



AN OVERVIEW OF GOVERNOR TIM PAWLENTY'S FY 2010-11 BIENNIAL BUDGET RECOMMENDATIONS

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This paper provides an overall description and detail of Governor Tim Pawlenty's FY 2010-11 biennial budget recommendations. Part one is the summary section. Part two provides details organized according to the jurisdictions of the House of Representatives' fiscal committees and divisions.

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The Overall Budget Picture

The November 2008 state budget forecast projects that general fund spending will exceed revenues by \$4.847 billion for the FY 2010-11 biennium. That forecast projects revenues of \$31.866 billion and expenditures of \$36.713 billion. The November forecast for FY 2010-11 was a \$3.908 billion negative change added to the \$940 million negative balance projected at the end of the 2008 session for FY 2010-11.

In addition, the November 2008 forecast projected a negative balance of \$426 million for the FY 2008-09 biennium. In January, the Governor, using the unallotment process specified in law, offset that deficit by using \$155 million that remained in the budget reserve and reducing appropriations by \$271 million (including a voluntary \$2.2 million reduction by the Legislature).

The state's budget reserve is now at \$0 and the cash flow account is at \$350 million.

These balance numbers do not estimate the effects of inflation in most of the expenditure areas of the budget.

The Governor's recommendations would result in general fund expenditures¹ for FY 2010-11 of \$34.695 billion, \$2.019 billion or 5.5 percent lower than the projected expenditure level in the November 2008 forecast. The Governor's recommendation would result in FY 2010-11 general fund expenditures being \$344 million or 1.0 percent higher than expenditures in FY 2008-09.

General Fund revenues in FY 2010-11 in the Governor's recommendations would be \$34.722 billion, \$2.855 billion or 9.0 percent higher than the projected FY 2010-11 revenues in the November 2008 forecast. The Governor's recommendations result in revenues being \$2.022 billion or 6.2 percent higher than in FY 2008-09. The Governor recommends restoring \$250 million to the budget reserve and no changes in the cash flow account. The budget reserve together with the cash flow account would then equal about 1.7 percent of FY 2010-11 biennial expenditures.

Table 1 (on the following page) summarizes the general fund resources available and expenditure amounts for the current biennium, next biennium and the planning estimates for the FY 2012-13 biennium, assuming the Governor's recommendations for FY 2010-11 are enacted. The rows labeled "Gov" show change in the Governor's recommendations from the base level.

¹ The General Fund in this summary of the Governor's budget recommendations includes spending and revenue for the general fund and the state appropriations bond fund, a separate fund that supports some general fund expenditures in FY 2010-11 and will require general fund spending for 20 years.

General Fund: Fiscal Years 2006 -11 Governor's Recommendations, Change from Forecast <i>Dollars in millions</i>								
	FY 08-09	FY 10-11	Dollar Change	Percent Change	FY 12-13	Dollar Change	Percent Change	
Balance Forward	\$2,245	\$584			\$11			
Revenues (Base)	\$32,447	\$31,867			\$34,558			
Revenue Changes (Gov)	\$253	\$2,855			\$809			
Current Revenues	\$32,700	\$34,722	\$2,022	6.2%	\$35,367	\$645	1.9%	
Total Resources Available	\$34,945	\$35,306			\$35,378			
Expenditures & Transfers (Base)	\$34,612	\$36,714			\$39,162			
Expenditures Change (Gov)	-\$251	-\$2,019			-\$1,259			
Total Expenditures	\$34,361	\$34,695	\$334	1.0%	\$37,903	\$3,208	9.2%	
Balance	\$584	\$611			-\$2,525			
Reserves	\$350	\$350						
Reserve Increase		\$250						
Balance After Reserves	\$234	\$11			-\$2,525			
FY 2008-09 changes includes Governor's unallotment. Includes appropriations bond fund. Revenue change includes effect of moving Health Care Access Fund to the General Fund. Balance forward includes reserves.								

To look at the bigger budget picture, projected expenditures in all operating funds for FY 2010-11 in the November forecast were \$60.6 billion. The Governor's recommendations for FY 2010-11 would set the total operating budget expenditures at approximately \$58.6 billion, \$2.5 billion lower than in the November 2008 forecast. In the Governor's recommendations for FY 2010-11, the general fund spending of \$34.695 billion is approximately 60 percent of the total all funds spending.

Revenues in all funds for FY 2010-11 are \$57.9 billion in the November forecast. In the Governor's recommendations those revenues are \$63.6 billion.

Table 2 summarizes the all funds numbers.

All Funds: Fiscal Years 2010-11				
Governor's Recommendations, Change from Forecast				
<i>Dollars in millions</i>				
	FY 2008-09	FY 2010-11	Dollar Change Biennium	% Change Biennium
Revenues (Base)	\$63,059	\$57,916		
Revenue Changes (Gov Est.)	\$215	\$5,651		
Current Revenues	\$63,274	\$63,567	\$293	0.5%
Expenditures & Transfers (Base)	\$56,396	\$60,568		
Expenditures Change (Gov Est)	(\$295)	(\$1,920)		
Total Expenditures	\$56,101	\$58,648	\$2,547	4.5%

General Fund Spending Drops in FY 2010, then Grows in 2011

Table 3 (on the next page) illustrates a fiscal year by fiscal year comparison of general fund revenues and expenditures in the Governor's proposed budget for FY 2010-11 using the same format as Table 1. Under the Governor's proposal, FY 2010 expenditures would decrease \$620 million or 3.6 percent from the FY 2009 expenditure level. This is a \$251 million decrease over the base level of expenditures. In FY 2011 expenditures would increase by \$1.223 billion or 7.3 percent over FY 2010. This is a \$684 million decrease over the base level of expenditures.

General Fund by Fiscal Year: FY 2008-11
Governor's Recommendations, Change from Forecast
(Dollars in millions)

	Actual FY 2008	Gov's Rec FY 2009	Annual Percent Change	Gov's Rec FY 2010	Dollar Change	Percent Change	Gov's Rec FY 2011	Dollar Change	Annual Percent Change
Balance Forward	\$2,245	\$1,920		\$584			\$1,074		
Revenues (Base)	\$16,680	\$15,767		\$15,454			\$16,412		
Revenue Changes (Gov)		\$253		\$1,772			\$1,085		
Current Revenues	\$16,680	\$16,020	-4.0%	\$17,226	\$1,206	7.5%	\$17,497	\$271	1.6%
Total Resources Available	\$18,925	\$17,940		\$17,810			\$18,571		
Expenditures & Transfers (Base)	\$17,005	\$17,607		\$18,070			\$18,643		
Expenditures Change (Gov)		-\$251		-\$1,334			-\$684		
Total Expenditures	\$17,005	\$17,356	2.1%	\$16,736	-\$620	-3.6%	\$17,959	\$1,223	7.3%
Balance Before Reserves	\$1,920	\$584		\$1,074			\$611		
Reserves	\$1,005	\$350		\$350			\$600		
Reserve Change (Gov)				\$250					
Balance After Reserves	\$915	\$234		\$474			\$11		
FY 2008-09 changes includes Governor's unallotment. Includes appropriations bond fund Revenue change includes effect of moving Health Care Access Fund to the General Fund Balance forward includes reserves									

Governor's Recommendations Include Some FY 2009 Changes

The Governor's recommendations include \$17.1 million of spending changes for FY 2009 and assume \$251 million of federal economic stimulus funds are received in FY

The single largest change in spending is an additional appropriation of \$16 million for the Department of Human Service's Sex Offender Treatment Program.

Governor's Recommendations - FY 2009 Appropriations	
<i>Dollars in thousands</i>	
	<u>FY 2009</u>
Department of Public Safety	
FEMA Match	1,060
Department of Human Services	
State Operated Services (SOS) - Sex Offender Program	16,000
SOS Revenue - Payments from Counties	1,600
Subtotal - DHS State Operated Services	14,400
Total Public Safety & Human Services	
Net Spending Changes	17,060
Net Revenue Changes	1,600
Net General Fund Cost - FY 2009 Changes	15,460

For Many Committees, FY 2010-11 Expenditures Are Below FY 2008-09 Levels

Table 5 (on the next page) shows changes in expenditures in the Governor's recommendations by committee. Table 5 shows the changes in the Governor's recommendations for FY 2010-11 compared to both the FY 2008-09 expenditures in that area and to the base level expenditures for FY 2010-11. The Education shift changes for FY 2010-11 are shown separate from the education committee amount. Refer to the summaries of the committee areas for more information.

General Fund Expenditures - By Committee FY 2010-11					
<i>(all dollars in thousands)</i>					
	Nov. 08 Frst FY 08-09	Base FY 10-11	Governor's Recs FY 10-11	% Change Gov. FY 10-11 vs. FY 08-09	% Change Gov. vs. Base FY 10-11
K-12 Education	\$13,545,093	\$13,661,898	\$13,828,553	2.1%	1.2%
Education Shift Reduction Payments			-\$1,295,080		
Early Childhood	\$409,636	\$427,220	\$373,679	-8.8%	-12.5%
Higher Education & Workforce Devlmp	\$3,267,225	\$3,256,876	\$2,932,898	-10.2%	-9.9%
Taxes and Tax Aids	\$3,041,023	\$3,418,955	\$2,896,555	-4.8%	-15.3%
Health Care & Human Services	\$9,135,040	\$11,015,166	\$10,990,393	20.3%	-0.2%
Housing & Public Health	\$313,813	\$258,652	\$241,577	-23.0%	-6.6%
Environment & Natural Resources	\$373,438	\$306,583	\$282,016	-24.5%	-8.0%
Agriculture & Veterans	\$227,729	\$219,488	\$224,328	-1.5%	2.2%
Energy	\$60,170	\$54,542	\$54,480	-9.5%	-0.1%
Cultural & Outdoor Heritage	\$164,871	\$154,654	\$131,217	-20.4%	-15.2%
Public Safety	\$1,876,684	\$1,866,591	\$1,842,437	-1.8%	-1.3%
Transportation	\$254,207	\$212,028	\$207,732	-18.3%	-2.0%
State Government	\$718,684	\$654,706	\$673,965	-6.2%	2.9%
Debt Service	\$882,553	\$1,097,110	\$1,199,272	35.9%	9.3%
Dedicated Expenditures	\$100,674	\$129,714	\$131,327	30.4%	1.2%
Other	-\$9,660	-\$20,000	-\$20,000	107.0%	0.0%
Total	\$34,361,180	\$36,714,183	\$34,695,349	1.0%	-5.5%

Table 6 compares projected spending for FY 2012-13 under the Governor's recommendation compared to the base level projected under current law for FY 2012-13.

General Fund Expenditures - By Committee FY 2012 - 13			
<i>(all dollars in thousands)</i>			
	Base FY 2012 -13	Governor's Recs FY 2012 -13	% Change Gov. vs. Base FY 2012 -13
K-12 Education	\$14,098,775	\$14,156,357	0.4%
Early Childhood	\$435,055	\$365,653	-16.0%
Higher Education & Workforce Devlmp	\$3,254,546	\$2,935,568	-9.8%
Taxes and Tax Aids	\$3,543,221	\$2,953,045	-16.7%
Health Care & Human Services	\$12,788,862	\$12,394,330	-3.1%
Housing & Public Health	\$258,162	\$251,009	-2.8%
Environment & Natural Resources	\$314,683	\$283,143	-10.0%
Agriculture & Veterans	\$217,388	\$225,928	3.9%
Energy	\$53,542	\$53,480	-0.1%
Cultural & Outdoor Heritage	\$154,654	\$122,602	-20.7%
Public Safety	\$1,881,197	\$1,864,761	-0.9%
Transportation	\$211,580	\$207,732	-1.8%
State Government	\$654,810	\$657,534	0.4%
Debt Service	\$1,211,623	\$1,334,014	10.1%
Dedicated Expenditures	\$115,714	\$117,864	1.9%
Other	-\$20,000	-\$20,000	0.0%
Total	\$39,173,812	\$37,903,020	-3.2%

Governor Recommends Overall Revenue Increases

The Governor's budget recommendations increase net revenues to the general fund and the appropriations bond fund by \$2.855 billion in FY 2010-11. Table 7 illustrates these revenue changes on a committee basis. Most of this increase is from three items. The sale of appropriations bonds results in \$1.084 billion in revenue in FY 2010-11. Combining the health care access with the general fund brings \$1.336 billion of revenue into the general fund that was formerly revenue for the health care access fund. The Governor assumes \$920 million of additional revenue will be received by the state's general fund from the federal economic stimulus package. The Governor is recommending decreases in tax revenue and increases in a few fees. The revenue items are highlighted in the summary for each committee area.

General Fund Revenue Changes - By Committee			
<i>Dollars in thousands</i>			
(positive number indicates positive effect on general fund)			
	Gov's Rec FY 2008-09	Gov's Rec FY 2010-11	Gov's Rec FY 2012-13
K-12 Education	\$0	\$0	\$0
Early Childhood	\$0	\$0	\$0
Higher Education & Workforce Devlpt	\$0	-\$2,850	-\$2,850
Taxes - Tax Changes	\$0	-\$287,290	-\$467,630
Health Care & Human Services	\$1,600	\$1,380,367	\$1,265,963
Housing & Public Health	\$0	\$7,800	\$8,800
Environment & Natural Resources	\$0	\$0	\$0
Agriculture & Veterans	\$0	\$0	\$0
Energy	\$0	\$2,076	\$2,076
Cultural & Outdoor Heritage	\$0	\$0	\$0
Public Safety	\$0	\$1,500	\$1,000
Transportation	\$0	\$0	\$0
State Government	\$0	\$0	\$0
Capital Expenditures	\$0	\$1,084,799	\$0
Federal Stimulus	\$251,000	\$669,000	\$0
Total	\$252,600	\$2,855,402	\$807,359
Revenue change in Health Care & Human Services includes effect of moving Health Care Access Fund to the General Fund.			

For more information, contact Bill Marx, Chief Fiscal Analyst, 651-296-7176 or bill.marx@house.mn

Agriculture, Rural Economies and Veterans Affairs

The Agriculture, Rural Economies and Veterans Affairs budget provides funding for the state activity related to the agricultural sector of the economy, and for the delivery of veterans services. Agencies funded include the Veterans Affairs Department, the Agriculture Department, the Animal Health Board, and the Agriculture Utilization Research Institute. The Governor recommends General Fund appropriations of \$224 million in FY 2010-11 for this area of the budget.

Agriculture, Rural Economies and Veterans Affairs Finance					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
	November Forecast FY 2008-09	Base FY 2010-11	Governor's Recs FY 2010-11	% Change Gov. 2010-11 vs. 2008-09	% Change Gov. vs. Base 2010-11
Veterans Affairs	\$116,968	\$122,916	\$133,016	14%	8%
Agriculture, Dept of	\$91,406	\$79,536	\$77,900	-15%	-2%
Animal Health Board	\$13,155	\$10,836	\$10,312	-22%	-5%
Agriculture Utilization Research Institute	\$6,200	\$6,200	\$3,100	-50%	-50%
Total	\$227,729	\$219,488	\$224,328	-1%	2%

* FY 2008-09 numbers include unallotment.

Veterans Affairs Department

The Governor recommends a total agency budget for the biennium of \$203 million, of which \$133 million is from the General Fund. This recommendation is an increase of \$10.1 million from the agency base level. Changes recommended to the General Fund base budget by the Governor to the agency include the following items.

- Increasing the Veterans Homes program appropriation by \$5.2 million in the biennium. The increase is to cover the increased cost of operations at the homes.
- The Governor recommends an appropriation of \$2.5 million to be used for repair and betterment projects at the five state run homes.
- An appropriation of \$440,000 to be used for expansion of the Hasting veterans home mental health programs.

- The Governor recommends an increase of \$1.96 million to be used to support upgrading of the departments IT infrastructure, and increase systems integrity and availability.
- The agency requests repeal of the current statutory sunset date of the Higher Education Veterans Assistance program funding. Currently the funding will end with fiscal year 2011. The repeal of the sunset would cost \$1.05 million per year beginning in FY 2012.

Department of Agriculture (MDA)

The Governor recommends a total Department of Agriculture budget of \$169.5 million for the FY 2010-11 biennium, of which \$77.9 million is from the General Fund. This is a \$1.6 million decrease in General Fund money from the biennial base. Changes recommended to the base budget by the Governor to the MDA include the following items.

- The Governor recommends eliminating the invasive species exclusion and pest management programs of the department. This will result in a budget savings of \$1.2 million.
- The Governor recommends elimination of the Aquaculture program at the department and reduction of support for the Ag in the Classroom program. These changes would result in a reduction of \$194,000.
- A new program is recommended to make grants, loans or other assistance to advance the state's agricultural or renewable energy industries. The Governor calls this new program "Ag21." It will provide ongoing funding for the Livestock Investment Grant program and the NextGen Energy Grant program. These programs were funded in the current biennium with one time appropriations. The Governor recommends that the funding for the program come from redirected Dairy Profitability and Enhancement program funds, and from funding available in accordance with M.S. 41A.09 (Ethanol Producer payments).
- The budget recommendation calls for a reduction of \$1.3 million in grants. The Dairy Development program and the Sustainable Agriculture Demonstration Grant program are two of the programs recommended for reductions.
- There is a recommendation for a \$100,000 increase in funding for compensation to grain and livestock farmers who experience loss due to wolf and elk depredation.

Non General Fund Recommended Changes

- The Governor makes recommendations appropriating a total of \$8.925 million dollars out of the Clean Water fund. This source of this funding is the new constitutionally dedicated sales tax. Projects recommended by the governor include the AgBMP program, drinking water protection, pesticide monitoring, and water research projects.
- There are four recommendations for changes to appropriations for the Agriculture fund. The recommendations total \$5 million. Included in the requested changes is an increase of \$542,000 for MDA administration of the ACCRA program, \$42,000 for the pesticide dealer licensing program, an increase of \$37,000 per year in the dairy and food facility

inspections, and \$4.34 million for pesticide regulatory and environmental programs. The governor also recommends fee increases that will increase revenue collection to the Agriculture fund by \$5.7 million.

Animal Health Board

The Governor recommends a total Animal Health Board budget of \$14.2 million, of which \$10.3 million is General Fund money. There are two General Fund changes recommended by the Governor.

- Appropriation increases to support the elimination of bovine tuberculosis are recommended at \$400,000 for the biennium.
- The Governor recommends that the agency be given an appropriations reduction of \$462,000 in the each year of the biennium.

Agriculture Utilization Research Institute

The Governor recommends a total AURI appropriation of \$3.1 million, all of which is General Fund money. This is a decrease of \$1.55 million from the base budget.

For additional information on Agriculture, Rural Economies, and Veteran's Affairs Finance issues, contact Jim Reinholdz at 651.296.4281 or email: jim.reinholdz@house.mn.

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Capital Investment

The Governor's Capital Investment proposal for the 2009 Legislative Session included two parts: a recommendation regarding the general obligation bonding bill and a recommendation regarding appropriation bonds. These two elements impact the debt service and capital projects portions of the budget. The Governor recommended spending approximately \$114.5 million from the general fund on these two activities during the FY 2010-11 biennium. This represents a 90 percent decrease in comparison to the base general fund budget for the FY 2010-11 biennium and is due to the use of appropriation bonds to fund three general fund debt service payments. The table below provides an overview of the Governor's proposed general fund spending:

Capital Investment Finance Division					
Total General Fund Spending					
(all dollars in thousands)					
	November Forecast FY 08-09	Forecast Base FY 10-11	Governor's Recs FY 2010-11	Percentage Change Gov. FY 10-11 vs. FY 08-09	Percentage Change Gov. vs. Base FY 10-11
Debt Service - GO Bonds	\$ 862,058	\$1,067,310	\$ 0	-100%	-100%
Debt Service - Appropriation Bonds	\$ 0	\$ 0	\$ 109,674	100%	100%
Capital Projects ¹	\$ 20,495	\$ 29,800	\$ 4,800	-77%	-84%
Net GF Total	\$ 882,553	\$1,097,110	\$ 114,474		
<small>1. The funding under the capital projects budget activity is for the appropriation for debt service payments on Housing Finance Agency bonds, University of MN Biomedical Facility bonds, and University of MN TCF Stadium bonds. These activities are usually found within the Housing and Higher Education areas of the budget. However, the appropriation bonds directly impact items within the capital projects budget activity. Additional information on this is included below.</small>					

2009 Bonding Bill

The Governor proposed no general obligation bonding bill for the 2009 Legislative Session. The November forecast included debt service for a \$120 million general obligation bond package. Therefore, under the Governor's proposal, the general fund debt service costs would be approximately \$9.8 million less for the FY 2010-2011 biennium and approximately \$26.2 million less for the FY 2012-2013 biennium.

2009 Appropriation Bonds

The Governor also proposed the sale of \$1.1 billion in appropriation bonds. Unlike general obligation bonds, which are backed by the full faith and credit of the state, appropriation bonds are backed by an appropriation. The proceeds from these bonds will be used to pay the debt service on previously appropriated general obligation bonds, the appropriation for debt service on the University of Minnesota biomedical research facilities and TCF Stadium bonds, and bond

sale expenses. The Governor's proposal pays the debt service on the appropriation bonds over a 20-year period, and debt service costs would total approximately \$1.6 billion from FY 2010 to FY 2030 based on current estimates (based on an interest rate of 4.4 percent).

Below is a chart outlining the total general fund impact of the proposed changes. As depicted below, expenditures from the general fund will decrease by approximately \$982.6 million over the FY 2010-11 biennium. However, expenditures will increase by approximately \$122.4 million in the FY 2012-13 biennium and approximately \$121.5 million in the FY 2014-2015 biennium due to the Governor's appropriation bond proposal; debt service payments on the appropriation bonds are expected to increase through the FY 2028-2029 biennium.

Capital Investment Finance Division						
General Fund Impact with Governor's Recommendations						
(all dollars in thousands)						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Recommendation I: No 2009 Bonding Bill						
Forecasted Bond Sale Expenses	\$533,014	\$534,296	\$1,067,310	\$573,211	\$593,193	\$1,166,404
Impact of No 2009 Bonding Bill	(\$1,715)	(\$8,060)	(\$9,775)	(\$10,732)	(\$15,436)	(\$26,168)
Remaining Debt Service	\$531,299	\$526,236	\$1,057,535	\$562,479	\$577,757	\$1,140,236
Recommendation II: \$1.1 Billion in Appropriation Bonds						
Appropriation Bond Sale						
Bond Proceeds	(\$542,399)	(\$542,400)	(\$1,084,799)	\$0	\$0	\$0
Bond Sale Expenses	\$0	\$2,264	\$2,264	\$0	\$0	\$0
Sub Total: Appropriation Bonds	(\$542,399)	(\$540,136)	(\$1,082,535)	\$0	\$0	\$0
Debt Service on Appropriation Bonds	\$36,484	\$73,190	\$109,674	\$73,848	\$74,711	\$148,559
Anticipated Appropriations with Appropriation Bond Proceeds						
Debt Service from GO Bonds	\$531,299	\$526,236	\$1,057,535	\$0	\$0	\$0
U of M - Biomed Research Facilities	\$850	\$3,650	\$4,500	\$0	\$0	\$0
U of M - TCF Stadium	\$10,250	\$10,250	\$20,500	\$0	\$0	\$0
Sub Total: Anticipated Appropriations	\$542,399	\$540,136	\$1,082,535	\$0	\$0	\$0
GF Resources Made Available	(\$542,399)	(\$540,136)	(\$1,082,535)	\$0	\$0	\$0
Total Appropriation Bond Impact	(\$505,915)	(\$466,946)	(\$972,861)	\$73,848	\$74,711	\$148,559
General Fund Impact (Savings)	(\$507,630)	(\$475,006)	(\$982,636)	\$63,116	\$59,275	\$122,391

If you have further questions on Capital Investment issues, please contact Koryn Zewers at 651-296-4178 or e-mail at koryn.zewers@house.mn.

Cultural & Outdoor Resources Finance

The Cultural & Outdoor Resources Finance Division has budget jurisdictions for 15 state departments, councils, boards and programs. The Governor's recommendations for these accounts are discussed in Part 1.

The Division also has jurisdiction for the Clean Water, Land and Legacy Constitutional Amendment approved by Minnesota voters in November, 2008 general election. The Governor's recommendations for the four Funds created in the Amendment are discussed in Part 2.

PART 1. DIVISION AGENCIES & PROGRAM ACCOUNTS

The Governor recommends General Fund appropriations totaling \$131.217 million in the FY 2010-11 biennium for the 15 accounts within the budget jurisdiction of the Cultural & Outdoor Resources Finance Division. The recommendation is \$23.437 million below the accounts' forecast base funding level for the biennium. The percent decrease is 15.2 percent.

Governor's FY 2010-11 General Fund Recommendations					
Agencies and Accounts					
<i>(Dollars in thousands)</i>					
	Forecast FY 08-09	Base FY 10-11	Gov's Recs FY 10-11	% Change Gov. FY 10-11 vs. Forecast FY 08-09	% Change Gov. vs. Current Law FY 10-11
Amateur Sports Commission	\$ 2,108	\$ 1,940	\$ 540	-74.4%	-72.2%
Arts Board	20,443	20,674	10,338	-49.4%	-50.0%
Children's Museums	620	620	620	0.0%	0.0%
Council on Asians Pacific Minnesotans	578	578	550	-4.8%	-4.8%
Council on Black Minnesotans	658	666	632	-4.0%	-5.1%
Council on Chicano Latino Affairs	622	628	596	-4.2%	-5.1%
Indian Affairs Council	976	986	936	-4.1%	-5.1%
Explore Minnesota Tourism	24,920	22,202	19,976	-19.8%	-10.0%
Historical Society	50,559	48,974	43,400	-14.2%	-11.4%
Humanities Commission	500	500	0	-100.0%	-100.0%
Public Broadcasting	14,824	3,910	3,910	-73.6%	-0.0%
Public Facilities Authority	200	200	200	0.0%	0.0%
Public Libraries	31,170	36,140	34,423	10.4%	-4.8%
Science Museum of Minnesota	2,500	2,500	2,374	-5.0%	-5.0%
Zoological Board	14,193	14,136	12,722	-10.4%	-10.0%
Total	\$ 164,871	\$ 154,654	\$ 131,217	-20.4%	-15.2%

Amateur Sports Commission (MASC)

The Governor recommends General Fund appropriations of \$270,000 in FY 2010 and \$270,000 in FY 2011 for the Amateur Sports Commission. The recommended appropriation is \$700,000 each year below MASC’s the forecast base, a 72.2% reduction. The recommendation contains two major components:

Minnesota Amateur Sports Commission 2010-11 General Fund Appropriations (dollars in thousands)			
Program	Base	Gov's Chg.	Gov's Rec.
Operations	440	100	540
Target Center Payment	1,500	(1,500)	0

- \$50,000 increase each year in the support of MASC’s operations. The total amount of state support for MASC operations would increase to \$270,000 each year with this recommendation
- \$750,000 reduction each year in the Target Center payment. This recommendation would eliminate this payment.

Arts Board

The Governor recommends that the Arts Board transition into a private non-profit organization. Accordingly, the governor is recommending phased-out state funding for the Board beginning with a General Fund appropriation of \$10.338 million for the FY 2010-11 biennium.

This is a \$10.336 million decrease from the Board's 2010-2011 forecast base. The percentage reduction is 50%.

Minnesota Arts Board 2010-11 General Fund Appropriations (dollars in thousands)			
Program	Base	Gov's Chg.	Gov's Rec.
Operations & Services	1,302	(688)	614
Grants Program	13,454	(6,699)	6,755
Regional Arts Council	5,918	(2,949)	2,969

The specific Governor recommendations include:

- \$229,000 in FY 2010 and \$459,000 in FY 2011 in reductions to the Board’s Operation and Services.
- \$2,233,000 in FY 2010 and \$4,466,000 in FY 2011 in reductions to the Grants Program.
- \$983,000 in FY 2010 and \$1,966,000 in FY 2011 in reductions to the Regional Arts Councils.

Beginning in FY 2012 and going forward, the Governor is recommending that state support for the Arts Board be eliminated.

Children's Museums

The Governor recommends no change in the General Fund appropriations for the Minnesota and the Duluth Children's Museums in the FY 2010-11 biennium. The recommendation will continue the:

- Minnesota Children's Museum appropriation at \$260,000 for each year.
- Duluth Children's Museum appropriation at \$50,000 each year.

Council on Asian-Pacific Minnesotans

The Governor recommends a General Fund appropriation of \$550,000 for the Council on Asian-Pacific Minnesotans in the FY 2010-11 biennium.

- The recommendation is \$28,000 below the Council's forecast base budget, a decrease of 4.8 percent.
- The operating budget of the Council is reduced by \$14,000 to \$275,000 each year.

Council on Black Minnesotans

The Governor recommends a General Fund appropriation of \$632,000 for the Council on Black Minnesotans in the FY 2010-11 biennium.

- The recommendation is \$34,000 below the Council's forecast base budget, a decrease of 5.1 percent.
- The Council's operating budget is reduced by \$17,000 to \$316,000 each year.

Chicano-Latino Affairs Council

The Governor recommends a General Fund appropriation of \$596,000 for the Chicano-Latino Affairs Council in the FY 2010-11 biennium.

- The recommendation is \$32,000 below the Council's forecast base, a decrease of 5.1 percent.
- The Council's operating budget is reduced by \$16,000 to \$298,000 each year.

Minnesota Indian Affairs Council

The Governor recommends a General Fund appropriation of \$936,000 for the Indian Affairs Council in the FY 2010-11 biennium.

- The recommendation is \$50,000 below the Council's forecast base, a decrease of 5.1 percent.
- The Council's operating budget is reduced by \$25,000 to \$468,000 each year.

Explore Minnesota Tourism

The Governor recommends that Explore Minnesota Tourism’s General Fund appropriation for the FY 2010-11biennium be \$19.976 million. The recommendation is \$2.226 million below the forecast base, a 10 percent decrease.

Explore Minnesota Tourism			
2010-11 General Fund Appropriations			
(dollars in thousands)			
Program	Base	Gov's Chg.	Gov's Rec.
Tourism	20,252	(2,030)	18,222
Film & TV Boards Operations	650		650
Film Jobs Program (Snowbate)	1,300	(196)	1,104

\$1.015 million reduction each year in reduced funding for tourism programs and office operations.

- \$98,000 reduction each year in funding for the Films Jobs Productions Program. The program, often called the “Snowbate” program, will be funded at \$552,000 each year

The state funding provided to the Minnesota Film & TV Board is not reduced under the Governor’s budget. The funding is \$325,000 per year.

Historical Society

The Governor recommends FY 2010-11 General Fund appropriations for the Historical Society totaling \$43.4 million, a \$5.574 million decrease from the current law base. The percentage decrease is 11.4 percent.

The table below depicts the Society's program-specific funding reductions under the Governor's proposed budget.

Minnesota Historical Society			
2010-11 General Fund Appropriations			
(dollars in thousands)			
Program	Base	Gov's Chg.	Gov's Rec.
Education & Outreach	27,724	(3,172)	24,552
Preservation & Access	20,792	(2,334)	18,458
FarmAmerica	256	(38)	218
MN International Center	86	(12)	74
MN Military Museum	100	(15)	85
MN Air National Guard	16	(3)	13

- \$1.581 million reduction in FY 2010 and \$1.591 million reduction in FY 2011 in the Society’s Education and Outreach Division.

- \$1.163 million reduction in FY 2010 and \$1.171 million reduction in FY 2011 in the Society's Preservation and Access Division.
- \$19,000 reduction each year in the pass through grant to the FarmAmerica (Minnesota Agricultural Interpretive Center).
- \$6,000 reduction each year in the pass through grant to the Minnesota International Center.
- \$15,000 onetime reduction in FY 2010 only in the pass through grant to the Minnesota Military Museum.
- \$3,000 onetime reduction in FY 2010 only in the pass through grant to the Minnesota Air National Guard Museum.

Humanities Commission

The Governor recommends that state support for the Humanities Commission be eliminated. The recommendation would end the Commission's annual \$250,000 General Fund appropriation.

Public Broadcasting

The Governor recommends a \$3.910 million appropriation for Public Radio and Public Television in the FY 2010-11 biennium.

The recommendation is at forecast base funding and includes no increases or decreases in funding for the six programs under the Public Broadcasting umbrella.

Public Broadcasting			
2010-11 General Fund Appropriations			
(dollars in thousands)			
Program	Base	Gov's Chg.	Gov's Rec.
Public TV Matching Grants	2,322		2,322
Public TV Equipment Grants	400		400
Twin Cities Regional Cable Channel	34		34
AMPERS Public Radio Community Grants	574		574
AMPERS Public Radio Equipment Grants	200		200
MN Public Radio Equipment Grants	380		380

Public Facility Authority

The Governor recommends a General Fund appropriation of \$200,000 for the Public Facilities Authority in the FY 2010-11 biennium. The recommendation continues PFA's Small Cities Technical Assistance program at the current funding of \$100,000 per year.

The Public Facility Authority is almost exclusively funded with nongeneral fund statutory appropriations. More than 99.999% of the PFA's funding is from these sources.

Public Libraries

The Governor recommends a \$34.423 million appropriation for Public Libraries in the FY 2010-11 biennium. The recommendation is \$1.717 million less than the Libraries' biennial forecast base funding.

The decrease would be one time only in FY 2010, and is attributable to the Governor's broader recommendation to shift education aid payments from the current 90/10 payment schedule to an 80/20 payment schedule. Full funding for all Public Libraries' grants and aids programs will be restored in FY 2011 under the Governor's recommended budget.

Public Libraries			
2010-11 General Fund Appropriations			
(dollars in thousands)			
Program	Base	Gov's Chg.	Gov's Rec.
Basic System Support Grants	27,140	(1,357)	25,783
Multicounty, Multitype Libraries Grants	2,600	(130)	2,470
Regional Libraries Telecommunication Aid	4,600	(230)	4,370
Electronic Library of Minnesota	900		900

Science Museum of Minnesota

The Governor's budget recommends an appropriation of \$2.374 million to the Science Museum in the FY 2010-11 biennium.

- The recommendation is \$126,000 below the Science Museum's forecast base, a 5 percent decrease.
- The annual appropriation to the Science Museum is reduced by \$63,000 to \$1.187 million each year.

Zoological Garden (MZG)

The Governor recommends the Minnesota Zoo receive a General Fund appropriation of \$12.722 million in the FY 2010-11 biennium.

- The recommendation is \$1.414 million below the Zoo's forecast base, a 10 percent reduction.
- The annual appropriation to the Zoo is decreased by \$707,000 to \$6.361 million each year.

Fiscal Year 2012-13 Biennium Tails

The Governor's proposed budget would have General Fund appropriations for Cultural and Outdoor Resources Finance Division accounts equaling \$122.602 million in the FY 2012-13 out-biennium. The recommendation is a \$32.052 million decrease from the FY 2012-13 biennium base. The percentage reduction is 20.7%.

**PART 2. CLEAN WATER, LAND & LEGACY
CONSTITUTION AMENDMENT**

Minnesota voters approved the Clean Water, Land and Legacy Constitution Amendment in the November, 2008 general election.

The amendment's passage increases the state sales and use tax rate by 3/8th of one percent. The increase will become effective on July 1, 2009, and will be in place for 25 years until the year 2034.

The table lists the four Funds established under the Constitutional Amendment, the percent of sales and use tax collections designated for each Fund, the estimated receipts that each Fund will receive based on the November, 2008 forecast, and the Governor's recommended appropriations from each Fund for the 2010-2011 biennium.

Governor's FY 2010-11 Recommendations Clean Water, Land and Legacy Constitution Amendment <i>(Dollars in thousands)</i>			
	Fund Percentage of Total	Estimated Receipts FY 10-11¹	Governor's Recommended Appropriations FY 10-11
Outdoor Heritage Fund	33.0%	162,756	No Recommendations
Clean Water Fund	33.0%	162,756	118,225
Parks & Trails Fund	14.25%	70,281	53,100
Arts & Cultural Heritage Fund	19.75%	97,407	No Recommendations
Total	100.0%	\$493,200	\$171,325
¹ Note: The Estimated FY 10-11 funds available numbers are from the November, 2008 Forecast. The reader is advised that these numbers will change with the February, 2009 Forecast.			

As noted in the table footnote, the reader is advised that the estimated receipts shown will change with the February 2009 Revenue Forecast. The extent of the change will depend on the difference in sales and use tax collections forecasted between the November 2008 and February 2009 Forecasts. Furthermore, it is important to remember that actual sales tax collections will likely differ from forecasted receipts.

Outdoor Heritage Fund

The Governor is not making any recommendations for appropriations from the Outdoor Heritage Fund.

The Legislature created the 12-member Lessard Outdoor Heritage Council. The Council is charged with making recommendations on appropriations of money from the Outdoor Heritage Fund by April 1, 2009, and in subsequent years, by no later than January 15.

Clean Water Fund

The Governor is recommending that \$118.225 million be appropriated from the Clean Water Fund in the 2010-2011. The recommendations are summarized in the following table.

Clean Water Fund 2010-11 Recommended Appropriations (dollars in thousands)	
Agency/Program	Governor's Recommendation
Department of Agriculture <ul style="list-style-type: none"> • Research, Projects & Technical Assistance • Pesticide Monitoring & Assessment • Drinking Water Protection • Agriculture Best Practices Loan Program 	2,625 675 1,125 4,500
Board of Water & Soil Resources <ul style="list-style-type: none"> • Clean Water Amendment Projects 	34,550
Department of Health <ul style="list-style-type: none"> • Drinking Water Contaminants • Source Water Protection 	1,335 2,415
Metropolitan Council <ul style="list-style-type: none"> • Water 	938
Department of Natural Resources <ul style="list-style-type: none"> • Clean Water Legacy • Drinking Water Source Planning & Protection 	6,324 1,125
Pollution Control Agency <ul style="list-style-type: none"> • Data Base Development & Rules • Drinking Water Protection • St. Louis River Restoration • Assessment & Monitoring • TMDL Development • Endocrine Disruptor 	1,688 2,250 750 10,800 21,375 375
Public Facilities Authority <ul style="list-style-type: none"> • Small Community Wastewater Treatment • TMDL Grants Program • Phosphorous Reduction Grants 	2,875 15,000 7,500
TOTAL GOVERNOR'S RECOMMENDATIONS	\$118,225

Parks and Trails Fund

The Governor is recommending that \$53.1 million be appropriated from the Parks and Trails Fund in the 2010-2011. The recommendations are summarized in the following table.

Parks and Trails Fund 2010-11 Recommended Appropriations (dollars in thousands)	
Agency/Program	Governor's Recommendation
Department of Natural Resources <ul style="list-style-type: none"> • Investing in Our State Parks & Trails Legacy • Parks & Trails Grants 	20,178 12,744
Metropolitan Council <ul style="list-style-type: none"> • Heritage Constitutional Amendment 	20,178
TOTAL GOVERNOR'S RECOMMENDATIONS	53,100

Arts and Cultural Heritage Fund

The Governor is not making any recommendations for appropriations from the Arts and Cultural Heritage Fund.

For additional information on Cultural and Outdoor Resources Finance issues, contact Ron Soderberg at 296-4162 or ron.soderberg@house.mn

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Early Childhood Finance

The Early Childhood Learning budget provides funding for programs within two agencies – the Minnesota Department of Education (MDE) and the Department of Human Services (DHS). The programs funded in the MDE include Early Childhood and Family Support; Community Education and Prevention; and Self-Sufficiency and Lifelong Learning. The DHS funding appropriated by the committee goes toward the Children & Economic Assistance Grants program, which includes Minnesota Family Investment Program (MFIP) Child Care Assistance Grants, Basic Sliding Fee (BSF) Child Care Assistance Grants, and Child Care Development Grants. The committee also has jurisdiction over the policy portion of related licensing programs.

The Governor recommends general fund appropriations of \$373.6 million for the programs administered by the agencies in the Early Childhood committee in FY 2010-11.

Early Childhood Finance					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
Agency / Program	November Forecast FY 2008-09	Forecast Base FY 2010-11	Gov's Recs FY 2010-11	% Change Gov. 10-11 vs. FY 08-09	% Change Gov. vs. Base FY 10-11
Dept. of Education	210,090	204,569	196,342	-7%	-4%
Dept. of Human Services	199,546	222,651	177,337	-11%	-20%
Total Expenditures:	409,636	427,220	373,679	-9%	-13%

Minnesota Department of Education

The Governor recommends a total budget of \$196.3 million in general fund money for the 2010-11 biennium. This is a recommended general fund decrease of \$8.2 million dollars over the agency's current FY 2010-11 base spending level.

The Governor made one recommendation for the committee's programs under MDE. He recommends changing the current payment schedule of 90% current, 10% final adjustment basis to 80% current, 20% final adjustment basis payment schedule. This would result in a reduction of \$8.05 million in spending in FY 2010. The activities impacted include Early Childhood Family Education, School Readiness, Health and Developmental Screening, Community Education, Adults with Disabilities, and Adult Basic Education.

Department of Human Services

For the DHS programs covered by the committee, the Governor recommends a total budget of \$211.3 million for the 2010-11 biennium. Of this amount, \$177.3 million is general fund money and \$34 million is from Temporary Assistance for Needy Families (TANF) funds. Including TANF funds, the Governor's recommendation is a decrease of \$11.3 million dollars over the agency's current FY 2010-11 base spending level. The general fund recommendation is a reduction of \$45.3 million for the 2010-11 biennium.

The Governor's recommendations include the following:

- *TANF refinancing* – The Governor recommends reducing general fund spending for MFIP Child Care by \$9.4 million in FY10 and \$24.5 million in FY11 and transferring that same amount from the TANF fund to be used for MFIP Child Care.
- *Fraud Prevention Investigation* – The recommendation is to move the responsibility for this program from the county level to the state level. Currently, part of the funding for this program is in grants made to counties from Fraud Prevention Investigation and Child Care Program Integrity funds. If the state runs the program, the funds would be appropriated directly from the general fund to DHS. This would result in a general fund savings of \$245,000 in FY 10-11 in the Child Care Development grants area.
- *Reduction in Child Care Assistance Program* – The recommended change to CCAP includes a 3% reduction in maximum rates paid to providers and a 3 percent increase in co-payments for families with a subsidy under CCAP. As a result of these changes, general fund spending would be reduced by \$4.9 million in 2010 and \$5.5 million in 2011.
- *Investment in early learning* – This recommendation is to continue School Readiness Connections and a piloted quality rating system called Parent Aware. The net impact on the General Fund is no cost in FY 2010-11. The Governor suggests using under spending in the Basic Sliding Fee program to cover the cost of continuing these two programs. The amount of BSF underspending will not be known until March 2009.
- *Other program changes* – There were two other recommendations for DHS programs which affected the amount spent on MFIP Child Care and BSF in the 2010-11 biennium. The Governor recommends limiting retroactive eligibility for CCAP to 6 months. This change would reduce MFIP by \$268,000 in 2010-11 and BSF by \$27,000. The other relevant recommendation is to decrease the MFIP exit level to 110 percent of the Federal Poverty Guideline, which reduces MFIP child care by \$84,000 in 2011.

Department of Human Services: Children & Economic Assistance Grants Governor's FY 2010-11 General Fund Recommendations <i>(all dollars in thousands)</i>					
Early Childhood Committee Activity	November Forecast FY 2008-09	Forecast Base FY 2010-11	Gov's Recs FY 2010-11	% Change Gov. 10-11 vs. FY 08-09	% Change Gov. vs. Base FY 10-11
MFIP Child Care	110,376	129,735	89,423	-19.0%	-31.1%
BSF Child Care	78,776	89,950	85,185	8.1%	-5.3%
Child Care Development	10,394	2,966	2,729	-73.7%	-8.0%
Total Expenditures:	199,546	222,651	177,337	-11.1%	-20.4%

For additional information on Early Childhood Finance issues, contact Emily Adriaens at 651.296.7171 or email: emily.adriaens@house.mn.

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Energy Finance & Policy

The Energy Finance & Policy Division has budget oversight jurisdiction for the Department of Commerce and the Public Utilities Commission.

The Governor recommends General Fund appropriations totaling \$54.48 million in the FY 2010-11 biennium for Department of Commerce and the Public Utilities Commission. The recommended spending is \$62,000 below the agencies' FY 2010-11 forecast base funding levels.

Governor's FY 2010-11 General Fund Recommendations					
<i>(Dollars in thousands)</i>					
	Forecast FY 08-09	Base FY 10-11	Gov's Recs. FY 10-11	% Change Gov. FY 10- 11 vs. FY 08-09	% Change Gov. vs. Base FY 10-11
Department of Commerce	49,390	43,676	43,614	-12%	0%
Public Utilities Commission	10,780	10,866	10,886	1%	0%
Total General Fund Spending	60,170	54,542	54,480	-9%	0%
New General Fund Revenues			2,076		
Net General Fund Impact			52,404		

The net General Fund impact of the Governor's proposed budget is \$52.404 million. The \$54.48 million in recommended General Fund appropriations is partially offset with \$2.076 million in new General Fund revenues that the Governor is also recommending.

Department of Commerce

The Governor recommends \$43.614 million for the Department's FY 2010-11 General Fund appropriations. The recommendation is \$62,000 less than the Department's current law forecast base appropriations.

Department of Commerce			
Recommended 2010-11 General Fund Appropriations & Revenues			
<i>(dollars in thousands)</i>			
Division/Program	Base	Gov's Chg.	Gov's Rec.
Financial Examinations	13,274	0	13,274
Administrative Services	9,422	(822)	8,600
Market Assurance	11,980	760	12,740
Telecommunications	2,020	0	2,020
Office of Energy Security	6,980	0	6,980
Department Revenues		2,076	2,076

The net General Fund cost of the Governor's recommendations for the Department is \$41.538 million. The net cost is reduced by the Governor additional recommendations that Department revenues be increased by \$2.076 million above current law.

The Governor's specific General Fund recommendations for the Department of Commerce include:

- \$411,000 in reductions each year in the Administrative Service Division's General Fund appropriations.

The net impact of this recommendation is partially offset by a second Governor recommendation to provide \$235,000 each year in additional Division appropriations from the indirect cost account in the Special Revenue Fund.

Taken together, the Governor's two recommendations would result in the Division's all fund appropriations being reduced by \$176,000 each year.

- \$680,000 increase each year in the Market Assurance Division's General Fund appropriations. The appropriation will be used to hire Department staff to conduct insurance examinations and investigations. Currently, these examinations and investigations are conducted by outside contractors.

The cost of this recommendation will be more than offset through increased General Fund revenues garnered through assessments paid by the insurance companies being examined and/or investigated. The revenue associated with this recommendation is discussed below.

This initiative will also have budget implications for non general funded Division activities. It is projected to save \$84,000 each year for the Workers' Compensation Special Fund; and increased costs of \$22,000 each year to the Insurance Fraud Prevention account in the Special Revenue Fund.

- \$300,000 each year in reduced General Fund appropriations for the Department's Market Assurance Division. The reduction is owing to anticipated savings from the Governor's recommendations that insurance rates and forms be regulated on a "file and use basis," with the exception of workers' compensation, annuities, and health (other than dental, excess accident and health, and vision).

The Governor is also recommending two General Fund revenue items within the Department of Commerce. Taken together, these recommendations will increase General Fund revenues by \$2.076 million in the 2010-2011 biennium:

- \$754,000 each year in estimated revenues from the Governor's recommendation that insurance examinations and investigations be moved "in-house." As discussed above, the Department will assess companies directly for the costs associated with these activities, and deposit the assessments in the General Fund.

- \$284,000 each year in estimated increased revenue from the Governor's recommendation that the Office of Energy Security modify its recovery of non-regulatory costs. Currently, these costs are recovered through assessment of municipal utilities and electric cooperatives only. The Governor proposes the assessment be applied to all energy utilities.

The Governor is recommending no changes in the appropriations for the Department Divisions listed below:

- Financial Examinations
- Telecommunications
- Office of Energy Security

Public Utilities Commission

The Governor is recommending no changes in the Public Utilities Commission's current law base General Fund appropriations. The recommended appropriation is \$5.433 million each year in the FY 2010-11 biennium.

The Governor is putting forth one recommendation relative to the PUC's nongeneral fund appropriations and revenues. The recommendation impacts both the expenditure and revenue sides of the ledger.

Specifically, the Governor is recommending:

- \$400,000 each year in additional appropriations from the Special Revenue to be used for acquiring technical consulting services when the Commission determines specialized services are needed for audits or investigations of complex utility or telecommunications systems.
- \$400,000 each year in additional Special Revenue revenues to offset the cost of acquiring the technical consulting services discussed above. These expenditures will be subject to recovery under the PUC's assessment authority.

Fiscal Year 2012-13 Biennium Tails

The Governor's proposed budget would have General Fund appropriations for Energy Finance and Policy Division accounts equaling \$42.614 million in the FY 2012-13 biennium. This is \$1.062 million less than the Governor's recommended FY 2010-11 biennium General Fund appropriations. One million dollars of this difference is because of the expiring onetime appropriation for the E-85 Everywhere program which is scheduled to end in FY 2010 under current law.

For additional information on Energy Finance issues, contact Ron Soderberg at 296-4162 or ron.soderberg@house.mn

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Environment and Natural Resources Finance

The Environment and Natural Resource budget provides funding for the management, protection and enhancement of the natural resources of the state. Agencies and programs funded include the Pollution Control Agency, the Department of Natural Resources, the Minnesota Conservation Corps, the Metropolitan Council Parks, the Board of Soil and Water Resources, and the recommendations of the Legislative Citizens Committee on Minnesota Resources. The Governor recommends General Fund appropriations of \$282 million for FY 2010-11. That recommendation is a reduction of \$91 million from the current biennium projected expenditures.

Environment and Natural Resources Finance					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
	Forecast FY 08-09	Base FY 10-11	Gov's Recs FY 10-11	% Change Gov. FY 10-11 vs. FY 08-09	% Change Gov. vs. Base FY 10-11
<i>Natural Resources, Dept-Direct</i>	175,766	158,986	149,746	-15%	-6%
<i>Natural Resources, Dept(OPENS)</i>	<u>81,184</u>	<u>80,866</u>	<u>72,166</u>	-11%	-11%
Natural Resources, Dept-Total	256,950	239,852	221,912	-14%	-7%
Pollution Control Agency	53,121	22,982	20,682	-61%	-10%
Water & Soil Resources Bd	54,367	34,699	31,230	-43%	-10%
Metropolitan Council Parks	8,000	8,100	7,290	-9%	-10%
Minnesota Conservation Corps	1,000	950	902	-10%	-5%
Total	373,438	306,583	282,016	-24%	-8%

**FY 08-09 numbers include unallotment*

Pollution Control Agency (PCA)

The Governor recommends a total FY 2010-11 budget of \$37 million, of which \$20.6 million is General Fund dollars for this agency. This is a recommended General Fund decrease of \$32.4 million from the agency's current biennium spending. Changes recommended by the Governor to the agency budget base include the following items.

- The request includes a General Fund decrease of \$850,000 in each year in funding for the Clean Water Partnership Grant program.
- A reduction in agency operational costs of \$300,000 in each year from the General Fund is recommended by the Governor.

Non-General Fund Changes

- The agency is requesting an annual increase of \$6 million in appropriations for the biennium from the Environmental fund to support regulatory programs in the area of ethanol, mining, and power generation. This activity was funded in the current biennium as a one-time appropriation.
- The Governor recommends \$1.4 million from the Environmental fund to be used to develop an air emissions database.
- Also included in the changes to the Environmental fund is a request to redirect \$1.8 million of current spending to other areas. The budget did not contain specifics on the redirections.
- \$750,000 is requested in each year from the Environmental fund to be used “to position the agency to respond to federal action and court challenges relating to climate change.”
- \$450,000 from the Environmental fund is recommended to be used for development and implementation of storm water management plans.
- An increase in the appropriation from the environmental fund for Air program activities of \$167,000 in FY 2010 and \$427,000 in FY 2011 is requested.
- An increase from the environmental fund of \$500,000 in each year is requested to be used to increase the county SCORE grants.
- In order to fund the new Environmental fund requests, the agency is proposing to reduce the transfer of Environmental fund money to the Remediation fund by \$7.3 million. This would result in less funding for the Closed Landfill program, and the Superfund/MERLA program.
- The agency is recommending statutory changes that will continue the appropriation to the agency of the fee revenue received from the E-Waste program.
- The Governor is recommending an appropriation of \$37 million from the newly funded Clean Water fund. The money in this account is from the constitutionally dedicated sales tax approved by the voters in 2008. The funding will be used to continue and expand the Clean Water Legacy program.
- An increase of \$270,000 in each year from the Environmental fund is requested to be used for increased funding of subsurface sewage treatment systems activities. The increased funding would come through an increase in the current license fees.

Department of Natural Resources (DNR)

The Governor recommends a total Department of Natural Resources budget of \$725 million, of which \$222 million is General Fund dollars. This is a recommended General Fund decrease of \$35 million from the current biennium. Items recommended for change by the Governor to the agency include the following items.

General Fund (and mixed fund)

- The Governor recommends an agency reduction in appropriations from the General Fund of \$14.44 million. This reduction is distributed to the agency divisions in the following way.
 - A \$1.9 million per year reduction in the Lands and Minerals division. Real estate management and mineland reclamation funding is reduced.
 - \$640,000 per year is reduced in the Waters division. Grants to the Mississippi Headwaters Board and the Red River Mediation Agreement will be reduced or eliminated.
 - The Fish & Wildlife division appropriation is reduced by \$2.77 million a year.
 - An additional \$1.933 million is unspecified reductions throughout the agency.
- An increase of \$2 million from the General Fund in each year is requested to fund DNR forest management activities. The increase in General Fund is to partially offset a reduction of \$11.1 million in funding from the Natural Resources fund. The revenue from sales of timber is significantly below previous estimates, and the Natural Resources fund account does not have adequate money to fund the Forestry division at the base level.
- An appropriation of \$600,000 in each year from the General Fund is requested to increase appropriations for programs to monitor and manage Bovine TB in the wild deer herd population.
- The Governor is recommending a reduction of \$8.7 million for the local government payments made in lieu of taxes on DNR lands. The proposal would set the payments at 80% of the forecasted amounts.

Non-General Fund changes

- From the Natural Resources fund is a recommendation for an appropriation of \$220,000 in each year for gray wolf management activity.
- The Governor is requesting \$470,000 each year from the Natural Resources fund to be used for outreach efforts aimed at increasing the participation rates in outdoor recreation activity.
- The Governor is proposing to fund mineland reclamation out of increased fees on mining permits. The increased funding from the Natural Resources fund of \$1.8 million per year would be from the fee increases.
- The Governor recommends that the fee for large water use permits be directly appropriated to the agency. The estimate of revenues for the first year is \$20,000 and for the second year the estimate is \$10,000.
- A \$2.8 million increase in appropriations from the Water Recreation account is requested. The increase would be used for improvements on water access sites.

- The agency is requesting that the money taken in from sales of the voluntary walleye fishing stamp be appropriated to the department. The estimate is for revenue of \$285,000 per year.
- An appropriation from the Game and Fish fund of \$950,000 per year is requested to be used to expand the Ecological Classification System program activity.
- A recommendation for completing a study of the feasibility of a public-private partnership for nursery research and large-scale production of containerized seedlings is funded at \$250,000 from the Game and Fish fund.
- The budget requests \$32.9 million from the Parks and Trails fund. The money in this fund is from the newly dedicated sales tax money. \$20.2 million of the funds will be used to renew, restore and rehabilitate state parks and trails. The remainder of the request, \$12.7 million is for grants for local parks and trails projects.
- The Governor recommends an appropriation of \$7.5 million from the Clean Water fund to be used for Clean Water Legacy activities in the department. This funding is from the newly dedicated sales tax money that is constitutionally required to be used for water activities. \$1.125 million of this amount is for drinking water source planning and protection activities.

Board of Soil and Water Resources (BWSR)

The Governor recommends a total BWSR budget of \$78.28 million. Of that amount, \$31.2 million is from the General Fund. This is a recommended General Fund decrease of \$3.5 million from the agency base forecast. Included in the recommendation are two change items.

- A recommended decrease in agency General Fund appropriations of \$3.5 million. The budget does not provide details on this reduction.
- The Governor is requesting that the agency be appropriated \$34.6 million from the Clean Water fund. The money would be used for Clean Water Legacy activities.

Minnesota Conservation Corps

The Governor recommends funding the MCC at a total biennial amount of \$1.9 million. Of that amount \$902,000 per year is from the General Fund. This is a decrease of \$98,000 from the current amount.

Metropolitan Council Parks

The Governor requests a decrease in the General Fund appropriation for Metro Parks of \$810,000 from the base amount of \$8.1 million. The Governor is also recommending that the Metro Parks system be appropriated \$20.2 million from the Parks and Trails fund. This money is from the newly dedicated sales tax.

Legislative-Citizen Commission on Minnesota Resources (LCCMR)

The Governor does not make recommendations on the funding that is statutorily the responsibility of the LCCMR. The LCCMR will be presenting its recommendation on the funding to the legislature.

For additional information on Environment and Natural Resources Finance issues, contact Jim Reinholdz at 651.296.4281 or email: jim.reinholdz@house.mn.

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Health and Human Services

The Governor’s recommendations for Health and Human Services solves nearly one third of the fiscal 2010/2011 budget deficit with spending reductions in this issue area. Total changes in Health and Human Services result in nearly a \$1.5 billion dollar positive effect on the general fund balance from program cuts, and shifts of revenue from the Health Care Access Fund to the General Fund.

The overwhelming majority of the spending done by the Department of Human Services is directed toward public health care programs and the majority of spending reductions recommended by Governor Pawlenty affect health care.

Health and Human Services Finance					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
	Forecast FY 2008-09	Forecast Base FY 2010-11	Governor's Recs FY 2010-11	% Change Gov. FY 10-11 vs. FY 08-09	% Change Gov. vs. Base FY 10-11
Human Services	9,190,908	11,083,539	10,507,043	14%	-5%
Dept of Health	21,212	15,748	15,186	-28%	-4%
Net GF Total	9,212,120	11,099,287	10,522,229		

**FY 08-09 numbers include unallotment*

The Governor’s budget includes over eighty policy changes designed to help balance the budget. Highlights of these changes are detailed below.

Department of Human Services

Administration and Licensing

Changes to the department’s budget begin with a \$6 million dollar annual reduction for administrative costs. The department is still working on details of how to best implement the plan, but reductions will be made agency wide and may result in staff cuts.

Human Services also plans to increase fees to reflect actual costs of providing services. One common service provided by the department is background checks for persons applying for adoptions, foster care parenting, nursing home workers and other functions. Fees for these background checks will be increased to meet agency cost. Fee increases are expected to bring in an additional \$2.2 million for the biennium.

Financial Assistance Programs

The Governor proposes combining emergency General Assistance (EGA) and Emergency Minnesota Supplemental Aid (EMSA) into one pool of funding. The proposal would give counties flexibility on the usage of the funds between the two target populations, but would also reduce funding by \$1.1 million per year statewide.

The department will also seek reimbursement from the federal government for persons served by group residential housing. The agency believes the residents may qualify for federal reimbursement for some food costs and difficulty of care payments. Reimbursement has not been previously sought by the department, but it is believed the state could qualify for over \$9 million per year in costs previously paid for by the general fund.

The Governor also seeks to decrease MFIP (Minnesota Family Investment Plan) spending by \$18 million for the biennium by eliminating MFIP spending increases enacted in 2007. These changes would limit eligibility in the program or decrease cash grant amounts for some enrollees. The proposal would reinstitute the requirement that participants in the MFIP program enrolled in post secondary education work at least 20 hours per week eliminated in 2007. The Governor would also repeal budgeting Supplemental Security Income (SSI) income of up to \$125 a month as unearned, which could lower the amount of MFIP dollars paid to a recipient each month, and repeal the increase of a vehicle loan exclusion from \$7,500 to \$15,000. Changes to the program could affect up to 11,000 recipients.

Governor Pawlenty recommends reducing work participation incentives from \$75 to \$50. The Department of Human Services offers a \$75 bonus for persons on the MFIP program who have completed 24 months of work after leaving MFIP or the Diversionary Work Program (DWP). The reduction in the bonus is projected to save nearly \$2 million for the biennium.

A recommendation to eliminate two MFIP related pilot projects would save \$3.75 million for the biennium. This proposal eliminates Integrated Service Projects funding which has been used to fund pilot projects to help transition MFIP recipients nearing the 60 month lifetime limit and was scheduled to sunset before the funding was extended in 2007.

The Governor proposes reducing MFIP consolidated fund allocations to counties by 5 percent. The reduction would cut funds available to counties to administer programs to low income families and also eliminate some incentive funding based on county performance. These proposed reductions result in a savings of \$7.75 million for the biennium.

Most of the savings above would result in a savings of federal TANF (Temporary Assistance for Needy Families) funds. The Governor proposes TANF “refinancing” or using the saved federal dollars to replace state general fund spending where allowable by federal regulations. The end result is that the general fund benefits from the reductions by refinancing the total of \$34 million in costs for the biennium to federal sources of funding.

The Governor also seeks repayment from counties for a contingent appropriation for targeted case management grants made to counties and tribes. An appropriation of \$32.7 million had been made to counties and tribes to help manage public program caseloads due to an anticipated reduction in federal funds and the elimination of federal reimbursement. The federal reductions

did not materialize as anticipated and the Governor seeks to recover the payments that were made.

Health Care

Minnesota public health care programs make up nearly 20% of the overall state general fund budget. It is in the area of health care that the Governor proposes the greatest reductions for his budget balancing plans. The proposals include benefit reductions, eligibility elimination, payment rate reductions, and the permanent transfer of health care access fund (HCAF) revenues to the general fund. It is projected that projected enrollment on Minnesota's public health care programs will drop by 113,000 as a result of these proposals.

The major proposed change in Minnesota's public health care programs stems from the Governor's recommendations for MinnesotaCare. The Governor suggests removing eligibility for all adults, both parents and those without children, and merging the health care access fund with the general fund. These two proposals add up to an additional \$831 million in the general fund in the 2010/11 fiscal biennium. This accounts for over half of the general fund impact of Governor's initiatives in the Health and Human Services area.

The Governor's recommendations also include:

- A 3 percent reduction in rates paid to providers for Medical Assistance(MA) and General Assistance Medical Care (GAMC) is a savings to the general fund of \$96 million for the biennium.
- Eliminating eligibility for adults without children from MinnesotaCare and GAMC hospital only coverage. This proposal would save \$507 million for the biennium.
- A \$66 million savings by eliminating MinnesotaCare eligibility for parents.
- Eliminating dental coverage, chiropractic care, podiatry, and rehabilitative services save \$60 million.
- A savings of \$6.4 million by eliminating the scheduled premium reduction for MinnesotaCare.
- Eliminating the MinnesotaCare rolling eligibility and grace month saves \$7 million.
- A savings of \$28 million for the biennium would be realized through the elimination of two additional months of coverage for children who cross the 150 percent of poverty threshold.
- Increasing the managed care withhold from 5 percent to 8 percent for MinnesotaCare would save \$8 million for the biennium.
- \$21 million would be saved by delaying hospital rebasing (automatic inflationary increases) until next biennium.
- A health care provider payment delay shifts \$23 million in costs to the 2012/13 biennium.
- An inpatient hospital payment delay will shift \$25 million in costs to the 2012/13 biennium.

- Limiting the Medical Education Research Costs (MERC) carve-out under MA capitation and a delay in transferring MERC funds to the Department of Health will result in a savings of \$45 million.
- A ratable reduction for inpatient mental health coverage reduces general fund expenditures by \$17 million for the biennium.
- A reduction in pharmacy rates of 1 percent for MA and GAMC will save \$2.4 million for the biennium.
- An elimination of enhanced rural hospital DRG payments saving over \$7 million for the biennium.
- A savings of \$36 million for the biennium from the elimination of inpatient hospital supplemental quarterly payments.
- \$14 million for the biennium would be saved by eliminating the health care outreach incentive program implemented in 2008.
- Reducing MA eligibility asset limits from \$10,000 per household of one and \$20,000 for a two person household to \$3,000 and \$6,000 respectively, would save an additional \$9 million for the biennium.

Long Term Care

Governor Pawlenty recommends a modification to the threshold for the level of care necessary to be admitted to a nursing home for MA enrollees. Under the proposal, potential nursing home residents must be assessed to have significant need with daily activities such as dressing or bathing, need ongoing clinical monitoring for medical conditions, or have behavioral or cognitive needs that require nursing home care before MA reimbursement can be authorized. It is thought that by diverting some potential residents to other types of less intensive care, the state would save \$36 million for the upcoming biennium.

The Governor also recommends changes to Personal Care Assistance (PCA) services that are projected to save \$42 million during the next biennium. The changes would require a higher level of need for services and restrict access in the future. Modify PCA assessments and restrict the amount of time a person may have access to such services in a given month. The proposal also includes a set of standards that providers must meet to qualify as a provider.

Another proposal would limit the growth of state waived services for disabled persons. Services for the disabled has been one of the fastest area of growth in the Human Services budget over the last several years. The proposal would place lower caps on the number of new waiver slots each month and is estimated to save \$21 million in the 2010/11 biennium.

Also included in the Governor's budget is the elimination of automatic inflationary adjustments to nursing home payment rates or "rebasing". This elimination would save a projected \$11 million over the biennium.

Other long term care provider rates would be reduced by 3 percent across the board as well as a 3 percent reduction in long term care grants. These two changes would result in a combined savings of \$85 million.

A plan to reduce the nursing home single bed room rate addition from 15 percent add-on to a 10 percent add-on would save a projected \$4 million. And lastly, the Governor proposes restructuring rates the state pays for chemical dependency treatment. The plan would remove county negotiation from rate setting and allow the department to set a statewide uniform set of reimbursement rates. It is believed that this would reduce expenditures by nearly \$11 million for the biennium.

State Operated Services

The Governor's first proposal for State Operated Services would be to change the treatment of some employees with regard to pension benefits. The change would move non-security employees out of the Corrections Early Retirement Plan (CERP) to the state's general plan. This would remove the ability of non-security employees to collect greater benefits if the employee retires early. The plan also includes a policy change that would not allow a retiring member in CERP to access state paid medical coverage upon retirement unless they had served in a CERP covered position for at least 10 years. The change would save the general fund a projected \$4 million in the upcoming biennium.

The Governor's budget also provides increased funding for the Minnesota Sex Offender Program (MSOP) due to growth in the referrals and commitments. The current budget does not allow for increases but the additional money would be used to cover the influx of new offenders. The proposal would cost the general fund \$12.6 million for the 2010/11 biennium.

The budget includes a proposal to keep State Operated Services Dental clinics operating at a cost of \$3 million for the biennium. The clinics require the funding to remain open and provide dental services to low income and disabled persons.

Department of Health – Policy Quality and Compliance

The Governor recommends a couple small spending initiatives in the Policy Quality and Compliance program of the Department of Health budget. The first is a \$550,000 annual appropriation for a behavioral health risk factor telephone survey. The survey seeks to determine the health related behavior of Minnesotans. The second Initiative seeks \$350,000 per year to further the E-Health program and connect all health providers with a standardized electronic health record system.

The largest change recommended by the Governor is to reduce funding for the statewide health improvement program funded in the Health Care Reform bill in 2008. The Governor proposes reducing funding from \$47 million for the upcoming biennium to \$12 million, and reduces ongoing funding to \$6 million per year.

Governor Pawlenty also proposes the elimination of several small projects. His budget eliminates a \$540,000 appropriation to define what a health care “essential benefit set” should include, and directs the department to perform the needed research with internal research funds. His budget proposals also include the elimination of a community based health care demonstration project saving \$208,000 per year, and eliminating a medical education research cost compliance grant to the Mayo clinic, saving \$1 million per year.

For further information on Health and Human Services Issues, contact John Walz at 651-296-8236 or john.walz@house.mn

Higher Education & Workforce Development

The Higher Education and Workforce Development Committee has budget jurisdiction for 14 state departments, agencies and boards. The committee has all the accounts of previous higher education committees plus a variety of accounts dealing with jobs, workforce training, economic development and professional licensure.

The Governor recommends a total FY 2010-11 General Fund appropriations for the Higher Education & Workforce Development Committee of \$2.931 billion. This is a decrease of \$ 325.8 million (10 percent) from FY 2008-2009 expenditures (after unallotment) and \$321.6 million (9.9 percent) from the FY 2010-2011 forecast base. The following table summarizes the Governor's General Fund recommendations for each of the committee's accounts:

Higher Education & Workforce Development					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
	Forecast Base FY 08-09*	Forecast Base FY 10-11	Governor's Recs FY 10-11	Percent Change Gov. FY 10-11 vs. FY 08-09	Percent Change Gov. vs. Base FY 10-11
Office of Higher Education	381,943	385,835	370,771	-2.9	-3.9
MN State Colleges & Universities	1,328,300	1,363,194	1,217,194	-8.4	-10.7
University of Minnesota	1,386,764	1,405,184	1,254,184	-9.6	-10.8
Mayo Foundation	2,452	2,651	2,401	-2.1	-9.4
Accountancy Board	1,001	1,010	1,010	.8	0.0
Architecture/Engineering Board	1,614	1,630	1,630	1.0	0.0
Barber/Cosmetologist Examiner Bd.	1,578	1,498	1,678	6.3	12.0
Boxing Commission	130	160	0	-100	-100
Employment & Econ. Development	148,219	86,520	77,740	-47.6	-10.2
Labor & Industry	1,968	1,960	1,760	-10.6	-10.2
Mediation Services Bureau	3,597	3,670	3,366	-6.4	-8.3
Region 3- Occupation Tax	1,164	1,164	1,164	0.0	0.0
Higher Education Facilities Authority	na				
Iron Range Resources	na				
Workers Comp Court of Appeals	na				
Total	3,258,730	3,254,476	2,932,898	-10.0	-9.9

notes:

* after unallotment

1) U of M 2010-2011 numbers do not include stadium or bioscience facilities payments

2) HEFA, IRRRB & Workers Comp Court of Appeals receive no General Fund appropriations

Office of Higher Education (OHE)

The Governor recommends total FY 2010-11 General Fund appropriations for OHE of \$370.8 million. This is a decrease of \$11.2 million (2.9 percent) from FY 2008-09 expenditures and \$15.1 million (3.9 percent) from the FY 2010-2011 forecast base. Specific recommendations within this funding level include:

- **Achieve Grants** – This program was initiated in FY 2008 and provides higher education grants to students who have taken a “rigorous” preparation sequence in high school. The Governor recommends an increase of \$150 in the grant a student can receive (to a maximum of \$1,500) if they have taken an online course in high school while reducing the appropriation by \$10.5 million in FY 2010-2011. This will not result in a reduction of grantees since the agency was unable to find recipients for much of the funding in the current biennium.
- **Agency Administration** – The Governor recommends a reduction of \$266,000 per year (10 percent) in FY 2010-2011 for the Office base budget for administration.
- **State Grants** – The Governor does not recommend any changes to the State Grant program. Previous federal PELL grant changes will reduce State Grant spending by approximately \$8 million in FY 2011. PELL grant spending in the federal stimulus package will also likely produce significant reductions in State Grant spending for the biennium. The Governor will likely have supplemental budget recommendations for the State Grant Program.
- **Work Study** – The Governor recommends a decrease in funding of \$1.24 million (5 percent) for the biennium.
- **American Indian Scholarships** – The Governor recommends a decrease in funding of \$188,000 (5 percent) for the biennium for this scholarship program.
- **Tuition Reciprocity** – The Governor recommends an increase in funding of \$2.4 million for the biennium to cover anticipated increased cost of the North Dakota agreement.
- **Child Care Grants** – The Governor recommends a decrease in funding of \$618,000 (5 percent) for the biennium for need based child care grants.
- **Mn College Savings Program** – The Governor recommends a decrease in funding of \$640,000 (31 percent) for matching grants in the program. This is not anticipated to reduce the number of matching grants awarded.
- **Learning Network of Minnesota** – The Governor recommends a decrease in funding of \$960,000 (10 percent) for the biennium. This will result in increased costs to users (campuses) of the network for provision of bandwidth and technology.

- MINITEX and MnLINK – The Governor recommends a decrease in funding of \$1.13 million (10 percent) for the MINITEX inter-library loan system and \$80,000 (10 percent) for the MnLINK electronic library gateway.
- Student and Parent Information/Get Ready – The Governor recommends a decrease of \$30,000 (4.9 percent) for the biennium.
- Intervention for college Attendance – The Governor recommends a decrease of \$98,000 (10 percent) for the biennium.
- College in the Schools at the U of M and MnSCU – The Governor recommends elimination of the \$200 per system per biennium transfer to the higher education systems to increase postsecondary opportunities for secondary students.
- Midwest Higher Education Compact – The Governor recommends a decrease of \$10,000 (5.6 percent) for the biennium in state membership dues.
- Postsecondary Service Learning – The Governor recommends a decrease of \$48,000 (10 percent) for the biennium for the Campus Compact program.
- United Family Practice Residency – The Governor recommends a decrease of \$90,000 (10 percent) for the biennium for this medical residency program.
- TEACH – The Governor recommends a decrease of \$500,000 (100 percent) for the biennium. This eliminates this program.

In addition, the Governor proposes new statutory language that would make revenue bonds issued for SELF loans “moral obligations” of the state. This has no cost but is meant to make revenue bonds more saleable.

Minnesota State Colleges and Universities (MnSCU)

The Governor recommends total FY 2010-2011 General Fund appropriations for the Minnesota State Colleges and Universities of \$1.217 billion. This is a decrease of \$111.1 million (8.4 percent) from FY 2008-09 appropriations and a decrease of \$146 million (10.7 percent) from the FY 2010-2011 forecast base. The Governor’s recommendation says that MnSCU should focus on maintaining its highest priority services while reducing duplication of programs. The Governor also recommends a firm cap on tuition increases but does not specify what that cap should be.

University of Minnesota

The Governor recommends total FY 2010-2011 General Fund appropriations for the University of Minnesota of \$1.254 billion. This does not include \$25 million in appropriations in support of bonds for a football stadium and bioscience facilities. The Governor’s recommendation represents a decrease of \$132.6 million (9.6 percent) from FY 2008-2009 appropriations and

\$151 million (10.8 percent) from the FY 2010-2011 forecast base. The Governor's recommendation says that the cut should be distributed over the Universities operations and maintenance and special appropriations and that the University should have maximum flexibility in how to do this while preserving priority services. The Governor also recommends a firm cap on tuition increases but does not specify what that cap should be.

The Governor proposes current law base funding of \$44.5 million from cigarette tax revenue through the Miscellaneous Special Revenue Fund to the Academic Health Center. The Governor also proposes that the current law base funding of \$4.3 million in Health Care Access fund appropriations for primary care physician training continue at the same level but as General Fund appropriations as part of his initiative to merge the Health Care Access Fund with the General Fund.

Mayo Foundation

The Governor recommends FY 2010-2011 General Fund appropriations of \$2.401 million. This represents a decrease of \$51,000 (2.1 percent) over FY 2008-2009 expenditures or \$250,000 (9.4 percent) over the FY 2010-2011 forecast base. Within the Governor's recommendation are a \$126,000 biennial decrease to the Mayo Medical School forecast base and a \$124,000 biennial decrease to the Mayo Family Practice Residency program. These programs had forecast base increases in FY 2010-2011 of \$75,000 and \$76,000 respectively over FY 2009 appropriations.

Board of Accountancy

The Governor recommends FY 2010-11 General Fund appropriations of \$1.01 million. This represents an increase of \$9,000 over FY 2008-2009 expenditures and no change from the FY 2010-2011 forecast base.

Board of Architecture and Engineering

The Governor recommends FY 2010-11 General Fund appropriations of \$1.63 million. This represents an increase of \$16,000 over FY 2008-2009 expenditures and no change from the FY 2010-2011 forecast base.

Board of Barber/Cosmetologist Examiners

The Governor recommends FY 2010-11 General Fund appropriations of \$1.678 million. This represents an increase of \$100,000 (6.3 percent) or \$180,000 (12 percent) over the FY 2010-2011 forecast base for Board operations. The Governor recommends new fees for lapsed, revoked and duplicate licenses and letters of verification. The new fees will generate an estimated \$180,000 in new revenue for the biennium.

Combative Sports Commission

The Governor recommends FY 2010-2011 General Fund appropriations of \$0. This represents a decrease of \$130,000 over FY 2008-2009 expenditures or (100 percent) or \$160,000 (100

percent) over the FY 2010-2011 forecast base. The Governor recommends that the Commission be self-supporting through existing fee revenue.

Department of Employment and Economic Development

The Governor recommends FY 2010-2011 General Fund appropriations of \$77.74 million. This is a decrease of \$70.5 million (47.6 percent) over FY 2008-2009 expenditures or \$8.78 million (10.2 percent) from the FY 2010-2011 forecast base. General Fund initiatives proposed by the Governor include:

- A \$200,000 biennial increase for the BioBusiness Alliance. This is a one-time increase to promote biobusiness in the state.
- A \$634,000 biennial reduction for the Business and Community Development Program base.
- A \$150,000 biennial reduction to Women Venture.
- A \$500,000 biennial reduction to the Rural Policy and Development Center. This eliminates state funding for this program.
- A \$378,000 biennial reduction for the Entrepreneurs and Small Business Grants program. This eliminates state funding for this program.
- A \$100,000 biennial reduction for the Metro Economic Development Association.
- An \$85,000 biennial reduction to the Minnesota Inventor's Congress. This eliminates state funding for this program.
- A \$442,000 biennial reduction for Rehabilitation Services.
- A \$4.5 million biennial reduction for the Job Skills Partnership.
- A \$278,000 biennial reduction for State Services for the Blind.
- A \$430,000 biennial reduction for the Extended Employment program.
- A \$120,000 biennial reduction for the Centers for Independent Living.
- An \$80,000 biennial reduction for Mental Illness Supported Employment.
- A \$210,000 biennial reduction for the Twin Cities Rise program.
- A \$200,000 biennial reduction for the Northern Connections program.
- A \$10,000 biennial reduction for the Extended Employment Center for the Deaf.
- A \$100,000 biennial reduction for Lifetrack.
- A \$150,000 biennial reduction for Youthbuild.
- A \$542,000 biennial reduction for agency administration.

The Governor also makes recommendations appropriations changes in the Workforce Development Fund including:

- A \$3 million biennial increase for Universal Job Seeker Services in the state Workforce Centers.

- A \$180,000 biennial reduction for Extended Employment.
- A \$250,000 biennial reduction to the Opportunity Industrialization Centers.
- A \$650,000 biennial reduction to the Minneapolis Summer Youth Program.
- A \$2 million biennial reduction to the Minnesota Alliance Boys & Girls Clubs. This eliminates state funding for the program.
- A \$200,000 biennial reduction for the St Paul Summer Youth Program.
- A \$20,000 biennial reduction for the VECTOR program for deaf/hard of hearing interpreters.

Department of Labor and Industry

The Governor recommends FY 2010-2011 General Fund appropriations of \$1.76 million. This is a decrease of \$208,000 (10.6 percent) over FY 2008-2009 expenditures and \$200,000 (10.2 percent) from the FY 2010-2011 forecast base. These reductions will come from reductions to the Labor Standards program at the agency.

In addition, the Governor recommends moving to biennial licensure of contractors, plumbers and boiler operators. These fee changes will increase revenues in FY 2010 in the State Government Special Revenue Fund and the Miscellaneous Special Revenue Fund by \$2.718 million and reduce it by \$285,000 per year from FY 2011 on.

The Governor also proposes fee increases for building permits and plan reviews. This would raise \$900,000 annually in the State Government Special Revenue Fund.

The Governor also recommends the elimination of an annual transfer of \$1.5 million from the Construction Code fund to the General Fund.

Finally, the Governor recommends an increase in funding for the Apprenticeship Program of \$250,000 in FY 2010 and \$500,000 in FY 2011 from the Workforce Development Fund.

Bureau of Mediation Services

The Governor recommends FY 2010-2011 General Fund appropriations of \$3.366 million. This represents a decrease of \$231,000 (6.4 percent) from FY2008-2009 expenditures or \$304,000 (8.3 percent) over the FY 2010-2011 forecast base. The reductions are accomplished through elimination of one vacant mediator position, reductions to the Area Labor Management Councils and rent reduction.

Higher Education Facilities Authority

This agency receives no General Fund appropriations and pays for operations through fees charged to institutions receiving funds from bond issues. The Governor recommends no changes to the FY 2010-2011 statutory appropriations from the Miscellaneous Agency Fund at the forecast base of \$544,000.

Iron Range Resources

The Governor recommends no changes for FY 2010-2011 to the forecast base of \$96.446 million of statutory appropriations to the agency from the Iron Range Resources and Rehabilitation Fund, the Giants Ridge Golf and Ski Resort Fund, and the Northeast Minnesota Economic Protection Fund.

Workers Compensation Court of Appeals

This court receives no General Fund appropriation. The Governor recommends FY 2010-2011 appropriations of \$3.406 million from the Workers Compensation Special Fund. This represents no change from the forecast base.

If you have any further questions on higher education and workforce development related issues, please contact Doug Berg at 296-5346 or doug.berg@house.mn.

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Housing & Public Health

The Housing Policy and Finance and Public Health Finance budget provides funding for a number of agencies. The committee covers all of the Minnesota Housing Finance Agency (MFHA), the majority of the Minnesota Department of Health (MDH), and one program from the Department of Human Services (DHS). It also covers a number of boards, including: Disability Council, Ombudsman for Mental Health and Developmental Disabilities, Ombudsperson for Families, Emergency Medical Services Board, Veterinary Medicine Board, Behavioral Health & Therapy Board, Chiropractors Board, Dentistry Board, Dietetics & Nutrition Practice, Marriage & Family Therapy Board, Medical Practice Board, Nursing Home Administrators Board, Nursing Board, Optometry Board, Pharmacy Board, Physical Therapy Board, Podiatry Board, Psychology Board, and Social Work Board.

The Governor recommends General Fund appropriations of \$241.5 million dollars for FY 2010-11 for the accounts listed in this committee.

Housing and Public Health Finance Governor's FY 2010-11 General Fund Recommendations <i>(all dollars in thousands)</i>					
Agency / Program	Forecast FY 2008-09	Base FY 2010-11	Gov's Recs FY 2010-11	% Change Gov. 10- 11 vs. FY 08-09	% Change Gov. vs. Base FY 10-11
Housing Finance Agency	132,557	89,916	85,420	-35.6%	-5.0%
DHS - Children and Economic Assistance Grants	36,767	30,998	28,683	-22.0%	-7.5%
Department of Health	133,620	126,274	116,239	-13.0%	-7.9%
Disability Council	1,135	1,048	996	-12.2%	-5.0
MH Ombudsman	3,239	3,310	3,160	-2.4%	-4.5%
Ombudsperson for Families	520	530	503	-3.3%	-5.1%
EMS Board	7,325	6,576	6,576	-10.2%	0%
Total Expenditures:	315,163	258,652	241,577	-23.3%	-6.6%

Housing Finance Agency

The Governor recommends a total budget of \$85.4 million, all of which is General Fund spending. This is a decrease of \$4.5 million over the agency's current FY 2010-11 base. The agency's financing comes from bond sales (this makes up the majority of financing), federal funds, agency resources, and state aid. MHFA funds housing in the following program areas: Development & Redevelopment; Homeownership Loans; Homeless Prevention & Supportive Housing; Preservation of Existing Housing; and Resident & Organization Support. Changes recommended by the Governor to these programs include the following:

- *Program Budget Reduction*

The Governor makes one recommendation for MHFA that is not budget neutral, and that is a permanent reduction in funding to the Economic Development and Housing Challenge (Challenge) program. The base would be reduced by \$2.248 million per year. This represents a reduction of 23 percent to the program for the 2010-11 biennium.

- *Consolidation of Challenge Program*

This recommendation is budget-neutral. It consolidates the Tribal Indian and Urban Indian programs with the Challenge program. The Governor also recommends using the base funding for the Indian programs exclusively for housing for American Indians for the first year the programs are combined.

- *Reallocation of Challenge Funds*

For the 2010-11 biennium, the Governor's budget recommends moving \$4 million from the Challenge program to the Housing Trust Fund program. This would be an ongoing reallocation of funds, and the intent is to accomplish the Governor's plan to end long-term homelessness. This is a budget-neutral recommendation.

- *Rehab Loans Reallocation*

This is another budget-neutral change where the Governor recommends providing funding for the Rehabilitation Loan program through the federal HOME program. The general funds that are currently used for Rehab Loans would instead be put toward the Rental Rehabilitation Loan program. The Rental Rehab program is currently funded through the federal HOME program

Department of Human Services - Children and Economic Assistance Grants

- Refugee Services Grants are supported entirely by federal funds. The base FY 2010-11 budget is \$33.2 million and is primarily determined by the number of refugees arriving in the state every year.
- In the activity Other Child and Economic Assistance Grants, the Governor has recommended one change. The initiative is to move oversight of the Fraud Prevention Investigation program from the county level to the state level. Currently, part of the funding for this program is in grants made to counties from Fraud Prevention Investigation and Child Care Program Integrity funds. If the state runs the program, the funds would be appropriated from the general fund to DHS. The transfer of oversight would result in a general fund savings of \$2.3 million in FY 10-11 in this activity area.

Department of Health

This committee has control over appropriations for the entire Minnesota Department of Health (MDH) except for the Policy Quality Compliance program, which is in the committee on Health Care and Human Services. The following recommendations were made for the agency's other main programs:

- *Community & Family Health*

The Governor recommends an appropriation of \$81.6 million for this program in the 2010-11 biennium. This is a decrease of approximately \$7.2 million, which would be implemented through the following recommendations:

Family Planning Grant Reduction: The Governor recommends an ongoing annual reduction of \$1.05 million for Family Planning Special Project Grants starting in FY 2010. This program is funded with general fund and TANF grants, and the recommendation amounts to a total program reduction of 19.6% each year.

Local Public Health Grant Payment Delay: The monthly payment schedule to the Local Public Health Grants would be changed to a quarterly payment schedule. This would delay payments to be made from April to June 2011. This change would result in a one-time savings to the general fund of \$5.1 million in FY 2011, which would become a one-time cost of \$5.1 million in FY 2012.

Family Planning Grant Reduction: The Governor recommends an ongoing annual reduction of \$1.05 million for Family Planning Special Project Grants starting in FY 2010.

- *Health Protection*

The Governor recommends a general fund appropriation of \$19.8 million for this program in FY 2010-11. This is an increase of \$926,000 over the base level. The changes in spending are shown in the following change items:

Tuberculosis Prevention and Control: The Governor recommends an increase in funding for this program of \$200,000 per year. This will be a permanent addition to the base and will provide funding for lab testing, treatment, and prevention.

2007& 2008 Session Laws Adjustments: The Governor recommends these changes as a technical adjustment. The Lead Abatement program was meant to receive an additional \$163,000 each year than appropriated, so this will increase funding for this program accordingly. In addition, funding for Emergency Preparedness and Response activities was intended to receive \$100,000 each year but the language was omitted from the 2007 session laws. The program is recommended to receive this amount each year as intended.

- *Administrative Support Service*

The Governor recommends an appropriation of \$14.7 million for this program in FY 2010-11. This is a decrease from the base level, resulting in a general fund reduction of \$3.6 million for the biennium. This reduction is 7.5 percent of the agency's administrative budget.

Ombudsman for Mental Health and Developmental Disabilities

The Governor recommends an appropriation of \$3.1 million for the 2010-11 biennium. The agency is funded entirely through the state general fund. The one change the Governor recommends is to reduce the agency's operating budget by \$75,000 each year, from the areas of travel, and salaries and compensation.

Ombudsperson for Families

The Governor recommends a total budget of \$503,000 from the general fund. This is a decrease of \$27,000 in 2010-11 over the base level, due to his reduction of the agency's operating budget. The recommendation is to take the reduction from salaries.

Disability Council

The 2010-11 appropriation is \$996,000, which includes the recommendation to reduce the operating budget of the agency by \$26,000 each year. This represents a 5 percent reduction to the budget.

Emergency Medical Services Board

The Governor recommends a total EMS budget of \$7.9 million dollars, of which \$6.5 million is General Fund money. This is no change over the General Fund base budget for FY 10-11.

K-12 Education Finance

For the FY 2010-11 biennium, the Governor recommends \$12.5 billion in general fund state aid for K-12 education. This compares with the November forecast of current law FY 2010-11 spending of \$13.7 billion, for a total reduction of \$1.1 billion, or 8.3 percent compared to current law. For the FY 2012-13 biennium, the Governor's budget recommendations include total state appropriations of \$14.2 billion, an increase of \$57.6 million from the November forecast appropriations, or 0.4 percent. However, the Governor's budget includes two accounting shifts that obscure the actual funding changes for education in the Governor's budget. Excluding shifts, the Governor's FY 2010-11 funding recommendation is \$13.8 billion, a \$156.7 million (1.1 percent) increase compared to the November forecast base. For FY 2012-13, the Governor's recommendation is \$14.3 billion, an increase of \$201.4 million (1.4 percent) over the November forecast base.

K-12 Education Finance Total General Fund Spending (all dollars in thousands)					
	Forecast FY 2008-09	Forecast Base FY 2010-11	Gov's Recs FY 2010-11	Change Gov. 2010-11 vs. 2008-09	Change Gov. vs. Base 2010-11
School District Education Ed	13,547,480	13,661,898	12,533,473	-7.5%	-8.3%
School District Aid Excluding Shifts	13,768,108	13,661,898	13,818,609	0.4%	1.1%
Department of Education	43,155	42,766	42,156	-2.3%	-1.4%
Minnesota State Academies	23,692	23,824	23,348	-1.5%	-2.0%
Perpich Center for Arts Education	14,010	14,174	9,912	-29.3%	-30.1%
Net GF Total	13,628,337	13,742,662	12,608,889	-7.5%	-8.3%
Net GF Total (Excluding Shifts)	13,848,965	13,742,662	13,894,025	0.3%	1.1%

School district property tax levies in the Governor's budget recommendations would increase compared to current law for each year from FY 2011 to FY 2013. Compared to current law, the Governor's budget recommendations would increase property taxes for FY 2011 by \$11.7 million, or 0.5 percent, for FY 2012 by \$16.9 million, or 0.7 percent, and for FY 2013 by \$17.9 million, or 0.8 percent.

The following summarizes the Governor's budget initiatives, with the cost expressed as a biennial total for FY 2010-11 from the general fund, unless otherwise noted:

General Education Program

- \$41.5 million in FY 2011 only in aid, and \$15.3 million in local levy to eliminate the cap on the Alternative Compensation (QComp) program and to link the formula to the basic

formula amount, so that increases in the basic formula amount will also increase the amount allocated for QComp. Districts will be required to apply for the QComp program, but the assumption in the Governor's budget is that not all districts will qualify for the funding. Currently, QComp programs cover approximately 40 percent of the State's students. Under the Governor's proposal, the estimate is that in FY 2011, 70 percent of students will be in school districts or building qualifying for QComp. The current FY 2010 QComp formula amount is \$260, split so that \$190 comes from the State and \$70 from local levies. The aid and levy split changes for FY 2011 and later under current law to \$169 State aid and \$91 local levy. The new formula amount, starting in FY 2011, will be \$300 per pupil, with \$195 of that from the State and \$105 from local levies. After FY 2011, the \$300 will increase at the same rate that the basic formula is increased.

- \$91.1 million to create a new "Pay for Performance Plan," which will give school districts additional funding based on the number of students in the district making medium to high progress, regardless of proficiency, in a year to year comparison of the same students. Students making medium growth generate an additional 1 percent of the basic formula (\$51.24) per pupil; students making high growth generate 2 percent (\$102.48) per pupil additional. For school districts, the percentage of students making medium growth ranges from 29 percent to 66 percent of a district's population, while students making high growth ranges from 13 percent to 44 percent. The Governor's budget recommendation assumes that approximately 41 percent of all students statewide are making medium growth progress and 31 percent of students are making high growth progress.
- \$10,000 in savings from modifying Extended Time Revenue so that aid is not paid in the year following termination of an extended time eligible program.
- \$500,000 in state aid cost from repealing the \$25 per pupil penalty that school districts must pay if their teacher contracts are not settled by January 15th of even numbered calendar years. This is a estimated cost because the current forecast assumes that some districts will not settle their contracts by January 15th, so the State will pay less aid due to the penalty.
- **SHIFT SAVINGS:** The Governor's budget proposal includes just over \$1.3 billion in shift savings from two different sources. There is also an allocation of some of the shift savings to offset the potential negative cash flow issues for certain school districts. The payment shifts and related changes include:
 - School payment percentage shift: Currently, school districts receive aid payments split 90 percent in the current year and 10 percent in the next year. The Governor's budget recommends converting to an 80%/20% payment schedule, which will reduce state aid payments by \$694.4 million in the K-12 education finance area. The payment shift is also applied to some of the appropriations in the Early Childhood Finance area, to some library appropriations in the Cultural and Outdoor Heritage Finance area (\$1.7 million in savings) and in some tax aids and credits payments (\$6.7 million in aid savings).

Payment shift offset advanced payment: School districts which are in Statutory Operating Debt (defined as having an unobligated general fund balance of -2.5 percent or less) will be able to continue to receive up to 90 percent of their aid in the current year, and not be subject to the new 80%/20% split. This will reduce the payment percentage shift savings by \$6.3 million.

- Property tax levy recognition shift: School districts, under the Governor's budget proposal, will be required to recognize 48.6 percent of their levy revenue for FY 2011 as revenue for FY 2010. This reduces the state aid obligation for FY 2010 by an amount equal to that 48.6 percent, or \$615.2 million.

Education Excellence

- \$7.9 million in savings from capping the Integration Revenue program, which provides additional revenue to school districts based on their percentage of students in certain protected classes. The Governor's proposal would, starting in FY 2010, prevent new districts from entering the program, and would cap revenue for existing districts at the level they received in FY 2009. Integration Revenue is calculated as the lesser of a fixed dollar amount per pupil, or the actual cost per pupil of delivering an integration program, so many districts receive revenue that is less than the per pupil formula stated in statute. Even if their costs of programming rise, those districts with revenue below the per pupil amounts in law during FY 2009 would be capped at the lower amount. Integration revenue is a mix of aid and levy, so this change would also reduce local property taxes by \$3.8 million in FY 2010-11.
- \$9.5 million to create a pilot program, "Summer of Success," to help 8th grade students who are not proficient on the 8th grade Minnesota Comprehensive Assessments, Series II (MCA-II). The pilot programs will be selected on a competitive basis and will serve 2,000 students in FY 2010 and 4,000 students in FY 2011 at sites in Minneapolis, St. Paul, the suburbs and in greater Minnesota.
- \$7.5 million to modify the current state testing system. The Governor's recommendation is to create a system for students who are unable to pass the current graduation-required test, to move current grade 3 through grade 8 tests to adaptive and computer based administration, and develop and implement new high school exams to replace the current graduation-required exams.
- \$3.0 million in FY 2010-11 only to continue funding the Math and Science teacher academies that were created in FY 2008-09 on a one-time basis. The academies provide staff development for teachers, as well as providing curriculum development services and instructional materials for schools and school districts at nine regional teacher centers.
- \$800,000 to continue funding the Principal's Leadership Institute, which was funded on a one-time basis for FY 2009 only. The Institute provides professional development opportunities for all principals and charter school directors.

- \$1.0 million in FY 2010-11 only for the U Teach program, which is intended to increase the supply of math and science teachers by offering math and science students at Minnesota colleges and universities who have expressed an interest in teaching the ability to take up to six teacher education courses at no cost.
- \$2.0 million for the Minnesota Virtual Education Program (MVEP). MVEP would make Minnesota Department of Education-approved courses available online to public school students statewide. After the program is fully implemented, all students will be required to complete some coursework online. A major component of the program is the inclusion of Advanced Placement courses, to increase the access students have to those types of classes which are not available at their home school district.
- \$1.0 million for the State of Minnesota Mid-Career Alternative Route to Teaching (SMART) alternative teacher licensure program. The funding is available to colleges and universities to develop teacher training programs for students who already have a bachelor's degree in a related area, and would allow for certification as a science, math, world languages, English as a second language or special education teacher. The program would require the Board of Teaching to develop criteria to approve one-year teaching programs for qualified professionals.

Minnesota Department of Education

- \$820,000 in savings from a reduction in the agency's base operating budget. The reduction is equal to 1.9 percent per year of the agency's general fund budget.
- \$125,000 in one-time funding to pay for rulemaking for the Board of School Administrators to include National Institute of School Leadership standards in the standards for approving principal licenses.
- \$85,000 for teacher preparation programs at Minnesota colleges and universities. The funding will be used by the state Board of Teaching for revising its rules and Standards of Effective Practice to increase standards for teacher licensure.

Minnesota State Academies for the Deaf and Blind

- \$476,000 in savings from a reduction in the agency's base operating budget by two percent. The Governor's budget states that the intention is that the Academies reduce their non-classroom administrative expenses. The Academies indicate that, to meet the budget reductions, they will eliminate 2 positions, a school administrator and a grants writer, reduce nutrition and health staff to 80 percent time, and make dormitory directors school-year positions instead of year-round positions.

Perpich Center for Arts Education

The Governor recommends eliminating the Perpich Center for Arts Education as a state agency, converting the operations of the school to a charter school, and eliminating the outreach and professional development functions of the Center, beginning in FY 2011.

There are four areas of appropriation impact spread across the K-12 education budget, including the savings from elimination of the Center as an agency, and the charter school costs related to the conversion of the Perpich Center for Arts Education to a charter school (which is assumed in the Governor's budget, but is not required of the Center). Currently, students at the center are not counted as students in school districts. If the Center closed or became a charter school, the students there would be included as pupil units for general education and as resident students in the calculation of referendum amounts. No assumptions about the physical plant at the Center have been made in the Governor's budget.

The net impact of all these changes is general fund savings in FY 2011 of \$2.2 million and ongoing savings of approximately \$4.5 million each year after that. There is also a small (\$202,400 in FY 2011) impact on local levies, primarily from additional referendum revenue due to higher resident student pupil counts. The changes include:

- \$7.1 million in savings from eliminating the Center's operating budget as a state agency.
- \$2.8 million in FY 2011 only for severance costs for Center employees. When the Center closes, the employees will no longer be State employees regardless of whether the Center becomes a charter school or whether it simply ceases to exist. As a result, those employees will be due severance payments as defined in their employment contracts.
- \$1.7 million in General Education aid, which is paid to charter schools in the same way it is paid to school districts. This includes revenue in the basic formula and other general education programs such as gifted and talented revenue, operating capital revenue, etc.
- \$354,000 in charter school specific aid. This includes \$250,000 in charter school lease aid, which is a dollar amount per pupil that is capped but based on the actual costs of the lease for space for the school. In addition, new charter schools qualify for startup aid. For the Center, this is estimated to be \$104,000 for FY 2011.

Implications

Under current law, school district revenue is projected to increase by 0.4 percent per pupil in FY 2010 and 2.3 percent in FY 2011 (see table below). The Governor's budget proposal increases the revenue increase per year between FY 2009, FY 2010 and FY 2011 to 1.0 percent and 3.2 percent, respectively. Compared to base, the Governor's budget proposal increases revenue for FY 2010 by 0.6 percent and for FY 2011 by 1.4 percent. (The largest part of the increase between FY 2010 and FY 2011 is a projected increase in the number of voter-approved levies, and an increase in the special education cap that is built into current law.)

Major Revenue Components * (State Aid & Local Levy)								
Revenue per average daily membership **								
	Current Law Base Revenue Per ADM	Revenue Change Year to Year	Percent Change Year to Year	Governor's Rec. Revenue per ADM	Revenue Change Year to Year	Percent Change Year to Year	Revenue Change Compared to Base	Percent Change Compared to base
2009	9,523			9,523				
2010	9,560	37	0.4%	9,614	91	1.0%	54	0.6%
2011	9,782	222	2.3%	9,917	303	3.2%	135	1.4%

The reason that the State can accumulate savings using accounting shifts is that the State and school districts use different accounting methods. The State uses “cost” accounting, where obligations are counted in the year they are paid, not in the year in which they are due. School districts use an “accrual” method of accounting: regardless of when a payment toward their current year entitlement is received, they count the entitlement amount as their revenue for the current year. Because of this, from an accrual accounting standpoint, a district's revenue does not change with changes in the fiscal year the State payments are made but the State can record savings by moving payments out of a fiscal year. In reality, however, if payments are delayed, districts experience a fiscal impact. Districts receive state aid in 27 payments, but their expenditures may be less consistent than those receipts. So, if the State uses a shift to move money from one fiscal year to the next, school districts with low reserves may not have sufficient cash on hand in reserves to meet their day to day expenses, and have to engage in short term “aid anticipation” borrowing, which has an interest cost, to manage their cash flow. In addition, districts with sufficient reserves are forced to use those reserves, and lose the interest that they would have earned if they had not had to spend their fund balances.

For further information on K-12 Education Finance related issues contact Greg Crowe at (651) 296-7165 or greg.crowe@house.mn

Public Safety Finance

The Governor's budget recommends a general fund appropriation of \$1.842 billion for the FY 2010-11 biennium. This is a \$33.947 million (1.81 percent) decrease from the previous biennium, and a 1.29 percent decrease from current law. The public safety budget makes up 5.4 percent of the Governor's proposed general fund budget for FY 2010-11. The following relate to the general fund unless otherwise noted (dollar amounts are for the biennium).

Public Safety Finance Total General Fund Spending (all dollars in thousands)					
	Forecast FY 2008-09	Base FY 2010-11	Governor's Recs FY 2010-11	Change Gov. 2010-11 vs. FY 2008-09	Change Gov. vs. FY 2010-11
Supreme Court	89,579	87,984	83,584	-6.69%	-5.00%
Court of Appeals	20,156	20,740	19,704	-2.24%	-5.00%
Trial Courts	498,297	504,232	484,606	-2.75%	-3.89%
Tax Court	1,619	1,650	1,650	1.91%	0.00%
Uniform Laws Commission	110	104	104	-5.45%	0.00%
Judicial Standards Board	910	920	920	1.10%	0.00%
Public Defense Board	134,376	136,056	129,254	-3.81%	-5.00%
Public Safety Department	189,855	169,760	166,624	-12.24%	-1.85%
Private Detective Board	261	264	250	-4.21%	-5.30%
Human Rights Department	8,268	7,168	6,452	-21.96%	-9.99%
Corrections Department	931,671	936,495	948,131	1.77%	1.24%
Sentencing Guidelines	1,282	1,218	1,158	-9.67%	-4.93%
Total	1,876,384	1,866,591	1,842,437	-1.81%	-1.29%

Supreme Court

The Governor is recommending a biennial appropriation of \$83.584 million, a decrease of \$4.4 million from the FY 2010-11 base.

Court of Appeals

The Governor is recommending a biennial appropriation of \$19.704 million, a decrease of \$1.036 million from the FY 2010-11 base.

District Courts

The Governor is recommending a biennial appropriation of \$484.606 million, a decrease of \$19.626 million from the FY 2010-11 base.

Tax Court

The Governor is recommending a biennial appropriation of \$1.65 million, which is base funding.

Board of Judicial Standards

The Governor is recommending a biennial appropriation of \$920,000, which is base funding.

Public Safety

The Public Safety Policy and Finance Committee is responsible for six programs in the Department of Public Safety (other programs in the agency are the responsibility of the Transportation Finance Committee). The Governor is recommending a biennial appropriation of \$166.624 million for these public safety programs. This is a decrease of \$3.136 million from the FY 2010-11 base. The Governor is recommending the following:

- Moving the funding for the forensic science laboratory driving while impaired enforcement from the general fund to the trunk highway fund. This would result in a \$1.568 million transfer per year.
- Moving the 8 percent of the driver license Driving While Impaired reinstatement fee from a direct appropriation to a statutory appropriation.
- Transfer of \$750,000 in FY 2010 and 2011, and \$500,000 each year thereafter from the alcohol enforcement account in the special revenue fund to the general fund.

Private Detectives Board

The Governor is recommending a biennial appropriation of \$250,000, which is a decrease of \$14,000 from base funding.

POST Board

The Governor is recommending a biennial appropriation of \$8.656 million, which is base funding. This funding is from the special revenue fund.

Public Defense Board

The Governor is recommending a biennial appropriation of \$129.254 million, this is a decrease of \$6.802 million, from the FY 2010-11 base.

Department of Corrections

The Governor is recommending a biennial appropriation of \$948.131 million, which is an increase of \$11.636 million from the FY 2010-11 base. The Governor is recommending the following:

- \$22.753 million increase to maintain staffing levels.
- \$6.14 million decrease. This decrease will be accomplished by moving non-security employees from the Corrections Early Retirement Plan (CERP) into the state's general

employee's retirement plan. In addition, the Governor is recommending that employees must accumulate at least ten years of continuous service in at least one job classification covered by the CERP to become vested.

- \$1.536 million reduction in Community Services. This decrease will be accomplished by eliminating pass-through funding in the following areas:
 - Two day-reporting centers.
 - Four eight-day hold facilities in Brown, Carver, Polk and Washington counties.
 - Restorative justice grants.
- \$1.241 million reduction for a reduction in dental services.
- \$2.2 million reduction in the operations support budget.

Sentencing Guidelines

The Governor is recommending a biennial appropriation of \$1.158 million, which is a decrease of \$60,000 from the FY 2010-11 base.

Human Rights Department

The Governor is recommending a biennial appropriation of \$6.452 million, which is a decrease of \$716,000 from the FY 2010-11 base.

Uniform Laws Commission

The Governor is recommending a biennial appropriation of \$104,000, which is base funding.

For additional information on public safety issues, contact Gary Karger at 296-4181 or gary.karger@house.mn.

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State Government Finance

The Governor recommends total General Fund appropriations of \$673.97 million for the state agencies and programs under the jurisdiction of the State Government Finance committee. This recommended amount is an increase of \$19.3 million, or 2.9 percent, from the forecasted base for FY 2010-11. The majority of this new funding is for technology initiatives in the departments of Finance and Revenue, and the Office of Enterprise Technology.

State Government Finance					
Total General Fund Spending					
<i>(dollars in thousands)</i>					
	Forecast FY 08-09*	Forecast FY 10-11	Gov's Recs FY 10-11	Gov. FY 10-11 vs. FY 08-09	Gov. vs. Base FY 10-11
Legislature	146,924	139,396	131,546	-10.5%	-5.6%
Governor's Office	7,143	7,402	6,968	-2.4%	-5.9%
State Auditor	18,212	18,356	18,212	0.0%	-0.8%
Attorney General	51,545	48,450	46,026	-10.7%	-5.0%
Secretary of State	12,257	12,430	11,808	-3.7%	-5.0%
Campaign Finance Bd	1,448	1,470	1,396	-3.6%	-5.0%
Public Subsidy - Campaign Finance	4,010	4,150	4,150	3.5%	0.0%
Investment Board	302	302	302	0.0%	0.0%
Administrative Hearings	659	580	550	-16.5%	-5.2%
Office of Enterprise Technology	23,112	12,122	28,051	21.4%	131.4%
Dept. of Administration	44,351	39,229	40,905	-7.8%	4.3%
Capital Area Architectural Board	801	746	708	-11.6%	-5.1%
Dept. of Finance (MMB)	40,693	41,090	40,436	-0.6%	-1.6%
Finance Non-Operating	48,788	8,422	8,422	-82.7%	0.0%
Dept. of Revenue	251,003	254,144	245,884	-2.0%	-3.3%
Military Affairs	42,208	39,110	39,110	-7.3%	0.0%
Contingent Accounts	434	500	500	15.2%	0.0%
Tort Claims	322	322	322	0.0%	0.0%
MN State Retirement	4,724	3,331	3,331	-29.5%	0.0%
Local Pension Aids	55,395	55,254	55,254	-0.3%	0.0%
Indirect Cost Receipts offset	-35,647	-32,100	-32,100	-10.0%	0.0%
Lease/Purchase Statutory GF			22,184		
General Fund Total	718,684	654,706	673,965	-6.2%	2.9%

* FY 08-09 includes unallotments

Constitutional Offices

Because of the separation of branches of government and constitutional offices, the Governor acknowledged the right of these offices to present their budgets directly to the legislature for consideration. The Governor does not comment on any specific initiatives requested by constitutional offices or the Legislature. However, the Governor's Budget does include recommended overall spending levels for each office.

Constitutional Offices Budget Requests <i>(dollars in thousands)</i>			
	November Forecast	Governor's Recommendation	Constitutional Office Request
Attorney General	48,450	46,026	48,450
Governor	7,402	6,968	6,968
Secretary of State	12,430	11,808	12,430
State Auditor	18,356	18,212	19,136

Attorney General's Office (AGO)

The Attorney General's Office (AGO) requests \$48.45 million in direct appropriations from the General Fund for the biennium, which is base level funding.

The Governor's recommended direct General Fund spending level for the AGO is \$46 million, a cut of \$2.4 million, or 5 percent, from the projected FY 2010-11 base.

In addition to the direct General Fund appropriation for the AGO, the office also receives funding through partner agreements with state agencies. Total budgeted general fund expenditures for partner agencies are \$15.9 million for the biennium. Non-general fund expenditures for partner agreements are planned at \$1.4 million.

Other Funds

The AGO requests \$3.65 million from the State Government Special Revenue Fund for services provided to health related licensing boards. The AGO also requests \$290,000 from the Environmental Trust Fund and \$500,000 from the Remediation Fund for investigating and prosecuting environmental crime and for responsibilities associated with insurance claims settlements and recovery associated with landfills in the landfill cleanup program.

Governor's Office

The Governor requests \$6.97 million for the biennium to fund his own office, a total decrease of \$370,000 or 5.9 percent, from the FY 2010-11 base level funding.

The Governor's Office also plans to spend \$390,000 per year for the Washington DC office. The office, which has 2 full-time staff, is funded through inter-agency agreements with 14 executive branch agencies. This funding arrangement was established in FY 2003, after the general fund support for the DC office was abolished. In addition, 7 employees in the Governor's office have a portion of their salary, ranging from 25 to 60 percent, paid by other executive branch agencies. The result is that appropriations to other agencies support some of the functions of the Governor's office.

Secretary of State

The Secretary of State (SOS) requests \$12.4 million in direct appropriations from the General Fund for the biennium, which is base level funding.

The Governor's recommended spending for this office is \$11.8 million, a cut of \$622,000, or 5 percent from the current base level.

State Auditor

The State Auditor's office requests \$19.1 million, an increase of \$780,000, or 4.2 percent, over FY 2010-11 base funding. The Auditor's request includes two change items:

- \$617,000 for the biennium to help retain current staff and to cover increases in salary and health care costs. Approximately 93 percent of this general fund increase would be offset by reimbursements from audit clients, reducing the net general fund cost to \$45,000 for the biennium.
- \$163,000 for the biennium for a fraud examiner to meet the increased demand for investigations of alleged misuse of public funds.

The Governor's recommended spending for this office is \$18.2 million, a decrease of \$144,000 from current law. This represents a 5 percent reduction to the non-reimbursable portion of the State Auditor's budget. The budget for the Audit Practice program is excluded from the recommended reductions, since 100 percent of that program's costs are recovered through audit fees.

Legislature

The Legislature does not participate in the executive agency budget process. Legislative budget requests will be available after their approval by House and Senate leadership.

The Governor recommends a total of \$131.5 million for the Legislature, a cut of \$7.85 million, or

5.7 percent, from the FY 2010-11 base.

Legislature: Governor's Recommended Funding			
<i>General Fund only, \$ in thousands</i>			
	November Forecast	Governor's Rec.	\$ Change
House	61,732	58,130	-3,602
Senate	45,916	43,316	-2,600
Legislative Coordinating Commission	<u>31,748</u>	<u>30,100</u>	<u>-1,648</u>
Totals:	139,396	131,546	-7,850

State Agencies

Department of Administration

The Governor recommends General Fund spending of \$40.9 million for the biennium. This is an increase of \$1.68 million, or 4.4 percent, from the 2010-11 base.

Government & Citizen Services (new program combining State Facilities Services & State and Community Services programs)

The Governor recommends total direct general fund spending of \$35.86 million, a net increase of \$1.65 million from base. This program includes the State Architect's office, Plant Management, Real Estate Management, and the In-Lieu-of-Rent activity, which funds space costs for the Legislature, Governor's residence, Veterans Services organizations, and ceremonial spaces in the Capitol and the Capitol mall.

Other activities include Travel Management, the Information Policy Analysis office, the State Demographer, Land Management Information Center (LMIC), the Environmental Quality Board, and the State Archaeologist.

Recommended funding increases include:

- \$1.7 million for on-going operating costs of the web-enabled shared Real Property Enterprise System. This system was developed with a \$2.5 million appropriation from the 2007 Legislature. The new funds are requested to cover software subscriptions, vendor maintenance, network and system administration, and other operating costs.
- \$1 million increase for the In-Lieu-of-Rent appropriation. This appropriation pays for the space costs associated with legislative office space, ceremonial space in the Capitol, and the Governor's Residence. The Governor proposes to offset this spending increase with budget reductions to the Legislature's budget, and his own office budget.
- \$290,000 for a 1.9 percent increase in funding for the SMART small agency resource team.

This group provides human resources and financial management services to small agencies and boards that are unable to perform these functions with existing personnel, or may need assistance in understanding policy and legal requirements.

These funding increases would be offset by operating reductions totaling \$1.3 million:

- \$306,000 reduction to the Environmental Quality Board (EQB). The Governor also recommends transferring the staff and functions of the EQB to the Minnesota Pollution Control Agency.
- \$200,000 reduction to the Resource Recovery (recycling) program. Administration will continue to provide recycling services, but the costs for replacement of large recycling containers will be shifted to agencies through the Plant Management lease rates.
- \$398,000 reduction to the Enterprise Performance Improvement program (also known as LEAN). Admin will no longer pay for external consulting or training for this effort. Over 85 state employees have been trained as facilitators so they can assume this function.
- \$228,000 reduction from re-allocation of staff costs from the general fund to non-general fund activities, and reductions in salary expenses spread across various activities.

Non-General Fund activities:

In addition to these General Fund activities, significant non-general fund accounts include 8 internal service and enterprise funds:

Internal Service Fund	Purpose	Projected FY 10-11 Expenditures
Central Motor Pool	Provides long-term rental vehicles and support services	\$31.5 million
Surplus Services	Manages the disposal of state and federal surplus property	\$2.9 million
Cooperative Purchasing	Makes various state contracts available to local government units	\$22.1 million
Office Supply Connection	Purchase and distribution of office supplies	\$13.9 million
Bookstore	Centralized publishing for state agency materials, and operation of the MN mailing list service	\$3.7 million
Plant Management	Building and grounds operations for buildings under the custodial control of the department	\$98.6 million
Central Mail	Metering and processing of mail in the Capitol complex	\$17.9 million
Risk Management	Self-insurance company for the state's property and casualty insurance coverage	\$25.9 million

Administrative / Management Services

The Governor recommends total General Fund spending of \$3.7 million, an increase of \$22,000 or 0.6 percent, from base. Specific recommendations include:

- \$250,000 to continue funding for the Office of Grants Management. The office, which was established with 1-time funding in the 2007 session, provides direction for standardizing grant management policies and procedures.
- \$420,000 reduction from re-allocation of staff costs from the general fund to non-general fund activities, and reductions in salary expenses spread across various activities.

Office of Enterprise Technology (OET)

The Governor recommends a direct General Fund appropriation of \$28.1 million for this office, an increase of \$15.9 million, or 131.4 percent, over the office's general fund base. This increased funding includes one spending initiative, offset in part by operating budget reductions:

- \$16.5 million to consolidate the state's data centers. The enterprise operation would consist of a single primary facility with one or more separate disaster recovery sites. The primary facility would be leased with the operations provided by OET and its agency partners. The funding would include \$4.3 million for planning, and \$12.2 appropriation to lease new data center space and facility management from an outside provider.
- \$606,000, or 5 percent, cut to the Enterprise Planning & Management activity.

Non-General Fund activities

The majority of the non-general fund portion of OET is the Enterprise Technology Fund (or what was formerly known as the *InterTech* internal service fund). Computer services and telecommunications management provided by OET are funded through state agency reimbursements to the agency's internal service fund.

Enterprise Technology Fund: FY 2010-11 Projected Expenditures	
<i>(dollars in thousands)</i>	
Computing Services	67,372
Telecomm Services	73,295
Enterprise IT Security	4,384
Information Standards & Resource Management	1,860
Enterprise Planning & Management	35,072
<u>Enterprise Application Development</u>	<u>2,349</u>
Total Enterprise Technology Fund	184,332

Non-General Fund Initiative – Electronic Licensing

The Governor recommends funding completion of the Minnesota Electronic Licensing System by assessing a temporary surcharge on all licenses that will be migrated to the system. Each licensing agency would collect a 10 percent surcharge (with a minimum of \$10) on each license issued or

renewed over a six-year period. The pilot system, which was launched for the POST board and Emergency Regulatory Medical Services Board using a one-time \$7.5 million appropriation, provides web-based, electronic processing of licenses through a self-service portal.

Department of Finance (Minnesota Management & Budget)

The Governor recommends a direct general fund appropriation of \$40.4 million for the biennium, a reduction of \$654,000, or -1.6 percent, from current law. Specific recommendations include:

- \$1.02 million for the biennium to create a new 6 person Internal Control Support unit. This group would work with agencies to follow-up on any audit findings, and would also be responsible for statewide policies and training on internal controls.
- \$376,000 for the biennium to add 2 new positions related to bonding oversight. One position would be used for auditing of selected projects and to ensure projects are implemented in accordance with state laws and policies. The second position would be responsible for ongoing management of some existing finance programs.
- -\$2.1 million operating budget reduction to offset these increases. The reductions would be achieved through the elimination of 8 positions in various support activities (saving \$1.4 million) and reductions in space costs, IT costs, and other operating costs.

The Governor is also recommending replacement of the Minnesota Accounting and Procurement System (MAPS). The replacement would be financed through a new lease-purchase financing funded through a new statutory appropriation of \$8.975 million per year. The total cost for the project over 10 years is \$89.75 million, including a principle amount of \$69.95 million, and interest payments totaling \$19.8 million.

Department of Revenue

The Governor recommends a direct general fund appropriation of \$242.1 million for the biennium, a reduction of \$8.3 million, or -3.3 percent, from the base. The recommended operating budget reductions would be spread across activities that would not directly impact the compliance efforts funded in previous sessions. Possible reductions include:

- Eliminating approximately 51 positions through attrition, or lay-offs if needed.
- Reduction to information services for taxpayers, local governments and tax practitioners
- Reducing rent costs by a variety of means, including telecommuting.

Integrated Tax System: The Governor is also recommending a new statutory appropriation of \$2.1 million per year to finance, through lease/purchase, the completion of the Integrated Tax System. The total cost for financing this phase of the project over 10 years is \$21.2 million, including a principle amount of \$16.5 million, and interest payments totaling \$4.7 million.

The total cost for the Integrated Tax System is estimated at \$39.9 million. The project has already received funding of \$23.5 million to date, including a \$12 million one-time appropriation from the 2007 Legislature, \$11 million in agency funds reallocated from maintenance of existing systems, and \$450,000 in authorized carry-forward funds.

The funds are being used to implement “GenTax”, a commercial tax processing software product which will integrate all tax administration functions for the 28 tax types administered by the department.

Lease / Purchase for Major IT Projects: Governor’s Proposal

The Governor is requesting that the legislature authorize the department of Finance to enter into lease/purchase financing arrangements for the MAPS and Integrated Tax projects. Finance would secure the lease purchase financing by issuing certificates of participation, which are offered to private investors. Once financing is secured, agencies receive the principal amount (less the administrative expenses), which they can spend for eligible project-related expenses.

New statutory general fund appropriations would be created to cover the annual lease payments. For the next ten years, agencies would make the semi-annual lease payments from these appropriations.

Why Lease / Purchase? This provides an alternative to a very large one-time direct appropriation which is not likely to be funded in the current budget situation. This approach also spreads the development cost over the useful life of a major IT system, which can reasonably be expected to last ten years or more.

However, lease/purchase is more costly in the long-run, due to the added interest and administrative costs. It also creates a new long-term obligation for the state.

Department of Military Affairs

The Governor recommends a direct General Fund appropriation of \$38.7 million for the biennium, which is base level funding.

In addition to this direct General Fund appropriation, the Department has an open and standing appropriation for emergency services. Planned expenditures from this appropriation are \$362,000 for the biennium.

Small Agencies/ Boards

Office of Administrative Hearings (OAH)

This agency is supported mainly by the Workers' Compensation Special Fund and revolving fund revenues. The Governor recommends direct appropriations of \$14.5 million for the biennium from the Workers Compensation Fund.

OAH also receives a general fund appropriation for the Municipal Boundaries Adjustment unit, which was transferred to the office in 2005. The Governor recommends a General Fund operating budget of \$550,000, a decrease of \$30,000, or 5.0 percent, over the forecast FY 2010-11 base.

Campaign Finance and Public Disclosure Board

The Governor recommends a General Fund operating budget of \$1.4 million, a decrease of \$74,000, or 5.0 percent, over the forecast FY 2010-11 base.

Public Subsidy Program:

The Governor is not recommending any changes to this program. Base funding is \$4.15 million for the biennium.

Capitol Area Architectural Planning Board (CAAPB)

The Governor recommends a direct appropriation of \$708,000 for the CAAPB in the FY 2010-11 biennium. The recommendation is \$38,000 below forecast base, a decrease of 5 percent.

Contingent Accounts

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

In addition to the General Fund appropriation, the Governor recommends contingent appropriations of \$800,000 from the State Government Special Revenue Fund, and \$200,000 from the Workers Compensation Special Fund.

State Board of Investment (SBI)

The SBI is primarily funded through charges to each retirement plan for its share of the Board's operations. The expected revenues and expenditures for this activity are \$4.9 million for the biennium. A small general fund appropriation (\$302,000) is used to fund the Board's investment activities directly related to the General Fund itself.

Gambling Related Agencies

Lawful Gambling Control Board

The Governor is recommending a direct Special Revenue fund appropriation of \$5.9 million for the biennium. The Board's activities are funded from a percentage (.1%) of gross receipts on charitable gambling, and license/permit fees for manufacturers and distributors.

Minnesota Racing Commission

The Governor is recommending a direct Special Revenue fund appropriation of \$1.8 million for the biennium. The Commission's activities are directly funded through racetrack, racing, and occupational license fees, as well as reimbursements from Canterbury for the cost of stewards, veterinarians, and laboratory services.

Lottery

The Governor recommends total operating expenses for the Lottery of \$56.85 million for the biennium, with net proceeds estimated at \$161.7 million. Total state proceeds are projected to be \$243.9 million for the biennium, with \$132.9 million in estimated General Fund revenues. These total revenues include the net proceeds, in-lieu-of-sales tax, and unclaimed prizes.

Lottery: Governor's Recommended FY 2010-11 Budget <i>(dollars in thousands)</i>	
Gross Revenue	924,446
Direct Costs	705,929
Operating Expense	<u>56,851</u>
Net Proceeds	161,664

Public-Local Employees Retirement

Three public retirement programs under the State Government Finance committee's jurisdiction receive either direct or open General Fund appropriations. The funds include:

- MN State Retirement System - \$3.3 million for benefits paid to former legislators and elected officials.
- First Class City Teachers State Aid - a \$37.25 million appropriation to reduce the unfunded liabilities of the St. Paul teachers retirement funds and to the Teachers Retirement Association (TRA) for the assumed liabilities of the Minneapolis Teachers Retirement Association.
- The Minneapolis Employees Retirement Fund (MERF) - \$18 million to reduce the plan's unfunded liability.

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

Transportation

The Governor's recommended transportation budget for 2010-2011 decreases general fund spending by approximately \$3.8 million for the biennium. From all funds, the budget for transportation totals \$4.5 billion for fiscal years 2010-2011, which is roughly \$230 million more in direct appropriations from the previous biennium. Much of this increase is due to the changes made in 2008 Session, Chapter 152, which included increased appropriations for various activities. In addition, the Governor unallotted \$1.2 million in general fund appropriations from transportation-related programs in the 2008-2009 biennium. The table below details changes in general fund spending for the Department of Transportation, Metropolitan Council Transit, and the transportation portion of the Department of Public Safety budget. The changes noted below include unallotments.

Transportation Finance Division					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
	November Forecast FY 08-09	Forecast Base FY 10-11	Governor's Recs FY 10-11	% Change Gov. FY 10-11 vs. FY 08-09	% Change Gov. vs. Base FY 10-11
Dept. of Transportation	61,366	38,428	34,580	-44%	-10%
Met Council Transit	176,770	157,234	157,234	-11%	0%
Dept. of Public Safety	16,071	15,918	15,918	-1%	0%
Net GF Total	254,207	211,580	207,732		

The Governor did not recommend changes to the Metropolitan Council Transit budget or the transportation portion of the Department of Public Safety budget for the FY 2010-11 biennium. The Governor recommended the following changes for the Department of Transportation:

- Increase the percent of the municipal state aid street apportionment funds available for administrative activities. Current law allows for 1.5% of money available for apportionment to be used for administrative activities, and the Governor proposes increasing this to 2.0%. This is a revenue neutral proposal. It will decrease the amount of expenditures on construction activities by approximately \$750,000 per year and increase the expenditures on administration activities by the same amount. According to the Department, this proposal will increase the amount of statewide and regional coordination but will not increase staffing.

- Increase the appropriation for airport development and assistance from the state airports fund by \$2.25 million for fiscal year 2010. This is a one-time appropriation that spends down the fund balance. It does not represent an increase in revenue to the fund.
- Decrease the base appropriation from the general fund to greater Minnesota transit by approximately \$1.9 million per year. According to the Department, this will not change the current level of service in the short-run. However, there may be inflationary impacts in future years, and current funding estimates will not allow for any expansion of service. In addition, any changes in motor vehicle sales tax revenues could also impact service levels.
- Reduce the base appropriation from the trunk highway fund for state road operations by \$4.5 million per year beginning in fiscal year 2010: \$2 million from infrastructure investment support and \$2.5 million from infrastructure operations and maintenance. This is due to changes in anticipated revenues from the gas tax, tab fees, and motor vehicle sales tax.
- Reduce expenditures for fiscal year 2009 from the trunk highway fund for state road construction by \$44.0 million. This reflects a change in the amount of forecasted federal aid agreements for fiscal year 2009 and a decrease in the use of advanced construction. This will not impact the current program.
- Increase expenditures and revenues from the trunk highway fund for the state road construction program by \$43.5 million for fiscal year 2010 and \$130.9 million for fiscal year 2011. This proposal is based on estimated federal funds and is consistent with SAFETEA-LU funding levels.
- Decrease the amount associated with research services within the state road construction appropriation from the trunk highway fund by \$3.4 million and simultaneously increase the appropriation for infrastructure investment support by the same amount for research services. This is a revenue neutral and spending neutral shift; it changes where research services fall within the Department's budget.

In addition to the changes noted above, the Governor also unallotted a total of \$1.2 million in general fund appropriations for the FY 2008-09 biennium. This includes the following reductions for the Department of Transportation and Metropolitan Council; the Governor did not unallot funds from the Department of Public Safety.

Department of Transportation

- Reduces the greater Minnesota transit general fund appropriation for fiscal year 2009 by \$290,482. The Department does not anticipate service reductions due to this change.
- Reduces the Urban Partnership Agreement general fund appropriation included in 2008 Laws, Chapter 179, Section 16, Subdivision 3 by \$300,000. The Department is making two adjustments to the telecommuting plan due to the unallotment. It will cut contractual budgets

with metropolitan area Transportation Management Organizations by approximately four percent and will reduce a marketing component by six percent.

- Reduces the electronic communication general fund appropriation by \$9,518. The specific reduction is for the Roosevelt tower. This is not anticipated to have an impact; this amount is unobligated.

Metropolitan Council

- Reduces the metropolitan transit assistance appropriation for fiscal year 2009 by \$600,000. The Metropolitan Council plans to use an equivalent portion of their reserves to cover this change; no programmatic impact is expected.

If you have any further questions on transportation related issues, please contact Koryn Zewers at 651-296-4178 or koryn.zewers@house.mn.

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Taxes & Local Aids and Credits

Changes in General Fund Revenue

For the FY 2010-11 biennium, the Governor's recommendations for taxes, aids and credits are forecasted to generate \$235.110 million in net general fund savings. This amount is generated by reducing general fund expenditures (savings) for local aids and credits by \$522.400 million and reducing general fund tax revenues (spending) by \$287.290 million. The Governor's recommendations pertaining to changes in tax revenue are summarized in this section, followed by a summary of proposed recommendations for local aids and credit general fund reductions.

Most of the Governor's tax revenue recommendations for this biennium and the next biennium reduce general fund tax revenues. Of the \$287.290 million in general fund tax revenue reductions proposed by the Governor, 43 percent (\$123.700 million) provide tax relief to businesses with a phased-in corporate franchise tax rate reduction, 26 percent (\$74.950 million) provide tax relief for businesses mainly from the change to an upfront capital equipment exemption from sales tax, and 23 percent (\$66.200 million) provide tax relief to individuals through tax credits and Section 179 expensing.

For the FY 2012-13 biennium, the Governor's recommendations in this area are forecasted to generate \$122.546 million in net general fund savings with \$467.630 million in additional reductions in net general fund tax revenues (spending) and \$590.176 million in general fund expenditure reductions in local aids and credits (savings).

Table 1. 2009 Governor's Tax Revenue Recommendations

(Dollars in thousands¹)

NOTE: Negative numbers represent a cost to the state and positive numbers represent a gain to the state	FY 2010	FY 2011	2010-11 Biennium	FY 2012	FY 2013	2012-13 Biennium
Individual Income Tax & Corporate Franchise Tax						
<i>Five Percentage Point Rate Reduction for Corporate Franchise Tax Phased-in Over Six years (effective TY 2010)¹</i>	(20,000)	(100,000)	(120,000)	(180,000)	(230,000)	(410,000)
<i>Job Reinvestment Refundable Tax Credit Capped</i>	(50,000)	0	(50,000)	0	0	0
<i>Section 179 Expensing - - individual income tax</i>	(14,000)	(2,200)	(16,200)	4,000	4,000	8,000
<i>Section 179 Expensing - - corporate franchise tax</i>	(3,200)	(500)	(3,700)	725	675	1,400

¹ This table does not show the revenue reduction to the general fund for this provision in FY 2014 and other years because it affects a fiscal year that is outside the budget planning window forecasted in by the Minnesota Management and Budget Office. Based on a revenue estimate from DOR (using 2008 November Forecast data), the estimate revenue reduction in FY 2014 is \$290 million and \$380 million for FY 2015.

Table 1. 2009 Governor's Tax Revenue Recommendations*(Dollars in thousands¹)*

NOTE: Negative numbers represent a cost to the state and positive numbers represent a gain to the state	FY 2010	FY 2011	2010-11 Biennium	FY 2012	FY 2013	2012-13 Biennium
<i>Job Creation Investment Tax Credit²</i>	0	0	0	(3,000)	(3,000)	(6,000)
<i>Capital Gains Exemption for Qualifying Investments in Small Businesses, requiring a 5-yr holding period.³</i>	0	0	0	0	0	0
<i>Income & Corporate Franchise Tax Interaction Impact with Property Tax Refund Aid and Levy Programs</i>	0	(12,600)	(12,600)	(10,600)	(10,500)	(21,100)
Federal Conformity (income tax & corporate franchise tax)	(11,600)	5,410	(6,190)	4,705	2,845	7,550
Sales & Use Tax						
<i>Capital Equipment Upfront Exemption (effective January 1, 2010)</i>	(35,300)	(39,650)	(74,950)	(14,370)	(7,510)	(21,880)
<i>Capital Equipment Upfront Exemption Impact to Natural Resources Fund (effective January 1, 2010)</i>	[(1,430)]	[(1,830)]	[(3,260)]	[(791)]	[(430)]	[(1,221)]
Other Taxes						
<i>Green JOB Z</i>	(1,150)	(2,500)	(3,650)	(3,050)	(3,550)	(6,600)
<i>Small Business Tax Credit (effective TY 11)⁴</i>	0	0	0	(9,500)	(9,500)	(19,000)
General Fund Revenue Change Total	(\$135,250)	(\$152,040)	(\$287,290)	(\$211,090)	(\$256,540)	(\$467,630)

² This table does not show the revenue reduction to the general fund for this provision in FY 2014 and other years because it affects a fiscal year that is outside the budget planning window forecasted in by the Minnesota Management and Budget Office. The estimated revenue reduction is \$3 million for FY 2014 and \$3 million for FY 2015.

³ This table does not show the revenue reduction to the general fund for this provision in FY 2014 and other years because it affects a fiscal year that is outside the budget planning window forecasted in by the Minnesota Management and Budget Office.

⁴ This table does not show the revenue reduction to the general fund for this provision in FY 2014 and other years because it affects a fiscal year that is outside the budget planning window forecasted in by the Minnesota Management and Budget Office. The estimated revenue reduction is \$9.5 million for FY 2014 and \$9.5 million for FY 2015

Individual Income Tax

To encourage business investments and job growth, the Governor recommends these tax credits:

Enact a 25 Percent Refundable Reinvestment Tax Credit for Small Businesses. The Governor proposes a 25 percent refundable tax credit to provide incentives for qualifying small business investment in tax year 2009. A qualified taxpayer is a business that for tax year 2008 had fewer than 140 employees employed by the unitary business and more than 50 percent of its property and payroll in Minnesota. The total amount of credit (capped at \$50 million in FY 2010) would support \$200 million in new investments in qualified property (such as Section 179). Since this credit is refundable, it could be used by small businesses to offset income tax liability, with any excess paid as a refund.

Enact a Job Creation Investment Credit. The Governor recommends the creation of a non-refundable 25 percent tax credit against individual income taxes for angel investments in regional investment funds. The Governor's proposal is to cap the credit at \$12 million with a disbursement of \$3 million for credits each year starting in FY 2012. This investment must be held for at least 3 years before the taxpayer can apply for this credit. The total amount of credit would support \$48 million in angel investments in regional investment funds, qualified business and green businesses. The maximum credit per taxpayer is \$100,000 and allows carry-forward of any excess credit for up to ten years.

Enact a Capital Gains Exemption for Qualifying Investments in Small Businesses in Minnesota starting in 2009. The Governor recommends 50 percent capital gains exemption from qualifying investments in Minnesota small businesses for tax year 2009. Qualifying investments are equity investments in small business stock. To obtain the tax benefit, the asset must be held for five years and sold an investment. Because of this five year holding period, the capital gains exclusion will not impact the general fund until FY 2014.

Corporate Franchise Income Tax

Reduce the Corporate Franchise Tax Rate by 5 percentage points over six years. Total corporate franchise tax receipts constitute about 5 percent of total general fund revenue in the FY 2010-11 biennium. C-corporations pay 9.8 percent on taxable net income. To attract additional business investment and improve the business climate in Minnesota, the Governor recommends reducing corporate franchise tax receipts with a phased-in rate reduction starting in tax year 2010 to tax year 2015. This proposal would reduce the statutory tax rate by 51 percent when it is fully phased-in 2015. Table 3 (on the next page) shows the estimated general fund revenue impact of this rate reduction proposal by biennia.

Table 3. Proposal to Cut the Corporate Franchise Rate Over 6 Years.

Biennium	Phased in Rate Reduction	Estimated General Fund Revenue Reduction
FY 2010-11	2%	\$120 million
FY 2012-13	1%	\$410 million
FY 2014-15	2%	\$670 million
Total	5%	\$1.2 billion

Based on the Governor’s 2009 Tax Recommendation prepared by MMB and a revenue analysis estimate by the Minnesota Department of Revenue. (January 2009, 2008 November Forecast)

Individual Income and Corporate Franchise Income Tax

Full Conformity with federal tax law Section 179. Section 179 expensing is a reference to a section of the Internal Revenue Code that allows businesses to deduct the entire amount of the cost of qualifying property (machinery, equipment, furniture, certain structures, tangible personal property) in the tax year the property is placed in service. As another alternative to Section 179 expensing, businesses can claim depreciation deductions over a number of years. Some deem Section 179 expensing a better investment tool because it allows businesses to accelerate recognition of the expense from future tax years to the present. The Governor recommends fully adopting the federal tax provisions related to Section 179 for qualifying business assets purchased in 2009 and 2010. Under current law, Minnesota does not conform to Section 179 expensing rules for deductions. Instead, Minnesota requires that taxpayers add-back 80 percent of the difference for their purchases placed in service in the first year and then deduct one-fifth of the amount added back in each of the five following tax years.

Full conformity to this federal provision is estimated to reduce general fund tax receipts for individual income tax and corporate franchise tax in the FY 2010-11 biennium by \$19.9 million. The decline in general fund revenues is due to taxpayers receiving the tax benefit in first year, rather than taking deductions over a number of years. In the FY 2013-14 biennium or in the out biennium, general fund revenues are estimated to increase by \$9.4 million because of lower depreciation deductions being paid out by the state in later years.

Table 4. Federal Section 179 Allowances Under Federal Law compared to Current Law.

Tax Year	Federal Law		Current Law	
	Maximum Deduction	Start of Phase-out	Maximum Deduction	Start of Phase-Out
2002	\$24,000	\$200,000	\$24,000	\$200,000
2003	\$100,000	\$400,000	\$100,000	\$400,000
2004	\$102,000	\$410,000	\$102,000	\$410,000
2005	\$105,000	\$420,000	\$105,000	\$420,000
2006	\$108,000	\$430,000	\$25,000	\$200,000
2007	\$125,000	\$500,000	\$25,000	\$200,000
2008	\$250,000	\$800,000	\$25,000	\$200,000
	Governor’s Proposal with Full Federal Conformity			
2009 & 2010	\$125,000 + inflation adjustment from 2007	\$500,000 + inflation adjustment from 2007	\$25,000	\$200,000

Source: HRD, Section 179 Expensing under the Federal and MN Income Tax

Individual Income Tax and Corporate Franchise Tax Interaction with Property Tax Refund Aid and Levy Programs. The Governor's recommends several property tax aid and levy program changes that may result in aid reductions to local governments. With reductions in aid, a series of assumptions are made. Any aid reductions to local governments assume that levy increases will result in increased property taxes. Property tax increases are assumed to increase deductions on individual and corporate tax forms. As such, the Governor's proposals are assumed to create an interaction impact that are estimated to reduce general fund revenues by \$12.6 million in FY 2011 (\$9.3 million reduction in individual income taxes and \$3.3 million reduction in corporate franchise taxes) with additional costs in later years.

Federal Conformity

Federal conformity is when the legislature must act on changes in federal tax code and decide if these federal changes should be incorporated into Minnesota tax laws. Any change in a federal law that changes the definition of federal taxable income requires that Minnesota either conform to the federal change or add a line on the Minnesota return to add back (or subtract) the difference. To avoid or minimize the need for taxpayers to recalculate their federal taxable income, the Governor recommends conforming to selected provisions in four federal acts for all tax years affected by federal law changes (tax year 2008 to tax year 2013).

Table 2A: Federal Conformity Proposal by the Governor (Dollars in thousands)

Negative numbers represent a cost to the state and positive numbers represent a gain to the state

Federal Conformity Tax Acts	FY 2010	FY 2011	2010-11 Biennium	FY 2012	FY 2013	2012-13 Biennium
Heroes Earned Retirement Opportunities Act of 2008 *						
Individual Income Tax	65	75	140	80	65	145
Corporate Franchise Tax	0	0	0	0	0	0
Subtotal	65	75	140	80	65	145
Heartland, Habitat, and Horticulture Act of 2008						
Individual Income Tax	(405)	450	45	470	390	\$860
Corporate Franchise Tax	0	0	0	0	0	0
Subtotal	(405)	450	45	470	390	\$860
Housing Assistance Tax Act of 2008						
Individual Income Tax	70	330	400	390	370	760
Corporate Franchise Tax	(50)	(20)	(70)	(Negli.)	(Negli.)	(Negli.)
Subtotal	20	310	330	390	370	760
Emergency Economic Stabilization Act of 2008						
Individual Income Tax	1,870	6,950	8,820	7,190	6,470	13,660
Corporate Franchise Tax	(13,150)	(2,375)	(15,525)	(3,425)	(4,450)	(7,875)
Subtotal	(11,280)	4,575	(6,705)	3,765	2,020	5,785
Federal Conformity Total	(\$11,600)	\$5,410	(\$6,190)	(\$4,705)	(\$2,845)	(\$7,550)

NOTE: With the exception of one provision in the Heroes Earned Retirement Opportunities Act of 2008 with a revenue impact of \$90,000 in FY 2009, the other provisions with FY2009 revenue impact are shifted in FY 2010.

The Heroes Earned Retirement Opportunities Act. The major provisions in this act recommended by the Governor include:

- Allows for nontaxable combat pay to be included in earned income in determining the Earned Income/Working Family Credit (effective 6/17/2008); and
- Imposes individual income tax on the net unrealized gain of property (as it has been sold for fair market value) on individuals with a net worth over \$2 million and over \$600,000 of unrealized gains who expatriate. (effective 6/17/2008).

The Heartland, Habitat, Harvest, and Horticulture Act of 2008. The major provisions recommended by the Governor in this Act include:

- An extension of the special rule for contributions on qualified conservation real property (tax years 2008 and 2009);
- Provides a deduction for endangered species recovery act expenditures (Effective 1/1/09);
- Allowances of like-kind exchange treatment for shares in a mutual ditch, reservoir or irrigation Company (Effective 6/19/2008);
- Change the depreciation classification for race horses meeting certain age thresholds (Effective 1/1/2009 to 12/31/13)
- Temporary relief for Kiowa County, Kansas, and surrounding areas limitations on charitable contribution deductions.
- Limitation on excess farming losses of certain taxpayers (1/1/10).

The Housing Assistance Tax Act of 2008. The major provisions recommended by the Governor in this Act include:

- State and local bond interest exemption extended to bonds guaranteed by federal home loan banks. (Effective 7/31/08 to 12/31/10);
- Gulf Opportunity Zone Provisions for hurricane related casualty losses (7/30/2008) and waive commencement date requirement for additional bonus depreciation (1/1/08);
- Real Estate Investment Trust (REIT) provisions (7/30/2008); and
- Exclusion of gain on sale of principal residence not to apply to nonqualified use (1/1/09).

The Economic Stabilization Act of 2008: The major provisions recommended by the Governor in this Act are summarized in six categories:

(1) Emergency Stabilization;

Emergency Stabilization provisions including the extension of discharges of principal residence acquisition indebtedness from the gross income of individuals (1/0/10 to 1/31/12)

(2) Energy Improvement;

Authorizes the extension of provisions related to energy efficient commercial building deductions, and 50% bonus depreciation for ethanol property to cellulosic biofuel plant property. Also includes conformity to special 50 percent bonus depreciation for certain reuse and recycling property.

(3) Individual Income Tax Provisions:

Authorizes the extension of tax-free IRA distributions up to \$100,000 for charitable purposes for taxpayers age 70.5 years and older and provides for the treatment of dividends of regulated investment companies. Both provisions are effective for tax years 2008 and 2009.

(4) Business Tax Provisions;

Authorizes the extension of provisions related to the 15 year straight-line recovery for leasehold and restaurant property including new restaurant property and improvements to retail property, extending treatment of certain payments to controlling exemption organizations for unrelated business income tax, extending basis adjustment to S corporation stock for charitable contributions of property, extending partial expensing for advanced mine safety equipment, extending accelerated depreciation for business property on Indian reservations, expensing of brownfields environmental remediation costs, extending enhanced deduction for qualified computer contributions, and extending enhanced deduction for contributions of book inventory donated to public schools.

(5) Midwestern Disaster Relief Provisions and National Disaster Relief for Federally Declared Disaster Areas in 2008 and 2009: Authorizes expensing of qualified disaster expenses and provides two temporary suspensions for relief efforts in Midwestern disaster areas for:⁵ (1) a limitation on charitable contributions; and (2) a limitation on casualty losses; and,

(6) Other:

- Modify tax treatment of non qualified deferred compensation from certain tax indifferent parties. This provision targets deferral arrangements between hedge fund managers and investment companies established in offshore tax havens. This provision is one of the few provisions that raises revenue in this act.
- Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008 changes the requirements for employer-sponsored group health plans to qualify for employee income exclusion.

⁵ The area as defined in which a disaster was declared between May 20, 2008 and July 31, 2008 which includes Minnesota counties (Cook, Fillmore, Freeborn, Houston, Mower, and Nobles).

Federal Conformity Not Adopted:

Federal conformity provisions not recommended by the Governor that taxpayers would be required to add back to Minnesota taxable income or make other adjustments and the cost of those provisions are listed in table 2B. The provisions excluded are:

- The higher education tuition expense deduction of up to \$4,000 to tax year 2008 and 2009.
- The teacher classroom expense deduction of up to \$250 to tax years 2008 and 2009.
- An additional standard deduction amount for property taxes enacted in the Housing Assistance Tax Act to tax year 2009.
- Authorization for ordinary treatment for gain or loss from sale or exchange of certain preferred stock by certain financial institutions. Minnesota individual income and corporate franchise taxpayers would be required to treat these losses as capital losses.

Table 2B: Federal Conformity Provisions Not Recommended by the Governor (dollars in thousands)

NOTE: Negative numbers represent a cost to the state and positive numbers represent a gain to the state	FY 2010	FY 2011	2010-11 Biennium	FY 2012	FY 2013	2012-13 Biennium
Deduction for Higher Education Tuition Expenses	(26,800)	0	(26,800)	\$0	\$0	\$0
Deduction for Teacher Classroom Expenses	(2,000)	0	(2,000)	\$0	\$0	\$0
Additional Standard Deduction for Property Taxes Paid	(35,200)	\$0	(35,200)	0	0	0
Treatment of Certain Preferred Stock Losses as Ordinary Losses	(7,200)	(800)	(8,000)	(300)	200	100
	(\$67,000)	(\$800)	(\$72,000)	(\$300)	\$200	(\$100)

NOTE: Federal conformity provisions with FY2009 revenue impact are shifted in FY 2010.

Sales and Use Tax

Enact An Upfront Sales Tax Exemption for Capital Equipment. Under current law, Minnesota exempts sales and use tax for capital equipment⁶ but this exemption is administered as a tax refund. Businesses have 3.5 years from the date of purchase or lease to file a refund claim. To encourage investment and remove the administrative burden of applying for a refund, the Governor recommends an upfront exemption for capital equipment starting in January 1, 2010. In FY 2010, there would be an estimated one-time loss of revenue to the general fund because of the shift in timing from the claims for capital equipment refunds to the upfront sales tax

⁶ The exemption applies to machinery and equipment used for manufacturing, fabricating, mining or refining tangible personal property to sell at retail. The exemption also applies to transmitting results to a customer of an online computerized data-retrieval system to sell at retail; or generating electricity or steam to sell at retail.

exemption. In the FY 2010-11 biennium, general fund revenue will be reduced by \$74.950 million and smaller on-going revenue reduction in the FY 2012-13 biennium. Constitutionally dedicated sales tax receipts that are deposited into natural resources and arts fund would also be reduced by \$3.260 million in FY 2010-11 biennium and additional costs in the later years. Historically, there has been about 2,000 to 2,500 capital equipment refund claims paid each year. Of that amount, according to Minnesota Department of Revenue Tax Research, 80 percent of the refunds go to less than 12 businesses.⁷

Other Taxes

Enact a 60 Percent Non Refundable Small Business Investment Tax Credit (SBIC) to Insurance Companies for Early-stage Investments in Certified Capital Companies. The Governor recommends a 60% tax credit against insurance premium taxes for investments in approved certified capital companies which would be required to invest in qualified businesses in Minnesota. To encourage longer term investments, the credit can be claimed over 4 years, beginning 3 years after the investment is made. This tax credit proposal by the Governor requires that 50 percent of all investments must be made in green business⁸. The total cost of this proposal over four years is \$38 million or \$9.5 million each year starting in FY 2012. This credit is non refundable but does provide carry-forward authority to succeeding taxable years until the entire carry-forward credit has been used.

Create a Green JOBZ Tax-Free Zone Program for renewable and clean energy businesses. The Governor recommends the creation of a Green JOBZ program. Similar to the JOBZ program in terms of the tax benefits received, the main differences from the existing JOBZ program and the new Green JOBZ proposal is that:

- It is limited to qualifying businesses that create renewable energy, represent manufacturing equipment or services used in renewable energy, or that create a product or service that lessens energy use or emissions;
- Provides eligible businesses with tax benefits for the duration of the zone (12 years), and
- Provides that zones can be located in both metro and non-metro counties.

This proposal is estimated to reduce general fund revenues by \$3.650 million in FY 2010-11 biennium and \$6.550 million in the FY 2012-13 biennium. If enacted, the total estimated cost of the proposal from FY 2010 to FY 2027 is \$51 million. Table 5 shows the estimated annual revenue impact of the Green JOBZ proposal based on a revenue estimate from the Minnesota Department of Revenue. Three key assumptions driving the revenue estimate include:

⁷ http://www.taxes.state.mn.us/mntaxreform/presentations/Upfront_CapEq_Exempt_071408.ppt

⁸ The Governor's proposal defines a green business as those involved in green products, renewable energy, green services, and environmental conservation. The business must be headquartered in Minnesota, have its principal business operations in Minnesota, have at least 51 percent of its employees in Minnesota, have less than 100 employees, have less than \$2 million in sales and pay at least 75 percent of its employees a wage greater than 175% of the poverty level.

- (1) \$230,000 first year tax benefit per business;
- (2) \$50,000 tax benefit per business after year one; and
- (3) Total business participation count of 65 businesses from FY 2010-2016

**Table 5. Green JOBZ General Fund Revenue Impact as Proposed by the Governor
(Dollars in thousands)**

CY	FY	New Business Count	First Year Revenue Loss	Revenue Loss After Year One	Annual Revenue Loss
2009	2010	5	\$1,150	---	\$1,150
2010	2011	10	\$2,300	\$250	\$2,550
2011	2012	10	\$2,300	\$750	\$3,050
2012	2013	10	\$2,300	\$1,250	\$3,550
2013	2014	10	\$2,300	\$1,750	\$4,050
2014	2015	10	\$2,300	\$2,250	\$4,550
2015	2016	10	\$2,300	\$2,750	\$5,050
Total		65	\$14,950	\$9,000	\$23,950

Local Aids and Credits

Changes in General Fund Expenditures

The Governor recommends reducing net general fund base-level expenditures for property tax aids and credits by \$522.4 million, or about 15.3%, for FYs 2010-2011 and by \$590.2 million or 16.7% for FYs 2012-13. These changes are reflected in twelve budget items, impacting all categories of this budget. For FYs 2010-11, tax refunds are reduced by \$55.8 million, local aids are reduced by \$372.5 million, taconite aids are reduced by \$11.0 million and property tax credits are reduced by \$83.1 million.

House Tax Aids and Credits Governor's Recommended Changes in General Fund Spending (Dollars in Thousands)

	November Forecast (including unallotments) FY 2008-09	Forecast Base FY 2010-11	Governor's Recs FY 2010-11	Percentage Change Gov. FY 2010-11 vs. FY 2008-09	Percentage Change Gov. vs. Base FY 2010-11
Tax Refunds					
Homeowner Property Tax Refund	494,980	586,300	586,300	18%	0.0%
Renter Property Tax Refund	330,618	364,300	313,600	-5%	-13.9%
Property Tax Refund Interaction	0	0	11,970	-	-
Political Contribution Refund	11,638	12,500	900	-92%	-92.8%
Sustainable Forest Land Payments	10,972	16,262	10,762	-2%	-33.8%
Other Refunds	35,974	36,590	36,590	2%	0.0%
Subtotal Refunds	884,182	1,015,952	960,122	9%	-5.5%
Local Aids					
Local Government Aids ¹	915,269	1,068,770	822,970	-10%	-23.0%
County Program Aids ²	367,303	460,218	334,328	-9%	-27.4%
Local Pension Aids	207,823	214,376	214,376	3%	0.0%
Other Local Aids	40,510	42,125	41,267	2%	-2.0%
Subtotal Aids	1,530,905	1,785,489	1,412,941	-8%	-20.9%
Property Tax Credits					
Homestead Market Value Credit	531,647	521,459	447,822	-16%	-14.1%
Agricultural Market Value Credit	50,125	50,672	41,374	-17%	-18.3%
Senior Property Tax Deferral	894	1,417	1,417	59%	0.0%
Other Credits	13,616	15,102	14,975	10%	-0.8%
Subtotal Credits	596,282	588,650	505,588	-15%	-14.1%
Taconite Tax Relief Aids & Credits	28,655	28,715	17,755	-38%	-38.2%
Other Expenditures	1,299	149	149	-89%	0.0%
TOTAL TAX AIDS & CREDITS	3,041,323	3,418,955	2,896,555	-5%	-15.3%

Notes: Negative numbers represent expenditure reductions (budget savings) and positive numbers represent expenditure increases.

¹ Local Government Aids includes Local Government Aid, Utility Aid and Mahnomens City Aid

² County Program Aids includes County Program Aid, County Transition Aid, and Beltrami and Mahnomens County Aids.

To better understand the impact of the Governor's proposed changes, it is helpful to distinguish among Minnesota's property tax relief programs and who benefits from each one.

- **Property tax aids** are state payments to specific local taxing jurisdictions (counties, cities, school districts) with the purpose of replacing property tax levy income.
- **Property tax credits** reduce property tax liabilities for individual taxpayers; local taxing jurisdictions receive state payments for these credits.
- **Property tax refunds** are direct payments to homeowners from the state.

In all cases, the programmatic effect is that property tax payers pay less than what the taxes would be otherwise, and the state makes up the difference. However, support to local governments varies greatly from program to program.

The numbers shown in bold are Governor-recommended changes from base level spending as determined by the November 2008 forecast.

Tax Refunds	<u>FY 2010-11</u>	<u>FY 2012-13</u>
Renter Property Tax Refund	(\$ 50.7 million)	(\$103.9 million)

Beginning in FY 2011, the Governor proposes to reduce property tax refunds for eligible renters by lowering the rate of the refund, currently calculated at 19% of rent paid, to reflect 15% of rent paid. This reduction, based on a Department of Revenue study that shows property taxes to be an average 15% of rent, is a 13.9% decrease in spending for renter refund payments.

Under current law, a renter is eligible for a property tax refund based on the ratio of rent constituting property taxes to income. Income thresholds and maximum refund amounts are adjusted annually for inflation. For claims filed in 2008, the maximum income level for a renter is \$41,820 and the maximum refund is \$1,190. Approximately 303,800 renters are expected to file a claim, and the average refund is estimated to be \$569 (Table 1).

Table 1 Baseline FY 2009 Renter Property Tax Refunds			
Gross Income Category	Number of Filers	Total Amount All Filers	Average Refund
\$0-\$10,000	68,900	\$36,370,000	\$528
\$10,000 - \$20,000	102,000	\$63,940,000	\$627
\$20,000 - \$30,000	75,600	\$45,700,000	\$604
\$30,000 - \$40,000	40,200	\$20,180,000	\$502
\$40,000 to < \$41,820	16,800	\$6,610,000	\$393
Total	303,800	\$172,800,000	\$569

Source: Department of Revenue

County Program Aid (CPA)

CPA reductions	(\$183.9 million)	(\$197.8 million)
CPA earn back	<u>\$ 58.0 million</u>	<u>66.0 million</u>
Subtotal – County Program Aid	(\$125.9 million)	(\$131.8 million)

The Governor proposes to decrease CPA funding by \$67.4 million in FY 2010, or about 29.8 percent, and by \$116.1 million or 50.2 percent in FY 2011. Counties can mitigate these reductions by “earning-back” a portion of funding by participating in a plan to consolidate human service administration among 15 regions throughout the state. With the earn-back, FY 2010 funding reflects a lesser reduction of 18.8% and for FY 2011, a lesser reduction of 35.9%. For aids payable in 2009 (FY 2010), these CPA reductions for counties equal 2.41% levy plus aid, or 1.53% with participation in the Governor’s regional Human Services initiative. For aids payable in 2010 (FY 2011) reductions equal 4.14% levy plus aid or a lesser 2.97% with participation in Governor’s regional initiative.

Homestead Market Value Credit **(\$ 68.6 million)** **(\$ 69.4 million)**

The Homestead Market Value Credit program provides reimbursements to localities for property tax credits issued to owners of homestead residential property. Under this program, homeowners may receive tax credits equal to 0.4 percent of the market value of the parcel up to a maximum of \$304, subject to a phase-out of the credit beginning at \$76,000 in market value. The phase-out rate is equal to .09 percent of market value above \$76,000 with no credit for homes valued at \$414,000 and above. Approximately 1.3 million households participate in this program annually.

Beginning in FY 2010, the Governor proposes to decrease the market value credit on homesteads by eliminating annual reimbursements paid to townships (\$11.0 million) and by reducing annual payments to 116 cities (\$21.7 million). With this reduction, approximately one-third of Minnesota’s townships would experience a cut of more than 10%. Cities would not be eligible for additional levy authority to replace these funds until FY 2011.

Agricultural Market Value Credit **(\$ 8.7 million)** **(\$ 8.7 million)**

Beginning in FY 2010, the Governor proposes to decrease the market value credit on agricultural homesteads by eliminating annual reimbursements paid to townships (\$4.2 million) and by reducing annual payments to cities (\$140,000).

Taconite Replacement Aid **(\$ 11.0 million)** **(\$11.0 million)**

Beginning in FY 2010, the Governor proposes to reduce taconite state aid payments from 22 cents per taxable ton of iron ore produced to 7 cents per ton. Taconite aid would continue to flow to local governments, schools and other recipients under M.S. 298.28, but would discontinue appropriations for the Taconite Area Environmental Protection Fund and the Douglas J Johnson Economic Protection Trust Fund.

Other Tax Changes

Education Aid Payment Shifts (impacting 6 tax programs)	(\$ 6.6 million)	\$ 0.2 million
Property Tax Refund Interactions	\$ 11.9 million	\$19.5 million

For additional information on income, corporate, sales and health care taxes, contact Cynthia Templin at 651-297-8405, or cynthia.templin@house.mn.

For additional information on property aids and credits, motor vehicle taxes and other taxes, contact Katherine Schill at 651-296-5384 or katherine.schill@house.mn.