 2020-21 is for computer systems (MMIS) modernization and to develop an integrated service delivery system.
- Savings of \$464,000 in FY 2018-19 and \$514,000 in FY 2020-21 result from expansion of child care financial fraud and abuse investigations.
- \$90,000 per biennium in revenue to the General Fund comes from fines related to maltreatment cases in DHS licensed facilities.
- \$147,000 in FY 2018-19 and \$136,000 in FY 2020-21 is for maltreatment investigations in facilities managed by the Department of Corrections.
- \$36,000 in FY 2018-19 and \$78,000 in FY 2020-21 is to eliminate proration for non-emergency medical transport.
- \$325,000 in FY 2018-19 only is to develop an individual budget methodology for the Consumer Directed Community Supports program.
- \$30,000 in FY 2020-21 and ongoing is for the Nursing Facility Employee Scholarship program.
- \$613,000 in FY 2018-19 and \$644,000 in FY 2020-21 is for an electronic service delivery document system.

- \$154,000 in FY 2018-19 only is to continue the Alzheimer's working group for two more years.
- \$83,000 in FY 2018-19 and \$76,000 in FY 2020-21 is for an intergovernmental transfer program for ambulance services.
- \$217,000 in FY 2018-19 and \$176,000 in FY 2020-21 is for an intergovernmental transfer program at the U of M.
- \$254,000 in FY 2020-21 is for changes to allowable charges for health professionals employed by supplemental nursing services.
- \$496,000 in FY 2018-19 only is for a grant increase to Advocating Change Together.
- \$51,000 in FY 2018-19 and \$18,000 in FY 2020-21 is for implementing targeted case management using interactive video.
- \$2 million in FY 2018-19 only is for the Home and Community Based Services incentive pool.
- \$4,000 in FY 2018-19 and \$2,000d in FY 2020-21 is for MA coverage of post-arrest coordination.
- \$49,000 in FY 2018-19 only is to develop statewide quality incentives.
- \$1.5 million in FY 2018-19 only is to increase Community Action Grants.
- \$500,000 in FY 2018-19 only is to increase grants to the Family Assets for Independence in Minnesota (FAIM) program.
- \$200,000 in FY 2018-19 only is for a grant to Dakota County to develop child tracking software for the "Birth to Eight" program.
- \$183,000 in FY 2018-19 and \$244,000 in FY 2020-21 is for MA coverage of Stiripentol.
- \$4.1 million in FY 2018-2019 and \$5.8 million in FY 2020-21 is for an increase to MA dental payments in the fee for service program.
- \$651,000 in FY 2018-19 and \$1.5 million in FY 2020-21 is to cover disregarding the spouse's income for newly married couple for MFIP eligibility.

Group Residential Housing (GRH)/Intermediate Care Facility (ICF/DD) rate and other changes:

- \$486,000 in each biennium is for a supplemental rate at a GRH facility in Anoka County.
- \$117,000 in FY 2018-19 and \$169,000 in FY 2020-21 is for a supplemental rate at a GRH facility in St Louis County.
- \$1.5 million in FY 2018-19 and \$2.4 million in FY 2020-21 is for a supplemental rate at a GRH facility in Olmstead County.
- \$250,000 per year on-going is for Fetal Alcohol Spectrum Disorder (FASD).
- \$834,000 in FY 2018-19 and \$870,000 in FY 2020-21 is for a rate increase for an ICF/DD facility in Murray County.

- Savings of \$36,000 in FY 2018-19 and \$44,000 in FY 2020-21 result from a reclassification of GRH beds. This results in 36 new GRH beds being available (at a lower cost).
- \$370,000 in FY 2018-19 and \$502,000 in FY 2020-21 is appropriated for implementing GRH presumptive eligibility.
- \$455,000 in FY 2018-19 and \$273,000 in FY 2020-21 is appropriated cover ICF/DD payment modifications for vacant beds.

Council on Disabilities

Chapter 6 appropriates \$1.785 million for the FY 2018-19 biennium to the Council on Disabilities from the General Fund. This is an increase of \$527,000 (41.9 percent) over the forecast base and \$534,000 (42.7 percent) over the FY 2016-17 biennium. The increased appropriation is the Governor's recommended operating adjustment. Chapter 6 has General Fund tails for the council of \$1.714 million in FY 2020-21.

Emergency Medical Services Regulatory Board (EMS Board)

Chapter 6 appropriates \$7.263 million to the EMS Board for the FY 2018-19 biennium from the General Fund. This is an increase of \$1.189 million (19.6 percent) over base and \$1.022 million (19.5 percent) over the FY 2016-17 biennium. The increased appropriation includes the Governor's recommended operating adjustment as well as funding for information technology services and \$250,000 per year in increased funding for the Cooper-Sams Volunteer Ambulance program. Chapter 6 has General Fund tails for the EMS Board of \$7.196 million in FY 2020-21.

Ombudsman for Families

Chapter 6 appropriates \$925,000 for the FY 2018-19 biennium to the Ombudsman for Families from the General Fund. This is an increase of \$19,000 (2.1 percent) over base and \$80,000 (9.5 percent) over the FY 2016-17 biennium. The increased appropriation is the Governor's recommended operating adjustment. Chapter 6 has General Fund tails for the ombudsman of \$930,000 in FY 2020-21.

Ombudsman for Mental Health and Developmental Disabilities

Chapter 6 appropriates \$34.834 million to the Ombudsman for Mental Health/DD for the FY 2018-19 biennium from the General Fund. This is an increase of \$70,000 (1.5 percent) over base and \$342,000 (7.6 percent) over the FY 2016-17 biennium. The increased appropriation is the Governor's recommended operating adjustment. Chapter 6 has General Fund tails for the ombudsman of \$4.854 million in FY 2020-21.

Non General Fund Items

Health Care Access Fund

Chapter 6 includes significant expenditures from the Health Care Access Fund (HCAF). At DHS, a total of \$701.5 million over four years is spent from the HCAF on MA, and at the Department of Health there is HCAF spending of \$2.9 million on the agency operating adjustment from FY2018-2020. In addition, Laws 2017, Chapter 13 transfers \$200.75 million in FY 2018 and an additional \$200 million in FY 2019 from the HCAF to the Premium Security Plan Account established in that chapter. Chapter 13 establishes a state “reinsurance” plan to help control premium costs in the individual health insurance marketplace by subsidizing insurers. Another act, Laws 2017, Chapter 2 allocates funds from the state budget reserve to an account to rebate a portion of premiums for the 2017 plan year for individual market health insurance policy holders who do not qualify for subsidies through MNSure. The tax bill, Laws 2017, First Special Session, Chapter 1 reduces revenues to the HCAF by exempting certain medical payments from the 2 percent provider tax. This reduces revenue to the fund by \$7.2 million from FY 2018 to FY 2020. To offset this revenue loss, Chapter 1 transfers \$7.2 million from the General Fund to the HCAF in FY 2020. The cumulative effect of these changes leaves the HCAF with a balance of \$4.4 million at the end of FY 2021. It is important to note that in FY 2021, the main source of revenue into the HCAF, the health care provider tax, is scheduled to sunset. When this happens, it is questionable whether the fund will have enough annual revenue to support the expenditure base. Without adjustments, in FY 2022 the HCAF will have lower revenues than projected expenditures. The chart below shows all HCAF expenditure and revenue changes made by the 2017 Legislature.

Health Care Access Fund Changes*				
(all dollars in thousands)				
	FY 2018	FY 2019	FY 2020	FY 2021
February 2017 Forecast Balance	989,444	1,316,433	1,445,670	1,109,548
Laws 2017 Ch 13 - Reinsurance	-200,750	-400,750	-400,750	-400,750
ISS Ch 6 - HHS DHS	-175,768	-390,634	-525,586	-701,508
ISS Ch 6 - HHS MDH	-577	-1,356	-2,135	-2,914
ISS Ch 1 - Taxes - revenue	-4,000	-6,100	-7,200	-7,200
ISS Ch 1 - Taxes - transfer in			7,200	7,200
Ending Balance	608,349	517,593	517,199	4,376

* In this display each column starts with that year's ending balance from the February 2017 forecast. New expenditures & revenue changes are listed in the year they occur and in each subsequent year. Ending Balance represents the cumulative change for each year of all prior changes.

State Government Special Revenue Fund (SGSR)

Chapter 6 includes net new expenditures from the SGSR of \$7.43 million in FY 2018-19 and \$4.91 million in FY 2020-21. There are no new SGSR expenditures at the Department of Human Services and at the Department of Health. There are net new expenditures of \$20,000 in FY 2018-19 and savings of \$368,000 in FY 2020-21. The bulk of the new SGSR spending is at the Health Related Boards. The boards have net new spending of \$7.42 million in FY 2018-19 and \$5.28 million in FY 2020-21 to cover each board's operating adjustment (see below).

Temporary Assistance for Needy Families (TANF)

There were no changes to TANF funding in Chapter 6.

Health Related Boards

Chapter 6 creates a new Board of Occupational Therapy and transfers the existing licensure fees and expenditures, within the SGSR, for occupational therapists from the Department of Health's Health Occupations Oversight Program to the new board. The (now) 16 health licensing boards are all fee supported through the SGSR and do not receive any General Fund support. Chapter 6 appropriations from the SGSR include the Governor's recommended operating adjustment for each of the boards, as well as for the Administrative Services Unit (ASU, housed at the Board of Nursing Home Administrators) and the Health Professional Services Program (HPSP, now moved to the Board of Medical Practice), in FY 2018-19. All other Governor's board recommendations for education, staffing, and IT enhancements were also funded. One Governor's recommendation, an operating adjustment to the Physician Monitoring Program (PMP) at the Board of Pharmacy, was not funded. In addition, recommended fee increases at the Board of Medical Practice, the Board of Optometry, and the Board of Social Work were erroneously not included in the final bill language.

For more information on health and human services issues, contact Doug Berg, Fiscal Analyst, at 651-296-5346 or doug.berg@house.mn.

Higher Education

The 2017 higher education finance bill (Laws 2017, Chapter 89) includes total General Fund appropriations of \$3.279 billion for the Mayo Medical School and Family Practice Residency Program, the Minnesota State Colleges and Universities, the Office of Higher Education, and the University of Minnesota.

The enacted General Fund budget is \$210 million, or 6.8 percent, above the February 2017 forecast base funding levels for FY 2018-19 for these accounts in total. Compared to forecast spending in the prior biennium (FY 2016-17) this represents a General Fund increase of \$198.347 million, or 6.4 percent. The following table summarizes Chapter 89 General Fund appropriations by account.

Higher Education							
Total General Fund Spending							
(all dollars in thousands)							
					Percentage Change		
					Enacted FY 2018-19	Percentage Change	
	Change	FY 16-17 Forecast	Forecast Base	Enacted	vs. FY 2016-17	Enacted vs. Base	Enacted
	FY 2017	with changes	FY 2018-19	FY 2018-19	with Changes	FY 2018-19	FY 2020-21
Office of Higher Ed	0	477,405	467,461	516,531	8.2%	10.5%	512,990
Mayo Foundation	0	2,702	2,702	2,702	0.0%	0.0%	2,702
MN State Colleges and Universities	0	1,346,441	1,346,632	1,452,938	7.9%	7.9%	1,442,838
University of Minnesota	0	1,254,598	1,252,698	1,307,322	4.2%	4.4%	1,297,272
Net GF Total	0	3,081,146	3,069,493	3,279,493	6.4%	6.8%	3,255,802

Mayo Foundation

The Mayo Foundation receives a General Fund appropriation of \$2.702 million for the Medical School Capitation Grant program and the Family Practice Residency program. This is the full General Fund base level for FY 2018-19 and represents no change over the FY 2016-17 biennium.

Minnesota State Colleges and Universities (MnSCU)

For MnSCU, Chapter 89 appropriates a General Fund total of \$1.452 billion for the FY 2018-19 biennium. This represents an increase of \$106.306 million (7.9 percent) from the FY 2018-19 General Fund forecast base. Compared to forecast spending in the prior biennium (FY 2016-17) this represents a General Fund increase of \$106.497 million or 7.9 percent.

The specific spending provisions that were agreed to in conference committee include:

- University students at MnSCU campuses will see tuition frozen in the 2018-19 academic year at the 2017-18 academic year level. The law is silent on university tuition rates for the 2017-18 academic year. College student tuition at MnSCU will increase no more than 1 percent in the 2017-18 academic year. The Board of Trustees is required to freeze college tuition at the 2017-18 rate for the 2018-19 academic year.
- Annual funding of \$3 million in supplemental aid for non-metro colleges.

- Annual funding of \$4 million to upgrade the Integrated Statewide Record System utilized by the central administration and various MnSCU campuses.
- Annual funding of \$200,000. A \$60,000 increase is provided for transfer to the Cook County Higher Education Board for various higher education programmatic initiatives in northeast Minnesota.
- One-time funding of \$1 million in FY 2019 to establish a Workforce Development Scholarship program targeted at high demand fields. The base for the program in FY 2020 is \$500,000.

In addition to the appropriation changes noted above, Chapter 89 includes language that allows campuses to increase differential tuition when costs of a course increase due to extraordinary circumstances. These changes must be approved by the Board of Trustees. Additionally, the Board of Trustees did receive a general operating increase of \$91 million for campus support. The law does not specify how the dollars should be used because the amount is already included in the operations and maintenance appropriation.

Office of Higher Education (OHE)

For OHE, Chapter 89 includes General Fund appropriations of \$516.531 million for the FY 2018-19 biennium. This represents an increase of \$49.070 million (10.5 percent) over the FY 2018-19 General Fund forecast base. Compared to forecast spending in the prior biennium (FY 2016-17) this represents a General Fund increase of \$39.126 million or 8.2 percent.

New spending for OHE will be used for changes in eligibility for the state grant program. The cost of all the changes to the grant program in the FY 2018-19 biennium is \$36 million. The specifics of the state grant changes include the following:

- Sets the living and miscellaneous expense allowance equal to 101 percent of the federal poverty level.
- Reduces the Assigned Family Responsibility by 10 percent from all student types.

Additional funding was provided to OHE for the following non-grant program initiatives:

- Annual funding of \$4.064 million, a \$1.5 million increase, to assist the agency with increased operating costs.
- Annual funding of \$6.694 million, a \$10,000 increase, for child care grants.
- Annual funding of \$3 million, a \$2.5 million increase, for spinal cord and traumatic brain injury research grants.
- Annual funding of \$150,000 to establish a statewide campus sexual violence prevention and response coordinator.
- Annual funding of \$175,000 for emergency assistance for postsecondary programs.

- \$500,000 of annual funding to establish a program for secondary teacher candidates of color.
- Annual funding of \$375,000 for large animal veterinary loan forgiveness. This program received one-time funding in the prior biennium and has been made permanent by Chapter 89.
- Annual funding of \$50,000 for establishing a loan forgiveness program for agricultural educators.
- Annual funding of \$25,000 to establish a loan forgiveness program for eligible pilots and aviation mechanics.
- \$200,000 annually to establish a statewide grant program for students with intellectual and developmental disabilities seeking postsecondary education.
- \$1 million annually is for grants to Minnesota Life College for programming related to students with autism spectrum disorder.
- \$25,000 annually to establish a loan repayment assistance program for attorneys with full-time employment providing legal assistance to low-income clients.

University of Minnesota (U of M)

For the U of M, Chapter 89 appropriates a general fund total of \$1.307 billion for the FY 2018-19 biennium. This represents a General Fund increase of \$54.624 million (4.4 percent) from the FY 2018-19 General Fund forecast base. Compared to forecast spending in the prior biennium (FY 2016-17) this represents a General Fund increase of \$52.724 million or 4.2 percent.

The specifics of the appropriation changes noted above from Chapter 89 include the following:

- \$7 million in FY 2018 and FY 2019 as well as \$7 million each year thereafter for investments in health training restoration. This appropriation is addition to the \$800,000 already in the appropriation base for this activity.
- \$4 million in FY 2018 and FY 2019, as well as \$4 million each year thereafter for research related to the MnDRIVE program.
- \$50,000 in FY 2018 to establish a program for students with intellectual and developmental disabilities.
- Annual funding of \$500,000 for the Morris campus to assist with the costs of the Indian Scholarship program.
- Annual funding of \$2 million for research initiatives at Natural Resources Research Institute was added to the base of the system special appropriation.
- An additional \$27.950 million in additional campus support over the FY 2018-19 biennium. \$8.975 million each year continues into the FY 2020-21 biennium. Chapter 89 does not specify how the additional funding should be used because the amount is already included in the operations and maintenance appropriation.

Policy changes in Chapter 89

Laws 2017, Chapter 89 forbids the governing bodies of public postsecondary institutions from increasing mandatory student activity fees by greater than 2 percent relative to the previous academic year. Fees are allowed to increase more than 2 percent if the increase is approved by a majority of students voting in a campus referendum. If the U of M exceeds the 2 percent threshold without a student referendum, Minnesota Management and Budget is to deduct 1 percent of the university's appropriation base in the first year of the next biennium.

If you have any questions on higher education finance issues, please contact Ken Savary, House Fiscal Analysis Department, at 651-296-7171 or ken.savary@house.mn.

Job Growth and Energy Affordability Finance

Chapter 94 of the 2017 legislative session contains the FY 2018-19 budgets for the jobs and economic development, housing, commerce, and energy policy area. The legislature approved \$392.3 million in direct and statutory appropriations from the General Fund, which represents a 6 percent increase over the General Fund base budget for FY 2018-19. Total General Fund revenue for the biennium is \$6.6 million less than the forecasted base, resulting in a net General Fund impact of \$398.9 million, an 8 percent increase over base budget. Compared to the forecasted FY 2016-17 spending, the enacted budget is 19 percent lower without revenue changes, or 18 percent lower with revenue changes.

Chapter 13 of the 2017 legislative session appropriates \$155,000 from the General Fund to the Department of Commerce in FY 2018 and transfers \$71 million in both FY 2018 and FY 2019 from the General Fund to the Insurance Premium Security Plan Account. The net impact of Chapters 13 and 94 to the General Fund for FY 2018-19 is \$541.1 million, a 47 percent increase over the forecasted base budget. Compared to the forecasted FY 2016-17 spending, the enacted budget is 12 percent higher.

Table 1 summarizes General Fund changes enacted in the 2017 legislative session.

Table 1 - Job Growth and Energy Affordability Finance and Policy Committee							
Total General Fund Spending							
(all dollars in thousands)							
	Change	FY 16-17 Forecast	Forecast Base	Enacted	Percentage Change: Enacted FY 2018-19 vs. FY 2016-17	Percentage Change: Enacted vs. Base	Enacted Base
	FY 2017	with changes	FY 2018-19	FY 2018-19	with Changes	FY 2018-19	FY 2020-21
Department of Employment and Economic Development	-376	291,371	172,452	194,312	-33.3%	12.7%	166,668
Minnesota Housing Finance Agency	0	107,096	101,596	107,596	0.5%	5.9%	105,596
Department of Labor and Industry	0	2,986	2,404	3,566	19.4%	48.3%	3,580
Bureau of Mediation Services	0	4,829	4,744	4,968	2.9%	4.7%	5,044
Department of Commerce - Ch 94	0	58,299	54,548	46,624	-20.0%	-14.5%	46,304
Department of Commerce - Ch 13	0	0	0	142,155			0
Public Utilities Commission	0	14,778	14,930	14,930	1.0%	0.0%	14,930
Public Facilities Authority	0	0	0	1,800			0
Iron Range Resource and Rehabilitation Board	0	5,331	4,825	4,825	-9.5%	0.0%	5,490
Destination Medical Center	0	0	13,690	13,690		0.0%	58,154
General Fund Revenue Changes	0	0	0	-6,596			-8,204
Net GF Total	-376	484,690	369,189	541,062	11.6%	46.6%	413,970

Table 2 - Jobs & Economic Development, Housing, and Energy (Dollars in thousands)						
	FY2018	FY2019	FY18-19	FY2020	FY2021	FY20-21
General Fund Changes						
Chapter 94 Expenditure Changes						
Dept. of Employment and Economic Development	23,339	(1,479)	21,860	(2,892)	(2,892)	(5,784)
Minnesota Housing Finance Agency	4,000	2,000	6,000	2,000	2,000	4,000
Department of Labor and Industry	574	588	1,162	588	588	1,176
Bureau of Mediation Services	74	150	224	150	150	300
Department of Commerce	(3,802)	(4,122)	(7,924)	(4,122)	(4,122)	(8,244)
Public Utilities Commission	0	0	0	0	0	0
Public Facilities Authority	1,800	0	1,800	0	0	0
Subtotal Expenditure Changes:	25,985	(2,863)	23,122	(4,276)	(4,276)	(8,552)
Chapter 94 Revenue Changes						
Dept. of Employment and Economic Development	1,608	0	1,608	0	0	0
Department of Commerce	(4,102)	(4,102)	(8,204)	(4,102)	(4,102)	(8,204)
Subtotal Revenue Changes:	(2,494)	(4,102)	(6,596)	(4,102)	(4,102)	(8,204)
Chapter 94 Net General Fund Changes:	28,479	1,239	29,718	(174)	(174)	(348)
Chapter 13 Expenditure Changes						
Department of Commerce (Expenditure)	155	0	155	0	0	0
Department of Commerce (Transfer)	71,000	71,000	142,000	0	0	0
Subtotal Expenditure Changes:	71,155	71,000	142,155	0	0	0
Chapters 94 and 13 Net General Fund Changes:	99,634	72,239	171,873	(174)	(174)	(348)

A second significant funding source in the jobs and economic development policy area is the Workforce Development Fund. Revenue into this fund comes from a 0.1 percent assessment fee Minnesota employers pay on each employee's taxable wages (\$30,000 in 2015). Projected revenue into the fund for FY 2018-19 is \$113.9 million. The legislature approved \$73.5 million in direct appropriations from the fund for FY 2018-19, which represents a 36 percent increase over base budget. Money in the fund that is not directly appropriated by the legislature is statutorily appropriated to the Department of Employment and Economic Development for the dislocated worker program. The 2015 Legislature amended this part of statute to include incumbent worker training as a possible use of the fund. Table 3 summarizes Workforce Development Fund changes.

Table 3 - Jobs & Economic Development, Housing, and Energy (Dollars in thousands)						
	FY2018	FY2019	FY18-19	FY2020	FY2021	FY20-21
Workforce Development Fund Changes						
Direct Appropriation Expenditure Changes						
Dept. of Employment and Economic Development	9,221	8,267	17,488	(2,534)	(2,534)	(5,068)
Department of Labor and Industry	762	1,071	1,833	871	871	1,742
Subtotal Expenditure Changes:	9,983	9,338	19,321	(1,663)	(1,663)	(3,326)

The Renewable Development Account (RDA) was created as a new account in the Special Revenue Fund. On July 1, 2017, the remaining balance in the Renewable Development Fund (RDF) at Xcel Energy, estimated to be zero at this time, as well as the remaining balance in the “Made in Minnesota Solar” account at the Department of Commerce, estimated to be \$54.41 million are transferred into the new account. The creation of this account was, in part, a response to the Office of the Legislative Auditor’s 2010 report regarding the RDF (<http://www.auditor.leg.state.mn.us/ped/2010/rdf.htm>).

Table 4 summarizes the Renewable Development Account changes.

Table 4 - Jobs & Economic Development, Housing, and Energy (Dollars in thousands)						
	FY2018	FY2019	FY18-19	FY2020	FY2021	FY20-21
Renewable Development Account (RDA)						
Expenditures						
Made in MN Solar Incentive Payments	4,865	5,677	10,542	5,677	5,677	11,354
Made in MN Solar Admin	100	100	200	100	100	200
Third Party Consultants	500	500	1,000	500	500	1,000
Biomass Study	150	0	150	0	0	0
Duluth Steam Plant (Ch. 8)	15,000	0	15,000	0	0	0
Subtotal Expenditures:	20,615	6,277	26,892	6,277	6,277	12,554
Revenue						
Transfer from the Department of Commerce	54,410	0	54,410	0	0	0
Transfer from Xcel Energy	14,925	13,336	28,261	19,099	17,698	36,797
Subtotal Revenue:	69,335	13,336	82,671	19,099	17,698	36,797
RDA Balance:	48,720	55,779	55,779	68,601	80,022	80,022

Department of Employment and Economic Development (DEED)

General Fund Summary

DEED’s enacted General Fund budget for FY 2018-19 is \$194.312 million (see Table 1). The change represents a \$21.9 million or 13 percent increase from current law base.

The legislature approved the following increases to existing and new programs:

- The Minnesota Investment Fund received a \$3 million increase from the current law base bringing the total appropriation for the biennium to \$25 million. Of this amount, \$4 million is for the Digi-Key expansion in Thief River Falls (H.F. 2183) and \$700,000 is to extend an effluent pipe to a waste to biofuel project in Inver Grove Heights (H.F. 2607).
- \$1.6 million was set aside from the greater Minnesota BDPI competitive grant program's \$2.6 million appropriation for the biennium for the Digi-Key expansion in Thief River Falls (H.F. 2183).
- The job creation fund received a \$4 million increase from the current law base bringing the total appropriation for the biennium to \$17 million (H.F.1916).
- The amount available for contaminated site cleanup grants was increased by \$750,000, bringing the total appropriation for the biennium to \$3.294 million.
- \$519,000 was appropriated in FY 2018 for grants to improve childcare in Minnesota; 60 percent of which must go to businesses outside the seven county metro area (H.F. 1410).
- \$250,000 was appropriated in FY2018 for the greater Minnesota community design pilot (H.F. 2036).
- \$300,000 was appropriated in FY 2018 for a grant to the Eastside Enterprise Center (H.F. 620).
- \$500,000 was appropriated in FY 2018 to establish the central Minnesota Opportunity grant program under Minnesota Statutes, section 116J.9922 (H.F. 2266).
- \$275,000 was appropriated in FY 2018 to the Community Economic Development Association (CEDA) for a study of economic growth in southeast Minnesota (H.F. 658).
- \$2 million was appropriated in FY 2018 to the Pillsbury United Communities for a building renovation in north Minneapolis (H.F. 1828).
- \$250,000 was appropriated in FY 2018 for a grant to the Small Business Development Center at Minnesota State University, Mankato (H.F. 2136).
- \$150,000 was appropriated in FY 2018 for the Lake Mille Lacs area economic relief program (H.F. 1865).
- \$319,000 was appropriated in FY 2018 for a grant to the East Phillips Improvement Coalition for a project predesign (H.F. 2156).
- The Pathways to Prosperity competitive grant program received a \$1.078 million from the current law base bringing the total appropriation for the biennium to \$3.078 million.
- \$350,000 was appropriated in FY 2018 for a grant to AccessAbility Inc. (H.F. 2370).
- \$100,000 in each FY 2018 and FY 2019 (\$200,000 total) to establish the Getting to Work grant program (H.F. 875).
- DEED's vocational rehabilitation operating budget was increased by \$7 million over the current law base bringing the total appropriation for the biennium to \$28.6 million.

- Centers for Independent Living received a \$500,000 increase from the current law base bringing the total appropriation for the biennium to \$6.022 million (H.F. 369).
- DEED's extended employment services operating budget was increased by \$2 million over the current law base bringing the total appropriation for the biennium to \$13.99 million.
- \$20 million was appropriated in FY 2018 for transfer to the border-to-border broadband account for grants to expand broadband services to unserved and underserved regions.

The legislature approved the following reductions to existing programs:

- The Minnesota Film and TV Board was appropriated \$1.326 million for the biennium, a \$2.324 million reduction from the current law base.
- The Workforce Housing Development program was eliminated at DEED, a \$4 million reduction for the biennium from the current law base. The program and its funding was transferred to the Minnesota Housing Finance Agency.
- The Emerging Entrepreneurs program was appropriated \$1.376 million for the biennium, a \$124,000 cut from the current law base.
- The Twin Cities R!SE, YWCA – St. Paul, YWCA – Minneapolis, EMERGE community development, Minneapolis Foundation – North at Work, CLUES – Latino Community, and Ujamaa Place grants were eliminated from the General Fund and moved to the Workforce Development Fund, a \$9.15 million reduction from the current law base in the General Fund.
- The Youth at Work grant program was appropriated \$1 million for the biennium, a 50 percent reduction from the current law base.
- The self-sufficiency competitive grant program was appropriated \$1.5 million for the biennium, a 50 percent reduction from the current law base.
- The Women in High Wage, High Demand, Nontraditional Jobs grant program was appropriated \$1 million for the biennium, a 50 percent reduction from the current law base.
- The Southeast Asian Community grant was appropriated \$1 million for the biennium, a 50 percent reduction from the current law base.
- The Adult Workforce Development grant program funding was eliminated, a \$2.078 million reduction from the current law base. The program itself was wrapped into the Pathways to Prosperity competitive grant program, which saw an increase in funding (see the section on approved funding increases above). The net impact is a \$1 million reduction from the current law base.

Workforce Development Fund Summary

DEED's enacted workforce development fund budget for FY 2018-19 is \$73.463 million in direct appropriations (see Table 2). The dollar and percent increases from current law base are \$19.321 million and 36 percent respectively.

The legislature approved the following increases to existing and new programs:

- \$322,000 was appropriated for a grant to the Center for Rural Policy and Development for the biennium (H.F. 2220). This is an increase to the current law base of \$278,000 appropriated from the General Fund for the biennium.
- \$600,000 was appropriated for a grant to Enterprise Minnesota (H.F. 2369).
- \$50,000 was appropriated for a grant to Fighting Chance (H.F. 1710).
- \$2.7 million was appropriated for job training grants, an increase of \$900,000 over the current law base (H.F. 1018).
- \$9.208 million was appropriated for the Pathways to Prosperity competitive grant program, the result of combining the Fasttrac Minnesota Adult Careers competitive grant program and the Adult Workforce Development competitive grant program; a net zero impact for the biennium.
- The Twin Cities R!SE, YWCA – St. Paul, YWCA – Minneapolis, EMERGE community development, Minneapolis Foundation – North at Work, CLUES – Latino Community, and Ujamaa Place grants were moved from the General Fund to the Workforce Development Fund, a \$9.15 million reduction from the current law base in the General Fund and a \$10.347 million increase in the Workforce Development Fund. A net increase of \$1.197 million for the biennium (H.F. 793, H.F. 2133).
- \$2.7 million was appropriated for a grant to SciTechsperience, an increase of \$500,000 over the current law base for the biennium.
- \$230,000 was appropriated for a grant to the Bois Forte Tribal Employment Rights Organization (TERO) for a workforce development training pilot project (H.F. 1307).
- \$40,000 was appropriated for transfer in FY 2018 to the Cook County Higher Education Board (H.F. 196).
- \$500,000 was appropriated for a grant to Bridges to Healthcare to provide job skills training and career education for high demand healthcare jobs (H.F. 2078).
- \$1 million was appropriated for a grant to Nonprofits Assistance Fund to provide financial capacity building support (H.F. 2167).
- \$1.5 million was appropriated for a grant to the Summit Academy OIC (H.F. 1143).
- \$1 million was appropriated for a grant to the Father Project (H.F. 1327).
- \$300,000 was appropriated for the displaced homemaker program (H.F. 1486).
- \$150,000 was appropriated for a grant to Anoka County for a pilot program to increase employment opportunities for transition age youth (18 – 21 years old) (HF 1131).

Other Changes in DEED

- The department received agency-wide operating increases from the General Fund and the Workforce Development Fund, at \$1.895 million and \$49,000 for the biennium, respectively.
- The legislature approved up to a \$2 million transfer beginning in FY 2018 and each year thereafter from the assigned risk plan to the Center for Rural Policy and Development Fund Account if there is a sufficient excess surplus in the account.
- \$150,000 was appropriated in FY 2018 from the Renewable Development Account for a biomass study.

Minnesota Housing Finance Agency (MHFA)

MHFA's enacted General Fund budget for FY 2018-19 is \$107.596 million (see Table 1). The dollar and percent increases from current law base are \$6 million and 6 percent respectively.

The legislature continued base funding for all MHFA programs, with increases to the following existing and new programs:

- \$2 million each year to move the Workforce Housing Development program from DEED to MHFA. While an increase to MHFA's budget, this move is a net zero increase over the current law base.
- \$2 million in FY 2018 was appropriated for the homework starts at home initiative (H.F. 1392).
- The Housing Trust Fund appropriation was increased by \$175,000 each year and the appropriation for capacity building grants was increased by \$270,000 each year over the current law base. This increase is a net neutral impact to the General Fund as the money was already appropriated at the agency level in the current law base.

Explore Minnesota Tourism

Explore Minnesota Tourism's budget was moved to the Environment and Natural Resources Finance area. See the Environment and Natural Resources summary for Tourism information.

Department of Labor and Industry (DOLI)

DOLI's enacted General Fund budget for FY 2018-19 is \$3.566 million (see Table 1). The dollar and percent increases from current law base are \$1.162 million and 48 percent respectively.

General Fund Changes

- \$1 million for the biennium was appropriated for wage theft prevention.
- The department received an agency wide operating increase of \$162,000 from the General Fund.

Non-General Fund Changes

- \$600,000 was appropriated from the Workforce Development Fund for the biennium for the continuation of the PIPELINE project.
- The department received an agency wide operating increase of \$133,000 from the Workforce Development Fund.
- \$400,000 was appropriated for the biennium from the Workforce Development Fund for the Helmets to Hardhats program to transition residents with military experience to the civilian workforce (H.F. 1638).
- \$700,000 was appropriated for the biennium from the Workforce Development Fund for the Youth Skills Training program (H.F. 631).
- The legislature extended a \$6 million appropriation to be available through FY 2021 from the workers' compensation fund for IT system upgrades.
- Clarifications to the contractor recovery fund allows homeowners with a court judgement against a licensed contractor to receive up to \$300,000 instead of \$150,000. The agency estimates that it will spend an additional \$150,000 per year from the Special Revenue Fund.
- \$120,000 each year is from the Construction Code Fund for public accommodation code enforcement resulting in an additional \$120,000 each year in inspection fee revenue.

Bureau of Mediation Services (BMS)

BMS's enacted General Fund budget for FY 2018-19 is \$4.968 million (see Table 1). The dollar and percent increases from current law base are \$224,000 and 5 percent respectively. The legislature continued base funding for all BMS programs and an operating adjustment of \$224,000 represents the only General Fund increase.

Workers Compensation (WC) Court of Appeals

The WC Court of Appeals receives no General Fund appropriations. The legislature funded the court at the current law base budget of \$3.826 million for the biennium from the Worker's Compensation Fund.

Department of Commerce

The Department of Commerce's enacted General Fund budget for FY 2018-19 is \$46.624 million (see Table 1). The dollar and percent decreases from current law base are \$8.244 million and 15 percent respectively.

General Fund Changes

The legislature approved increases to the following existing and new programs:

- \$100,000 in FY 2018 was appropriated for a grant to Exodus Lending (H.F. 2620).

- \$400,000 each year was appropriated for the financial services inclusion program (H.F. 1328).
- \$9,000 each year was moved from the administrative services division to the Unclaimed Property program for a total appropriation of \$384,000 each year.
- \$9.99 million was appropriated to the enforcement division for the biennium, an increase of \$746,000.
- \$20,000 in FY 2018 was appropriated for financial education and outreach (H.F. 879).
- \$150,000 each year was appropriated for healthy asbestos insulation remediation.
- \$20,000 in FY 2018 was appropriated for an NCOIL membership.

The legislature approved decreases to the following programs:

- The legislature approved moving the financial services division budget from the General Fund to the Special Revenue Fund resulting in a decrease of \$8.93 million from the General Fund. Due to a loss of revenue, the net impact is a cost to the General Fund of \$1.134 million.
- \$0 was appropriated for the weatherization equipment program, a decrease of \$300,000 from the current law base.
- \$0 was appropriated for costs for competitive rates for energy intensive customers, a decrease of \$860,000 from the current law base. However, this change has a net zero impact to the General Fund due to a loss of revenue.

Non-General Fund Changes

- \$2.34 million was appropriated for the biennium from the Special Revenue Fund for a transfer to the Commission of Deaf, Deafblind, Hard of Hearing; an increase of \$740,000 from the current law base (H.F. 1043).
- A sunset date for an assessment for the energy efficiency resource standard was extended to the end of FY 2018. This leads to revenue and expenditure changes in the Special Revenue Fund of \$400,000 each year.
- A sunset date for an assessment for department regional and national duties was extended to the end of FY 2018. This leads to revenue and expenditure changes in the Special Revenue Fund of \$500,000 each year.

Public Utilities Commission (PUC)

The PUC's enacted General Fund budget for FY 2018-19 is \$14.93 million (see Table 1). The legislature funded the PUC at the current law base.

The legislature continued base funding for the PUC, and approved the following increases:

- \$525,000 each year to enhance the PUC's decision-making capabilities. This amount will be recovered through an assessment on regulated utilities.
- An operating adjustment of \$200,000 each year. This amount will be recovered through an assessment on regulated utilities.

Public Facilities Authority (PFA)

The PFA does not have a General Fund base under current law. However, the legislature appropriated \$1.8 million in FY 2018 to fund infrastructure projects in New Trier (\$300,000), Clear Lake and Clearwater (\$900,000), and Ramsey and Washington Counties (\$600,000).

For additional information on Job Growth and Energy Affordability Finance issues, contact Chris Zempel, Fiscal Analyst, at 651-296-4162 or chris.zempel@house.mn.

Legacy Finance

Laws 2017, Chapter 91 appropriated \$529.561 million in FY 2018-19 from the four funds established under the constitutional amendment passed by voters in November 2008. The total appropriations by fund and fiscal year are shown below. Each of the four funds maintained a 5 percent reserve based on the February 2017 forecast.

<i>Laws 2017, Chapter 91</i> Clean Water, Land, and Legacy Constitutional Amendment <i>(Dollars in thousands)</i>			
	FY 2018	FY 2019	Total
Outdoor Heritage Fund	\$ 102,605	\$ 1,958	\$ 104,563
Clean Water Fund	100,497	111,373	211,870
Parks & Trails Fund	41,989	47,775	89,764
Arts & Cultural Heritage Fund	57,328	66,036	123,364
Total	\$302,419	\$227,142	\$529,561

Outdoor Heritage Fund

Chapter 91 provided appropriations totaling \$104.563 million from the Outdoor Heritage Fund. The appropriations fall into five categories consistent with the constitutional language creating the fund.

• <i>Prairies</i>	\$ 30,862,000	29.5%
• <i>Forests</i>	\$ 16,824,000	16.1%
• <i>Wetlands</i>	\$ 28,869,000	27.6%
• <i>Habitat</i>	\$ 26,544,000	25.4%
• <i>Administration & Other</i>	\$1,464,000	1.4%

The following table shows the legislative appropriations by agency, category, and project description. The Outdoor Heritage Fund is the only fund out of the four funds that makes appropriations for one year at a time. Appropriations for FY 2019 will be made by the 2018 Legislature. The legislature receives recommendations from the Lessard-Sams Outdoor Heritage Council and will receive FY 2019 recommendations by January of 2018. The administration budget for the second year is appropriated for FY 2019, typically this is the only appropriation in the second year. This year there was one project that the Lessard-Sams Outdoor Heritage Council recommended that was changed in the legislature. The “DNR Wildlife Management Area and Scientific and Natural Area Acquisition-Phase IX” was reduced by \$1.373 million in FY 2018 and \$1.373 million was appropriated in FY 2019. This was done by the legislature in order to keep the

project fully funded and to maintain a 5 percent reserve in the fund to address any future forecast reductions.

ARTICLE 1 - Outdoor Heritage Fund	Agency	Minnesota Laws 2017, Chapter 91		
		FY 2018	FY 2019	FY18-19
<i>all \$ in thousands</i>				
Prairies				
DNR WMA and SNA Acquisition-Phase IX	DNR	3,064	1,373	4,437
Accelerating Wildlife Management Area Acquisition-Phase IX	DNR	5,603	-	5,603
MN Prairie Recovery Project-Phase VII	DNR	1,901	-	1,901
Northern Tallgrass Prairie NWR Land Acquisition-Phase VIII	DNR	2,683	-	2,683
Cannon River Headwaters Habitat Complex-Phase VII	DNR	1,436	-	1,436
Accelerated Native Prairie Bank Protection-Phase VI	DNR	2,481	-	2,481
Reinvest in Minnesota (RIM) Buffers for Wildlife and Water- Phase VII	BWSR	5,333	-	5,333
Prairie Chicken Habitat Partnership of the Southern Red River Valley-Phase III	DNR	1,908	-	1,908
DNR Grasslands-Phase IX	DNR	3,950	-	3,950
Anoka Sandplain Habitat Restoration and Enhancement-Phase V	DNR	1,130	-	1,130
<i>Anoka Conservation District</i>		[41]	-	[41]
<i>Isanti County SWCD</i>		[231]	-	[231]
<i>Great River Greening</i>		[345]	-	[345]
<i>Stearns County SWCD</i>		[163]	-	[163]
<i>Minnesota Land Trust</i>		[350]	-	[350]
Subtotal		29,489	1,373	30,862
Forests				
Carmelian Creek Conservation Corridor	DNR	2,458	-	2,458
Laurentian Forest -St. Louis County Habitat Project	DNR	2,400	-	2,400
Southeast Minnesota Protection and Restoration-Phase V	DNR	2,375	-	2,375
<i>The Nature Conservancy</i>		[1,000]	-	[1,000]
<i>The Trust for Public Land</i>		[675]	-	[675]
<i>Minnesota Land Trust</i>		[700]	-	[700]
Minnesota Forests for the Future-Phase V	DNR	2,291	-	2,291
State Forest Acquisitions Richard J. Dorer Memorial Forest-Phase IV	DNR	1,000	-	1,000
Critical Shore land Habitat Protection Program-Phase IV	DNR	1,700	-	1,700
Bushmen Lake	DNR	4,600	-	4,600
Forest Pest Response	AG	-	-	-
Subtotal		16,824	-	16,824

ARTICLE 1 - Outdoor Heritage Fund (continued)		Agency Minnesota Laws 2017, Chapter 91		
<i>all \$ in thousands</i>		FY 2018	FY 2019	FY18-19
Wetlands				
Accelerating the WPA Acquisition-Phase IX	DNR	5,500	-	5,500
Shallow Lake and Wetland Protection Program-Phase VI	DNR	5,750	-	5,750
RIM Wetlands Partnership- Phase VIII	BWSR	10,398	-	10,398
Wild Rice Shore land Protection - Phase V	BWSR	750	-	750
Accelerating Shallow Lakes and Wetlands Enhancement-Phase IX	DNR	1,755	-	1,755
Living Shallow Lake Enhancement & Wetland Restoration Initiative - Phase V	DNR	4,716	-	4,716
Subtotal		28,869	-	28,869
Habitats				
Metro Big Rivers- Phase VIII	DNR			
Mississippi Headwaters Habitat Corridor Partnership-Phase III	DNR	1,617	-	1,617
<i>Mississippi Headwaters Board</i>		[60]	-	[60]
<i>The Trust for Public Land</i>		[1,557]	-	[1,557]
<i>Board of Water and Soil Resources</i>	BWSR	779	-	779
Fisheries Habitat Protection on Strategic North Central Minnesota Lakes-Phase III	DNR	1,716	-	1,716
<i>Leech Lake Area Watershed Foundation</i>		[113]	-	[113]
<i>Minnesota Land Trust</i>		[1,603]	-	[1,603]
Goose Prairie Marsh WMA Enhancement	DNR	600	-	600
Minnesota Trout Unlimited Coldwater Fish Habitat Enhancement and Restoration-Phase IX	DNR	2,403	-	2,403
DNR Stream Habitat- Phase II	DNR	2,166	-	2,166
St. Louis River Restoration Initiative-Phase III	DNR	3,392	-	3,392
Shell Rock River Watershed Habitat Restoration Program-Phase VI	DNR	1,779	-	1,779
Lake Wakanda Enhancement Project	DNR	921	-	921
Wolverton Creek Habitat Restoration	DNR	1,877	-	1,877
Conservation Partners Legacy Grant Program: Statewide and Metro Habitat-Phase VIII	DNR	9,294	-	9,294
<i>Metro are and Cities over 50,000 in population</i>		[2,660]	-	[2,660]
<i>Personnel Costs</i>		[634]	-	[634]
Subtotal		26,544	-	26,544
Administration				
Contract Management	DNR	150		150
LSOHC Administrative Budget	LCC	571	578	1,149
Technical Evaluation Panel	DNR	150		150
Legacy Website	LCC	8	7	15
Subtotal		879	585	1,464
TOTAL		102,605	1,958	104,563

Clean Water Fund

The 2017 Legislature appropriated \$100.497 million in FY 2018 and \$111.373 million in FY 2019 from the Clean Water Fund. A number of changes were made to the recommendations presented by the Governor and the Clean Water Council. The changes that were made helped to accommodate one large appropriation was made by the legislature to soil and water conservation districts in the amount of \$11 million per year. This appropriation was not in the recommendations of the governor or the Clean Water Council. The appropriations by agencies and programs are summarized in the table.

ARTICLE 2 - Clean Water Fund	Agency	Minnesota Laws 2017, Chapter 91		
		FY 2018	FY 2019	FY18-19
<i>all \$ in thousands</i>				
Department of Agriculture				
Monitoring for Pesticides in Surface Water and Groundwater	MDA	350	350	700
Nitrate in Groundwater	MDA	2,085	2,086	4,171
AgBMP Loan Program	MDA	75	75	150
Technical Assistance	MDA	1,125	1,125	2,250
Academic Research/Evaluation	MDA	663	662	1,325
Research Inventory Database	MDA	50	50	100
MN Agricultural Water Quality Certification Program	MDA	2,000	3,000	5,000
Irrigation Water Quality Protection	MDA	110	110	220
Forever Green Agriculture Initiative	MDA	750	750	1,500
Pesticide Testing of Private Wells	MDA	1,000	1,000	2,000
Vegetative Cover and Soil Health	MDA	75	75	150
Subtotal		8,283	9,283	17,566
Public Facilities Authority				
Point Source Implementation Grants	PFA	5,182	10,568	15,750
Small Community Wastewater Treatment Program	PFA	125	125	250
Subtotal		5,307	10,693	16,000
Pollution Control Agency				
Continue river and lake monitoring & assessment efforts to meet the 10-year cycle and determine pollutant loads	MPCA	8,275	8,275	16,550
Red River Water Management Board (Riverwatch Program)	MPCA	[125]	[125]	[250]
Watershed Restoration and Protection Strategies (includes TMDL development)	MPCA	9,409	9,638	19,047
Groundwater Assessment	MPCA	1,181	1,182	2,363
Great Lakes Restoration Project	MPCA	750	750	1,500
Watershed Research and Database Development	MPCA	500	500	1,000
Wastewater/Storm water (NPDES) TMDL Implementation	MPCA	900	900	1,800
Enhanced County Inspections/SSTS Corrective Actions	MPCA	3,500	3,370	6,870
Accelerated Implementation of Municipal Storm water (MS4) Permit Requirements	MPCA	225	225	450
St. Croix River Association Monitoring and Phosphorous Reduction	MPCA	200	200	400
National Park Water Quality Protection Program	MPCA	800	1,200	2,000
Clean Water Council Budget	MPCA	50	50	100
Subtotal		25,790	26,290	52,080
Department of Natural Resources				
Stream Flow Monitoring	DNR	1,950	1,950	3,900
Lake IBI assessment	DNR	1,250	1,250	2,500
Fish Contamination Assessment	DNR	135	135	270
Watershed Restoration and Protection Strategies	DNR	1,886	1,886	3,772
Aquifer Monitoring for Water Supply Planning	DNR	1,375	1,375	2,750
Nonpoint Source Restoration and Protection Activities	DNR	950	950	1,900
Applied Research and Tools	DNR	675	675	1,350
County Geologic Atlases	DNR	125	125	250
Buffer Map Maintenance	DNR	100	100	200
Color Infrared Imagery Analysis	DNR	-	-	-
Aquatic Management Area	DNR	-	-	-
Forests for the Future	DNR	-	-	-
Subtotal		8,446	8,446	16,892

ARTICLE 2 - Clean Water Fund (continued)	Agency	Minnesota Laws 2017, Chapter 91		
<i>all \$ in thousands</i>		FY 2018	FY 2019	FY18-19
Board of Water and Soil Resources				
One Watershed One Plan Implementation	BWSR	4,875	4,875	9,750
Grants to Watersheds with Multiyear Plans (Targeted Watershed Program)	BWSR	-	-	-
Surface and Drinking Water Protection/Restoration Grants (Projects and Practices)	BWSR	6,882	12,618	19,500
Accelerated Implementation	BWSR	3,325	4,275	7,600
Measures, Results and Accountability	BWSR	950	950	1,900
Buffer and Soil Erosion Law Implementation	BWSR	2,500	2,500	5,000
Riparian Buffer-Permanent Conservation Easements	BWSR	3,875	5,875	9,750
Targeted Wellhead/Drinking Water Protection	BWSR	1,750	1,750	3,500
Technical Evaluation	BWSR	84	84	168
One Watershed One Plan Planning (Water Management Transition)	BWSR	1,995	1,995	3,990
Conservation Drainage Management and Assistance	BWSR	750	750	1,500
Conservation Reserve Enhancement Program (CREP)	BWSR	1,500	1,500	3,000
Critical Shoreland Protection-Permanent Conservation Easements	BWSR	1,000	1,000	2,000
Tillage and Erosion Transects	BWSR	425	425	850
Water Legacy Grants Program	BWSR	-	-	-
SWCD Grants for Buffer Requirements	BWSR	11,000	11,000	22,000
SWCD Cost Sharing Contracts for Buffers	BWSR	5,000	-	5,000
Subtotal		45,911	49,597	95,508
Minnesota Department of Health				
Drinking Water Contaminants of Emerging Concern Program	MDH	1,100	1,100	2,200
Source Water Protection	MDH	2,587	2,907	5,494
Well Sealing Cost Share	MDH	250	250	500
Groundwater Restoration and Protection Strategies	MDH	200	200	400
Private Well Water Supply Protection	MDH	400	400	800
Groundwater Virus Monitoring Plan	MDH	100	100	200
Drinking Water Protection	MDH	150	150	300
Subtotal		4,787	5,107	9,894
Metropolitan Council				
Metropolitan Area Water Supply Sustainability Support	Met Council	950	950	1,900
Water Demand Reduction Grant Program Pilot	Met Council	-	-	-
Inflow and Infiltration Reduction Program	Met Council	-	-	-
Subtotal		950	950	1,900
University of Minnesota				
County Geologic Atlases	UMN	125	125	250
Storm water BMP Performance Evaluation and Technology Transfer	UMN	750	750	1,500
Clean Water Return on Investment Pilot	UMN	133	132	265
Subtotal		1,008	1,007	2,015
Department of Revenue				
Riparian Protection Aid Payments		-	-	-
Subtotal		-	-	-
Legislative Coordinating Commission				
Legislative Coordinating Commission	LCC	15	-	15
Subtotal		15	-	15
TOTAL		100,497	111,373	211,870

Parks and Trails Fund

The 2017 Legislature appropriated \$41.989 million in FY 2018 and \$47.775 million in FY 2019 from the Parks and Trails Fund. The appropriation followed a split of 40 percent for the state parks and trails, 40 percent for the metropolitan parks and trails, and 20 percent for the greater Minnesota regional parks and trails. Prior to the percent allocations listed \$521,000 the first year \$548,000 the second year was appropriated for collaboration among the three partners. The respective fiscal year appropriations by agencies and programs are summarized in the following table.

ARTICLE 3 - Parks and Trails Fund	Agency	Minnesota Laws 2017, Chapter 91		
		FY 2018	FY 2019	FY18-19
<i>all \$ in thousands</i>				
Department of Natural Resources				
State Park Trails and Recreation Areas	DNR	16,584	18,891	35,475
Grants to Parks and Trails of Regional and Statewide Significance Outside the Metro Area	DNR	8,293	9,445	17,738
Great Minnesota Regional Parks and Trails Commission	DNR	[424]	[399]	[823]
Parks and Trails Collaboration Among Partners	DNR	521	548	1,069
Subtotal		25,398	28,884	54,282
Metropolitan Council				
Distributed to Implementation Agencies by Minnesota Statute 85.53, Subd. 3	Met Council	16,584	18,891	35,475
Subtotal		16,584	18,891	35,475
Legislative Coordinating Commission				
Legislative Coordinating Commission Website	LCC	7	-	7
Subtotal		7	-	7
TOTAL		41,989	47,775	89,764

Arts and Cultural Heritage Fund

The legislature appropriated \$123.3 million from the Arts and Cultural Heritage Fund for programs throughout the state. As required by statute, 47 percent of the spending from the fund must be appropriated for projects through the Minnesota State Arts Board which received \$58.1 million for grants and programs. The balance of the funds were provided to other agencies to promote cultural and educational programs, and to assist financing public broadcasting. The allocations are provided in the table below.

ARTICLE 4 - Arts and Cultural Heritage Fund		Minnesota Laws 2017, Chapter 91		
<i>all \$ in thousands</i>		FY 2018	FY 2019	FY18-19
Board of the Arts				
Arts Grants		20,700	25,589	46,289
Arts Education		4,115	4,610	8,725
Arts and Cultural Heritage		1,430	1,537	2,967
Arts Map Application Software		50	-	50
Dan Patch Statues		75	-	75
Total Arts Board		26,370	31,736	58,106
Minnesota Historical Society				
Minnesota Historical Society		-	-	-
Statewide Historical Grants		4,500	6,500	11,000
Statewide History Programs		4,055	6,945	11,000
History Partnerships		2,000	2,000	4,000
Statewide Survey		400	400	800
Digital Library		300	300	600
Historic Andrew Peterson Farm		80	80	160
Woodbury Miller Barn		80	80	160
Fort Snelling Chapel Stained Glass		100	-	100
Fairmont Opera House		250	-	250
Litchfield Opera House		50	-	50
Total Minnesota Historical Society		11,815	16,305	28,120
Minnesota Department of Education				
Regional Public Libraries		2,500	2,500	5,000
Total Minnesota Department of Education		2,500	2,500	5,000
Department of Administration				
Minnesota Public Radio		1,500	1,700	3,200
Ampers Public Radio		1,500	1,700	3,200
Minnesota Public Television		4,150	3,900	8,050
Vietnam: Minnesota Remembers \$650,000		[650]	-	[650]
Wilderness Inquiry Canoemobile		250	250	500
Como Zoo		1,350	1,350	2,700
Science Museum of Minnesota		600	600	1,200
Green Giant Museum		300	-	300
Lake Superior Zoo		75	75	150
Minnesota State Band		50	-	50
Rice County Veteran's Memorial		30	-	30
Waseca Veteran's Memorial		50	-	50
Minnesota Square Park Pavilion St Peter		200	-	200
State Archeologist Reburial Human Remains		107	-	107
Medal of Honor Memorial		250	-	250
Camp Legionville		222	-	222
Veterans Rest Camp		278	-	-
Midwest Outdoors Unlimited		25	25	50
Total Department of Admin		10,937	9,600	20,537

ARTICLE 4 - Arts and Cultural Heritage Fund (continued)		Minnesota Laws 2017, Chapter 91		
	<i>all \$ in thousands</i>	FY 2018	FY 2019	FY18-19
Minnesota Zoo				
Zoo Programs		1,550	1,950	3,500
Total Minnesota Zoo		1,550	1,950	3,500
Humanities Center				
Humanities Center Programs		1,125	1,125	2,250
Veterans Voices		[100]	[100]	[200]
Why Treaties Matter \$250,000		[125]	[125]	[125]
Council on Disability \$55,000		[55]	\$ -	[55]
Community Identity and Heritage Competitive		-	-	-
Takraw Courts \$150,000		75	-	75
Minnesota Children's Museum		500	500	1,000
Duluth Children's Museum		150	150	300
Children's Discovery Museum Grand Rapids		150	150	300
Children's Museum of Southern MN		150	150	300
Wheel and Cog Childrens Museum		80	-	80
Minnesota Civic Education Coalition		200	200	400
Rondo Commemorative Plaza		47	-	47
Somali Base Cultural and Museum Grants		200	200	400
Total Center for the Humanities		2,677	2,475	5,152
Indian Affairs Council				
Dakota and Ojibwe Language		845	845	1,690
Miigaane Immersion School		125	125	250
Wicoie Nandagikendan Urban Immersion		250	250	500
Graves Protection		100	100	200
Total Indian Affairs Council		1,320	1,320	2,640
Agriculture				
County Fair Grants		150	150	300
		150	150	300
LCC				
Legacy Website		9	-	9
		9	-	9
Total Spending		57,328	66,036	123,364

For additional information on the Outdoor Heritage Fund, Clean Water Fund, and Parks and Trails Fund, contact Brad Hagemeyer, Fiscal Analyst, at 651-296-7165 or at brad.hagemeyer@house.mn.

For additional information on the Arts & Cultural Heritage Fund, contact John Walz, Fiscal Analyst, at 651-296-8236 or john.walz@house.mn.

Public Safety and Judiciary Finance

Public Safety and Judiciary Finance

Laws 2017, Chapter 95 included an increase of \$154 million over forecast base to programs in the public safety and judiciary area of the state budget. The legislation sets budgets for several agencies for the FY 2018-19 biennium which begins July 1, 2017. The summaries below detail the budget priorities of the conference committee and policy changes made by the omnibus bill.

Public Safety and Security Policy and Finance							
Total General Fund Spending							
(all dollars in thousands)							
					Percentage Change:	Percentage	
					Enacted FY 2018-19	Change: Enacted	
	Change	FY 16-17 Forecast	Forecast Base	Enacted	vs. FY 2016-17	Enacted	Enacted Base
	FY 2017	with changes	FY 2018-19	FY 2018-19	with Changes	FY 2018-19	FY 2020-21
Supreme Court		95,807	96,022	104,455	9.0%	8.8%	106,838
Court of Appeals		23,496	23,958	24,940	6.1%	4.1%	24,988
District Courts		545,339	557,388	589,955	8.2%	5.8%	597,936
Guardian Ad Litem		29,352	30,578	32,870	12.0%	7.5%	33,426
Tax Court		3,745	2,784	3,355	-10.4%	20.5%	3,352
Sentencing Guidelines Commission		1,236	1,282	1,324	7.1%	3.3%	1,338
Uniform Laws Commission		181	186	186	2.8%	0.0%	186
Judicial Standards Board		1,067	972	972	-8.9%	0.0%	972
Board of Public Defense		160,989	165,324	174,259	8.2%	5.4%	176,620
Private Detectives Board		376	378	383	1.9%	1.3%	384
POST Board				12,000	NA	NA	12,000
Department of Corrections	9,200	1,094,227	1,098,740	1,170,321	7.0%	6.5%	1,186,262
Department of Public Safety	1,696	196,932	187,436	203,628	3.4%	8.6%	199,762
Transfer to Disaster Contingency Account		19,400					
Transfer to Fire Safety Account		2,500					
Transfer to Community Justice Account		488	922	922			922
Net GF Total	10,896	2,175,135	2,165,970	2,319,570	6.6%	7.1%	2,344,986

Supreme Court

Funding for the Supreme Court was increased by \$7.2 million for the biennium, most of which will be used for employee compensation increases and health insurance costs. Employees will receive a 3 percent increase in each year of the biennium. In addition to personnel costs, the court received \$2 million for additional information technology security resources and \$1 million for a new “short form” restraining order notification system.

A \$575,000 annual increase was provided to Civil Legal Services to hire additional staff and reduce caseloads for those assisting the indigent with legal issues.

Court of Appeals

The Court of Appeals staff and judges received the same budgetary increase for salary as the Supreme Court. Employees and judges will receive a 3 percent increase in each year of the biennium, and funding for health insurance cost increases.

District Courts

The budget for the district courts contained similar provisions for pension, salary, and health insurance costs as the other courts. Employees and judges will receive a 3 percent increase in each year of the biennium. Total cost of these employee related items is \$25.1 million for the biennium.

The district courts were also granted an additional \$1.69 million annually for treatment courts. treatment courts, sometimes referred to as “problem solving courts,” are institutions that have a narrow focus and deal with issues and people who make frequent appearances before the court. Drug courts, veteran’s courts, and mental health courts are examples of specialty courts that deal with people who may have chronic ongoing issues that may bring them before the judiciary more frequently than the average person. The specialty courts focus on giving more support, attention, and expertise at dealing with these specific issues in an attempt to achieve better long-term outcomes for the individual and the public.

The district courts also received an additional \$1.1 million for services like interpreters and psychological examinations. Funding was also provided for two additional judge positions, one in the 7th and one in the 9th judicial districts.

Tax Court

The budget for the tax court contained similar provisions for salary and health insurance costs as the other courts. Employees and judges will receive a 3 percent increase in each year of the biennium. Total cost of these employee related items is \$44,000 for the biennium.

The tax court was also granted \$512,000 for ongoing costs of the new case management system.

Guardian Ad Litem Board

The Guardian Ad Litem Board was given an additional \$1.3 million for the biennium to cover employee salary, pay equity, and health insurance cost increases. They also received \$1 million for the biennium to increase services.

Uniform Laws Commission

The Uniform Laws Commission requested no additional funding and was appropriated \$93,000 annually for the base budget.

Board on Judicial Standards

The Board on Judicial Standards requested no additional funding and was appropriated \$486,000 annually for the base budget.

Board of Public Defense

The Board of Public Defense was budgeted an additional \$9.2 million for the biennium for various purposes. The legislature provided \$1.5 million for ten additional public defender attorney positions. Funds will be used for caseload reductions per attorney as well as additional public defender availability at defendant court appearances.

The omnibus bill also provided \$7.7 million for salary and insurance cost increases.

Department of Public Safety

The Office of Homeland Security and Emergency Management received just under \$3.3 million for new projects this session. From the general fund, the office received an additional \$440,000 for the biennium for salaries and insurance, \$1.25 million for Roseau County disaster reimbursement, and an additional \$150,000 was appropriated for nonprofit security grants.

The legislature provided up to \$10 million for the Disaster Contingency Account, if the closing balance in the general fund for FY 2017 exceeds the amount forecasted at the end for the fiscal year. Should the closing balance be less than projected, the contingency account would receive no additional funding.

The Bureau of Criminal Apprehension (BCA) was granted \$12.1 million over base funding for the 2018-19 biennium. A small portion, or about \$5 million, was for salary and insurance cost increases and the legislature also provided \$4.1 million for replacement of the Predatory Offender Registration System.

Also included in the increased funding was \$2.6 million for additional staff at the BCA. The funding will add additional positions at the BCA for criminal investigators, firearms examiners, criminal history system maintenance staff, and drug chemists.

Office of Justice Programs received \$1.6 million over base funding for the biennium, with \$408,000 dedicated to salary and insurance costs. The legislature continued to provide funding for Terrorism Recruitment Preventions Grants, by extending \$250,000 per year for the next two years. Sex Trafficking Prevention Grants was given an increase of \$180,000 per year to bring total state funding for the program to \$1 million per year. A new program to encourage women and racial minorities to enter jobs in law enforcement called Pathways to Policing begins in fiscal 2019 at \$400,000 per year.

Chapter 7, passed early in the session, provided \$1.696 million to Department of Public Safety for grants for disaster remediation and recovery to the City of Madelia and to Watonwan County for disasters that occurred in 2016.

Peace Officer Standards and Training (POST) Board

The POST Board received an increase of \$42,000 for the biennium for salary and insurance costs. The legislation also provided \$100,000 per year for law enforcement “crisis de-escalation” training grants, and a major investment of \$6 million per year for peace officer training assistance which

will fund grants to local jurisdictions to help communities pay for additional training of police officers. The funding will continue for four years for a total of \$24 million before sunseting.

Minnesota Department of Corrections

The Department of Corrections was appropriated an additional \$71.5 million over base funding for the biennium to deal with agency needs. Slightly over half of that increase will be costs related to current employees. Of the additional funding, \$38 million will be used to provide cost of living adjustments, “step” pay increases, additional health care costs, and fund some positions currently vacant.

A large investment was made in community supervision of offenders of \$6 million for the biennium. The funding will add \$1.4 million for community supervision through the Department of Corrections, \$4.2 million additional through Community Corrections Act (CCA) counties, and \$460,000 for County Probation Officer (CPO) counties.

The department was also granted \$9.9 million for the upcoming biennium for technology needs. The funding will provide for a major increase in rates of \$6.9 million for existing services provided through MNIT, and \$3 million for increased levels of service to modernize existing systems.

The department also was appropriated \$20.6 million for increased costs in the health care they provide to inmates. The funding included a \$9.2 million deficiency request for fiscal 2017 and \$11.4 million for estimated needs above their base funding for fiscal 2018. The department had requested the \$11.4 million increase be ongoing, but the legislature did not include the increase funding for fiscal 2019 and asked the department to return to the legislature with details of negotiations with health care providers before including funding for the new contract to begin in fiscal 2019.

Other items of note within the agency budget include, \$1.1 million to comply with federal standards for the federal Prison Rape Elimination Act, \$4.3 million for increased operating expenses not related to personnel costs, \$300,000 for outpatient sex offender treatment for released offenders, and \$320,000 for alternatives to incarceration.

Sentencing Guidelines Commission

The legislature provided \$42,000 for the biennium for salary and insurance cost increases.

For questions regarding Public Safety and Judiciary Finance issues, contact John Walz, Fiscal Analyst, at 651-296-8236 or john.walz@house.mn.

State Government Finance

The omnibus state government finance bill (Laws 2017, First Special Session, Chapter 4) authorizes General Fund spending totaling \$1.099 billion. Chapter 4 also authorizes new General Fund revenues of \$23.1 million, and appropriation reductions of \$4 million, bringing the net General Fund impact to \$1.072 billion. This amount is an increase of \$38.75 million, or 3.7 percent, from the forecast base.

State Government Finance							
Total General Fund Spending							
(all dollars in thousands)							
					Percentage Change:	Percentage	
	Change	FY 16-17 Forecast	Forecast Base	Enacted	Enacted FY 2018-19	Change: Enacted	Enacted
	FY 2017	with changes	FY 2018-19	FY 2018-19	vs. FY 2016-17	vs. Base	FY 2020-21
					with Changes	FY 2018-19	FY 2020-21
Legislature		174,538	162,962	164,106	-6.0%	0.7%	163,990
Governor		7,231	7,232	7,232	0.0%	0.0%	7,232
Attorney General		44,249	44,250	44,250	0.0%	0.0%	44,250
Secretary of State		13,262	13,373	20,373	53.6%	52.3%	16,924
State Auditor		4,420	4,466	19,789	347.7%	343.1%	20,078
Accountancy Board		1,280	1,282	1,294	1.1%	0.9%	1,298
Administration Department		43,513	39,289	44,163	1.5%	12.4%	44,549
Administrative Hearings	34	797	766	796	-0.1%	3.9%	798
Amateur Sports Commission	-7,166	3,484	600	608	-82.5%	1.3%	610
Architecture etc. Board		1,578	1,588	1,603	1.6%	0.9%	1,608
Arts Board		15,052	15,060	15,073	0.1%	0.1%	15,078
Asian Pacific Council		723	728	921	27.4%	26.5%	928
Barber Examiners Board		646	650	684	5.9%	5.2%	686
Campaign Finance Board		2,295	2,056	2,080	-9.4%	1.2%	2,088
Public Subsidy		2,803	2,669	2,669	-4.8%	0.0%	2,669
CAAP Board		698	690	697	-0.1%	1.0%	700
Cosmetologist Examiners Board		5,149	5,168	5,560	8.0%	7.6%	5,570
Historical Society		44,215	44,286	47,286	6.9%	6.8%	46,286
Historic Preservation Grants		3,312	2,027	2,027	-38.8%	0.0%	2,700
Human Rights		8,089	8,324	8,973	10.9%	7.8%	9,160
Humanities Center		1,445	1,350	1,900	31.5%	40.7%	1,400
Indian Affairs Council		1,145	1,152	1,164	1.7%	1.0%	1,168
Investment Board (SBI)		278	278	278	0.0%	0.0%	278
Military Affairs		60,706	39,808	48,332	-20.4%	21.4%	46,416
MN Council on Latino Affairs		767	772	971	26.6%	25.8%	988
MN.IT Services		11,895	5,244	5,304	-55.4%	1.1%	5,324
MN Management & Budget		377,994	47,400	51,573	-86.4%	8.8%	51,652
MMB Non-Operating*		28,132	28,612	28,612	1.7%	0.0%	10,672
Indirect Costs Receipts		-40,703	-39,828	-39,828	-2.1%	0.0%	-39,828
MNs of African Heritage Council		947	802	809	-14.6%	0.9%	812
Public Broadcasting		6,038	5,238	5,638	-6.6%	7.6%	5,238
Racing Commission		341					
Revenue Department		286,285	290,616	306,285	7.0%	5.4%	310,180
Pension Aids		108,212	141,280	141,280	30.6%	0.0%	122,007
Veterans Affairs		145,411	153,358	156,907	7.9%	2.3%	156,894
Total Expenditures:		1,366,227	1,033,548	1,099,409	-19.5%	6.4%	1,060,403
Appropriation Savings / Reductions				-4,012			-4,012
Revenue Changes:				23,097			15,198
Net GF Total	-7,132	1,366,227	1,033,548	1,072,300	-21.5%	3.7%	1,041,193

Constitutional Offices

Attorney General's Office (AGO)

The AGO receives \$44.25 million in direct appropriations from the General Fund, which is base level funding.

Attorney General: 2018-19 General Fund Appropriations				
(dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Government Legal Services	7,896	7,896	0	0%
Regulatory Law & Professions	4,806	4,806	0	0%
State Government Services	13,266	13,266	0	0%
Civil Law Section	6,508	6,508	0	0%
Civil Litigation	3,234	3,234	0	0%
Administrative Operations	8,540	8,540	0	0%
Total General Fund	44,250	44,250	0	0.0%

In addition to the direct General Fund appropriation for the AGO, the office also receives funding through partner agreements with state agencies. Total budgeted expenditures for partner agencies are estimated at \$20.3 million for the biennium.

Other Funds

\$4.8 million is appropriated from the State Government Special Revenue Fund for services provided to health related licensing boards. This is a \$1.2 million increase over the base to provide increased investigation and enforcement activities for the boards. The AGO also received \$290,000 from the Environmental Trust Fund and \$500,000 from the Remediation Fund for investigating and prosecuting environmental crime and for responsibilities associated with insurance claims settlements and recovery associated with landfills in the landfill cleanup program.

Governor's Office

The Governor receives \$7.2 million to fund his own office, which is base level funding.

The Governor's office also receives contributions from executive branch agencies for personnel costs incurred by certain activities of the office. This includes several policy advisors in the Governor's office that have a portion of their salary paid by other executive branch agencies. Estimated annual expenditures for FY 2018 from these agency contributions are \$1.3 million.

Secretary of State

The Secretary of State (SOS) receives \$20.4 million in direct appropriations from the General Fund for the biennium, an increase of \$7 million over base. The increase is for one-time funding of

election equipment grants to local governments.

State Auditor (OSA)

Secretary of State: 2018-19 General Fund Appropriations				
(dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Administration	1,297	1,297	0	0%
Safe at Home	1,335	1,335	0	0%
Business Services	3,252	3,252	0	0%
Elections	7,489	14,489	7,000	93%
Total General Fund	13,373	20,373	7,000	52.3%

The OSA is funded at \$19.8 million from the General Fund. This is a \$15.3 million increase largely due to a change in the way the office is funded. Compared to the base for all funds, this level is a \$355,000 or 1.8 percent increase.

Chapter 4 returned the funding for the audit practice division to a direct General Fund appropriation, with revenues from the audit activities deposited in the General Fund. This reverses a change made in the 2013 session when the majority of the OSA was restructured from a direct General Fund appropriation to a new revolving fund, with revenues collected from audit practice activities statutorily appropriated to the OSA's revolving fund.

State Auditor: 2018-19 Appropriations				
(dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Audit Practice*	15,143	15,143	0	0%
Legal & Special Investigations	688	688	0	0%
Government Information	1,294	1,448	154	12%
Pension Oversight	970	970	0	0%
Operations Management	774	975	201	26%
Constitutional Office	560	560	0	0%
Local Performance Measures Rptg (statutory)	2	2	0	0%
Total General Fund	19,431	19,786	355	1.8%

*Note: In this table, the base for the audit practice activity includes both General Fund and the Audit Practice Enterprise Fund to allow for a more accurate comparison of funding levels.

Legislature

Chapter 4 appropriates a total of \$164.1 million for the operations of the legislature. This is an increase of \$1.4 million over the base.

Legislature: 2018-19 General Fund Appropriations				
(dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
House	64,404	64,404	0	0.0%
Senate	64,766	64,766	0	0.0%
Leg. Coordinating Cmsn.				
Legislative Auditor	13,128	13,308	180	1.4%
Revisor's Office	12,360	12,523	163	1.3%
Legislative Reference Library	2,890	3,067	177	6.1%
General Operations/Fiscal Agent	<u>5,414</u>	<u>6,038</u>	<u>624</u>	<u>11.5%</u>
Total LCC	33,792	34,936	1,144	3.4%
Total Legislature	162,962	164,106	1,144	1%

The House and Senate are funded at the base level. \$1.1 million in increased funding is provided for several initiatives in the Legislative Coordinating Commission (LCC):

- \$130,000 in one-time funds to the Office of the Legislative Auditor (OLA) for audits of transit funding.
- \$50,000 in one-time funds to the OLA for additional audit reviews.
- \$177,000 in one-time funds to the Legislative Reference Library for digitization of legislative tapes.
- \$864,000 in FY 2019 for a new Legislative Budget Office to analyze the fiscal impacts of proposed legislation. The development of fiscal notes and local impact notes will be transferred to this new office from Minnesota Management and Budget beginning in January of 2019.
- \$250,000 in one-time funds to the Revisor to waterproof the data center in the State Office building.
- \$87,000 reduction to the Revisor beginning in FY 2019 to capture anticipated savings from a move from private leased space to the State Office Building.
- \$240,000 reduction to the LCC from the elimination of the Commission on the Economic Status of Women.

In addition, \$256,000 is appropriated from the Health Care Access Fund to the LCC for expenses of the Health Care Access Commission.

Note: The Governor line-item vetoed the appropriations to the House and Senate. However, the Ramsey County District Court has ruled that these vetoes are unconstitutional. The Governor is appealing this ruling to the Minnesota Supreme Court.

State Agencies

Department of Administration

The department's total authorized General Fund spending is \$49.8 million for the biennium. This is an increase of \$5.3 million, or 12.3 percent, from base. Funding for the operations of the department totals \$42.6 million. The remaining General Fund amounts are for grants to Public Broadcasting and for the state's Workers Compensation Reinsurance Premium (WCRA).

The majority of the funding for the department's activities comes from non-General Fund activities of its major internal service and enterprise funds.

Government & Citizen Services

Chapter 4 authorizes total direct General Fund spending of \$19 million, a net increase of \$2.7 million from base, for this program.

Government & Citizen Services: 2018-19 General Fund Appropriations				
(dollars in thousands)				
Activity	Base	Appropriation	\$ Change	% Change
Development Disabilities Cncl	148	148	0	0%
Olmstead Plan	296	296	0	0%
Continuous Improvement (LEAN)	826	835	9	1%
Materials Management	4,800	4,817	17	0%
Plant Management	876	876	0	0%
Real Estate & Construction Services	4,932	5,574	642	13%
Enterprise Real Property	1,348	1,428	80	6%
Risk Management (open)	1,589	1,589	0	0%
SmART (small agency resource team)	906	933	27	3%
Accommodation Reimbursement	400	400	0	0%
Community Services*	2,834	3,721	887	31%
total Govt & Citizen Services	18,955	20,617	1,662	9%

*Community Services includes the State Archaeologist, Information Policy Analysis, State Demographer, and the Office of Grants Management.

Funding changes for this program include:

- \$982,000 for the Governor's requested operating adjustment.
- \$380,000 for the State Demographer for activities related to the 2020 census.
- \$300,000 beginning in FY 2019 for the transfer of the State Historic Preservation Office (SHPO) from the Historical Society to the Department of Administration. In addition to this amount, funding for SHPO now within the Historical Society's budget will be transferred to administration.

Non-General Fund activities:

In addition to these General Fund activities, significant non-General Fund accounts include several internal service and enterprise funds:

Fund	Purpose	Projected FY 2018-19 Expenditures
Fleet Services	Provides long-term rental vehicles and support services	\$33.4 million
Surplus Property	Manages the disposal of state and federal surplus property	\$3.3 million
Cooperative Purchasing	Makes various state contracts available to local government units	\$50 million
MN Bookstore	Centralized publishing for state agency materials and operation of the MN mailing list service	\$2.8 million
Plant Management	Building and grounds operations for buildings under the custodial control of the department	\$108.2 million
Central Mail	Metering and processing of mail in the Capitol complex	\$19.6 million
Risk Management	Self-insurance company for the state's property and casualty insurance coverage	\$26.9 million

Strategic Management Services

The legislature approved total General Fund spending of \$4.5 million, an increase of \$439,000, or 12.3 percent, from base. This program includes the executive support, financial management, and human resources functions for the department. The increased funding is for the Governor's requested operating adjustment.

Strategic Management: 2018-19 General Fund Appropriations				
(dollars in thousands)				
Activity	Base	Appropriation	\$ Change	% Change
Executive Leadership	1,194	1,421	227	19%
School Trust Funds Director	370	370	0	0%
Financial Mgt & Reporting	1,582	1,755	173	11%
Human Resources	872	911	39	4%
total Strategic Management	4,018	4,457	400	10%

Fiscal Agent

This program includes both the in-lieu-of-rent activity and public broadcasting grants.

The in-lieu-of-rent appropriation funds space costs for the legislature's portion of the State Office Building, governor's residence, Veterans Services organizations, and ceremonial spaces in the Capitol and the Capitol mall. Chapter 4 appropriates \$18.8 million for this activity, an increase of \$2.4 million or 15 percent.

Public Broadcasting

State grant funds for public broadcasting are administered by the Department of Administration. Chapter 4 appropriates \$5.6 million for these grants, which is an increase of \$400,000 or 7.6 percent, from base. The increase is one-time funding for a grant to Minnesota Public Radio for upgrades to the Emergency Alert and AMBER alert systems.

Public Broadcasting: FY 2018-19 General Fund Appropriations (dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Public TV Matching Grants	3,100	3,100	0	0%
Public TV Equipment Grants	<u>500</u>	<u>500</u>	<u>0</u>	<u>0%</u>
total Public TV:	3,600	3,600	0	0%
AMPERS Public Radio Community Grants	784	784	0	0%
AMPERS Public Radio Equipment Grants	<u>234</u>	<u>234</u>	<u>0</u>	<u>0%</u>
total AMPERS	1,018	1,018	0	0%
MN Public Radio Equipment Grants	620	1,020	400	65%
total Public Broadcasting:	5,238	5,638	400	8%

Chapter 4 also \$324,000 in funding to be transferred to the Minnesota Film and Television Board.

Minnesota Historical Society

Chapter 4 authorizes total direct General Fund appropriations of \$47.3 million, a 6.8 percent increase from base. The Historical Society also will administer an estimated \$2 million for the grant-in-lieu-of credit program for preserving historic structures.

Minnesota Historical Society: 2018-19 General Fund Appropriations (dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Operations & Programs	43,644	46,644	3,000	6.9%
Fiscal Agents	642	642	0	0%
Historic Structure Grants (open)	<u>2,027</u>	<u>2,027</u>	<u>0</u>	<u>0%</u>
Total General Fund	46,313	49,313	3,000	6.5%

The specific changes for the Historical Society are:

- \$1.5 million for the Governor's requested operating adjustment.
- \$1.5 million in one-time funding for the digital preservation project.

MN State Arts Board

Chapter 4 appropriates \$15.1 million from the General Fund to the State Arts Board. This is a \$13,000 increase from base.

Minnesota Arts Board: 2018-19 General Fund Appropriations				
(dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Operations & Services	1,182	1,195	13	1%
Grants Program	9,600	9,600	0	0%
Regional Arts Council	<u>4,278</u>	<u>4,278</u>	<u>0</u>	<u>0%</u>
total Arts Board	15,060	15,073	13	0.1%

Chapter 4 specifies that funds appropriated to the Arts Board and distributed as grants may only be spent on projects located in Minnesota. A recipient of a grant must not use more than 10 percent of the grant for travel outside of Minnesota.

MN.IT Services

Chapter 4 authorizes a direct General Fund appropriation of \$5.3 million for this office, an increase of \$60,000 or 1.1 percent, from the office's General Fund base. The additional funding is for a general operating increase.

Non-General Fund Activities

The majority of MN.IT's funding is from the Enterprise Technology Fund. As a result of the consolidation mandated by the 2011 Legislature, all information technology services for the executive branch are now provided by MN.IT. These centrally provided services are funded through the Enterprise Technology Fund, with revenues coming from charge-backs to agency IT budgets. Estimated expenditures for the FY 2018-19 biennium are \$894.1 million for these central services.

MN.IT is authorized to seek cash flow assistance of up to \$110 million from the Special Revenue Fund, or other statutory General Fund money, in order to manage the revenue and expenditure differences during the continued implementation of IT consolidation. Any funds used must be repaid with interest by the end of the fiscal year 2017 closing period.

Minnesota Management & Budget (MMB)

MMB received a direct General Fund appropriation of \$51.6 million for the biennium, an increase of \$4.2 million, or 8.8 percent, from current law.

Minnesota Management & Budget (MMB): 2018-19 General Fund Appropriations					
(dollars in thousands)					
Program	Activity	Base	Appropriation	\$ Change	% Change
Statewide Services					
	Accounting Services	10,120	10,120	0	0%
	Budget Services	6,886	6,886	0	0%
	Economic Analysis	1,096	1,096	0	0%
	Debt Management	950	950	0	0%
	Enterprise Human Resources	6,938	6,938	0	0%
	Labor Relations	2,246	2,246	0	0%
	Agency Administration	17,016	21,189	4,173	25%
	Enterprise Communications & Planning	2,148	2,148	0	0%
Total Direct General Fund		47,400	51,573	4,173	8.8%
Statutory General Fund	Lease Payments on SWIFT System	17,940	17,940		

The increased funding includes:

- \$2.3 million for a general operating increase.
- \$1.8 million for systems security and risk management.

Department of Revenue

The Department of Revenue received a direct General Fund appropriation of \$302.4 million for the biennium, an increase of \$15.7 million, or 5.5 percent over the base.

Revenue Department: 2018-19 General Fund Appropriations					
(dollars in thousands)					
Program	Activity	Base	Appropriation	\$ Change	% Change
Tax System Management					
	Operational Support	20,268	20,268	0	0%
	Appeals, Legal Services & Tax Research	14,502	14,502	0	0%
	Payment & Return Processing	26,354	26,354	0	0%
	Administration of State Taxes	114,496	114,656	160	0%
	Technology Development & Support	45,568	45,568	0	0%
	Property Tax Administration & State Aid	8,346	8,346	0	0%
*	Efficient & Effective Tax Service		15,509	15,509	
total Tax System Management		229,534	245,203	15,669	7%
Debt Collection Management		57,232	57,232		
Total Direct General Fund		286,766	302,435	15,669	5.5%

Changes include:

- \$15.5 million for a general operating increase to maintain current service levels and improve services to taxpayers. The funds were appropriated to the “Efficient and Effective Tax Service” activity with authority given to the commissioner to transfer funds to other activities within the department.
- \$160,000 in one-time funds for administration of a first-time home buyer savings account program.

Department of Military Affairs

The legislature approved a direct General Fund appropriation of \$47.8 million for the biennium, an increase of \$8.5 million or 21.7 percent over base. \$8.4 million of the increase is funding to maintain the current enlistment incentive programs, and the remaining \$124,000 is for the Governor's requested operating adjustment.

Department of Military Affairs: FY 2018-19 General Fund Appropriations (dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Maintenance - Training Facilities	19,322	19,371	49	0%
General Support	6,134	6,204	70	1%
Enlistment Incentives	13,776	22,181	8,405	61%
Emergency Services / Active Duty (Open)	<u>576</u>	<u>576</u>	<u>0</u>	<u>0%</u>
total Military Affairs	39,808	48,332	8,524	21%

In addition to this direct General Fund appropriation, the department has an open and standing appropriation for emergency services. Projected expenditures from this appropriation are \$576,000 for the biennium.

Department of Veterans Affairs

The legislature approved a direct General Fund appropriation of \$150.5 million for this department, an increase of \$3.1 million, or 2.1 percent, over base. Estimated spending for the Minnesota GI bill is \$6.4 million, bringing total spending to \$146.9 million.

Department of Veterans Affairs: FY 2018-19 General Fund Appropriations (dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Veterans Services	32,922	34,815	1,893	6%
Veterans Health Care (Homes)	114,436	115,692	1,256	1%
MN GI Bill (open GF)	<u>6,000</u>	<u>6,400</u>	<u>400</u>	<u>7%</u>
total Veterans Affairs	153,358	156,907	3,549	2%

The funding increases are for three items:

- \$1.4 million for the general operating increase.
- \$700,000 in one-time funding for the Veterans Journey Home project.
- \$1 million for the operating costs of the new cemetery in Duluth.

Small Agencies/Boards

Office of Administrative Hearings (OAH)

This agency is supported mainly by the Workers' Compensation Special Fund and revolving fund revenues. Chapter 4 includes direct appropriations of \$15.6 million for the biennium from the Workers' Compensation Fund. This amount includes an increase of \$1 million to support salary increases for the workers' compensation judges.

OAH also receives General Fund appropriations for three smaller activities. The legislature authorized \$796,000 for these activities, a \$30,000 or 3.9 percent increase from base. This funding level includes:

- \$524,000 for the Municipal Boundaries Adjustment unit.
- \$230,000 for Fair Campaign complaint hearings.
- \$36,000 to cover the costs of data practices hearings, an increase of \$24,000 over the base. Although there is a \$1,000 filing fee for data practices cases, the revenue generated by those fees has been inadequate to cover OAH's costs for these hearings. Chapter 4 also includes a FY 2017 appropriation for \$34,000 to cover an operating deficiency in this activity.
- \$6,000 for the operating adjustment.

Campaign Finance and Public Disclosure Board

The legislature approved a General Fund operating budget of \$2.1 million, which is an increase of \$24,000, or 1.2 percent, from base funding. The increase is for the Governor's requested operating increase.

Public Subsidy Program:

The legislature did not make any changes to this program. Estimated funding for this program is \$2.7 million for the biennium.

Capitol Area Architectural Planning Board (CAAPB)

Chapter 4 includes a direct appropriation of \$697,000 for the CAAPB in the FY 2018-19 biennium. This is a 1 percent increase to the board's base funding.

Contingent Accounts

The legislature approved \$500,000 for the General Fund portion of the contingent accounts. The contingent accounts are appropriations made to provide supplemental funding to state agencies in emergencies or for unexpected deficiencies. The Governor may approve expenditures from the accounts only after consulting with the Legislative Advisory Commission (LAC). However, the Governor can release funds even if the LAC recommends against the expenditure.

In addition to the General Fund appropriation, Chapter 4 also authorizes contingent appropriations of \$800,000 from the State Government Special Revenue Fund, and \$200,000 from the Workers' Compensation Special Fund.

Humanities Commission

The Humanities Commission receives \$1.9 million from the General Fund for the biennium. This is a \$550,000, or 40.7 percent, increase from base level funding. The increased funding is from two change items:

- \$50,000 for an operating increase.
- \$500,000 for the Veterans' Defense Project.

MN Amateur Sports Commission (MASC)

The MASC receives \$608,000 for the biennium, which is an \$8,000, or 1.3 percent, increase from base funding. Chapter 4 also cancels the unspent funds from the 2016 appropriation to the Mighty Ducks grant program, estimated to be \$7.2 million.

State Board of Investment (SBI)

The SBI is primarily funded through charges to each retirement plan for its share of the board's operations. The expected expenditures for this activity are \$12.3 million for the biennium. A small General Fund appropriation (\$278,000) is used to fund the board's investment activities directly related to the General Fund itself.=

Ethnic Councils

Chapter 4 includes \$3.9 million from the General Fund for the four ethnic councils.

Ethnic Councils: 2018-19 General Fund Appropriations				
(dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Asian-Pacific Affairs	728	921	193	27%
African Heritage Council	802	809	7	1%
Latino Affairs Council	772	971	199	26%
Indian Affairs	<u>1,152</u>	<u>1,164</u>	<u>12</u>	<u>1%</u>
Total General Fund	3,454	3,865	411	12%

Occupational Licensing Boards

The legislature appropriated \$2.5 million for the four occupational licensing boards under the committee's jurisdiction.

Occupational Boards: 2018-19 General Fund Appropriations				
(dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
Accountancy	1,282	1,294	12	1%
Architectural/Engineering, etc.	1,588	1,603	15	1%
Barber Examiners	650	684	34	5%
Cosmetologist Examiners	<u>5,168</u>	<u>5,560</u>	<u>392</u>	<u>8%</u>
Total General Fund	8,688	9,141	453	5%

The changes from base funding include:

- The Governor's requested operating increase for all of the boards.
- \$140,000 to the Cosmetology Examiners board for information technology services.

Gambling Related Agencies

Lawful Gambling Control Board

The Gambling Control Board receives a direct Special Revenue Fund appropriation of \$6.9 million for the biennium. This is an increase of \$231,000 from base level funding. The new funding is to cover increased costs for the board's conversion to MN.IT services for its information technology needs. The board's activities are funded from a fee of 0.125 percent of gross receipts on charitable gambling and license/permit fees for manufacturers and distributors.

Lottery

The legislature approved total operating expenses for the lottery of \$65.5 million for the biennium, with total sales estimated at \$1.2 billion. Total state proceeds are projected to be \$281 million for the biennium, with \$154.1 million in estimated General Fund revenues. These total revenues include the net proceeds, in-lieu-of-sales tax, and unclaimed prizes.

Minnesota Racing Commission

The Racing Commission receives a direct Special Revenue fund appropriation of \$1.75 million for the biennium. The commission's activities are directly funded through racetrack, racing, and occupational license fees, as well as reimbursements from the racetracks for the cost of stewards, veterinarians, and laboratory services.

Public-Local Employees Retirement

Four public retirement programs under the State Government Finance committee's jurisdiction receive either direct or open General Fund appropriations. The appropriations in Chapter 4 are detailed in the table below.

Pension Aids: 2018-19 General Fund Appropriations (dollars in thousands)				
Program	Base	Appropriation	\$ Change	% Change
MSRS: Pre 97 Legislators & Const. Officers	29,964	29,964	0	0%
PERA: MERF Merger Aid	32,000	32,000	0	0%
Teachers Retirement Association				
Minneapolis Merger Aid	30,908	30,908	0	0%
Duluth Merger Aid	28,754	28,754	0	0%
St. Paul Teachers	<u>19,654</u>	<u>19,654</u>	<u>0</u>	<u>0%</u>
Total General Fund	141,280	141,280	0	0%

The state's contribution to PERA is reduced to \$12 million in the FY 2020-21 biennium.

For more information on State Government Finance issues, contact Helen Roberts, Fiscal Analyst, at 651-296-4117 or helen.roberts@house.mn.

Transportation Finance

Minnesota 2017 First Special Session Laws, Chapter 3 appropriated money from the state General Fund, Trunk Highway Fund, Highway User Tax Distribution Fund, Airports Fund, Municipal and County State Aid Highway Funds, and Special Revenue Fund for transportation over the FY 2018-19 biennium. Below is a summary table of state General Fund spending in the Transportation Finance Committee area. For more detail on state General Fund and other transportation funds spending, please see the House session tracking sheet for transportation at: <http://www.house.leg.state.mn.us/fiscal/files/transpo15.pdf>

Transportation Committee Total General Fund Spending (all dollars in thousands)							
	Change FY17	with changes	Base	Enacted	Percentage Change	Percentage Change	
	FY 16-17	FY 16-17	FY 18-19	FY18-19	Enacted FY 18-19 vs.	Enacted vs.	Enacted
					FY 16-17 with Changes	Base	FY 20-21
MnDOT	(1,100)	65,473	37,116	54,291	-17%	46%	38,716
Metropolitan Council	-	182,752	179,640	250,851	37%	40%	179,640
Dept. of Public Safety (Part)	-	27,474	26,836	34,352	25%	28%	28,762
Subtotal Spending	(1,100)	275,699	243,592	339,494	23%	39%	247,118
General Fund Tax Changes	-	-	-	204,098	100%	100%	444,422
Net General Fund Total	(1,100)	275,699	243,592	543,592	97%	97%	247,118

Totals in the table are net figures for the agencies, and include one-time spending increases and reductions. The most notable change this session with Chapter 3 is the dedications of General Fund sales tax components to transportation funds. Included in these General Fund sales tax dedications are all of the revenue from the short-term vehicle rental tax at 9.2 percent, the general sales tax applied to these transactions at the 6.5 percent rate, \$32 million of the revenue from the motor vehicle lease sales tax (MVLST), and a portion of the general sales tax estimated to be generated from the purchase of auto parts. The rental taxes, auto parts, and 11 percent of the total revenue from MVLST will be deposited into the Highway User Tax Distribution Fund (HUTDF) and allocated based on the constitutional formula to the Trunk Highway Fund, County State Aid Highway Fund, and Municipal State Aid Streets Fund. In addition to the 100 percent HUTDF dedication, the rest of the MVLST distribution changed, which will be highlighted in more detail later.

Transportation Budget Highlights

The following narrative will highlight the change items enacted in Chapter 3. Spending items that did not change from the forecast base budget can be seen on the Transportation Tracking sheet provided at the beginning of this section. Change items fall into two general categories:

1. **Appropriation changes**, which raise or lower a base spending amount, or create a new item for one-time or ongoing spending.
2. **Revenue/statutory items** are items that increase or lower fees or taxes, but do not necessarily result in spending changes or direct an agency to spend funds via statute rather than direct appropriation.

Department of Transportation

Appropriation Changes

Aeronautics

- Chapter 3 increased the appropriation for airport development assistance by \$2.5 million in FY 2018 and by \$2.3 million in FY 2019, over the annual base of \$14.298 million all out of the state Airports Fund. The increase over base for the FY 2020-2021 biennium was \$1 million above base a year.
- Chapter 3 included in the appropriation for airport development assistance three one-time riders for capital projects to specific airports all using the state Airports Fund. The Rochester Airport will receive \$2.334 million for facility improvements in facilities used for international customs, the Duluth Airport Authority will receive \$6.619 million for runway improvements for both the Sky Harbor commercial airport and the smaller general aviation airport on Minnesota Point, and the St. Cloud Airport will receive \$250,000 for an air service study.
- Chapter 3 created a new direct appropriation and base for the Civil Air Patrol. In past aeronautics appropriations, the Civil Air Patrol received \$80,000 a year from the aviation support and services direct appropriation from the State Airports Fund as a rider. The annual appropriation for the Civil Air Patrol remains at \$80,000 a year out of the State Airports Fund, with the exception of FY 2018, for which there is a one-time \$3.5 million appropriation for a Civil Air Patrol Hanger at the St. Paul Airport.

Transit/Freight

- Chapter 3 reduced the General Fund appropriation for Greater Minnesota Transit aid on a one-time basis for FY 2018 by \$16.825 million. Greater Minnesota Transit also receives funds from the Motor Vehicle Lease Sales tax, mentioned later, and the Motor Vehicle Sales Tax. This one-time reduction will likely cause the drawdown of the unencumbered balance as of the February 2017 forecast of about \$27 million.

- Chapter 3 included rider language and a \$150,000 appropriation for each year in FY 2018-19 for Twin Cities Metropolitan Area Travel Demand Management Organizations. These General Fund appropriations are one-time as part of the MnDOT transit.
- Chapter 3 increased the General Fund appropriation by \$800,000 a year ongoing for MnDOT's freight office for rail safety activities and hiring an interagency rail director.
- Chapter 3 cancelled an unspent FY 2017 General Fund appropriation of \$1.1 million for port development assistance and re-appropriated it for FY 2018. While the net effect of this cancellation and appropriation was zero cost, it did allow Winona and Redwing more time to carry out port projects.

State Roads

- Chapter 3 increased the direct appropriations for the three categories of state road spending, as well as added a new direct appropriation for state roads planning. Planning had been part of the program planning and delivery appropriation prior to Chapter 3. The increases in the Trunk Highway Fund appropriation for the biennium for state roads are:
 1. \$76.2 million for operations and maintenance
 2. \$9.4 million for program planning and delivery (this is a net increase after the new planning appropriation is taken into account)
 3. A net increase of \$3.8 million for planning, plus the new base of \$60 million a biennium
 4. \$495.5 million for state road construction
- Chapter 3 had a one-time \$600,000 rider within the planning appropriation for a study on construction cost inflation out the Trunk Highway Fund.
- Chapter 3 had a one-time \$140,000 rider within the program delivery appropriation for implementing Office of Legislative Auditor (OLA) recommendations on MnDOT road project selection.
- Chapter 3 created a second new direct appropriation out of the Trunk Highway Fund for Corridors of Commerce, funded at a new base about of \$50 million a biennium.

2017 Regular Session Chapter 14

- Chapter 14, signed by the Governor April 3rd, increased the direct appropriation from the Trunk Highway Fund for state road construction for FY 2017 by \$105 million. This increased appropriation level for the current (at that time) fiscal year allowed MnDOT to spend federal highway aid money that was not anticipated to be available during the 2015 session when the biennial appropriation level for state road construction was set for FY 2017.

Trunk Highway Bonding

- Chapter 3 authorized \$940.9 million in Trunk Highway bonds over four years. \$300 million of these bonds are for Corridors of Commerce, \$640 million for nonspecific state road construction, and \$0.9 million for bond sale expenses. To account for the new borrowing, the

appropriation for debt service out of the Trunk Highway Fund increased by \$11.2 million for the FY 2018-19 biennium and will increase by \$98 million in the FY 2020-21 biennium.

Local Roads

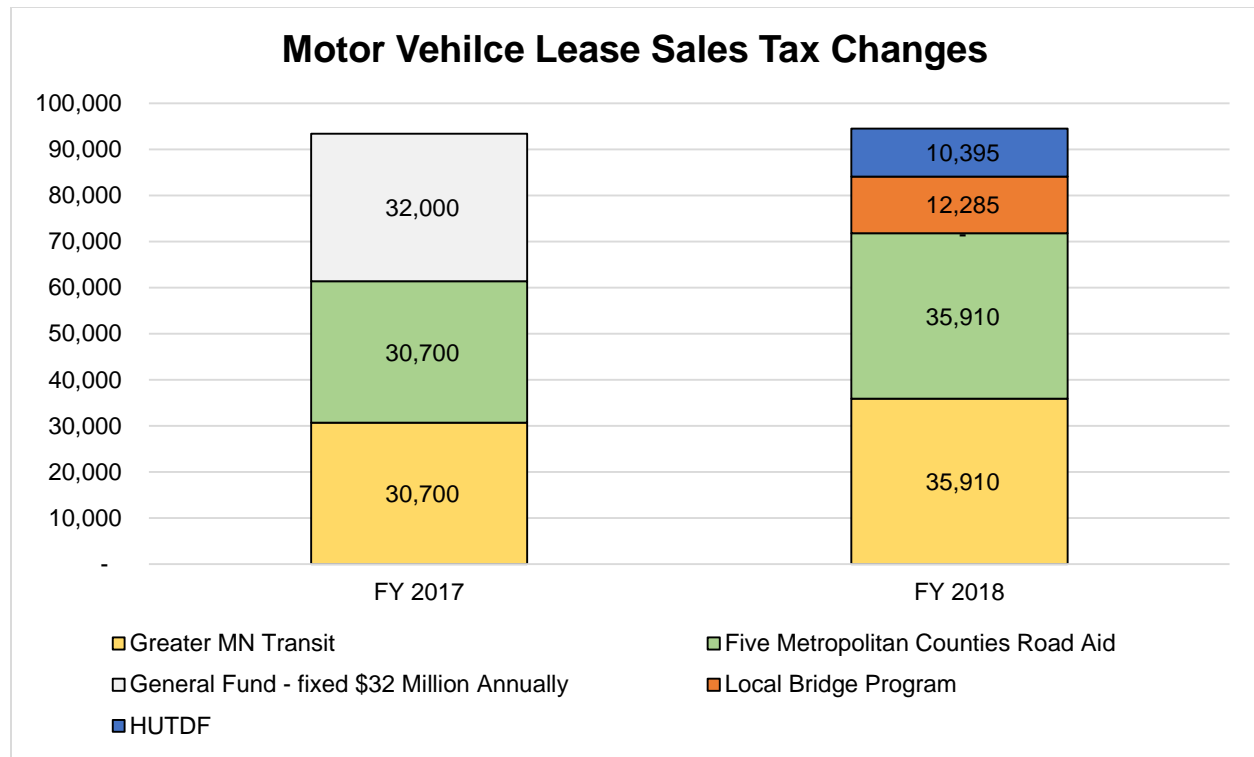
- Chapter 3 increased the resources to the Highway User Tax Distribution Fund, so formula based local aid formulas increased as well:
 1. County State Aid Highway increased \$56 million over the FY 2018-19 biennium.
 2. Municipal State Aid Streets increased \$14.8 million over the FY 2018-19 biennium.
- As part of the County State Aid Highway appropriation Chapter 3 increased the aid to townships and the seven Twin Cities Metropolitan Counties by two one-time riders from the General Fund.
 1. Townships will receive an additional \$4 million over the FY 2018-19 biennium over and above the HUTDF increases.
 2. The seven metropolitan counties will receive \$10 million over the FY 2018-19 biennium over and above the HUTDF increases. This aid will be allocated by county population, with cities of the first class being subtracted from Hennepin and Ramsey county populations for purposes of the calculation.
- Chapter 3 includes a local road one-time appropriation of \$16 million over the FY 2018-19 biennium for cities with a population under 5,000 for road aid.

Agency Management

- Chapter 3 increased the base appropriation for MnDOT buildings by \$8.5 million a year or \$17 million a biennium.

Revenue Changes

- As noted earlier, Chapter 3 statutorily dedicated a number of General Fund sales tax items to the Highway User Trust Fund, including the short-term auto rental taxes, and portions of the sales tax attributed to auto parts, and 11 percent of the gross receipts from MVLST.
- Chapter 3 changed the allocation of MVLST from the formula in which the first \$32 million a year was deposited in the General Fund, and any amount in excess of the \$32 million was split 50 percent for County State Aid Highway (CSAH) Aid for Anoka, Carver, Dakota, Scott, and Washington Counties, and 50 percent for Greater MN Transit. The new formula has 38 percent allocated for the metropolitan county CSAH, 38 percent for Greater MN Transit, 13 percent for a MnDOT program to grant local units of government aid for repairing and replacing locally owned bridges under \$7 million in total cost, and 11 percent for the HUTDF. On the next page is a chart showing the differences between the FY 2017 (old LVLST formula) and the FY 2018 allocation in dollar amounts.



- Chapter 3 added a \$75 dollar fee to the registration tax for electric vehicles, this is estimated to increase revenue to the HUTDF by \$40,000 over the FY 2018-19 biennium.

Metropolitan Council

Appropriation Changes

- Chapter 3 increased the General Fund appropriation to the Metropolitan Council for transit operations by \$70 million over base one-time for the FY 2018-19 biennium, with \$30 million of that amount in FY 2017 and \$40 million in FY 2018.
- Chapter 3 included a rider within the Metropolitan Council General Fund appropriation for \$211,000 one-time for costs associated with the transit guideway status report.
- Chapter 3 included a rider within the Metropolitan Council General Fund appropriation for \$1 million one-time for the suburban transit providers.

Department of Public Safety (DPS)

Appropriation Changes

- Chapter 3 increased appropriations across Department of Public Safety under the jurisdiction of the Transportation Committee for increases in salaries and to account for inflationary pressures. These increases are ongoing and do not include pension costs or changes. Below is a summary of the increases by fund.
 1. General Fund - \$826,000, most of which is for Capital Security.
 2. Trunk Highway Fund - \$8.4 million, most of which is for the State Patrol.
 3. Special Review Fund - \$4.8 million, most of which is for Driver and Vehicle Services.
 4. HUTDF - \$62,000 for the vehicle crimes unit.

DPS Administration

- Chapter 3 added three new direct appropriations out of an existing appropriation for public safety support activities. These include:
 1. Public Safety Office Survivor Benefits - \$1.28 million a biennium from the General Fund
 2. Public Safety Office Reimbursements - \$2.7 million a biennium from the General Fund
 3. Soft Body Armor Reimbursement - \$1.2 million a biennium from the General Fund and \$200,000 from the Trunk Highway Fund

State Patrol

- Chapter 3 allowed for an increase in the pay for State Trooper Academy trainees, which increased the direct appropriation to the State Patrol by \$946,000 over the FY 2019-19 biennium from the Trunk Highway Fund.
- Chapter 3 included a one-time appropriation of \$5.75 million from the General Fund for a new State Patrol Helicopter.

Driver and Vehicle Services (DVS)

- Chapter 3 increased the appropriation for Driver Services, in addition to the increases for salaries, by \$312,000 over the FY 2018-19 biennium for maintenance on the automated knowledge test system for drivers out of the Special Revenue Fund.
- Chapter 3 included a new direct appropriation for the Minnesota License and Registration System known as MNLARS. The appropriation is split between two DVS operating accounts and totals \$16 million for the FY 2018-19 biennium. This is a one-time appropriation.

Revenue Changes

- Chapter 3 included legislation related to “Start Seeing Motorcycles” special license plates and fee revenue.
- Chapter 3 eliminated a transfer from the Motorcycle Safety Account in the Special Revenue Fund to the General Fund, reducing General Fund revenue by \$34,000 over the FY 2018-19 biennium. In addition, the new license plate fees are estimated to contribute \$12,000 a year to the Motorcycle Safety Account.

If you have further questions on Transportation Finance issues, please contact Andrew Lee, Fiscal Analyst, at 651-296-4181 or at andrew.lee@house.mn.

Tax Revenue and Tax Aids, Credits, and Refunds

The 2017 Legislature passed two tax acts. The first tax act, H.F. 2, enacted before the February 2017 forecast, is referred to as regular session Chapter 1. Regular session, Chapter 1 contained federal conformity tax law changes with net tax revenue reductions equal to \$21.730 million in the FY 2018-19 biennium. The second tax act, H.F. 1, included multiple tax law changes passed during the first special session (1SS) of 2017 and is referred to as 1SS Chapter 1 with total net tax reduction changes equal to \$637.408 million. This fiscal summary will provide a high level overview of both 2017 tax acts. The General Fund change impact by revenue source and expenditure category for the largest tax act of the 2017 session 1SS Chapter 1, is reflected in the table below.

Table 1: Summary of 2017 Tax Provisions in 1SS- Chapter 1
Changes to General Fund Tax Revenues and Tax Aids & Credits

Dollars in Thousands

	FY 2018	FY 2019	FY 18-19	FY 2020	FY 2021	FY 20-21
Tax and Other Revenue Changes:						
Individual Income & Corporate Franchise Taxes	(123,520)	(125,730)	(249,250)	(136,305)	(142,955)	(279,260)
Sales & Use Taxes*	(28,998)	(26,101)	(55,099)	(21,635)	(21,400)	(43,035)
Estate Tax	(15,250)	(19,650)	(34,900)	(30,250)	(44,350)	(74,600)
State General Levy	(30,260)	(65,910)	(96,170)	(86,230)	(109,800)	(196,030)
Cigarette/Tobacco Taxes & Liquor Taxes	(2,940)	(9,290)	(12,230)	(15,790)	(22,100)	(37,890)
Other Tax & Non Tax Revenue Provisions	(3,014)	(4)	(3,018)	6	6	12
Adjustment - General Fund Transfer to Legacy Funds	1,545	1,231	2,776	-	-	-
Total Changes to Tax Revenue *	(202,437)	(245,454)	(447,891)	(290,204)	(340,599)	(630,803)
Tax Aids & Credits Changes						
Property Tax Refunds	4,820	3,530	8,350	4,615	5,415	10,030
Local Aids	10,121	133,012	143,133	(23,632)	54,390	30,758
Property Tax Credits	-	35,500	35,500	45,760	52,450	98,210
Other Expenditures - PILT payments	150	3,600	3,750	3,600	3,600	7,200
Other Appropriations	3,015	3,182	6,197	10,382	3,182	13,564
Subtotal - SS1 Ch 1	18,106	178,824	196,930	40,725	119,037	159,762
Reconcile MMB adjustmt to/from other agencies	(5,697)	(4,492)	(10,189)	(4,492)	(4,492)	(8,984)
Hold Harmless Transfer to Legacy Funds	1,545	1,231	2,776	-	-	-
Total Changes to Tax Aids & Credits Changes	13,954	175,563	189,517	36,233	114,545	150,778
1SS - Chapter 1 - Net Changes						
(Revenues less Aids & Credits)	(216,391)	(421,017)	(637,408)	(326,437)	(455,144)	(781,581)

* There is also a FY 2017 revenue reduction of \$570,000 related to real property, tangible personal property. Of this amount, \$30,000 is a revenue reduction to the Legacy Funds. The latter reduction is offset by a general fund transfer.

Taxes – Changes in Tax Revenues

Analysis by Chapter

The focus of this first tax bill of the 2017 legislative session, regular session Chapter 1, centered on the adoption of six federal conformity acts including:

- (1) The Protecting Americans from Tax Hikes of 2015, Public Law 114-113;
- (2) Bi-Partisan Budget Act of 2015, Public Law 114-74;
- (3) Slain Officer Support Act of 2015, Public Law 114-7;
- (4) The Don't Tax Our Fallen Public Safety Heroes, Public Law 114-14;
- (5) The U.S. Appreciation for Olympians and Paralympians Act, Public law 114-239; and
- (6) Combat-Injured Veterans Tax Fairness Act, Public Law 114-292.

Enacted before the February 2017 Forecast, regular session Chapter 1 contains total General Fund tax law changes equal to \$21.730 million in tax reductions, \$21.510 million in revenue increases and \$90.540 million in revenue reductions relative to current law tax revenues in the FY 2016-17 biennium, FY 2018-19 biennium and FY 2020-21 biennium respectively.

FEDERAL CONFORMITY - Individual Income Tax and Corporate Franchise Tax

Federal taxable income is the tax base used to calculate federal income tax liability. Federal taxable income is the starting point for computing Minnesota taxable income. Without state conformity to federal income tax and corporate franchise tax provisions, taxpayers would be required to compute the differences between federal law and state law for the definition of federal adjusted gross income (FAGI). To facilitate tax compliance, regular session Chapter 1 was enacted in January 2017 to help minimize the differences between state and federal income tax and corporate tax laws. Table 2 shows the total General Fund revenue impact of federal conformity provisions adopted by Minnesota by biennia. Some of these federal provisions were enacted retroactively. Other federal provisions were adopted on a temporary or on a permanent basis.

Table 2: Chapter 1 - Federal Conformity Update Tax Bill			
General Fund Changes to Tax Revenues			
Based on the 2016 November Forecast			
<i>Positive numbers reflect a revenue gain and negative numbers show revenue loss.</i>			
Dollars in 000's	FY 16-17	FY 18-19	FY 20-21
Individual Income Tax	(27,815)	7,875	(47,525)
Corporate Tax	6,085	13,635	(43,015)
General Fund Total	(21,730)	21,510	(90,540)

This fiscal summary highlights the adopted federal conformity provisions in regular session Chapter 1 with more than \$1 million of biennial revenue change to the General Fund by type of tax benefit:¹ (1) income exclusions; (2) income deductions; (3) tax credits and (4) other. Revenue estimates provided in this summary are based on analyses provided by the Minnesota Department of Revenue.²

INCOME EXCLUSIONS

Minnesota adopts federal changes to the internal revenue code for exclusions from income. At the taxpayer level, an exclusion is income that is not required to be reported on the federal tax return. At the state budgeting level, in most cases, these exclusions reduce income tax or corporate tax revenue to the General Fund. Federal conformity exclusion provisions adopted by Minnesota in the 2017 session and the General Fund fiscal impact of both the temporary and permanent provisions include but are not limited to the following:

- Exclusion for individuals related to charity (effective tax year 2015): the transfer of up to \$100,000 from a traditional IRA or Roth IRA directly to a qualified charity is allowed for individuals age 70 ½ or older. Total income tax revenue reduction of \$5.700 million, \$7.750 million and \$8.900 million in the FY 2016-17 biennium, FY 2018-19 biennium and FY 2020-21 biennium respectively. This provision became permanent.
- Exclusion for individuals related to homeownership: the exclusion of discharge of indebtedness income on principal residence. Total individual income tax revenue reduction of \$17.400 million in FY 2017 for tax years 2015 and 2016 only. This temporary provision expires after tax year 2016.
- Exclusion for business (effective tax year 2015): the 100 percent exclusion of gain on certain small business stock. Total individual income tax revenue reduction is \$5.000 million in the FY 2020-20 biennium. This provision became permanent.

INCOME DEDUCTIONS

Federal conformity provisions adopted by Minnesota also include *deductions*. Deductions are qualifying expenses that can be deducted from federal taxable income on the federal tax return before arriving at federal adjusted gross income (FAGI). These deductions, which reduce revenue to the General Fund, include but are not limited to the following:

- Education Deduction (effective tax year 2015): education classroom expense deduction of up to \$250 by a K-12 educator. Total individual income tax revenue reduction of \$3.000 million for the FY 2016-17 biennium, \$3.100 million for the FY 2018-19

¹ Adopted federal conformity provisions with less \$1 million in annual revenue change within a biennium can be found in the legislative tracking sheet for Chapter 1 on the House Fiscal Analysis webpage at: <http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

² See Minnesota Department of Revenue Analysis for H.F. 2- First Engrossment, for more additional detail: http://www.revenue.state.mn.us/research_stats/revenue_analyses/2017_2018/H.F.0002_1.pdf

biennium and \$3.200 million for the FY 2020-21 biennium. This provision became permanent.

- **Education Deduction:** qualified higher education tuition and related expenses deduction. Total individual income tax revenue reduction is \$4.300 million for the FY 2016-17 biennium. This temporary provision is effective for tax year 2015 and expires after tax year 2016.
- **Charitable Deduction (effective tax year 2015):** charitable contribution deductions for food inventory by other than C Corporations. Total individual income tax revenue reduction is \$1.400 million for the FY 2016-17 biennium, \$1.650 million for the FY 2018-19 biennium and \$1.775 million for the FY 2020-21 biennium. This provision became permanent.
- **Homeownership Deduction:** mortgage insurance premiums deductible a qualified residence interest. Total individual income tax revenue reduction is \$11.600 million for the FY 2016-17 biennium. This temporary provision is effective for tax year 2015 and expires after tax year 2016.
- **Health Care Deduction (effective tax year 2015):** excise tax on high-cost employer sponsored health coverage deduction delayed because imposition of the excise tax is delayed. This provision has an income tax revenue reduction of \$2.600 million in the FY 2020-21 biennium.
- **Business Deduction (effective tax year 2015):** Section 179 expensing deduction using the 80 percent add-back, five-year recovery method with the \$500,000 expensing limitation and \$2 million phase-out indexed and made permanent. Total individual income and corporate franchise tax revenue increase of \$14.600 million in the FY 2016-17 biennium, \$21.500 million in the FY 2018-19 biennium and \$2.300 million in the FY 2020-21 biennium.
- **Business Deduction: 50 percent Bonus Depreciation** from tax year 2015 to tax year 2017 and 40 percent Bonus Depreciation in tax year 2018 and 30 percent bonus depreciation in tax year 2019 using the 80 percent add-back, five-year recovery method. Total individual income and corporate franchise tax revenue changes include a revenue increase of \$24.000 million in the FY 2016-17 biennium, a revenue increase of \$21.500 million in the FY 2018-19 biennium and a revenue reduction of \$39.200 million in the FY 2020-21 biennium. This provision is temporary and expires after tax year 2019.
- **Business Deduction (effective tax year 2015):** 15-year straight-line depreciation for leasehold, restaurant and retail improvements and new restaurants. Total individual income tax revenue reduction of \$2.350 million in the FY 2016-17 biennium, \$6.100 million in the FY 2018-19 biennium and \$10.775 million in the FY 2020-21 biennium. This provision became permanent.
- **Business Deduction (effective tax year 2015):** reduction in recognition period for S corporation built-in gains tax. Total corporate franchise tax revenue reduction is \$2.500 million in the FY 2016-17 biennium, \$2.000 million in the FY 2018-19 biennium and \$1.050 million in the FY 2020-21 biennium.

- **Business Deduction:** energy-efficient commercial building deduction. Total individual income and corporate franchise tax revenue change is a reduction of \$1.305 million in the FY 2016-17 biennium and a revenue gain of \$60,000 and 40,000 in the FY 2018-19 and FY 2020-21 biennia respectively. This temporary provision is effective for tax year 2015 and expires after tax year 2016.
- **Business Deduction (effective tax year 2015):** the treatment of certain dividends of regulated investment companies (RIC). Total individual income tax revenue reduction is \$1.150 million in the FY 2016-17 biennium, \$1.275 million in the FY 2018-19 biennium and \$1.325 million in the FY 2020-21 biennium. This provision became permanent.

TAX CREDITS

A tax credit is a benefit that provides a direct reduction in the amount of income taxes owed. Starting in tax year 2018 and future years, Minnesota permanently conformed to the increased phase-out range for married joint filers claiming the Working Family Credit (WFC) to match the increased income level phase out for the federal earned income tax credit. The WFC is a refundable tax credit. The estimated General Fund revenue reduction to this on-going provision is \$7.1 million in the FY 2018-19 biennium and \$14.6 million in the FY 2020-21 biennium.

OTHER

- The exception under subpart F for active financing income (effective tax year 2015): total corporate franchise tax revenue reduction is \$8.200 million in the FY 2016-17 biennium, \$8.700 million in the FY 2018-19 biennium and \$9.100 million in the FY 2020-21 biennium. This provision became permanent.
- The prevention of transfer of losses from tax indifferent parties (effective tax year 2016): total individual income tax revenue increase is \$500,000, \$1.200 million and \$1.350 million in the FY 2016-17 biennium, FY 2018-19 biennium and FY 2020-21 biennium respectively.
- Various provisions related to real estate investment trusts (REIT), effective tax year 2016: total individual income tax revenue increase is \$750,000, \$1.250 million and \$2.150 million in the FY 2016-17 biennium, FY 2018-19 biennium and FY 2020-21 biennium respectively.
- Clarification of the treatment of partnership interests created by gift (effective tax year 2016): total individual income tax revenue increase is \$1.500 million, 3.400 million and \$2.400 million in the FY 2016-17 biennium, FY 2018-19 biennium and FY 2020-21 biennium respectively.

The second tax bill, 1SS Chapter 1, an omnibus tax act, was passed in the first special session of 2017. 1SS Chapter 1 has a total net General Fund revenue reduction of \$451.237 million in the FY 2018-19 biennium and is the first omnibus tax bill to get enacted since the 2014 session. The \$451.237 million revenue reduction change represents a 7.48 percent increase over the FY 2016-17 biennial revenues and a decrease of 1.03 percent from FY 2018-19 biennial base revenues. For

this summary, the change estimates are based on the revenue analyses published by the Minnesota Department of Revenue (DOR)³ and are compared to the financial forecast published by MMB.

Table 3: Tax Committee Total General Fund Tax Revenue (all dollars in thousands)							
	Change FY 2017	FY 16-17 Forecast with changes	Forecast Base FY 2018-19	Enacted FY 2018-19	Percentage Change Enacted FY 2018-19 vs. FY 2016-17 with Changes	Percentage Change Enacted vs. Base FY 2018-19	Enacted FY 2020-21
Tax Policy	(570)	40,426,308	43,898,994	43,451,103	7.48%	-1.02%	46,962,569
Net General Fund Total	(570)	40,426,308	43,898,994	43,451,103	7.48%	-1.02%	46,962,569

INDIVIDUAL INCOME AND CORPORATE FRANCHISE TAXES

Total individual income and corporate franchise tax law changes in 1SS Chapter 1 represent about 55 percent of the total net General Fund revenue reduction for the FY 2018-19 biennium. About half of the total income tax revenue reductions is attributed to the authorization of both new and modified income tax subtractions with the remaining half of the total being attributed to new and modified refundable and nonrefundable credits and other provisions.

SUBTRACTIONS

Minnesota income tax subtractions allow certain income to be subtracted from Minnesota taxable income. During the 2017 session, four new Minnesota income tax subtractions with a total combined General Fund biennial revenue reduction of \$122.530 million for the FY 2018-19 biennium were authorized. This summary will provide a short description of the fiscal impact of the changes to existing tax laws along with a more detailed description of the fiscal impact of new tax law provisions.

New Subtraction, Social Security, Effective Tax Year 2017:

State Cost (revenue reduction):

- Total General Fund revenue reduction: \$117.200 million in FY 2018-19 biennium and \$129.300 million in the FY 2020-21 biennium.

How it works:

- A subtraction is allowed for the portion of social security income included in federal taxable income, a maximum subtraction is allowed up to limits on filing status: \$4,500 for married couples; \$2,250 for married couples filing separately; and \$3,500 for all other filers. The maximum subtraction thresholds are adjusted for inflation annually.

³ Minnesota Department of Revenue Estimate for Chapter 1 (H.F. 1), First Special Session of 2017.

- The subtraction starts phasing out for taxpayers with provisional income that exceeds a threshold amount based on filing status: \$77,000 for married couples; \$38,000 for married couples filing separately; and \$60,200 for all other filers. These income threshold amounts are also adjusted annually for inflation.

Estimated taxpayer impact:

- An estimated 284,000 returns are expected to play less in tax year 2017 with an average tax reduction of about \$201.

New Subtraction, Section 529 College Savings Plan, Effective Tax Year 2017

State Cost (revenue reduction):

- Total General Fund revenue reduction: \$5.100 million in FY 2018-19 biennium and \$5.300 million in the FY 2020-21 biennium.

How it works:

- Contributions to a Section 529 plan, a maximum subtraction is allowed up to limits on filing status: \$3,000 for married couples and \$1,500 for all other filers. This subtraction is limited to returns that do not claim the credit.
- The subtraction is allowed for contributions to qualified Section 529 plans of other states and for contributions to pre-paid tuition plans.

Estimated taxpayer impact:

- An estimated 6,500 returns are expected to claim the subtraction. DOR also estimates 3.2 percent annual growth based on its analysis of the projected growth of the Minnesota College Savings Plan.

New Subtraction, Discharged Student Loan Debt, Effective Tax Year 2017

State Cost (revenue reduction):

- Total General Fund revenue reduction: \$0.140 million in FY 2018-19 biennium and \$0.160 million in the FY 2020-21 biennium.

How it works:

- A subtraction is allowed for qualified student loan debt including: (1) discharged debt under Minnesota's teacher shortage loan forgiveness program; or (2) discharged debt that was included in federal taxable income from a qualified income-driven repayment plan such as the Income-Contingent Repayment Plan (ICR), the Pay as You Earn Plan (PAYE) and the Revised Pay as You Earn Plan (REPAYE).

- There are no maximum limitations by filing status for this subtraction.

Estimated taxpayer impact:

- DOR estimates that there will be a significant growth in the subtraction when a number of qualifying debts are scheduled to be discharged starting in FY 2021.

New Subtraction, 1st-Time Homebuyer Savings Account – Interest Only, Effective Tax Year 2017

State Cost (revenue reduction):

- Total General Fund revenue reduction: \$0.090 million in FY 2018-19 biennium and \$0.240 million in the FY 2020-21 biennium.

How it works:

- A subtraction is allowed for interest or dividends earned on a first-time homebuyer savings account program used to pay or reimburse eligible costs related to the purchase of a first principal residence.
- Maximum account contributions limits based on filing status: \$28,000 for married couples and \$14,000 for all other filers.
- Maximum principal in the account limits based on filing status: \$100,000 for married couples and \$50,000 for all other filers.

Estimated taxpayer impact:

- DOR estimates that this program will grow by five percent per year based on their analysis of a similar program in the state of Montana.

NON REFUNDABLE CREDITS

After Minnesota taxable income is computed, Minnesota also allows taxpayers to claim tax credits to help offset taxes owed. Nonrefundable tax credits may be used to reduce Minnesota taxable liability. 1SS Chapter 1 authorizes four new nonrefundable credits and modifies an existing nonrefundable credit.

New Non Refundable Credit, Section 529 College Savings Plan, effective Tax Year 2017

State Cost (revenue reduction):

- Total General Fund revenue reduction: \$15.300 million in FY 2018-19 biennium and \$16.300 million in the FY 2020-21 biennium.

How it works:

- A credit equal to 50 percent of the amount contributed to a plan under Section 529.
- Maximum credit is \$500 for all filers with adjusted gross income below \$75,000.

Estimated taxpayer impact:

- Like the subtraction for Section 529 contribution, DOR also estimates 3.2 percent annual growth for the credit based on its analysis of the projected growth of the Minnesota College Savings Plan.

New Non Refundable Credit, Student Loans, effective Tax Year 2017

State Cost (revenue reduction):

- Total General Fund revenue reduction: \$54.700 million in FY 2018-19 biennium and \$58.600 million in the FY 2020-21 biennium.

How it works:

- A credit for qualified education loans related to an undergraduate or graduate degree program at public or nonprofit institution.
- The credit is equal to the lesser of: (1) eligible education loans of principal and interest made during the tax year minus 10 percent of adjusted gross income over \$10,000; (2) the earned income of the taxpayer; (3) the interest portion of eligible loan payments made during the tax year plus 10 percent of the original loan amount; or (4) \$500.
- Both a taxpayer and taxpayer's spouse may claim the credit.

Estimated taxpayer impact:

- DOR based its cost analysis of this provision from the number of returns claiming the (federal) student loan deduction for Minnesota taxpayers from 2009 to 2014. From that analysis, DOR assumes an annual growth in claims for this credit of 3.4 percent.

New Non Refundable Credit, Credit for Teachers Earning Master's Degree, effective Tax Year 2017

State Cost (revenue reduction):

- Total General Fund revenue reduction: \$0.030 million in FY 2018-19 biennium and \$0.310 million in the FY 2020-21 biennium.

How it works:

- A credit for teachers who complete a master's degree in a core content area directly related to their licensure field, excluding degrees that include pedagogy or a pedagogy component.
- Limited to a maximum credit of \$2,500 and the master's degree must be completed in the same year the tax credit is claimed.

Estimated taxpayer impact:

- Based on data from the U.S. Department of Education's Schools and Staffing Survey, DOR's analysis shows that 94 percent of master's degrees held by Minnesota teachers come from education programs. The total statewide fiscal impact of this credit was reduced to exclude these degrees.

New Non Refundable Credit, Beginning Farmer Incentive and Beginning Farmer Management, effective Tax Year 2018 to Tax Year 2023.

State Cost (revenue reduction):

- For the Beginning Farmer Incentive credit, the total General Fund revenue reduction: \$5.000 million in FY 2018-19 biennium and \$12.000 million in the FY 2020-21 biennium. This credit is capped at \$5 million for tax year 2018 and \$6 million for prospective tax years.
- For the Beginning Farmer Management Credit, the total General Fund revenue reduction: \$0.300 million in FY 2018-19 biennium and \$1.500 million in the FY 2020-21 biennium.

How it works:

- A credit for owners of agricultural assets such as land, livestock, facilities or machinery in Minnesota that sells or rents to a qualified beginning farmer. A maximum credit is based on sale price of the asset or the cash equivalent of the gross income. If the amount of the credit exceeds liability, the excess credit may be carried forward for 15 years.
- A credit is equal to 100 percent of the cost of participation in an approved financial management program. The credit is capped up to \$1,500 per year and may be claimed for three years. Carry forward authority of excess credit is also allowed for three years.

Estimated taxpayer impact:

- DOR's analysis estimates that about 370 beginning farmers may claim these credits in tax year 2018 and assumes a 5 percent growth rate for the prices and participation.

Modified Non Refundable Credit, Research and Development (R&D) Credit, effective Tax Year 2017

The existing nonrefundable R & D Tax credit was modified to increase the second tier tax rate from 2.5 percent to 4 percent. The first tax tier rate of 10 percent remains unchanged. DOR's revenue analysis assume three percent annual growth each year with this this law change. Total revenue change: -\$19.600 million in FY 2018-19 and -\$19.300 in FY 2020-21

REFUNDABLE CREDITS

Minnesota also allows refundable tax credits against individual and corporate franchise taxes. If a refundable credit exceeds tax liability, the full amount is paid as a refund. One new refundable tax credit was enacted, two existing refundable tax credits were modified and another refundable credit was repealed during the 2017 legislative session.

New Refundable Credit, Taxes Paid to Wisconsin, Effective Tax Year 2017

State Cost (revenue reduction):

- Total General Fund revenue reduction: \$14.000 million in FY 2018-19 biennium and \$12.500 million in the FY 2020-21 biennium.

How it works:

- For taxpayers with earnings taxed by Wisconsin, this credit is no longer limited to the amount of Minnesota tax paid to another state or a Canadian province on income also taxed by Minnesota. A credit is equal to the amount of the Wisconsin tax even in cases where the Wisconsin tax exceeds the Minnesota tax on the same income.
- The credit only applies when there is no income tax reciprocity agreement is in effect.

Estimated taxpayer impact:

- DOR's analysis uses data from a 2011 benchmark study that shows that about 24,000 Minnesota returns were filed by Minnesota residents who earned personal service income in Wisconsin with about 75 percent claiming a credit for taxes paid to Wisconsin.

Modified Refundable Credit, Working Family Credit

The existing refundable Working Family Credit was modified in two ways: (1) allows on-reservation earnings of enrolled members of an American Indian Tribe to apply with regard to the requirement for apportioning the working family credit (effective tax year 2017); and (2)

reduces the minimum age to qualify for the credit from age 25 to age 21 for individuals who do not have qualifying children (effective tax year 2019). Total revenue change: -\$3.200 million in FY 2018-19 and - \$10.100 million in FY 2020-21.

Modified Refundable Credit, Child and Dependent Care Credit

Effective tax year 2017, the existing refundable Child and Dependent Care was modified to more closely conform to the federal child and dependent care credit except that the start of the phase-out for the Minnesota credit is \$50,000 of federal adjusted gross income for tax year 2017. Total revenue change: -\$35.800 million in FY 2018-19 and -\$44.100 million in FY 2020-21.

Repeal Refundable Credit, Greater Minnesota Internship Credit

Effective tax year 2018, the refundable credit for employment of a qualifying intern at a location in Greater Minnesota is repealed. This credit was administered by the Office of Higher Education. Total revenue change: \$0.010 million in FY 2018-19 and \$.020 million in FY 2020-21.

OTHER PROVISIONS

- Effective tax year 2017, definition of financial institution (banks, credit unions, savings banks, and money market mutual funds) modified and expanded to include non-corporate entities. Total revenue change: \$10.000 million in FY 2018-19 and \$10.000 million in FY 2020-21.
- Effective tax year 2017, insurance companies must be included on a combined unitary report if they are not part of a unitary business and if other requirements are not met. Total revenue change: \$4.000 million in FY 2018-19 and \$4.000 million in FY 2020-21.
- Effective tax year 2017, treatment of gain on certain installment sales of an interest in a Minnesota pass-through entity to be recognized on an accelerated basis. Total revenue change: \$3.300 million in FY 2018-19 and \$7.100 million in FY 2020-21.
- Effective tax year 2018 or 2019, provides the commissioner authorization to discount, by \$3 million per tax year, the payment due from Wisconsin in a new income tax reciprocity agreement if entered into before August 1, 2018. Also provides a one-time appropriation of \$300,000 in FY 2018 if the Wisconsin Department of Revenue agrees to fully participate in new benchmark study by April 1, 2018. The benchmark study with the Wisconsin Department of Revenue was last updated in 2011.
- Effective tax year 2017, definition of domicile determination for individual income tax or estate tax purposes is modified. The modified domicile definition prohibits the inclusion of the location of the individual's attorney, accountant or financial adviser, the financial institution and charitable contributions for estate tax purposes. For residency, days spent for receiving medical treatment are also not considered as a day spent in Minnesota. The General Fund impact of this domicile provision is undetermined.

SALES & USE TAX

Minnesota's general sales and use tax rate is currently 6.875 percent. Receipts from this tax are deposited into both the General Fund and the Legacy Funds. The sales and use tax is applied to goods and services unless specifically exempted in statute. Chapter 1 authorizes several new upfront exemptions and exemptions by refund. The sum of these newly authorized and expanded exemptions total over \$55 million of tax revenue loss mainly to the General Fund in the FY 2018-19 biennium. Due to a provision in the bill, most of the exemptions in Chapter 1 will not reduce revenues to the Legacy Funds because the legislature opted to reimburse these funds with a transfer from the General Fund equal to the estimated amount of revenue losses incurred for fiscal years 2017, 2018, and 2019 only.⁴ For the FY 2020-21 biennium, the total General Fund impact of the sales tax provisions in 1SS Chapter 1 is a reduction of \$43.035 million and \$2.573 million to the Legacy Funds.

UPFRONT EXEMPTIONS

An upfront exemption is an exemption from sales and use tax on goods and services at the time of purchase.⁵ Effective July 1, 2017, (unless specified differently), 1SS Chapter 1 both modifies existing upfront exemptions and authorizes new upfront exemptions. Most of the new and modified upfront exemptions are *product-based* but *entity-based* exemptions are also authorized.

New and modified upfront, *product-based* exemptions:

- Exempts nontaxable food and beverages sold through vending machines such as bottled water.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$3.810 million	-\$4.000 million
General Fund Transfer to Legacy Fund	\$0.210 million	\$0
Legacy Funds	-\$0.210 million	-\$0.230 million

- Exempts the purchase of digital products by the owner or operator of a jukebox or similar device that charges customers for access to the digital products.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$0.497 million	-\$0.500 million
General Fund Transfer to Legacy Fund	\$0.027 million	\$0
Legacy Funds	-\$0.027 million	-\$0.029 million

⁴ The amount transferred from the General Fund to the Legacy Funds is \$30,000, \$1.545 million, and \$1.231 million for FY 2017, FY 2018, and FY 2019 respectively.

⁵ Certain upfront exemptions require additional documentation such as a certificate of exemption (form ST3 form) to be presented at the time of purchase for some upfront exemptions.

- Exempts the sale of precious metal bullion with precious metal bullion defined as bars or rounds that consist of 99.9 percent or more by weight of either gold, silver, or palladium and are marked with weight, purity, and content.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$0.450 million	-\$0.480 million
General Fund Transfer to Legacy Funds	\$0.020 million	\$0
Legacy Funds	-\$0.020 million	-\$0.020 million

- Expands existing exemption for telecommunication or pay television services machinery and equipment to include fiber and conduit.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$6.900 million	-\$7.500 million
General Fund Transfer to Legacy Funds	\$0.400 million	\$0
Legacy Funds	-\$0.400 million	-\$0.500 million

- Effective for purchases after June 30, 2016, and before March 1, 2018, expands existing exemption for the Super Bowl tickets to include: admissions to related events sponsored by the NFL, NFL affiliates, or the Minnesota Super Bowl Host Committee; and nonresidential parking services by the NFL for attendance at the Super Bowl for related NFL sponsored events. In addition to this modified exemption, the Minnesota Sports Facility Authority is allowed to reimburse the NFL, its affiliates and the Minnesota Super Bowl Host Committee for up to \$1.6 million from its operating and capital reserve fund on qualifying expenditures. The latter provision has no fiscal impact to the state.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$0.920 million	-\$0
General Fund Transfer to Legacy Funds	\$0.050 million	\$0
Legacy Funds	-\$0.050 million	-\$0

- Effective the day following enactment (5/31/2017), exempts from the taxable price of admission for suites, skyboxes and stadium builder licenses at a place of amusement or athletic event if the lessee may arrange to use the suites, sky box or private box on non-game or event days and the sales price for admission, excluding the license if higher than the highest price general admission ticket closest to the suite or box.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$6.660 million	-\$6.700 million
General Fund Transfer to Legacy Funds	\$0.360 million	\$0
Legacy Funds	-\$0.360 million	-\$0.390 million

- Exempts special fuel that is exempt from motor fuels tax and is used in one of the following ways: to power refrigeration units on a licensed motor vehicle; to power an unlicensed motor vehicle that is used solely or primarily to move semitrailers within a cargo yard or warehouse facility; or to operate a power-take-off unit on a licensed motor vehicle.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$5.200 million	-\$5.900 million
General Fund Transfer to Legacy Funds	\$0	\$0
Legacy Funds	-\$0.300 million	-\$0.340 million

Modified upfront, *entity-based* exemptions:

- Modifies and expands existing exemption for sales at fundraising events sponsored by a nonprofit organization by increasing the number of days of exempt fundraising sales from five days to ten days.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$0.400 million	-\$0.430 million
General Fund Transfer to Legacy Funds	\$0.020 million	\$0
Legacy Funds	- \$0.020 million	-\$0.020 million

- Modifies and expands the exemption for nonprofit organizations to extend to nonprofit organizations whose primary purpose is the operation of ice arenas or ice rinks for youth and high school programs (Duluth Heritage Sports Center).

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$0.062 million	-\$0.060 million
General Fund Transfer to Legacy Funds	\$0.004 million	\$0
Legacy Funds	-\$0.004 million	-\$0.004 million

- Effective the day following enactment (May 31, 2017), an existing exemption to a city is modified to be an upfront exemption (rather than an exemption by refund) on purchase of construction materials for a sports facility project (Soccer Stadium) and related public infrastructure that begins construction between July 1, 2016, and December 31, 2017. In addition, the exemption was modified to require the total construction cost for the capital project be at least \$100 million. Existing law requires that this capital project be funded partially or wholly by a city of the first class. The changes to this exemption in 1SS Chapter 1 affect the city of St. Paul.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$0.400 million	\$0
General Fund Transfer to Legacy Funds	\$0	\$0
Legacy Funds	\$0	\$0

- Modifies an existing upfront exemption to be extended to purchases by and sales from nonprofit organizations that offer services that support youth and families (similar to the YMCA or Jewish Community Center). This law change is expected to benefit one organization, the Detroit Lakes Community and Cultural Center. .

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	- \$0.180 million	-\$0180 million
General Fund Transfer to Legacy Funds	\$0.010 million	\$0
Legacy Funds	- \$0.010 million	-\$0.10 million

- Renews an exemption that expired on June 30, 2015 to the Minnesota State High School League (MSHL) for regional and state tournaments and competitions. 1SS Chapter 1 renews this exemption for another ten years through June 30, 2027. The same transfer of the annual sales tax saving to a foundation to fund student participation in extracurricular activities will continue to occur in the renewed exemption with no changes to that process.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	- \$1.760 million	-\$1.740 million
General Fund Transfer to Legacy Funds	\$0.100 million	\$0
Legacy Funds	-\$0.100 million	-\$0.100 million

EXEMPTION BY REFUND

An exemption by refund requires that the tax be paid at the time of purchase and an entity applies for a refund from the state. The qualifying entity, such as a building owner, would document the amount of sales and use tax paid on exempted items and would submit a claim for refund to the Minnesota Department of Revenue.

New and modified, entity or contractor-based exemptions by refund:

- Retroactively effective, 1/2/2013 to 12/31/2016, a new exemption by refund is authorized for materials and supplies used for the construction of a qualifying retail center by a nonprofit organization that is located in a city with no grocery store and the city is at least 20 miles from another city with a grocery store. One entity in the City of Trimont is expected to qualify for this exemption by refund. Total General Fund revenue change: -\$0.070 million in FY 2018-19.
- Retroactively effective for purchases after July 1, 2013, an exemption by refund is authorized for materials and supplies used in the construction, re-modeling and expansion of an ice arena or other buildings and facilities owned and operated by the City of Plymouth. This exemption is capped at \$2.500 million. Total General Fund revenue change: -\$2.500 million in FY 2018-19.
- Retroactively effective for purchases after September 30, 2016 to December 31, 2018, provides a new exemption by refund for materials and supplies used in the construction or replacement of real property affected by a fire on September 8, 2016, in the City of Melrose. The exemption by refund is expected to support total eligible project construction costs of up to \$2.400 million. This exemption is administered as refund through July 1, 2017. An upfront exemption continues for materials and supplies through December 31, 2108. Total General Fund revenue change: -\$0.160 million in FY 2018-19.
- Retroactively effective for purchases after December 31, 2015 to June 30, 2018, provides a new exemption by refund for materials and supplies used in the construction or replacement of real property affected by a fire on February 3, 2016 in the City of Madelia. The exemption by refund is expected to support total eligible project construction purchases of up to \$2.580 million. Total General Fund revenue change: -\$0.180 million in FY 2018-19.
- Effective for purchases after July 1, 2017, expands an existing exemption by refund for a business that meets certain requirements in a program administered by the MN Dept. of Economic Development (DEED) for greater MN businesses. The exemption limit is increased from \$2 million annually to \$5 million annually during the period of agreement and the total maximum exemption amount is increased from \$10 million to \$40 million over the agreement period. Additionally, the law has been also modified to allow a business that invests at least \$200 million over a ten-year period to have an extended period of agreement. Total General Fund revenue change: -\$10.000 million in FY 2018-19 and -\$9.400 million for the FY2020-21 biennium (with an additional \$0.600 million to the Legacy Funds).
- Effective for sales and purchases after July 1, 2019, also expands an existing exemption by refund for a business that meets certain requirements in a program administered by the MN Dept. of Economic Development (DEED) for greater MN businesses. The provision in Chapter 8 (the bonding bill), enacted during the first special session of 2017, allows a greater Minnesota siding production facility to qualify for the sales tax exemption benefits despite not being located in the city.⁶ For a facility located in Angora Township, the fiscal impact of this provision is delayed until the next biennium based on the estimated construction timeline

⁶ For more information about the definition of a siding production facility, please see the agriculture omnibus bill for law changes to Minnesota Statute 41A in [Chapter 88](#) from the 2017 regular session.

for that facility. Total General Fund revenue change: -\$1.700 for the FY2020-21 biennium (with an additional \$0.100 million to the Legacy Funds).

OTHER

- Effective day following enactment (May 31, 2017), Chapter 1 modifies the definition of real property and tangible personal property for determining when sales and use tax is due. This modification is in response to a recent court decision and is expected to affect mainly construction and installation contracts. Total revenue change: -\$0.570 million for the FY 2017. Of that amount, there is an estimated reduction of \$0.030 million in FY 2017 to the Legacy Funds. The impact after FY 2017 is estimated to be the following.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$14.970 million	-\$14.440 million
General Fund Transfer to Legacy Funds	\$0.800 million	\$0
Legacy Funds	-\$0.800 million	-\$0.800 million

- Effective July 1, 2019 or earlier if the U.S. Supreme Court decision or Congress enact laws that require remote sellers to collect sales tax, Chapter 1 modifies or expands the definition for marketplace providers and affiliated entities. Total revenue change: \$9.100 million in the FY 2020-21 biennium and total non-General Fund revenue change is \$500,000 in the FY 2020-21 biennium.
- Effective for sales and purchases made after December 31, 2017, the sales tax revenues from certain fireworks is statutorily dedicated to the following accounts/funds: (1) 25 percent of the revenue to be deposited into a new Volunteer Fire Assistance Grant Account; (2) 25 percent of the revenue is deposited into the existing Fire Safety Account; and (3) the remaining 50 percent of the revenue to be deposited into the General Fund. Starting on January 1, 2018, DOR is required to estimate the amount of sales tax collected in 2016 from certain fireworks. This estimate will be used to calculate the amount of dedicated funds in future years.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$0.255 million	\$0.355 million
Special Revenue Fund	\$0.255 million	\$0.255 million

Additional changes to sales tax laws were enacted in Chapter 3 (2017 Laws, First Special Session). See the Transportation summary for additional details about the sales tax revenue dedication to transportation funds.

STATE GENERAL LEVY TAX

ISS Chapter 1 makes several changes to the Statewide General Property Tax levy.

- First it freezes the state general levy at the payable 2018 level for taxes payable in 2019 and beyond by removing the inflation factor (the implicit price deflator for gross domestic product) from the payable tax base and by eliminating the 95 percent commercial-industrial property and the five percent seasonal recreational property apportionment requirement. The levy for commercial-industrial property is set at \$784,590,000 and the levy for seasonal recreational property at \$44,190,000 for taxes payable in 2018 and thereafter.
- Second it reduces the commercial/industrial portion of the levy by excluding the first \$100,000 of market value from each commercial/industrial property for taxes payable in 2018 and thereafter. In 2015, over 110,000 parcels were classified as commercial and just under 20,000 parcels as industrial property.

The estimated costs of these changes (revenue reductions) plus their related interactions impacting both income and corporate taxes total \$93.82 million in FY 2018-19 biennium and \$189.56 million in FY 20-21. See additional detail in the table below:

Statewide General Levy Changes - SS1, HF-1E, 2017 Omnibus Tax bill

Dollars in Thousands

Note: Positive numbers reflect revenue gains, negative numbers are revenue losses

General Fund	FY '18	FY '19	FY 18-19 Biennium	FY '20	FY '21	FY 20-21 Biennium
1 <i>State General Levy - February 2017 forecast</i>	\$861,166	\$881,010	\$1,742,176	\$900,247	\$922,971	\$1,823,218
2						
3 State General Levy (SGL) changes	(\$30,260)	(\$65,210)	(\$95,470)	(\$85,530)	(\$109,100)	(\$194,630)
4 Exclude the first \$100,000 of commercial/industrial property market value	(30,260)	(55,020)	(85,280)	(55,020)	(55,020)	(110,040)
5 Remove the GDP inflator and the 95%/5% apportionment	0	(10,190)	(10,190)	(30,510)	(54,080)	(84,590)
6 Income tax interactions due to SGL changes	<u>0</u>	<u>1,650</u>	<u>1,650</u>	<u>2,210</u>	<u>2,860</u>	<u>5,070</u>
7 Total SGL changes + interactions (lines 3 + 6)	(\$30,260)	(\$63,560)	(\$93,820)	(\$83,320)	(\$106,240)	(\$189,560)
8 Total Modified State General Levy Revenues February 2017 forecast + SGL changes (lines 1 + 3)	\$830,906	\$815,800	\$1,646,706	\$814,717	\$813,871	\$1,628,588

REFUNDS, FISCAL DISPARITIES EXCESS CONTRIBUTIONS

Effective with payable year 2018, 1SS Chapter 1 provides a distribution of state general levy paid by properties within a municipality back to the municipality when the following applies: 1) the municipality is located within the metro but outside of the transit district area, and 2) the municipality's net fiscal disparities contribution tax capacity exceeds eight percent of its total net tax capacity. The distribution would be equal to the contribution tax capacity amount that is greater than eight percent times its municipal tax rate, but which cannot exceed the total state general levy amount paid by properties within the municipality. Three municipalities—Coates in Dakota County, Rogers in Hennepin County, and Louisville Township in Scott County—are eligible beginning with taxes payable in 2018.

The annual cost (revenue reduction) is estimated to be \$700,000 beginning in FY 2019.

ESTATE TAX

1SS Chapter 1 also modifies estate taxation by annually phasing in an increased exclusion (subtraction) from \$2.0 million, the maximum under prior law, to up to \$3 million for estates of decedents dying in 2020 and later. In conjunction with this change, the subtraction for qualified farmland and small business property was also modified to maintain the \$5 million maximum limitation for the subtraction. Eminent Domain laws were also modified so that recapture tax would not apply to the qualified property under certain conditions. Total estimated General Fund revenue reduction: -\$34.900 million in FY 2018-19 and -\$74.600 for the FY 2020-21 biennium.

EXCISE TAXES

Alcohol Tax: Effective January 1, 2018, small wineries may reduce their excise tax with a small wineries tax credit. The tax credit, similar to the small brewer's credit, is equal to the excise tax due on wine or cider sold not to exceed the lesser of the tax liability or \$136,275. The credit may be claimed by any winery (including out-of-state wineries) that manufacture less than 75,000 barrels of wine within a calendar year. Total General Fund revenue change: -\$0.130 million in FY 2018-19 and -\$0.190 for the FY2020-21 biennium.

Cigarette & Tobacco Taxes: Effective July 1, 2017, Chapter 1 authorizes about \$12.100 million and \$37.700 million in revenue reductions in the FY 2018-19 biennium and FY 2020-21 biennium respectively. The General Fund revenue reduction is the result of three law changes:

- The annual inflation adjustment on the cigarette tax is repealed which fixes the tax rate to 15.2 cents per cigarette or \$3.04 per pack (rate frozen at the 2017 level).
- The application of the tobacco products tax on moist snuff containers is modified to be the greater of: 95 percent of the wholesale sales price of the moist snuff, or \$3.04 multiplied by the ounces and divided by 1.2. This change, by itself, increases tax revenue by \$1.700 million and \$2.000 million in the FY 2018-19 biennium and FY 2020-21 biennium respectively.
- The tax rate for a premium cigar is reduced from \$3.50 to \$0.50.

OTHER TAX REVENUE LAW CHANGES

- A one-time allocation of \$3 million from the General Fund to Border City Enterprise Zones located on the western border of the state (qualifying cities: City of Breckenridge, City of Dilworth, City of East Grand Forks, City of Moorhead, and City of Ortonville) based on population is provided in FY 2018. Of this amount, \$50,000 is provided to the City of Taylors Falls, along with the authority to exercise Border City Development Powers. These allocations are to be used for business tax reduction and are available until used. An allocation for Border City Enterprise Zones was last allocated during the 2013 session in Chapter 143 for \$1.500 million.
- Effective July 1, 2017, the solid waste management tax rate is modified to allow DOR to consult with the Pollution Control Agency to determine and publish a weight to conversion schedule for construction debris. This rate modification affects two state funds: (1) General Fund; and (2) Environment Fund. To estimate the revenue impact for this proposal, DOR assumed that the new rate would be \$3.50 per ton which results in an estimated revenue increase to the two funds.

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
General Fund	-\$0.270 million	-\$0.300 million
Environmental Fund	-\$0.620 million	-\$0.690 million

- Effective July 1, 2017, the excise tax rate on compressed natural gas (CNG) is modified from \$2.174 per thousand to \$1.974 per thousand cubic feet and provides a gasoline equivalent per cubic feet. This change also aligns the tax rate the International Tax Fuel Agreement. Total Highway User Tax Distribution Fund revenue reduction is \$0.310 million in the FY 2018-19 biennium and \$0.380 million in the FY 2020-21 biennium.
- Retroactively effective for gross receipts received on or after July 1, 2016, a new exclusion for supplemental medical assistance payments from MinnesotaCare tax liability at the 2 percent rate is authorized. Currently, both Hennepin County and Regions Hospital receive supplemental payments. Total revenue reduction to the Health Care Access Fund is \$6.100 million in the FY 2018-19 biennium and \$1.100 million in the FY 2020-21 biennium. To mitigate the Total revenue reduction impact of this law change over three years to the Health Care Access fund, a one-time transfer from the General Fund of \$7.200 million to the Health Care Access fund in FY 2020 is scheduled to take place to offset the total Health Care Access Fund cost.

- Effective July 1, 2017, a new exemption is authorized for gasoline purchased by a dealer of gasoline used as a substitute for aviation gasoline from the motor fuels excise tax. This exemption affects to following non General Funds:

Revenue Change (+ increase, - reduction)	FY 2018-19	FY 2020-21
Highway User Tax Distribution Fund	- \$0.030 million	-\$0.030 million
State Airports Fund	\$0.010 million	\$0.010 million

- Effective July 1, 2017, an existing graduated aviation fuel tax refund provision is expanded and modified to include aerial applicators with a certain aerial license. Total State Airports Fund revenue change is -\$0.420 million in the FY 2018-19 biennium and -\$0.440 million in the FY 2020-21 biennium.

If you have further questions on state tax issues, please contact Cynthia Templin, Fiscal Analyst, at 651-297-8405 or at cynthia.templin@house.mn.

Changes in Tax Refunds, Aids & Credits

First Special Session Chapter 1 (HF1-1E, the omnibus tax act), made numerous changes to Minnesota law governing property taxes, refunds, and local aids. In addition, one other tax provision was carried in Chapter 93 of regular session, the Environment and Natural Resources Act. As shown in Table 1, General Fund appropriations for Property Tax Aids and Credits total \$3.65 billion in FY 2018-19, an increase of \$200.9 million or 5.8 percent above the February 2017 forecast base of \$3.45 billion. In FY 2020-21 the appropriations base grows to \$3.68 billion, reflecting an increase of \$163.76 million or 4.4 percent above the forecasted amount of \$3.53 billion.

Table 1: Summary of 2017 Tax Changes
General Fund Tax Refunds, Aids & Credits

Dollars in 000's	FY 2018	FY 2019	FY 18-19	FY 2020	FY 2021	FY 20-21
February 2017 Forecast - Tax Aids & Credits	1,712,766	1,739,110	3,451,876	1,758,435	1,768,775	3,527,210
Tax Refunds, Aids & Credits Changes						
Positive numbers reflect an increase in spending and negative numbers reflect cost savings.						
Chapter 93 (SF 844-2E) General Fund	2,000	2,000	4,000	2,000	2,000	4,000
Department of Revenue - Riparian Protection Aid						
Special Sesson 1, Chapter 1 (HF1-1E) General Fund	18,106	178,824	196,930	40,725	119,037	159,762
Subtotal Tax Aids, Credits & Appropriations	18,106	178,824	196,930	33,525	119,037	152,562
Subtotal Transfer to Health Care Access Fund (HCAF)	0	0	0	7,200	0	7,200
Total Tax Expenditure Changes - General Fund						
Chapter Chapter 93 & SS1-CH 1	20,106	180,824	200,930	42,725	121,037	163,762
Total General Fund						
Forecast + Aids & Credits Changes	3,652,806			3,690,972		
Total General Fund						
Forecast + Aids & Credits Changes w/o HCAF						
Transfer	3,652,806			3,683,772		
Total % Change						
Forecast + Aids & Credits Changes w/o HCAF						
Transfer	5.82%			4.44%		

Chapter 93 (SF 844-2E) Omnibus Environment & Natural Resources Act, Article 1, § 11 and Article 2, § 146

	FY 2018-19	FY 2020-21
Department of Revenue, Riparian Protection Aid to Counties	\$ 4.0 mil	\$ 4.0 mil

Minnesota's Riparian Buffer Law (2015) requires landowners to set aside land along public waters and drainage systems with the goal of protecting water resources from erosion and runoff pollution. While the law imposes a deadline November 1, 2017 for buffers on public waters and by Nov 1, 2018 for buffers along public drainage systems, it also includes provisions for government financial assistance to eligible drainage authorities who apply for it. Appropriations for Riparian Protection Aid in Chapter 93 (\$2 million per year beginning in FY 2018) and SS1 Chapter 1 (\$6 million in FY 2018 and \$8 million per year in FY 2019 and beyond) are aids for this purpose.

Counties and local watershed districts that affirm their responsibility for implementing riparian protection and water quality practices (Minn. Stat. § 103F.48) are eligible for the aid. For areas lacking an affirmed jurisdiction authority, the aid is given to the Board of Water and Soil Resources for implementation.

Aid amounts, determined by using a county's or a watershed district's proportion of class 2a (agricultural) acreage, miles of public waters and miles of public drainage ditches, will range from a minimum of \$50,000 to a maximum of \$200,000 annually. Preliminary figures, reflecting full implementation at \$10 million, reveal that nine counties (Clay, Marshall, Norman, Otter Tail, Polk, Redwood, Renville, Roseau and Stearns) will qualify for the \$200,000 per year maximum.

1SS, Chapter 1 (H.F. 1 – 1E) Omnibus Tax Act

	FY 2018-19	FY 2020-21
Tax Refunds, Aids & Credits	\$ 196.9 mil	\$ 159.8 mil

Table 2 provides a detailed summary of Tax Refunds, Aids & Credits spending changes. It compares actual and anticipated spending for the six-year period, FY 2016-2021. Biennial appropriations of \$3.649 billion in FY 2018-19 reflect a 5.7 percent increase above FY 2018-19 base spending levels of \$3.452 billion. Then in FY 2020-21, appropriations rise to \$3.687 billion, an increase of about 1.04 percent above projected FY 2018-19 spending.

A closer look at categories of spending—Tax Refunds, Local Aids, Property Tax Credits, Taconite Tax Relief, Local Pensions, Other Expenditures and Appropriations—reveals mostly enhanced FY 2018-19 appropriation levels when compared to actual FY 2016-17 spending. When FY 2018-19 appropriations are compared to forecasted, base-level funding for the biennium, only one program (Debt Service Aid-Lewis & Clark Joint Powers Board) was eliminated while several other programs were created (Indian Child Welfare Act Aid, Riparian Protection Aid, Maximum Effort Loan Aid, School Building Bond Agricultural Credit) or notably increased (Sustainable Forest Credit Act, Local Government Aid, County Program Aid, PILT). Also, the Other Expenditures & Appropriations category reflects several new administrative and accounting appropriations beginning in FY 2018. Additional information for this and other budget activities is provided in the detailed analysis that follows.

Table 2: 2017 Session - Tax Refunds, Aids, Credits and Other Expenditures
Dollars in Millions

	February 2017 Forecast		Appropriations SS1-CH 1 FY 2018-19	% Change FY 18-19 base vs FY 2016-17	% Change FY 2018-19 vs. FY 18-19 Base	Tails SS1-CH 1 FY 2020-21
	Closing FY 2016-17	Base FY 2018-19				
Property Tax Refunds	\$1,302.5	1,379.4	1,387.8	5.9%	0.6%	1,464.8
Political Contribution Refund	1.3	9.0	9.0	613.7%	0.0%	10.0
Tax Refund Interest	17.7	19.2	19.2	8.7%	0.0%	20.8
Local Aids	1,540.8	1,544.3	1,609.4	0.2%	4.2%	1,652.4
Local Government Aid (LGA)	1,036.3	1,038.8	1,055.3	0.2%	1.6%	1,068.8
County Program Aid (CPA)	419.4	418.5	444.0	-0.2%	6.1%	469.3
County Aquatic Invasv Spec (AIS)	20.0	20.0	20.0	0.0%	0.0%	20.0
Township Aid	20.0	20.0	20.0	0.0%	0.0%	20.0
Disparity Reduction Aid	36.1	36.1	36.1	0.0%	0.0%	36.1
Other Local Aids	9.0	10.9	34.0	20.7%	211.3%	38.1
Property Tax Credits	99.4	100.5	136.0	1.0%	35.3%	199.9
Agricultural Market Value Credit	77.2	74.3	74.3	-3.8%	0.0%	74.0
School Building Bond Ag Credit	0.0	0.0	35.5	-	-	98.5
Border City Disparity Credit	21.7	24.3	24.3	11.9%	0.0%	25.8
Other Credits	0.5	1.8	1.8	282.8%	0.0%	1.6
Taconite Tax Relief Area Aids & Credits	28.0	26.1	26.1	-7.0%	0.0%	27.7
Local Pensions Aids	270.7	287.2	287.2	6.1%	0.0%	291.2
Other Expenditures	77.5	86.1	174.1	11.2%	102.1%	20.2
PILT Payments - DNR	63.5	67.1	70.9	5.7%	5.6%	75.4
Performance Measurement	0.8	0.8	0.8	-0.3%	0.0%	0.8
Local Option Abtmt/Disaster Asst	0.1	0.2	0.2	168.9%	0.0%	0.2
Border City Reimbsmt	0.0	0.0	0.0	2.9%	0.0%	0.0
Bloomington Infrastructure Projects	9.3	9.7	9.7	4.1%		0.0
City Mpls Library debt service aid	3.7	8.2	8.2	121.5%		8.2
Income Tax Reciprocity study	0.0	0.0	0.3	-		0.0
DOR administration tax act	0.0	0.0	5.0	-		5.0
DNR administration SFIA chgs	0.0	0.0	0.5	-		0.6
DHS administration ICWA chgs	0.0	0.0	0.4	-		0.8
Transfer to HCAF- FY 2020 only	0.0	0.0	0.0	-		7.2
LGA prepayment FY 2020 only	0.0	0.0	78.0	-		(78.0)
Total General Fund	\$3,338	\$3,452	\$3,649	3.4%	5.7%	\$3,687

Detailed Analysis – General Fund changes

	FY 2018-19	FY 2020-21
Sustainable Forest Investment Act (SFIA)	\$ 10.5 mil	\$ 11.3 mil

SFIA payments provide reimbursements to private landowners who practice long-term (eight-year minimum) forest management investment in accordance with the Sustainable Forest Incentive Act (2001). Since payable year 2011, the per-acre payment has been \$7.00. In 2014, the \$100,000 payment limit per taxpayer per year was eliminated and land over 60,000 acres subject to a single conservation easement was excluded from the program. Also in 2014, an evaluation by the Office

of the Legislative Auditor (OLA) found several deficiencies in the SFIA program including that “payment amounts are not tied to property taxes or program goals.”

SS1 Chapter 1 provides funding to 1) align SFIA payments with current land use practices required by the act, and 2) reinstate the eligibility of lands with a single, conservation easement (approximately 186,000 acres) into the program, effective retroactively to payment year 2014. The following two tables provide additional detail on changes to the payment rate per acre beginning in 2018 and changes to total expenditures for the program.

Table 3a: SFIA Payment Rate Changes
For SFIA Applications due in 2018/ Payment in FY 2019

Covenant length	Pay 2018 SFIA Rate/Acre	Pay 2019 SFIA Rate/Acre	SFIA pymt % avg statewide tax
50 years	\$7.00	\$15.54	115%
20 years	\$7.00	\$12.16	90%
8 years - no easement	\$7.00	\$8.78	65%
8 years - with easement of \geq 60,000 acres	\$7.00	\$3.38	25%

Table 3b: Sustainable Forest Incentive Act (SFIA) Expenditure Changes

Note: Positive numbers reflect expenditure increases, negative numbers are cost savings.

General Fund - Dollars in 000s		FY '18	FY '19	FY 18-19 Biennium	FY '20	FY '21	FY 20-21 Biennium
1	<i>Sustainable Forest (SFIA) - February 2017 forecast</i>	\$5,690	\$5,860	\$11,550	\$6,030	\$6,210	\$12,240
2							
3	Sustainable Forest (SFIA) changes	\$5,200	\$5,300	\$10,500	\$5,500	\$5,800	\$11,300
4	Payment Rate Changes - Response to OLA report	0	4,000	4,000	4,200	4,500	8,700
5	Payments to Lands with a Single, Large Forest Easement	5,200	1,300	6,500	1,300	1,300	2,600
6	Retroactive payments (3 yrs) to eligible, reinstated lands	3,900	0	3,900	0	0	0
7	Prospective payments to eligible, reinstated lands	1,300	1,300	2,600	1,300	1,300	2,600
8	Administration (DNR) of SFIA changes	215	312	527	312	312	624
9	Total SFIA changes + DNR administration (lines 3 + 6)	\$5,415	\$5,612	\$11,027	\$5,812	\$6,112	\$11,924
10	Total Modified SFIA Expenditures (lines 1 + 3)						
	February 2017 forecast + SFIA changes	\$10,890	\$11,160	\$22,050	\$11,530	\$12,010	\$23,540
	Percent change to February 2017 forecast levels	91.4%	90.4%	90.9%	91.2%	93.4%	92.3%

With this additional funding, total expenditures for SFIA will reach \$10.9 million in FY 2018 and \$11.2 million in FY 2019, an increase of over 90 percent in each year, and continue to grow in subsequent years. In addition, an appropriation of \$215,000 in FY 2018 and \$312,000 in FY 2019 and beyond is made to the commissioner of natural resources for administration of program application and other changes.

Property Tax Refund (PTR) – Home Office Deduction Calculation

SS1 Chapter 1 modifies property tax refund calculations by excluding home office space that is claimed for business purposes on a taxpayer's federal income tax return. This change creates savings of \$900,000 in FY 2018-2019, and \$1.1 million in FY 2020-21.

Local Aid Changes

	FY 2018-19	FY 2020-21
Local Government Aid (LGA)	\$ 15.0 mil	\$ 30.0 mil
LGA Pre-payment (for FY 2020 only)	\$ 78.0 mil	\$ 0

Local Government Aid (LGA) provides general-purpose funding annually to 760 of Minnesota's 852 cities. LGA has been funded by a standing appropriation (\$519.4 million in FY 2017), distributed according to "need factors"—measured differently for small cities (626 of which have a population less than 2,500 residents) versus large cities (226 cities with populations of 2,500 or more)—minus the "ability to pay" measured by cities' tax base.

SS1 Chapter 1 makes several adjustments to LGA provisions, many of which are corrective in nature and all of which are effective for CY 2018/FY 2019. First, it corrects an error in the calculation of aid for 20 cities where "unmet need" exceeds the previous year's aid, but current year aid is decreasing, thus causing a loss in aid. Second, it modifies the transition revenue need formula by extending the population transition range from 10,000-10,500 to 10,000-11,000, impacting aid for 3 cities. Third, it creates a sparsity adjustment affecting the aid calculation for 13 cities with less than 10,000 residents and a density of less than 30 per square mile. Fourth, creates a new city LGA base of \$95 per capita based on its 2014 population. Fifth, it permanently increases the LGA appropriation by \$15 million per year.

In addition to these changes, SS1 Chapter 1 also includes a one- time modification in the LGA payment schedule. For pay 2019/ FY 2020 only, LGA will be paid in three installments as follows: 1) 14.6 percent on June 15, 2019, 2) 35.4 percent on July 20, 2019 and 3) 50 percent on December 26, 2019. The payment on June 15, totaling \$78.0 million, will occur roughly one month earlier than usual and immediately before to the close of fiscal year 2019.

Table 4 (next page) shows an extension of the enhanced LGA payment levels from CY 2017 into CY 2018 by city cluster within the Metro and Non-Metro regions. Note that in CY 2018/FY 2019, \$183.4 million or 34 percent of LGA payments will be made to cities in the Metro while \$351.0 million or 66 percent of LGA payments will be made to cities in Greater Minnesota.

One-time LGA Penalty Forgiveness

	FY 2018-19	FY 2020-21
City of Oslo (2013)	\$ 37,000	\$ 0
Cities of Dundee, Jeffers, Woodstock (2014)	\$ 102,000	\$ 0

SS1 Chapter 1 appropriates one-time funding to certain local governments to address a variety of special circumstances. Several cities sought restoration of their withheld LGA payments - Oslo in 2013 and Dundee, Jeffers and Woodstock in 2014—attributable to mistakes in providing timely financial reports to the State Auditor. Appropriations of \$37,000 and \$102,000 respectively in FY 2018 will forgive these LGA penalties.

Table 4
Local Government Aid (LGA) by Region and City Cluster
Certified CY 2017, Forecasted CY 2018, and SS1-Ch1 CY 2018

	LGA 2017 Certified CY 17 / FY 18	LGA 2018 Forecasted CY 18 / FY 19	LGA 2018 SS1-Ch 1 CY 18 / FY 19	% State Total
Metro				
Center Cities	140,543,177	140,986,827	144,340,330	27%
Established Cities	11,653,673	11,524,786	12,599,161	
Large Cities	3,525,825	2,916,034	3,139,593	
Fast Growing Suburbs	2,173,746	2,203,652	2,429,698	
Growing High Income	2,952,245	2,729,737	3,025,467	
High Income Suburbs	0	0	0	
Small Residential	16,955,372	17,044,524	17,903,766	
Metro Region total	177,804,038	177,405,560	183,438,015	34%
Greater MN				
Major Cities	48,560,382	48,687,573	49,649,010	18%
Regional Centers	92,205,197	92,155,778	93,955,369	
Sub-Regional Centers	12,107,579	11,996,779	12,350,872	
Urban Fringe	8,161,153	8,243,848	8,883,566	
High Growth	6,423,473	6,464,151	6,771,651	
Residential Comm.	44,305,324	44,343,117	46,246,127	
Rural	115,086,013	115,407,275	118,109,450	22%
Cities < 500 ppl	14,744,853	14,693,931	14,993,952	
Greater MN Region total	341,593,973	341,992,452	350,959,997	66%
State Total	\$519,398,011	\$519,398,012	\$534,398,012	100%
Change \$ 2018 SS1- Ch 1			\$15,000,000	

Source: LGA run HF1226ccrep1, House Research, May 19, 2017

One-time Local Aids

	FY 2018-19	FY 2020-21
City of Melrose Fire Recovery grant	\$ 1.4 mil	\$ 0
Wadena County Aid	\$ 1.2 mil	\$ 0

On September 8, 2016, a large fire destroyed businesses and apartments on Main Street in downtown Melrose. An appropriation totaling \$1.392 million (\$1.296 million to the City and \$95,800 to Stearns County) will help with fire remediation costs including disaster recovery, emergency personnel and equipment costs, and property tax abatements. This grant is in addition to the retroactive sales tax exemption to the City for construction materials.

For Wadena County, appropriations of \$600,000 in each FY 2018 and FY 2019 will help to pay for a recent, unusually large surge in social service costs that otherwise would require a nearly 15 percent increase in local property taxes.

	FY 2018-19	FY 2020-21
County Program Aid changes	\$ 25.5 mil	\$ 51.0 mil

County Program Aid (CPA) provides general purpose aid to Minnesota's 87 counties to reduce property tax levies, based on the needs of the populations they serve relative to the size of their tax bases. County Program Aid (CPA) is distributed through two formulas—the need aid formula and the tax base equalization formula (TBEA)—which are roughly equal in size.

Prompted by recommendations from the Association of Minnesota Counties to correct “flaws and inequities” with the current CPA formula and to provide greater local property tax stability, SS1-Chapter 1 makes several changes to CPA law beginning with aids payable in 2018/FY 2019. First, the base appropriation for need aid is increased by \$3 million per year (from \$100,795,000 to \$103,795,000) to reflect an existing payment to Beltrami County for out-of-home placement costs (Laws 2014, Ch. 150, Art. 4, § 6) that will last through aids payable 2024. Beginning in 2025, the base appropriation will return to \$100,795,000. Second, the base-level appropriation for TBEA is enhanced in two ways: an appropriation increase of \$25.5 million, plus the repeal of County Transition Aid for seven counties (Aitkin, Chippewa, Cook, Kanabec, Kittson, Traverse, and Wilkin) totaling \$463,869. The new funding level is \$130,873,444, up about 24.8 percent from \$104,909,575 in pay 2017. Third, new formula language creates a funding floor that provides the greater of a) 0.27 percent of TBEA (or \$352,780) indexed to inflation, or b) 95 percent of the previous year’s TBEA. Last, a new provision requires that when calculating aids to counties, the Department of Revenue shall use the most recently available data as of January 1 of the year in which the aid is certified.

Table 5, CPA by Region, shows total FY 2019 CPA funding will reach \$234.1 million, with \$122.4 million (or 52.3 percent) going to counties in greater Minnesota and \$111.7 million (or 47.7 percent) going to metropolitan counties.

Table 5
County Program Aid (CPA) by Region
Certified CY 2017, Estimated CY 2018, and SS1-Ch1 CY 2018

	Certified 2017 CY 17/ FY 18	Estimated 2018 CY 18 / FY 19	SS1-Ch1 CY 18 / FY 19	% Chg vs CY 17	% State Total
Metro¹ Counties	98,114,577	97,334,922	111,709,861	13.9%	47.7%
Greater MN Counties	110,342,170	111,255,635	122,380,696	10.9%	52.3%
State Total	\$208,456,747	\$208,590,557	\$234,090,557	12.3%	100.0%
Change \$ 2018 SS1-Ch1²			\$25,500,000		

¹ Metro counties are Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington.

New Local Aids

	FY 2018-19	FY 2020-21
Riparian Protection Aid to Counties	\$ 14.0 mil	\$ 16.0 mil
Indian Child Welfare (ICWA) Aid to Counties	\$ 5.0 mil	\$ 10.0 mil
Maximum Effort Loan Aid (5 Years)	\$ 6.6 mil	\$ 6.6 mil

Beginning in FY 2018-19 biennium, SS1 Chapter 1 establishes two new county aid programs - Riparian Protection Aid and Indian Child Welfare (ICWA) Aid - and one aid program for school districts with maximum effort loans. Detail on **Riparian Protection Aid to Counties** has already been addressed (see page 110) in the analysis for Chapter 93, the Omnibus Environment and Natural Resources Act, which follows Table 1 - Summary of 2017 Tax Changes.

Indian Child Welfare Act Aid – In an effort to assist with the increasing, non-federal share of costs (\$24.1 million in 2015) to provide out-of-home placement services for children as required by the Indian Child Welfare Act (ICWA), a new aid program is created for counties and tribes. Beginning in FY 2019, \$5.0 million is appropriated for this purpose, with \$4.6 million proportionally distributed to counties based on the previous year's out-of-home placement costs and the number of days foster care maintenance payments were made in the preceding year, and 2) \$400,000 distributed to tribes (White Earth and Leech Lake) reflecting the greater of 5 percent of the federal reimbursement for out-of-home placement costs in the previous year, or \$200,000.

By July 1, 2017, and each June 1 thereafter, a county seeking ICWA Aid must provide the pertinent data to the commissioner of human services for certification, who will then report the results to the commissioner of revenue. The commissioner of revenue will calculate the amount of reimbursement aid for each county and tribe, and distribute the payments in accordance with M.S. 477A.015 to all counties in compliance with ICWA and the Minnesota Indian Family Preservation Act (MIFPA). According to preliminary information, 75 percent of Minnesota Counties will benefit from this new aid, with Beltrami and Hennepin Counties each receiving more than \$1 million, St. Louis County about \$550,000 and Mille Lacs County over \$300,000. In addition, the act requires the commissioner of human services to develop a system to review county compliance

with ICWA and MIFP, and provides an appropriation of \$390,000 per year to implement and monitor that compliance system.

Maximum Effort Loan Aid – The Maximum Effort School Aid Law provides state assistance to school districts with a need to finance building projects but have a limited property tax base to pay for capital project costs. Through this program, the state sells bonds, and the proceeds are loaned to qualifying school districts to provide gap financing. The school district is responsible for repaying the loan plus the interest rate of the bonds at the time of sale. In practice, a district receives revenues from its “maximum effort” levy (29.39 percent of net tax capacity) to first pay debt service on its own local bonds, and the balance is used to repay the state assistance. At the end of the loan’s term, the state forgives any unpaid principal and interest.

In 2016, the legislature created a short-term replacement aid program to assist maximum effort school districts with their outstanding *loan* balances; seven districts participated by refinancing their bonds.

1SS Chapter 1 creates a new Maximum Effort Loan Aid program to compensate school districts for the *interest* previously paid on their capital loans. A district with a maximum effort loan outstanding as of June 30, 2016, is eligible for an aid payment equal to one-fifth of the amount of interest paid on the loan between December 1, 1990, and June 30, 2016. Aid payments will be granted for five years by the commissioner of education, beginning in FY 2018, with the stipulation of providing property tax relief on current year taxes levied on net tax capacity or certain future years debt related levies.

According to the Department of Education, ten districts with capital loan interest balances totaling \$16.46 million as of June 30, 2016, will be eligible. Annual aid payments are estimated to be \$3.29 million for the five-year period from FY 2018 to FY 2022.

Table 6
Maximum Effort Loan Aid for Interest Paid between Dec 1990-June 2016

District Name (No.)	Loan Capital Interest paid (Dec 1990- June 2016)	Annual Aid Payment FY 2018 -FY 2022
Red Lake (38)	\$134,235	\$26,847
Foley (51)	\$1,862,960	\$372,592
Cromwell (95)	\$129,996	\$25,999
Caledonia (299)	\$6,357,576	\$1,271,515
Laporte	\$1,326,685	\$265,337
Ogilvie	\$1,902,635	\$380,527
Littlefork	\$165,788	\$33,158
Roseau	\$2,597,803	\$519,561
Nett Lake	\$447,550	\$89,510
East Central	<u>\$1,531,709</u>	<u>\$306,342</u>
TOTAL	\$16,456,937	\$3,291,387

Source: Fiscal Note SF 709 by Department of Education, March 14, 2017

New Property Tax Credit

	FY 2018-19	FY 2020-21
School Building Bond Agricultural Credit	\$ 35.5 mil	\$ 98.5 mil

Many school districts in rural Minnesota are facing a dilemma: the need to fund capital improvements on a tax base comprised of mostly agricultural land. In 2016, 20 building projects worth almost \$600 million failed to win voter approval because farm families would pay for the bulk of project costs through increased property taxes.

Thus, SS1- Chapter 1 creates a new School Building Bond Agricultural Credit. Eligible properties include class 2a, 2b and 2c property less the house, garage and surrounding one acre. The credit is equal to 40 percent of the property's eligible net tax capacity multiplied by the school debt tax rate. The school debt tax rate is calculated using the amount of a school district's levy dedicated to retiring capital debt.

The Minnesota Department of Education estimates that in 2018, school debt service levies statewide will total approximately \$890 million. Of this amount, \$99 million is estimated to be paid by class 2a, 2b and 2c property. Providing a school building bond credit of 40 percent would bring program costs to about \$35.5 million per year.

Table 7 provides examples of how this credit would work for a 300-acre farm with a homestead valued at \$125,000, located in three different school districts with construction project debt levies. The farm in Township A would see a credit of \$313, the one in Township B would see a credit of \$459 and the one in Township C would see a credit of \$956.

Table 7
School Building Bond Agricultural Credit Calculations
Sample 300-Acre Farm with Home Value \$125,000 Located in 3 Townships

Township	School District Bond		Current Law - No School Building Bond (SBB) Ag Credit								With SBB Ag Credit	
	Debt Levy	Debt Rate	Ag land Value	HMV Exclusion	HGA taxable	HGA NTC	Ag land NTC	Pay 17 Gross Tax	Pay 17 Ag Credit	Pay 17/ FY 18 Net Tax	School Bldg Bond Credit @ 40%	Pay 18/ FY 19 Net Tax
Township A	\$704,771	13.03%	\$1,200,000	\$25,990	\$99,010	\$990	\$6,000	\$5,461	490	\$4,971	\$313	\$4,658
Township B	\$1,229,000	12.75%	\$1,800,000	\$25,990	\$99,010	\$990	\$9,000	\$8,874	490	\$8,384	\$459	\$7,925
Township C	\$2,215,708	31.87%	\$1,500,000	\$25,990	\$99,010	\$990	\$7,500	\$8,449	490	\$7,959	\$956	\$7,003

Source: S. Hinze, House Research with modifications by K. Schill, House Fiscal Analysis

Other Expenditure changes

	FY 2018-19	FY 2020-21
Payment in Lieu of Taxes (PILT)	\$ 3.75 mil	\$ 7.2 mil

SS1 Chapter 1 makes two changes in the PILT payment law. First, beginning in FY 2019, it increases the per acre payment rate from \$1.50 to \$2.00 for lands administered by counties or by the Department of Natural Resources. Of the 8.5 million acres in the PILT program (see Table 8a), counties administer over 2.8 million acres (or 33 percent) and the Department of Natural Resources more than 4.1 million acres (or 48 percent). The 50-cent per acre payment increase totals \$3.45 million per year, reflecting an overall program increase of 10.2 percent. Note that while just two counties have no PILT lands, six counties have more than 4.7 million acres and will receive about \$2.37 million (69 percent) of the increase (Table 8b). Second, the calculation for the PILT payment for the Lake Vermillion-Soudan Underground Mine State Park is modified to create a base-level of funding not to go below 1.5 percent of the 2010 appraised value of the land. Beginning in FY 2018, this provision will increase payments to St Louis County by \$150,000 per year.

Table 8a: PILT Payment Increase
Short History of PILT Payment Rates FYs 2015-2017
 (SS1 - Ch 1 Changes highlighted)

Land Type	CY 2016/FY 2017 rates		2017 Session SS1 -Ch 1 CY 2018/FY 2019 rates		FY 2015 Acres	% of Total Acres	FY 2018 Estimated Increase	FY 2019 Estimated Increase Acre*\$.50
	\$ per acre	3/4 of 1% MV	\$ per acre					
Acquired lands	5.133	Yes			1,011,766	12%		
Transportation wetland (DOT-POLK)	5.133	Yes			1,825	0%		
Land Utilization Project (LUP)	5.133	-			86,065	1%		
County administered	1.500	-	2.000	-	2,804,594	33%		\$1,402,297
DNR administered	1.500	-	2.000	-	4,102,389	48%		\$2,051,195
Wildlife management land	NA	Yes			453,854	5%		
Military refuge land	2.567	-			50,626	1%		
Lake Vermillion/Soudan State Park		1.5% appraised value		1.5% appraised value, not to go below 2010 appraised value	4,080	0%	\$150,000	\$150,000
ESTIMATED TOTAL SS1-Ch 1 PILT CHANGES (FY 2019 and beyond)					8,515,199	100%	\$150,000	\$3,603,492

Source: Dept of Natural Resources and H.F. 1246.

Table 8b: PILT Rate Increase for Selected Counties

	A Increase by \$0.50 DNR admin	B Increase by \$0.50 County admin	A + B = C TOTAL INCREASE PILT PAYMENT
1 TOTAL PILT INCREASE	\$2,051,195	\$1,402,297	\$3,453,492
<u>COUNTY</u>			
2 Aitkin	\$174,839	\$110,600	\$285,439
3 Beltrami	\$103,813	\$73,311	\$177,124
4 Cass	\$91,142	\$126,377	\$217,519
5 Itasca	\$150,684	\$148,671	\$299,355
6 Koochiching	\$538,740	\$143,439	\$682,179
7 St Louis	<u>\$260,001</u>	<u>\$446,524</u>	<u>\$706,525</u>
8 Total Selected Counties	\$1,319,220	\$1,048,922	\$2,368,142
<i>% of Total Increase (line 8/line 1)</i>			
- Selected Counties	64.3%	74.8%	68.6%

Other Aids and One-time Appropriations

	FY 2018-19	FY 2020-21
Administration of Tax Act law changes		
Department of Revenue (DOR)	\$ 5.0 mil	\$ 5.0 mil
Department of Natural Resources (DNR) -SFIA	\$ 0.5 mil	\$ 0.6 mil
Department of Human Services (DHS) - ICWA	\$ 0.4 mil	\$ 0.8 mil
DOR Income Tax Benchmark Reciprocity study	\$ 0.3 mil	\$ 0
Transfer to HCAF (one-time)	\$ 0	\$ 7.2 mil

DOR administration – Beginning in FY 2018, SS1 Chapter 1 appropriates \$5 million per year to the commissioner of revenue to pay additional administration costs generated by the implementation of this act (Social Security Subtraction, R&D Credit modifications, Student Loan Credit, Child & Dependent Care Credit, etc.) and Regular Session Chapter 1, Federal Conformity.

Detail on **Department of Human Services administration of the Indian Child Welfare Act (ICWA)** can be found in the analysis for New Local Aids – ICWA. Similarly, information on **Department of Natural Resources administration of the Sustainable Forest Incentive Act (SFIA)** provisions can be found at the beginning of this summary.

Reports and Studies

	FY 2018-19	FY 2020-21
Income Tax Reciprocity Benchmark study	\$ 300,000	\$ 0

SS1 Chapter 1 appropriates \$300,000 in FY 2018 to the Commissioner of Revenue to study, with the participation of the Wisconsin Department of Revenue, tax year 2017 income tax returns to obtain data to support a potential income tax reciprocity agreement. A presentation of the study is required to the House and Senate committees with jurisdiction over taxes by March 1, 2019.

Renters Credit Study	\$ 0	\$ 0
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SS1 Chapter 1 requires the commissioner of revenue to study and report by March 1, 2018, on the percentage of rent constituting property taxes used in determining the renter property tax refund. Specifically for rent paid in 2016, the commissioner must: (1) match the property ID number or parcel number on form CRP (certificate of Rent Paid) filed with the claim to property tax data for taxes pay in 2016; and (2) report the estimates of rent constituting property tax for the following geographic regions: (1) City of Minneapolis; (2) City of St. Paul; (3) counties of Anoka, Dakota, Hennepin excluding the city of Minneapolis, and Ramsey, excluding the city of St Paul, and the remainder of the state. No specific appropriation was made for this study.

Property Tax Interactions from tax bill changes

FY 2018-19	FY 2020-21
(\$ 1.2 mil)	(\$ 0.2 mil)

Property tax refund interactions in the FY 2018-19 biennium result from a variety of aid increases: Local Government Aid interactions (-\$0.38 million), County Program Aid (-\$0.64 million), Indian Child Welfare Aid (ICWA -\$0.12 million), Maximum Effort Loan Aid (-\$0.08 million), from the repeal of the exemption for agricultural containment facilities (-\$0.17 million) and from various property tax changes including Metro-area transit/paratransit capital expenditure bonds (+\$0.16 million), St. Paul Soccer Stadium (+\$110,000 in FY 2021) Tribal-Owned Clinic in Duluth (+\$20,000), Electric Generation Facility exemption in Owatonna (+\$10,000).

Non General Fund – Minerals**Taconite Environment Protection Fund (TEPF)**

	FY 2017	FY 2018-19
City of Cook payment forgiveness	(\$ 88,000)	\$ 0

SS1 Chapter 1 modifies a one-time production tax allocation requirement from 2010 to the City of Cook. It reduces from ten years to five years the time period by which if the city sells or disposes the land purchased with these funds, then the City must repay a portion of the production tax proceeds to the IRRRB for deposit into the TEPF. The land is being sold to St. Louis County. This change eliminates the requirement to transfer \$88,000 to TEPF.

Iron Range Resources and Rehabilitation Board (IRRRB)

	FY 2017	FY 2018-19
Minnesota Minerals 21st Century Fund		
Hoyt Lakes appropriation cancellation	(\$7.1 million)	\$ 0

Minnesota Minerals 21st Century Fund

Revenue from Hoyt Lakes appropriation cancellation	\$ 7.1 million	\$ 0
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SS1 Chapter 1 cancels on June 1, 2017, all unspent funds from a 2014 appropriation made to the IRRRB for a project in Hoyt Lakes and returns approximately \$7.1 million to the Minnesota Minerals 21st Century Fund.

Other Tax Actions for Minerals

- **IRRRB Previously Distributed Taconite Tax Proceeds.** SS1 Chapter 1 clarifies that the authority to use production tax proceeds previously distributed in 2007 for the Highway 1 Corridor (10 cents per ton or \$3.8 million), but repealed in 2016 in the Revisor's act, may be spent as originally authorized, including interest accrued. The funds are available until expended and do not cancel.
- **Taconite Economic Development Fund – Permitted uses for grant funds is expanded to include “concurrent reclamation.”**

If you have further questions on state tax issues, please contact Katherine Schill, Fiscal Analyst, at 651-296-5384 or at katherine.schill@house.mn.

Appendix 1
Changes in Fees, Assessments and Third Party Reimbursements - 2017 Legislation

<u>Committee</u>		<u>Agency</u>	<u>Description</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2018-19</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2020-21</u>	<u>Fund</u>
Education										
	BOT		Board of Teaching Licensure Fee to Spec Rev Fund	0	0	0	-1,898	-1,898	-3,796	GF
	BOT		Board of Teaching Licensure Fee to Spec Rev Fund	0	0	0	1,898	1,898	3,796	SR
	Bd Admin		Board of Administrators Fee to Spec Rev Fund	0	0	0	-215	-215	-430	GF
	Bd Admin		Board of Administrators Fee to Spec Rev Fund	0	0	0	215	215	430	SR
	BOT		New PELSB Teacher Licensure Revenue	0	0	0	38	38	76	SR
			Subtotal - Education	0	0	0	38	38	76	
Health & Human Services										
	DHS		TEFRA - Parental Fees	-515	-515	-1,030	-515	-515	-1,030	GF
	DHS		Security Hospital Staffing-Cost of Care Recoveries	1,035	1,505	2,540	1,821	2,108	3,929	GF
	DHS		Fines for MalTreatment in DHS Licensed Facilities	45	45	90	45	45	90	GF
	DHS		Operating Adjustment-Cost of Care Recoveries	1,352	1,352	2,704	1,352	1,352	2,704	GF
	MDH		Body Art Regulation Fee Increases	184	215	399	215	215	430	SGSR
	MDH		Health Occupations Program	77	77	154	96	90	186	SGSR
	MDH		Water Well and Borings Fees	199	199	398	199	199	398	SGSR
	MDH		Health Facility & Home Care Fees Not Refundable	70	70	140	70	70	140	SGSR
	MDH		Protect Vulneable Adults in Health Care Settings	688	688	1,376	688	1,032	1,720	SGSR
	MDH		Housing w/Services Establishment Exemptions	-108	-108	-216	-108	-108	-216	SGSR
	MDH		Prescribed Pediatric Extended Care Licensure	57	4	61	31	4	35	SGSR
	MDH		Radon Licensure Repeal/Delay	-258	-189	-447	-10	0	-10	SGSR
	Med Prac		Background Checks (Chapter 50)	3	3	6	3	3	6	SGSR
	Med Prac		Faculty License Renewal (Chapter 82)	1	1	2	1	1	2	SGSR
	Occ Ther Bc		Occupational Therapy Board License Change	184	370	554	382	390	772	SGSR
			Subtotal - HHS	3,014	3,717	6,731	4,270	4,886	9,156	
Environment										
	DNR		Military Vets Free Park Entry (parks acct)	-50	-50	-100	-50	-50	-100	NR
	DNR		Increase Hydropower Permit Fees	45	45	90	45	45	90	NR
	DNR		Increase State Park Fee (\$ daily, \$5 annually)	2,200	2,670	4,870	3,100	3,500	6,600	NR
	DNR		SnowmobileRegistration & Trail Fee (snowmobile acct)	2,000	2,000	4,000	2,000	2,000	4,000	NR
	DNR		ATV Registration & Non-Resident Trail Pass	650	1,300	1,950	1,300	1,300	2,600	NR
	DNR		Deputy Register Snowmobile Fees	10	10	20	10	10	20	NR
	DNR		Fort Ridgely State Park Lease (Parks)	-49	-49	-98	-49	-49	-98	NR
	DNR		Non-resident Non-Motorized Boat (Water Rec)	-31	-31	-62	-31	-31	-62	NR
	DNR		Non-resident Non-Motorized Boat (AIS)	-14	-14	-28	-14	-14	-28	NR
	DNR		Hunting & Fishing License Inceases	4,211	8,038	12,249	8,038	8,038	16,076	G&F
	DNR		Minnow Licensing Fee Exemption	-1	-1	-2	-1	-1	-2	G&F
	DNR		Lake Vermillion Boat House Lease	0	0	0	-3	-6	-9	SR
			Subtotal - Environment	8,971	13,918	22,889	14,345	14,742	29,087	
Agriculture										
	MDA		Food Certificate Fee	-110	-110	-220	-110	-110	-220	GF
	MDA		Food Certificate Fee	182	182	364	182	182	364	Ag
	MDA		Waste Pesticide Collection	600	600	1,200	600	600	1,200	Ag
	MDA		Trust Reporting Exemption (Chapter 36)	-54	-54	-108	-54	-54	-108	Ag
			Subtotal - Agriculture	618	618	1,236	618	618	1,236	
Transportation										
	DOT		Electric Vehicle Surcharge	10	30	40	45	60	105	HUTDF
	DOT		Overweight Truck Permits	490	490	980	490	490	980	CSAH
	DPS		Motorcycle Safety Fund - Transfer	-17	-17	-34	-17	17	0	GF
	DPS		Motorcycle Safety Fund - Transfer	17	17	34	17	17	34	SR
	DPS		Start Seeing Motorcycle Special Plates Contribution	5	7	12	9	11	20	SR
			Subtotal - Transportation	505	527	1,032	544	595	1,139	

Public Safety

Courts	Tax Court small Claims Jurisdiction to \$15,000	-3	-3	-6	-3	-3	-6	GF
Courts	Collection of Overdue Court Fines and Fees	663	994	1,657	994	994	1,988	GF
Courts	Civil Ct Filing Fee Reduction (\$310 to \$285)	-2,069	-2,759	-4,828	-2,759	-2,759	-5,518	GF
Courts	Motion Fee, Civil, Family (\$100 to \$75)	-615	-820	-1,435	-820	-820	-1,640	GF
Courts	Motion Fee Child Support Modification	-13	-17	-30	-17	-17	-34	GF
Courts	HRO Respondent Filing Fee Elimination	-110	-132	-242	-132	-132	-264	GF
Subtotal - Public Safety		-2,147	-2,737	-4,884	-2,737	-2,737	-5,474	

Jobs & Energy

DOLI	Construction Codes Fee Reduction	-2,603	-2,603	-5,206	-2,603	-2,603	-5,206	CC
DOLI	Public Accomodation Code Enforcement	120	120	240	120	120	240	CC
Com	Competive Rates for Energy Intensive Customers	-430	-430	-860	-430	-430	-860	GF
Com	Financial Institutions Division	-5,032	-5,032	-10,064	-5,032	-5,032	-10,064	GF
Com	Financial Institutions Division	4,885	4,885	9,770	4,885	4,885	9,770	SR
Com	Securities-Investment Advisor&Broker Dealer	2,660	2,660	5,320	2,660	2,660	5,320	GF
Com	Utility Grid Assessment Extension	500	0	500	0	0	0	SR
Subtotal - Jobs & Energy		100	-400	-300	-400	-400	-800	

State Government

Cosmetolog	Eyesh Technician Fee	28	28	56	28	28	56	GF
DOR	Board of Assesor's TO SR & Increase	-35	-35	-70	-35	-35	-70	GF
DOR	Board of Assesor's TO SR & Increase	96	96	192	96	96	192	SR
Admin	Private Events Fee	100	100	200	100	100	200	SR
Subtotal - State Government		189	189	378	189	189	378	

Subtotals by Fund

General Fund	-3,166	-3,286	-6,452	-5,083	-4,762	-9,845	GF
State Government Special Revenue Fund	1,097	1,330	2,427	1,567	1,896	3,463	SGSR
Natural Resources Fund	4,761	5,881	10,642	6,311	6,711	13,022	NR
Game & Fish Fund	4,210	8,037	12,247	8,037	8,037	16,074	G&F
Special Revenue Fund	5,603	5,105	10,708	7,255	7,254	14,509	SR
Agricultural Fund	728	728	1,456	728	728	1,456	Ag
Highway User Tax Distribtuion Fund	10	30	40	45	60	105	HUTDF
County State Aid Highway Fund	490	490	980	490	490	980	CSAH
Construction Codes Fund	-2,483	-2,483	-4,966	-2,483	-2,483	-4,966	CC
Total Change	11,250	15,832	27,082	16,867	17,931	34,798	