



Governor Tim Pawlenty's 2010 Supplemental Budget Recommendations

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This paper summarizes the Supplemental Budget recommendations submitted to the Legislature by Governor Tim Pawlenty. Part one summarizes the overall budget recommendations. Part two provides detailed recommendations organized according to the jurisdictions of the House of Representatives' fiscal committees. Part three discusses recommended changes to the tax laws.

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2010 Session

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The web page has fiscal staff publications from recent years as well as spreadsheets for the major finance bills for the past twelve years.

Overview

On February 15 the Governor released budget recommendations to resolve the \$1.203 billion budget deficit projected in the November 2009 general fund budget forecast. The Governor's recommendations would leave a June 30, 2011 general fund balance of \$8 million.

The Governor's proposals include \$120 million in transfers into the general fund from other funds, \$387 million in state appropriation reductions that would be offset by anticipated increased federal funds and \$19 million of tax reductions (which offset other cuts). The remaining \$724 million is appropriation reductions. Of that \$724 million, \$257 million in reductions in aids to local governments and other tax aids and credits, \$356 million is in the Health and Human Services area and \$53 million is in Higher Education.

The \$387 million in state Medical Assistance reductions relies on an assumption that the United State Government will enact a six month extension of the higher rate of federal medical assistance match (FMAP) funding. As part of the American Recovery and Reinvestment Act (stimulus bill) of 2009, the FMAP level was increased from October 1, 2008 to December 31, 2010. The U.S. House of Representatives has passed legislation continuing that higher match rate for six month but the U.S. Senate has not yet enacted such legislation. The Governor has stated that if the legislation does not get enacted he will recommend further budget reductions.

Changes recommended by the Governor would reduce the \$5.426 billion deficit projected for the FY 2012-13 biennium by \$2.990 billion. These changes would leave a projected negative balance for the FY 2012-13 biennium of \$2.436 billion. The single largest changes that would affect the FY 2012-13 deficit is to make the change or shift in payments to school districts from 90 percent current year, 10 percent the following year to 73 percent current year, 27 percent next year in law. This delay in aid payments was one of the Governor's July 2009 unallotments. Under unallotment, payments could only be delayed for FY 2010 and 2011 so the payment schedule would return to 90% / 10% in FY 2012. The change recommended by the Governor would leave the 73% / 27% payment schedule in effect until a budget forecast projects a positive budget balance.

The Governor also recommends making most other FY 2010-11 unallotment reductions permanent into FY 2012 and beyond. That change reduces projected FY 2012-13 general fund spending by \$872 million.

Budget estimates for FY 2012 and 2013 do not include costs of adding inflation to spending except in those cases where that inflation adjustment is required by law.

The chart on the following page summarizes the Governor recommendations by biennium.

Governor's General Fund Recommendations: February 2010		
Changes from Current Law		
<i>Dollars in Millions</i>		
	FY 2010-11	FY 2012-13
Budget Problem	1,203	5,426
Recommended Changes		
Reductions in Aid to Local Governments & for Tax Relief	-258	-492
Reduction in Higher Education	-53	-205
Reductions in Health & Human Services	-356	-385
Transfers from Other Funds	-120	-1
Federal FMAP Extension	-388	0
Tax Revenue Reductions	19	344
Education Aid Payment Shift Authorized in Law	-15	-1,347
Extending FY 10-11 Unallotments into FY 12-13	-3	-872
Other Program and State Agency Reductions	<u>-38</u>	<u>-32</u>
Subtotal - Changes	-1,211	-2,990
Budget Balance	8	-2,436

Minnesota Management and Budget (MMB) will release a new budget forecast on March 2. To the extent the forecasted deficit changes from the November forecast, the Governor is expected to make revisions to his budget recommendations.

Since the release of the Governor's recommendations on February 15, MMB has provided corrections to some of the recommendations. Since the corrections are incorporated in some of these summary materials but not all of them there may be discrepancies in budget numbers of the summary part of this document and the individual fiscal division sections.

The chart on the next page summarizes the Governor's recommendations for FY 2010-11 and FY 2012-13 by House fiscal division. These changes are explained in more detail in the summaries by fiscal division that follow in this publication.

Governor's Recommendations – Changes: General Fund Spending (dollars in thousands)						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
K-12 Education Spending	-511	-15,034	-15,545	-1,256,061	-93,441	-1,349,502
K-12 Education Revenue	43	34		0	0	
K-12 Education Net	-554	-15,068	-15,622	-1,256,061	-93,441	-1,349,502
Early Childhood Spending	-7	-6,611	-6,618	-14,619	-15,041	-29,660
Early Childhood Revenue	0	0	0	0	0	0
Early Childhood Net	-7	-6,611	-6,618	-14,619	-15,041	-29,660
Higher Education Spending	-619	-52,664	-53,283	-152,741	-152,741	-305,482
Workforce Development Spending	-1,512	-2,077	-3,589	-2,392	-2,392	-4,784
Higher Education Revenue	0	0	0	0	0	0
Workforce Development Revenue	35,607	367	35,974	0	0	0
Higher Education & Workforce Dev Net	-37,738	-55,108	-92,846	-155,133	-155,133	-310,266
Taxes, Tax Aids & Credits Spending	0	-257,638	-257,638	-495,938	-512,943	-1,008,881
Taxes, Tax Aids & Credits Revenue	-80	-18,471	-18,551	-119,652	-224,517	-344,169
Taxes, Tax Aids & Credits Net	80	-239,167	-239,087	-376,286	-288,426	-664,712
Health Care & Human Services Spending	-14,417	-663,213	-677,630	-229,440	-227,880	-457,320
Health Care & Human Services Revenue	7,605	49,688	57,293	-2,174	-4,222	-6,396
Health Care & Human Services Net	-22,022	-712,901	-734,923	-227,266	-223,658	-450,924
Housing & Public Health Spending	-279	-3,236	-3,515	-4,076	-4,076	-8,152
Housing & Public Health Revenue	2,372	466	2,838	0	0	0
Housing & Public Net	-2,651	-3,702	-6,353	-4,076	-4,076	-8,152
Environment & Natural Resources	-1,616	-4,107	-5,723	-5,906	-5,925	-11,831
Environment & Natural Resources	3,114	4,931	8,045	505	505	1,010
Environment & Natural Resources	-4,730	-9,038	-13,768	-6,411	-6,430	-12,841
Agriculture & Veterans Spending	-3,448	630	-2,818	150	151	301
Agriculture & Veterans Revenue	411	635	1,046	0	0	0
Agriculture & Veterans Net	-3,859	-5	-3,864	150	151	301

Governor's Recommendations – Changes: General Fund Spending (dollars in thousands)						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
Energy Spending	210	-322	-112	-569	-569	-1,138
Energy Revenue	1,808	1,212	3,020	89	89	178
Energy Net	-1,598	-1,534	-3,132	-658	-658	-1,316
Cultural & Outdoor Resources Spending	-1,219	-6,565	-7,784	-9,607	-12,482	-22,089
Cultural & Outdoor Resources Revenue	0	0	0	0	0	0
Cultural & Outdoor Resources Net	-1,219	-6,565	-7,784	-9,607	-12,482	-22,089
Transportation Spending	-1,608	-2,670	-4,278	-4,520	-4,520	-9,040
Transportation Revenue	405	438	843	-150	-150	-300
Transportation Net	-2,013	-3,108	-5,121	-4,370	-4,370	-8,740
Public Safety Spending	-8,715	-15,142	-23,857	-17,021	-17,021	-34,042
Public Safety Revenue	7,675	4,391	12,066	0	0	0
Public Safety Net	-16,390	-19,533	-35,923	-17,021	-17,021	-34,042
State Government Spending	-3,816	-9,160	-12,976	-10,313	-10,313	-20,626
State Government Revenue	295	32,065	32,360	36,865	36,865	73,730
State Government Net	-4,111	-41,225	-45,336	-47,178	-47,178	-94,356
Debt Service	0	-365	-365	-1,429	-3,031	-4,460
Capital Projects	400	200	600	400	400	800
Total Spending Changes	-37,157	-1,037,974	-1,075,131	-2,204,082	-1,061,824	-3,265,906
Total Revenue Changes	59,255	75,756	135,011	-84,517	-191,430	-275,947
Total Net Changes	-96,412	-1,113,730	-1,210,142	-2,119,565	-870,394	-2,989,959

Agriculture, Rural Economies & 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 by this House finance division include the Department of Veterans Affairs, the Agriculture Department, the Animal Health Board, and the Agriculture Utilization Research Institute. The governor is recommending changes in expenditures, revenues and inter-fund transfers that result in a net effect General fund reduction of \$3.9 million in the FY 2010-11 appropriations.

Agriculture, Rural Economies and Veterans Affairs Finance- Governor's Supplemental Recommendations <i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Minnesota Department of Agriculture	(2,979)	278	(2,701)	(1,121)	(1,121)	(2,242)
Board of Animal Health	(87)	(141)	(228)	(141)	(141)	(282)
Agriculture Utilization Research Institute	(382)	(1,442)	(1,824)	(1,442)	(1,441)	(2,883)
Minnesota Veterans Affairs Department	<u>0</u>	<u>1,935</u>	<u>1,935</u>	<u>2,854</u>	<u>2,854</u>	<u>5,708</u>
subtotal expenditure changes:	(3,448)	630	(2,818)	150	151	301
General Fund Revenue Changes						
MDA-Transfer from the Agriculture Fund to General Fund	405	629	1,034	0	0	0
MDA-Transfer from the Special Resources Fund to General Fund	<u>6</u>	<u>6</u>	<u>12</u>	<u>0</u>	<u>0</u>	<u>0</u>
subtotal revenue changes:	411	635	1,046	0	0	0
Net General Fund Change:	(3,859)	(5)	(3,864)	150	151	301
Non-General Fund Changes						
Agriculture Fund						
Minnesota Department of Agriculture	(800)	(365)	(1,165)	435	435	870

Department of Agriculture (MDA)

The Governor is recommending a total net spending reduction of \$3.9 million for the agency. Specific items recommended for change include:

- A reduction in the agencies operations budget of \$770,000 dollars. These reductions are spread throughout the divisions within MDA.
- Grants made by the department are recommended to be reduced by \$1.9 million. Grant programs affected include the Ethanol Producer Payments, County Fair, Mental Health, and AGRI programs.
- There is a recommendation to implement a new fee for a tree care company registry, and appropriate the new fee revenue of \$35,000 to the department.

Animal Health Board (AHB)

The Governor is recommending a General fund reduction of \$228,000 to the biennial appropriation for the AHB. The reductions would result in reduced testing for avian pneumovirus, planned software updates, and reductions in staffing.

Agriculture Utilization Research Institute (AURI)

The Governor is recommending a General fund reduction of \$1.8 million for AURI. This reduction is 50 percent of the remaining biennial budget.

Minnesota Department of Veterans Affairs (MDVA)

The Governor is recommending an increase in General fund appropriations to the MDVA. Specific items recommended for change include:

- An increase of \$1.4 million for the Fergus Falls Veteran Home operations. The home is in the process of an expansion that will add 21 beds to the facility. The increase requested for a full year of operation, is an annual per bed increase of \$130,000 in operating costs.
- The Governor is requesting an appropriation of \$475,000 for the Minneapolis Adult Daycare operations.
- The Governor is requesting a General fund appropriation of \$100,000 to make payments to military funeral honor guards.

Cultural & Outdoor Resources Finance

Governor Tim Pawlenty's 2010 supplemental budget recommendations for the agencies and programs under the jurisdiction of the Cultural & Outdoor Resources Finance Division would decrease the General Fund deficit by \$7.784 million in FY 2010-11 biennium. The recommended decrease in the General Fund deficit in the FY 2012-13 out-biennium is \$22.089 million. *[The actual FY 2012-13 out-biennium reductions are just over \$25 million, but the committee's Public Libraries account reductions are being carried in the K-12 Education Finance Division budget in the 2010 session.]*

The following table shows the Governor's recommendations by agency and program for the four fiscal years 2010 through 2013.

Cultural & Outdoor Resources Finance Division						
(Dollars in thousands)						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Public Facilities Authority	(11)	(7)	(18)	(7)	(7)	(14)
Explore Minnesota Tourism	(938)	(672)	(1,610)	(672)	(672)	(1,344)
Historical Society	(217)	(501)	(718)	(669)	(669)	(1,338)
Arts Board	0	(2,875)	(2,875)	(5,749)	(8,624)	(14,373)
Humanities Center	0	(250)	(250)	(250)	(250)	(500)
Public Broadcasting	0	(2,015)	(2,015)	(2,015)	(2,015)	(4,030)
Amateur Sports Commission	(4)	(8)	(12)	(8)	(8)	(16)
Council on Black Minnesotans	(5)	(9)	(14)	(9)	(9)	(18)
Council on Chicano Latino Affairs	(6)	(9)	(15)	(9)	(9)	(18)
Council on Asians Pacific Minnesotans	(5)	(8)	(13)	(8)	(8)	(16)
Indian Affairs Council	(9)	(14)	(23)	(14)	(14)	(28)
Zoological Board	(24)	(197)	(221)	(197)	(197)	(394)
Science Museum of Minnesota	0	0	0	0	0	0
Public Libraries [Information Only - In K-12 Education Finance Committee]	0	0	0	[(2,918)]	0	[(2,918)]
Children Museums	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total General Fund Expenditure Changes:	(1,219)	(6,565)	(7,784)	(9,607)	(12,482)	(22,089)
Clean Water Fund Expenditure Changes						
Department of Natural Resources		(1,000)	(1,000)	1,000		1,000
Metropolitan Council		<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>5,000</u>
Total Clean Water Fund:		1,500	1,500	3,500	2,500	6,000

The Governor's specific agency and program recommendations are discussed in more detail below.

Public Facilities Authority

The Governor is recommending that the Public Facilities Authority's (PFA) general fund budget be decreased by \$11,000 in fiscal year 2010, and by \$7,000 in fiscal year 2011 and beyond.

PUBLIC FACILITIES AUTHORITY				
Governor's Recommendation	FY 10	FY11	FY12	FY13
Small Community Wastewater Treatment TA	(11,000)	(7,000)	(7,000)	(7,000)

The reduction is in the Small Communities Wastewater Treatment technical assistance program which is the only program within the PFA that receives a direct general fund appropriation.

Explore Minnesota Tourism

Explore Minnesota Tourism general fund budget would be decreased by \$1.160 million in the 2010-11 biennium, and by \$1.344 million in the 2012-2013 biennium. The Governor's recommendations are summarized below.

EXPLORE MINNESOTA TOURISM				
Governor's Recommendation	FY 10	FY11	FY12	FY13
Film & TV Board - Transition to Non-Profit	(700,000)	(325,000)	(325,000)	(325,000)
Tourism Operating Budget Reduction	(238,000)	(300,000)	(300,000)	(300,000)
Eliminate Innovative Grants Program		(47,000)	(47,000)	(47,000)
Total Explore Minnesota Tourism	(938,000)	(672,000)	(672,000)	(672,000)

Historical Society

The Minnesota Historical Society's general fund budget would be decreased by \$718,000 in the 2010-11 biennium, and by \$1.338 million in the 2012-2013 biennium under the Governor's recommended budget. The Governor's recommendations are summarized below.

MINNESOTA HISTORICAL SOCIETY				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Education & Outreach Operating Budget	(124,000)	(286,000)	(286,000)	(286,000)
Preservation & Access Operating Budget	(93,000)	(215,000)	(215,000)	(215,000)
Unallotment Ratification			(168,000)	(168,000)
Total Minnesota Historical Society	(217,000)	(501,000)	(669,000)	(669,000)

Arts Board

The Governor is recommending the Minnesota Arts Board transition into a self-supporting nonprofit organization beginning in Fiscal Year 2011. To accomplish this, the Governor is recommending the Arts Board's general fund budget be reduced by one-third in each fiscal year

2011 through 2013. General Fund support of the Arts board would end in fiscal year 2012 under this recommendation

MINNESOTA ARTS BOARD				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Operations & Services		(217,000)	(434,000)	(671,000)
Grants Program		(1,839,000)	(3,676,000)	(5,515,000)
Regional Arts Councils		(819,000)	(1,639,000)	(2,458,000)
Total Minnesota Arts Board		(2,875,000)	(5,749,000)	(8,624,000)

Humanities Center

The Governor is recommending that General Fund support for the Minnesota Humanities Center be eliminated beginning in fiscal year 2011. The Humanities Center currently receives \$250,000 in state support.

MINNESOTA HUMANITIES CENTER				
Governor's Recommendation	FY 10	FY11	FY12	FY13
Eliminate General Fund Appropriation		(250,000)	(250,000)	(250,000)

Public Broadcasting

The Governor is recommending that state General funding for the various media under the public broadcasting umbrella be eliminated beginning in fiscal year 2011. These media include Public Television, Twin Cities Regional Cable, the Association of Minnesota Public Radio Stations, and Minnesota Public Radio. Together, these entities currently receive \$2.015 million each year in state General Fund support. The Governor's recommendations are summarized below:

PUBLIC BROADCASTING			
Governor's Recommendation	FY11	FY12	FY13
Eliminate Public Television Matching Grants	(1,161,000)	(1,161,000)	(1,161,000)
Eliminate Public Television Equipment Grants	(200,000)	(200,000)	(200,000)
Eliminate Twin Cities Regional Cable Channel Grant	(17,000)	(17,000)	(17,000)
Eliminate AMPERS Public Radio Community Service Grants	(287,000)	(287,000)	(287,000)
Eliminate AMPERS Public Radio Equipment Grants	(100,000)	(100,000)	(100,000)
Eliminate MN Public Radio Equipment Grants	(250,000)	(250,000)	(250,000)
Total Public Broadcasting	(2,015,000)	(2,015,000)	(2,015,000)

Minnesota Amateur Sports Commission (MASC)

The Governor is recommending that the Minnesota Amateur Sports Commission's (MASC) general fund budget be decreased by \$4,000 in fiscal year 2010, and by \$8,000 in fiscal year 2011 and beyond. The MASC plans to deal with this reduction by shifting some staff costs to a contract with Hennepin County for operation of the county's own amateur sport activities.

MINNESOTA AMATEUR SPORTS COMMISSION				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Operating Budget Reduction	(4,000)	(8,000)	(8,000)	(8,000)

Councils

The four councils of color funded by this division would receive operating budget reductions totaling 3 percent of unspent funds for FY 2010, and 3 percent of the direct appropriation from FY 2011 and beyond.

COUNCILS				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Council on Black Minnesotans	(5,000)	(9,000)	(9,000)	(9,000)
Council on Chicano-Latino Affairs	(6,000)	(9,000)	(9,000)	(9,000)
Council on Asian-Pacific Minnesotans	(5,000)	(8,000)	(8,000)	(8,000)
Indian Affairs Council	(9,000)	(14,000)	(14,000)	(14,000)

Zoological Board

The Governor is recommending that the Zoological Board's general fund budget be decreased by \$24,000 in FY 2010, and by \$197,000 in FY 2011 and beyond.

MN ZOOLOGICAL BOARD				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Operating Budget Reduction	(24,000)	(197,000)	(197,000)	(197,000)

Public Libraries (Information Only – in K-12 Education)

The Governor recommends ratifying his unallotment action that deferred the FY 2010-11 school aid payments by extending this deferment into the FY 12-13 fiscal year. The impact on Public Libraries aids is shown below:

PUBLIC LIBRARIES (Information only – included in K-12 numbers)				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Education Payment Delay Extended:				
Regional Libraries Support Grants			(2,306,000)	
MultiCounty, Multitype Libraries Grants			(221,000)	
Regional Libraries Telecomm. Aid			(391,000)	
Total Public Libraries			(2,918,000)	

Clean Water Fund Recommendations

Clean Water Fund – Governor's Supplemental Budget Recommendations			
	FY11	FY12	FY13
Department of Natural Resources	(1,000,000)	1,000,000	
Metropolitan Council	2,500,000	2,500,000	2,500,000
Total Clean Water Fund Changes:	1,500,000	3,500,000	2,500,000

Department of Natural Resources (DNR)

The Governor recommends extending the FY 10-11 appropriations to the DNR for high-resolution digital elevation data (LiDAR) collections until FY 2012, to allow the department to complete this work. The department estimates that approximately \$1 million of the \$2.8 million total appropriation for FY 2010-11 will be unspent and should carry-forward until 2012.

Metropolitan Council

The Governor recommends two supplemental appropriations from the Clean Water fund to the Metropolitan Council:

- \$2 million per year, beginning in FY 2011, to assist the council with inflow and infiltration problems in the metro area.
- \$500,000 per year, beginning in FY 2011, to continue work on monitoring and analysis of the regional drinking water supply.

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Early Childhood Finance

The Governor's supplemental budget recommendations for the 2010-11 biennium includes a reduction of \$6.618 million in general fund expenditures. In addition, the recommendations include a reduction of \$5 million in TANF funds in fiscal year 2010, along with unallotment ratification to extend the reductions made on a one-time basis for the current biennium.

Early Childhood Finance - Governor's Supplemental Recommendations						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
MDE - Educate Parents Partnership						
Operating Budget Reduction	(1)	(1)	(2)	(1)	(1)	(2)
MDE - Kindergarten Entrance Exam						
Operating Budget Reduction	(6)	(8)	(14)	(8)	(8)	(16)
DHS - Reduce Maximum Rates in Child						
Care Assistance Program	0	(1,929)	(1,929)	(8,973)	(8,921)	(17,894)
DHS - 5% Basic Sliding Fee Reduction	0	(4,557)	(4,557)	(4,123)	(4,185)	(8,308)
DHS - Count SSI Income for MFIP						
Child Care Assistance	0	(116)	(116)	(1,506)	(1,918)	(3,424)
DHS - Reduce MFIP Child Care						
Assistance	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>(10,000)</u>
subtotal expenditure changes:	(7)	(6,611)	(6,618)	(19,611)	(20,033)	(39,644)
General Fund Revenue Changes						
DHS - TANF Basic Sliding Fee						
Reduction transfer to General Fund	5,000	0	5,000	0	0	0
subtotal revenue changes:	5,000	0	5,000	0	0	0
Net General Fund Change, excluding unallotments:	(5,007)	(6,611)	(11,618)	(19,611)	(20,033)	(39,644)
General Fund 2009 Unallotment Ratification						
MDE - Educate Parents Partnership	0	0	0	(1)	(1)	(2)
MDE - Kindergarten Entrance Exam	0	0	0	(7)	(7)	(14)
subtotal unallotment changes:	0	0	0	(8)	(8)	(16)
Net General Fund Change, including unallotments:	(5,007)	(6,611)	(11,618)	(19,619)	(20,041)	(39,660)
Temporary Assistance for Needy Families Expenditure Changes						
DHS - TANF Basic Sliding Fee						
Reduction transfer to General Fund	(5,000)	0	(5,000)	0	0	0
DHS - Replace MFIP Child Care						
General Fund Spending with TANF	0	0	0	5,000	5,000	10,000
Net TANF Fund changes:	(5,000)	0	(5,000)	5,000	5,000	10,000

The Governor recommends extending the school aid payment deferral to fiscal years 2012-13, which impacts a number of programs in the early childhood area but is included in the K-12 budget area. The programs affected include: Early Childhood Family Education, School Readiness, Health and Developmental Screening, Community Education, Adults with Disabilities Aid, and Adult Basic Education.

Minnesota Department of Education

Aside from the extension of the aid payment shift, the only changes in this area of the Early Ed budget are to the Educate Parents Partnership and Kindergarten Entrance Exam programs. The Governor recommends extending his unallotments, which includes \$1,000 each year for Educate Parents Partnership and \$7,000 per year for the Kindergarten Entrance Exam. The Kindergarten Entrance Exam is also reduced by \$6,000 in fiscal year 2010 and \$8,000 each year subsequently. Educate Parents Partnership is reduced by \$1,000 annually (in addition to the unallotment).

Department of Human Services

Governor Pawlenty recommends the following changes to child care programs:

- Count Supplemental Security Income benefits as income – this would result in a reduction of \$116,000 in fiscal year 2011 and \$3.4 million in the 2012-13 biennium.
- Reduce maximum rates paid to child care providers – this recommendation saves \$1.9 million in fiscal year 2011 and \$17.9 million in the 2012-13 biennium.
- Reduce the Basic Sliding Fee (BSF) program by five percent - this reduction amounts to \$4.5 million in fiscal year 2011; \$8.3 million in 2012-13.
- Capture BSF federal underspending – the Governor recommends refinancing \$5 million in unspent federal funds and transferring the money to the general fund.
- The Governor also recommends using Temporary Assistance for Needy Families (TANF) funding to replace MFIP child care funds in the 2012-13 biennium – MFIP child care would be reduced by \$5 million per year in 2012 and 2013, and replace with TANF funds.

Energy Finance

The Governor's 2010 supplemental budget recommendations for the agencies under the jurisdiction of the Energy Finance Division would decrease the General Fund deficit by \$3.132 million in FY 2010-11 biennium. The recommended decrease in the General Fund deficit in the FY 2012-13 biennium is \$1.36 million.

The following table shows the Governor's recommendations for the four fiscal years 2010 through 2013. All the recommendations shown are related to the Department of Commerce. The Governor's is recommending no budget changes for the Public Utilities Commission.

Energy Finance - Governor's Supplemental Recommendations <i>(Dollars in thousands)</i>						
	FY 10	FY 11	FY 10-11	FY 12	FY 13	FY 12-13
General Fund Expenditure Changes						
Department of Commerce	210	(322)	(112)	(569)	(569)	(1,138)
Public Utilities Commission	No Recommendations					
subtotal expenditure changes:	210	(322)	(112)	(569)	(569)	(1,138)
General Fund Revenue Changes						
Federal Licensing System Access Assessment	0	400	400	0	0	0
Notice Filing Fee	0	100	100	100	100	200
Retroactive Continuing Education	0	(11)	(11)	(11)	(11)	(22)
Transfer From Petro Tank Release Cleanup Fund to General Fund	569	32	601		0	0
Transfers From Special Revenue Fund to General Fund	<u>1,239</u>	<u>691</u>	<u>1,930</u>	<u>0</u>	<u>0</u>	<u>0</u>
subtotal revenue changes:	1,808	1,212	3,020	89	89	178
Net General Fund Change:	(1,598)	(1,534)	(3,132)	(658)	(658)	(1,316)
<u>Non-General Fund Changes</u>						
Petroleum Tank Release Cleanup Fund						
Commerce — Operating Budget Reductions	(569)	(32)	(601)	0	0	0
Special Revenue Fund						
Commerce — Operating Budget Reductions	(542)	(293)	(835)	0	0	0
Commerce — Program & Grant Reductions	<u>(697)</u>	<u>(398)</u>	<u>(1,095)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Special Revenue Fund	(1,239)	(691)	(1,930)	0	0	0
Net Non-General Fund Changes:	(1,808)	(723)	(2,531)	0	0	0

The Governor's specific agency and program recommendations for the Department of Commerce are discussed in more detail below.

Department of Commerce

The Governor is recommending Department of Commerce's general fund budget savings of \$1,598,000 in fiscal year 2010 and \$1,534,000 in fiscal year 2011. The recommended savings are \$658,000 each year in the 2012-13 biennium. The savings are achieved through a combination of expenditure and revenue initiatives.

Department of Commerce: Net General Fund Impact				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Expenditures	210,000	(322,000)	(569,000)	(569,000)
Revenues	1,818,000	1,212,000	89,000	89,000
Net General Fund Impact	(1,598,000)	(1,534,000)	(658,000)	(658,000)

The Governor's recommended General fund spending changes within the department are shown in the following table.

Department of Commerce: General Fund Expenditures				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Operating Budget — Admin. Services	(66,000)	(126,000)	(126,000)	(126,000)
Unallotment Ratification — Admin. Services			(97,000)	(97,000)
Operating Budget — Market Assurance	(124,000)	(196,000)	(196,000)	(196,000)
Unallotment Ratify — Market Assurance			(150,000)	(150,000)
Federal Licensing System Access	400,000			
Net General Fund Expenditures	210,000	(322,000)	(569,000)	(569,000)

The Governor's recommended General Fund revenue changes are shown in this table.

Department of Commerce: General Fund Revenues				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Transfer From Petro Tank Release Cleanup Fund	569,000	32,000		
Transfer From Special Revenue Fund — Operations	542,000	293,000		
Transfer From Special Revenue Fund — Programs & Grants	697,000	398,000		
Federal Licensing System Access Assessment		400,000		
Notice filing Fee		100,000	100,000	100,000
Retroactive Continuing Education		(11,000)	(11,000)	(11,000)
Net General Fund Revenues	1,808,000	1,212,000	89,000	89,000

To achieve the General Fund revenues through the shown transfers, the Governor is recommending several budget reductions in non-general fund programs, activities and grants. The realized savings are then transferred to the General Fund.

Department of Commerce: Non-General Expenditures				
Governor's Recommendations	FY 10	FY11	FY12	FY13
Operating Budget Reductions — Petro Tank Release Cleanup	(569,000)	(32,000)		
Operating Budget Reductions — Special Revenue Accounts	(542,000)	(293,000)		
Program & Grant Reductions — Special Revenue Accounts	(697,000)	(398,000)		
Net Non-General Fund Expenditures	(1,808,000)	(723,000)		

The number of non general-fund programs, activities and grants which will be affected by the Governor's recommended budget reductions is thirty-four separate functions. The reductions are all one-time in fiscal years 2010 and 2011 only.

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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 Water and Soil Resources, and the recommendations of the Legislative Citizens Committee on Minnesota Resources. The Governor is recommending changes in expenditures, revenues and inter-fund transfers that result in a net effect General Fund reduction of \$14.3 million in the current biennium. The following chart and agency narrative provides details on the changes.

Environment & Natural Resources Finance <i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Pollution Control Agency	(276)	(455)	(731)	(554)	(554)	(1,108)
Department of Natural Resources	(859)	(3,066)	(3,925)	(4,680)	(4,699)	(9,379)
Board of Water and Soil Resources	(474)	(460)	(934)	(460)	(460)	(920)
MN Conservation Corps	(7)	(14)	(21)	(14)	(14)	(28)
Metropolitan Council-Parks	<u>0</u>	<u>(112)</u>	<u>(112)</u>	<u>(198)</u>	<u>(198)</u>	<u>(396)</u>
subtotal expenditure changes:	(1,616)	(4,107)	(5,723)	(5,906)	(5,925)	(11,831)
General Fund Revenue Changes						
PCA-Transfer from Environment Fund	1,752	2,167	3,919	0	0	0
PCA-Transfer from Remediation Fund	118	179	297	0	0	0
PCA-Transfer from Special Revenue fund	328	462	790	0	0	0
DNR-Transfer from Natural Resources Fund	97	1,907	2,004	0	0	0
DNR-Transfer from Game and Fish Fund	900	0	900	0	0	0
DNR-Transfer from Special Revenue Fund	98	195	293	195	195	390
BWSR-Transfer from Special Revenue Fund		310	310	310	310	620
MCC-transfer from Natural Resources Fund	<u>7</u>	<u>15</u>	<u>22</u>	<u>0</u>	<u>0</u>	<u>0</u>
subtotal revenue changes:	3,300	5,235	8,535	505	505	1,010
Net General Fund Change:	(4,916)	(9,342)	(14,258)	(6,411)	(6,430)	(12,841)
Non-General Fund Changes						
Environment Fund						
Pollution Control Agency	(1,752)	(2,167)	(3,919)	0	0	0

Environment & Natural Resources Finance (Dollars in thousands)						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
Remediation Fund						
Pollution Control Agency	(118)	(179)	(297)	0	0	0
Special Revenue Fund						
Pollution Control Agency	(328)	(462)	(790)	0	0	0
Board of Water and Soil Resources	<u>0</u>	<u>(310)</u>	<u>(310)</u>	<u>(310)</u>	<u>(310)</u>	<u>(620)</u>
Net Fund changes:	(328)	(772)	(1,100)	(310)	(310)	(620)
Natural Resources Fund						
Department of Natural Resources	(97)	(1,657)	(1,754)	0	0	0
MN Conservation Corps	<u>(17)</u>	<u>(15)</u>	<u>(32)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Fund changes:	(114)	(1,672)	(1,786)	0	0	0
Environmental Trust Fund						
Department of Natural Resources	0	1,000	1,000	0	0	0
Game and Fish Fund						
Department of Natural Resources	0	460	460	460	460	920

Pollution Control Agency (PCA)

The Governor is recommending a total net spending reduction of \$5.7 million. Items recommended for change include:

- A reduction in the agency operations budget of \$3.1 million. Activities reduced include Multimedia, Air Pollution, Childrens' Toxics/Chemicals, Solid Waste, Hazardous Waste, and Water Program Operations.
- Grants awarded by the PCA to local units of government are recommended for a total reduction of \$2.6 million. Grants to be reduced include Stormwater compliance, Clean Water Partnership, Composting, Metro Landfill, SCORE, and E-Waste program grants.

Department of Natural Resources (DNR)

The Governor is recommending a total net spending reduction of \$4.2 million. Specific changes requested by the Governor include:

- A \$397,000 reduction in the General fund appropriation for the Lands Division.
- A \$763,000 general fund reduction in the Division of Waters. Activities reduced include stream loan protection grants, UDGs gauging activities and geologic atlas completion.

- The division of Forestry General fund appropriation would be reduced by \$535,000. Activities affected include forest road maintenance, private forestland stewardship plans, the FORIST system, and the funding of the Forest Resources Council.
- In the Division of Parks and Trails the General fund appropriation would be reduced by \$687,000. Reductions would result in reduced level of service in parks and on state trails.
- A \$50,000 reduction to the Fish and Wildlife Division will result in reduced surveillance work for bovine tuberculosis.
- Ecological Resources Division appropriation from the General fund will be reduced by \$310,000. Activities affected would include non-game programs, invasive species enforcement and control.
- A General fund reduction in the Enforcement Division of \$560 thousand would result in reduced hours of activity for conservation officers.
- \$2.004 million in reductions are recommended from the Natural Resources fund. These reductions would be transferred to the General fund in the Governor's recommendations.
- The Governor recommends a new appropriation from the Environmental Trust fund of \$1 million to be used for a revolving loan program to private land owners for removal of diseased shade trees.
- Payment in Lieu of Taxes payment to compensate local units of government for the loss of property tax dollars are recommended to be reduced by \$1.3 million.

Board of Water and Soil Resources (BWSR)

The budget of the BWSR is recommended by the Governor for a reduction of \$1.2 million. Included in the recommendations are the following items.

- Agency operational funding is recommended to be reduced by \$230,000.
- Grant programs are reduced by \$1.0 million. Affected grant programs include Vegetation Buffers, drainage Assistance Cost Share, and the WCA violations programs.

Metropolitan Council Parks

The Metro Council parks appropriation for the biennium is recommended to be reduced by \$112,000.

MN Conservation Corp

The Minnesota Conservation Corp appropriation for the biennium is recommended to be reduced by \$53,000.

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Health and Human Services Finance

Governor Pawlenty's 2010 supplemental budget relies on the area of Health and Human Services to meet 60 percent of the projected \$1.2 billion deficit. The Governor achieves this by both reducing expenditures by \$347 million across nearly all programs, but also booking anticipated federal revenues of \$387 million. In addition to new cuts in spending, the Governor's budget also reasserts his position on the disputed un-allotment reductions, and seeks to make the July 2009 unallotment reductions permanent into the future.

Health and Human Services Finance - Governor's Supplemental Recommendations						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Human Services	(8,819)	(138,443)	(147,262)	(227,196)	(225,336)	(452,532)
Health	(1,797)	0	(1,797)	(133)	(133)	(266)
subtotal expenditure changes:	(10,616)	(138,443)	(149,059)	(227,329)	(225,469)	(452,798)
General Fund Revenue Changes						
Human Services	5,451	26,196	31,647	(7,044)	(9,092)	(16,136)
Health	1,000	1,500	2,500	1,500	1,500	3,000
subtotal revenue changes:	6,451	27,696	34,147	(5,544)	(7,592)	(13,136)
Net General Fund Change:	(17,067)	(166,139)	(183,206)	(221,785)	(217,877)	(439,662)
Non-General Fund Changes						
Health Care Access Fund						
DHS/Reduce MNCare Eligibility for Adults without Kids	0	(129,711)	(129,711)	(236,610)	(273,879)	(510,489)
DHS/Other HCAF	(1,094)	(15,788)	(16,882)	(39,384)	(25,609)	(64,993)
Health/ Reduce FQHC Grants	0	(1,000)	(1,000)	0	0	0
Health/Agency Reduction and Other	(386)	(301)	(687)	(342)	(222)	(564)
Net HCAF changes:	(1,480)	(146,800)	(148,280)	(276,336)	(299,710)	(576,046)
Medical Education and Research						
Health/Reduce MERC grants	0	(1,500)	(1,500)	(1,500)	(1,500)	(3,000)

Department of Human Services

Reductions to the agency itself include a 3 percent reduction to agency operations saving \$5.8 billion in the current biennium and a cut to the department's computer systems operating budget which yields an additional \$3 million.

Human Services program reductions begin with \$15 million in cuts to chemical and mental health programs. Reductions in mental health treatment dollars for both adult and children's programs total \$4.9 million with most of the reductions coming at the expense of county grants for treatment and training. Also proposed are 5 percent reductions in the rates paid to chemical dependency treatment providers and capture of unused funds in the chemical dependency treatment account. Those provisions save the general fund an estimated \$11.1 million.

In the area of State Operated Services the Governor Pawlenty proposes \$1.4 million in savings. The savings are generated from the closure of one yet to be determined adult mental health facility, and the recapture of an unspent laundry services account.

The Governor realizes \$74 million in savings from family support programs through a variety of proposals. One recommendation eliminates the current General Assistance (GA) program and replaces it with a less costly program and saves nearly \$14 million in 2011. Also proposed is changing the treatment of (Supplemental Security Income (SSI) for the purposes of the Minnesota Family Investment Plan (MFIP) and MFIP Child Care. SSI income is currently exempt from the calculation of eligibility, but the Governor proposes to include SSI income in the calculation which would reduce MFIP eligibility and benefits for SSI recipients. MFIP and Basic Sliding Fee child care reductions of several million dollars in the FY 2010-11 biennium are summarized in more detail in the Early Childhood Finance section. Savings from reductions in TANF spending and additional federal emergency TANF revenue are then "refinanced" or recaptured by the general fund. The Governor recommends \$54.7 million in TANF refinancing in FY 2011.

Continuing care providers would be subject to a 2.5 percent rate reduction under the proposed budget. The reduction would affect nursing home providers as well as ICF/MR's, and aging, deaf and other continuing care grants. The savings from the proposal total \$37 million in the current biennium and over \$104 million in FY 2012-13. The Governor also proposes additional limits on disability waiver growth. Reducing growth of CADI waivers to 60 additional slots per month and developmentally disabled waivers to 6 additional per month saves a projected \$2.1 million in the current biennium.

The Governor also includes many proposals to reduce health care expenditures in his budget. A recommendation to increase the managed care withhold an additional 3 percent, which would delay payments to HMO's and save \$7.7 million of health care access fund dollars in FY 2011. Also proposed are additional inpatient hospital rate cuts. The 3 percent rate reductions will save an estimated \$7.2 million to the general fund and \$1.9 million to the health care access fund in the current biennium.

Governor Pawlenty also proposes eliminating MA coverage for adult physical, occupational and speech therapies. Under federal Medicaid law, the federal government requires a minimum benefit set but also provides financial participation for optional benefits that states may choose to

cover. The eliminated therapy groups are just such optional areas of coverage under Medicaid law and would take effect the last half of FY 2011.

The Governor captures the PMAP carveout set aside from Medical Education and Research Costs (MERC) funds and keep the dollars in the general fund. This \$18 million reduction would eliminate funding that would otherwise flow to eligible hospitals and clinics. Further recommendations include eliminating some providers from critical access dental payments and eliminating Medicaid DRG rate add-ons for rural hospitals. Additionally, hospitals would have their automatic inflationary adjustments or “rebasing” delayed through April 1 of 2011, creating savings in hospital payments of \$8.6 million in fiscal 2011.

The recommendation most likely to have the largest impact on any of the programs is a proposal to reduce eligibility in MinnesotaCare for childless adults from 250 percent of poverty to 75 percent of poverty. The eligibility change would eliminate over 21,000 monthly enrollees from the program and save nearly \$130 million in health care access fund dollars in the current biennium and over \$500 million in the FY 2012-13 biennium.

The reductions made to the MinnesotaCare program also create additional savings to the general fund. The November forecast had predicted a shortfall in the health care access fund and a provision in law states that the general fund shall make up any shortfall in funding in the health care access fund through state fiscal year 2011. Because of this provision, the forecast had projected a needed transfer of \$110 million from the general fund to the health care access fund to maintain a positive balance. With the Governor's proposed major reductions in health care access fund spending, this transfer will not occur. In addition, a statutory annual transfer of \$48 million from the health care access fund to the general fund may now take place. Without the cuts in health care access fund spending, the fund lacked sufficient dollars to make the required transfer. The combined impact of both items benefits the general fund by a total of \$158.8 million in the current biennium.

Additionally, and perhaps controversially, the Governor includes in his budget proposal the inclusion of \$387 million of anticipated federal dollars from a six month extension of the “FMAP” increase. The Federal Medicaid Percentage (FMAP) had been increased in the American Reinvestment and Recovery Act and had brought Minnesota an additional \$1.8 billion in higher federal government participation in the Medicaid program. The Governor's budget presumes that the provision will be extended. The six month extension had been included in a federal jobs bill, but that bill has not yet passed the U.S. Senate. It is unclear whether or not if the extension will be passed and when, and if the savings to our state general fund will be realized.

And finally, the Governor includes a proposal to make all of his previous unallotment reductions permanent into the future. The reductions would generate savings next biennium totaling \$132 million and reduce the projected future deficit. The reductions would make permanent reductions in payment rates to chemical dependency providers, group residential housing rates, basic and non-primary health care providers, cap hours for PCA services and suspend automatic increases in nursing facility rates. It would also continue reductions in grants to counties for child support enforcement, end emergency General Assistance and Minnesota Supplemental

Assistance, and cut Children and Community Service grants. Also included in the unallotment extension proposal would be over \$11 million in permanent reductions to the Department of Human Services through a general operating budget reduction and a restructuring of State Operated Services.

Department of Health

The Governor's recommendations for the Department of Health fall mainly into three categories: continuing unallotments, 3 percent agency operating budget reductions, and reducing pass through grants. Under House committee structure, the Health and Human Service Finance committee has jurisdiction over one program in the Department of Health (Policy Quality and Compliance) and all other department items will be summarized in the Housing and Public Health Finance Committee section of this document. The Governor's recommendations for Policy Quality and Compliance section at the department save \$1.7 million in Health Care Access Fund dollars, \$1.8 million in general fund, and \$1.5 million in dedicated MERC funding.

Governor Pawlenty proposes \$1 million in savings to the Health Care Access fund by reducing grants to federally qualified health centers (FQHC's). Also proposed is a reduction in MERC grants of \$1.5 million and a general fund savings of \$1.7 million by delaying rural hospital capital improvement grants.

Higher Education and Workforce Development

For agencies and accounts under the jurisdiction of Higher Education and Workforce Development Policy and Finance Committee the Governor's supplemental budget recommends General Fund reductions of \$56.872 million for FY 2010-11 and \$310.266 million in FY 2012-13. The Governor also recommends \$35.974 million in transfers in from other funds for a net positive General Fund impact of \$92.846 million in FY 2010-11.

Higher Education and Workforce Development Policy and Finance Committee						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Office of Higher Education	(619)	(6,077)	(6,696)	(6,154)	(6,154)	(12,308)
Minnesota State Colleges and Universities	0	(10,467)	(10,467)	(60,467)	(60,467)	(120,934)
University of Minnesota	0	(36,120)	(36,120)	(86,120)	(86,120)	(172,240)
Accountancy Board	(10)	(15)	(25)	(15)	(15)	(30)
Architecture, Engineering and Landscape Architecture Board	(17)	(24)	(41)	(24)	(24)	(48)
Barber Examiners Board	(3)	(6)	(9)	(6)	(6)	(12)
Combative Sports Commission	(4)	(6)	(10)	0	0	0
Cosmetologist Examiners Board	(13)	(20)	(33)	(20)	(20)	(40)
Employment and Economic Development	(1,418)	(1,927)	(3,345)	(2,212)	(2,212)	(4,424)
Labor and Industry	(16)	(26)	(42)	(46)	(46)	(92)
Mediation Services	(31)	(53)	(84)	(69)	(69)	(138)
subtotal expenditure Changes:	(2,131)	(54,741)	(56,872)	(155,133)	(155,133)	(310,266)
General Fund Revenue Changes						
Employment and Economic Development Transfer In	5,607	367	5,974	0	0	0
Iron Range Resources Transfer In	<u>30,000</u>	<u>0</u>	<u>30,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
subtotal revenue changes:	35,607	367	35,974	0	0	0
Net General Fund Change:	(37,738)	(55,108)	(92,846)	(155,133)	(155,133)	(310,266)
Non-General Fund Changes						
Special Revenue Fund						
Office of Higher Education-Private College Registration Fee Increase	0	74	74	74	74	148

Higher Education and Workforce Development Policy and Finance Committee (Dollars in thousands)						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
Office of Higher Education-Pell Grant Accreditation Requirement Fee	0	7	7	7	7	14
Employment and Econ. Dev. - Infrastructure Programs Fee	125	125	250	125	125	250
Employment and Econ. Dev. - Unemployment Admin. Transfer Out	80	0	80	0	0	0
Employment and Econ. Dev.-21st Cent Fund Transfer Out	5,000	0	5,000	0	0	0
Employment and Econ. Dev. -Capital Access Transfer Out	<u>160</u>	<u>0</u>	<u>160</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total changes:	5,365	206	5,571	206	206	412
Higher Education Services Office SELF Loan Fund						
SELF Loan Program Changes/SELF V financing	0	10,000	10,000	15,000	15,000	30,000
Petroleum Tank Release Cleanup Fund						
Transfer Out to General Fund	367	367	734	0	0	0
Health Care Access Fund						
Section 125 Grants	(998)	0	(998)	0	0	0
Douglas J Johnson Trust Fund						
NE MN Economic Protection Transfer Out to General Fund	30,000	0	30,000	0	0	0

Office of Higher Education (MOHE)

The Governor is recommending a reduction of \$6.696 million in FY 2010-11 and \$12.308 million in 2012-13. To achieve the reduction the agency will reduce administrative costs, State Grants, Work Study, Child Care Grants, membership dues, College Savings Plan matching grants, United Family Practice residencies, Intervention for College Attendance Grants, Technical College Emergency Grants, Indian Scholarships, MINITEX library funding, and reciprocity funds.

In addition, the Governor is proposing an increase in fees for Private College licensing and regulation as well as a fee related to the PELL Grant Program accreditation requirement. The Governor's budget also proposes changes to the SELF loan program to increase the annual and aggregate borrowing limits and lengthen the payback period. The SELF V program anticipates an additional \$10 million in borrowing in FY 2010-11 and an additional \$30 million in FY 2012-13.

Minnesota State Colleges and Universities (MnSCU)

The Governor is recommending a reduction of \$10.467 million in FY 2010-11 and \$120.934 million in 2012-13. This reduction takes MnSCU appropriations to its 2006 level. The federal ARRA (stimulus) bill maintenance of effort standard for the two higher education systems is their combined 2006 funding level.

University of Minnesota (U of M)

The Governor is recommending a reduction of \$36.120 million in FY 2010-11 and \$172.24 million in 2012-13. This reduction takes MnSCU appropriations to its 2006 level. The ARRA (stimulus) bill maintenance of effort standard for the two higher education systems is their combined 2006 funding level.

Accountancy Board

The Governor is recommending a reduction of \$25,000 in FY 2010-11 and \$30,000 in 2012-13. To achieve the cut the board will eliminate one full time position and reduce other operating costs.

Architects, Engineers and Landscape Architects Board

The Governor is recommending a reduction of \$41,000 in FY 2010-11 and \$48,000 in 2012-13. To achieve the cut the board will use voluntary salary savings or eliminate 1.5 full-time equivalent positions. The Board will also reduce purchasing, travel and training.

Barber Examiners Board

The Governor is recommending a reduction of \$9,000 in FY 2010-11 and \$12,000 in 2012-13.

Combative Sports Commission

The Governor is recommending a reduction of \$10,000 in FY 2010-11. The Commission has no General Fund base in FY 2012-13.

Cosmetologist Examiners Board

The Governor is recommending a reduction of \$33,000 in FY 2010-11 and \$40,000 in 2012-13. To achieve the cut the Cosmetology Board will reduce salary costs.

Employment and Economic Development (DEED)

The Governor is recommending a reduction of \$3.345 million in FY 2010-11 and \$4.424 million in 2012-13. In addition, the Governor is proposing transfers into the General Fund of \$5.974 million from other fund activities at DEED. Reductions at the agency will be achieved through administrative cuts and reductions to agency programs including Business and Community Development, Extended Employment, Services for the Blind, and the Office of

Science and Technology. Grant programs that may be reduced include Contaminated Grants, Job Skills Partnership, Independent Living Services, Extended Employment, Supported Employment, Services for the Blind and possibly others. The Governor's budget also recommends one-time transfers to the General Fund from the Petroleum Tank Release Cleanup Fund and the Capital Access program, Unemployment Administration and the 21 Century Minerals account in the Special Revenue Fund. The Governor also recommends canceling Section 125 Grants in the Health Care Access fund. The Governor's budget proposes a new application fee for infrastructure grant programs to fund administration of those programs.

Iron Range Resources

The Governor is recommending a one-time transfer of \$30 million from the Douglas J. Johnson economic protection trust fund to the General Fund.

Labor and Industry (DLI)

The Governor is recommending a reduction of \$42,000 in FY 2010-11 and \$92,000 in 2012-13. To achieve the reduction the Department will reduce the labor standards program by one full-time equivalent position.

Mediation Services Bureau

The Governor is recommending a reduction of \$84,000 in FY 2010-11 and \$138,000 in 2012-13. To achieve the reduction, Mediation Services will hold vacant one mediator position and reduce funding to the labor management cooperation grant program.

Housing and Public Health Finance

The Governor's supplemental budget recommendations for the 2010-11 biennium include a reduction of \$5.576 million in general fund expenditures to the Housing and Public Health area. In addition to the general fund reduction, Governor Pawlenty recommends reductions to the State Government Special Revenue (SGSR) fund totaling \$1.011 million in fiscal year 2010 and \$816,000 in fiscal year 2011.

Housing and Public Health - Governor's Supplemental Recommendations <i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
MHFA - Program Reduction	(2,061)	(2,603)	(4,664)	(2,603)	(2,603)	(5,206)
MDH - Operating Budget Reduction	(570)	(401)	(971)	(534)	(534)	(1,068)
MDH - Eliminate Lead Base Grants	(25)	(25)	(50)	(25)	(25)	(50)
Disability Council - Operating Budget Reduction	(10)	(16)	(26)	(16)	(16)	(32)
Emergency Medical Services Board	361	(133)	228	(133)	(133)	(266)
Mental Health & Developmental Disabilities Ombudsman	(31)	(50)	(81)	(50)	(50)	(100)
Families Ombudsman	(4)	(8)	(12)	(8)	(8)	(16)
subtotal expenditure changes:	(2,340)	(3,236)	(5,576)	(3,369)	(3,369)	(6,738)
General Fund Revenue Changes						
EMS Board - transfer in to General Fund	23	45	68	0	0	0
Health Related Boards - transfer in to General Fund	<u>288</u>	<u>421</u>	<u>709</u>	<u>0</u>	<u>0</u>	<u>0</u>
subtotal revenue changes:	311	466	777	0	0	0
Net General Fund Change, excluding unallotments:	(2,651)	(3,702)	(6,353)	(3,369)	(3,369)	(6,738)
General Fund 2009 Unallotment Ratification						
Minnesota Housing Finance Agency	0	0	0	(256)	(256)	(512)
Minnesota Department of Health	<u>0</u>	<u>0</u>	<u>0</u>	<u>(451)</u>	<u>(451)</u>	<u>(902)</u>
subtotal unallotment changes:	0	0	0	(707)	(707)	(1,414)
Net General Fund Change, including unallotments:	(2,651)	(3,702)	(6,353)	(4,076)	(4,076)	(8,152)

Housing and Public Health - Governor's Supplemental Recommendations (Dollars in thousands)						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
State Government Special Revenue Fund Expenditure Changes						
MDH - Operating Budget Reduction	(700)	(350)	(1,050)	0	0	0
EMS Board - Grant Reduction	(23)	(45)	(68)	0	0	0
Health Related Boards - Operating Budget Reduction	<u>(288)</u>	<u>(421)</u>	<u>(709)</u>	<u>0</u>	<u>0</u>	<u>0</u>
subtotal expenditure changes:	(1,011)	(816)	(1,827)	0	0	0
State Government Special Revenue Fund Revenue Changes						
MDH - Youth Camp Fee Clarification	0	(12)	(12)	(12)	(12)	(24)
EMS Board - Transfer to General Fund	23	45	68	0	0	0
Health Related Boards - Transfer to General Fund	<u>288</u>	<u>421</u>	<u>709</u>	<u>0</u>	<u>0</u>	<u>0</u>
subtotal revenue changes:	311	454	765	(12)	(12)	(24)
Net State Government Special Revenue Fund Change:	(700)	(362)	(1,062)	(12)	(12)	(24)

Minnesota Housing Finance Agency

The agency is reduced by approximately six percent, with the change affecting the preservation of affordable rental assistance fund (PARIF) by just over \$2 million in fiscal year 2010 and \$1.6 million every year thereafter. The rehabilitation loan program would also be reduced by \$1 million annually starting in fiscal year 2011. The Governor also recommends ratifying the fiscal years 2010-11 unallotment to the rehabilitation loan program, extending the \$256,000 reduction to each year starting with fiscal year 2012.

Minnesota Department of Health

The Governor recommends the following reductions for the Health Department:

- Elimination of lead-based grants - \$25,000 savings per year.
- 3% reduction to the operating budget - \$971,000 in fiscal years 2010-11 and \$1.068 million in fiscal years 2012-13 from the general fund; a one-time reduction to the SGSR fund of \$700,000 in fiscal year 2010 and \$350,000 in fiscal year 2011.
- Continuation of unallotments - \$451,000 each year beginning in fiscal year 2012.
- Clarification – some camps were doubly charged for the Youth Camp Fee; the language correction reduces anticipated SGSR revenue by \$12,000 each year starting in fiscal year 2011.
-

Emergency Medical Services Board

The Emergency Medical Services (EMS) board is funded through the general fund and the SGSR fund. The general fund portion is increased by \$450,000 in fiscal year 2010 to correct an error in the 2009 appropriations bill. In addition, the Governor recommends a three percent reduction in unspent funds and three percent reduction in the operating budget. This amounts to a total reduction of \$112,000 in fiscal year 2010, and \$178,000 in fiscal year 2011. The ongoing reduction starting in fiscal year 2012 would be \$133,000. These cuts would result in reductions in full-time employees, compensation, volunteer ambulance personnel awards, seat belt grants, the Comprehensive Advanced Life Support program, and the Health Professional Services Program.

Disability Council

The council is recommended to receive a reduction of \$10,000 in fiscal year 2010 and \$16,000 annually starting in fiscal year 2011. This proposal reflects a three percent reduction of the agency's current unspent funds, and would likely result in fewer IT services, training, compensation, and public events.

Ombudsman for Mental Health and Developmental Disabilities

Like the Disability Council, the recommended reduction is three percent to the agency's unspent funds and a three percent ongoing cut to the operating budget. This amounts to \$31,000 in fiscal year 2010 and \$50,000 each year after.

Ombudsman for Families

This reduction is also three percent in current unspent funds and three percent in ongoing operating expenses. The \$4,000 in the first year and subsequent cut of \$8,000 annually would cause the agency to eliminate out of state travel and the purchase or lease of new equipment.

Health-Related Boards

The boards are funded through the collection of member fees and use the SGSR fund. They all received reductions of three percent in unspent funds for fiscal year 2010 and three percent in operating budget reductions for fiscal year 2011. The reductions are one-time for the biennium and are transferred as savings to the general fund. The SGSR reductions for the boards total \$777,000 in fiscal years 2010-11.

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K-12 Education

Governor Tim Pawlenty's 2010 supplemental budget recommendations for the 2010-2011 biennium includes \$1.1 million in general fund savings for the FY 2010-11 biennium, and \$1.2 million in general fund savings for the FY 2012-13 biennium. These reductions do not include the savings from the proposed ratification of the July 2009 unallotment payment shifts and property tax recognition adjustment, which total \$14.6 million for FY 2011, \$1.3 billion for FY 2012, and \$92.3 million for FY 2013, and the proposed ratification of the \$1.0 million of unallotment for the Department of Education operating budget. (The shift totals here and in the narrative below include appropriations for ALL shifted programs, including K-12, Early Education and Tax Aids and Credits.) Included in the recommended savings is general fund revenue of \$77,000 for FY 2010-11 from transfers from the special revenue fund.

K-12 Finance - Governor's Supplemental Recommendations						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
MDE - Agency Operating Budget Reduction	(358)	(580)	(938)	(580)	(580)	(1,160)
MDE - Board of Teaching Operating Budget Reduction	(11)	(18)	(29)	(18)	(18)	(36)
MDE - Board of School Administrators Operating Budget Reduction	(3)	(5)	(8)	(5)	(5)	(10)
MDE - Minnesota Student Organizations Grants Reduction	(1)	(1)	(2)	(1)	(1)	(2)
MDE - Extended Time Revenue Change	0	(5)	(5)	(5)	(5)	(10)
MDE - Longitudinal Data Collection	0	191	191	200	200	400
MDE - Teacher Contract Settlement Reporting	0	15	15	3	2	5
MDE - Rulemaking	0	155	155	30	20	50
Perpich Center for Arts - Operating Budget Reduction	<u>(138)</u>	<u>(220)</u>	<u>(358)</u>	<u>(220)</u>	<u>(220)</u>	<u>(440)</u>
 subtotal expenditure changes:	(511)	(468)	(979)	(596)	(607)	(1,203)
General Fund Revenue Changes						
MDE - Special Revenue Carryforward transfer to General Fund	24	23	47	0	0	0
Perpich - Special Revenue Carryforward transfer to General Fund	<u>19</u>	<u>11</u>	<u>30</u>	<u>0</u>	<u>0</u>	<u>0</u>
 subtotal revenue changes:	43	34	77	0	0	0
Net General Fund Change, excluding shifts:	(554)	(502)	(1,056)	(596)	(607)	(1,203)

K-12 Finance - Governor's Supplemental Recommendations						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund 2009 Unallotment Ratification (Shift savings)						
MDE - Property Tax Recognition Adjustment	0	(14,566)	(14,566)	(63,783)	(71,042)	(134,825)
MDE - School Aid Payment Deferral	0	0	0	(1,191,219)	(21,329)	(1,212,548)
MDE - Operating Budget Reduction	<u>0</u>	<u>0</u>	<u>0</u>	<u>(463)</u>	<u>(463)</u>	<u>(926)</u>
subtotal shift changes:	0	(14,566)	(14,566)	(1,255,465)	(92,834)	(1,348,299)
Net General Fund Change, including shifts:	(554)	(15,068)	(15,622)	(1,256,061)	(93,441)	(1,349,502)
Non-General Fund Expenditure Changes						
Special Revenue Fund Changes						
MDE - Special Revenue Carryforward transfer to General Fund	(24)	(23)	(47)	0	0	0
Perpich - Special Revenue Carryforward transfer to General Fund	<u>(19)</u>	<u>(11)</u>	<u>(30)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Special Revenue Fund changes:	(43)	(34)	(77)	0	0	0

The Governor's budget proposal includes several new initiatives as well as the reductions. The changes (for the FY 2011 general fund budget unless otherwise noted) include:

Minnesota Department of Education

- \$975,000 in savings for FY 2010-11 from a 3 percent reduction in the agency's unspent operating funds. Reductions are also applied to the State Board of Teaching and State Board of School Administrators. \$47,000 of the savings is additional revenue to the general fund from transfers from the state government special revenue fund.
- \$1,000 in savings in both FY 2010 and FY 2011 from a reduction in the appropriation for Minnesota Student Organizations.
- \$5,000 in savings from modifying Extended Time Revenue so that aid is not paid in the year following termination of an extended time eligible program.
- \$191,000 in spending for a longitudinal data system, including data collection and analysis of educational planning and assessment system (EPAS) test results. The Governor recommends that the funding for the system be captured from unspent EPAS funding, which pays for ACT and ACT explore tests for students in grades 10 and 8, respectively.

- \$15,000 in spending for the department to integrate school district teacher collective bargaining settlement information into financial statements.
- \$155,000 for rulemaking costs tied to aligning K-12 and teacher standers, creating English language proficiency standards, principal licensure, elementary math content and teacher entry requirements. The rulemaking funded with this appropriation would be required as part of the Governor's Teacher Transformation Act initiative.

Minnesota Department of Education Unallotment Ratification

- \$14.6 million in savings for FY 2011, \$63.8 million for FY 2012, and \$71.0 million for FY 2013 from ratification of the Governor's July, 2009 unallotments related to the property tax recognition adjustment.
- \$1.2 billion in savings for FY 2012 and \$21.3 million for FY 2013 from ratification of the Governor's July, 2009 unallotments related to the conversion to a 73 percent / 27 percent school aid payment schedule. This means that the budget planning estimates would no longer anticipate returning to a 90 percent / 10 percent aid payment schedule in FY 2012.
- \$942,000 in savings for FY 2012-13 from the ratification of the Governor's July 2009 unallotment from the Department of Education budget making those reductions permanent.

Perpich Center for Arts Education

\$358,000 in savings from a 3 percent reduction in the agency's unspent operating funds. \$30,000 of the savings is additional revenue to the general fund from transfers from the state government special revenue fund.

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Public Safety Finance

The Governor's supplemental budget recommends an overall reduction in criminal justice spending of \$23.857 million for FY 2010-11 and \$34.042 million in FY 2012-13. The Governor also recommends \$12.006 million in revenue transfers to the general fund. The total impact on the general fund of the Governor's Public Safety recommendations is \$35.923 million.

Public Safety Finance - Governor's Supplemental Recommendations <i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Supreme Court	(856)	(1,664)	(2,520)	(1,664)	(1,664)	(3,328)
Court of Appeals	(159)	(309)	(468)	(309)	(309)	(618)
District Courts	(4,242)	(7,503)	(11,745)	(7,503)	(7,503)	(15,006)
Tax Court	(12)	(25)	(37)	(25)	(25)	(50)
Uniform Laws Commission		(2)	(2)	(2)	(2)	(4)
Board of Judicial Standards	(10)	(14)	(24)	(14)	(14)	(28)
Public Defense Board	(905)	(2,384)	(3,289)	(2,384)	(2,384)	(4,768)
Department of Public Safety		1,800	1,800			0
Private Detective Board	(2)	(3)	(5)	(3)	(3)	(6)
Human Rights Department	(59)	(103)	(162)	(182)	(182)	(364)
Department of Corrections	(2,459)	(4,917)	(7,376)	(4,917)	(4,917)	(9,834)
Sentencing Guidelines	<u>(11)</u>	<u>(18)</u>	<u>(29)</u>	<u>(18)</u>	<u>(18)</u>	<u>(36)</u>
subtotal expenditure Changes:	(8,715)	(15,142)	(23,857)	(17,021)	(17,021)	(34,042)
General Fund Revenue Changes						
GF transfer in from MINNICOR Program	574	989	1,563	0	0	0
GF transfer in from DOC Special Revenue Fund	201	402	603	0	0	0
GF transfer in from Fire Safety Account	<u>6,900</u>	<u>3,000</u>	<u>9,900</u>	<u>0</u>	<u>0</u>	<u>0</u>
subtotal revenue changes:	7,675	4,391	12,066	0	0	0
Net General Fund Change:	(16,390)	(19,533)	(35,923)	(17,021)	(17,021)	(34,042)

Supreme Court

The Governor recommends a decrease in funding of \$2.52 million for FY 2010-11 and \$3.328 million for FY 2012-13. This is broken down as follows:

- \$1.467 million in FY 2010-11 and \$1.876 million in FY 2012-13 for operating reductions.
- \$1.053 million in FY 2010-11 and \$1.452 million in FY 2012-13 for a reduction in grants for civil legal services.

Court of Appeals

The Governor recommends a decrease in funding of \$468,000 for FY 2010-11 and \$618,000 for FY 2012-13.

District Courts

The Governor recommends a decrease in funding of \$11.745 million for FY 2010-11 and \$15 million for FY 2012-13. \$516,000 of this amount in FY 2011 and \$2.064 million in FY 2012-13 is to transfer the implied consent cases from the District Courts to the Office of Administrative Hearings.

Tax Court

The Governor recommends a decrease in funding of \$37,000 for FY 2010-11 and \$50,000 for FY 2012-13.

Uniforms Law Commission

The Governor recommends a decrease in funding of \$2,000 for FY 2010-11 and \$4,000 for FY 2012-13.

Board of Judicial Standards

The Governor recommends a decrease in funding of \$24,000 for FY 2010-11 and \$28,000 for FY 2012-13.

Public Defense Board

The Governor recommends a decrease in funding of \$3.289 million for FY 2010-11 and \$4.768 million for FY 2012-13. This is broken down as follows:

- \$2.376 million for FY 2010-11 and \$3.122 million for FY 2012-13 for operating reductions.
- \$913,000 for FY 2010-11 and \$1.646 million for FY 2012-13 for a reduction in grants to the public defense corporations.

Department of Public Safety

The Governor recommends a increase in general funds of \$1.8 million for FY 2010-11 and a transfer of \$9.9 million from the Fire Safety Account in the Special Revenue Fund to the General Fund. The following is a breakdown of the changes:

- A one- time appropriation of \$1.6 million in FY 2011 for the state share for disaster assistance.

- A one-time appropriation of \$200,000 for FY 2011 to the Bureau of Criminal Apprehension for enhancements to predatory offender registry.
- A transfer of \$9.9 million for FY 2012-13 from the fire safety account to the general fund. This is a one-time transfer.

Private Detective Board

Governor recommends a decrease in funding of \$5,000 for FY 2010-11 and \$6,000 for FY 2012-13.

Human Rights Department

Governor recommends a decrease in funding of \$162,000 for FY 2010-11 and \$364,000 for FY 2012-13. This reduction includes an extension of the Governor's unallotment plan of \$79,000 per year for FY 2012-13.

Department of Corrections

The Governor recommends a decrease in funding of \$7.376 million for FY 2010-11 and \$9.834 million for FY 2012-13. The following is a description of the change items:

- The Governor recommends eliminating state funding for the Sentencing-to-Service program. This will result in a reduction of \$4.596 million in FY 2010-11 and \$6.128 million in FY 2012-13.
- A reduction of \$923,000 in FY 2010-11 and \$1.23 million in FY 2012-13 for offender education.
- A reduction of \$240,000 in FY 2010-11 and \$320,000 in FY 2012-13 for community services.
- A reduction of \$1.617 million in FY 2010-11 and \$2.156 million in FY 2012-13 in operating expenses.
- A transfer of 1.563 million in FY 2010-11 from the department's prison industry program to the general fund. This is a one-time transfer.
- A transfer of \$603,000 in FY 2010-11 from the department's special revenue fund to the general fund. This is a one-time transfer.

Sentencing Guidelines Commission

The Governor recommends a decrease in funding of \$29,000 for FY 2010-11 and \$36,000 for FY 2012-13.

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State Government

The Governor's supplemental budget recommendations for the State Government Finance Division would decrease the General Fund deficit by a net change of \$45.3 million in FY 2010-11 biennium. This change includes expenditure reductions of \$12.98 million, and revenue increases of \$32.4 million. The recommended net decrease in the General Fund deficit in the FY 2012-13 biennium is \$94.4 million, with expenditure cuts of \$20.6 million and new revenues of \$73.7 million.

State Government Finance - Governor's Supplemental Recommendations (Dollars in thousands)						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Administration		(335)	(335)	(535)	(535)	(1,070)
Administrative Hearings	(8)	487	479	632	632	1,264
Attorney General	(436)	(954)	(1,390)	(954)	(954)	(1,908)
Campaign Finance & Public Disclosure Board	(28)	(8)	(36)	(22)	(22)	(44)
Capitol Area Architect Board	(6)	(11)	(17)	(11)	(11)	(22)
Enterprise Technology Office	(111)	(169)	(280)	(299)	(299)	(598)
Governor's Office	(64)	(146)	(210)	(227)	(227)	(454)
Investment Board	(2)	(5)	(7)	(5)	(5)	(10)
Legislature	(1,121)	(3,471)	(4,592)	(2,935)	(2,935)	(5,870)
Minnesota Management & Budget (MMB)	(386)	(599)	(985)	(1,058)	(1,058)	(2,116)
MMB Non-Operating: ARRA Contingency	(750)	0	(750)	0	0	0
Revenue Department	(768)	5,379	4,611	4,429	4,429	8,858
Secretary of State	(104)	(250)	(354)	(250)	(250)	(500)
State Auditor	(32)	(78)	(110)	(78)	(78)	(156)
All Agencies: Add'l 3% Operating Reduction	0	(9,000)	(9,000)	(9,000)	(9,000)	(18,000)
subtotal expenditure changes:	(3,816)	(9,160)	(12,976)	(10,313)	(10,313)	(20,626)
General Fund Revenue Changes (positive # is a revenue gain)						
Administration - Transfer of Contributed Capital	209	0	209	0	0	0
Administration - Transfer from Special Revenue	7		7	0	0	0
Gambling Control Bd. - Transfer from Other Funds	51	88	139	0	0	0
Gambling Control - Reduction to Problem						
Gambling Grant Impact	0	30	30	0	0	0
Governor's Office - Transfer from Special Revenue	10	32	42	0	0	0
Lottery - New Game	0	5,000	5,000	10,000	10,000	20,000
MMB - Transfer from Special Revenue	9	11	20	0	0	0
Racing Cm. - Transfer from Special Revenue Fund	19	29	48	0	0	0
Revenue: Additional Tax Compliance		26,865	26,865	26,865	26,865	53,730
subtotal revenue changes:	305	32,055	32,360	36,865	36,865	73,730
Net General Fund Change:	(4,121)	(41,215)	(45,336)	(47,178)	(47,178)	(94,356)

State Government Finance - Governor's Supplemental Recommendations (Dollars in thousands)						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
<u>Non-General Fund Changes</u>						
Special Revenue Fund						
Transfers to General Fund from Various Agencies	96	160	256	0	0	0
Central Stores						
Contributed Capital Transferred to General Fund	209	0	209	0	0	0
Health Care Access Fund						
Legislature - Reduction to Health Care Access Cm.	(5)	(10)	(15)	(10)	(10)	(20)
Revenue Department - Operating Budget Reduction	<u>(11)</u>	<u>(17)</u>	<u>(28)</u>	<u>(17)</u>	<u>(17)</u>	<u>(34)</u>
Net Health Care Access changes:	(16)	(27)	(43)	(27)	(27)	(54)
Lottery Cash Flow						
Problem Gambling Grant Reduction	0	(50)	(50)	0	0	0
Environmental Trust Fund						
Problem Gambling Grant Reduction - Increase from Lottery net proceeds	0	20	20	0	0	0

Legislature

The Governor recommends a total reduction of \$4.592 million in FY 2010-11, and \$5.87 million for FY 2012-13. Of the recommended cut for FY 2010-11, \$4.1 million is an operating budget reduction, and \$536,000 is a cancellation from carryforward accounts.

Although the Governor does not recommend specific funding levels for each part of the Legislature, his recommendations are based on the following allocation:

Legislature: Governor's Recommended General Fund Reductions (\$ in thousands)		
	<u>FY 2010-11</u>	<u>FY 2012-13</u>
Operating Budget Reduction		
House	(1,796)	(2,602)
Senate	(1,336)	(1,962)
Leg. Coordinating Commission	(924)	(1,306)
Carryforward Reductions (one-time)		
House	(305)	
Senate	(126)	
Legislative Coordinating Commission	<u>(105)</u>	
Total Legislature	(4,592)	(5,870)

Constitutional Offices

Governor

The Governor recommends a total General Fund reduction to his office of \$210,000 in FY 2010-11, and \$454,000 in FY 2012-13. The special revenue account expenditures for his office, which consist of state agency contributions towards the Governor's government relations staff, are also reduced by 3 percent for a total of \$42,000 in FY 2010-11. These special revenue fund savings would be transferred to the General Fund.

Attorney General

The Governor recommends a General Fund reduction of \$1.39 million for FY 2010-11, and \$1.9 million for FY 2012-13.

Secretary of State

The Governor recommends a General Fund reduction of \$354,000 for FY 2010-11, and \$500,000 for FY 2012-13. Because the SOS must meet federal maintenance of effort (MOE) requirements for its election activities, most reductions must be allocated to the business services program. In anticipation of additional budget cuts, the SOS has chosen to not fill 4 business service specialist positions and has also held several administrative positions open.

State Auditor

The Governor recommends a General Fund reduction of \$110,000 for FY 2010-11, and \$156,000 for FY 2012-13. The recommended reductions are calculated as a 3 percent cut against the State Auditor's non-reimbursable activities. The Auditor may address this cut by keeping a position in the JOBZ audit program unfilled.

State Agencies

Administration

The Governor recommends a total General Fund reduction of \$335,000 for FY 2010-11, and \$1.1 million for FY 2012-13:

- \$327,000 each year beginning in FY 2011 is a cut to the Resource Recovery (recycling) program, leaving a balance of \$134,000 for this program. The department plans to solicit competitive bids for these services, hoping to find a lower cost way to provide recycling services to agencies. If the cut is enacted, most costs for the recycling services will be passed onto customer agencies.
- \$216,000 is a one-time transfer of contributed capital from the closed office supply connection internal service fund. A balance of \$265,000 in contributed capital would be held in reserve in the fund until all closing expenses have been covered.
- \$7,000 in FY 2010 is a one-time transfer from various special revenue accounts, including the balance from the closed commuter van program.

Administrative Hearings Office (OAH)

Two changes are recommended for this office, with a net increase of \$479,000 for FY 2010-11, and \$1.3 million for FY 2012-13:

- A 3 percent per year operating budget reduction, totaling \$16,000 for each biennium.
- Transfer of the Implied Consent Jurisdiction hearings from the Supreme Court, with an increase of \$495,000 in FY 2010, and \$640,000 each year after, to the OAH general fund base. The impact is based on a caseload estimate of 4,000 implied consent cases per year, start-up costs of \$175,000, and an implementation date of January 1, 2011.

Administrative Hearings – Impact of Proposed Transfer of Implied Consent Hearings <i>(dollars in thousands)</i>			
	FY 11 (6 months)	FY 12	FY 13
Cost to OAH:	495	640	640
Savings for Courts	(516)	(1,032)	(1,032)
Total savings:	(21)	(392)	(392)

Campaign Finance & Public Disclosure Board

The Governor recommends a total reduction of \$36,000 in FY 2010-11, and \$44,000 for the FY 2012-13 biennium.

Capitol Area Architecture & Planning Board (CAAPB)

The Governor's recommended cut is \$17,000 for FY 2010-11, and \$22,000 for FY 2012-13.

Gambling Control Board

The Governor proposes to transfer \$51,000 in FY 2010, and \$88,000 in FY 2011 from the board's special revenue account to the General fund.

Also recommended is a cut of \$50,000 in FY 2011 from a grant to a non-profit organization serving problem gamblers. Because the grant is from the lottery prize fund, this reduced expenditure will increase net lottery proceeds. Sixty percent of this increase, or \$30,000, would go to the general fund, and the remaining \$20,000 would be deposited in the environment and natural resources fund.

Minnesota Management & Budget (MMB, formerly Finance Dept.)

The Governor recommends total cuts of \$985,000 in FY 2010-11, and \$2.1 million for FY 2012-13. MMB would address these operating budget reductions by not filling all vacancies left by staff moved to project funding for the accounting / procurement system replacement project (SWIFT).

This recommendation also includes \$20,000 in one-time transfers from special revenue accounts for the combined charities campaign and an account for internal technology services.

MMB Non-Operating:

- **ARRA Contingency:** Governor recommends cancelling \$750,000 in one-time funds provided as matching funds for American Recovery and Restoration Act appropriations.

- **Governor-Elect transition costs:** \$162,000 would be provided from the general fund contingency account to MMB for expenses of the governor-elect. Current law (MS 4.51) requires that an amount equal to 1.5 percent of the Governor's office appropriation be transferred from the contingent account for these expenses. At current budget levels, this transfer would be approximately \$54,000, so the Governor's recommendation is a \$108,000 increase over current law for the new Governor's transition. Because these funds come from an existing appropriation to the contingent account, this change does not require new appropriations.

Additional Three Percent Operation Budget Reduction – All Executive Branch Agencies

The Governor has recommended reducing agency operating budgets by six percent of the FY 2011 operating budget. Half of these reductions are in the individual recommendations by agency. The remaining half, or three percent, is in a "lump-sum" target of \$9 million per year, beginning in FY 2011.

MMB will work with the Department of Administration and Office of Enterprise Technology to look for "enterprise-wide actions" to identify savings opportunities. Some ideas include consolidation of information technology functions, improved space utilization, and reductions in professional / technical or other contracts.

If these enterprise-wide savings cannot be achieved, any amount short of the \$9 million each year would be allocated as additional reductions to individual agency operating budgets.

Office of Enterprise Technology (OET)

The Governor recommends a total General Fund reduction of \$280,000 for FY 2010-11, and \$598,000 for FY 2012-13. The majority of OET's funding is provided through the OET internal service fund, so these reductions will be targeted to the two general fund programs:

- Enterprise Planning and Management – \$280,000 for FY 2010-11 and \$530,000 in FY 2012-13. This reduction will be managed through salary savings from unfilled management and student worker positions. In addition, the office will cut back on consulting costs for enterprise initiatives and take reductions in other operating expenses as necessary.
- Enterprise IT Security – \$68,000 for FY 2012-13. This reduction will be managed by not filling a planned position dedicated to serve as the vulnerability and threat management liaison for small and mid-sized agencies.

Racing Commission

The Governor proposes to transfer \$19,000 in FY 2010, and \$29,000 in FY 2011, from the board's special revenue account to the General fund.

Revenue Department

The Governor recommends a total **increase** of \$4.6 million for FY 2010-11, and \$8.86 million for FY 2012-13. This recommendation is the net impact of operating reductions to the compliance support functions, and new funding for continuation of tax compliance initiative funded in the 2009 session:

Operating Reductions and Unallotment Ratification: The Governor recommends total reductions of \$2.04 million for FY 2010-11, and \$4.44 million for FY 2012-13. These cuts will result in a reduction of 22 positions in the non-compliance program areas of the department. The impacts from both of these items include:

- Slight delays in the processing of paper filed state tax returns, payments and refunds.
- Cancellation of planned investments in technology and upgrades to outdated systems.
- Scaling back of some support services, including: taxpayer and employee informational services and instructional services to local government officials, taxpayers and tax practitioners.

Tax Preparer E-File Requirements change: Administrative savings of \$78,000 each year, beginning in FY 2011. This proposal would require tax preparers to file electronically if they prepare more than 10 income tax returns.

Compliance Initiative:

\$6.7 million per year, beginning in FY 2011, would be added to the tax compliance initiative funded by the 2009 legislature. This initiative is projected to bring in an additional \$26.87 million per year in revenue, for a net gain of \$20.1 million each year.

Department of Revenue: Expanded Compliance Initiative		
	FY 10-11	FY 12-13
New expenditures	6,727	\$13,454
New revenues	26,865	53,730
Net General Fund change	20,138	40,276

Approximately 70 FTE would be added, mostly comprised of Revenue Tax Specialists and Revenue Collection Officers. For every 13 FTEs in this number, there would be an additional 1 supervisory position. The department may face some challenges in finding space for these additional FTEs. It is examining several options, from converting file room usage to office space, “hoteling” employees (employees share cubes), expanding the use of telecommuting for employees, and looking at space in other state buildings.

State Board of Investment (SBI)

The Governor recommends a cut of \$7,000 in FY 2010-11, and \$10,000 in FY 2012-13 to the General Fund portion of the SBI’s budget. This represents a 3 percent reduction to the portion of the SBI’s budget that is directly related to the board’s investment of the General Fund. The majority of the SBI’s biennial budget - \$4.9 million for FY 2010-11 – is paid directly from the other funds invested by the board.

Transportation

The Governor's supplemental budget for transportation includes appropriation reductions and transfers, which have a net positive impact of approximately \$5.1 million on the general fund for the FY 2010-11 biennium. The trunk highway, state airports, and special revenue funds are also affected by the Governor's recommended changes. The Governor's supplemental budget for transportation is outlined in the table below and additional details by agency follow.

Transportation Finance Division - Governor's Supplemental Recommendations						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Department of Transportation	(546)	(470)	(1,016)	(695)	(695)	(1,390)
Metropolitan Council	(1,062)	(2,118)	(3,180)	(3,743)	(3,743)	(7,486)
Department of Public Safety	<u>0</u>	<u>(82)</u>	<u>(82)</u>	<u>(82)</u>	<u>(82)</u>	<u>(164)</u>
subtotal expenditure changes:	(1,608)	(2,670)	(4,278)	(4,520)	(4,520)	(9,040)
General Fund Revenue Changes						
Hazmat Registration Program Repeal	0	(150)	(150)	(150)	(150)	(300)
Transfers In - Special Revenue Fund	265	376	641	0	0	0
Transfers In - State Airports Fund	<u>140</u>	<u>212</u>	<u>352</u>	<u>0</u>	<u>0</u>	<u>0</u>
subtotal revenue changes:	405	438	843	(150)	(150)	(300)
Net General Fund Change:	(2,013)	(3,108)	(5,121)	(4,370)	(4,370)	(8,740)
Non-General Fund Changes						
Trunk Highway Fund						
MnDOT / State Road Construction	0	104,000	104,000	0	0	0
MnDOT / Fed Emergency Relief Acct	0	5,000	5,000	0	0	0
MnDOT / Hazmat RegProgram Repeal	<u>0</u>	<u>80</u>	<u>80</u>	<u>80</u>	<u>80</u>	<u>160</u>
Net Trunk Highway Fund changes:	0	109,080	109,080	80	80	160
Special Revenue Fund						
MnDOT / Expenditure Reductions	(265)	(376)	(641)	0	0	0
MnDOT / Transfers Out	<u>265</u>	<u>376</u>	<u>641</u>	-	-	-
Net Special Revenue Fund changes:	0	0	0	0	0	0
State Airports Fund						
MnDOT / Expenditure Reductions	(140)	(212)	(352)	0	0	0
MnDOT / Transfers Out	<u>140</u>	<u>212</u>	<u>352</u>	-	-	-
Net State Airports Fund changes:	0	0	0	0	0	0

Department of Transportation

- \$807,000 decrease in the general fund appropriation for greater Minnesota transit for the FY 2010-11 biennium, and a \$1.1 million decrease in the general fund appropriation for the FY 2012-13 biennium. MnDOT believes this will likely result in a reduction in service hours and passenger trips in cities across the state.
- \$140,000 transfer in FY 2010 and \$212,000 transfer in FY 2011 from the state airports fund to the general fund. The state airports fund appropriation for aeronautics would decrease by the same amount in each fiscal year, so the state airports fund balance would not change. The reductions would be from MnDOT's operating expenses.
- \$265,000 transfer in FY 2010 and \$376,000 transfer in FY 2011 from the special revenue fund to the general fund. These transfers will occur from four department accounts: the county partnership blanket account, the damage restitution account, the rail service improvement account, and the conference and seminar account. Expenditures related to these activities will be reduced by the same amount in the FY 2010-11 biennium.
- \$84,000 reduction to a 2008 Laws, chapter 179, section 16, subdivision 3(a) appropriation for technology, telecommuting, and outreach related to the Urban Partnership Agreement. The original appropriation from the general fund was for \$3.5 million, and the November 2009 forecast indicated that approximately \$1.6 million of that appropriation was carried forward into the FY 2010-11 biennium.
- \$48,000 general fund reduction across various appropriations for the FY 2012-13 biennium; this represents ongoing cuts related to the Governor's July 2009 unallotment actions. Per fiscal year, these reductions include: \$9,000 for greater Minnesota transit; \$9,000 for commuter and passenger rail; and \$6,000 for electronic communications.
- \$104 million increase in the FY 2011 appropriation for state road construction from the trunk highway fund. This increase is due to additional expected federal funds.
- \$5 million transfer from the trunk highway fund in FY 2011 to a new account within the trunk highway fund titled the federal emergency relief account. The new account would be added to state statute. Along with the transfer of the \$5 million, Federal Highway Administration emergency relief reimbursements would be deposited into the new account. All funds within the account would be statutorily appropriated to the commissioner for approved emergency relief costs, and appropriations would not cancel.
- \$150,000 reduction in general fund receipts and \$80,000 reduction in trunk highway fund receipts by repealing the hazardous materials registration program. The Governor also recommends reducing the general fund expenditures by \$125,000, which is the amount the Department spends administering the program.

Metropolitan Council

- \$1.1 million reduction in the general fund appropriation for FY 2010, of which, \$985,000 would be from bus operations and \$77,000 from rail operations. Also recommended is a \$2.1 million reduction in the Council's general fund appropriation for FY 2011, of which, \$1.963 million would be from bus operations and \$155,000 from rail operations. The \$2.1 million reduction would be an ongoing decrease to the Council's base per fiscal year

beginning in the FY 2012-13 biennium. These reductions may result in changes to routes and service.

- \$1.6 million additional reduction in the general fund appropriation for the Council's transportation activities per fiscal year beginning in FY 2012 to ratify the Governor's unallotment actions of July 2010.

Department of Public Safety

- \$82,000 reduction in the general fund appropriation per fiscal year beginning in FY 2011 for information technology activities within the department.

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Taxes, Local Aids and Credits

Changes in General Fund Tax Revenue

For the FY 2010-2011 biennium, the Governor's supplemental recommendations for taxes, aids and credits are estimated to generate \$240.394 million¹ in net general fund savings. This net amount is generated by reducing general fund expenditures (savings) for local aids and credits by \$258.945 million and reducing general fund tax revenues (revenue loss) by \$18.551 million. The Governor's supplemental 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.

In the tax revenue area, the Governor's supplemental budget includes several business tax incentives including but not limited to tax credits, tax deductions and tax exemptions to encourage job growth. In the FY 2010-2011 biennium, there are two business tax incentives recommended by the Governor that are estimated to reduce general fund revenue by \$20 million. Also for this biennium, the Governor recommends updating Minnesota's tax laws to the federal provision allowing taxpayers making charitable contributions to Haitian Earthquake Relief between January and March 2010 to take their contributions as an itemized deduction on their 2009 return. The estimated revenue loss for this federal conformity provision is \$.010 million. The revenue impact of these recommendations are slightly off-set by \$1.472 million in revenue gain from the imposition of new fee/penalty proposals by the Governor in the FY 2010-2011 biennium. In total, the Governor's recommendations are estimated to reduce general fund tax and non tax revenues by 0.06 percent (\$18.551 million) in the FY2010-11 biennium.

In the FY 2012-13 biennium, the Governor's supplemental tax revenue recommendations are estimated to reduce general fund tax and non tax revenue by 1.05 percent or \$344.169 million. Of that total, \$332.800 million is attributed to Governor's supplemental recommendations for business tax incentives and \$14.370 million is from income tax interaction impacts from the Governor's supplemental budget recommendations and unallotment extension for reductions in Local Government Aid, County Program Aid and Residential and Agricultural Market Value Credit.

¹ Of this amount, \$1.307 million is a proposal by the Governor to reduce Payment-In-Lieu (PILT) of taxes payments. This recommendation is tracked in the Environment Finance area. With this item removed from the Tax, Aids and Credits net budget, the FY 2010-11 biennium totals \$239.087 million in net general fund savings.

Table 1: 2010 Governor's Supplemental Tax and Non Tax Revenue Recommendations

Note: Negative numbers represent cost to the state; positive numbers represent a gain to the state.						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
<u>Business Tax Initiatives</u>						
Individual Income & Corporate Franchise Tax:						
Angel Investment Credit	0	(10,000)	(10,000)	(10,000)	(10,000)	(20,000)
Business Non-Passive Income Exclusion	0	0	0	(37,900)	(80,300)	(118,200)
Capital Gains Exemption			0			
Modified R&D Credit Expansion	0	0	0	(7,400)	(26,600)	(34,000)
20% Corporate Tax Rate Reduction	0	(10,000)	(10,000)	(50,000)	(100,000)	(150,000)
Miscellaneous Taxes:						
MN Business Investment Company Credit (CAPCO)	0	0	0	0	0	0
Tech Z	0	0	0	(3,600)	(7,000)	(10,600)
Car Z			TBD			TBD
Sub Total for Business Initiatives:	0	(20,000)	(20,000)	(108,900)	(223,900)	(332,800)
<u>Other Tax & Non-Tax Initiatives</u>						
Individual Income & Corporate Franchise Taxes:						
Federal Conformity Update: Haiti Relief	(80)	70	(10)	0	0	0
Income Tax Interaction from Levy Limits	0	0	0	(12,250)	(2,120)	(14,370)
Charter School Property Tax Exemption	0	0	0	(460)	(470)	(930)
Miscellaneous Tax and Non Taxes:						
Collections Payment Plan Fee	0	630	630	630	630	1,260
Penalty for Failing to Provide Information - GF	0	829	829	1,328	1,343	2,671
Penalty for Failing to Provide Information – Environ.	0	3	3	5	5	10
Penalty for Failing to Provide Information - HCAF	0	10	10	20	20	40
Sub Total for Other Tax and Non Tax Initiatives:	(80)	1,542	1,462	(10,727)	(592)	(11,319)
Total - All Funds	(80)	(18,458)	(18,538)	(119,627)	(224,492)	(344,119)
Total - General Funds	(80)	(18,471)	(18,551)	(119,652)	(224,517)	(344,169)

Individual Income and Corporate Franchise Taxes

Enact an Angel Investment Tax Credit. The Governor recommends the creation of a non-refundable 25 percent tax credit against individual income tax and corporate franchise tax for investments made in a qualified small business or made by a qualified angel investment network. For this proposal, the Governor wants to allocate up to \$5 million in tax year 2010 and \$10 million each year thereafter for these tax credits. By tax year 2011, the total amount of tax credits would support up to \$40 million in qualified small businesses or in qualified angel investment network funds. The maximum credit per taxpayer is \$125,000 per year with transferability of the credit to another taxpayer with a current tax liability. Unlike previous proposals by the Governor for Angel Investment Tax Credits, this recommendation does not

require a holding period for investments so that there is no delay in awarding these tax credits for investments made.

Business Non-Passive Income Exclusion, 4-Yr Phase-in. The Governor recommends the creation of a 20 percent exclusion for a portion of net nonpassive income received from S corporations and partnerships against Minnesota taxable income and Minnesota AMT. This exclusion would be phased-in over four years starting in tax year 2011 with the phase-in completed in tax year 2014. In terms of taxpayer impact, data from the Minnesota Department of Revenue estimates that 90,000 taxpayers would have a tax reduction averaging \$425 in tax year 2011, \$900 in tax year 2012 and \$1,400 in tax year 2013. This recommendation, if enacted, is expected to reduce general fund revenue by \$37.9 million in FY 2012 and \$80.3 million in FY 2013.

Capital Gains Exemption. The Governor recommends the creation of a capital gains exemption for equity investments in small businesses. The amount of the capital gains exemption would be equal to 100 percent of equity investments in small businesses with a required five-year investment holding period. Following the holding period, the 100 percent capital gains exemption could be used against income tax assessments by investors. With that holding period, the revenue impact to the general fund is delayed until FY 2016.²

Modified Research & Development (R&D) Credit Expansion. The Governor recommends expanding the R&D credit starting in tax year 2012 in four substantive ways:

- To modify the tax credit percentage from a two-tiered tax rate to a one tier tax rate. In current law, there is a tax credit of 5 percent on R&D expenditures of less than \$2 million and a tax credit of 2.5 percent on R&D expenditures of more than \$2 million. The Governor's proposal would increase the latter from 2.5 percent to 5 percent for R&D expenditures greater than \$2 million.
- To extend the R&D tax credit from corporate tax payers to individual income tax payers provided that the credit is received from a pass-through entity such as a partnership, S corporation or LLC.
- To change the tax credit from being non-refundable to being refundable.
- To provide taxpayers with a new base percentage calculation for computing the R&D tax credit. This change will allow taxpayers without documentation of R&D spending to access this credit.

The revenue impact of this proposal is estimated to reduce general fund revenue by \$7.4 million in FY 2012 and by \$26.6 million in FY 2013. Based on data from DOR, the revenue reduction from this proposal would be concentrated in about 40 taxpayers.

Corporate Tax Rate Reduction of 20 Percent, Four-Year Phase-in. The Governor recommends reducing the corporate tax rate from 9.8 percent to 7.8 percent over four years starting in tax year 2011 with the phase-in completed by tax year 2014. The four-year phase-in schedule would be as follows:

² As of February 18, 2010, there is no revenue estimate on this proposal that provides data to understand the scale or magnitude of revenue impact or potential taxpayer impact.

Table 2: Corporate Tax Rate, 20 Percent Reduction with Phase-in Schedule.

Tax Year	Proposed Rate	Estimate Revenue Loss
2011	9.3%	- \$ 10 million
2012	8.8%	- \$ 50 million
2013	8.3%	-\$100 million
2014	7.8%	-\$159 million
Source: Revenue estimate by DOR (1/21/10). The FY 2014 revenue loss estimated by House Fiscal Staff based on revenue estimate data.		

Reducing the tax rate would reduce corporate tax revenues and the percentage share of the total budget for this volatile source of tax revenue. The estimated reduction in corporate tax receipts is \$10 million in FY 2011 and \$50 million in the FY 2012. The full revenue impact of this rate reduction after it is fully phased-in would occur in FY 2015 and the estimated revenue impact in that year is \$200 million. Finally, if this recommendation is enacted, the corporate tax rate would be lower than the top tier in the individual income tax rate of 7.85 percent for the first time in many years.

Miscellaneous Taxes

Minnesota Business Investment Company Credit (CAPCO). The Governor proposes the creation of a \$100 million capital pool for investing in qualified small, emerging and green businesses. The credit would be equal to 80 percent of insurance company investments in a Minnesota small business investment company. This type of tax credit and investment program is also known as certified capital company program or “CAPCO”. Regardless of when an investment is made, no tax credit can be claimed until fiscal year 2014 through fiscal year 2018. The maximum amount of revenue loss in fiscal year 2014 could be as high as \$20 million. Therefore, this proposal has no revenue impact for fiscal years 2011 to 2013. Any revenue loss as result of the enactment of this credit would begin in FY 2014.

Targeted Economic Development Incentives (Tech Z). The Governor recommends the creation of a Tech Z program for qualifying businesses entering the program between 2011 and 2015. Tax incentives for businesses participating in the Tech Z program include: (1) sales tax exemptions; (2) 5-year job creation credit of \$1,500 per net new job; and (3) 10-year exemptions for property and income taxes. This program and its tax incentives would be available to businesses in both the metro and the non-metro area starting in tax year 2011. The estimated revenue loss in FY 2012 and FY 2013 is \$3.6 million and \$7 million, respectively. If enacted, the estimated revenue loss for this program from FY 2012 to FY 2025 is \$100 million with an estimated 205 businesses participating.³

CarZ. The Governor proposes a CarZ program that will provide tax benefits for the Ford Motor Company or another company to manufacture vehicles in St. Paul. The program and its tax

³ Source: DOR Revenue Estimate, February 10, 2010.

benefits will be modeled after the JOBZ program. The revenue impact of this program is deferred until after FY 2014.

Individual Income and Corporate Franchise Taxes

Federal Conformity

Federal conformity is when the Legislature must act on changes in federal code and decide if these federal changes should be incorporated into Minnesota Tax Law. 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-back (or subtract) the difference. To avoid or minimize the need for taxpayers to recalculate their federal taxable income, the Governor recommends conforming to the federal bill that allows certain charitable contributions for relief victims of the January 12, 2010, Haiti Earthquake that were made in 2010 to be taken as a deduction as if they were made in 2009. This accelerated treatment of a Minnesota subtraction would be allowed to both itemizers and non-itemizers. The estimated net revenue reduction from this proposal is \$.010 million in the FY 2010-2011 biennium.⁴

Impact of Increased Property Tax Deductions on Individual Income and Corporate Franchise Taxes

Income Tax Interaction from Reduced Local Aids and Credits. Local property taxes are estimated to increase as a result of the Governor's 2010 supplemental budget recommendations and unallotment extension for reductions in Local Government Aid, County Program Aid, and Residential and Agricultural Market Value Credit. The total combined reduction in aids and credits from these actions is discussed in detail in the next section but must also be included in the tax revenue section because these reductions are assumed to reduce revenue from both the individual income tax (higher itemized deductions) and the corporate franchise tax (higher business costs). The table below shows the net interaction impact in each year of the FY 2012-2013 biennium.

Table 3: Governor's Budget Proposal and Interaction Impact on Individual Income and Corporate Taxes with Local Aids/Credit Reductions

Fiscal Year	Individual Income Tax	Corporate Tax	Total
2012	-\$9.060 million	-\$3.190 million	-\$12.350 million
2013	-\$1.570 million	-\$0.550 million	-\$ 2.120 million

⁴ The Tsunami Relief Act of 2005 is a similar federal conformity provision that was enacted in 2004 and 2005. The revenue impact in 2005 was -\$45,000 and \$40,000 in FY 2006. The FY 2006 provision was included in the 2005 1st Special Session, Chapter 3, Laws of 2005.

In the first years, the interaction impact in FY 2012 is greater because there are two years (2010 and 2011) worth of aid/credit being levied back for in that year. For FY 2013, the revenue loss from the interaction impact is lower because the Governor recommends extending levy limits and the levy back authority for aid reductions is reduced by 50 percent. The total estimated revenue loss is \$14.470 million in the FY 2012-2013 biennium.

Income Tax Interaction from the Charter School Property Tax Exemption. The Governor recommends modifying the statutes to clarify that charter schools are exempt from property taxes. Due to shifting in the tax base, this exemption will increase the statewide property tax on businesses (higher business costs) and some individuals (higher deductions). In the FY 2012-2013 biennium, the estimated revenue loss from this interaction impact is close to \$1 million.

Table 4: Governor's Budget Proposal and Interaction Impact on Individual Income and Corporate Taxes with the Charter School Property Tax Exemption

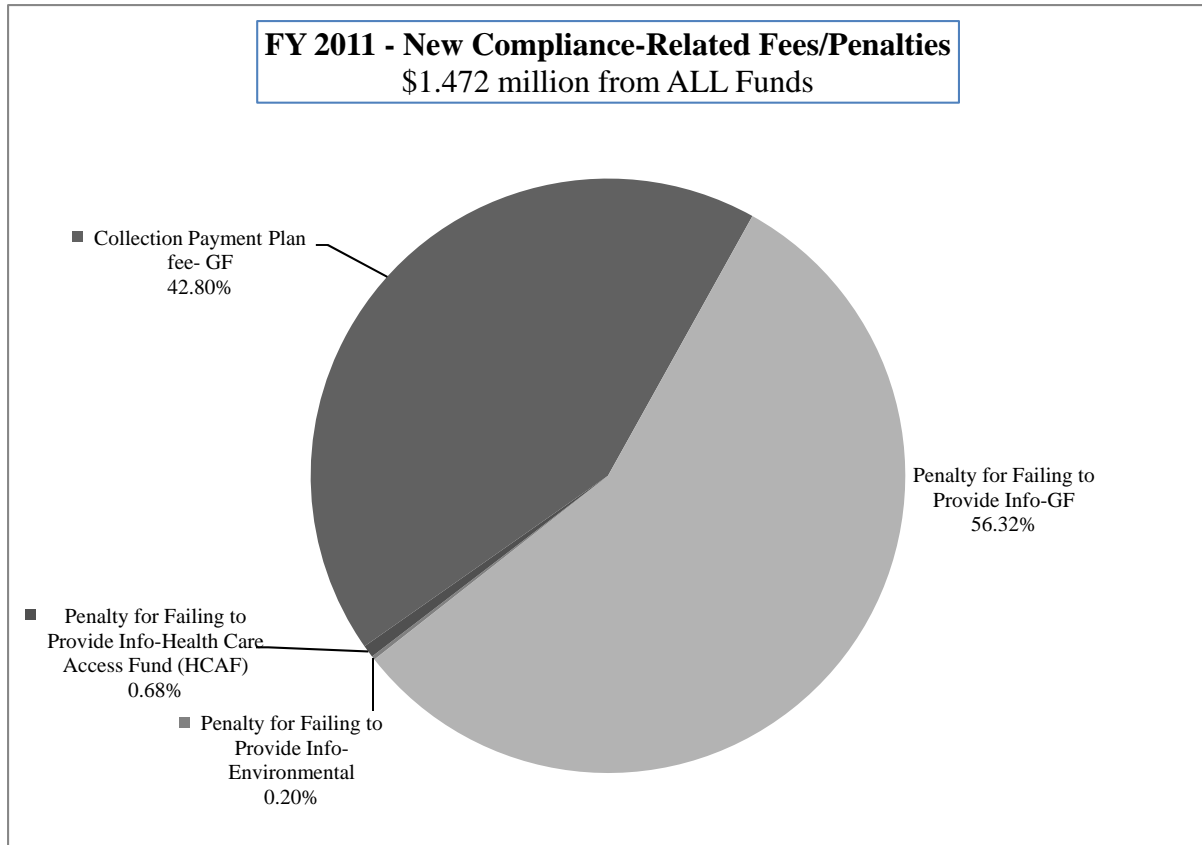
Fiscal Year	Individual Income Tax	Corporate Tax	Total
2012	-\$0.340 million	-\$0.120 million	-\$0.460 million
2013	-\$0.350 million	-\$0.120 million	-\$0.470 million

Miscellaneous Non Tax Revenue

The Governor recommends the imposition of new compliance-related fees and penalties. These new fees are estimated to increase general fund revenue by \$1.459 million or by \$1.472 million from all funds. Of the total from all funds in FY 2011:

- \$0.630 million is estimated to be generated from the general fund each year by the imposition of a new \$25 fee on about 25,200 payments that will be entered into, or renegotiated. It is estimated that 75 percent of the new payment plans will be imposed on individual taxpayers.⁵
- \$0.830 million from the general fund and \$.013 million is estimated to be generated from non general fund sources from a new penalty that equals the greater of: (1) \$500 or 25 percent of the total additional tax resulting from failure to provide the requested documents. It is estimated that 22 percent of total collected per year from this penalty will result from individual taxpayer audits with the rest coming from business audits.

⁵ Taxpayer impact data related to these proposed new fees/penalties is based on data provided by DOR Legislative Liaison, Linda Moser, on February 22, 2010.



These new compliance-related penalties are not to be imposed if failure to provide is based on a reasonable cause.

Changes in General Fund Expenditures - Tax Aids & Credits

The Governor's 2010 Supplemental Budget recommendations for Tax Aids and Credits seeks to make additional spending cuts for a select few programs, to minimally increase spending to impose a new penalty fee, and to ratify budget reductions achieved through the July 2009 unallotment of funds. The total general fund impact of these changes, as shown in Table A, would save \$257.6 million in FY 2011, \$495.9 million in FY 2012 and \$512.9 million in FY 2013.

Table A Governor's 2010 Supplemental Budget Recommendations Proposed Spending Changes/Unallotment Ratification in General Fund Expenditures ¹ (Dollars in thousands)						
	November 2009 Forecast					
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Property Tax Aids & Credits						
Proposed Spending Changes						
Charter School Property Tax Exemption						
Lease Aid	0	(1,379)	(1,379)	(1,860)	(1,396)	(3,257)
PTR interaction	0	0	0	440	460	900
Subtotal- Charter School Property Tax Exemption	0	(1,379)	(1,379)	(1,420)	(936)	(2,357)
Reductions in Aids to Local Governments						
Local Government Aid (LGA)	0	(118,114)	(118,114)	(118,114)	(118,114)	(236,227)
County Program Aid (CPA)	0	(107,331)	(107,331)	(107,331)	(107,331)	(214,662)
Residential Market Value Credit - Counties	0	(17,669)	(17,669)	(17,593)	(17,451)	(35,044)
Residential Market Value Credit - Cities	0	(6,886)	(6,886)	(6,856)	(6,886)	(13,742)
Subtotal - Reductions in Aids to Local Governments	0	(250,000)	(250,000)	(249,893)	(249,782)	(499,675)
Penalty for Failing to Provide Tax Information	0	20	20	20	20	40
Proposed Ratification of Unallotments						
Renters Property Tax Refund	0	0	0	(52,700)	(53,100)	(105,800)
Eliminate Political Contribution Refund	0	0	0	(5,400)	(6,400)	(11,800)
Cap on Forest Land Credits	0	0	0	(4,600)	(4,800)	(9,400)
Reductions in Aids to Local Governments						
Local Government Aid (LGA)	0	0	0	(102,384)	(102,384)	(204,768)
County Program Aid (CPA)	0	0	0	(67,000)	(67,000)	(134,000)
Residential Market Value Credit - Cities	0	0	0	(25,798)	(25,681)	(51,479)
Residential Market Value Credit - Towns	0	0	0	(4,972)	(4,950)	(9,922)
Subtotal - Reductions in Aids to Local Governments	0	0	0	(200,154)	(200,015)	(400,169)
Cap on Local Property Tax Growth/Aid Reduction Interaction						
-Related Property Tax Refund Program Impact	0	0	0	11,930	2,070	14,000
Eliminate Special Timing Account (Dedicated Revenue Expenditure)	0	(6,279)	(6,279)	6,279	0	6,279
Total Tax Aids & Credits Spending Changes:	0	(257,638)	(257,638)	(495,938)	(512,943)	(1,008,882)

¹ Positive numbers represent additional spending or revenue losses to the general fund; negative numbers represent a cost savings or revenue gains to the general fund.

Generally speaking and beginning in FY 2012, the ratification of unallotted funds would save approximately \$245 million per year and the proposed spending changes would save an additional \$251 million per year.

Proposed spending reductions

Charter School Property Tax Exemption

The Governor's 2010 Supplemental Budget seeks to change the property tax status of properties that are leased to charter schools. Under current law, charter schools are not permitted purchase buildings with state moneys, nor can they levy taxes for facilities. Instead they receive lease aid to help pay for costs of leasing their buildings. For the 2008-2009 school year, Minnesota had 152 Charter schools operating in the state.

As proposed, all properties leased to charter schools, whether not-for-profit or for profit, would become exempt from local property taxes. This change would have a three-fold impact. First, it would create multiple year cost savings for Charter School Lease Aid of \$1.4 million in FY 2011, \$1.9 million in FY 2012 and \$1.4 million in FY 2013. These savings are based on the assumption that lease rates will be reduced to reflect this new tax exemption. Second, since the property tax exemption would shift the property tax burden to all other properties in the area, including residential homesteads, it would increase homeowner property tax refunds by \$440,000 in FY 2012 and by \$460,000 in FY 2013. And third, the shift in tax base would interact with income taxes on businesses and individuals, creating revenue losses of \$460,000 in FY 2012 and \$470,000 in FY 2013. For further detail on this revenue impact, see the Income Tax Interaction for Charter School Property in the Revenue section of this analysis.

Reductions in Aids to Local Governments

The Governor's 2010 Supplemental Budget seeks to further reduce Aids to Local Governments by a cutting an additional \$250 million in FY 2011, \$249.9 million in FY 2012, and by \$249.8 million in FY 2013. These reductions are in addition to the July 2009 unallotments, which cut payments to local governments by \$300 million for the FY 2010-2011 biennium.

Aids to Local Governments consist of three programs: Local Government Aid (LGA), County Program Aid (CPA) and Residential Homestead Market Value Credits (MVC). For the FY 2010-2011 biennium, overall program reductions due to the July 2009 unallotment were almost 14 percent for LGA, almost 22 percent for CPA and about 12.5 percent for MVC. With the Governor's additional cuts, overall program reductions will deepen to 25 percent for LGA, 45 percent for CPA and 18 percent for MVC. For the FY 2012-2013 biennium, proposed reductions reflect cuts of 40 percent from LGA, 72 percent for CPA and 27 percent for MVC. For further detail by program, see Table B.

As with previous reductions to these programs, the cuts are based on a percentage of a jurisdiction's revenues from levy plus aid, with certain limitations. However, unlike the July 2009 unallotments, this latest reduction proposal does not include any hold harmless provisions for cities and counties.

Table B
Governor's 2010 Supplemental Budget - Aids to Local Governments
November 2009 Forecast + Governor's July 2009 Unallotments + Feb 2010 Proposed Cuts
(Dollars in Thousands)

	November 2009			November 2009		
	FY2010	FY2011	FY2010-11	FY2012	FY2013	FY2012-13
LOCAL AIDS						
Local Government Aid (LGA)	526,148	536,671	1,062,819	558,138	558,138	1,116,276
<i>Governor's July 09 Unallotment - LGA</i>	<i>(44,620)</i>	<i>(102,384)</i>	<i>(147,004)</i>	<i>(102,384)</i>	<i>(102,384)</i>	<i>(204,768)</i>
<i>Governor's Feb 2010 Cuts - LGA</i>	<i>0</i>	<i>(118,114)</i>	<i>(118,114)</i>	<i>(118,114)</i>	<i>(118,114)</i>	<i>(236,227)</i>
Local Government Aid (LGA)	481,528	316,173	797,702	337,640	337,640	675,281
<i>% change</i>	-8.5%	-41.1%	-24.9%	-39.5%	-39.5%	-39.5%
County Program Aid	227,419	231,935	459,354	241,223	241,223	482,446
<i>Governor's July 09 Unallotment - CPA</i>	<i>(33,000)</i>	<i>(67,000)</i>	<i>(100,000)</i>	<i>(67,000)</i>	<i>(67,000)</i>	<i>(134,000)</i>
<i>Governor's Feb 2010 Cuts - CPA</i>	<i>0</i>	<i>(107,331)</i>	<i>(107,331)</i>	<i>(107,331)</i>	<i>(107,331)</i>	<i>(214,663)</i>
County Program Aid (CPA)	194,419	57,604	252,023	66,892	66,892	133,783
<i>% change</i>	-14.5%	-75.2%	-45.1%	-72.3%	-72.3%	-72.3%
PROPERTY TAX CREDITS						
Res MVC Non-School	214,714	207,243	421,957	203,714	202,786	406,500
<i>Governor's July 09 Unallotment - MVC Cities</i>	<i>(19,580)</i>	<i>(25,480)</i>	<i>(45,060)</i>	<i>(25,798)</i>	<i>(25,681)</i>	<i>(51,479)</i>
<i>Governor's July 09 Unallotment - MVC Towns</i>	<i>(2,500)</i>	<i>(5,000)</i>	<i>(7,500)</i>	<i>(4,972)</i>	<i>(4,950)</i>	<i>(9,922)</i>
<i>Governor's Feb 2010 Cuts - MVC Counties</i>	<i>0</i>	<i>(17,669)</i>	<i>(17,669)</i>	<i>(17,593)</i>	<i>(17,451)</i>	<i>(35,044)</i>
<i>Governor's Feb 2010 Cuts - MVC Cities</i>	<i>0</i>	<i>(6,886)</i>	<i>(6,886)</i>	<i>(6,856)</i>	<i>(6,886)</i>	<i>(13,742)</i>
Residential MVC Non-School	192,634	152,208	344,842	148,495	147,818	296,313
<i>% change</i>	-10.3%	-26.6%	-18.3%	-27.1%	-27.1%	-27.1%
Agr MVC Non-School	19,227	19,061	38,288	19,061	19,061	38,122
<i>Governor's July 09 Unallotment - MVC Cities</i>	<i>(121)</i>	<i>0</i>	<i>(121)</i>	<i>0</i>	<i>0</i>	<i>0</i>
Agricultural Market Value Credit	19,106	19,061	38,167	19,061	19,061	38,122
<i>% change</i>	-0.6%	0.0%	-0.3%	0.0%	0.0%	0.0%
TOTAL Governor's July 09 Unallotments + Feb 15 Cuts - LGA, CPA, MVCs	(99,821)	(449,864)	(549,685)	(450,048)	(449,797)	(899,845)
TOTAL Adjusted State Aid & Credits Payments - LGA + CPA + MVC	887,687	545,046	1,432,733	572,088	571,411	1,143,499

Local Government Aid (LGA)

The Governor proposes to permanently decrease LGA funding by an additional \$118.1 million beginning with aids payable in 2010 (FY 2011). This proposal is coupled with additional reductions of \$6.9 million to the market value credit, and impacts all cities. For aids payable in 2010 (FY 2011), this reduction combined with the unallotment would equal an average cut of 11 percent in levy plus aid per city. Inflation adjustments for future years are repealed.

County Program Aid (CPA)

The Governor proposes to permanently decrease CPA funding by an additional \$107.3 million beginning with aids payable in 2010 (FY 2011). This proposal is coupled with additional reductions of \$17.7 million to the market value credit, and impacts all counties. For aids payable in 2010 (FY 2011), this reduction combined with the unallotment would equal an average cut of 7 percent in levy plus aid per county. Inflation adjustments for future years are repealed.

Residential Market Value Credit (MVC – Non-School)

Beginning in FY 2011, the Governor proposes to further decrease the market value credit reimbursements paid to cities by an additional \$6.9 million and extend \$17.7 million in reductions to counties. No further reductions to townships are included in this proposal. For cities, this reduction is coupled with additional LGA reductions and when combined with the unallotment would equal an average cut of 11 percent in levy plus aid per city. For counties, this reduction is coupled with additional CPA reductions and when combined with the unallotment would equal an average cut of 7 percent in levy plus aid per county.

Penalty for Failing to Provide Tax Return Information

The Governor proposes to create a new penalty for failing to comply with a written request for additional documentation to supplement a tax return. The penalty would be \$500 or 25 percent of the additional tax from the lack of documentation, whichever is the greater. The increased spending of \$20,000 per year (beginning in FY 2011) would be eclipsed by the anticipated new revenues of \$842,000 in FY 2011, and \$1.3 million in each FY 2012 and FY 2013. (See the Tax Revenue section for further detail).

Proposed ratification of Unallotments

Adjust the Renter's Property Tax Refund (PTR)

The Governor's 2010 Supplemental Budget seeks to make permanent the July 2009 reduction in "percentage of rent" used in the calculation of the Renter Property Tax Refund (Renter PTR) program. Renter PTR provides property tax relief to more than 304,900 renters whose rent and "implicit property taxes" are high relative to their incomes. In calendar year 2008, the average refund was \$570 and over 81 percent of these refund claimants had annual incomes of \$30,000 or less.

In July 2009, the Governor unallotted \$50.8 million for FY 2011 to reflect 15 percent of rent paid instead of 19 percent as previously used in refund calculations. This reduction reflects a 26.8 percent annual decrease in spending for renter refund payments.

The July 2009 unallotment (Table C) will cause approximately 18,200 renters to become ineligible to receive a refund. In addition, 280,900 claimants will realize a reduced payment. The greatest portion of the decrease will impact more than 178,200 filers (or 58 percent) with incomes between \$10,000 and \$30,000. The average decrease in refund for all filers is estimated to be more than \$129 per claimant. Filers who are age 65 or older or who have a disability – about 28 percent of all filers – will experience a decreased refund of about \$143.

If ratified as proposed by the governor, the continuation of this adjustment would produce a cost savings of \$52.7 million in FY 2012 and \$53.1 million in FY2013.

Table C Unallotment of Renter Property Tax Refund Program <i>Reduce Property Tax % of Rent from 19% to 15%</i>					
February 2009 forecast*	Filer Count	% of Total	Current Refunds	Proposed Refunds	Change
Become ineligible for refund	18,200	6%	\$1,460,000	\$0	(\$1,460,000)
Remain eligible, reduced refund	280,900	92%	\$164,550,000	\$118,690,000	(\$45,860,000)
Max refund, no change	5,777	2%	\$7,790,000	\$7,790,000	\$0
TOTAL	304,877	100%	\$173,800,000	\$126,480,000	(\$47,320,000)
* Estimates based on actual FY 2009 renter refunds, February 2009 forecast; FY 2011 general fund savings = \$50.8 million, FY 2012 = \$52.7 million, FY 2013 = \$53.1 million.					

Eliminate the Political Contribution Refund

The Governor's 2010 Supplemental Budget seeks to make permanent the July 2009 unallotment that eliminated funding for the political contribution refund program for FYs 2010 and 2011. Current law allows Minnesota taxpayers a maximum refund of \$50 per person or \$100 per married couple in a calendar year for political contributions made to qualifying political candidates. About 100,000 refunds are made each year. As proposed, a permanent elimination of this program would save \$5.4 million in FY 2012 and \$6.4 million in FY2013.

Reduce Forest Land Credit payments

The Governor's 2010 Supplemental Budget seeks to make permanent the July 2009 unallotment of funding for Sustainable Forest land payments which limited credits and capped payments at \$100,000 per claimant per year. As proposed, this program reduction will save \$4.6 million in FY 2012 and \$4.8 million in FY2013.

Permanently Reduce Aids to Local Governments

The Governor's 2010 Supplemental Budget seeks to ratify the July 2009 unallotments to Aids to Local Governments which total \$200 million per year beginning in FY 2012. These reductions are in addition to the spending cuts for FY 2011 and beyond, as discussed in the previous section. While Table B on page 3 is a comprehensive summary for payments to local governments by program, before and after the proposed spending cuts and permanent unallotted funding, the following table isolates the extension of July 2009 unallotments to the FY 2012-13 biennium:

Extend Unallotment by Program	<u>FY 2012</u>	<u>FY 2013</u>
LGA	(\$102.4 mil)	(\$102.4 mil)
CPA	(\$ 67.0 mil)	(\$ 67.0 mil)
MVC Cities	(\$ 25.8 mil)	(\$ 25.7 mil)
MVC Towns	(\$ 5.0 mil)	(\$ 5.0 mil)
Total – LGA + CPA + MVC	(\$200.2 mil)	(\$200.1 mil)

Local Property Tax Relief

Extend the Cap on Local Property Tax Growth

The Governor's 2010 Supplemental Budget seeks to make permanent the three-year property tax limit imposed in Chapter 366, 2008 Session Laws. Since tax year 2008, local levy growth for all counties and for cities with populations over 2,500 residents has been limited to their levy-aid base plus adjustments for annual household growth, business tax base growth and inflation up to 3.9 percent. Also, a local government's levy limit is adjusted for aids received, including local government aid (LGA), county program aid (CPA), taconite aids, wind production credits and utility transition aid, for the year in which the levy is payable.

In addition to extending the 3.9 percent cap on local property growth, the Governor also proposes to limit the levy-back authority for reductions in tax aids and credits to 50 percent. This would apply to both the levy limit base and to special levies.

Levies for counties, cities and townships are estimated to increase by \$291 million in FY 2012 and by \$51 million in FY 2013.

Levy/Aid Related Property Tax Refund (PTR) Program Impact

Due to the Governor's proposed spending reductions and the extension of unallotted funds for Local Government Aid, County Program Aid, and Market Value Credits, local property taxes will increase. Increases in property taxes, partially offset by the extension of levy limits and the authority to levy back at a rate of 50 percent of aid and credit reductions, will trigger increases in homeowner property tax refunds. The estimated PTR interaction of these changes is \$11.9 million in FY 2012 and \$2.1 million in FY 2013.

Eliminate Special Timing Account

The Governor's 2010 Supplemental Budget seeks to eliminate the special timing account created in Minnesota 2009 Session Laws Chapter 88, Article 12. The provision dedicates a portion of the general fund to offset the anticipated general fund revenue loss in FYs 2012-13 from certain federal conformity provisions including bonus depreciation and section 179 expensing. The law directs the commissioner of revenue to deposit up to \$10.149 million in revenues received in FYs 2010-2011 into a special holding account, and then to transfer them back to the general fund in fiscal year 2012.

In July 2009, through executive action, the Governor reduced this transfer by \$3.8 million, leaving a balance of \$6.3 million for transfer in FY 2011. The elimination of this account would save \$6.3 million in FY 2011 but cost \$6.3 million in FY 2012.

Note: The Reduction in Payment in Lieu of Taxes (PILT) can be found in the analysis for the House Environment Committee.