AN OVERVIEW OF GOVERNOR ARNE CARLSON’S FY 1996-1997 BIENNIAL BUDGET RECOMMENDATIONS

This issue of Money Matters is intended to be used as a resource document. It provides an overall description of the Governor’s budget proposal, and is followed by discussions of the Governor’s budget detail, organized by committee/division.

Table of Contents

The Big Picture ................................................................. page 2
Education ........................................................................ page 5
Higher Education ............................................................. page 9
Health and Human Services ............................................. page 11
MinnesotaCare ................................................................. page 16
Judiciary ........................................................................ page 18
Environment and Natural Resources ................................ page 23
Economic Development, Infrastructure and Regulation .... page 27
Transportation ................................................................ page 32
State Government ............................................................ page 34
Capital Investment ........................................................... page 40
Taxes ............................................................................. page 41
Appendices .................................................................... page 47
The Big Picture

The Governor's proposed FY97-98 budget raises approximately $17.6 billion in General Fund revenues and spends approximately $18 billion. Table 1 shows spending and revenues for the current biennium; the Governor's recommendation for FY96-97, and; the projected spending related to his budget ("tails") for the following biennium. While the Governor's budget is balanced through FY97, Table 1 shows a significant shortfall in the FY98-99 biennium under the spending and revenue assumptions in the Governor's plan.

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Years</th>
<th>Fiscal Years</th>
<th>Percent</th>
<th>Fiscal Years</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Forward</td>
<td>$876.4</td>
<td>$765.0</td>
<td>$352.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Resources</td>
<td>$16,743.6</td>
<td>$17,583.1</td>
<td>5.0%</td>
<td>$18,998.0</td>
<td>8.0%</td>
</tr>
<tr>
<td>Total Resources Available</td>
<td>$17,620.0</td>
<td>$18,348.1</td>
<td>4.1%</td>
<td>$19,350.3</td>
<td>5.5%</td>
</tr>
<tr>
<td>Spending and Transfers</td>
<td>$16,855.1</td>
<td>$17,995.8</td>
<td>6.8%</td>
<td>$20,197.1</td>
<td>12.2%</td>
</tr>
<tr>
<td>Balance before Reserves</td>
<td>$764.9</td>
<td>$352.3</td>
<td>($846.8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve</td>
<td>$500.0</td>
<td>$350.0</td>
<td>$0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgetary Balance</td>
<td>$264.9</td>
<td>$2.3</td>
<td>($846.8)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

On an annual basis, total expenditures will grow .5% between FY95 and FY96, and 5.3% between FY96 and FY97. Revenues (excluding money carried forward from the previous year) will grow by .9% between FY95 and FY96 and 3.2% between FY96 and FY97. When all FY96-97 funds are considered, state revenues total $32 billion; spending totals $28.8 billion. Federal funds are the largest non-General Fund revenue source, followed by the highway user tax, special revenue, Trunk Highway and health care access funds.

The Budget Problem and The Governor's Solution

Significant budget problems faced the Governor as he put his budget together:

- The November forecast showed spending growing at a faster rate (6.6%) than revenues (5.9%).
- An additional $716 million in spending pressures existed which were not included in the forecast spending figures because of spending caps. Those caps limited spending in the higher education, K-12 education and human services bills to levels below that projected based on FY95.
- Appeals on the Cambridge bank case were exhausted, expected to cost the state over $350 million, of which at least $160 million has to be paid back in FY96-97.

To address these problems, the Governor chose to:

- Reduce the reserve to $350 million (as allowed in legislation passed in 1994).
- Keep spending below the caps for K-12 and human services. Although he increased higher education spending above the limits in law, he left it below the Finance Department's projected spending under the funding formula.
• Use money set aside in law last session to continue paying back the K-12 property tax recognition shift for other purposes.
• Include no inflationary increases for state government, except in agencies with fewer than 20 people.
• Combine some categorical aids and remove some local mandates to mitigate the effects of funding cuts in K-12 and local aids and credits.

**Effects of Budget Vary by Program Area**

Table 2 shows the Governor's recommendations by division. Table 2 includes the programs and administrative functions transferred from other state agencies as part of the Governor's recommendation to create a Department of Children and Education Services.

### Table 2

**General Fund Expenditures**

*Fiscal Years 1994-1997*  
($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>FY94-95</th>
<th>FY96-97</th>
<th>$ Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education Finance</td>
<td>$5,221.6</td>
<td>$5,622.4</td>
<td>$400.9</td>
<td>8.1%</td>
</tr>
<tr>
<td>Recognition Shift</td>
<td>$172.0</td>
<td>($165.9)</td>
<td>($337.9)</td>
<td></td>
</tr>
<tr>
<td>Children &amp; Educ Services Dept.</td>
<td>0.0</td>
<td>$97.4</td>
<td>$97.4</td>
<td></td>
</tr>
<tr>
<td><strong>Total K-12</strong></td>
<td>$5,393.6</td>
<td>$5,554.0</td>
<td>$160.4</td>
<td>3.0%</td>
</tr>
<tr>
<td>Property Tax Aids &amp; Credits</td>
<td>$2,389.2</td>
<td>$2,359.4</td>
<td>($29.7)</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$2,095.4</td>
<td>$2,119.4</td>
<td>$24.0</td>
<td>1.1%</td>
</tr>
<tr>
<td>Health &amp; Human Services</td>
<td>$4,404.4</td>
<td>$5,091.6</td>
<td>$687.1</td>
<td>16.8%</td>
</tr>
<tr>
<td>Environment</td>
<td>$341.8</td>
<td>$367.1</td>
<td>$25.3</td>
<td>7.4%</td>
</tr>
<tr>
<td>Economic Development</td>
<td>$335.3</td>
<td>$329.2</td>
<td>($6.1)</td>
<td>2.7%</td>
</tr>
<tr>
<td>Transportation</td>
<td>$161.3</td>
<td>$183.1</td>
<td>$21.7</td>
<td>13.5%</td>
</tr>
<tr>
<td>Criminal Justice</td>
<td>$666.9</td>
<td>$835.7</td>
<td>$168.7</td>
<td>25.3%</td>
</tr>
<tr>
<td>State Government</td>
<td>$531.0</td>
<td>$529.9</td>
<td>($1.2)</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Debt Service &amp; Borrowing</td>
<td>$404.6</td>
<td>$459.1</td>
<td>$54.5</td>
<td>13.5%</td>
</tr>
<tr>
<td>Deficiencies</td>
<td>$13.4</td>
<td>0.0</td>
<td>($13.4)</td>
<td></td>
</tr>
<tr>
<td>Cancellation Adjustment</td>
<td>($15.0)</td>
<td>($20.0)</td>
<td>$5.0</td>
<td></td>
</tr>
<tr>
<td>Dedicated Expenditures</td>
<td>$133.2</td>
<td>$187.5</td>
<td>$54.3</td>
<td>40.8%</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES AND TRANSFERS</strong></td>
<td><strong>$16,855.1</strong></td>
<td><strong>$17,996.0</strong></td>
<td><strong>$1,140.7</strong></td>
<td><strong>6.8%</strong></td>
</tr>
<tr>
<td>Reserve &amp; Unrestricted Balance</td>
<td>$765.0</td>
<td>$350.0</td>
<td>($415.0)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$17,620.1</td>
<td>$18,346.0</td>
<td>$725.9</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

*Percentages adjusted to account for programs transferred in the Governor's budget to the Dept. of Children and Education Services.
While the Governor is recommending a 25.3% increase in Criminal Justice funding, spending for the area represents less than 5% of the total General Fund budget. Health and human services spending, driven by increased long term health care costs related to an aging population, will grow by 16.8%, or $678 million. As a share of the total General Fund budget, human services increases from 26.1% to 28.3%. Spending for K-12 increases 8.1%, when the property tax recognition shift is excluded from the total and the agencies transferred to the new Children’s agency are included, but increases only 1.2% when the effects of the Governor’s property tax recognition shift recommendation is included. Spending for property tax aids and credits decreases by 3% or $77 million. Higher education spending increases by 3.9%, or $79.4 million.

Table 3 shows changes in revenues under the Governor's budget. Individual income tax receipts, the largest source of General Fund revenues, are projected to grow $652 million over last biennium. Non-tax revenues are projected to decrease for a variety of reasons, including loss of federal reimbursement due to the movement of people out of regional treatment centers and less investment income. While the Governor's budget has an overall decrease in fees, there are increases in some fees.

<table>
<thead>
<tr>
<th>Table 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Revenues</td>
</tr>
<tr>
<td>Fiscal Years 1994-1997</td>
</tr>
<tr>
<td>($ in millions)</td>
</tr>
<tr>
<td>Fiscal Years</td>
</tr>
<tr>
<td>1994-95</td>
</tr>
<tr>
<td>Tax Revenues</td>
</tr>
<tr>
<td>Non-Tax Revenues</td>
</tr>
<tr>
<td>Dedicated Revenues</td>
</tr>
<tr>
<td>Transfers from Other Funds</td>
</tr>
<tr>
<td>Prior Year Adjustments</td>
</tr>
<tr>
<td>New Tax Revenues</td>
</tr>
<tr>
<td>Cambridge Bank Judgment</td>
</tr>
<tr>
<td>New Net Non-tax Revenues</td>
</tr>
<tr>
<td>Dedicated Revenues</td>
</tr>
<tr>
<td>TOTAL REVENUES</td>
</tr>
</tbody>
</table>

**Price of Government**

The Governor's budget also includes for the first time information on the percent of total personal income that state and local revenues represent. The law requires the Governor to present his budget in those terms and then requires the Legislature to adopt, by concurrent resolution with the Senate, similar targets for state and local revenues. Under the assumptions in both the Governor's budget and the November forecast, total state and local revenues decrease as a percentage of personal income. More detail is provided in the "Taxes" section of this paper.
Next Forecast

The next forecast will be released February 28. The Governor will submit supplemental budget recommendations to match any changes in the revenues and expenditures projected at that time. So far, the national forecaster is predicting continued strong economic growth, but is also expressing increasing concern about the possibility of a recession in 1996 brought on by higher interest rates. The risk of this "boom-bust" scenario is assigned a 30% chance of occurring. In Minnesota, revenues are up 3.4% more than forecast in November.

Education Finance Division

The Governor's budget recommends an appropriation of $2,664,842,000 in FY96 and $2,814,446,000 for FY97, for a biennial total of $5,479,288,000. This is $26,042,000 less than the $5,505,330,000 under current law. Current law for K-12 education includes the effects of the appropriations caps. To bring funding to the level in FY95, not counting inflation, would cost $217 million more than current law.

Education property taxes in the Governor's budget recommendations are the same as in current law. Property taxes for 1995-96 would increase by $174.8 million or 9.4% over 1994-95. (These are the payable 1995 property taxes that are already being levied.) Property taxes for 1996-97 (payable 1996) are estimated to increase by $83.6 million or 4.1% over the previous year.

The school district property tax revenue recognition shift, currently at 37.4%, is increased to 48%. This saves the state approximately $188 million on a one-time basis in the 1995-96 school year.

The percent of K-12 education funding that comes from state sources is at 61.1% in 1994-95, is estimated to go to 56.6% in 1995-96, and 58.9% in 1996-97.

The increase in total K-12 education revenue is over 8% on a biennium to biennium (adding together revenue for the 1995-96 and 1996-97 school years and comparing to the 1993-94 and 1994-95 school years added together). However, on a year by year revenue per student basis, the increase is about 1% in 1995-96 and a reduction of 0.3% in 1996-97.

The Governor's budget recommendations fund the "cap gap" in some programs, leave the cap in place in other programs, eliminate or further cut some programs and substantially restructure others. All numbers listed here are compared to "current law".

General Education Program

Increases the general education formula from $3,150 to $3,220 in FY96 and $3,240 in FY97. (Cost: $146.5 million, Levy -$6.3 million)

Eliminate the class size reduction revenue - the elementary student weighting is reduced from 1.06 to 1.00. (Savings: $159.5 million; Levy -$3.4 million)

Repeal the requirement that 2% of the general education revenue be used for staff development.
Change training and experience revenue from an equalized aid and levy to all aid. (Cost: $37.1 million; Levy -$43.7 million)

Increase the basic general education levy by $198.9 million. (Savings: $170.5 million)

Repeal the fund balance reduction for districts with fund balance above $787 per pupil unit. (Cost: $400,000)

Eliminate assurance of mastery aid and limited English proficient revenue, combine with compensatory revenue in a new learning gap block grant. (Cost: $7.4 million)

Repeal the January 15 contract deadline penalty.

Increase the property tax revenue recognition shift from 37.4% to 48%. (Savings: $188.5 million)

Increase the basic general education levy tax rate from 34.2% to about 38.5%. (Savings: $170.5 million; Levy $198.9 million)

Establish a uniform education tax rate that includes the levies for basic general education (90.36%), basic transportation (4.87%), capital expenditure facilities (3.10%) and capital expenditure equipment (1.67%).

**Transportation**

Reduce regular transportation funding from $463 to $450 in FY96 and FY97, set inflation factors at zero, fund the appropriations caps. (Cost: $42.7 million; Levy: $1.0 million)

Eliminate late activity bus levy. (Levy: -$3.2 million)

Eliminate the levy for one to two mile secondary student transportation and the extraordinary traffic hazards. (Levy: -$21.5 million)

Pay transportation aid directly to charter schools. (Cost: $39,000)

**Special Programs**

Replace the current teacher salary based special education formula with a formula that freezes special education revenue at the FY95 level plus a factor for statewide enrollment growth (about 2% per year). Special education aid will be 60% of this revenue amount in each school district. Funding would be increased for the current excess cost formula (when a district's unreimbursed special education cost exceeds about $200 per pupil unit, state aid will pay 70% of the excess). (Cost: $59.3 million; Levy: $84.8 million)

Eliminate secondary vocational aid in beginning in FY97. (Savings: $10.1 million)

Fund various Indian education programs at current law levels with appropriations caps in effect.
Community and Family Education
Reduce the basic community education formula from $5.95 per district resident to $4.95 per resident and eliminate the additional $1 per district resident for youth service programs. (Savings: $3.9 million; Levy: -$6.8 million)

Eliminate the required transfer of funds from the General Fund community service fund for teacher retirement and social security costs of community service staff.

Eliminate revenue for extended day programs for students with disabilities. (Savings: $700,000; Levy: -$2.4 million)

Restore the "cap gap" in early childhood family education (ECFE). (Cost: $3.9 million)

Restore the "cap gap" in adult basic education (ABE). (Cost: $2.3 million)

Restore the "cap gap" in learning readiness. (Cost: $2.7 million)

Increase funding for family collaboratives. (Cost: $7.5 million)

Eliminate funding for violence prevention councils. (Savings: $344,000)

Education Facilities
Reduce the capital expenditure formula from $69 per pupil unit to $68, fully fund the $68, fully fund the remaining "cap gap". (Cost: $9.9 million)

Reduce the capital expenditure facilities formula by 4%, fully fund the remaining "cap gap". (Cost: $9.4 million)

Fully fund debt service equalization aid and convert it to an 85/15% payment schedule. (Cost: $2.9 million; Levy: -$8.9 million)

No funding is recommended for bonding for maximum effort loans for Big Lake, Littlefork-Big Falls or Kelliher School Districts.

Education Organization
Allow funding for no new districts in the cooperation and combination (C&C) program as of July 1, 1997. (Savings: $1.7 million; Levy -$400,000)

Eliminate C&C facilities grants as of July 1, 1997. (Savings: $500,000)

Commitment to Excellence
Replace district cooperation revenue ($67 per pupil unit, minimum of $25,000 per district) with a learning improvement revenue in FY97. Maximum revenue stays the same but $7 per pupil unit is only available if districts demonstrate progress toward raising achievement levels. Cooperation revenue may be used only for cooperation programs (especially special education and secondary vocational education), learning improvement revenue may be used for a variety of purposes. (Net Savings: $1.0 million)
Replace ITV (interactive television) revenue with instructional technology revenue. The revenue would be the greater of $9 per pupil unit or $25,000 per district. All districts would be eligible for revenue. Metropolitan area districts are not eligible for ITV revenue. Instructional technology revenue could be used for any technology need. (Net cost: $3.9 million; Levy $4.0 million)

Allow districts to transfer money from the General Fund to the capital expenditure fund for technology equipment purchases.

Increase funding for development of the graduation standards. (Cost: $6.4 million)

Provide new funding for charter school start up costs. (Cost: $100,000)

Eliminate a variety of grant programs including instructional technology grants, performance improvement grants, international baccalaureate/advanced placement, and school restructuring grants. (Savings: $7.9 million; Levy: -$400,000)

**Other Programs**

Fully fund abatement aid for FY96 but continue proration for FY97. (Cost: $19.1 million; Levy: -$19.0 million)

Increase funding for magnet school integration grants. (Cost: $2.0 million)

Eliminate various teacher education improvement programs including career teacher, teacher mentorship, and minority teacher. (Savings: $3.0 million)

Leave appropriations caps in effect for school lunch and breakfast programs, nonpublic pupil aid.

**Public Libraries**

Fund public libraries at 90% of FY95 base for FY96 and 80% of FY95 base for FY97 (capped levels with funding rearranged). (Savings: $100,000)

**State Agencie**s

Restore the "cap gap" for the Minnesota Center for Arts Education and increase funding for the cost of opening another dormitory. (Cost: $1.4 million)

Restore the "cap gap" for the Faribault Academies. (Cost: $2.2 million)

Restore the "cap gap" for the Department of Education. (Cost: $4.2 million)

**Other**

Amend PELRA (the public employee labor relations act) so that teachers can not strike if they refuse arbitration when proposed by the school board and to require an arbitrator to consider the financial condition of the school district in making the arbitration award.

**Implications of the Governor's budget recommendations**
Funding increases on a per student basis are 1% for FY96 and -0.3% for FY97. This will have to fund step and lane increases for staff already in contracts, any negotiated salary increases, inflation increases in the costs of supplies and equipment as well as education improvement efforts.

Eliminating the ability for districts to levy for the costs of late activity buses may lead to more fees being charged to students. Reducing community education funding will lead to either increased fees for those programs or elimination of program options.

The change (and reduction in the increases) in special education funding will force district to use more General Fund revenue to support special education programs. The budget does not provide any opportunities for districts to reduce services for special education students.

The trade-off in the general education formula (eliminate the class size reduction funding and increase the formula allowance) results in $22 million less being available overall in the general education formula. Districts will have a difficult time explaining that even though the formula allowance increased, they have less funding. Since funds would no longer be reserved specifically for class size reduction in the elementary grades, elementary grade class sizes are likely to increase.

The reduction in state support for public libraries will result either in reductions in service or increases in local levies to support public libraries.

**Higher Education**

*(including the Higher Education and University of Minnesota Finance Divisions)*

The Governor recommends a $79 million increase over the higher education appropriation cap for FY96-97. This is $40 million over current spending for FY96-97 (excluding the $24 million one time shift in the Technical College system), and includes appropriations of over the cap of $61 million for the U of M, $10 million for MnSCU (the merger system), and $8 million for the Higher Education Coordinating Board (financial aid). Table 4 summarizes the base budgets, caps, and Governor's recommendations.
Table 4
Higher Education Budget: Fiscal Years 1996-1997
Base Budgets, Caps, and Governor's Recommendations
($ in 1,000's)

<table>
<thead>
<tr>
<th>FY 1996-97 Current spending</th>
<th>Cap</th>
<th>Governor's Recommendation</th>
<th>Difference from Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>H E C B</td>
<td>$239,654</td>
<td>$235,440</td>
<td>$234,709</td>
</tr>
<tr>
<td>U of M</td>
<td>924,374</td>
<td>908,228</td>
<td>915,184 *</td>
</tr>
<tr>
<td>M nSCU</td>
<td>913,936</td>
<td>894,682</td>
<td>905,043</td>
</tr>
<tr>
<td>Mayo</td>
<td>1,680</td>
<td>1,650</td>
<td>1,650</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,079,644</strong></td>
<td><strong>$2,040,000</strong></td>
<td><strong>$2,119,386</strong></td>
</tr>
</tbody>
</table>

*Plus $53.8 million one-time appropriation

Higher Education Coordinating Board
The Governor recommends adopting the board's restructuring plan that eliminates approximately $600,000 per year of mostly regulatory functions (program review, site and center approval, etc.) and reallocating the money into policy and planning functions. The Governor also is recommending that the current private college cap be abandoned and that the state move to a "maximum grant" model. The initial maximum grants would be $5,889 for four year students and $5,007 for two year students. Since these amounts are equal to the maximum awards available to private college students under the current formula, there would be no funding adjustment required. For FY96-97 the Governor recommends:

An additional $7,400,000 for the State Grant Program to cover anticipated 3% annual tuition increases and a 3% (biennial) increase in the Living and Miscellaneous Expenses (LME) allowance.

$90,000 additional for the MINITEX inter-library loan program to cover anticipated increases in demand.

$200,000 additional for the student & parent readiness programs that provide information to families on post-secondary options, financial planning for college, and encourages greater post-secondary participation among communities of color, low income families, and first generation college students.

$485,000 additional for the Summer Scholarships for Academic Enrichment Program. This program provides scholarships to 11th & 12th graders to take college courses during the summer.

In total, $8 million over "capped" budget amount of $235 million for the Coordinating board. This assumes 3% tuition increases. With financial aid assumptions based on the funding formula, this leaves a $10 million "cap gap".

Public Post-secondary Systems
Each of the systems receives more money than the "appropriations cap" that was imposed by the Governor, but a base budget reduction from current spending for FY96-97. In addition, the Governor says that the systems should not raise tuition beyond the anticipated 3% annual inflation rate over the 96-97 biennium. If
they do raise tuition in excess of inflation and shortfalls in financial aid occur, the systems are responsible for
covering that shortfall out of their own budgets. The exact mechanism to do this is not settled yet, but the
Department of Finance is contemplating an interagency transfer of funds from the systems to the State Grant
Fund. This tuition policy ignores the systems requests that assume greater than 3% tuition hikes as the best
case scenario (4.8% per year at the U of M and 4% per year in the merged system). For the systems the
Governor recommends:

**Minnesota State Colleges and Universities (merger system)**
$10.4 million over the "capped" budget amount of $895 million. This represents a $9 million
reduction in the system's 96-97 current spending base. The $9 million is the merger systems share of
the Cambridge Bank decision. This leaves a "cap gap" (the difference between the capped amount
and the funding formula amount) of $72 million in the merged system and does not address any costs
associated with merging the schools.

**University of Minnesota**
$60.8 million over the "capped" budget amount of $908 million. Of this, $54.8 million is one-time
funding for the U of M's strategic investment pool, to ease the University's down-sizing associated with
this budget. This leaves $7 million in recurring funding, which represents a $9 million reduction in the
U of M's 96-97 current spending base. Again, the $9 million is the University's share of the Cambridge
Bank decision. This leaves a "cap gap" of $8 million at the U of M.

In total the Governor's budget leaves a $91 million "cap gap" in higher education between recommended
funding levels and funding formula levels.

There are several cases where increases the Governor is recommending are earmarked. $500,000 in each
system is for innovation in teacher (K-12) training. $1 million at the U of M is for wheat scab research.

The Governor is recommending that the research specials (e.g. agricultural research stations, NRRI, county
extension) be folded into the U of M's operations & maintenance budget to provide them with greater
flexibility in restructuring.

**Implications of the Governor's budget recommendations**
The Governor's budget leaves the higher education systems seriously underfunded as a whole,
compared with formula requirements, with different impacts in each system.

While the University does much better in total funding level, they do receive a base reduction as they
implement the U-2000 restructuring plan. The Governor has stated that he supports the University's
plan which upgrades the quality of the institution by eliminating some functions, providing salary
enhancements so that the University can remain competitive with national peer institutions, improves
the student population, and improves outcomes such as graduation rates. However, the base
reduction, coupled with the one-time nature of most of the money the Governor is recommending,
will mean that the University will have to totally restructure it's approach to the U-2000 plan. As an
example, it will be very difficult to maintain faculty salaries with one-time money. In effect, the one-
time money will be used to ease the downsizing of the University, including letting employees go,
taking in less students, and causing significant hikes in tuition (likely to be in the range of 8% annually).
The merger system has the greatest problems under this budget. Not only does the Governor recommend $72 million less than the funding formula would dictate, but he also ignores roughly $42 million in costs of merger. This will cause problems in the next biennium as the system struggles to simultaneously raise tuition by a very significant amount, lay off large numbers of employees, and eliminate programs and/or campuses. The exact mix of these cuts, or how large they will be can not be accurately forecast yet due to the great uncertainty the merger causes, particularly in the area of collectively bargained salaries.

---

**Health and Human Services Finance Division**

**Department of Human Services (DHS)**

The Governor recommends $4,996,947,000 in General Fund direct appropriations for FY96-97. In FY96, the Local Government Trust Fund appropriation (Community Social Services Act Block Grant) is $50,499,000. With the elimination of the Local Government Trust Fund in FY97, this same amount in FY97 is appropriated directly to DHS from the General Fund. The increase in General Fund dollars over the previous biennium is $690,000,000. The General Fund direct appropriation includes $4,082,000 for entitlement cash grants and services, of which, 81% is for health care entitlements. The net costs of non-health care entitlements (including the elimination of the Work Readiness Grants) have not increased in comparison to the previous biennium.

**Financial and Management Administration**

$51,334,000 is the recommended direct appropriation for this Administration

An $8,919,000 increase in direct appropriations includes $2,681,000 to implement the Statewide Systems Project and integrate it into Central Office and the Regional Treatment Centers.

The Old Age, Survivors, and Disability Health Insurance Project will result in a projected savings of $8,750,000 for the biennium by enrolling current recipients of Supplemental Security Income, Minnesota Supplemental Aid, and Medical Assistance in the federal Retirement, Survivors, and Disability Income program. The cash grants to families will offset the state costs in Medical Assistance and Group Residential Housing.

The Governor recommends $496,000 in grants for the biennium and full reimbursement for the costs of entitled cash grants and public services to the Red Lake Reservation.

**Life Self Sufficiency Skills**

$191,838,000 is the recommended General Fund direct appropriation for this administration. In FY96, $50,499,000 is appropriated for the Community Social Services Block Grant from the Local Government Trust Fund.

The programs are part of social services administration with a direct appropriation of $191,838,000 for the biennium.
Major initiatives include $6,174,000 to implement a new allocation structure for the Home and Community Based Waiver program.

A ($890,000) reduction in Chemical Dependency Treatment Services for Tier II clients who are persons not eligible for MA and whose income does not exceed 60% of the State Medium Income.

A $19,455,000 increase is needed to fully fund the forecasted costs of the Consolidated Chemical Dependency Treatment Fund.

$2,161,000 is appropriated for Developmental Disabilities pilot projects shifting purchasing for services to the local communities and consolidating regulations.

**Children's Program**

$43,008,000 is the recommended direct appropriation for this administration. This program includes the Family and Children's Services Division, the Children's Trust Fund, and the Social Services Information System (SSIS). The biennial direct appropriation is $167,483,000.

$3,407,000 increase is appropriated to design and develop the SSIS, for implementation in FY98.

$7,500,000 is appropriated to expand the Family Service Collaboratives.

$5,266,000 additional to expand the Adoption Assistance program supporting adoptions of special needs children.

$600,000 increase in funding for Crisis Nurseries replacing the loss of a federal grant.

($716,000) savings due to the elimination and streamlining administration in children's grants.

$2,550,000 to expand program serving homeless youth with a special focus on minor parents.

$1,126,000 increase in child care service development grants, $200,000 for migrant child care, and $700,000 for child care resource & referral programs.

In FY97, the Children's Trust Fund, Migrant Child Care, Family Services Collaboratives, Child Care Resource & referral services and Child Care Service Development Grants are recommended for transfer to the Department of Children and Educational Services (DCES).

**Economic Self Sufficiency**

The administration is recommended to receive a total of $652,283,000 in direct appropriations for the biennium.

The Governor's Welfare Reform Initiative appropriates $27,800,000 to expand the Minnesota Family Investment Plan, the Success Through Reaching Individual Development and Employment program, new Work First Pilots, additional federal waivers of AFDC requirements that are disincentives to work, and Child Support Enforcement changes, including expansion of the Parent's Fair Share program. The initiative is essentially cost neutral due to elimination of Work Readiness cash grants.
$1,394,000 in savings in the accounts for General Assistance and General Assistance Medical Care by transferring persons to Aid to Families with Dependent Children and Medical Assistance who are relatives living with a dependent child thereby gaining federal reimbursement. The federal reimbursement will cover approximately 54% of the costs of the cash grants and health care services.

$1,000,000 increase supporting the costs of printing the Certification Manual and client forms.

$2,271,000 increase to implement new collection and recoveries for public assistance cash grants and the food stamp program.

($1,876,000) savings due to an accelerated buy-out of the county share of Work Readiness and STRIDE.

$21,000,000 increase for the Child Care Fund of which $18,800,000 is for child care subsidies to working poor families pursuing employment and/or education. In FY97 the Child Care Fund will transfer to the new DCES.

$550,000 increase to Child Support Enforcement to develop an income share model child support guidelines.

$381,000 increase to publish the names of Child Support Obligors.

$13,207,000 increase to fund forecasted costs of Aid to Families with Dependent Children.

$7,487,000 increase to fund forecasted costs of General Assistance.

$1,127,000 increase to fund forecasted costs of Work Readiness.

$3,974,000 increase to fund forecasted costs of Minnesota Supplemental Assistance.

$278,000 to fund the forecasted costs of Minnesota Family Investment Plan case management.

($2,813,000) decrease to the forecasted costs of Minnesota Family Investment Plan grants.

$8,607,000 increase to fund forecasted costs of Aid to Families with Dependent Children Child Care Subsidies.

Health Care Programs
$3,544,654,000 is the total recommended direct appropriation for the Health Care Programs.

$9,617,000 net decrease in the base through an investment of $7,197 in the Alternative Grant program yielding ($16,098,000) in savings to the MA - Long Term Care Facilities costs.

$26,334,000 increase is to fund the forecasted costs of Group Residential Housing (GRH).

($1,312,000) in savings extends the insurance benefits for persons with HIV from 18 to 24 or 29 months. depending their insurance coverage.
($19,210,000) in General Fund savings in MA and GAMC due to payments to pharmacies at the "best price" accepted from other 3rd party payors.

$49,530,000 buys back the 1993 Session peer grouping authorized savings of 10% in the MA account and 15% in the GAMC account substituting a modified grouping reduction of 1.9% under MA and 3.3% under GAMC allowing for health care inflation of 4.3% in FY96 and 4.5% in FY97.

($2,646,000) in savings eliminates the authority to implement targeted rate setting system for Day Training and Habilitation services.

$54,748,000 increase provides inflation adjustments to nursing facilities and reduces payment rates to non-economical nursing facilities.

$5,781,000 increase allows inflation payment rates for all facilities.

($1,954,000) is saved related to seeking a federal waiver to change the level of care criteria for admission to a nursing facility and boarding care homes.

($3,754,000) savings is achieved with a change in the reimbursement rates for personal care services by adjusted home care rates relative to nursing facility direct care hours.

$315,402,000 increase covers the forecasted costs of MA Long Term Care waivers, home care, managed care, and fee-for-services.

$31,402,000 increase in the forecasted cost of GAMC.

Community Mental Health and State Operated Services
$37,902,000 is the total recommended direct appropriation for this program.

$3,800,000 increase to expand children’s community-based mental health system.

$7,100,000 increase to develop a metropolitan community-based services for severe emotionally disturbed adolescents.

$2,650,000 increase to expand regional adult mental health services.

$2,584,000 funds will be transfer from the MA account to the state mental health grants to ensure appropriated payments to alternative providers to the Moose Lake Regional Treatment Center.

$1,353,000 increase to implement the negotiated closure of the Faribault Regional Center.

($54,966,000) savings as a result of downsizing the Developmental Disability services in the Regional Treatment Centers.

$3,738,000 increase to annualize the costs of new State Operated Community Services for persons with mental illness.
Implications of the Governor's proposed budget:
The elimination of the Work Readiness cash grants may place a significant demand on shelters, food
shelves, emergency medical care, particularly in urban areas.

The Health Care budget, with substantial savings in the Health Care Access Fund related to increases
in federal reimbursement is based on the assumed approval of a federal waiver of MA regulations.
Given the changes in Washington, it may be premature to recommend such a budget before approval
is granted from the federal Health Care Financing Administration.

The grant programs transferred to the new Department of Children and Education Services may
perpetuate fragmentation in employment and training programs for families. The transfers involve
only the child care subsidy programs supporting education and employment from one of two agencies.
Some families receive subsidies from both state agencies, and this fragmentation will continue in the
new Department. The transfer also separates the child care subsidies from the families' case
management services and other employment and education services remaining in DHS.

Department of Health
The Department will receive $76,444,000 in direct appropriation from the General Fund and $31,891,000
from the State Government Special Revenue.

$590,000 increase for reengineering the Vital Records System.

$600,000 increase to establish a women's health center.

The Dental Health, Home Visiting, and School Health programs are transferred to the new DCES.

Veterans Homes
$37,423,000 is the total recommended direct appropriations for the Veterans Homes.

$2,656,000 is appropriated to reopen domiciliary beds at Hastings to the licensed level of 200 beds.

$858,000 increase to phase-up the skilled nursing home at Luverne.

Minnesota State Council on Disability
$1,156,000 is the total recommended appropriated in direct General Funds.

Ombudsman Office for Mental Health and Mental Retardation
$2,229,000 is the total recommended appropriated in direct General Funds

An additional $450,000 increase is recommended to maintain current staff level and establish two
regional offices.

Ombudsperson Office for Families
$270,000 is the total recommended appropriated in direct General Funds.

The Governor intends to remove the Council on Disability and the two Ombudsman Offices from state
agency status to relieve and streamline budgetary requirements.
MinnesotaCare Finance Division

The MinnesotaCare Finance Division will be responsible in the 1995 Legislative session for appropriating funds from and deciding on sources of revenue for the Health Care Access Fund. This function is complicated this session by a waiver of federal Medical Assistance (MA) regulations, called the "1115 waiver," which would, among other things, capture federal participation of 54 percent for those current MinnesotaCare enrollees who meet new requirements under the waiver for eligibility for MA. The Governor's budget assumes that the waiver will be accepted. However, written acceptance from the federal Health Care Financing Administration (HCFA) has not yet been received. Further, the Department of Human Services is still in the midst of responding to federal questions about the waiver application.

The MinnesotaCare Finance Division crosses other Finance Division boundaries, as Health Care Access Funds are allocated in several divisions, including the Health and Human Services Finance Division, the Higher Education Finance Division, the University of Minnesota Finance Division, and the State Government Finance Division.

Department of Human Services

For the Health Care Access Fund, the Governor's FY96-97 recommendation of $276,158,000 in total expenditures is $91,734,000 higher than current spending of $184,424,000.

The Agency plan, with which the Governor concurred, includes:

$133,809,000 to cover forecast increases between the end-of-session 1994 and November 1994 forecasts. Most of the forecasted increase is for adults up to 125% of the federal poverty level, with the balance going toward increasing enrollment and increasing cost per person for families with children.

$21,449,000 additional MinnesotaCare funding to pay for additional costs to the MA program generated by the implementation of the 1115 waiver. This amount represents the state share of the total costs, which are funded with approximately 54 percent federal match.

$23,064,000 to administer the MinnesotaCare program after acceptance of the 1115 waiver, including implementing the waiver, integrating MA, MinnesotaCare, and General Assistance Medical Care, administering enrollment, simplifying eligibility, expanding the managed care service delivery system, developing pilot programs, and developing phase II of the waiver. This amount represents the state share of the total costs, which are funded with approximately 50 percent federal match.

$2,642,000 to pay for inpatient hospital peer grouping and inflation administration.

$84,402,000 in savings to the fund due to federal participation in 54 percent of eligible MinnesotaCare-MA costs with the acceptance of the 1115 waiver.
$4,511,000 in savings to the MinnesotaCare program due to a reduction in payments to pharmacies to the "best price" that is accepted from any other third-party payor.

$317,000 in savings to the fund from a new federal program which allows the state to capture federal funds for vaccinations for all MA eligible children, children who are not insured (including those on GAMC and MinnesotaCare) or who are underinsured; children who receive services from federally qualified health centers and rural health clinics, and; native American children as defined in the Indian Health Improvement Act.

Implications:
The inclusion of the waiver brings the Health Care Access Fund into balance, as required by statute. In fact, with the waiver included, there would be an $84,657,000 surplus in the fund in 1999. As a result, the Legislature could consider expansion of eligibility for single adults beyond the current 125% limitation.

Conversely, if the waiver is not approved, the Health Care Access Fund will not be in balance, and steps would have to be taken to bring it into balance, as required by statute.

There may be implications for the 2% provider tax with the inclusion of MA clients in the Health Care Access Fund. HCFA, during the initial authorization of MinnesotaCare, raised questions regarding the legality of the prior tax. The argument has been made that because MinnesotaCare is a state program, HCFA’s assessment of the legality of the tax has no impact on whether it should be used. Prior to applying for the 1115 waiver, DHS had applied for a waiver relating to the provider tax, and is still waiting for approval of that waiver. Without the waiver, and with MA clients effectively in the Health Care Access Fund, there may be concern about the continued use of the provider tax.

Pharmacies have asserted that the higher payment rate is necessary to offset high write-offs due to unstable claims processing and spenddown problems. The new MMIS Point-of-Sale has eliminated these payment problems, and provided state-of-the-art claims processing for pharmacy providers.

**Department of Health**
The Governor's recommendation for the Health Care Access Fund for FY96-97 is $13,574,000, a $704,000 reduction from current spending.

The Governor proposes $704,000 in savings from suspension of the Department's Regulated All-Payer Option (RAPO) enforcement Activities.

Implications:
At this time, it is expected that RAPO will exist to manage costs in the fee-for-service health care area, for those people who do not wish to enroll in a managed care health insurance program. Suspension of RAPO will require that market forces provide the cost containment functions RAPO would have otherwise provide.

**Higher Education Coordinating Board**
The Governor's recommendation for the Health Care Access Fund for FY96-97 maintains current spending of $1,724,000. These funds are used for a variety of student loan repayment programs for physicians, nurses and
midlevel practitioners who choose to practice in rural Minnesota, underserved urban areas, and designated Health Professions Shortage areas.

**University of Minnesota**
The Governor’s recommendation for the Health Care Access Fund for FY96-97 maintains current spending of $4,714,000. These funds are directed toward increasing the number of primary care physicians serving in Greater Minnesota.

**Legislature**
The Governor’s recommendation for the Health Care Access Fund for FY96-97 maintains current spending of $350,000.

**Department of Revenue**
The Governor’s recommendation for the Health Care Access Fund for FY96-97 maintains current spending of $2,756,000.

---

**Judiciary Finance Division**
The overall recommendation for the criminal justice area is a 25 percent funding increase over the last biennium, the largest percent increase in the budget. The increase is due to decisions made in crime bills of the prior sessions, including more law enforcement and tougher sentences. According to a Minnesota Planning report, the increase in criminal justice spending will continue, and may even accelerate in coming years, because of recent policy changes. The report goes on to state that the full impact of the 1989 crime bill have yet to be felt. There will also be additional pressure from the two crime bills that were passed in 1994, resulting in increases in courts, public defenders, prosecutors, and probation officers.

(Nota: The budget figures cited are all from direct General Fund appropriations unless otherwise noted.)

**Board of Judicial Standards**
The Governor is recommending a biennial appropriation of $422,000, an increase of $64,000 over the current spending level.

**Corrections**
The Governor is recommending a biennial appropriation of $571,897,000, an increase of $122,290,000 over the current spending level. He is also recommending an increase of positions.

The budget increases are mainly due to the increase in the adult male inmate population. The populations in the state prisons are exceeding their capacity. There has been an increase in the juvenile populations (this increase is expected to continue through the year 2000). Community corrections is also experiencing large increases. The two crime bills that passed in 1994 had tails for the Department of Corrections over the next biennium of close to $93 million.

Agency initiatives include the following:
$1,324,000 for the Red Wing facility. This provides staffing and pays other costs associated with adding 26 additional beds for juveniles as space is vacated by moving the secure detention program to newly built space.

$1,202,000 for the Sauk Centre facility. This provides staffing and other costs associated with adding 15 additional beds for juveniles in an existing cottage to relieve current overcrowding.

$750,000 for sex offender and chemical dependency programs. This will expand the current level of sex offender and chemical dependency programming at St. Cloud for offenders leaving prison.

$4,000,000 for the Community Corrections Act. This is to increase the state's financial commitment to the Community Corrections Act, and maintain the current cost sharing relationship.

$1,288,000 for county probation reimbursement. This is to maintain a 50 percent state participation in county probation costs.

$2,114,000 for sentence to service. This will replace withdrawn federal funds and expand this program.

$1,888,000 for intensive supervised release. This will replace withdrawn federal funds and expand the intensive community supervision of selected offenders.

$3,000,000 for community sex offender and chemical dependency treatment. This is to increase the level of sex offender and chemical dependency treatment provided to offenders while they serve community based sentences and to undertake a rigorous research and evaluation effort to determine what forms of treatment are effective.

$3,000,000 for probation and supervised release. This is to increase offender accountability by reducing probation officer caseloads and thereby increasing the ability of level of supervision any one offender receives.

$15,000,000 for caseload reduction for probation officers. This will provide a increase in the number of probation officers statewide which will help to bring down caseload levels.

$13,500,000 for Extended Jurisdiction Juveniles partnership program. The dollars will be used to underwrite the costs of correctional services to the new class of young, serious offenders known as extended jurisdiction juveniles.

$2,000,000 for additional funding to expand victim services throughout the state.

$200,000 to support a collaborative planning effort to develop gender specific correctional services and alternatives for adolescent females.

$9,000,000 is to preserve current level of correctional services provided to the department.

$750,000 is to pay for new rental space.
Implications:
The increases in the budget are mainly the result of the increase in inmate population (which are a result of the increase in crime legislation that has passed). This population is expected to increase to more than 5,500 by the end of 1997. It also attempts to control the growth in community corrections. Instead of going to prison most offenders are sentenced to alternative forms of public sanctions at the local level. This has also been a high growth area and the budget includes additional dollars to try to reduce the case load for probation officers. The Governor vetoed the $1 million dollar appropriation in last years Juvenile Justice Bill.

Courts
The Court of Appeals, the District Courts, and the Supreme Court present their budgetary needs directly to the Legislature for consideration. The Governor is recommending a biennial appropriation of $180,000,000. This is an increase of $3,028,000 over current spending.

The new initiatives for the courts include the following:

Court of Appeals
$170,000 for technology enhancements and maintenance. This will be used to maintain the equipment and software necessary for the timely operation of the Court.

District Courts
$1,350,000 for information access and computer support. This will fund 10 computer support positions.

$3,724,000 for new judgeship units. This will fund 8 additional judges.

$286,000 for family court pilot project. The pilot programs will resolve disputes earlier and more satisfactorily, and they will devote appropriate judicial and system resources to the individualized needs of the case.

$48,000 for administrative support. This is for one secretarial position in the sixth district.

$1,280,000 for law clerks for judges with shared clerk support.

$1,040,000 for a jury volume increase and for address updates from the Department of Public Safety to increase the accuracy of its jury summons.

$150,000 for operational overhead increases.

$320,000 for guardian ad litem support.

$310,000 for program review and operations evaluation.

Supreme Court
$40,000 for a law clerk for the chief justice.

$2,000,000 for civil legal services for the poor.
$44,000 for education support services for alternative dispute resolution.

$72,000 for TCIS costs for Hennepin Juvenile Court.

$210,000 for an increase in the number of community dispute resolution programs.

$70,000 for a law library resource supplement.

Implications:
Even though the Governor's budget reserves $2,609,000 to meet the increased needs of the courts, the courts have several agency request items that are over the Governor's recommendations by $8,495,000. The Governor vetoed the appropriation of $372,000 for four judges in last year's Juvenile Justice Bill.

Ombudsman for Corrections
The Governor is recommending an appropriation level of $1,195,000, which is $135,000 over current spending. This increase is due to the concerns raised by the agency about the increase in the number of inmates.

Peace Officers Standards and Training Board (POST)
The Governor is recommending an appropriation level of $8,302,000, which is $18,000 over current spending (the sources of financing come from a special revenue fund).

Private Detectives Board
The Governor is recommending an appropriation level of $217,000, which is $82,000 over current spending.

Public Defense
The Governor is recommending an appropriation level of $74,402,000, which is $13,336,000 over current spending. This agency presents its budgetary needs directly to the legislature for consideration. In addition, the Governor's budget includes $1,500,000 in a deficiency bill for FY95 for costs of transcripts and the provisions of the 1994 Juvenile Justice Bill.

Budget initiatives include the following:

$200,000 is requested for a management information system analyst, and a receptionist.

$17,064,000 for additional public defenders for juvenile services, it would provide funding to meet the caseload standards in felony cases and CHIPS cases, and it would target some of the money to the growth in misdemeanor cases in urban and suburban areas.

$164,000 would increase funding for the legal defense corporations.

$6,260,000 for statewide pay equity and a payment for overhead for public defenders.

Implications:
The Governor's budget reserves $4.6 million to meet the increased needs for public defense for the biennium. Public Defense has several agency request items that along with current spending total
$95,166,000. This is a difference of $20,764,000 from the Governor's recommendation. The Governor's recommended increase is to provide funds for juvenile defense, caseload relief, various mandates relating to the 1994 juvenile justice bill, and supplemental funding for the assumption of county defense services. The Governor believes that since these are new programs, the amount required for these services cannot accurately be determined. As the process evolves over the next two years the funding required to equalize disparities across district lines can be more readily determined. The Governor vetoed the appropriations for Public Defense in last year's Juvenile Justice Bill.

Public Safety Department
In the 9 programs which the Division will appropriate funds for, the Governor is recommending an appropriation level of $57,403,000 which is an increase of $4,340,000 over current spending.

Agency initiatives include:
$719,000 for hazard mitigation projects and estimated relief payments. These are state match monies for hazard mitigation projects for be carried-out through the Federal Emergency Management Agency's (FEMA's) Hazard Mitigation Grant Program.

$1,761,000 for DNA laboratory improvements and five forensic scientists

Sentencing Guidelines Commission
The Governor is recommending an appropriation level of $734,000 which is the same as current spending.

Tax Court
The Governor is recommending an appropriation level of $1,184,000, $10,000 over current spending.

Environment and Natural Resources Finance Division

Pollution Control Agency
For FY96-97 the Governor recommends a total Pollution Control Agency Budget of $198,109,000. $20,723,000 of that is General Fund dollars. This is a General fund reduction of $1,452,000 from the current biennium. Changes to the agency base budget include the following:

$348,000 increase in appropriations from nondedicated fee account to cover the anticipated 3% inflation in non salary expense items.

$275,000 General Fund increase for a new Integrated Water Monitoring project.

$240,000 Environmental Fund dollars for the Individual Septic System Certification Program.

$2,110,000 Environmental Fund dollars for increase in the air emissions fee revenue and expenditures.

$4,194,000 reduction in expenditures from the Environmental Fund for the Waste tire Program.
$1,330,000 reduction in the appropriation from the Metropolitan Landfill Contingency Fund in order to match the declining revenues in the fund.

$100,000 for a used oil filter collection program from the Motor Vehicle Transfer Account.

$2,556,000 increase from the Environmental fund for phase 2 of the computer upgrade program.

$1,789,000 from the Petro fund for a Petro Tank Leak Protection Program.

$867,000 from the Landfill Cleanup Fund for Ground Water Monitoring activity.

$156,000 from the Landfill Cleanup Fund for Toxics in Products and Packaging project.

$100,000 from the Landfill Cleanup fund for providing the Department of Revenue with additional resources in the collection of the waste generator assessment.

$318,000 from the Landfill Cleanup fund for landfill construction and maintenance oversight.

Office of Environmental Assistance
For the FY96-97 budget the Governor recommends a total agency budget of $44,965,000. Of the total $38,292,000 is General fund money a reduction of $73,000 from the FY94-95 Biennium. The Governor's recommends no significant change from the FY94-95 Biennium for agency operations.

Harmful Substance Compensation Board
For the FY96-97 biennium the Governor recommends $436,000 of funding from the Environmental Fund, an increase of $117,000 from FY94-95 spending. These are dedicated funds.

Minnesota Zoological Garden
For the FY96-97 biennium the Governor recommends $33,621 of total funding. $10,348,000 of the funding is from the General Fund, a reduction of $35,000 from the General Fund expenditures of the FY94-95 Biennium. Included in this amount is the following new item:

$200,000 to upgrade the technology capabilities of the Zoological Garden.

Department of Natural Resources
For the FY96-97 biennium the Governor recommends total funding of $393,172,000, including $198,116,000 from the General Fund. The following are changes to the agency base requested by the Governor:

$1,000,000 increase in General Fund open appropriations for emergency fire suppression activities.

$145,000 reduction in the open appropriation of Treaty payments.

$248,000 increased appropriation from the Off Road Vehicle Account and $50,000 from the Off Highway Motorcycle Account to establish operational programs.
$50,000 increase in the open appropriation from the Water Recreation Account and $215,000 increase in the open appropriation from the Game and Fish Fund for increases in the statewide indirect charges.

$200,000 increase from the ATV account for trail maintenance and grant in aid for this activity.

$156,000 reduction in the Game and Fish Fund for the Trout and Salmon Program to align the budget with estimated resources.

$304,000 for the biennium for technology upgrades in the licensing center.

$63,000 in FY96 for the design phase of a revenue accounting system.

$439,000 in FY97 for the continuation of the exotic species prevention and control efforts. This is contingent on removing the sunset on the watercraft surcharge.

$2,064,000 increased funding for the biennium for Enforcement Operations, $1,456,000 from the Game and Fish Fund, the remainder from the Natural Resources Fund.

$2,166,000 for a sustainable Ecosystem initiative, $136,000 from the Game and Fish fund, and the remainder form the Environmental Trust Fund.

$1,100,000 for the Fish and Wildlife programs.

$4,248,000 for implementation of the Generic Environmental Impact Statement recommendations on forestry, $2,373,000 from the General fund and the remaining amount from the Environmental Trust Fund.

$1,200,000 from the Environmental Trust Fund for a initiative for Geographic Information Systems for Ecosystems based Management.

$1,000,000 for treaty litigation expenses.

$1,620,000 for increases in State Parks operations.

$304,000 for technology upgrades in the licensing center from the Game and Fish, and Natural Resources Funds.

$105,000 increase from the Game and Fish Fund for an administrative rules coordinator.

Legislative Commission on Minnesota Resources
For the FY96-97 biennium the Governor has submitted alternative recommendations for LCMR projects. The Governor also has proposed to abolish the Commission and integrate the expenditures into the executive branch budget system.

Minnesota-Wisconsin Boundary Area Commission
The Governor recommends a total FY96-97 budget of $272,000, an increase of $12,000 over current spending.

Citizens' Council on Voyageurs National Park
The Governor recommends a total FY96-97 budget of $122,000, an increase of $6,000 from current spending.

Science Museum of Minnesota
The FY96-97 Governor's budget recommendations are for a total budget of $3,065,000, an increase of $99,000 in General fund dollars from current spending levels.

Minnesota Academy of Science
The FY96-97 Governor's budget recommendations are for a total budget of $72,000. This is the same as current spending levels.

Department of Agriculture
The FY96-97 Governor's budget recommendations are for a total agency budget of $129,063,000. General Fund money is recommended at a total of $29,732,000 for the biennium. The following items are recommendations in the budget:

- $507,000 increase in each year in revenue and expenditures from an increase in the food handlers license.
- $8,000,000 of increased funding for the ethanol producers subsidy.
- $250,000 increase for the ethanol production facilities loan program.
- $200,000 increase for the biennium to conduct dairy policy studies and support legal challenges to the federal milk marketing order.
- $250,000 to assist farmers purchase stock in cooperatives engaged in value-added processing.
- $192,000 for the Agriculture Improvement Loan Program.
- $932,000 appropriation increase from dedicated fee account.

Minnesota Board of Water and Soil Resources
The Governor's recommended FY96-97 budget for the agency is a total of $32,638,000. The General fund recommendation of $26,734,000 is at a level equal to current spending, with an addition for annualization of the 1995 appropriation for State Revolving Fund program implementation.

Animal Health Board
The Governor's recommended FY96-97 budget for the agency is a total of $5,382,000. The following new initiative is included in that total:

- $236,000 for additional poultry salmonella testing.

Minnesota State Horticulture Society
The Governor's recommended FY96-97 budget total is $144,000, a level equal to current spending.

Agriculture Utilization Research Institute
The Governor's recommended FY96-97 budget total is $8,260,000, $7,860,000 from the General Fund. This is at the same level as the base.

Implications of the Governor's proposed budget.
The Governor's proposed budget for the Environment and Natural Resources section does not recommend funding at a level sufficient to cover the unavoidable increased costs of inflation. This results in a loss of purchasing power for the agencies. This results in a budget that plans for a reduction in the level of environmental protection and natural resources utilization in the state.

The Governor has submitted alternative funding proposals to the Legislative Commission on Minnesota Resources Commission recommendations for expenditure of the Trust Fund and Minnesota Resources fund dollars that are appropriated for environmental and natural resources projects. The Governor's proposal to eliminate the LCMR will alter the legislative process currently used to allocate these funds.

Economic Development, Infrastructure and Regulation Finance Division

Ethical Practices Board
The Governor recommends a FY96-97 all funds budget of $5,530,000, an increase of $11,000 from current spending.

Secretary of State
The Governor recommends a total FY96-97 budget of $14,265,000 which is equivalent to current spending.

The Governor did not fund $3,302,000 in agency requests, stating that the Secretary of State, as a constitutional Office, has the right to make direct requests to the Legislature to fund agency initiatives. General Fund agency requests included:

- $18,000 for election judge training.
- $94,000 for the presidential primary.
- $1,349,000 for optical imaging equipment.
- $1,506,000 to equip for an 87 county computer network.

Department of Trade and Economic Development
The Governor recommends a total FY96-97 General Fund budget of $63,487,000, an increase of $15,885,000 from current spending.

General Fund initiatives include:
- $1,720,000 and 5 FTE positions for one-stop permitting.
$600,000 for the Jobs Skills Partnership Program.
$6,000,000 for Economic Recovery Grants.
$1,000,000 for Small Business Development Centers matching funds.
$600,000 for a matching grant to Advantage Minnesota.
$965,000 in fees transferred to the General Fund.
$300,000 and 1 FTE for city-state leverage financing.
$60,000 for international trade missions.
$2,000,000 for increased tourism marketing.
$275,000 to host the 1996 National Tour Association Convention.
$450,000 to expand travel information services.
$455,000 for the Pathfinder interactive information system.
$1,000,000 for network administration costs.

**Minnesota Technologies, Inc.**
The Governor recommends a total General Fund FY96-97 budget of $26,362,000, a decrease of $80,000 from current spending.

Governor's initiatives include:

- $8,000 increase in the Inventor's Congress Grant, offset by an $8,000 decrease in administrative costs.
- $80,000 savings through a transfer of the Youth Apprenticeship Program to the Department of Education.

**World Trade Center**
The Governor recommends a total FY96-97 budget of $1,105,000 from the Special Revenue Fund, equivalent to current spending.

Implications:
The FY96-97 budget is from projected earnings, and is insufficient to make debt service payments.

**Department of Economic Security**
The Governor recommends a total FY96-97 budget from all funds of $592,917,000, a decrease of $31,474,000 from current spending.

The Governor recommends transferring the Head Start, Youth Violence Prevention and Youth Employment and Training budget activities to the Department of Children and Education Services in FY97. The proposed 1997 budget for these programs is $32,974,000, of which $15,187,000 is General Fund, and $17,787 is federal funds.

The Governor also recommends an increased expenditure of $1,500,000 through a transfer of dislocated worker funds from the Special Revenue fund to the General Fund.

**Minnesota Housing Finance Agency**
The Governor recommends a FY96-97 General Fund budget, in the agency's appropriated programs, of $62,922,000, as compared with current spending of $48,572,000.
The Governor is recommending $15,000,000 for an economic vitality and housing initiative, including $4,000,000 for the Homeownership Assistance Fund, $3,000,000 for the Community Rehabilitation fund, $7,800,000 for the Affordable Rental Investment Fund, and $200,000 for the Capacity Building Grants Program.

The agency FY96-97 budget is reduced by $650,000 through the transfer of the Elderly Homesharing Program and the Mental Illness Housing Crisis Account to the Department of Human Services.

**Department of Commerce**

The Governor recommends a total FY96-97 General Fund budget of $28,192,000, a decrease of $122,000 from current spending.

Governor's initiatives include:

$224,000 decrease to eliminate 3 bank examiner positions.

$54,000 decrease to eliminate 1 licensing position, changing licensing from annual to biennial.

**Department of Labor and Industry**

The Governor recommends a General Fund FY96-97 budget of $7,773,000, an increase of $24,000 from current spending.

Governor's initiatives in the Workers Compensation Special Fund include:

Savings of $370,000 by eliminating assigned risk funds not used for grants.

$5,000,000 for the DAEDALUS program, which will implement use of electronic data interchange for submitting workers compensation claims information from insurers and employers, and will develop and implement the use of optical character recognition to extract data from claim forms.

$280,000 for the Labor-Management program.

$90,000 for grants to reduce violence in the workplace.

$235,000 for Minnesota OSHA to match federal funds.

$1,201,000 for MN OSHA for expanded outreach and education programs, and consultation with the public.

$110,000 for a training officer in conjunction with the DAEDALUS project.

$130,000 for an additional investigative services position, for the biennium only.

**Bureau of Mediation Services**

The Governor recommends a FY96-97 all funds budget of $4,097,000 an increase of $20,000 from current spending.
Worker's Compensation Court of Appeals
The Governor recommends a FY96-97 budget of $2,753,000 from the Worker's Compensation Special Fund, an increase of $22,000 from current spending.

Labor Interpretive Center
The Governor recommends a total FY96-97 budget of $389,000 from the General Fund, an increase of $109,000 from current spending.

Bond funds to complete the design of the Labor Interpretive Center have been appropriated. An additional $100,000 is appropriated for new program costs.

Public Utilities Commission
The Governor recommends a total FY96-97 budget from all funds of $12,119,000, an increase of $432,000 from current spending.

The governor recommended an additional $432,000 for the biennium, along with 4 positions, to provide additional monitoring and regulation activities, and to ensure that the commission's efforts in these areas will not decrease the commission's service to the public. All costs are recoverable from assessments to regulated utilities.

Department of Public Service
The Governor recommends a FY96-97 General Fund from all funds of $17,760,000, increased from current spending of $16,293,000. Most of this agency's costs are recovered through fees and assessments.

The recommended budget includes the following governor's initiatives:

A 100 percent fee-recoverable expenditure of $110,000 for Weights and Measures field investigators.

$80,000 to fund the requirement that the Department respond to school district requests to evaluate whether energy conservation contract proposals from private vendors will produce the energy savings and corresponding economic saving projected by the vendor. The Department will propose a fee to recover these costs.

$560,000 and 5 positions to cover the increasing work load and complexity of rate case reviews, conservation improvement plan filings, certificate of need requests, resolution of service area issues, PUC-ordered investigations, integrated resource plans, and response to nuclear waste storage issues.

Minnesota Historical Society
The Governor recommends a FY96-97 budget from all funds of $47,826,000, an increase of $492,000 from current spending.

Governor's initiatives include:

$704,000 in savings from closure of the James J. Hill House, the NW Company Fur Post and the Meighan Store. The closure of the Hill House will incur an annual loss of $50,000 in admission income.
$75,000 in salary savings.

$200,000 in funds to identify and preserve electronic records in state and local agencies for which the state archives is responsible.

$104,000 to develop and implement an information management system for external electronic access for the public and internal management information systems needs.

$140,000 to implement a formal affirmative action plan to qualify for continued federal support.

$410,000 for compensation of Historical Society employees.

$192,000 in additional operating costs due to approval of two capital projects by the 1994 Legislature, including the Jeffers Petroglyphs and the Lower Sioux Agency.

**Minnesota Humanities Commission**
The Governor recommends a FY96-97 General Fund budget of $1,082,000, unchanged from current spending.

**Arts Board**
The Governor recommends a FY96-97 budget from all funds of $13,947,000, an increase of $21,000 from current spending.

**Minnesota Municipal Board**
The Governor recommends a FY96-97 General Fund budget of $587,000, an increase of $20,000 from current spending.

The Governor recommends $15,000 in FY96 for part-time clerical support.

**Uniform Laws Commission**
The Governor recommends a FY96-97 General Fund budget of $58,000, an increase of $8,000 from current spending.

The Governor recommends $4,000 to fully fund membership dues and travel.

**Council on Black Minnesotans**
The Governor recommends a FY96-97 all funds budget of $461,000, an increase of $21,000 from current spending.

The Governor recommends $15,000 for costs related to the Martin Luther King, Jr. holiday.

**Spanish Speaking Affairs Council**
The Governor recommends a FY96-97 General Fund budget of $494,000, an increase of $6,000 from current spending.

**Council on Asian-Pacific Minnesotans**
The Governor recommends a FY96-97 budget from all funds of $520,000, an increase of $6,000 from current spending.

The Governor intends to submit legislation removing this Council from state agency status. State financial support will continue at the level of the agency plan for FY96 and FY97, but will come in the form of a grant, free from the administrative controls imposed on state agencies.

**Indian Affairs Council**
The Governor recommends a FY96-97 all funds budget of $1,505,000, an increase of $15,000 from current spending.

**Iron Range Resources and Rehabilitation Board**
The Governor recommends a total FY96-97 budget of $50,429, which is equivalent to current spending. $40,289,000 of this is from the Iron Range Resources and Rehabilitation Fund, and $10,140,000 is from the Northeast Minnesota Economic Protection Fund.

**Minnesota Business Finance, Inc.**
The Governor recommends a FY96-97 Special Revenue Fund budget of $1,021,000, which is equivalent to current spending.

**Non-Health Boards**

<table>
<thead>
<tr>
<th>Current Spending</th>
<th>Governor's Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Accountancy</td>
<td>$964,000</td>
</tr>
<tr>
<td>Includes $114,000 for increased CPA exam costs and increased enforcement positions.</td>
<td></td>
</tr>
<tr>
<td>Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design</td>
<td>$1,160,000</td>
</tr>
<tr>
<td>Includes $80,000 for an additional investigator.</td>
<td></td>
</tr>
<tr>
<td>Board of Barber Examiners</td>
<td>$252,000</td>
</tr>
<tr>
<td>Board of Boxing</td>
<td>$130,000</td>
</tr>
<tr>
<td>Board of Electricity</td>
<td>$10,539,000</td>
</tr>
</tbody>
</table>

**Transportation Finance Division**

**Department of Transportation**
The Governor recommends a FY96-97 all funds budget for the Department of $2,664,131,000, an increase of $107,917,000 from current spending. Of the Governor's recommendations, $25,292,000 is General Fund, and $1,495,000,000 is Trunk Highway Fund (THF).

Governor's initiatives include:

$3,000,000 in the General Fund for Greater Minnesota Transit, to provide assistance for implementation of public transit services.

$94,404,000 in the THF ($70,000,000 from the federal government and $24,404,000 from increased gas tax and motor vehicle registration revenues, and balances from 1995) for a variety of projects including:

- $85,700,000 for state road construction.
- $4,804,000 for road system operations and congestion management.
- $3,000,000 for the Minnesota Road Research Project.
- $900,000 for the Minority and Disadvantaged Youth Outreach program.

**Metropolitan Council Transit**

The Governor recommends a FY96-97 General Fund budget of $89,084,000, an increase of $20,000,000 from current spending.

The $20,000,000 budget increase is due to a Governor's Initiative to sustain existing regular route service in the metropolitan area, to fund the Metro Mobility program and to sustain rural and small urban transit systems.

**Transportation Regulation Board**

The Governor recommends a budget from the Trunk Highway Fund of $605,000 for FY96, and a budget of $0 for FY97, a decrease from the current $1,240,000 budget.

The Governor recommends this budget reduction because the U.S. Congress, effective January 1, 1995, preempted states from regulating the routes, rates and services of certain motor carriers. 60 percent of the Board's 1994 activities related to regulation of now-exempt carriers.

The agency proposal is to continue to regulate household and passenger carriers, while holding statewide meetings for truckers and other transportation entities, to determine the effects of the federal preemption and to prepare recommendations for the 1997 legislature on the board's role in regulation.

**Department of Public Safety**

The Judiciary Finance Division will handle several of the Department of Public Safety's programs. The Transportation Division will only act on those related to transportation, including Administrative Services, the State Patrol, Driver and Vehicle Services, Traffic Safety and Pipeline Safety. In these areas, the Governor recommends a FY96-97 budget from all funds of $189,067,000 an increase from the current spending level of $183,355,000.

Governor's initiatives include:
$2,610,000 from the General Fund for a criminal justice communication network.

$194,000 from the Special Revenue Fund for an increased number of required pipeline safety inspections.

From the Trunk Highway Fund:

$1,245,000 for the criminal justice communication network.

$343,000 for diversity, safety and training programs.

$146,000 to annualize a new commercial vehicle enforcement program, which was in 1995 given a six month appropriation.

$40,000 for a school bus safety program.

---

**State Government Finance Division**

Total General Fund Direct Appropriations are $478,974,000. The only agencies allowed inflation adjustment increases in their budgets were small agencies. All other agencies have absorbed the costs of inflation since 1991.

**Department of Administration**

The Governor recommended a total of $36,022,000 for the biennium. New initiatives totaled $6,750,000.

Initiatives include:

$4,500,000 is for the fiber optic backbone network and dial-up infrastructure (telecommunications Infrastructure) needed to improve access to the state's computer network, various mainframe data bases, and the Internet.

$2,250,000 is to provide citizens and businesses electronic access to state government information and services, particularly in Greater Minnesota.

Implications:

The telecommunications infrastructure will allow agencies and educational institutions to access the state's network through local dial-up services, and avoid long distance charges. Also, when higher educational institutions purchase telephone services from Administration, they pay state sales taxes. Although educational institutions are tax exempt, Administration pays state sales tax on all services telephone companies and other telecommunications vendors provide and Administration passes that cost on to its customer agencies. State higher educational entities account for 20% of the total state telephone service provided by Administration. Administration is seeking a statutory change to
exempt telephone services and equipment purchases from sales tax. That would cost the General Fund $250,000 each year in lost sales tax revenues.

**Administrative Hearings**
This agency does not receive General Fund money, it is supported by the Workers' Compensation Special Fund. The Office of Administrative Hearings requested a biennial budget of $7,087,000. Governor's Initiatives total $685,000, for an agency total of $7,772,000.

Governor's initiatives include:

$560,000 is for continuation of staff support for the workers' compensation judges and law clerks for judges.

$125,000 for a computer base which will replace a system that this office used which will no longer be available.

**Amateur Sports Commission (MASC)**
The Governor recommended a total of $1,100,000 for the biennium, which includes two change items:

A 3% small agency increase.

$185,000 for Target Center programming. These funds would provide 2 positions and are requested to increase Minnesota's capabilities to research prospective local, national and international amateur sporting events. Also, the MASC should be able to meet with the national governing body and Olympic officials on a regular basis. Finally, the commission should be able to create new grass roots sports events which would benefit the state's economy.

Implications:
The state has 50 days available at the Target Center and must develop enough events to maximize use of the Target Center. The agency's request for additional funding should result in securing enough top rate activities at the Target Center to bring the MASC excess revenue which in turn would cancel to the General Fund.

**Capitol Area Architectural Planning Board (CAAPB)**
The Governor recommended $520,000 for the biennium to the CAAPB. The only change item to their budget is the 3% increase given to small agencies.

**Constitutional Offices**
*Because of the separation of branches of government and constitutional offices, the Governor acknowledged the right of these offices to present their budgets directly to the legislature for consideration.*

**Attorney General's Office**
The Attorney General requested $47,658,000 for the biennium. Their current spending for FY94-95 is $40,267,000. Agency initiatives include:

$3,600,000 for establishing a salary structure.
$380,000 for administrative services support.

$3,271,000 for enhancing information systems.

$140,000 for consumer education & outreach.

Implications:
Establishing a salary structure is being requested in order for the Attorney General's Office to compete in the public market for attorneys. They are experiencing rapid and frequent turnover because the salaries are not competitive with other public agencies like, Anoka County, the St. Paul City Attorney's Office, Washington County Attorney's Office and many others. To address this problem internally would cost this office 20-30 positions permanently.

Administrative services support would bring in 4 full time positions.

Information systems enhancement would include 5 full-time positions to be a part of a current team of 3 who provide technical/information systems support to 450 FTE's. Additionally, it would provide hardware and software improvements.

Other Funds
Within the State Government Special Revenue Fund, the biennium request is $3,258,000 which includes an additional $948,000, an annualized amount, for services provided to the 13 health licensing boards. In September 1994, the Legislative Advisory Commission provided $316,000 to the boards for FY95. The Governor recommends the biennial amount of $948,000, which represents an annualized amount, to continue this practice.

Consumer education and outreach would add one full-time position and one half-time position. One item of this request is for printing publications in languages other than English.

From the Environmental Fund, the Attorney General's Office requests for the biennium $232,000 for investigating and prosecuting environmental crime.

Within the Landfill Cleanup Fund, the Attorney General's Office is requesting $150,000 for the biennium to pursue assigned insurance claims in order to recover landfill cleanup costs for the state. Also, this appropriation would allow them to carry out the responsibility of evaluating the voluntary insurance buy-out program thoroughly and report to the legislature.

Governor's Office
The Governor requested $7,011,000 for the biennium. There are no new initiatives or change items.

State Auditor
The biennial budget request for the Auditor's office is $14,280,000. The only change item was for restructuring the office which reduced their current spending level by $674,000.

State Treasurer
The State Treasurer requested $4,955,000 for the biennium. There are no new initiatives or change items.
**Legislature**
The legislature submitted a budget request of $99,110,000 for the biennium. General Fund requests total $97,900,000. Legislative budget requests included $44,208,000 for the House of Representatives, $31,908,000 for the Senate, $14,658,000 for the Legislative Coordinating Commission, and $8,336,000 for the Legislative Audit Commission. There are no new initiatives or change items.

**Legislative Rent**
The Governor recommended $9,732,000 for the biennium. In lieu of rent, the legislature appropriates funds directly to the commissioner of Administration to cover the costs of space used by the legislature, space occupied by the congressionally chartered veterans organizations, ceremonial space such as the capitol mall, and space occupied by the Services for the Blind vendors.

**Disabled American Veterans (DAV)**
The Governor recommended $24,000 for the biennium to the DAV. There are no new initiatives or change items.

**Department of Employee Relations (DOER)**
The Governor recommended $17,734,000, with increases to cover three new initiatives:

- $600,000 for Enhance Workforce Diversity, to fund Trainee/Internship programs for protected class members, recruitment activities and ADA compliance.
- $500,000 for the Minnesota Quality College, which would deliver and facilitate Total Quality Management training services to state and local government employees.
- $1,300,000 for Human Resource Innovations. The Human Resources Innovations project began in the last biennium and this request would maintain reform efforts to the state's performance management and classification systems. Additionally, this project includes the development of statewide retraining programs and improvements to the recruiting and hiring processes.

Implications:
The Human Resources Innovation Project should create savings by averting layoffs and associated costs.

The Governor also recommended a one-time transfer to the General Fund in FY96 of $2,000,000 from the Public Employees' Insurance account within the Employee Insurance Internal Service Fund.

**Department of Finance**
The Governor recommended a total of $42,029,000 for the biennium, including three change items:

- $1,164,000 in reallocations for Statewide Systems Project (SSP) implementation.
- $1,464,000 in service and system requirements.
- $600,000 in accounts receivable systems development.

Implications:
The SSP will move out of project status in FY96 and into the ongoing support phase. Finance's funding request covers the costs of the staff requirements and operational expenses necessary to support the new system. The Accounts Receivable project will generate more than $33 million for the General Fund. From Accounts Receivable, another $14 million is expected to be collected for other funds.

**Tort Claims**
The Governor recommended a total of $1,800,000 for the biennium. Of the total, $600,000 is from the General Fund and $1,200,000 is from the Trunk Highway Fund.

**Contingent Accounts**
The Governor recommended $1,750,000 for the biennium. Of that number, $400,000 is from the General Fund, $500,000 from the State Government Special Revenue Fund, $400,000 from the Trunk Highway Fund, $250,000 from the Highway User Tax Distribution Fund, and $200,000 from the Workers Compensation Special Fund.

**Board of Government Innovation and Cooperation**
The Governor recommended elimination of the Board of Government Innovation and Cooperation - saving the General Fund $127,000.

**Human Rights**
The Governor recommended a budget of $6,809,000 for the biennium for the Department of Human Rights. There are no new initiatives in this agency.

**Intergovernmental Information Systems Advisory Council (IISAC)**
The Governor has recommended carryover language for funds appropriated in 1995 for the Financial Reporting System for local governments and $373,000 for the biennium. That number includes the 3% small agency increase.

**State Board of Investment**
The Governor recommended $4,105,000 for the biennium for the State Board of Investment. This recommendation includes $32,000 for non-salary operating inflation which the agency requested.

**Lawful Gambling Control Board**
The Governor recommended $5,310,000 for the biennium to the Lawful Gambling Control Board. This includes $1,165,000 and 1 FTE for a systems project to improve the quality of service to the lawful gambling industry and increase its effectiveness in regulating that industry. Pull Tab Dispensing Devices was added to the definition of gambling equipment to be inspected and the agency's plan, which the Governor concurred with, included $268,000 to annualize the inspection program.

Implications:
The Governor intends to submit legislation merging the three gaming entities (Gambling Control Board, Lottery, and Racing Commission) into one unified gambling agency. The Governor did not include in the budget document any savings figures for merging these entities. Also, both of the Governor's initiatives carry tails into the next biennium.

**Minnesota State Lottery**
The Governor recommended for the biennium, $15,838,000 for the Minnesota State Lottery. This is not General Fund money, but comes from Lottery proceeds. The net proceeds of the lottery are deposited into funds with two primary beneficiaries: 40% of proceeds are designated for the Environmental and Natural Resources Trust Fund and 60% goes to the General Fund. There are no new initiatives.

**Minnesota Racing Commission**
For the biennium, the Governor recommended a total of $3,283,000 for the Minnesota Racing Commission. General Fund spending totals $740,000. This is a $344,000 increase over their current spending due to projected increases in live racing. The remaining $2,543,000 is a statutory appropriation, in a Special Revenue Reimbursement Account. The commission already has such an account, they do not currently have the authority to include in that account cost recovery of drug testing for horses. The Governor supported the commission in their request to include the drug testing money in the special reimbursement account.

Implications:
The Special Revenue Reimbursement Account would fund drug testing for horses and allow cost recovery for this expense. This reimbursement account reduces the commission's General Fund needs and is reflected in the Governor's recommendation. Additionally, the commission will submit a deficiency appropriation for FY95 in the amount of $77,000 to regulate 50 days of live racing and county fair activities in FY95.

**The Department of Military Affairs**
The Governor recommended $19,089,000 for the biennium for Military Affairs. This recommendation included 4 new initiatives to cover assessments in 4 locations and increases in rent paid to the Department of Administration, the Minnesota State Armory Building commission and the Duluth Airport Authority. The assessments are as follows: 1) New Brighton - $109,000; 2) Montevideo - $40,000; 3) Park Rapids - $9,000; and 4) Rosemount - $178,000; for a total of $336,000.

**Military Order of the Purple Heart**
The Governor recommended $20,000 for the biennium. There are no new initiatives or change items.

**Public Broadcasting**
The Governor recommended $5,082,000 for Public Broadcasting. Of that recommendation $3,744,000 is to Public Television, $1,288,000 is for Public Radio, and $50,000 is for Twin City Regional Cable. There are no new initiatives or change items.

**Public-Local Employees Retirement**
There are no direct appropriations from the General Fund for these agencies. These appropriations are all open and/or statutory appropriations. Included in the Governor's recommendation are: 1) the MN State Retirement System; 2) the Public Employees Retirement Association; 3) Teachers Retirement Association; 4) Minneapolis Pension Retirement; 5) Local Police-Fire Amortization Aid; 6) Minneapolis Teachers' State Aid;
7) Minneapolis Pension Retirement; and finally, 8) St. Paul Teachers' State Aid. These funds total $2,013,679 for the biennium.

**Department of Revenue**
The Governor recommended $148,522,000 for the biennium, including the following initiative:

$1,912,000 for FY96 and $160,000 for FY97 for Business Process Investment - an initiative to develop an automated system for filing and remittance processing.

**Implications:**
This automated system should replace many paper-constrained processing systems for filing and paying while reducing errors and delays present with manual handling and processing.

**Office of Strategic and Long Range Planning**
The Governor recommended $8,607,000 for Office of Strategic and Long Range Planning, including the following Governor's initiatives:

$1,000,000 for Childrens Information Redesign. This activity will be transferred to the Department of Children and Education Services in FY97. This is a plan for statewide integrated children's services data and is being developed for delivery to the Legislature. Plan will describe specific recommendations to create the information resource management environment necessary to support and coordinate the development and management of the data, applications and technology required by family service collaborative.

$147,000 for Environmental Review, to allow the Environmental Quality Board to modify the environmental review process and maintain staffing for continued oversight.

The Sustainable Development Initiative Roundtable would be administered by the Environmental Quality Board (EQB). The EQB would also provide coordination, and outreach activities at a cost of $120,000 from the Environmental Trust fund.

**Implications:**
These initiatives have tails for the 1998-99 biennium.

**The Department of Veterans Affairs**
For Veterans Affairs, the Governor recommended $7,681 for the biennium. Governor's initiatives include:

$1,200,000 for the State Soldiers Assistance program.

$275,000 for additional funding to operate the new state veterans cemetery.

**Veterans of Foreign Wars (VFW) Claims and Service Office**
The Governor recommended $62,000 for the VFW Claims and Service Office. There are no new initiatives or change items.
Capital Investment Committee

Bonding Projects
The Governor has recommended $20,585,000 for six capital projects in the 1995 session. They include:

$225,000 to complete construction of the East Grand Forks Potato Inspection Facility. Debt service to be user-financed from receipts to the seed potato inspection fund.

$9,000,000 appropriated directly from the Trunk Highway Fund for acquisition of the Waters Edge office building in Roseville for use by the Department of Transportation as metro division headquarters.

The Governor recommends $11,360,000, including bond sale expenses, in general obligation bond authorizations for four projects:

$1,500,000 for predesign and purchase option funds to acquire Bethesda Hospital for potential use by the state. The predesign funds would be used to more specifically determine the possible uses for the building.

$421,000 for renovation at the Sauk Centre correctional facility for space for 24 juvenile males.

$228,000 for building demolition to complete conversion of the Moose Lake Regional Treatment Facility into a 620 bed medium security correctional facility.

$9,200,000 for Safe Drinking Water Capitalization Grants.

Debt Service
The Governor recommends that $459,036,000 be appropriated from the General Fund for debt service, to make the debt service payments on existing debt, as well as on debt expected to be incurred during this biennium. Total bonding during the session is recommended by the Governor to be $496,360,000. The 1994-95 appropriation for debt service was $437,000,000.

Taxes

The Price of Government
In December 1994 the Revenue and Expenditures forecast provided the first estimates of the “Price of Government,” a gauge of the state economy’s capacity to support state and local government, measured in terms of aggregate personal income. The FY96-97 budget provides Governor Carlson’s “Price of Government” fiscal targets relative to personal income projections. The Governor recommends a “gradual decrease in the price of government over the next several years.” Taking into account growth in aggregate income, the revenue losses from the Cambridge Bank judgment (see taxes section, below), and assuming no general
increase in local and school property tax rates for four years, the targets show a reduction in the price of state and local government and public education from 18.3% of personal income in 1996 to 17.6% in 1999. According to the Governor’s target, the state’s portion would decline from 8.9% to 8.6% over the same time period.

The shrinking state share is made possible in part by counting the Cambridge Bank court judgment—an estimated $320 to $350 million state revenue loss for refunds of corporate and bank taxes and interest that must be paid out by the state over the next four fiscal years— as a ‘reduction in the price of government.’ (Refunds are booked for accounting purposes as a reduction in the revenue stream that otherwise would be realized from current law corporate and bank taxes.) State non-tax revenue also would decline by over $111 million in FY98-98. Without the Governor recommending any major changes in state revenue policy, accounting allows for a state tax and non-tax revenue targets that are each a full percentage point below the forecast “price” estimate of current law. When the Cambridge settlement is complete, the price of government will rise again (under current law) simply because net revenues from corporate and bank excise taxes will be accounted for at normal levels.

Compared to the forecast estimate of current law, the Governor’s target for municipal and school tax revenues is $13 million higher in the next biennium, and then $64 million lower in FY97-98. The local/school non-tax revenue target is $109 million above the forecast in FY96-97, and $594 million above forecast amounts for FY97-98. The November forecast baseline assumed no changes in local and school property tax revenues other than the amount generated by property base value growth. According to the executive summary document, the budget includes adjustments for “additional pressures on local governments, and revised estimates of certified education levies.” Details of the nature of these adjustments were not provided with the budget.

The targets for municipalities and schools are merged in the Executive Summary. In testimony to the Tax Committee January 26, the Commissioner of Revenue revealed that differences in local revenues over two biennia stem from changes in school levy assumptions and application of an implicit price deflator (government inflation index) to some local non-tax revenue streams.

The Executive Budget Summary document does not contain the Governor’s target recommendations for the mix of revenues by source, nor the incidence of the taxes by income class. The Commissioner of Revenue testified last week that no report has been prepared for a price of government baseline of incidence, nor have the Governor’s tax incidence targets and recommendations been quantified. Three problems in providing a baseline are: (1) data is not available regarding the distribution of tax burdens relative to current law and current income distribution shares; (2) no information is available about the non-tax revenues burden; and, (3) the current forecast process does not directly address changes in the distribution of income.

The Price of Government law requires the Legislature, in a Concurrent Resolution of the two houses, to act by March 15 on targets for state and local revenues as a percentage of aggregate Minnesota personal income in the next two biennia. Table 5 compares the Governor’s targets and the November 1994 “Price of Government” estimates under current law.

| Table 5 |
| Price of Government |
| Governor’ Targets FY 1996-99, with Forecast Comparison |
## I. The Governor's 1995 Price of Government Recommendation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Tax Revenues</strong></td>
<td>$9,358</td>
<td>$9,703</td>
<td>$19,061</td>
<td>$10,137</td>
<td>$10,555</td>
<td>$20,692</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>8.9%</td>
<td>8.8%</td>
<td>8.8%</td>
<td>8.7%</td>
<td>8.6%</td>
<td>8.7%</td>
</tr>
<tr>
<td><strong>State Non-Tax Revenues</strong></td>
<td>$1,545</td>
<td>$1,548</td>
<td>$3,093</td>
<td>$1,516</td>
<td>$1,503</td>
<td>$3,020</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.3%</td>
<td>1.2%</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>Local Tax Revenues</strong></td>
<td>$4,454</td>
<td>$4,623</td>
<td>$9,077</td>
<td>$4,768</td>
<td>$4,962</td>
<td>$9,730</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>4.2%</td>
<td>4.2%</td>
<td>4.2%</td>
<td>4.1%</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td><strong>Local Non-Tax Revenues</strong></td>
<td>$3,938</td>
<td>$4,095</td>
<td>$8,033</td>
<td>$4,256</td>
<td>$4,458</td>
<td>$8,714</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>3.7%</td>
<td>3.7%</td>
<td>3.7%</td>
<td>3.7%</td>
<td>3.7%</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>$19,295</td>
<td>$19,969</td>
<td>$39,264</td>
<td>$20,677</td>
<td>$21,478</td>
<td>$42,156</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>18.3%</td>
<td>18.1%</td>
<td>18.1%</td>
<td>17.8%</td>
<td>17.6%</td>
<td>17.7%</td>
</tr>
<tr>
<td><strong>Minnesota Personal Income</strong></td>
<td>$105,430</td>
<td>$110,160</td>
<td>$215,590</td>
<td>$116,000</td>
<td>$122,070</td>
<td>$238,070</td>
</tr>
</tbody>
</table>
### November 1994 Forecast Price of Government Estimates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State Tax Revenues</td>
<td>$9,442</td>
<td>$9,784</td>
<td>$19,226</td>
<td>$10,224</td>
<td>$10,637</td>
<td>$20,860</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>9.0%</td>
<td>8.9%</td>
<td>8.9%</td>
<td>8.8%</td>
<td>8.7%</td>
<td>8.8%</td>
</tr>
<tr>
<td>State Non-Tax Revenues</td>
<td>$1,528</td>
<td>$1,542</td>
<td>$3,070</td>
<td>$1,565</td>
<td>$1,567</td>
<td>$3,131</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Local Tax Revenues</td>
<td>$4,452</td>
<td>$4,612</td>
<td>$9,064</td>
<td>$4,787</td>
<td>$5,007</td>
<td>$9,794</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>4.2%</td>
<td>4.2%</td>
<td>4.2%</td>
<td>4.1%</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Local Non-Tax Revenues</td>
<td>$3,938</td>
<td>$3,987</td>
<td>$7,924</td>
<td>$4,036</td>
<td>$4,085</td>
<td>$8,120</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>3.7%</td>
<td>3.6%</td>
<td>3.7%</td>
<td>3.5%</td>
<td>3.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>$19,359</td>
<td>$19,925</td>
<td>$39,284</td>
<td>$20,612</td>
<td>$21,295</td>
<td>$41,907</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>18.4%</td>
<td>18.1%</td>
<td>18.2%</td>
<td>17.8%</td>
<td>17.4%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Minnesota Personal Income</td>
<td>$105,430</td>
<td>$110,160</td>
<td>$215,590</td>
<td>$116,000</td>
<td>$122,070</td>
<td>$238,070</td>
</tr>
</tbody>
</table>

### Comparison of Governor's Targets to Forecast

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State Tax Revenues</td>
<td>($84)</td>
<td>($81)</td>
<td>($165)</td>
<td>($87)</td>
<td>($82)</td>
<td>($168)</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>-0.1%</td>
<td>-0.1%</td>
<td>-0.1%</td>
<td>-0.1%</td>
<td>-0.1%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>State Non-Tax Revenues</td>
<td>$17</td>
<td>$6</td>
<td>$23</td>
<td>($49)</td>
<td>($64)</td>
<td>($111)</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>0.1%</td>
<td>0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.1%</td>
<td>-0.0%</td>
</tr>
<tr>
<td>Local Tax Revenues</td>
<td>$2</td>
<td>$11</td>
<td>$13</td>
<td>($19)</td>
<td>($45)</td>
<td>($64)</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>-0.0%</td>
<td>0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
</tr>
<tr>
<td>Local Non-Tax Revenues</td>
<td>$0</td>
<td>$108</td>
<td>$109</td>
<td>$220</td>
<td>$373</td>
<td>$594</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>-0.0%</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.2%</td>
<td>0.4%</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>($64)</td>
<td>$44</td>
<td>($20)</td>
<td>$65</td>
<td>$183</td>
<td>$249</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>-0.1%</td>
<td>0.0%</td>
<td>0.2%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Minnesota Personal Income</td>
<td>Same</td>
<td>Same</td>
<td>Same</td>
<td>Same</td>
<td>Same</td>
<td>Same</td>
</tr>
</tbody>
</table>

---

### Governor's Initiatives and Other Factors Affecting Tax Revenues

**Cambridge State Bank vs. Roemer**

Recently, the state of Minnesota lost its final appeal of the Cambridge State Bank case. In the 1970's, through 1983, the state gave a tax exemption to corporations and banks for interest on state and municipal bonds, but taxed the interest on their federal securities holdings. The courts held that the tax on federal bond interest was discriminatory. Now the state must refund, with interest, taxes it collected from more than 1,000 banks and corporations in tax years 1979-83. The courts have ruled that the state can pay out the refunds over four years.

The Governor's FY96-97 budget includes $160 million for the first two of four equal payments to be made during the next two biennia. To pay for the refunds, the Governor proposes to cut $320 million from spending. That amount falls $7 million short of the $170.9 million tax judgment, plus an estimated...
$156 million of accumulated interest (assuming the departmental interest rate) as of July 1, 1995 (the first day of the next biennium). Both the interest rate(s) and the payment schedule remain to be determined by the district court. The ultimate cost above $327 million will depend on how much interest accrues after that date, and at what interest rate, until the full settlement is paid.

The actual fiscal impact of the Cambridge Bank case could exceed $350 million in the next two biennia (FY96-99) according to the Department of Finance in the January 1995 issue of Economic Update, and unpublished estimates that underlie the budget. Payment of the Cambridge claims is described as “a reduction in certain taxes [sic]” on page nine of the Executive Budget Summary. In fact, there is no change in tax policy or tax law as a result of the court’s decision; rather, (quoting the January 1995 Economic Update) “...settlement of this case and payment of the ordered bank excise tax refunds will reduce net revenues in both the 1996-97 and 1998-99 bienniums.”

**State Tax Initiatives**

**Governor's initiatives include:**

- Making permanent the sales tax exemption for used farm machinery that was enacted as a temporary flood relief measure in 1993. Unless the legislature acts, the exemption expires after June 30, 1995.

- Exempting from sales and use tax state agency purchases of supplies and equipment for an upgrade of the M N E T telecommunications system.

- New environmental tax credits for farmers who purchase equipment to upgrade feedlots and conservation tillage implements, equal to 5% of the cost.

- Elimination of the political contribution credit at the end of FY95. This ‘refund’ is a state payment of up to $50 for an individual, $100 per couple who contribute to any political party, or to campaigns of candidates who sign public financing agreements to limit campaign spending. The refund is administered by the Ethical Practices Board and the Department of Revenue.

An accounting shift forward from FY98-99 into FY96-97 would occur if the Legislature enacts the Governor’s proposed change in administering the Working Family Tax Credit, Dependent and Child Care Credit, and property tax credits as monthly payments in the current tax year, rather than as refunds at the end of the tax year. A $2.3 million shift into FY96-97 for the two income tax programs is shown in Table 5. The $3.18 million shift for pre-payment of property tax relief also is accounted for in Table 6 in the next section of this report.
Table 6
Cambridge Bank Case & Governor's Revenue Recommendations
Assumptions and Proposals Affecting Tax Revenues
($ in millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($80.00)</td>
<td>($80.00)</td>
<td>($160.00)</td>
</tr>
</tbody>
</table>

Governor's Tax Proposals

- Farm environmental credits ($1.00) ($1.00) ($2.00)
- Used farm machinery permanent sales tax exemption ($1.60) ($1.60) ($3.20)
- MNET equipment and supplies sales tax exemption ($0.25) ($0.25) ($0.50)

Subtotal, state taxes: ($2.85) ($2.85) ($5.70)

Governor's Shifts (Affects Timing Only)

- Pre-payment of Income Tax Credits ($2.20) ($0.12) ($2.32)
- Pre-payment of Property Tax Refunds ($3.00) ($0.18) ($3.18)

Subtotal, property tax relief shift: ($5.20) ($0.30) ($5.50)

Elimination of the Political Contribution Credit $1.25 $3.40 $4.65

NET TOTAL IMPACT, including court judgment: ($86.80) ($79.75) ($166.55)

*Budget does not provide for interest accruing after 7/1/95 on Cambridge Bank judgment.

State and Local Finances

Local Block Grant Program

The primary initiative contained in the Governor's FY96-97 budget proposal is in the area of state and local aids. The Governor proposes to reduce aids to local governments by $77 million for the biennium in existing state aids provided under current law. Then, effective in pay 1997, the remaining aid amounts are redirected to a new pool for distribution in each of the 87 counties. Under this plan, city/town LGA, HACA, Disparity Reduction Aid, and Attached Machinery Aid would be combined and distributed within each of the 87 counties at roughly pay 1995 levels.

The $77 million aid reduction is composed of the following three items:

1) $31 million in reduction to current law increase for inflation in LGA, DRA, Non-school HACA, attached machinery aid.

2) $24 million in an across the board 1% reduction on property tax aids and credits to finance the Cambridge Bank case refund out of current dollars.
3) $22 million in savings by transferring back into the General Fund dollars advanced to the LGTF. These dollars would have been lost when the LGTF obligations are returned to the General Fund in FY97.

The effect of this proposal is to reduce state aids to local governments by $57 million in FY96 ($27.3 million in LGA, $29.6 million non-school HACA) and an additional $20 million in FY97 (all in LGA).

The Governor's proposed method for distributing remaining aid to local governments is a “block grant” style program which would establish 87 “Aid Distribution Councils” (ADCs) across the state, one in each county. The Governor’s budget document provides little detail on the composition of the Councils and how members would be appointed other than to say that they would be composed of equal representation from city, county, and school district officials. The mission of the ADC would be to distribute the aid to the county, and all cities and school districts within the county.

The Governor’s “constant effort” Tax Rate Assumption
The Governor’s FY96-97 budget proposal states that the aid reductions to local units of government will not result in property tax increases. One defense of this assertion is that the $57 million aid reduction proposed in the first year of the biennium of aids which have already been certified in local budgets. It is too late to increase levies to offset this aid reduction, at least in the current budget year. In addition, the Governor supports his assertion that his budget proposal does not increase property taxes because his assumptions on local levy growth is extremely conservative. The “constant effort” methodology used by the Governor assumes no increase in the local tax rate established by local levels of government throughout the state above Pay 1995 levels. This methodology suggests that any increases in spending needs due to population growth, caseloads, etc., can be funded through expansions in property tax base alone, and not through local levy increases.

This assumption ensures that the Governor’s projected local property tax levies will remain artificially low, and therefore, aid reductions can be offset by growth in the property tax base. A more reasonable local tax rate growth assumption than the “constant effort” would have been to include additional growth factors such as inflation and population. Or, “constant effort” could have been defined as setting a local tax rate increase at the same rate of growth as personal income, so that the local property tax consumed the same amount of a typical property taxpayers annual income.

Other issues related to state/local fiscal relationship:
1. The Governor recommends the elimination of the Board of Government Innovation and Cooperation, established to encourage service sharing and efficiency in local government service delivery. The Governor proposes that the ADC’s will promote efficiency and that this Board is unnecessary.

2. Truth in Taxation: The Governor proposes changes to the Truth in Taxation process that would require counties to notify taxpayers of proposed budget levels in mid-summer. Counties’ ability to administer additional Truth In Taxation requirements varies from county to county.
## Appendices

### 1996-97 Fiscal Staff Assignments

<table>
<thead>
<tr>
<th>State Government</th>
<th>Health and Human Services</th>
<th>Economic Development, Infrastructure &amp; Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kim Cousin (6-4117)</td>
<td>Vicki Kunerth (6-5483)</td>
<td>(6-3305)</td>
</tr>
<tr>
<td>Administrative Hearings Office</td>
<td>Council on Disabilities</td>
<td>Arts Board</td>
</tr>
<tr>
<td>Administration Department</td>
<td>Health Department</td>
<td>Commerce Department</td>
</tr>
<tr>
<td>Amateur Sports Commission</td>
<td>Health Boards</td>
<td>Council on Asian Pacific Minnesotans</td>
</tr>
<tr>
<td>Attorney General</td>
<td>Human Services Department</td>
<td>Council on Black Minnesotans</td>
</tr>
<tr>
<td>CAAPB Board</td>
<td>Ombudsman for Families</td>
<td>Council on Spanish Speaking People</td>
</tr>
<tr>
<td>Contingent Accounts</td>
<td>Ombudsman for Mental Health &amp; Mental Retardation</td>
<td>Economic Security Department</td>
</tr>
<tr>
<td>Disabled American Vets</td>
<td></td>
<td>Ethical Practices Board</td>
</tr>
<tr>
<td>Employee Relations Department</td>
<td>Veterans Homes</td>
<td>Historical Society</td>
</tr>
<tr>
<td>Finance Department</td>
<td></td>
<td>Housing Finance Agency</td>
</tr>
<tr>
<td>Governor and Lt. Governor</td>
<td></td>
<td>Humanities Commission</td>
</tr>
<tr>
<td>Human Rights Department</td>
<td></td>
<td>Indian Affairs Council</td>
</tr>
<tr>
<td>Investment Board</td>
<td></td>
<td>IRRRB</td>
</tr>
<tr>
<td>Legislative Commissions</td>
<td></td>
<td>Labor and Industry Department</td>
</tr>
<tr>
<td>Legislature</td>
<td></td>
<td>Labor Interpretive Center</td>
</tr>
<tr>
<td>Lawful Gambling Control Board</td>
<td></td>
<td>Mediation Services</td>
</tr>
<tr>
<td>Lottery Board</td>
<td></td>
<td>Minnesota Municipal Board</td>
</tr>
<tr>
<td>Military Affairs Department</td>
<td></td>
<td>Minnesota Technology Inc.</td>
</tr>
<tr>
<td>Military Order of the Purple Heart</td>
<td></td>
<td>Non-Health Boards</td>
</tr>
<tr>
<td>Office of Strategic and Long Range Plng</td>
<td></td>
<td>Public Service Department</td>
</tr>
<tr>
<td>PERA</td>
<td></td>
<td>Public Utilities Commission</td>
</tr>
<tr>
<td>Racing Commission</td>
<td></td>
<td>Safety Council</td>
</tr>
<tr>
<td>Revenue Department</td>
<td></td>
<td>Secretary of State</td>
</tr>
<tr>
<td>Salary Supplement</td>
<td></td>
<td>Trade and Economic Development Dept</td>
</tr>
<tr>
<td>State Auditor</td>
<td></td>
<td>Uniform Laws Commission</td>
</tr>
<tr>
<td>Tort Claims</td>
<td></td>
<td>Workers Compensation Court</td>
</tr>
<tr>
<td>Treasurer</td>
<td></td>
<td>World Trade Center</td>
</tr>
<tr>
<td>Veterans Affairs Department</td>
<td></td>
<td>Transportation Division:</td>
</tr>
<tr>
<td>Veterans of Foreign Wars</td>
<td></td>
<td>Met. Council Transit Operations</td>
</tr>
</tbody>
</table>

### K-12 Education

Bill Marx (6-7176)  
Center for Arts Education  
Education Department  
Education Finance (School Aids)  
Permanent School Fund  
Public Libraries  
Faribault Academies

### Taxes

M.J. Hedstrom (6-1237)  
Income, Sales, etc.  
(6-5813)  
Matt Shands (6-4162)  
Local Gov’t Trust Fund  
Property tax aids & credits

### Ways & Means

Marcie Jefferys (6-5384)

### Higher Education

Doug Berg (6-5346)  
Community Colleges  
Higher Education Board  
Higher Ed. Coordinating Board  
Higher Ed. Facilities Authority  
State University System  
Technical Colleges

### University of Minnesota

Doug Berg (6-5346)  
Mayo Medical School  
University of Minnesota

### K-12 Education

Bill Marx (6-7176)  
Center for Arts Education  
Education Department  
Education Finance (School Aids)  
Permanent School Fund  
Public Libraries  
Faribault Academies

### Taxes

M.J. Hedstrom (6-1237)  
Income, Sales, etc.  
(6-5813)  
Matt Shands (6-4162)  
Local Gov’t Trust Fund  
Property tax aids & credits

### Ways & Means

Marcie Jefferys (6-5384)

### Higher Education

Doug Berg (6-5346)  
Community Colleges  
Higher Education Board  
Higher Ed. Coordinating Board  
Higher Ed. Facilities Authority  
State University System  
Technical Colleges

### University of Minnesota

Doug Berg (6-5346)  
Mayo Medical School  
University of Minnesota
Where the General Fund Dollars Come From
Governor's Recommendation
($ in millions)

1996-97 Biennium $18,348 million

Balance Forward 6-30-95 765

Non-Dedicated Revenues
  Individual Income Tax $7,911
  Sales Tax $5,513
  Corporate Tax $1,113
  Motor Vehicle Excise Tax $733
  Gross Earnings Tax $322
  Liquor, Wine, Beer Taxes $109
  Cigarette & Tobacco Taxes $319
  Other Tax Revenue $581
  All Other Revenues $672
  Subtotal Non-Dedicated Revenues $17,272

Dedicated Revenue $188
Transfers From Other Funds $83
Prior Year Adjustments $41

SUBTOTAL CURRENT RESOURCES $17,583

TOTAL AVAILABLE RESOURCES, FY 1996-97 $18,348

Less: Estimated Expenditures ($17,996)
  Cash Flow Account ($350)
  Projected General Fund Balance 6-30-97 (1-24-95 Governor's Rec.) $2

Source: 1996-97 Minnesota Biennial Budget: Executive Budget Summary
**Where the General Fund Dollars Go**

**Governor's Recommendation**

($ in millions)

### 1996-97 Biennium

- Total Available Resources, FY 1996-97: $18,348
- Cash Flow Account: $350
- Projected General Fund Balance 6-30-97 (1-24-95 Governor's Rec.): $2

#### Governor's Recommendation

- **Education Finance**: $5,622
- **Property Tax Recognition**: ($166)
- **Children & Education Services**: $97
- **Post-Secondary Education**: $2,119
- **Property Tax Aids & Credits**: $2,359
- **Health & Human Services**: $5,092
- **Environment and Natural Resources**: $367
- **Economic Development**: $329
- **Transportation**: $183
- **Criminal Justice**: $836
- **State Government**: $530
- **Debt Service**: $459
- **Estimated Cancellations**: ($20)

Total Major Spending Items: $17,808

**Dedicated Expenditures**: $188

**TOTAL ESTIMATED EXPENDITURES, FY 1996-97**: $17,996

Source: 1996-97 Minnesota Biennial Budget: Executive Budget Summary