MAY 25, 2000 NUMBER 00.02

Money Matters

A Publication of the House Fiscal Analysis Department

FISCAL ACTIONS OF THE 2000 LEGISLATURE

Minnesota's Supplemental Budget for Fiscal Years 2000-01

This paper summarizes the fiscal actions of the 2000 legislative session. It presents an overview of the state's general fund supplemental budget for the fiscal year 2000-01 biennium and summarizes each area by fiscal committee or division.

House Fiscal Analysis Department

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The Web page has fiscal staff publications from recent years as well as spreadsheets for the major finance bills for the past five legislative sessions.

General Fund Budget Overview

FY 2000-01

After the February 2000 General Fund forecast, the projected general fund balance for the FY 2000-01 biennium was $1.818 billion. The $1.818 billion is the sum of revenue and expenditure changes in the general fund since the end of the 1999 Legislative session plus the balance remaining in the general fund at the end of that session. This projected balance had been accumulated over the three year period of fiscal years 1999-2001.

Table 1 illustrates how the balance accumulated. Over the three year period, $1.763 billion results from changes in revenues from the end of 1999 session. The single largest change is an increase in income tax revenues of $920 million.

Table 1

General Fund Revenue Available in the Current Biennium
FY 1999, 2000 & 2001
Changes From End of 1999 Session
(Dollars in Millions)

	FY99	FY 00-01	Total
Revenues			
Individual Income	$182	$738	$920
Sales Tax	$26	$242	$268
Corporate	$(4)	$87	$83
Motor Vehicle	$26	$139	$165
Tobacco	$0	$(31)	$(31)
Other Revenue	$85	$170	$255
Carry Forward		$103	$103
Subtotal - Revenue Changes	**$315**	**$1,448**	**$1,763**
Expenditures			
K-12 Education	$(8)	$52	$44
K-12 $50 Increase Per Pupil Unit		$43	$43
Others	$(130)	$102	$(28)
Subtotal - Expenditure Changes	**$(138)**	**$197**	**$59**
Totals (Revenues - Expenditures)	**$453**	**$1,251**	**$1,704**
End of 1999 Session Balance	**$34**	**$80**	**$114**
Total Available - FY 2000-01			**$1,818**

Over the three year period, expenditures are projected to increase by $59 million. Of this amount, $43 million is from a contingent appropriation adopted by the 1999 Legislature to increase the K-12 Education general education formula by $50 per pupil unit dependent on revenues being available in FY 2001, 2002 and 2003 as determined by the November 1999 forecast. The remaining expenditure changes are a result of forecast changes in formula programs. Finally, $114 million was the remaining balance at the end of the 2000 session.

FY 2000-01 Revenue and Expenditure Changes

Changes made by the 2000 Legislature resulted in an additional $150 million of revenue being available in the general fund. The first part of Table 2 shows these changes. Investment income is lower than the estimate in the February forecast because the tax rebate is assumed to be paid out in August 2000 and other expenditures are expected to occur throughout FY 2001. The forecast assumed this revenue would stay in the general fund through June 30, 2001. A transfer of surplus in the Assigned Risk Plan of $125 million and transfers of federal Temporary Assistance to Needy Family (TANF) funds resulted in additional general fund revenue being available for various purposes. Total general fund resources available in FY 2000-01 were $1.968 billion.

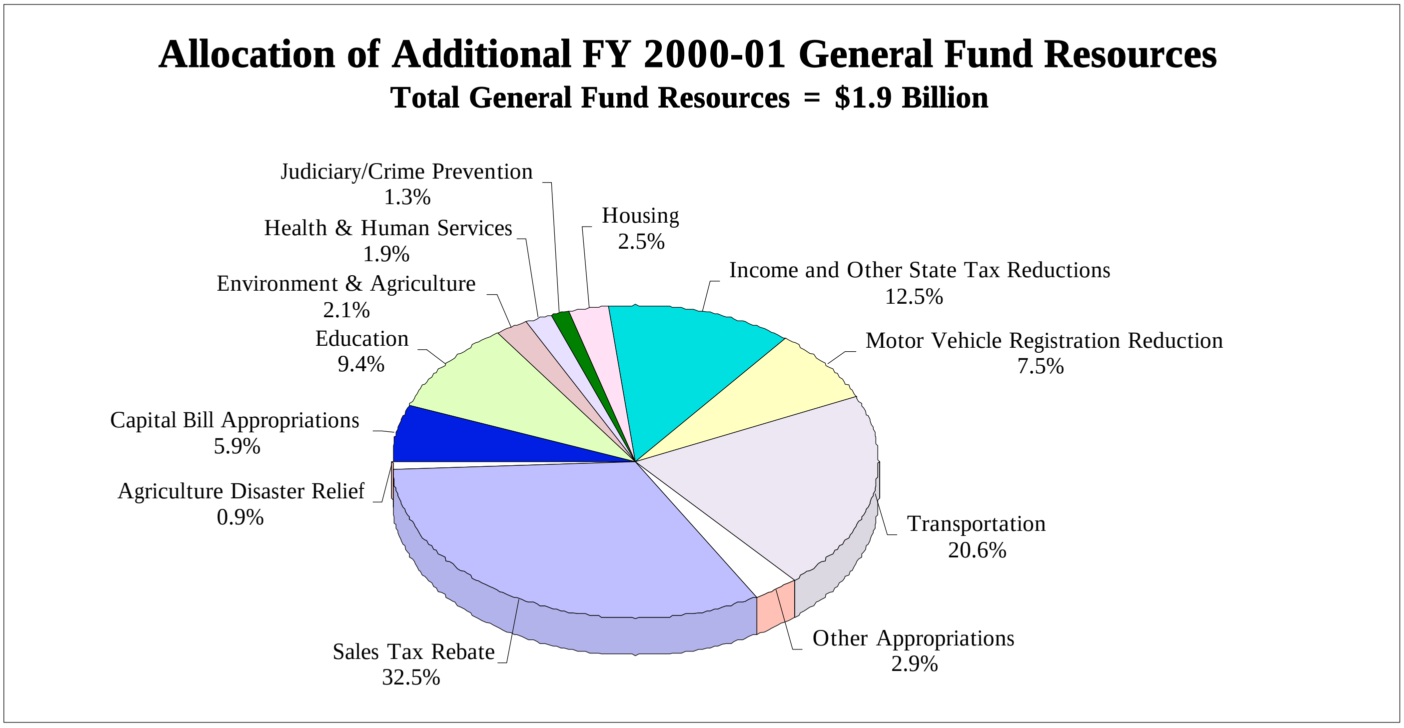
Approximately 52 percent of these resources were allocated for three major areas of tax reductions. The single largest expenditure item is the $404 million for transportation projects. The second part of Table 2 shows the major categories of allocation of the FY 2000-01 resources.

The graph in Table 3 also illustrates how the FY 2000-01 resources are allocated.

Table 2: 2000 Session General Fund Summary for FY 2000-01
(Dollars in millions, Enacted budget)

Additional Resources Available FY 2000-01 Biennium	
General Fund	$1,818
Change in Investment Income	$(45)
Assigned Risk Plan Transfer	$125
TANF Transfers	$70
Total Resources	**$1,968**
Uses of Additional FY 2000-01 Resources	
Sales Tax Rebate	$638
Income and Other State Tax Reductions	$245
Motor Vehicle Registration Reduction	$147
Agriculture Disaster Relief	$18
Transportation	$404
Education	$186
Health & Human Services	$36
Housing	$50
Judiciary/Crime Prevention	$25
Environment & Agriculture	$42
Other Appropriations	$57
Capital Bill Appropriations	$116
Total Uses	**$1,964**

Figure 1



FY 2002-03

The February 2000 General Fund forecast projected that $1.6 billion of additional funds would be available in the FY 2002-03 biennium or in the "tails". The single largest change since the forecast amounts of a year ago is in income taxes, a change of $912 million.

The FY 2002-03 balance was an issue of much discussion during the 2000 session. Table 3 illustrates the balance for FY 2002-03 and adjustments to that amount. A reduction of $130 million represented investment income earned in the property tax reform account (PTRA). The forecasted amount of investment income was based on the assumption that $1.1 billion would remain in the property tax reform account until June 30, 2003. Since that was not likely to occur given proposals for tax rebates and spending proposals during the FY 2000-01 biennium, there was no dispute to subtracting the property tax reform account investment income from the total available.

Table 3

General Fund Revenue Available in the Next Biennium
FY 2002 & 2003
Changes from end of 1999 Session
(Dollars in millions)

	FY 2002	FY 2003	Total
Revenue Changes			
Individual Income	$419	$493	$912
Sales Tax	$201	$248	$449
Corporate	$28	$57	$85
Motor Vehicle	$63	$64	$127
Tobacco	$(67)	$(52)	$(119)
Other Revenue	$130	$133	$264
Carry Forward			
Subtotal - Revenue	**$774**	**$944**	**$1,718**
Expenditure Changes	$134	$223	$357
End of 1999 Session Balance	$241	$10	$250
Totals	**$881**	**$731**	**$1,612**
Adjustments			
Tobacco Settlement Revenue	$(225)	$(115)	$(340)
PTRA Investment Income	$(63)	$(67)	$(130)
Adjusted Totals	**$593**	**$549**	**$1,142**

Most discussion focused on the need for a structural balance in FY 2003 versus an actual balance for the FY 2002-03 biennium. While the commonly used definition of "structural balance" was the difference between a given biennium or year's revenues and expenditures, arguments were made to exclude the tobacco settlement revenue (but not the ongoing annual payments)in FY 2000-03 since that revenue would not continue into FY 2004. Ultimately, the FY 2002-03 balances used to determine the conference committee expenditure targets were those shown in Table 3 in the adjusted totals. That amount for FY 2003 is $549 million.

The first part of Table 4 shows the general fund revenue available for the FY 2002-03 biennium after adjustments. The $1.612 billion from Table 3 is reduced by $130 million for the reduction in investment income and increased by $20 million that is transferred from federal TANF funds.

The second part of Table 4 shows how the FY 2002-03 revenue projected to be available was allocated. Approximately 66 percent or 2/3 of the available revenue is allocated for tax reductions. The single largest expenditure item is the $327 million for education, almost all of which is for K-12 Education.

The graph in Figure 2 also illustrates how the FY 2002-03 resources are allocated.

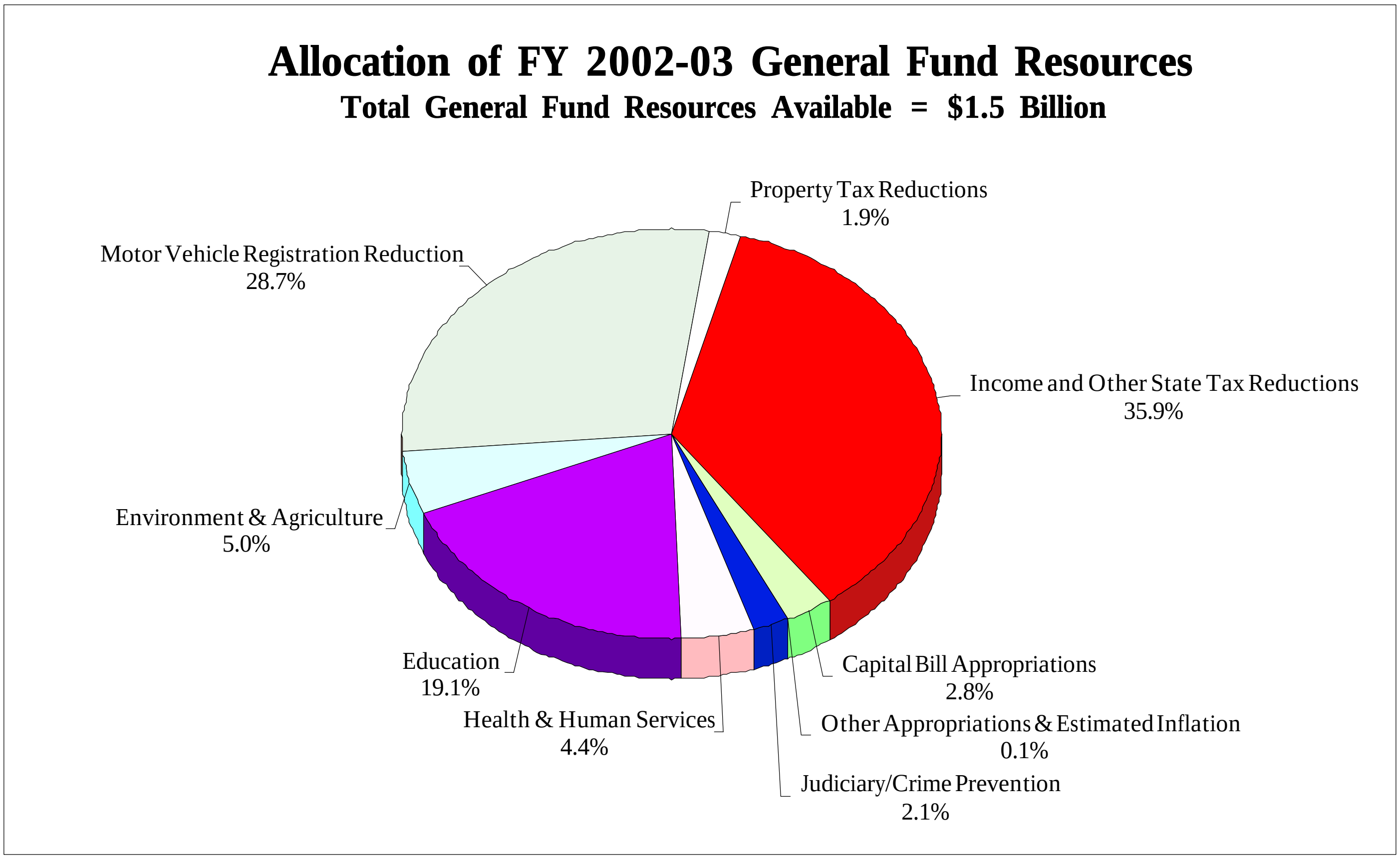
For additional information on general budget issues, contact Bill Marx, Chief Fiscal Analyst, at 651-296-7176 or Bill.Marx@house.leg.state.mn.us.

Table 4

2000 General Fund Session Summary for FY 2002-03
(Dollars in millions, Enacted budget)

Additional Resources Available FY 2002-03 Biennium	
General Fund	$1,612
Investment Income	$(130)
TANF Refinancing	$20
Total Resources	**$1,502**
Uses of Additional FY 2002-03 Resources	
Income and Other State Tax Reductions	$410
Motor Vehicle Registration Reduction	$327
Property Tax Reductions	$21
Education	$218
Health & Human Services	$50
Judiciary/Crime Prevention	$24
Environment & Agriculture	$57
Other Appropriations & Estimated Inflation	$1
Capital Bill Appropriations	$32
Total Uses	**$1,140**
Balance	**$362**

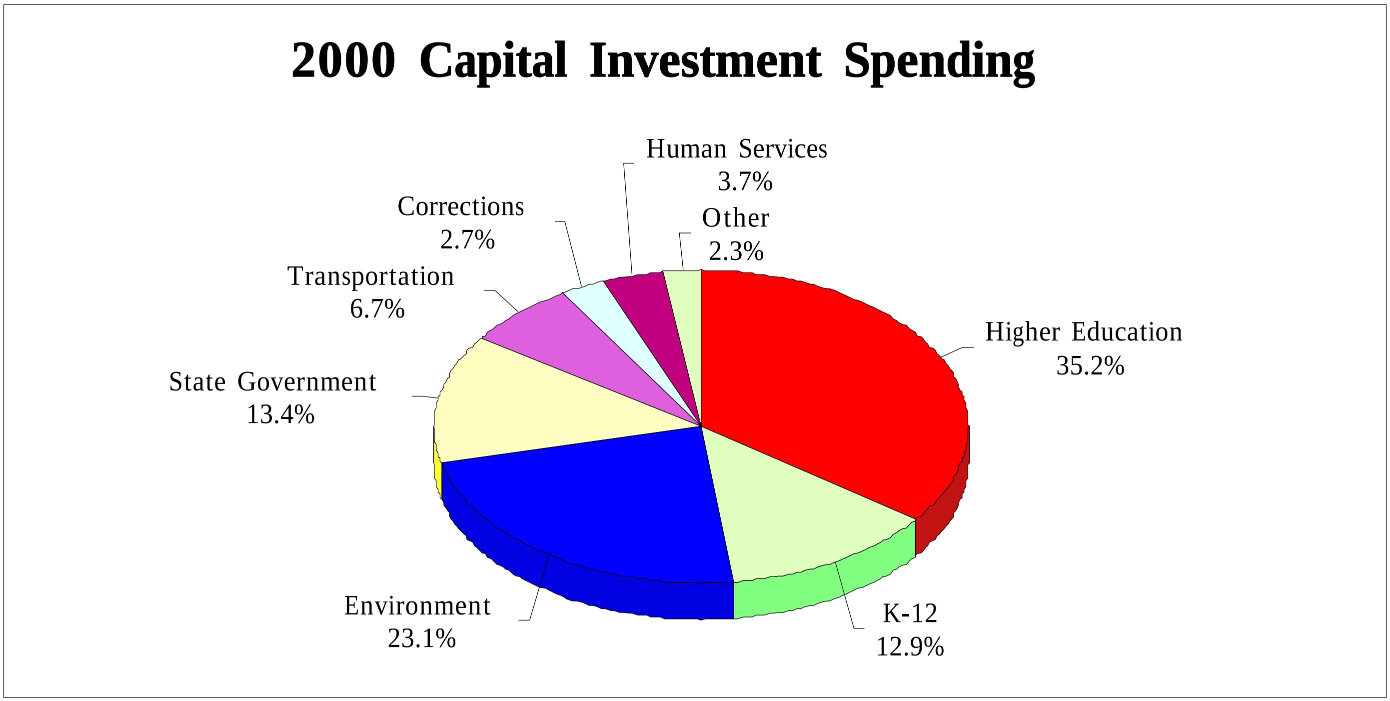
Figure 2



Capital Investment

The 2000 Capital Investment Bill (Laws of Minnesota 2000, Chapter 492) contained $684 million in new spending, about 70 percent as much as the 1998 capital investment bill. Almost $316 million in spending was directed to education, either through the Department of Children Families and Learning or higher education institutions (a breakdown of spending is shown in Figure 3). Although the Governor had threatened many vetoes if the bill exceeded his net $400 million mark, vetoes were few and several were over-ridden.

Figure 3



The November 1999 forecast showed bond capacity for the 2000 bill at $970 million in general obligation (GO) bond spending. Maximum bond capacity is defined by the "three percent guideline." This guideline was adopted several years ago as part of a package of capital budget reforms intended to re-establish the state's AAA bond rating. The rule states that the state's appropriation for debt service should not exceed 3 percent of non-dedicated general fund revenues in a given biennium. After passage of the 2000 capital budget package, debt service for next biennium should require 2.37 percent of such revenues, well within the guideline.

Governor Ventura had recommended a package of $400 million in net GO bond spending. Chapter 492 has $450 million in net GO bond spending and keeps the state well within maximum debt capacity. The balance of the financing came from one-time general fund cash or from user financed sources. Highlights of the bill are as follows:

University of Minnesota

The University of Minnesota is the beneficiary of $100 million in new projects. This is nearly double the $54 million recommended by the Governor. Chapter 492 includes the Governor's requests of $9 million for Higher Education Asset Preservation (HEAPR), $35 million for phase II of the Molecular Cellular Biology building, and $10 million for the Plant Genomics Facility on the St. Paul campus. Due to extensive private fundraising, the University is asked to fund only $20.6 million from user financing sources of their $100 million in new projects. Other projects funded include:

- $18.5 million for construction of a new art building on the West Bank of the Minneapolis campus.

- $5.9 million for a biocontainment facility on the St. Paul campus.
- $6.5 million for renovation and an addition to Kiehle Hall on the Crookston campus.
- $6.1 million for a music performance center at the Duluth campus.
- $8 million for phase II of the Morris campus math and science building.

Minnesota State Colleges and Universities (MNSCU)

Minnesota State Colleges and Universities received over $131 million in new projects, more than double the $64 million recommended by the Governor. Funding is provided for projects throughout the state, rather than the Governor's proposal that only funded construction projects in the metro area.

Of the $131 million in spending for MNSCU, the system will be asked to provide $30.6 million as user financing for the new construction. The Governor's recommended spending of $30 million for HEAPR, $11.7 million for the Minneapolis Community College Information technology Center, $11.4 million for the Normandale Science Center, and $11 million for North Hennepin renovations were included in the conference committee report. Other projects include:

- $12.5 million for asset preservation at Anoka Hennepin Technical College, to keep the facility operating.
- $5 million for a Technology Center at Bemidji State.
- $4.5 million for an instructional building at Fond Du Lac Tribal and Community College.
- $3.6 million for an Engineering Center at Itasca Community College.
- $6.9 million for athletic facility renovations at Minnesota State Mankato.
- $3.6 million for parking expansion at Moorhead State.
- $4.5 million for a greenhouse at University Center Rochester.
- $3.8 million for renovations at St. Cloud State.
- $7.9 million for remodeling at St. Cloud Technical College.
- $1.6 million for design of a science facility in Winona.

Department of Children, Families, and Learning (DCFL)

Educational projects totaling $80 million were funded through DCFL. Over $44 million of the spending was concentrated on maximum effort school loan projects in Caledonia, La Porte, Red Lake, Cass Lake, and Ulen Hitterdahl. The East Metro Magnet School in Woodbury also received $16 million for construction of a desegregation magnet school. Other projects include:

- $3 million for Early Childhood Learning Facilities Grants.
- $3 million for an experimental dome school in Grand Meadow.
- $5 million for Youth Enrichment Grants. A provision in the bill expanded the parameters of the program to include soccer fields.
- $4.1 for a school at Pine Point.
- $1 million for the Minneapolis Planetarium.
- $2.5 million for multi-cultural grants. Part of this provision was vetoed by the Governor and then re-passed by the legislature, over-riding the veto. The money will go to fund libraries in Pelican Rapids and Wantonwan County for large pockets of recent immigrants. The libraries will feature learning materials and access to technology for non-native english speaking persons.

Department of Natural Resources

The Department of Natural Resources received $73 million in spending towards asset preservation and new construction for projects throughout Minnesota. Major projects funded through DNR include:

- $1 million for a rock and gem museum at Moose Lake State Park.
- $2 million for the establishment of Big Bog State Recreation Area.
- $1 million for the establishment of the Red River State Recreation Area.
- $5 million for Metro regional parks.
- $16 million for the Como Park Education Resource Center.
- $3 million for St. Paul's Upper Landing.
- $4 million for a public water access on Lake Minnetonka.
- $14 million for flood hazard mitigation grants.

Board of Water and Soil Resources (BWSR)

The Board of Water and Soil Resources received $20 million of the $60 million they were seeking for the Conservation Reserve Enhancement Program(CREP) program. The money for this program matches federal funds and purchases permanent easements along the Minnesota River. The program seeks to improve water quality on the river by preventing farm runoff from entering the river.

Agriculture

The $20 million requested by the Governor for the rural finance authority was funded. The funds are provided to farmers in the form of low interest loans. The loans can be used to refinance existing debt, expand farm lands, purchase buildings, livestock and other uses. The loans carry a similar interest rate to the state bonds sold for the program, which the Department of Finance estimates will be around 5 ½ percent at the next bond sale.

Administration

Chapter 492 provides $81.4 million to the Department of Administration for state government needs. This is less than the $90 million that the Governor had requested but does include $58 million for full funding of the Bureau of Criminal Apprehension (BCA) facility. Other provisions include:

- $13 million for state government asset preservation needs.
- $4 million for renovations at the Department of Health building.
- $1 million for general predesign of future state buildings.
- $1 million for property acquisition.

Arts

Three projects were funded under the heading of arts funding. One provision included $500,000 for a garden on the roof of the Minnesota Children's Museum. Two other provisions included $3 million for relocation of the Guthrie Theater and $1 million for the Lanesboro Center for the Arts. Both provisions were vetoed by Governor Ventura, and then reinstated by legislative action over-riding the Governor's vetoes.

Department of Trade and Economic Development

The Department of Trade and Economic Development will oversee $51 million in projects. The projects were wide ranging from wastewater funding to urban redevelopment and include:

- $12.8 million for Public Facilities Authority matching funds to leverage federal funds for wastewater treatment loans.

- $18 million for the Wastewater Infrastructure Fund for grants to communities for wastewater projects.
- $2 million for the Clean Water Partnership.
- $6 million for re-development grants.
- $8.8 million for Minneapolis empowerment zones.
- Vetoed provisions include $2.7 million for a Cold Weather Testing Center in International Falls and $100,000 for Landfall retaining walls. Legislative attempts to over-ride these vetoes were unsuccessful.

Other Noteworthy Projects

- $7.2 million to the Department of Human Services to upgrade the Pexton building in St. Peter.
- $7 million grant to the Gillette Children's Hospital for expansion of the facility.
- $7 million for building preservation of the Veterans Home in Hastings.
- $2 million for public safety training facilities. Language states that half must be spent inside the metro area and half in outstate Minnesota.
- $7.5 million for sewer repair at the Fairbault correctional facility.
- $3.4 million for remodeling at the correctional facility in Lino Lakes.
- $2.6 million for repairs to the storm sewer system in Bayport.
- $3 million to complete the St. Anthony Falls Heritage Zone on the Mississippi River in Minneapolis.
- $44 million to the Met Council for a bus-only transitway. This project was funded by the Governor with a portion of his funds under the "one-third" budget agreement. The project was a last minute addition by the Governor, and little is known about the project including ridership estimates, construction cost, and operating expenses.

Implications

The 2000 Capital Investment Bill spends far less than state bond capacity, leaving room for state needs in the future. Chapter 492 fully funds the BCA facility, and many projects in the environmental and education areas. Although projects were funded in all regions of the state, less emphasis was put on projects of local interest. Even in an environment of rapidly climbing interest rates, the small size of the bill relative to capacity should leave the triple AAA rating intact and have little impact on future budgets.

Chapter 492 contains nearly $30 million in cancellation of previous projects. Two projects of note have two cancellations each, effectively erasing all appropriations on the books for these projects. The projects are the abandoned metro magnet School in Edina and the Labor Interpretive Center in St. Paul.

With $20 million funds appropriated for the CREP Program, BOWSR will seek to retain the additional $40 million in future years to complete the Minnesota River project. There is a four year time span before the federal funds expire, and it is unclear at this point whether those funds will be re-authorized.

For additional information about capital investment issues, contact John Walz at 651/296-8236, or john.walz@house.leg.state.mn.us.

K-12 Education

As a supplement to the 1999 K-12 Education Appropriations Act for the 2000-2001 biennium, the Legislature approved $173 million more than the February 2000 forecast in additional appropriations in *Laws of Minnesota 2000, Chapter 489*. This amount is $175 million more than was requested by the Governor in his supplemental budget requests. In addition, school district property taxes for FY 2002, payable in calendar year 2001, are forecast to be $1.9 billion (after credits), an increase of 4.4 percent from FY 2001 taxes payable in 2000.

General Education Program

Major appropriations for general education include:

- $35 million in staff development revenue. All school districts receive an additional $39 per adjusted marginal cost pupil unit, which must be reserved and used for staff development purposes unless the teachers and school board agree to an alternative spending plan.
- $10.2 million due to higher pupil counts tied to the 77 / 23 marginal cost pupil unit calculation. For FY 2000, a district's marginal cost pupil unit count was 90 percent of its current pupil units plus 10 percent of its prior year pupils. For FY 2001, a district's marginal cost pupil units are now equal to the greater of the current year pupil count or the sum of 77 percent of the current year pupil count and 23 percent of the previous years' count. This pupil counting method helps growing districts by increasing their pupil count from the lower FY 2000 amount if they are growing, and declining districts by counting a greater percentage of prior year pupils.
- $4.4 million in general education operating capital revenue and $16.7 million in special technology access revenue. Public and nonpublic schools are eligible for the greater of $5 per pupil, or reimbursement of 65 percent of their technology access costs.
- $1.5 million in sparsity correction revenue for FY 2000 and FY 2001 only. A change in the FY 2000 pupil counts from the number of pupils residing in a district to the number of pupils being served in a district resulted in large reductions in sparsity revenue for some districts. Retroactive to FY 2000, districts receive 100 percent of their lost revenue. For FY 2001, districts will receive 50 percent of the revenue loss they experienced.

Other Appropriations

Other major appropriations in the bill include:

$30.8 million for **Training and Experience Replacement revenue** for FY 2001 only. This revenue is undesignated revenue to a district's general fund, intended to replace a portion of the money that school districts lost due to the "faster-than expected" phase-out of training and experience revenue, which continues to phase-out as in current law.

For FY 2000 and FY 2001 only, districts receive $26.3 million in **Special Education Cross-subsidy revenue**. Each district receives $8.15 per pupil in FY 2000 and $19 per pupil in FY 2001 to offset special education costs that are now being funded by the district's general education revenue.

$23.4 million for district **deferred maintenance** needs for FY 2001 only. Each school district receives $10 per pupil unit, and all school districts except the 14 districts that qualify for alternative facilities aid receive an additional $21.90 per pupil unit to be used for deferred maintenance, accessibility, or fire, health, and safety capital needs.

$11.2 million for **Career and Technical Aid** (formerly Secondary Vocational Aid), using the current formula, which is extended only for FY 2001.

$5 million for **best practices seminars** and other professional development related to teaching and implementation of the graduation rule. The grants are to be made to Education Minnesota and other teaching practitioners. Of the appropriation, $500,000 is for a children's museum reading program, $1 million is for the Minnesota new teacher project for teacher training, and $1 million is for internet arts collaboration between the Walker Art Center and the Minneapolis Institute of Arts.

$2.4 million for the **regional library systems' telecommunication** access needs.

$1.3 million for **magnet schools** in Willmar ($1.2 million, K-4 multi-agency & English as a second language) and Ely ($100,000, environmental curriculum).

$1.2 million for **school nutrition** programs, including school lunch and school breakfast programs. The Act also removed the June 30, 2001 sunset on the Fast Break for Learning breakfast program.

$1 million for matching grants for **education programs serving homeless children**.

$970,000 for **interest costs on flood-related capital loans** which were delayed in repayment for the Ada-Borup and East Grand Forks school districts due to delays in the disbursement of Federal Emergency Management Agency funds.

Forecast Changes

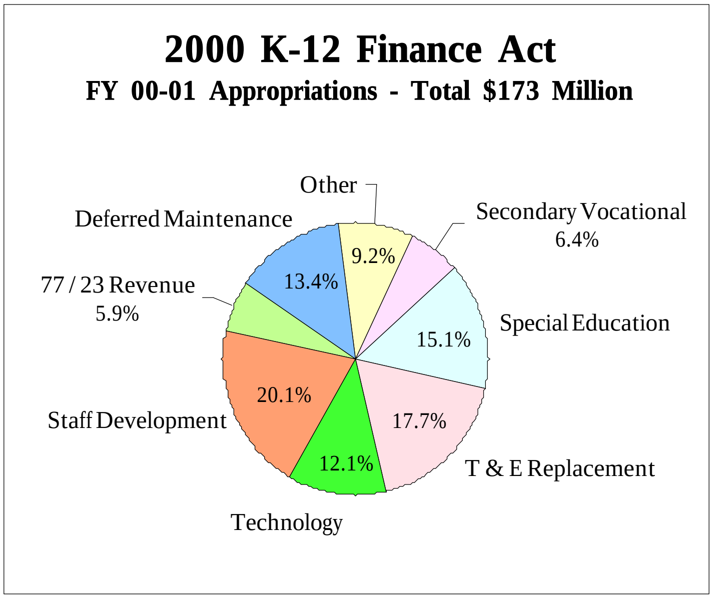
In addition to the additional spending authorized in this act, there is an additional $88.4 million of forecast changes to formula-driven programs and carryforward of funds already appropriated. Included in that $88.4 million is an amount sufficient to pay for an increase in the general formula of $50, which occurred in November 1999 based on the 1999 Act, which provided for the increase if projected revenue exceeded projected expenditures for fiscal years 2000-2003. The largest forecast changes outside that formula increase were in Special Education-Excess Cost ($15 million), Integration Aid ($12 million) and Charter School Building Lease Aid ($10 million).

Implications

The K-12 Finance Act passed by the 2000 Legislature includes funding for the primary areas of special need identified at the beginning of the session: Training & Experience replacement revenue, Special Education, Technology, Secondary Vocational programs and declining enrollment in rural school districts. In addition, significant resources were put into deferred maintenance and staff development.

The majority of the funding, including the special education funding, the staff development revenue, the technology aid and the 77/23 revenue, are permanent, ongoing revenues which will be available to districts as part of the base budget for the next biennium.

Figure 4



For additional information about K-12 education finance issues, contact Greg Crowe at 651/ 296-7165, or greg.crowe@house.leg.state.mn.us

Family and Early Childhood Education

As a supplement to the 1999 Family and Early Childhood Education Appropriations Act, the Legislature approved a net reduction of $1 million from general fund appropriations in the FY 2000-01 biennium and a net reduction of $5.5 million from general fund appropriations in the FY 2002-03 biennium in *Laws of Minnesota 2000, Chapter 489.* In addition, there are $20.5 million in net general fund reductions in FY 2000-01 and $25.2 million in net general fund reductions in FY 2002-03 due to forecast changes incorporated into the omnibus act.

Aside from general fund provisions, the Legislature appropriates $9.85 million in FY 2001 and $23.7 million in the FY 2002-03 biennium from federal TANF funds to supplement funding for existing welfare/educational related programs and for new program initiatives.

Details on the budget initiatives are provided below. Unless otherwise noted, budget provisions are funded out of the general fund.

Self-Sufficiency Programs

- $3.4 million is reduced from the forecast base adjustment of $10.1 million for the Adult Basic Education (ABE) program in FY 2000-01. With this forecast adjustment, $6.7 million is added to the ABE program and the forecast base for the program increases from $42.6 to $49.3 million for the FY 2000-01 biennium. Also beginning in FY 2001, ABE funds will be distributed based on the revised aid formula recommended by the legislative working group during the fall of 1999.

- $100,000 is added in FY 2001 to the state agency base budget for the administration of the state ABE program for such activities as, but not limited to, auditing, technical assistance, and reporting requirements.

- $700,000 in one-time spending in FY 2001 for ABE supplemental service grants.

- $2.1 million is reduced from the forecast base of the Adult Graduation Aid program. This reduction is due a change in the average daily membership (ADM) computation.

- $14,000 is added to the forecast base of the ABE Per Capita Population Aid program in FY 2000.

- $622,000 in one-time spending in FY 2001 for the Emergency Services Shelter grant program to provide temporary housing for homeless individuals and families.

- $250,000 in one-time spending in FY 2001 for cooperative language instruction grants for the instruction of English as a Second Language to adults and children.

- $1.1 million from federal TANF funds for an Intensive ESL Grants for TANF eligible participants.

- $1.9 million from federal TANF funds to provide grants for the transitional housing program for participants at or below 200 percent of the federal poverty guidelines for up to four months.

Child Care and Early Childhood Education

- $1.3 million is added to the base of the Early Childhood Family Education (ECFE) program. Of this amount, $755,000 is added to the program to increase the revenue formula allowance by $2.46 from $113.50 to $115.96 times the number of children under age five. This provision is a continuation of a one-time ECFE revenue formula allowance increase of $2.46 authorized in FY 2000. The remaining is amount is added to the ECFE forecast base to adjust for forecast changes.

- $29.6 million is reduced from the forecast base of the MFIP Child Care program in FY 2000-01. This reduction in the MFIP cash assistance caseload may be linked to the decrease in the forecasted demand of the MFIP child care assistance.
- $29,000 is added to the forecast base of the School Age Aid program in FY 2000-01.
- $9.4 million from federal TANF funds is transferred to the federal child care development fund (CCDF) over a period of three years from FY 2001-03 for the MFIP Social Services Child Care. This provision pays for the cost of providing child care assistance for the amount of time necessary for MFIP participants to participate in an approved social service activity such as mental health or chemical dependency treatment.
- $8.7 million from TANF is transferred to the federal CCDF block grant over a period of three years from FY 2001-03 for Basic Sliding Fee/Transition Year Child Care to provide uninterrupted child care assistance for MFIP transition year families leaving cash assistance and applying for BSF child care and encountering a waiting list. These funds guarantee MFIP transition year families a slot on the BSF child care program.
- $6.4 million from TANF is transferred to the federal CCDF over a period of three years and added to the Basic Sliding Fee child care program from FY 2001-03. This appropriation helps reduce the current waiting list and allows more families to participate in the program.

Other Initiatives

- $40,000 to reinstate the grants for the adults with disabilities pilot program that began in 1997. The grantees that will be reinstated are: (1) Alexandria Community Education; (2) Elk River Community Education; (3) Redwood Fall Community Education; and (4) Fillmore Community Education.
- $25,000 for the St. Louis Park Meadowbrook Collaborative program to provide for after school programming for at risk youth in the local area. This appropriation was originally included in the 1999 omnibus act for family and early childhood education but was vetoed by the Governor after the 1999 legislative session.
- $100,000 is reduced from the Family Service Collaborative (FSC) appropriation in FY 2001. The reduction will not impact the grant size or grant schedule of any of the existing collaborative grantees.
- $578,000 is added to the forecast base of the Community Education program in FY 2000-01.

Implications

After forecast changes, the act makes $3.5 million in appropriation *reductions* mainly in the ABE aid and $2.5 million in appropriation *increases* for ABE administration, ECFE, emergency shelter grants and other areas for a net reduction of $1 million from the general fund for the FY 2000-01 biennium. For the FY 2002-03 biennium, there are $6.1 million in appropriation *reductions* and $516,000 in appropriation *increases* for a net reduction of $5.5 million. With these changes and forecast adjustments, the total biennial general fund budget for the Family and Early Childhood Education Committee is $439.3 million or $21.5 million less than 1999 end of session estimates for the FY 2000-01, and $512.4 million or $30.7 million less than 1999 end of session estimates for the FY 2002-03 biennium.

Also federal TANF transfers to the CCDF for child care assistance approved by the legislature total $87.3 million for the FY 2000-01 biennium. Approximately 87 percent of the total TANF funds transferred to CCDF are dedicated to refinancing the BSF child care appropriation in the current biennium. In FY 2002-03, the total amount of federal TANF transfers to CCDF drops to $38.1 million. As the percentage of federal TANF funds used to refinance or supplement child care assistance decreases, the percentage of state general fund funds needs to increase by a similar amount to maintain the base level funding for child care assistance at its authorized funding level.

It is important to note that general fund appropriations for child care assistance are used as maintenance of effort (MOE) to leverage approximately $267 million of federal TANF block grant funds each year. The required TANF MOE for Minnesota is $191 million annually. As the proportion of federal TANF funds to state general funds used to refinance child care assistance program changes, the total amount that may be claimed as TANF MOE changes as well.

For additional information about family and early childhood education issues, contact Cynthia Coronado Templin at 651/ 296-5384 or cynthia.templin@house.state.leg.mn.us

Higher Education

The Omnibus Education Finance Act (*Laws of Minnesota 2000, Chapter 489, Article 11*) contains supplemental spending for higher education of $14 million in FY 2000-01. This includes $13.2 million for the Minnesota State Colleges and Universities (MnSCU) and $820,000 for the University of Minnesota. Of these funds, $11.8 million are one time and $2.2 million are recurring appropriations, creating on-going spending obligations in the FY 2002-03 biennium of $4.4 million. Major spending items in the act include:

Minnesota State Colleges and Universities (MnSCU)

- $11.6 million for enrollment. $5.8 million each year in one-time funds for unanticipated enrollment growth in the 1999-00 and 2000-01 academic years (FY 00 & 01). These funds would normally have been appropriated as a clean-up payment for the current biennium in the next biennial budget. Advancing this payment allows MnSCU to access these funds during the biennium in which the enrollment actually occurs and reduces the amount that would be appropriated in the next biennium by the same amount.

- $1.25 million for the Urban Teacher Initiative. Recurring funds to help develop and implement a new program in the metropolitan area to increase the production of licenced teachers. MnSCU Community Colleges in the Metropolitan area, in conjunction with Metro State University are to develop this cooperative program to address projected teacher shortages.

- $250,000 for Farm Business Management. Recurring funds to augment tuition subsidies for students in Farm Business Management Programs.

- $80,000 for the Cook County Higher Education Project. Recurring funds to help coordinate distance education services in the Cook County area.

University of Minnesota

- $600,000 for the Agricultural Rapid Response Fund. Recurring funds for short term agricultural research projects on immediate problems like Avian Pneumovirus.
- $220,000 for UMD child care. One-time start-up funds for child care operations in the newly renovated Kirby Center.

Fiscal policy items. While there are no new funds appropriated for financial aid programs in Chapter 489, it does contain a provision which requires any unexpended balance in the higher education child care grant program in the first year of the biennium to be used in the second year of the biennium to increase the maximum grant provided in statute. This item does not appear as an on-going state obligation in Legislative or Department of Finance tracking sheets because it does not require increased appropriations in future bienniums. However, it is likely that there will be a reluctance to either reduce the maximum grant level or to reduce the availability of grants in the next biennium making an increase in funding for this program in FY 2002-03 likely. Current estimates would put this cost around $1 million for the next biennium.

For additional information on Higher Education Finance issues, contact Doug Berg at 651/296-5346, or doug.berg@house.leg.state.mn.us.

Health and Human Services Finance

Appropriations for the Health and Human Services portion of the Supplemental State Government Operations Act (*Laws of Minnesota 2000, Chapter 488, Articles 8-11*) authorized general fund spending increases of $92.3 million in FY 2000-01 while the tracking document recognized future obligations of $132.8 million. Net general fund increases were $26.4 million for FY 2000-01 and $51.8 million for FY 2002-03. Net general fund spending figures for the biennium include additional revenue, primarily from the Temporary Assistance for Needy Families (TANF) block grant, to offset general fund spending. On the other hand, forecast-related expenditures (e.g., Medical Assistance (MA), Minnesota Family Investment Program (MFIP), General Assistance Medical Care (GAMC), and Chemical Dependency treatment) are excluded from net spending. If forecast-related changes of $7.3 million and additional revenues to the general fund of $58.7 million are excluded from the total appropriations, projected spending in Health and Human Services for the current biennium would decrease by $65.9 million to $26.4 million (see Table 5 below).

Table 5

Health and Human Services Finance
Additional General Fund Spending (FY00-01)
(dollars in thousands)

Agency	TOTAL Appropriation	Forecast Change	Revenue Offsets	Net GF Spending
Human Services	$91,283	$7,272	$58,670	$25,341
Health	$1,040	$0	$0	$1,040
Total General Fund	**$92,323**	**$7,272**	**$58,670**	**$26,381**

Significant Spending Initiatives and Future Implications

For the second year in a row, three issue areas preoccupied the minds of legislators in the Health and Human Services fiscal policy arena: the cost of and access to affordable prescription drugs for seniors and the disabled, the inability of direct care providers to recruit and retain qualified staff who work in nursing facilities, Intermediate Care Facilities for People with Mental Retardation (ICFs/MR), and group or private homes, and the appropriate level of investment to address the needs of hard-to-serve individuals who remain on the MFIP caseload. While legislators devoted numerous hours and substantial resources to address these concerns, it is evident that these issues will need to be revisited by future legislatures.

Senior Drug Program

To address the issue of access to the Senior Drug Program, the asset level at which senior citizens are eligible for the program was increased to $10,000 for an individual and $18,000 for a couple, effective October 1, 2000. According to staff at the Department of Human Services (DHS), low asset limits under current law ($4,000/$6,000) have severely restricted access to the current program. It is anticipated that raising the asset limits will eventually increase enrollment in the program by 2,771 individuals. In addition to lifting the asset limits for enrollees, disabled individuals under age 65 who have income less than 100 percent of the federal poverty guidelines ($8,350 as of April 2000) will be eligible for the "Prescription Drug Program" on July 1, 2002.

Cost of living adjustments

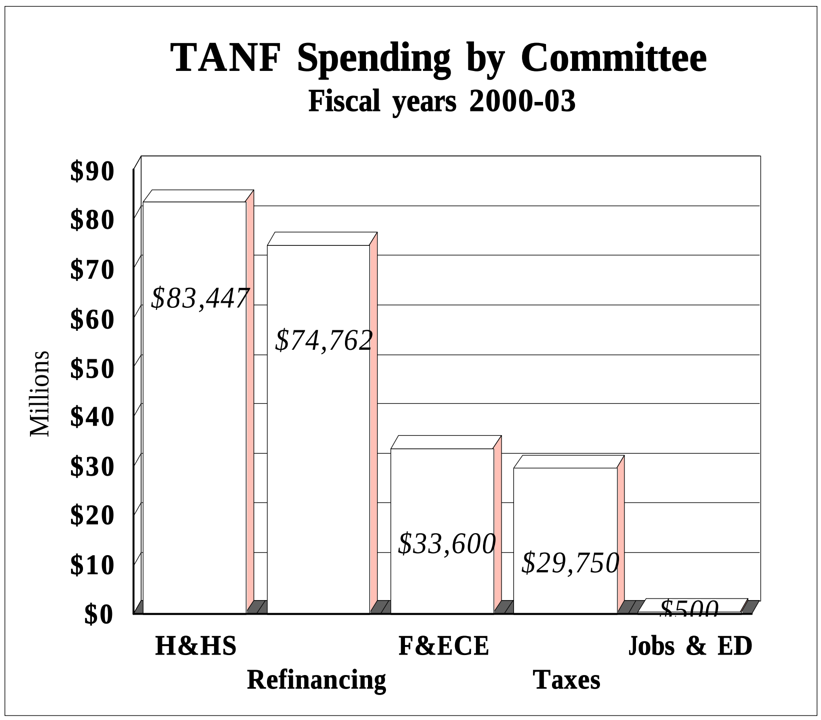
Once again, the providers of health care services to vulnerable populations (e.g., the frail elderly, the disabled, the mentally ill) came forward to request an increase in their base payment rates to address low wages paid to direct care staff. Health care providers argued that with the strong Minnesota economy it is difficult to pay sufficient wages to attract and maintain qualified staff to serve individuals who need hands-on care. These providers - with the exception of nursing facilities - will receive an additional three percent increase in their base payment rates for fiscal year 2001. A three percent increase that will take effect on July 1, 2000 was previously approved by the 1999 Legislature.

Legislators also recognized the need to increase base payment rates for nursing facilities. But rather than simply increasing rates by three percent, which would widen the already disparate payments made to nursing homes, a formula was created to provide a base increase of $1.00 per day for each home plus *up to* an additional $3.13 per day based on a facilities' relative rank compared to its peers. In general, nursing homes with low operating rates will receive a larger increase than facilities with high payment rates.

Temporary Assistance for Needy Families

The legislature appropriated an additional $96.5 million from the federal TANF block grant for Health and Human Services initiatives for the FY 2000-01 biennium and $61.7 million in 2002-03. An additional $20.2 million in FY 2000-01 and $43.7 million in FY 2002-03 was appropriated for other non-H&HS proposals. Of the $158.2 million increase, $53.0 million will be used to provide intensive services for the hard-to-serve MFIP population that remain on the welfare rolls, while $21.0 million will be used to fund additional home-visits. Funding for these activities will expire on June 30, 2003. Slightly less than half of the projected increase ($74.8 million) will be used to reimburse the general fund as a result of refinancing a portion of the state Working Family Tax Credit program. These supplanted general fund dollars will be used to construct or rehabilitate affordable housing units for current or former MFIP participants ($30.0 million), to finance mortgages through Habitat for Humanity for low-income Minnesotans ($20.0 million), to backfill a maintenance of effort hole created by a provision to pass-through but count as unearned income the full amount of child support payments distributed to a family, and to offset general fund spending in FY 2001. After actions taken by the 2000 Legislature, it is estimated that $96.5 million will remain in the TANF reserve on June 30, 2003.

Figure 5



Forecast Related Changes

Projected expenditures in forecasted programs are expected to rise by $7.3 million in FY2000-01 and $68.4 million in FY 2002-03. These aggregate figures mask significant gyrations across the forecasted accounts. Spending on MA long-term care facilities (e.g., nursing homes, ICFs/MR, Day Training and Habilitation programs) is expected to decline by $50.8 million during FY 2000-03 primarily due to lower than anticipated demand for nursing home services. According to staff at DHS, the need for customized (or waivered) Medical Assistance services provided to people with disabilities or the elderly will decrease by $25.2 million over the current and future biennia.

The portion of the Medicaid program that provides medical services to MFIP families and others is projected to increase by $49.1 million in FY2000-01 and $86.7 million in FY2002-03. Two components of this segment of the MA population account for the largest share of the increase. First, in spite of lower anticipated enrollment, spending for other MA families, primarily low-income children, is projected to increase due to larger average cost increases. Second, recent data for non-citizens enrolled in the Medicaid program reveal significantly higher costs and enrollment projections compared to previous forecasts. Because the federal government does not provide funding for non-citizens on the Medical Assistance program, state-only funds are used to pay for these services.

Basic health care services for the elderly and disabled are expected to increase by $1.7 million this biennium and $28.9 million in the next biennium. Higher than expected caseload growth for disabled recipients and higher average costs for the elderly explain most of the increase projected for this segment of the MA population. Projected spending in the GAMC program is expected to increase by $13.4 million in FY 2000-01 and $26.7 million in FY 2002-03. Despite a dwindling caseload, the average cost of serving this sicker, residual population with more episodic care needs is greater than previously anticipated.

Mitigating these substantial increases, especially in the next biennium, are cost savings from the MFIP cash assistance program, primarily due to refinancing the Transition Year and Basic Sliding Fee child care programs with federal TANF block grant monies. In November 1999, the Commissioner of Finance incorporated changes into the forecast that counted current general fund spending on the child care program as part of Minnesota's maintenance of effort[1]. These changes are permissible under the final TANF regulations issued in April, 1999. As a result of this action, approximately $100.9 million in general fund obligations were replaced with federal TANF funds for FY 2000-03. Because projected spending on the MFIP child care assistance program failed to materialize as expected, the February 2000 forecast reduced the amount of general fund monies supplanted to $66.8 million over four years.

Department of Human Services

For the current biennium, the Department received an increase of $84.0 million (excluding forecast changes) from the general fund, $96.5 million from the federal TANF block grant, and $248,000 from the Lottery Prize Fund. Of the general fund increase, $60.5 million was offset by additional general fund revenues through refinancing of the Working Family Credit program with federal TANF funds. The following narrative highlights general fund spending changes for the current biennium, unless otherwise noted.

Base Reductions:

- The base appropriation for the Senior Drug Program was reduced by $11.7 million ($6.5 million in FY 2002 and $5.2 million in FY 2003) due to projected underspending in the program. The expansion of the program is offset by this base level reduction;

- The State Operated Services budget was reduced by $1.5 million in FY 2001 only to recapture 15.7 percent of the general fund monies that state operated facilities have generated and retained to offset their current obligations;

- The base appropriation for State Operated Services was reduced by $3.5 million in FY 2002-03 for two funding provisions that will become obsolete at the end of the current biennium; and

[1] In order to draw down Minnesota's federal TANF block grant allocation of $267.2 million annually, the state is required to spend at least $191.1 million each year in general fund monies. In accordance with federal regulations, the state must spend general fund monies on programs for welfare recipients, low-income Minnesotans at-risk of qualifying for welfare, or as otherwise permitted. This requirement is referred to as the state's maintenance of effort or MOE.

- The base appropriation for the Food Stamp Employment and Training program was reduced by $250,000 in FY2001 and $450,000 in fiscal years 2002 and 2003, respectively to adjust the appropriation to actual levels of program expenditures.

Children's Grants

- $3.8 million to provide additional one-time funding for a projected shortfall in two programs a) the Adoption Assistance Program ($2.5 million) and b) the Relative Custody Assistance program ($1.4 million). One goal of these programs is to facilitate the private adoption of children in the foster care system. Because some of the children placed through the Adoption Assistance program will be covered by their adoptive parents insurance, a savings of $282,000 is projected for the MA budget; and
- $1.0 million from the TANF block grant to provide at-risk pregnancy prevention services for out-of wedlock youth.

Basic Health Care Grants

- $500,000 for two advance payments in fiscal years 2001 and 2002 through the Prepaid Medical Assistance Program (PMAP) for county-based purchasing sites. The advance payments will be recouped in the following fiscal year;
- $444,000 for a one-time increase of ten cents per mile for special transportation services; and
- $1.0 million in FY 2001 and $8.4 million in FY 2002-03 to expand eligibility for the Prescription Drug Program by raising the asset limits for those over age 65 to $10,000 for an individual and $18,000 for a couple. Current law limits eligibility to those with assets less than $4,000 single/$6,000 couple. This change is effective October 1, 2000. On July 1, 2002, the program will be expanded to disabled individuals albeit at a lower level of income (100 percent of the federal poverty guidelines). The cost of the expansion for the disabled in FY 2003 is $1.6 million. As previously mentioned, the program's expansion is offset by a base level reduction of $6.5 million in FY 2002 and $5.2 million in FY 2003 due to projected underspending.

Continuing Care and Community Support Grants

- $7.5 million in FY 2001 and FY 2002 from the federal TANF block grant to counties for the Community Social Services Act to offset federal reductions in the Social Services Block Grant (Title XX);
- $250,000 in FY 2001 will be transferred to the Commissioner of Agriculture for mental health and emergency services for farmers and $150,000 will be transferred to the Minnesota state colleges and universities system for mental health counseling support to farm families and business operators;
- $16.0 million to provide an additional cost of living adjustment (COLA) of three percent in FY 2001 for ICFs/MRs and other continuing care providers. This three percent COLA is in addition to a three percent COLA provided by the 1999 Legislature. The increased funding must be allocated as follows: 40 percent to increase compensation paid to non-administrative staff, 50 percent to increase the per-hour rate of all non-administrative staff and associated costs, and 10 percent for other purposes;
- $9.8 million to provide a $1.00 increase in the per diem for each nursing facility plus an additional $3.13 dollar per day depending upon a nursing facility's rank compared to other homes. **All homes will receive <u>at least</u> a $1.00 increase in their per diem.** Nursing facilities will be arrayed by their operating rates from one to 426 (the

total number of nursing facilities in the state). The ratio of a home's rank compared to the total number of homes will be multiplied by $3.13 to determine the additional increase in the facility's per diem. For example, the nursing home with the 50th highest operating payment rate will receive an increase of 37 cents/per day (50/426 * $3.13 = 37 cents/per day) plus the $1.00 base increase. On the other hand, the 375th ranked home will receive an increase of $2.76/per day plus the $1.00 increase. Money received by a facility as a result of this increase shall be used to increase the per-hour pay rate for non-administrative, staff-related costs including FICA, the Medicare tax, workers' compensation premiums, and federal and state unemployment insurance;

- $427,000 in FY 2000 to provide rate adjustments or moratorium exceptions for the following nursing homes: Ebenezer Luther Hall in Hennepin County, Warroad Care Center in Roseau County, Our Lady of Angels in Goodhue County, Maple Manor Nursing Home in Olmsted County, Park View Care Center in Wright County, Central Todd County Care Center, Lakeside Medical Center in Pine County, Mille Lacs Hospital and Home in Mille Lacs County, Valley View Manor in Redwood County, Mesabi Home in St. Louis County, and Grand Avenue Rest Home in Hennepin County; and

- $155,000 net savings in FY 2001 as a result of allowing nursing facilities to temporarily delicense (or layaway) unoccupied nursing home beds for up to five years. The cost of this proposal is offset by a projected decline in nursing home use. As a nursing facility removes beds from use, its occupancy percentage will rise, triggering a higher property payment rate (at 95 percent occupancy) as beds are delicensed and permitting Medicaid reimbursement of nursing home leave days (at 93 percent occupancy). Beds that are lain away are also exempt from the Health Department's licensing fees. On the other hand, it is assumed that 25 percent of nursing beds that are lain away will be removed from the system, resulting in net MA savings to the state.

Economic Support Grants

- $1.3 million from the federal TANF block grant to extend the sunset date for an additional year for legal non-citizens on MFIP who are receiving food stamps. An additional $651,000 will be transferred to the Child Care Development Fund to provide child care services for these recipients;

- $2.7 million in FY 2001 and $2.7 million in FY 2002 to extend the eligibility for three state programs until June 30, 2002 that would otherwise sunset on June 30, 2000. As a result of the extension, non-citizens on the Minnesota Food Assistance Program will continue to receive food stamps ($1.5 million), non-citizens will remain eligible for medical services under the General Assistance Medical Care program ($1.3 million), and individuals who were made ineligible for the federal Supplemental Security Income program because their basis of eligibility was drug and alcohol addiction will continue to receive state-funded services ($2.6 million);

- $5.6 million from the federal TANF block grant to extend for six months the exemption from counting $100 as unearned income for MFIP recipients receiving a housing subsidy. Beginning July 1, 2001, this exemption will only apply to a) individuals age 60 or over, b) individuals who are certified disabled, or c) individuals whose presence is required to care for a disabled family member;

- $1.9 million in net general fund savings, $4.8 million in federal TANF savings, and $57,000 in Health Care Access Fund savings in FY 2002-03 as a result of requiring the state to use the Systematic Alien Verification for Entitlements program to screen individuals applying for public assistance and report undocumented individuals to the Immigration and Naturalization Service;

- $1 million each year for three years to serve TANF-eligible families participating in the Supportive Housing and Managed Care pilot program. Funding expires at the end of FY 2003;

- $20 million to provide an interest-free deferred loan to Habitat for Humanity of Minnesota, Inc. to finance new mortgages for additional homebuyers;
- $30 million to finance the construction or rehabilitation of low-income affordable housing units. This appropriation must be used to serve families that are receiving benefits under the MFIP program or are ineligible for MFIP due to increased earnings or child or spousal support collections. Based on information provided by the Minnesota Housing Finance Agency, approximately 443 units will be developed for the target population;
- $3.9 million to provide additional funding for the cash grants portion of the MFIP program as a result of distributing child support payments directly to child support obligees and counting the amount passed-through as unearned income; and
- $13 million in FY 2001 and $20.5 million in FY 2002 and FY 2003 out of the federal TANF block grant to increase funding to counties for hard to serve individuals on MFIP who have multiple barriers to employment. Of the amount appropriated in FY 2001, $500,000 will be used to provide intensive intervention services related to employment for a collaborative serving Southeast Asian immigrants on MFIP and $500,000 will be used one-time to provide non-traditional career assistance and training. Of the amount that remains, all counties and tribal programs will receive a base allocation of $25,000. Twenty percent of the remainder will be used by the Commissioner of Human Services to provide additional funding based on need, innovation, and/or collaboration. The remaining 80 percent will be allocated to counties based on their proportion of one-parent (85 percent) and two-parent (15 percent) MFIP cases that have received assistance for at least 25 months. Of this amount, $320,000 each year shall be used to train job counselors. These appropriations will sunset on June 30, 2003.

Minnesota Department of Health

The Department of Health received an increase of $1.0 million this biennium from the general fund. An additional $7.0 million each year from the federal TANF block grant will be made available to the Commissioner to be passed through to County Health Boards to provide additional funding for home visiting programs.

Base Reductions:

- The base appropriation for the Poison Control System will sunset on June 30, 2001.

The Department received the following increases:

- $790,000 in one-time spending for FY 2001 to provide additional funding for the Poison Control System;
- $175,000 in one-time spending to expand access to free screening and testing for sexually transmitted diseases;
- $75,000 in one-time spending to process complaints about the regulation of pre-need funeral goods and services;
- $150,000 in FY 2002-03 to regulate the practice of Unlicensed Complementary and Alternative Medicine; and
- $7.0 million annually to the Commissioner of Health from the federal TANF block grant to provide counties with funding for home-visiting services. Counties will receive an allocation based on the proportion of one parent (85 percent) and two-parent (15 percent) MFIP cases that have received assistance for at least 25 months. These appropriations will sunset on June 30, 2003.

Health Occupations Licensing Boards – Board of Psychology

The Board of Psychology received a one-time appropriation of $150,000 to pay for extraordinary litigation costs because of additional numbers of contested case hearings.

For additional information on Health and Human Services Finance issues, contact Joe Flores at 651/296-5483 or Joe.Flores@house.leg.state.mn.us

Environment, Natural Resources and Agriculture Finance

Delays throughout the session caused concern over passage of important language and spending items, resulting in provisions appearing in multiple bills. Therefore, the 2000 supplemental spending for Environment, Natural Resources and Agriculture Finance is contained in two major spending bills; *Laws of Minnesota 2000, Chapter 488, Article 3* (the omnibus supplemental spending bill) and *Chapter 463* (the Game and Fish Fee increase bill.) These two chapters authorize total additional general fund spending of $41.2 million for FY 2000-01. Additional permanent spending in the FY 2002-03 biennium totals $51.7 million.

Environment and Natural Resources

Chapters 488 and 463 authorize supplemental general fund spending for Environment and Natural Resources of $34.4 million for FY 2000-01 and $45.2 million in the FY 2002-03 biennium.

Pollution Control Agency (PCA)

- $306,000 one-time funding for the administration of a $20.5 million bonding appropriation in *Laws of Minnesota 1999, Chapter 240* for the Water Quality Wastewater Infrastructure Fund. The agency is allowed to apply previous appropriations toward shortfalls in this activity.
- $300,000 general fund savings. The second year general fund appropriation for malformed frog research has been replaced with funds from the environmental fund.
- $865,000 from the Environmental Fund is transferred to the General Fund.
- Chapter 488 includes a provision which allows for reimbursement for small agricultural petroleum tank clean-ups. The cost to the Petroleum Tank Release Cleanup Fund (Petro Fund) is $275,000, however, the provision will also result in increased revenue in the same amount to the fund.

Department of Natural Resources (DNR)

The Department of Natural Resources received a total general fund current biennium increase of $30.1 million. $24.6 million of this is appropriated in Chapter 463. The majority portion is from the capture of 97 percent of the in-lieu-of sales tax on lottery proceeds (*see description below*). $41.1 million is dedicated to environmental activities in the FY 2002-03 biennium. Changes to the agency budget include the following:

- $3.96 million one-time appropriation to pay off the legal fees of the Mille Lacs Band of Ojibwe under court order. Interest accrued on the principal at the rate of 5.7 percent, or $614 per day. The interest payment is estimated to be $100,000.
- $1.5 million for wildfire emergency equipment to assist in communication in the event that wildfires erupt in the blow down area in the Boundary Waters Canoe Area from the summer storms of 1999.

Lottery In-Lieu-Of Sales Tax Provision:

$24.6 million in FY 2001 and $22.1 million each year after. When the state lottery was established, a portion of the proceeds were directed to the Environmental Trust Fund and a portion to the General Fund. During a budget shortfall, 6.5 percent of lottery proceeds were statutorily directed to the General Fund as in-lieu-of tax. The remaining 93.5 percent is still divided as always between the Trust Fund and the General Fund. Beginning in FY 2001, 97 percent of all Lottery In-Lieu-Of Tax revenue (87 percent each year after) is redirected to environmental activities.

- 50 percent to the Game and Fish fund for fish and wildlife activities.
- 22.5 percent to the Natural Resources Fund for state park and trail projects.

- 22.5 percent to the Natural Resources Fund for metro area parks and trail projects.
- Three percent to the Natural Resources Fund to assist local communities with local trail development.
- Two percent to the Natural Resources Fund to assist the three major zoos in Minnesota; MN Zoo, Duluth Zoo and Como Zoo.

Chapter 463 appropriated the funds made available under the statutory dedication. The appropriations are made to the DNR for its purposes and to pass-thru to different entities based on the activity. All but the Game and Fish appropriation are one-time. The proceeds will still be directed to the Natural Resource Fund and can be appropriated by the 2001 Legislature.

- $12.3 million in FY 2001 and $11 million in subsequent years to the DNR from the Game and Fish Fund for fish and wildlife improvement and enhancement.
- $4.5 million in FY 2001 to the DNR for state park operation and maintenance and $1 million to the DNR for state trail operations and maintenance.
- $5.5 million in FY 2001 from the Natural Resources Fund to the DNR for a grant to the Metropolitan Council for metro park and trail improvements.
- $738,000 in FY 2001 from the Natural Resources Fund to the DNR for trail grants to local units of government.
- $492,000 in FY 2001 from the Natural Resources Fund to the DNR for grants of $164,000 each to the MN Zoological Gardens, City of St. Paul for the Como Park Zoo and the City of Duluth for the Duluth Zoo.

Implications of Lottery-in-lieu-of: The proceeds deposited into the Game and Fish Fund and the Natural Resource Fund are appropriated only in FY 2001. The proceeds will continue to be deposited into these funds and will be available for appropriation in the 2001 Legislative Session.

Another significant initiative considered in the 2000 legislative session was a proposed constitutional amendment to deposit 3/16 of one percent of the state sales tax in the Game and Fish Fund. The measure would have directed $112 million each year into the Game and Fish Fund. The provision was not passed by either the House or the Senate.

Game and Fish Fee Increase:
Chapter 463 raised the fee to fish and hunt for residents and non-residents alike. The revenue to the Game and Fish Fund is estimated to be $1.2 million in FY 2001 and $5.5 million thereafter. The DNR will receive a base increase from the Game and Fish Fund in the amount of $4.4 million per year. A $2.1 million one-time General Fund matching appropriation is also contained in Chapter 463. Activities to be funded with these dollars will include restorations of the fish and wildlife programs, and restoration of conservation officers through out the state. These one-time matching funds will be replaced with proceeds from the Lottery-In-Lieu-Of provision. The fee increase also increases tribal payments based on treaty and statute by 2.5 percent of total fees collected. This amounts to $61,000 in FY 2001, $410,000 in FY 2002 and $866,000 in FY 2003. These payments are made from the General Fund.

Notable Revenue:
Minnesota Laws 2000, Chapter 278 allows the State Park sticker to be applicable for one year following purchase rather than one-calender year from January to December. The DNR estimates an increase in revenue of $50,000 in FY 2001 and $100,000 in FY 2002 and beyond. The revenues are deposited in the General Fund.

Board of Soil and Water Resources (BWSR)

- $400,000 in FY 2001 for BWSR to administer a $2.75 million appropriation made in *Minnesota Laws 1998, Chapter 404* to acquire land restore wetlands to replace wetlands drained or filled as a result of the repair, maintenance, or rehabilitation of existing public roads under the Wetland Road Replacement program.
- $2.65 million for a new Ag-Land set-aside program which makes land in disaster declared counties eligible to enter into easements state-wide for the purposes of farm assistance and habitat.

Environmental Implications: Two of the appropriations in the above list, the PCA's Wastewater Infrastructure Program and BWSR's Wetland Road Replacement program, are used for the administration of bonding appropriations. The Legislature has had numerous discussions about the appropriate use of General Fund dollars to administer bonding appropriations. The 2000 Capital Investment bill, *Laws of Minnesota 2000, Chapter 492* includes three such programs in need of administrative funds: BWSR Conservation Reserve Enhancement Program (CREP - $20 million, $500,000 in administrative funds), BWSR Wetland Road Replacement program ($2.3 million, $0 administration), and the PFA Wastewater Infrastructure Fund (WIF - $18.3 million, $319,000 in administration.) Two of these programs (CREP and Wetland Road Replacement) were underfunded for administrative costs. The Governor may include these items when putting together the operating budget for the 2001 Legislative Session.

Agriculture and Rural Development

Chapter 488 authorized additional general fund spending of $6.8 million in the current biennium and $6.2 million in the FY 2002-03 biennium.

Department of Agriculture (MDA)

- $120,000 in FY 2000 and $374,000 in FY 2001 and beyond to enhance the meat inspection program. These expenditures are off-set by fifty percent federal funds, which are deposited into the General Fund upon receipt.
- $5.1 million in the current biennium and $5.8 million in the FY 2002-03 biennium is for the Ethanol Producer Payment program. There are a handful of ethanol plants established in Minnesota which are producing a total of fifteen million gallons per year, but are only receiving reimbursement payments for a twelve million gallon level. Changes in statute allow for these plants to collect payment for their actual production levels.
- $200,000 in FY 2001 only to provide fifty percent grants to individuals interested in growing trees as alternative power sources. Chapter 488 also establishes an agroforestry loan program which will be administered by the Rural Finance Authority.
- $150,000 of one-time funding is to develop software to be used by the farming community to assist in managing crops, finding markets and planning the sale of harvest.
- $300,000 one-time funding for a project in Waseca and Lamberton ($150,000 for each community) to control water quantity and quality.
- $150,000 one-time funding to the Farm Advocates program.
- $170,000 for the MN Grown Producer program. This is a one-time appropriation.
- $300,000 one-time funding for the Farm Wrap program which provides legal and other professional services to farm families in crisis.
- The Dairy Producer Board funding is eliminated for a savings of $25,000.
- Reimbursement amounts from the clean up of agricultural chemical spills are increased. The estimated cost is to the Agricultural Chemical Response and Reimbursement Account (ACRRA) in the Agricultural Fund is $562,000 in FY 2000, $408,000 in FY 2001, $418,000 in FY 2002 and $352,000 in FY 2003. The ACRRA is

supported by fees paid in by handlers of agricultural chemicals. The additional cost from this provision may cause a fee increase.

Animal Health Board–

$245,000 in FY 2000 to the Animal Health Board for continued efforts to control pseudorabies in swine. This appropriation is to cover the cost of blood tests, laboratory fees, and vaccines. This is one-time appropriation.

Other Chapters With Financial Impact in the Environment and Agriculture Areas:

- *Laws of Minnesota 2000, Chapter 435* changes feedlot permitting requirements. It eliminates the need for permits for feedlots of less than 400 animal units and changes the animal units factors for specific livestock. The financial impacts of the new language includes reduced fee revenue estimates due to less permits, a lower work load for permit review and a cost to review permit applications within 60 days. The estimated net cost to the Environmental Fund is $116,000 per year.

- *Laws of Minnesota 2000, Chapter 376* gives the Minnesota Pollution Control Agency the authority to use Minnesota Environmental Response Liability Account (MERLA - Environmental Fund)to pay for the "orphaned share" of clean-up sites until June 30, 2001. Even though the provision is statewide, it is expected that Pig's Eye Dump Site is the only site that will be able to use this provision, costing $2 million in FY 2000 and $1.3 million in FY 2001.

- *Laws of Minnesota 2000 , Chapter 473* appropriates $200,000 from the Forest Suspense Account(Permanent School Trust Fund) for a survey of the BWCA. This survey will enable the state to determine possible land exchanges that may result in an increase in timber sales, increasing income to the Permanent School Trust Fund.

- *Laws of Minnesota 2000, Chapter 341* provides the State's hunting and fishing enthusiasts a chance to purchase a lifetime license. Funds from the proceeds will be invested in a Lifetime Game and Fish Trust Fund and as patrons register each year, funds will be transferred from the Trust Fund to the Game and Fish Fund in the amount of the cost of the actual license.

- *Laws of Minnesota 2000, Chapter 495* is the DNR technical bill. The Senate added language that would allow emergency response agencies to use DNR firefighters for search and rescue missions. The fiscal impact of this provision is $193,000 each biennium from the General Fund Open appropriation.

For additional information on Environment or Agriculture Finance issues, contact Peter Skwira at 651/296-4281, or Peter.Skwira@house.leg.state.mn.us

Jobs & Economic Development Finance

The Jobs and Economic Development section of the supplemental State Government Operations Act (*Laws of Minnesota 2000, Chapter 488, Articles 1 and 2*) authorized total additional appropriations of $6.6 million from all funds. Of this total, the general fund appropriation was $4.2 million. The other fund totals included $1.8 million from the Workforce Development Fund, $500,000 of Temporary Assistance to Needy Family (TANF) funds and $90,000 from the Workers' Compensation Fund.

Department of Trade and Economic Development – The Legislature appropriated a total of $2.8 million in FY 2001 to DTED. The funding covers three major initiatives:

- $750,000 in FY 2001 funding for Labor Force Assessment Grants. The grants will support assessment projects designed to identify the skill sets and/or education of the available workforce in an area which is underused. The inform will augment local area business recruitment and expansion efforts. Projects are eligible for grants up to 60 percent of total project costs.
- $1 million in one-time FY 2001 funding for Internet Access Catalyst Grants. These grants will support capital expenditures related to providing Internet access in areas of rural Minnesota that are otherwise unlikely to receive access through existing technology. The eligible applicants for these grants are local governments and recognized tribal governments. The maximum grant is $200,000 or 25 percent of the eligible capital expenditure, whichever is less
- $1 million in one-time FY 2001 funding to re-capitalize the Tourism Loan Program. The bill's language provides that these funds be "targeted to northern Minnesota."

Minnesota Technology, Inc. – MTI received a $200,000 one-time appropriation in FY 2001 for Agency's new Minnesota e-business Institute initiative. The institute will be developed and offered in cooperation with University of Minnesota at Crookston.

Department of Economic Security – The Legislature made three supplemental appropriations to programs within the Department of Economic Security:

- $150,000 in one-time FY 2001 funding for the Alien Labor Certification Program. These funds will be used to reduce the backlog in processing applications. The legislation provides that these funds will be made available when dollar-for-dollar matching funds are raised from nonstate sources.
- $200,000 in one-time FY 2000 funding for the Youthbuild program. The money is available immediately and will be used as bridge funds for local Youthbuild programs while they apply for federal funding.
- $837,000 in one-time FY 2000 funding for the Summer Youth Employment Program. The Legislature made this money available immediately, thus allowing these funds to be used for this summer's local programs.

The Legislature also changed the funding source for the Displaced Homemakers Program. Beginning in FY 2001, the Program will be funded from the Workforce Development Fund rather than the General Fund. The dollar amount appropriated to the Displaced Homemakers Program remains the same.

Minnesota Housing Finance Agency – The Legislature appropriated $500,000 in additional funding for the Family Homeless prevention Program in FY 2001. This appropriation was from TANF.

(**Note**: The Legislature also appropriated $50 million in one-time general fund dollars for two major affordable housing production initiatives which will be administered by Minnesota Housing Finance Agency. The appropriations are: $30 million to the Affordable Rental Investment Fund, and $20 million in loans to the Habitat for Humanity

Program. These appropriations were included in the Health and Human Services Supplemental Budget and are discussed in detail in that section of this Money Matters paper.)

Department of Commerce – In recognition of the operating efficiencies from combing the Department of Commerce and Public Service, the 2000 Legislature reduced the combined Department's existing FY 2000 and FY 2001 appropriations by $300,000 and $700,000 respectively. Also reduced were the Department base budgets for the FY 2002-03 biennium. The Department's base funding is reduced by $1 million a year in both FY 2002 and FY 2003.

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience and Interior Design – The Board budget is increased by $130,000 for FY 2001. The Legislature specified that these increased funds be used to enhance the Board's enforcement activities. To fund the Board's increased budget, the Legislature approved increasing the license and renewal fees for the occupations subjected to the Board's jurisdiction from $104 to $120 per biennium.

Board of Boxing – The 2000 Legislature delayed the sunset of the Board of Boxing for one year. The Board would have been abolished on June 30, 2000 under last year's legislation. Now, the Board will be eliminated on June 30, 2001. To fund the Board's additional year, $65,000 is appropriated in FY 2001. The responsibilities for the Board of Boxing are transferred to the Commissioner of Health on July 1, 2001.

Board of Electricity – The Legislature approved a request from the Governor and Board of Electricity to increase the electrical license and inspection fee schedule. The fees were last increased in 1988. The Board will use the additional revenues to increase the reimbursement rate paid to private local contract inspectors who perform inspection on behalf of the Board throughout Minnesota.

Department of Labor & Industry – The Department's budget is increased by $90,000 in FY 2001. The source for this appropriation is the Workers' Compensation Fund. The additional funds will be used to augment OSHA investigations of workplace deaths, including enhanced information and consultations with next of kin. The funding will also be used to offset possible higher ligation costs the Department anticipates.

Minnesota Historical Society (MHS) – The Society's FY 2001 budget is increased by $850,000 to pay for the deficiency in employee salaries and benefit costs.

Department of Finance – In conjunction with approving the Minnesota Historical Society's salary deficiency request, the Legislature mandated a study by the Department of Finance of MHS ongoing shortfalls in employee salaries and benefit costs over the past several years. The study, which will be conducted in consultation with the Society and the Commissioner of Employee Relations, is due to the Legislature by December 31, 2000. The Department of Finance received $10,000 to conduct this study.

Implications – The combined FY 2002-03 General Fund base budgets of state agencies under the jurisdiction of the House Jobs and Economic Development Finance Committee were reduced by $3.7 million compared to 1999 end of session estimates. These reductions were achieved through the Committee's extensive use of one-time funding, the use of an alternative funding source and the adoption of long-term cost saving provisions.

Other Fiscal Provisions – The 2000 Jobs & Economic Development Finance Supplemental Budget and Committee passed bills which also included fiscal provisions beyond appropriations to State Agencies. The major provisions include:

(1) $325 million was transferred from the Assigned Risk Plan (ARP) account in the Department of Commerce to Worker's Compensation Special Fund in the Department of Labor & Industry. The purpose of this transfer is to lower Workers' Compensation Special Fund premium costs by 20 percent (an estimated $40.6 million in FY 2001), and to enhance the benefits paid to injured workers who are covered by the fund.

A second important fiscal item concerning the ARP account is that even with this $325 million transfer and an additional $125 million transferred to the General Fund in other bills in the 2000 session, there is still expected to be a substantial surplus in the ARP account available for consideration by future legislatures. Although the exact amount of the additional current surplus will not be known until the 1999 Plan audit is completed in late June 2000, estimates put the figure between $75 and $100 million.

(2) The aggregate fees collected by the Department of Commerce from open-end investment (i.e., mutual fund) companies are "capped" at $25 million per year. This provision is not expected to impact general fund receipts in either this or the next biennium.

(3) The term of a managing general agent license is changed from one to two years. This provision is forecasted to decrease general fund receipts by $74,000 per biennium.

(4) The fines and penalties for violations of Minnesota' Child Labor laws are increased effective October 1, 2000. This provision is estimated to increase general fund receipts by $30,000 in FY 2001, and $16,000 per year thereafter.

(5) Effective July 1, 2001, gift certificates, gift cards or layaway accounts for tangible property or services sold at retail are excluded from the intangible property definition of presumed abandoned property. This provision is estimated to reduce general fund receipts by $125,000 per year.

(6) Also effective July 1, 2001, annual dormancy charges are authorized to holders of money orders which are presumed abandoned. This provision is forecasted to reduce general fund receipts by $247,000 per year.

For additional information on the Jobs and Economic Development finance issues, contact Ron Soderberg at 651/296-4162 or ron.soderberg@house.leg.state.mn.us

Judiciary Finance

The Judiciary Finance portion of the Supplemental State Government Operations Act (*Laws of Minnesota 2000, Chapter 488, Articles 4-7*) authorized additional net general fund spending of $7.96 million for the FY 2000-01 biennium. The projected spending for FY 2002-03 increased by $5.5 million.

Supreme Court
An appropriation of $4,000 for FY 2001 was approved for a judicial seminar on parenting plans.

Court of Appeals
An appropriation of $200,000 for FY 2001 was approved to restore legal/judicial support services.

District Court
An appropriation of $2.9 million was approved. New initiatives include the following:

- $2.7 million to restore legal/judicial support services.
- $130,000 for the second judicial district community court.
- $79,000 to reimburse Carlton county for extraordinary expenses related to homicide trials.

Public Safety
The Judiciary Finance committee is responsible for seven programs in the Department of Public Safety (other programs in the agency are the responsibility of the Transportation Finance committee). An appropriation of $4.6 million was approved. New initiatives include the following:

Emergency Management
- $3.8 million to cover projected state match obligations for federal disaster assistance.

Driver and Vehicle Services
- $20,000 for costs related to the recodification of the driving while impaired laws.

BCA
- $200,000 for overtime costs for BCA agents.
- $25,000 to develop and conduct a court security training program.

Law Enforcement & Community Grants
- Transfers the functions and funding of the automobile theft prevention program.
- $150,000 for juvenile prostitution law enforcement and officer training grants.
- $250,000 for a Ramsey County domestic abuse pilot program.
- $30,000 for grants to local law enforcement agencies or regional jails for the purchase of dogs trained to detect or locate controlled substances by scent. **This appropriation was vetoed by the Governor.**

Drug Policy and Violence Prevention
- $150,000 for matching funds to counties participating in multi jurisdictional narcotics task forces that receive federal Byrne grant funds.

Crime Victim Services Center

- $1.2 million for per diem payments for battered women shelter facilities incurred during the administrative transfer of the responsibility for these payments from the department of human services to the department of public safety.
- $40,000 for a grant to the center for applied research and policy analysis at Metropolitan State University for the domestic violence shelter study.

Crime Victim Ombudsman

A base cut of $10,000 was approved.

Department of Corrections

A biennial appropriation of $2.3 million was approved. Major new initiatives include the following:

- $1.75 million for regional jails. **This appropriation was vetoed by the Governor.**
- $500,000 for the predesign of a joint headquarters building for the Department of Corrections and the Department of Public Safety.
- $1.9 million was reduced from the juvenile residential treatment grants.

Ombudsman for Corrections

A base cut of $90,000 was approved.

Sentencing Guidelines

An appropriation of $20,000 was approved for salary increases.

Minnesota Safety Council

An appropriation of $200,000 is for the crosswalk safety awareness program.

University of Minnesota

An appropriation of $20,000 is to cover the cost of updating the parent education curriculum.

Implications:
The courts received appropriations for judges salary increases, staff salary increases and increases in health care costs funded. However, other agencies did not have their salary increases or health care cost increases fully funded.

Counties receive a break on costs for the Red Wing juvenile facility. Instead of paying for 100 percent of the facility's cost, counties will be paying for 65 per cent of the cost. This should also help Red Wing in reaching its full bed capacity. Red Wing has a capacity of 196 beds but their census has been closer to 130 beds filled.

The auto theft prevention program is moved to the Department of Public Safety. In addition, the excess revenue ($4.9 million) in the auto theft prevention special revenue fund was moved to the general fund for other spending.

2000 Omnibus Crime Bill

Other appropriations for crime-related costs were made in *Laws of Minnesota 2000, Chapter 311,* also known as the Omnibus Crime Bill. This Act authorized additional net general fund spending of $18.4 million for the FY 2000-01 biennium, with expected costs of $18.3 million for the FY 2002-03 biennium. Appropriations include:

Department of Corrections

Appropriations of $5.2 million include the following:

- $1 million to increase the number of probation officers managing intensive supervised release caseloads.
- $4 million for enhanced supervision of adult felony sex offenders by employing additional probation officers.
- $162,000 for costs associated with their responsibility for sex offenders.

Public Safety

An appropriation of $9.7 million was approved, including:

- $7.4 million for criminal justice technology infrastructure improvements.
- $1 million for grants to government agencies to transfer and access data from the agencies to the statewide hot file probation and pretrial release data system.
- $80,000 for a technology systems position.
- $50,000 for a criminal justice information systems training position.
- $234,000 for three additional criminal assessment unit agents.
- $160,000 for three criminal intelligence analyst positions.
- $547,000 for the costs related to interfacing the state with the national sex offender registry, software development, a system design consultant and other related costs.

Sentencing Guidelines

$100,000 to establish a pilot project with Ramsey County for the use of a statewide statute table.

Supreme Court

$3.5 million to begin redevelopment of the court information system.

Implications:
Chapter 311 appropriates $12 million for criminal justice information systems. However, this appropriation may be just the tip of the iceberg for funding in this area. One estimate for upgrading the criminal justice information systems in Hennepin County *alone* is close to $100 million. The Legislature should expect to see more criminal justice information requests during the next budget year. These information systems should improve the efficiency and effectiveness of state, county, and city criminal justice operations. The Act also addresses the unmet need for sex offender supervision.

For additional information on Judiciary Finance issues, contact Gary Karger at 651/296-4181 or Gary.Karger@house.leg.state.mn.us

State Government Finance

The State Government Finance section of the supplemental State Government Operations Act (*Laws of Minnesota 2000, Chapter 488, Article 12*) authorized additional net General Fund spending of $2.5 million. Projected spending for the FY 2002-03 biennium was reduced by $9.4 million from the estimated spending at the close of the 1999 legislative session. This reduction is the result of a decrease to the Minneapolis Employees Pension Fund (MERF) base, and projected new general fund revenues from the Secretary of State's revised Uniform Commercial Code fee structure.

Secretary of State

The Secretary of State received $4 million to construct and maintain a central Uniform Commercial Code (UCC) filing system, as required by *Laws of Minnesota 2000, Chapter 399*. Chapter 399 also revised the office's UCC fee structure, converting from a system of graduated fees to a flat fee of $20 per filing. This change is estimated to bring in an additional $5.4 million in general fund revenues for the FY 2002-03 biennium.

Department of Administration

Plant Management Rent Deficiency - The Department received an additional $1.3 million in FY 2001 for a deficiency in the Plant Management revolving fund. In its 1999 budget request, the department incorrectly calculated the amount needed to cover expenses associated with ceremonial space in the Capitol and the Governor's residence, and space occupied by State Services for the Blind. The shortfall for FY 2000 was covered by deferring certain depreciation transfers to the General Fund, and by keeping some positions unfilled.

Minnesota Office of Technology (also known as the Technology Policy Bureau) - The second year appropriation for the Office of Technology, a total of $2.7 million, was released for spending. The 1999 Legislature had made this funding contingent on the 2000 Legislature's approval of the department's long-range plan for the missions and goals of the office. The state government conference committee agreed to release the FY 2001 funds after new language was adopted requiring risk assessments for any information systems development project estimated to cost over $1 million. The commissioner of administration must review and approve the risk assessment and risk mitigation plans before more than 10 percent of the project funds are spent. (*Note: although the department has internally renamed the office the "Technology Policy Bureau", the Legislature specifically chose not to make this name change in statute*)

Electronic Government Services / Year 2000 Contingency Funds - $2 million of the 1999 appropriation for the Year 2000 remediation effort was not used and therefore was available for spending on other information technology projects authorized in Laws 1999, Chapter 250. The 2000 Legislature chose to direct $1.4 million of these funds to the Electronic Government Services (EGS) initiative. The additional funds will be used to conduct an assessment of state agencies' readiness for electronic delivery of government services, and to develop a statewide EGS plan.

Metro Radio Board - In non-general fund initiatives, the legislature appropriated an additional $248,600 from the State Government Special Revenue Fund to cover capital and recurring lease costs for the region-wide 800 megahertz radio system. This appropriation is from the monthly 911 fees on telephone lines. Contingency language was included stating that the appropriation will be canceled if a law is enacted authorizing a statewide 800 megahertz radio system.

Campaign Finance and Public Disclosure Board

The board received $38,000 to cover legal fees related to a constitutional challenge to the state's campaign finance laws. The state Republican party successfully challenged the constitutionality of a portion of Minnesota Statutes section 10A. The party was granted attorney's fees of $36,000 plus interest accruing from the date of the order.

Department of Employee Relations

$100,000 was appropriated to cover the costs of a post-retirement health insurance study required in the omnibus pension bill (*Laws of Minnesota 2000, Chapter 461*). State and local pension funds participating in the study are allowed to contribute up to $100,000 in additional funds to cover the costs of the study.

Lawful Gambling Control Board

The board received a $90,000 one-time appropriation for expenses associated with a Worker's Compensation claim. The claim has been on-going since 1991, and to date the Board has spent over $250,000 on this one claim. Expenditures for FY 2000-01 are estimated to exceed $114,000.

Department of Revenue

The Department received an additional $600,000 for the income tax re-engineering project. This appropriation was made from the remaining Y2K contingency funds (*see Department of Administration, above*). The funds will allow the department to electronically input data from outside sources (such as Drivers License data) and combine this information with other data to identify individuals who have a need to interact with the State. Examples of these interactions could include filing a tax return or being eligible for refundable tax credits.

Strategic and Long Range Planning (Minnesota Planning)

$200,000 was appropriated for additional one-time grants of $50,000 each to regional development commissions, to support planning work on behalf of local units of government. These funds are in addition to the $250,000 appropriated for this purpose in *Laws of Minnesota 1999, Chapter 250*. Regions that received grant funds from the 1999 appropriation will not be eligible for these new grants.

Minneapolis Employees Retirement Fund (MERF)

The Legislature reduced the FY 2000-01 appropriation for MERF by $3.2 million, and the FY 2002-03 base for MERF by $3.8 million. Current actuarial figures showed that the state's base appropriation exceeded the amount needed to amortize the fund's deficiencies. The actual payments needed for a fiscal year are determined by the annual actuarial evaluation, which occurs after the legislature has appropriated funds. For example, the most recent evaluation was received in July 1999, and it set the next four quarterly payments, including the final two payments in FY 2000. New language now requires the MERF payment to be made annually on September 15, instead of quarterly, to avoid this timing problem.

Fiscal Policy Changes: Chapter 488 included language requiring the Department of Finance to consult with the legislature on certain revenue and expenditure forecast variables before the forecast is released. The new statute also requires agencies to provide expenditure data to legislative fiscal staff before the forecast release.

In addition, Chapter 488 added new budget and reporting requirements for internal service funds within the Department of Administration. The new law specifies information to be included in budget presentations, including details on general fund loans, new technology initiatives, and rate histories. The department is also required to report to the legislature if any transfers or loans are made from the General fund to internal service funds.

Article 13, Minnesota Comprehensive Health Association (MCHA): Article 13 of Chapter 488 authorized a one-time transfer of $15 million from the Worker's Compensation Assigned Risk Plan surplus to the General Fund. This $15 million was then appropriated to the Minnesota Comprehensive Health Association (MCHA) for the purpose of reducing the association's operating deficit assessment for calendar year 2001. (*See Jobs & Economic Development section for additional discussion on the Assigned Risk surplus*).

For additional information on State Government Finance issues, contact Helen Roberts, 651/296-4117 or Helen.Roberts@house.leg.state.mn.us

Transportation Finance

The 2000 Transportation Omnibus Finance Bill (*Laws of Minnesota 2000, Chapter 479*) contained a record largest investment in transportation programs for a non-budget year session. A total of $405 million from the general fund was used to fund programs aimed at easing traffic congestion in both the metro area and in outstate Minnesota. Though the spending represented a step toward meeting needs and addressing a large backlog of unfunded construction projects, all of the funds were of a one-time nature, with no permanent increase in program spending.

Department of Transportation (MN/DOT)

The Minnesota Department Of Transportation (MN/DOT) was the main beneficiary of general fund investment. Nearly $360 million of general fund dollars were used to increase road construction and fund capital investment programs through the department. Spending was not only used to meet state needs, but included a large amount of local investment as well. Highlights of spending provisions included:

- $138 million from the general fund for Metro Area Bottleneck Reduction to fund congested areas within the metro beltway. In addition, $38 million from the trunk highway fund balance was used to supplement the general fund appropriation.
- $138 million from the general fund for Outstate Inter-regional Corridors to fund construction projects on priority corridors in outstate Minnesota. For this purpose, $38 million from the trunk highway fund balance was used to supplement the general fund investment.
- $5 million from the general fund for Advantages for Transit was appropriated to MN/DOT which will allow the department to add highway enhancements that benefit transit service. Wider bus-only shoulder lanes that allow faster transit service during congested periods are an example of the program.
- $100 million of Trunk Highway Bonds were authorized to supplement the construction program. These bonds could be issued by MN/DOT over the next six years to provide capital needed to speed up the delivery of projects. Debt service for these bonds will come from existing revenue sources.
- $4.8 million from the general fund was appropriated for the payment of sales tax by the department. The department has previously paid sales tax on materials and equipment purchases from the trunk highway fund. Questions have been raised by some legislators about the constitutionality of paying trunk highway funds to the general fund. This appropriation remedies the problem for one year with additional language asking the State Attorney General and the Department of Finance to provide opinions on the constitutional question.
- $30 million from the general fund spent to assist local communities with road construction projects with $23.8 million appropriated to the County State Aid Highway Fund and $6.2 million to the Municipal State Aid Streets Fund.
- $39 million from the general fund was used to fund the Local Bridge Assistance program. Funds for this program have traditionally come from general obligation bond proceeds in Capital Investment Bill but were included in the Transportation Finance Bill and paid for with general fund cash as part of the overall budget agreement.
- $7 million from the general fund cash for other capital projects, with $5 million going to the Rail Service Improvement Program and $2 million for Port Development Assistance Grants.
- $25.7 million from the trunk highway fund for MN/DOT buildings including $10.3 million for the St. Cloud headquarters, $8.7 million for the Detroit Lakes headquarters, $5 million for a new Metro Traffic Management Center, and $1.6 million for a Moorhead truck station.

Metropolitan Council

The Metropolitan Council received $20 million in the transportation omnibus bill. The Governor also used some of his funds from the “one third” budget agreement to fund a transit way in the Capital Investment Bill. Highlights are as follows:

- $3.7 million from the general fund to maintain current service levels. The Met Council used funds from last session more heavily in FY 2000 to increase service levels. This left a shortfall for FY 2001, which the Council was successful in obtaining funding for with this appropriation.
- $6.3 million from the general fund for Transit ways to develop preliminary engineering studies for dedicated busways in the metro area.
- $10 million from the general fund for Bus Garages. These dollars would fund new facilities as the Council increases bus service in the metro area.
- $44 million from the general fund for a dedicated bus-only transit way. Little detail about the project is known, including total cost of construction and operating cost. The project was also not heard in any House committee this session. The funds came from the Governor’s allocation in the “one third” budget agreement and funding was included in the 2000 Capital Investment Bill, Chapter 492.

Department of Trade and Economic Development

The Department of Trade and Economic Development received a $15 million appropriation to the Transportation Revolving Loan Fund. The funds can be loaned out to communities at a low rate of interest to advance construction projects.

A $750,000 appropriation to DTED for Regional Tourism Centers was vetoed by the Governor.

Implications

Though the investment in road construction was a major step forward, the funds included in the package represent about 60 percent of one annual budget for road construction. Several important projects across the state will be addressed within the next couple of years and the funds will move all projects up on the timeline for completion. The money will not, however, be a permanent solution to the backlog of projects on MN/DOT’s list for needed expansion.

The Metropolitan Council was granted the funds needed to retain current service levels, but the appropriation is not permanent and the council will need to request the same funding again next year. In addition, LRT in the Hiawatha Corridor will require nearly $15 million per year to operate, and the operating costs of the bus-only transit way funded by the Governor are not known. If funds for these purposes are to come solely from the state, the state commitment for Met Council transit may have to increase by more than 50 percent over the current level in the next few years to meet the requirements of these new services.

Senate language included in the conference committee report questioned the constitutionality of several expenditures from the trunk highway fund. These expenditures included funding for forensic scientists at the BCA, tourism kiosks through DTED, the Emergency Medical Services Board and others. The questioned expenditures from the trunk highway fund were ended by this legislation and funded for one year through the general fund. Language in the technical corrections bill solidified that the funding was of a one-time nature, which will bring these programs into the next budget session without a base level of funding. These programs will have to justify their funding to the Governor and the Legislature and seek to retain their existence within committee targets next year.

For more information on Transportation Finance Issues, contact John Walz at 651/296-8236 or john.walz@house.leg.state.mn.us

Omnibus Tax Act – Tax Rebates and Permanent Tax Cuts

Overview: Consistent with an overall budget compromise which allocated one-third of available on-going resources to each the House and the Governor to use for permanent tax relief, the primary focus of tax policy during the 2000 legislative session was on permanent income tax rate cuts, reductions in the motor vehicle registration tax, and a one-time sales tax rebate. As enacted, the Omnibus Tax Act (Laws of Minnesota 2000, Chapter 490)contains $1.1 billion in tax reductions for the FY 2000-01 biennium, of which $392 million is attributable to permanent tax cuts and $656 million is for one-time sales tax rebates and farm assistance payments. Similarly, Chapter 490 includes $758 million in tax reductions for the FY 2002-03 biennium, $704 million of which reflects permanent tax cuts. While the omnibus tax bill adopted by the House also called for additional property tax rate compression, those provisions were not included in final legislation.

Sales Tax Rebate

The 2000 omnibus tax act includes a one-time rebate of $635.6 million in 2000. Another $8.5 million was added to the 1999 sales tax rebate to accommodate late filers. The Department of Revenue and State Treasurer received one-time appropriations totaling $2.1 million to administer the sales tax rebate. The sales tax rebates are subject to "revenue recapture," and it is assumed that one percent of total rebate dollars will be retained by the Department of Revenue to offset tax debts or other debts affecting the General Fund. As shown in Table 6, the net cost of the sales tax rebate provisions is just under $640 million.

Table 6

FY 2000 Sales Tax Rebate ($ in thousands)	
2000 sales tax rebate	($635,600)
1999 sales tax rebate (late filers)	($8,500)
Sales tax rebate – administration	($2,059)
Sales tax recapture (@ 1 percent)	$6,441
Sales Tax Rebate	**($639,718)**

Note: negative numbers represent a cost to the state and positive numbers represent a gain to the state.

Rebate checks will be mailed in July and August. To be eligible for the rebate, a taxpayer must meet one of the following criteria:

- Received a property tax rebate on a 1998 Minnesota income tax return;
- Paid income tax (before credits) in 1998 and was not claimed as a dependent on another tax return;
- Received social security or railroad retirement benefits and was age 18 or over;
- Paid no income tax, but filed an income tax return to receive (i) a refundable credit or (ii) a refund of taxes paid through withholding or estimated tax, and was not claimed as a dependent on another taxpayers' return;
- Claimed as a dependent on another return in 1998, but paid income tax (before credits) in 1998 and had some wage income;
- Had homeowner property taxes reduced to zero in 1998 due to tornado damage; or
- Was a non-resident and paid no Minnesota income tax in 1998, but paid at least $10 in Minnesota sales tax on non-business purchases and has receipts for those purchases.

Only the last group – non-residents with Minnesota sales tax receipts – will need to apply for the rebate. All others will receive their rebate automatically. To be eligible, 1998 tax returns must have been filed by November 30, 2000.

The rebate amount will equal 29.7 percent of what the Department of Revenue estimates the household paid in sales tax in 1998. Rebate amounts will be larger for those with higher incomes, but will be capped at a maximum of $1,200 for singles and $2,400 for others. There is no adjustment for family size, but married taxpayers and heads of household will receive larger rebates than single persons with the same income. Income is defined as federal taxable income plus "Minnesota additions" – primarily state income taxes claimed as itemized deductions on the federal tax return. The rebate schedule is shown in Table 7.

Table 7

2000 Sales Tax Rebate for Minnesota Residents

(Note: Dependents who paid income tax will receive 35 percent of amount shown)

Income	Single	Others	Income	Single	Others
Less than $2,500	$ 95	$ 168	$ 70,000 - $ 79,999	$ 435	$ 523
$ 2,500 - $ 4,999	116	217	$ 80,000 - $ 89,999	435	562
$ 5,000 - $ 9,999	137	231	$ 90,000 - $ 99,999	435	620
$ 10,000 - $ 14,999	184	253	$100,000 - $119,999	524	671
$ 15,000 - $ 19,999	210	275	$120,000 - $139,999	524	735
$ 20,000 - $ 24,999	228	299	$140,000 - $159,999	632	795
$ 25,000 - $ 29,999	238	312	$160,000 - $179,999	632	851
$ 30,000 - $ 34,999	259	338	$180,000 - $199,999	632	904
$ 35,000 - $ 39,999	259	369	$200,000 - $399,999	857	1,157
$ 40,000 - $ 44,999	290	396	$400,000 - $599,999	1,128	1,522
$ 45,000 - $ 49,999	290	417	$600,000 - $799,999	1,200	1,826
$ 50,000 - $ 59,999	342	444	$800,000 - $999,999	1,200	2,093
$ 60,000 - $ 69,999	342	476	Over $1,000,000	1,200	2,400

Note: "Income" is 1998 federal taxable income plus Minnesota additions to income – line 4 on the Minnesota income tax return . (This is not the same as total income; nontaxable income is excluded, and personal exemptions, the standard deduction, and any itemized deductions other than state income tax have all been subtracted.) "Others" include married couples filing joint returns, plus those filing as head of household or surviving spouse. Dependents who paid income tax in 1998 will receive 35 percent of what is shown on the table. Part-year residents and non-residents who filed income tax in 1998 will receive a fraction of these totals based on the portion of their income apportioned to Minnesota.

Comparison to the 1999 Sales Tax Rebate

The 2000 rebate is approximately half as large as the 1999 sales tax rebate ($636 million compared to $1,300 million in 1999). The population eligible for the rebate in 1999 has grown by almost 4 percent, and expansion of the eligible population to include new groups increased the number of checks by another 20 percent. Those who received a rebate in 1999 will receive a rebate equal to 45 percent of their 1999 rebate, if their income is unchanged. Table 8 on the next page compares the two rebates.

Table 8

Comparing the 2000 Sales Tax Rebate to the 1999 Sales Tax Rebate			
	2000 Rebate	1999 Rebate	2000 Rebate as % of 1999 Rebate
Total dollars	$636 million	$1,300 million	49 percent
Total checks	2,430,000	1,956,000	124 percent
Average check to core population			
Single filers	$187	$412	45 percent
Joint or head of household filers	$377	$840	45 percent

Expanded eligibility for the rebate: Compared to the 1999 rebate, eligibility has been expanded to include three new groups:

- Those not otherwise eligible who received social security or railroad retirement benefits in 1998 will each receive the minimum benefit for single filers ($95). Social security benefits include retirement, disability, and survivor benefits, and all who received this form of income are eligible for the rebate if at least 19 years old. The Department of Revenue will identify these people using information provided by the Social Security Administration. An additional 200,000 people are likely to qualify in this way.
- Some who filed a 1998 income tax return will receive a rebate even though they had no tax liability for that year. To qualify, they cannot have been claimed as a dependent on another tax return. Although they had no taxable income, they would have filed a tax return to receive either a refundable credit or a refund of taxes withheld (or paid as estimated tax). An estimated 91,000 households will qualify for a rebate in this way. They will qualify for the minimum rebate by filing status – $95 for single filers or $168 for head of household or joint returns.
- About 130,000 dependents will also qualify for the 2000 rebate. To qualify, they must have had tax liability (before credits) in 1998, and they must also have had some wage income. These taxpayers will qualify for 35 percent of the rebate received by non-dependent single filers with the same income. Qualifying dependents will receive a minimum of $33 and an average of $40.

About five percent of the 2000 rebate dollars will be paid to members of these three groups. Over 400,000 checks will be mailed to people in these groups, increasing the number of checks by about 20 percent.

Permanent Income Tax Reductions

Table 10 on page 45 summarizes the two structural changes to the state's individual income tax system: a reduction in individual income tax rates and an increase in the working family credit.

Reduced Income Tax Rates – The 2000 omnibus tax act reduced individual income tax rates in each of Minnesota's three income tax brackets. The bottom and top tax rates were each reduced by 0.15 percentage points (from 5.5 percent to 5.35 percent and from 8.0 percent to 7.85 percent); the middle tax rate was reduced by 0.2 percentage points (from 7.25 percent to 7.05 percent). Table 9 shows the 2000 tax brackets. In 2000, of all Minnesota resident tax filers who have tax liability (before tax credits), 42 percent will pay 5.35 percent tax on their last dollar of income, 51 percent will pay 7.05 percent tax on their last dollar of income, and 7 percent will pay 7.85 percent tax on their last dollar of income.[2]

The alternative minimum tax (AMT) rate was also reduced by 0.1 percent (from 6.5% to 6.4%). Without this change, the reduction in income tax rates would have substantially increased the number of taxpayers subject to the AMT. The marriage penalty credit was also adjusted to eliminate any marriage penalty due to the new rate structure.

Table 9

2000 Rates, Before and After Tax Cut, by Filing Status				
Ranges of Minnesota Taxable Income			**Tax Rates**	
Joint Return	**Single Filer**	**Head of Household**	**Old**	**New**
$1 - $25,680	$1 - $17,570	$1 - $21,630	5.50%	5.35%
$25,681 - $102,030	$17,571 - $57,710	$21,631 - $86,910	7.25%	7.05%
$102,031 and over	$57,711 and over	$86,911 and over	8.00%	7.85%

Increased working family credit – The omnibus tax act increased the working family credit for all eligible low income workers. After this increase, the Minnesota working family credit will equal at least 25 percent of the federal earned income tax credit for every eligible household. The number of eligible taxpayers did not change. The maximum credit rose by $117 for workers with two or more children, by $72 for workers with one child, and by $35 for workers with no children. For those with two or more children, the credit per $100 of earnings rose from $8.80 to $10.00 (on the first $9,720 of earnings); for those with one child, the credit per $100 of earnings rose from $7.45 to $8.50 (on the first $6,920 of earnings); and for those with no children, the credit per $100 of earnings rose from $1.15 to $1.91 (on the first $4,620 of earnings). The subsidy rate for the "second tier" of earnings was not changed, so the percentage increase in the credit was greatest for those with low earnings. The rate at which the credit phases out with higher incomes was increased by enough to leave the number of eligible workers unchanged.

This increase in the working family credit is larger than the increase enacted in 1999. Credits for those without children were not increased in 1999, and this year's increases for those with children was about 50 percent higher than last year's increase.

TANF funding for working family credit increase – The cost of increasing the working family credit for families with children was financed using annual transfers from the Temporary Assistance for Needy Families (TANF) fund. The amount of the total increase going to households eligible for such funding (excluding non-citizens and those with no children) will be estimated each year by the department of revenue.

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[2] These are counts by tax return. If joint returns are counted as two taxpayers, the percentages are 37 percent of taxpayers at 5.35 percent, 55 percent at 7.05%, and 8 percent at the 7.85% tax rate.

Table 10

Permanent Income Tax Reductions ($ in Thousands)						
Tax Provision	FY2000	FY2001	**2000-01**	FY2002	FY2003	**2002-03**
Reduce tax rates (including AMT)	$0	($224,400)	**($224,400)**	($154,700)	($162,400)	**($317,100)**
Increase working family credit	0	(11,800)	**(11,800)**	(12,000)	(12,000)	**(24,000)**
Subtotal: Individual Income Taxes - Structural changes	0	(236,200)	**(236,200)**	(166,700)	(174,400)	**(341,100)**

Note: negative numbers represent a cost to the state and positive numbers represent a gain to the state.

Implications of Income Tax Rate Cuts and Increased Working Family Credit

Impact on Representative Households – Table 11 illustrates the tax cut resulting from the combined structural changes in the income tax (rate changes, marriage penalty credit, and working family credit). These examples assume that those with incomes of $25,000 or below take the standard deduction, and that those with higher incomes claim itemized deductions equal to 22 percent of gross income.

On average, the structural changes in the income tax will reduce income taxes by 2.8 percent, but the tax reductions vary by income and household type. When measured in dollars, the tax cuts generally increase with income, though the lowest income families with children get larger dollar benefits than similar families with incomes of $50,000 or $75,000 because of the increased working family credit. In contrast, if cuts are measured as a percent of tax, the magnitude of the cuts generally falls as income rises. This is due partly to the increase in the working family credit and partly to the smaller reduction in the top rate.

Table 11

Effect of Omnibus Tax Bill Income Tax Changes in 2000

Married couple with two dependents (spouses have equal incomes)

Adjusted Gross Income	Amount of Tax		Change in Tax	
	Old Law	New Law	Dollars	Percent
$ 10,000	($855)	($972)	($117)	n/a
25,000	(222)	(283)	(61)	n/a
50,000	1,404	1,362	(42)	(3.0)%
75,000	2,818	2,737	(81)	(2.9)%
100,000	4,232	4,112	(120)	(2.8)%
250,000	13,931	13,597	(334)	(2.4)%
500,000	30,615	29,968	(647)	(2.1)%

Table 11 (continued)

Head of household with one dependent

Adjusted Gross Income	Amount of Tax		Change in Tax	
	Old Law	New Law	Dollars	Percent
$ 10,000	($516)	($588)	($73)	n/a
25,000	587	555	(33)	(5.5)%
50,000	2,043	1,987	(56)	(2.7)%
75,000	3,457	3,362	(95)	(2.7)%
100,000	4,870	4,736	(134)	(2.8)%
250,000	14,735	14,406	(328)	(2.2)%
500,000	31,060	30,426	(634)	(2.0)%

Single filer with no dependents

Adjusted Gross Income	Amount of Tax		Change in Tax	
	Old Law	New Law	Dollars	Percent
$ 10,000	$150	$142	($7)	(4.7)%
25,000	983	956	(27)	(2.7)%
50,000	2,317	2,253	(64)	(2.7)%
75,000	3,731	3,628	(103)	(2.8)%
100,000	5,276	5,143	(133)	(2.5)%
250,000	15,146	14,828	(318)	(2.1)%
500,000	31,350	30,728	(622)	(2.0)%

Distribution of Income Tax Cuts by Income Level – Table 12 shows the distribution of tax filers, tax liability under previous law, and tax cuts by income level. As shown on the table, the 62 percent of tax filers with incomes under $50,000 would have paid 17 percent of all income taxes and will receive 27 percent of total tax cuts. The top 11 percent of all tax returns, with incomes over $100,000, would have paid 50 percent of all income taxes and will receive 41 percent of the total income tax cut.

Table 12

Percent of Filers, Tax Liability, and Income Tax Cuts, by Level of Income

Adjusted Gross Income	Percent of All Filers with Tax Cut	Percent of Tax Liability (before tax cut)	Percent of Total Tax Cut
Under $30,000	42%	5%	15%
$ 30,000 to $ 49,999	20%	12%	12%
$ 50,000 to $ 99,999	27%	33%	32%
$100,000 to $199,999	8%	20%	19%
$200,000 and Over	3%	30%	22%
Total	100%	100%	100%

Distribution of Income Tax Cuts by Tax Bracket – Table 13 shows the distribution of tax filers, tax liability under previous law, and tax cuts by tax bracket. A taxpayer and all of that taxpayers' income tax liability and tax cut is included in the top income tax bracket if any of that taxpayers' income is taxed at the top tax rates.

Table 13

Percent of Filers, Tax Liability, and Income Tax Cuts, by Tax Bracket
Includes Working Family Credit
(Minnesota Residents in 2000)

Tax Bracket	Percent of Total Returns with Tax Cut	Percent of Total Taxpayers with Tax Cut	Percent of Income Tax Before Cuts	Percent of Total Tax Cut
Top bracket	7.0%	8.1%	43.0%	34.7%
Middle bracket	48.8%	53.3%	51.0%	51.2%
Bottom bracket	42.2%	38.6%	6.0%	14.0%
All residents	100.0%	100.0%	100.0%	100.0%

Joint returns count as one return but two taxpayers. The top bracket includes 10.5% of all joint returns, 4.3% of all single returns, and 1.3% of all head of household returns.

Taxpayers with typical levels of itemized deductions (22 percent of income)would pay the top income tax rate if their adjusted gross income exceeds the following amounts:

- Joint return with two dependents: $145,165
- Head of household return with one dependent: $118,600
- Single return (no dependents): $ 77,575

Cumulative income tax reductions over two years: This session's 2.8 percent overall reduction in income taxes follows the 9.2 percent income tax cut in 1999. So income taxes have been reduced by 12 percent in two years. Top and bottom rates have fallen by 0.65 percentage points, while the middle rate has dropped by 0.95 percentage points.

A note on progressivity: Economists define a tax as progressive if tax liability as a percent of income increases with income. By this definition, the income tax is Minnesota's only progressive tax. Because the income tax cuts enacted in the 2000 session resulted in larger *percentage* income tax cuts for lower-income taxpayers than for higher-income taxpayers, these tax cuts have certainly made the income tax – considered alone – more progressive. However, the tax cuts also reduced the relative share of income tax revenues in total state and local revenues. By itself, reducing the share of the only progressive tax would tend to make the overall tax system less progressive. The net effect of a smaller but more progressive income tax – accompanied by lower vehicle registration fees – on the progressivity of the total state and local tax system is an empirical question. No definitive answer is available at this time, and further analysis is needed.

Other Income Tax Provisions *(Table 14)*

- **Marriage penalty credit – include taxable social security and pension income in calculating credit –** Effective beginning in 2000, the marriage penalty credit will apply to taxable social security and pension income as well as earned income. This will eliminate the marriage penalty created by the rate structure for some retired or disabled persons who file joint tax returns.
- **Long term care credit – repeal requirement for inflation protection –** Effective beginning in 2000, premiums for long term care insurance will be eligible for the Minnesota credit even if they include no inflation protection, so long as the option of inflation protection was offered. This change makes the Minnesota credit consistent with federal requirements for eligibility for the medical expense deduction.
- **Credit for taxes paid to another state –** Effective beginning in 2000, the omnibus tax act allows a credit for taxes paid to another state if (i) the taxpayer is a non-resident, (ii) the tax results from the gain on the sale of a partnership interest assignable to Minnesota, and (iii) the taxpayer's home state allows no credit for Minnesota tax paid. This new credit eliminates a few unusual cases where the same gain is taxed by both states.
- **Transit pass employer credit –** Effective beginning in 2000, employers will receive an income tax credit equal to 30 percent of the cost of providing transit passes to employees. The credit applies to non-corporate as well as corporate businesses. It applies to the employer cost net of any payment employees make for the transit passes. Transit passes must be for use in Minnesota on vehicles seating at least six individuals besides the driver.
- **Subtraction for small ethanol producer credit –** Allows individuals to claim a subtraction for the federal small ethanol producer credit, effective beginning in 2000.
- **Conform to federal law changes –** The Omnibus tax act brings Minnesota's individual and corporate tax laws into conformity with numerous changes in the federal definition of "taxable income" made by Congress in 1999. Failure to conform to these changes would complicate the Minnesota tax returns. The effective dates for these provisions varied, and some of these changes had revenue impacts in FY 2000.
- **Modify rules assigning earned income to non-resident employees –** Changes the provision that assigns non-business income for non-residents, in response to the Minnesota Supreme Court decision in *Benda v Commissioner of Revenue*. The new language requires that all wages earned by employees for work in Minnesota be assigned to Minnesota, effective for wages received after the day following final enactment. However, deferred compensation or stock options earned by a Minnesota resident would not be assigned to Minnesota if received in a tax year after the individual ceased to be a Minnesota resident.
- **Unwind 1980's addbacks (ACRS for corporations) in one year –** Allows corporations to claim in tax year 2001 the remaining amount of ACRS depreciation for assets placed in service in tax years 1981 to 1987. After the federal Economic Recovery Act of 1981, Minnesota did not adopt the federal depreciation rules until tax year 1983, and then only a percentage of federal recovery amounts were allowed. The difference between federally-allowable depreciation and that allowed by Minnesota law had to be "added back" to income, with the difference only deductible in later years. The omnibus tax act cleans up this backlog of delayed depreciation deductions in one year. This will simply Minnesota income taxes for the affected taxpayers. It results in lower

tax revenues in FY 2002, but higher revenues in later years, when corporations would otherwise have taken these deductions.

- **One year carry forward for subtraction of certain pension, ACRS, and IRA income by non-corporate taxpayers** – Minnesota did not immediately conform to several federal income tax changes in the early 1980's, including the ACRS rules for accelerated depreciation and federal tax deductions for contributions to individual retirement accounts, self-employed retirement plans (Keoghs), and public employee pension plans. These deductions from federal taxable income had to be "added back" in calculating Minnesota taxable income in the early 1980s, and they were generally deductible in later years instead. For non-corporate taxpayers, last year's omnibus tax act allowed all remaining deductions to be claimed in one year (2000) rather than being delayed until future years. In some cases, this one-time subtraction for tax year 2000 exceeds taxable income in that year. This year's omnibus tax act allows a one-year carry forward for any unused portion of this subtraction.

Table 14

Other Changes in Individual Income and Corporate Franchise Taxes
($ in thousands)

Tax Provision	FY2000	FY2001	**FY 2000-01**	FY2002	FY2003	**FY 2002-03**
Marriage penalty credit – include taxable social security and pension income in calculating the credit	0	(1,700)	**(1,700)**	(2,000)	(2,200)	**(4,200)**
Long-term care credit – repeal required inflation protection	0	(153)	**(153)**	(161)	(169)	**(330)**
Modify credit for taxes paid to another state	0	(150)	**(150)**	(150)	(150)	**(300)**
Transit pass employer credit (30%)	0	(1,290)	**(1,290)**	(1,440)	(1,630)	**(3,070)**
Subtraction for small ethanol producer credit	0	(290)	**(290)**	(290)	(290)	**(580)**
Federal conformity (individual and corporate taxes)	830	(435)	**395**	(385)	1,250	**865**
Modify rules assigning earned income to non-resident employees	0	600	**600**	950	1,000	**1,950**
Unwind 1980's addbacks (ACRS for corporations) in one year	0	0	**0**	(10,100)	1,200	**(8,900)**
One year carry forward for subtraction of certain pension, ACRS, and IRA income	0	0	**0**	(400)	0	**(400)**
Subtotal: Other Income & Corporate Tax Changes	$830	($3,418)	**($2,588)**	($13,976)	($989)	**($14,965)**

Note: negative numbers represent a cost to the state and positive numbers represent a gain to the state.

Motor Vehicle Registration Tax

Chapter 490 reduces license tab fees for higher valued and newer model passenger vehicles consistent with the Governor's priorities for permanent tax relief under the budget compromise agreed to between the House, Senate, and Governor. Under the plan developed by the Governor, the tax on the initial registration of a new vehicle will remain the same as under current law but the tax will be limited to a maximum of $189 for the first renewal period and to a maximum of $99 for all subsequent renewal periods. These changes become effective for registrations beginning July 1, 2000. As shown in Table 15, the net general fund impact of the motor vehicle registration tax reductions is $147.4 million in the FY 2000-01 biennium and $327.4 million in the FY 2002-03 biennium, including projected increases in income tax collections because less registration tax will be claimed as itemized deductions.

Table 15

Reductions in Motor Vehicle Registration Tax
($ in thousands)

Tax Provision	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03
General Fund transfer to HUTDF	($149,804)	($149,804)	($161,723)	$0	($161,723)
Income tax offset	2,365	2,365	5,015	5,300	10,315
32% dedication of motor vehicle sales tax revenue to the HUTDF	0	0	0	(176,000)	(176,000)
Subtotal: Motor Vehicle Registration Tax	($147,439)	($147,439)	($156,708)	($170,700)	($327,408)

Note: negative numbers represent a cost to the state and positive numbers represent a gain to the state.

Article XIV, sec. 9, Minnesota Constitution, authorizes the imposition of a tax on the value of motor vehicles and dedicates the proceeds of such a tax to the Highway User Tax Distribution Fund (HUTDF), which is used to fund both a state trunk highway system and county and municipal roads, streets, and highways. The reduction in tab fees will reduce revenue to the Highway User Tax Distribution Fund. To offset the projected revenue reductions, Chapter 490 appropriates $149.8 million in FY 2001 and $161.7 million in FY 2002 from the general fund to the HUTDF. Beginning in FY 2003, Chapter 490 statutorily dedicates 32 percent of annual motor vehicle sales tax revenues, which are currently deposited into the state general fund, to the HUTDF. Based on the February 2000 state budget forecast, 32 percent of the motor vehicle sales tax revenue will be $176 million in FY 2003.

Implications of the Tab Fee Reductions

Under the tab fee reduction developed by the Governor, the newer and more valuable a passenger vehicle, the greater will be the owner's tax reduction. Based on 1999 passenger vehicle data, only 41 percent of vehicles will qualify for lower tab fees and 83 percent of the total tax cut will go to owners of vehicles that are 5 years old or newer. There will be no reduction in the tab fees for 59 percent of vehicles.

As shown in Table 16, owners will continue to pay the full initial registration for new vehicles while the tax for virtually all 3rd through 6th year vehicles will decline, as will the tax for 87 percent of 2nd year vehicles and 81 percent of 7th year vehicles. The amount of reduction, however, will vary depending on the age and value of the vehicle. As also shown in Table 16, the estimated average reductions in tab fees will range from a high of $144 for 3rd year vehicles to $13 for the few 9th year vehicles with a reduced tax. It should be noted, however, that while higher valued and newer vehicles will always fare better under the changes than other vehicles, the data presented in Table 16 will change over time. As the value of vehicles grows and the flat dollar caps remain unchanged, more and more vehicles in the 5 to 10 year old age range will reach the $99 cap.

Table 16

Benefits from Registration Tax Cuts by Vehicle Age				
Vehicle Year	Percentage of Vehicles Benefitting	Average Cut for Vehicles w/ lower tax	Percentage Share of Tax Cut	Percentage Share of Passenger Vehicles
1	0 %	$ 0	0 %	8 %
2	87	92	15	7
3	100	144	29	7
4	100	113	21	7
5	99	86	18	7
6	97	62	11	7
7	81	27	4	6
8	29	15	1	6
9	7	13	0	6
10 +	0	0	0	39
All Vehicles	41 %	$ 87	100 %	100 %

Distribution of tax cuts by income level: It is difficult to estimate how the reduced registration fees will vary by income level because registration records include no information on household income. Table 17 shows the likely pattern of benefits by income level, based on a stratified sample of households from the Consumer Expenditure Survey. This survey by the U.S. Department of Labor includes detailed information on both household income and on each of a household's motor vehicles. The vehicle information was used to calculate the registration tax liability for each of the sample households, both with and without the new caps. The sample was then scaled to represent the entire Minnesota population of vehicles and households.

As shown in Table 17, vehicle registration taxes under prior law – before the caps were imposed – increased with income. Not only do higher income households own more vehicles, but their typical vehicle is also more valuable. Despite the unchanged tax on new vehicles and the higher $189 cap on second year vehicles, the tax cut is larger for those with higher income. Households with vehicles and incomes under $10,000 will receive tax cuts averaging $25, while those with incomes over $100,000 will receive tax cuts averaging $166. In percentage terms, the average tax will fall by 23 percent for those with incomes under $10,000 and by 32 percent for those with incomes over $100,000. However, if the tax cuts are expressed as a percentage of income, Table 17 suggests that the tax cut equals a smaller percentage of income at higher incomes than at lower income levels.

Table 17

Reduction in Motor Vehicle Registration Taxes by Household Income
(Estimates for FY 2001)

Total Household Income	Percent of All Households w/ Vehicles	Average Number of Vehicles	Average Tax under Prior Law	Average Reduction in Tax		Percent of Total Tax Cut
				Dollars per Household	Percent Reduction	
Less than $10,000	8.5%	1.3	$111	$ 25	23%	6.6%
$ 10,000 to $ 19,999	13.6%	1.4	$136	$ 35	26%	12.1%
$ 20,000 to $ 29,999	15.4%	1.6	$186	$ 47	25%	13.3%
$ 30,000 to $ 39,999	13.5%	1.6	$200	$ 52	26%	12.1%
$ 40,000 to $ 49,999	10.7%	1.9	$266	$ 82	31%	11.3%
$ 50,000 to $ 74,999	19.1%	2.3	$315	$ 95	30%	19.7%
$ 75,000 to $ 99,999	9.9%	2.6	$382	$121	32%	10.8%
$100,000 and over	9.3%	2.6	$525	$166	32%	10.1%
All Households with Vehicles	100.0%	1.9	$259	$ 76	29%	100.0%

Source: Sample of households created by House Research and Fiscal staff. Total household income includes all cash income, including nontaxable social security and pension income, so it is not directly comparable to tables showing the distribution of income tax cuts earlier in this chapter. Table excludes households without vehicles. Census data suggest that about eight percent of all households own no vehicle, and that almost all have incomes under $20,000. About ten percent of the tax cut goes to vehicles owned by businesses, which are not included in the table.

Impact of Highway Funding

Concerns have been raised among legislators and others that the statutory dedication of motor vehicle sales tax revenues will be inadequate to replace the loss of constitutionally dedicated registration tax revenues. Motor vehicle sales tax collections tend to be more volatile, and they are projected to grow at a slower rate than registration tax revenues would have grown in future years. For example, the Department of Finance February forecast projects that the unusually high rate of new car purchases will soon slow resulting in a decline in motor vehicle sales tax revenues in FY 2001, a 1.3 percent increase in FY 2002, and a 3.2 percent increase in FY 2003.

By comparison, the compound annual growth rate in motor vehicle registration tax revenues between 1990 and 1999 was 7.4 percent. A comparison of historical growth rates completed by Department of Transportation found that motor vehicle sales tax revenues have historically grown at a slightly faster rate than registration tax revenues. For example, between 1994 and 1999, sales tax collections grew by 7.9 percent while registration tax revenues grew by 6.6 percent. Therefore, it appears that the extent to which the 32 percent dedication of motor vehicle sales tax generates sufficient revenue to replace the loss of registration tax revenue will depend on whether the annual growth in FY 2004 and beyond reflects traditional growth rates or the currently forecasted growth rates.

Finally, the flat caps developed by the Governor reduce the influence of vehicle value on the annual growth of registration tax revenues. As a result, in addition to concerns that growth in motor vehicle sales tax revenues may slow, it is likely that revenues from the restructured registration tax will also grow more slowly than it would have grown under prior law. Much of the growth in revenue under prior law was due to the steady increase in the value of vehicles. Under the provisions enacted in Chapter 490, the annual growth in registration tax revenues will become, over time, almost entirely dependent on the growth in the number of vehicles registered. Increased vehicle values will have no effect except for the proportion of total tax collected at the initial registration of new vehicles.

Sales and Use Taxes and Excise Taxes

Table 18, below, summarizes the effects of changes to the state's sales and use taxes and excise taxes.

Table 18

Sales and Use Taxes
($ in thousands)

Tax Provision	FY2000	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03
Exempt large vans, buses, and trucks purchased for charitable use	$0	($1,300)	($1,300)	($1,350)	($1,400)	($2,750)
Exempt nursery equipment (defined as farm equipment)	0	(680)	(680)	(770)	(800)	(1,570)
Exempt motor vehicles given as gifts	0	(240)	(240)	(250)	(260)	(510)
Exempt snow-making equipment at ski resorts	0	(210)	(210)	(210)	(220)	(430)
Exempt patent drawings	0	(121)	(121)	(139)	(143)	(282)
Exempt purchases by state agency libraries	0	(26)	(26)	(28)	(29)	(57)
Exempt poultry feed	0	(22)	(22)	(24)	(25)	(49)
Exempt cemetery maintenance expenses	0	(19)	(19)	(21)	(22)	(43)
Exempt maple syrup production equipment	0	(11)	(11)	(12)	(13)	(25)
Exempt construction materials for pork processing facility	0	(100)	(100)	0	0	0
Exempt construction materials for meat processing facility	0	(63)	(63)	0	0	0
Exempt non-commercial aircraft sold to nonresidents	0	0	0	0	0	0
Exempt base blocks for metal casting	0	0	0	0	0	0
Exempt non-profits' purchase of materials for housing accessibility	0	0	0	0	0	0
Repeal June accelerated payments for excise taxes; reduce required June accelerated payment for general sales tax (eff. June 2002)	0	0	0	(43,050)	(1,370)	(44,420)
Subtotal: Sales and Use Taxes	**0**	**(2,792)**	**(2,792)**	**(45,854)**	**(4,282)**	**(50,136)**

Note: negative numbers represent a cost to the state and positive numbers represent a gain to the state. Unless otherwise specified, all provisions are effective for purchases made after 6/30/2000.

- **Exempt large vans, buses, and trucks purchased for charitable use** – Exempts such vehicles if used primarily to transport goods or individuals other than employees, as part of its charitable, religious, or educational activities. Passenger vehicles must be able to carry at least nine passengers.

- **Exempt nursery equipment (defined as farm machinery)** – Adds equipment for production of trees and bushes to the definition of farm machinery. Farm machinery will be exempt from tax beginning July 1, 2000.

- **Exempt motor vehicles given as gifts** – Transfers between individuals will be exempt if the transfer is a gift and the parties sign an affidavit to that effect at the time of sale.

- **Exempt snow making equipment at ski resorts** – Exempts machinery, equipment, fuel, electricity, and water additives used directly for tramways, snow making, or snow grooming of ski slopes or trails. Previously, only electricity used in snow making was exempt.

- **Exempt patent drawings** – Exempts any drawings, diagrams, or related documents sold by patent drafters.

- **Exempt purchases by state agency libraries** – Expands the sales tax exemption for government purchases to purchases by state agency libraries.

- **Exempt poultry feed** – Exempts poultry feed if poultry is raised for human consumption. Previously, feed was exempt if raised commercially. This extends the exemption to feed for poultry raised for own use.

- **Exempt cemetery maintenance expenses** – Exempts lawn care and related services for cemetery upkeep.

- **Exempt maple syrup production equipment** – Adds equipment used for maple syrup harvesting to the definition of farm machinery. Farm machinery will be exempt from tax beginning July 1, 2000.

- **Exempt construction materials for certain meat processing facilities** – Exempts materials, supplies, and equipment used to build and equip certain meat processing facilities. Two particular processing facilities will satisfy the requirements – Prairie Farmers Cooperative facility (exempt purchases during calendar year 2000) and Lorentz Meats (exempt purchases after December 1, 1999 and before December 31, 2000).

- **Exempt noncommercial aircraft sold to nonresidents** – Allows a nonresident to take possession of an aircraft in Minnesota and receive up to ten days of training in the state without paying Minnesota sales tax on the aircraft.

- **Exempt base blocks for metal casting** – Adds base blocks to the list of metal casting items exempt from sales tax as materials consumed in production.

- **Exempt materials used to make residential property handicapped accessible** – Allows exemption for these materials if purchased by veterans groups on nonprofit groups. These materials would already have been exempt if purchased by the home owner.

- **Repeal June accelerated payments for excise taxes, and reduce required June accelerated payments for general sales tax** – Effective for June 2002 (a two year delay), the Omnibus tax act repeals the June accelerated payment for excise taxes and reduces from 75 percent to 62 percent the portion of June sales and use tax that must be paid early.

June Accelerated Payments: Since 1983, venders with annual sales and use tax liability of $120,000 or more have been required to make an early payment of 75 percent of their June tax liability. Because payment is due three business days before the end of June – rather than the 14th of the following month, as is typical for these taxpayers – these payments are shifted to an earlier fiscal year. In 1986, the requirement for June accelerated payments was extended to excise taxes as well. This "fiscal year shift" was used to balance the state budget in years when tough budget choices were required. When good economic times returned, though, the fiscal year shift was not undone.

In 1999, a total of 3,388 taxpayers paid over $125 million in June accelerated sales taxes. These companies forego interest they would otherwise earn on this money, and penalties are assessed if payments are too low because sales taxes are underestimated. The added complexity may pose a problem as the state works to create a simplified "no burden" sales tax system, in cooperation with other states, in an attempt to make it possible to collect taxes from out-of-state sellers, including those selling over the internet, who have no nexus with Minnesota.

These changes move the tax system about one-quarter of the way to full repeal of all June accelerated payments . The remaining three-quarters of the cost remains for future years.

Implications of Changes in Sales & Use Taxes

The 1999 changes in sales taxes continue several trends of recent years. Most importantly, they continue the repeal of taxes on selected business inputs in cases where final products are taxed. When both production inputs and the final product are taxed, the total effective tax rate on the final product exceeds the statutory rate. Repealing such taxes on inputs reduces this pyramiding of sales taxes and move the sales tax closer to a tax on final consumption. The new exemptions for inputs used by nurseries, ski resorts, patent drawings, maple syrup harvesting, and metal casting are of this nature.

The exemptions for construction materials for two specific meat processing plants are similar to provisions included for other business projects with regional importance in past years. In 1999, such exemptions were given for three projects at a total cost (over 5 years) of $1.8 million. In 1998, a similar exemption was provided to one business project at a total cost (over 4 years) of $1.5 million. For the second straight year, however, no exemptions were granted for convention centers or other local government buildings.

The exemption for sales of noncommercial aircraft sold to nonresidents addresses a unique problem facing an industry that is new to Minnesota.

The exemption from motor vehicle sales tax for certain vehicles purchased by non-profits is noteworthy because it is the first case where nonprofits have been allowed an exemption from that tax.

The Omnibus tax act also contains a provision to allow the Department of Revenue to cooperate with other states in attempts to create a "no-burden" sales tax system in response to ongoing changes in the economy. By simplifying sales taxes and reducing the collection costs imposed on sellers – including out-of-state sellers – states hopes to reduce the market distortions and unfairness that occur when a complex and antiquated sales tax system confronts the new world of electronic commerce.

Agricultural Assistance and Farm Property Tax Relief

Chapter 490, 2000 Laws of Minnesota provides both permanent property tax relief to farmers statewide and immediate, one-time assistance to farmers located in 31 counties. In addition, the 2000 omnibus tax act extends the filing date for the 1999 agricultural rebate to June 30, 2000, and clarifies the definition of relative homestead for family farm operations.

As summarized in Table 19, Chapter 490 will provide an estimated $18 million in one-time assistance to farmers located in presidentially declared disaster counties in 1999 and counties contiguous to Minnesota-declared disaster counties. Farmers in 31counties will receive one-time agricultural assistance payments, including Aitkin, Becker, Beltrami, Carlton, Cass, Clay, Clearwater, Cook, Crow Wing, Hubbard, Itasca, Kanabec, Kittson, Koochiching, Lake, Lake of the Woods, Mahnomen, Marshall, Mille Lacs, Morrison, Norman, Otter Tail, Pennington, Pine, Polk, Red Lake, Roseau, St. Louis, Todd, Wadena, and Wilkin.

Payments will be equal to $4 multiplied by the number of acres covered by crop insurance for crop year 2000. The assistance program will be administered by the Minnesota Department of Agriculture and qualified persons, including individuals, fiduciaries, estates, trusts, partnerships, joint farm ventures, and corporations, must file a claim by September 30, 2000. The maximum payment for each farm and each individual or married couple is $5600. Consequently, multiple interests in a single farm operation may collectively receive no more than $5600 for that farm operation and an individuals or married couples having an interest in multiple farm operations may receive no more than $5600 for all the farm operations in which they have an interest. Payments are to be made by October 1, 2000, for applications received by August 15, 2000, or within 45 days of receipt of an application by the Department.

Table 19

Farm Property Tax Relief
($ in thousands)

Tax Provision	FY2000	FY2001	FY 2000-2001	FY2002	FY2003	FY 2002-2003
One Time Assistance						
1999 farm rebate extended filing deadline	(146)	(146)	(292)			
2000 agricultural assistance	(18,000)		(18,000)			
Subtotal, one-time farm assistance	(18,146)	(146)	(18,292)			
Permanent Tax Relief						
Increased agricultural education credit				(10,300)	(11,600)	(21,900)
Property tax refund offset				300	300	600
Income tax offset				500	600	1,100
Homestead status for family farm corporations				(20)	(20)	(40)
Subtotal, permanent provisions				(9,520)	(10,720)	(20,240)
Total, all farm tax relief provisions	(18,146)	(146)	(18,292)	(9,520)	(10,720)	(20,240)

Note: negative numbers represent a cost to the state and positive numbers represent a gain to the state.

Relative to current law, Chapter 490 is expected to provide $12 million in permanent property tax relief to homesteaded and non-homesteaded agricultural land through an increase in the agricultural education credit established in 1999. As shown in Table 19, the annual net fiscal-year cost of the credit increase will be slightly less than $12 million for several reasons. First, the lower property taxes will reduce property tax refunds. Second, lower property taxes claimed as itemized deductions will increase income tax revenues. Finally, the timing of state aid payments reduces the fiscal year costs.

As enacted, the agricultural education credit rate will increase from 54 percent to 70 percent of general education taxes for homesteaded agricultural land up to $600,000 in property value, from 54 percent to 63 percent on homesteaded land over $600,000 of value, and from 50 percent to 63 percent for non-homesteaded agricultural land. The increased credit rates become effective for property taxes payable in 2001.

In addition, Chapter 490 clarifies that relative homestead definition extends to property of a trust if certain requirements are satisfied: a farm which is being actively farmed by a grandson or granddaughter of the owner or the spouse of the owner, and that family farm corporation homestead provisions include joint farm ventures and limited liability companies.

Property Tax Aids and Credits

Although the omnibus tax bill adopted by the House included reductions in class rates for business property and the upper tiers of homes and cabins, Chapter 490 contains no significant changes to the property tax system. In addition to the farm relief provisions, Chapter 490 includes only four property tax changes with a cost, including:

- $50,000 one-time spending in FY 2001 for the Department of Revenue to conduct a study of forest land taxation.
- $2.6 million in FY 2002 and $2.9 million in FY 2003 to permanently and retroactively index payments-in-lieu of taxes (PILT) for eligible natural resources lands to inflation beginning with the first quarter of 1994.
- $500,000 annually beginning in FY 2002 to increase HACA payments to counties in the 5th, 7th, and 9th district court districts to reflect higher than anticipated fine and fee revenues now accruing to the state general fund rather than to the counties as a result of the January 1, 2000 court takeover agreement.
- A personal property tax exemption, estimated to increase property tax refunds by $120,000 annually beginning in FY 2003, for an electric utility peaking facility proposed to be built in Mower County.

Chapter 490 also includes several property tax and local aid provisions having a statewide impact but no state cost, including provisions to:

- Classify leased or privately owned noncommercial aircraft storage hangars and the land on which they are situated as class 4c property, which consists primarily of seasonal recreational property and has a top class rate of 1.65 percent, rather than commercial property, which has a top class rate of 3.4 percent.
- Allows contiguous commercial-industrial property owned by the same person or entity to receive the first-tier value class rate on each parcel as long as the business is housed in a separate structure.
- Revise the eligibility requirements for the senior deferral program to make it easier to participate by allowing a deferral to be granted as long as the total outstanding debt against the property does not exceed 75 percent of estimated market value (the current law threshold is 30 percent), by allowing program applicants to defer at the time of entry into the program any delinquent property taxes, special assessments, penalties, and interest on the property, and by clarifying that participation in the program does not terminate upon the death of one homeowner but continues as long as other owners meet program qualifications.
- Extend the current law 4d (low-income) apartment aid program for two more years, through 2003.
- Allow a political subdivision that has a population less than 5,000 and that is located outside of the seven-county metro area to hold property for later resale for economic development purposes for up to 15 years, rather than the current limit of 8 years.
- Exempt from property taxation storage sheds, decks, or similar improvements if they are constructed on the site of a travel trailer and have a total market value of less than $500.

- Require the commissioner of revenue to assess the property of a wind energy conversion system rather than the county assessor and also provides that any appeal by a utility company, including gas, water, pipeline, electric, wind energy, or other, of the property value determined by the commissioner must be brought against the commissioner of revenue in tax court, rather than against the county, provided that the appealed values have remained unchanged by the county.
- Extend the special levy authority for the costs of operating county jails to regional jails and retain special levies that would be outside of levy limits if they are reimposed in the future–under current law, levy limits expire for taxes payable in 2001.

The omnibus tax act also includes a variety of provisions pertaining to specific localities, including provisions to: add the Middle Mississippi watershed management organization to the list of special taxing districts; authorize the Capitol Region watershed district to levy an annual amount up to 0.02418 percent of market value or $200,000, whichever is less; extend the same property tax treatment currently given to low and moderate income housing owned by statutorily defined housing and redevelopment agencies to the White Earth tribe's federally recognized tribal housing; repeal 1987 session law pertaining to the Moose Lake fire protection district and authorize certificates of indebtedness for the district; authorize an Eveleth-Gilbert area joint recreation board to levy a tax up to $125,000 per year for eight years; permanently increase the city aid base beginning with aid payable for 2001 for Kelliher ($32,000), Darwin ($7,200), and Osseo ($45,000); allow Lincoln County a one-time additional aid payment of up to $150,000 over two years to reimburse the county for costs associated with the Wind Tower lawsuit; allow additional one-time local government aid payments for St. Cloud and St Augusta township related to legal costs associated with St. Augusta's effort to incorporate; allow Lake of the Woods and Koochiching counties to expend the proceeds of property taxes levied in unorganized townships for road and bridge purposes in any township; and include St. Louis County heritage and arts center within the definition "capital improvements" for purposes of the bonding capital improvement law.

Gambling Taxes

The omnibus tax act reduces lawful gambling taxes by 5.25 percent. The old and new tax rates are shown in Table 20. This reduction in gambling taxes is identical to the reductions enacted in 1998 and 1999. Over the three years, tax rates have been reduced by a total of 15 percent.

Table 20

New and Old Lawful Gambling Tax Rates

Type of Tax	Previous Tax Rate	New Tax Rate
Paddlewheel, raffles, bingo	9.0% of gross profit	8.5%
Pulltabs, tipboards	1.8% of ideal gross	1.7%
Combined receipts $500,000 to $700,000 $700,000 to $900,000 Over $900,000	 1.8% of amount over $500,000 $ 3,600 plus 3.6% of amount over $700,000 $10,800 plus 5.4% of amount over $900,000	 1.7% $3,400 + 3.4% $10,200 + 5.1%

Table 21 summarizes the impact of the gambling tax changes on the General Fund. In addition to the reduction in tax rates, certain raffles held to raise money for victims of violence, crime, or disease were effectively exempted from gambling taxes through a refund process.

Table 21

Gambling Taxes ($ in thousands)						
Tax Provision	FY2000	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03
Gambling taxes – reduce tax rates	$0	($3,100)	($3,100)	($3,250)	($3,250)	($6,500)
Refund gambling taxes paid on raffles to benefit certain victims	0	(10)	(10)	(10)	(10)	(20)
Subtotal: Gambling Taxes	$0	($3,110)	($3,110)	($3,340)	($3,340)	($6,520)

Note: negative numbers represent a cost to the state and positive numbers represent a gain to the state. Provisions are effective after June 30, 2000.

Appropriation for administrative expenses related to the Omnibus tax bill
The omnibus tax act included no appropriations to cover the additional administrative costs imposed by the act. However, a one-time $354,000 appropriation to the Department of Revenue in FY 2001 was included in the Public Finance Act (2000 Minnesota Laws, Chapter 493) to cover the cost of administering the changes in income, property, and gambling taxes.

State Tax Changes Affecting Other Funds
Health Care Access Fund: The one percent premiums tax on health maintenance organizations and nonprofit health service corporations will be delayed for two more years, until January 1, 2003. Starting on that date, the tax rate will be set at one percent. Under prior law, the tax rate depended on the forecast of the structural balance in the Health Care Access Fund. Under that law, the tax rate was forecast to be 1.0 percent in calendar year 2001, 0.75 percent in calendar year 2002, and zero percent in calendar year 2003. The forecast of a zero tax rate for calendar year 2003 explains the revenue *gain* shown for FY 2003 in Table 22.

Reacting to a 1999 court case, the omnibus tax act also exempts payments made under the Federal Employees Health Benefit Act. The court case directly affected only a subset of medical providers, and this provision extends the exemption to all providers to ensure tax neutrality. Table 22 details the provisions affecting the Health Care Access Fund.

Table 22

Health Care Access Fund (dollars in thousands)						
Tax Provision	FY2000	FY2001	**FY 2000-01**	FY2002	FY2003	**FY 2002-03**
Delay premiums tax on HMOs and nonprofit HSCs for 2 yrs, and repeal language making tax rate depend on HCAF structural balance	0	(16,190)	**(16,190)**	(27,168)	5,455	**(21,713)**
Exempt payments under Federal Employees Health Benefit Act (eff. 1/1/2000)	(250)	(500)	**(750)**	(500)	(500)	**(1,000)**
Total: Health Care Access Fund	**($250)**	**($16,690)**	**($16,940)**	**($27,668)**	**$4,955**	**($22,713)**

Note: negative numbers represent a cost to the state and positive numbers represent a gain to the state.

Implications for the Health Care Access Fund – The $40 million reduction in revenues for the Health Care Access Fund is not replaced, so the balance in that fund at the end of FY 2003 will be about $40 million lower than shown in the February forecast, leaving a balance (including the $150 million federal contingency reserve) of about $210 million.

For additional information on Taxes, Local Aids and Credits, contact Paul Wilson at 651-296-8405 or Paul.Wilson@house.leg.state.mn.us , or Matt Massman at 651-296-7171 or Matt.Massman@house.leg.state.mn.us

Index of Tables