SUMMARY OF THE
GOVERNOR'S 1996-1997
SUPPLEMENTAL
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 supplemental budget proposals, and is followed by discussions of the Governor's supplemental budget detail, organized by committee/division. For an overview of the entire budget, see Money Matters, volume 10, number III.

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Overview

The Department of Finance released the revised forecast and adjustments to the Governor’s budget to coincide with the new forecast.

February Forecast Increase $230 Million over November

Compared to the November forecast, the February forecast projects an additional $129 million in available revenues, and $101 million in lower expenditures in forecasted areas, for a total of $230 million. Most of the increased revenue ($93 million) would be realized in FY95. An additional $57 million is forecast in FY96; $22 million less in revenues is forecast for FY97. In general, the forecast of revenues reflects the mature national business cycle (economic upswing) and an assumption that a tight labor market will slow the state economy. A better than expected fourth quarter 1994 resulted in higher than projected sales tax receipts, which accounts for the largest proportion of increased tax revenues.

Of the additional money available because of reductions in projected spending, most is in K-12 education and human services spending. Most of the forecast savings are in FY96-97.

The available money from the forecast in the Governor’s budget is reduced to $201 million because of adjustments and proposals contained in his January budget which affect the forecast amounts. The table below shows the effect of the forecast on the Governor’s budget and his revised recommendation.

<table>
<thead>
<tr>
<th>Revised Budget and Governor’s Budget Recommendation ($’s in Millions)</th>
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<tbody>
<tr>
<td>Additional Resources:</td>
</tr>
<tr>
<td>Forecast*</td>
</tr>
<tr>
<td>Bank payment change</td>
</tr>
<tr>
<td>Additional cuts</td>
</tr>
<tr>
<td>Other Revenues Rec.’s</td>
</tr>
<tr>
<td>TOTAL AVAILABLE</td>
</tr>
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</table>

*Forecast money available in the Gov’s budget is less than Feb. forecast due to effects of the Jan. budget recommendations

Governor Bonds to Pay Off Bank Settlement

The Governor is able to save $77.4 million in FY96-97, compared to his January budget, by changing the way he proposes to pay tax refund claims from the Cambridge Bank case. Instead of paying off the $350 million of refunds and interest (budgeted at $320 million in January) over four years as a cash reduction in corporate revenues, the Governor proposes an initial $75 million in state cash payments to claimants in FY96. Then in FY97, the Governor would issue revenue bonds for $275 million. This pays off the remaining settlement in FY97, while stretching out the costs to the state over eight years. In FY98-99, the cost would be approximately $86 million. Payments would continue at that level until 2005.

Because the state Constitution prohibits the sale of general obligation bonds to cover the costs of judgments, the Governor proposes to transfer non-tax revenues to a debt service fund created especially to pay off these
bonds. Although the Governor labels them “revenue” bonds, they are not revenue bonds in the usual sense. There is little precedent for the use of state bonds in this manner.

In January, the Governor proposed budget cuts to pay off the Cambridge refunds. The Governor reallocates the money from those cuts to other spending items in his February budget proposal.

Governor’s New Initiatives Greater than Additional Cuts
The additional cuts in the Governor’s supplemental budget total $63.9 million over three years. The additional spending for “new initiatives” totals $127 million. $10.9 million of the additional cuts are in FY95. The Governor unallots approximately 1.2% of state agency and the legislative budgets in FY95. While the Governor allocates cut amounts across agencies, he leaves agency commissioners in charge of determining how to absorb the cuts. Agencies are required to report to the Finance Department in June regarding how they will implement the cuts. The balance of the cuts, $53 million, occur in FY96-97, with most of the cuts in human service programs ($39.2 million). The Governor recommends $4.7 million in additional spending in FY95, the largest amount of which is $4 million for economic recovery grants in DTED. Of the additional $122.4 million spending in FY96-97, $100 million (including forecast savings) would go to K-12, most of it on one-time spending items.

The table below shows the increases over FY94-95 in the February budget by omnibus bill.

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Balance Forward</td>
<td>$765.0</td>
<td>$886.1</td>
<td>$121.1</td>
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<td>Current Resources:</td>
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<tr>
<td>Tax Revenues</td>
<td>$16,768.5</td>
<td>$16,803.3</td>
<td>$34.8</td>
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<tr>
<td>Non Tax Revenues</td>
<td>$699.9</td>
<td>$700.4</td>
<td>$0.5</td>
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<tr>
<td>Dedicated Revenues</td>
<td>$187.0</td>
<td>$168.0</td>
<td>($19.0)</td>
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<tr>
<td>Transfers In</td>
<td>$71.5</td>
<td>$53.7</td>
<td>($17.8)</td>
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<tr>
<td>Prior Year Adjustments</td>
<td>$40.9</td>
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<tr>
<td>Cambridge Bank</td>
<td>($160.0)</td>
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<td>$0.0</td>
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<td>Other Budget Recs</td>
<td>($24.7)</td>
<td>($15.7)</td>
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<td>TOTAL RESOURCES</td>
<td>$18,348.1</td>
<td>$18,636.7</td>
<td>$288.6</td>
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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>K-12 Finance</td>
<td>$5,622.5</td>
<td>$5,691.7</td>
<td>$69.2</td>
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<tr>
<td>Property tax shift</td>
<td>($165.9)</td>
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<tr>
<td>Dept. of Children</td>
<td>$97.4</td>
<td>$98.2</td>
<td>$0.8</td>
</tr>
<tr>
<td>Aids &amp; Credits</td>
<td>$2,359.4</td>
<td>$2,359.5</td>
<td>$0.1</td>
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<tr>
<td>Higher Education</td>
<td>$2,119.4</td>
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<td>Health &amp; Human Services</td>
<td>$5,091.6</td>
<td>$5,020.4</td>
<td>($71.2)</td>
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<td>Environment</td>
<td>$367.1</td>
<td>$363.2</td>
<td>($3.9)</td>
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<td>Economic Development</td>
<td>$329.2</td>
<td>$343.4</td>
<td>$14.2</td>
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<td>Transportation</td>
<td>$183.1</td>
<td>$183.0</td>
<td>($0.1)</td>
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<td>Criminal Justice</td>
<td>$835.7</td>
<td>$834.7</td>
<td>($1.0)</td>
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<td>State Government</td>
<td>$529.9</td>
<td>$526.9</td>
<td>($3.0)</td>
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<tr>
<td>Debt Service &amp; Borrowing</td>
<td>$459.1</td>
<td>$541.7</td>
<td>$82.6</td>
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<tr>
<td>Cancellation A adjustments</td>
<td>($20.0)</td>
<td>($20.0)</td>
<td>$0.0</td>
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<tr>
<td>Dedicated Expenditures</td>
<td>$187.5</td>
<td>$168.0</td>
<td>($19.5)</td>
</tr>
<tr>
<td>TOTAL EXPENDITURES</td>
<td>$17,996.0</td>
<td>$18,064.2</td>
<td>$68.2</td>
</tr>
</tbody>
</table>

| Balance Before Reserves | $352.1 | $572.5 | $220.4 |
| Cash Flow Account | $350.0 | $350.0 | $0.0 |
| Budget Reserve | $0.0 | $220.0 | $220.0 |
| Budgetary Balance | $2.1 | $2.5 | $0.4 |
Governor's New Budget Reserve Intended to Address Federal Cuts and Future Spending

The Governor's supplemental budget proposal sets aside $220 million in a budget reserve, in addition to the $350 million in the cash flow account, intended to help the state deal with federal cuts which the Governor's projects to exceed $263 million in FY96-97, and more than $600 million the following biennium.

Although the budget is balanced through FY96-97, it will be significantly out of balance by the end of the FY98-99 biennium. Although the Governor's ending balance is improved over the $849 million shortfall projected in his January budget, his budget still ends FY98-99 $544 million in the red. Because he then commits to maintaining a $350 million cash flow account and $220 million reserve, the Department of Finance shows an ending budgetary balance shortfall of $1.1 billion.

Health care spending continues to be a major spending driver. Under the Governor's budget, spending for health and human services would grow over $1 billion in FY98-99 over FY96-97. K-12 education is the next largest area of growth.

The Governor also states his intention to establish a four year “strategic finance plan.” He suggests state expenditures limits for FY98-99 at amounts below the levels established in his supplemental budget proposal. To bring the budget in line with these limits, he does not propose specific solutions, but instead has appointed former State Senator John Brandl and former Congressman Vin Weber to come up with program and policy reforms to reduce spending to meet the FY98-99 targets. Their plan is to be presented to the 1996 Legislature.

Price of Government Changed Little in Revised Forecast and Budget

The percentage share of personal income represented by state and local revenues changed little in this forecast. The February estimate of total Minnesota personal income for FY96-97 was adjusted upward by $650 million (.3%) and revenues upward by a net $50 million. In the next biennium, the personal income forecast is $1.7 billion lower and revenues $210 million higher than the November estimate. After taking the revised Cambridge bank payment proposal into account, the overall price of government revenues will average 18.2% in FY96-97 and 17.8% in FY98-99.

<table>
<thead>
<tr>
<th>Governor’s 1995 Supplemental</th>
<th>Price of Government Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Tax Revenues</td>
<td>$9,413</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>8.9%</td>
</tr>
<tr>
<td>State Non-Tax Revenues</td>
<td>$1,547</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>1.5%</td>
</tr>
<tr>
<td>Local Tax Revenues</td>
<td>$4,424</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>4.2%</td>
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<tr>
<td>Local Non-Tax Revenues</td>
<td>$3,938</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>3.7%</td>
</tr>
<tr>
<td>TOTAL REVENUES</td>
<td>$19,322</td>
</tr>
<tr>
<td>as % of personal income</td>
<td>18.2%</td>
</tr>
<tr>
<td>Minnesota Personal Income</td>
<td>$105,990</td>
</tr>
</tbody>
</table>
### Comparison of Governor's Supplemental P.O.G Targets to Original Budget Targets

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<thead>
<tr>
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<tbody>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>$27</td>
<td>$43</td>
<td>$70</td>
<td>$11</td>
<td>($49)</td>
<td>($40)</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>Minnesota Personal Income</td>
<td>$560</td>
<td>$90</td>
<td>$650</td>
<td>($510)</td>
<td>($1,220)</td>
<td>($1,730)</td>
</tr>
<tr>
<td>Change in MPI</td>
<td>0.5%</td>
<td>0.1%</td>
<td>0.3%</td>
<td>-0.4%</td>
<td>-1.0%</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>
other purposes. This program would be very similar to the individual learning and development aid (ILDA) that was in place until two years ago. This funding would only available in district boards and teachers agree to abide by the PELRA changes recommended regarding teachers being not being able to strike if teachers reject arbitration proposed by the board. (Cost: $58.5 million)

Adjusts the referendum revenue to make up for the lower number of pupil units as a result of the recommendation to eliminate class size reduction pupil units. (Cost: $4.3 million, Levy: $5.9 million)

Adjust several components of the transportation formula including restoring the funding level for nonregular (disabled and desegregation) transportation, increasing the base level funding. (Cost: $8.5 million)

Increase the special education excess cost funding and convert from all aid to an aid/levy funding. (Cost: - $3.4 million, Levy: $8.8 million)

Establishes a new technology initiative with three components: additional Internet access for school districts, technology clearing house and upgrade centers and a pilot electronic school. (Cost: $10 million)

Reduce the general education levy to make up for levy increases in special education and referendum. (Cost: $15.2 million, Levy: -$17.9 million)

Grant funding would be available to the Minneapolis and St. Paul School Districts to make space available in school buildings for after-school and summer activities to aimed at drug and violence prevention programs for middle and high school students. (Cost: $1 million)

Implications

The percent of K-12 education funding that comes from state sources is at 61.1% in 1994-95, is estimated to go to 57.1% in 1995-96, and 59.4% in 1996-97.

The increase in total K-12 education revenue is 8.8% 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 1.5% in 1995-96 and a reduction of 0.0% in 1996-97.

Higher Education Finance Division

The Governor's supplemental budget recommendations contain no changes from his initial budget in Higher Education.
Health and Human Services Finance Division

The Governor's FY96-97 Supplemental Budget for Health and Human Services includes a General Fund reduction of $68,912,000. The largest effect is on the Department of Human Services with a General Fund reduction of $68,594,000.

Department of Health

The supplemental budget for the Department of Health includes an increase of $818,000 to cover the costs of Part H and a reduction of $500,000 in program administration.

Department of Human Services

There is an overall decrease in the entitlement programs' forecast of $34,007,000, with the large majority being in the health care programs, particularly managed care and fee-for-service expenditures.

Program reductions include:

A freeze in rates paid for chemical dependency treatment. The rates are frozen at the current 1995 calendar year level through the FY96-97 biennium. The rates for chemical dependency treatment, which are negotiated by the counties, have been increasing from 1-4% per year since 1989. The program effect of this freeze is expected to be minimal with a general fund savings of $4,655,000.

Discounting the capitated rates for GAMC for the FY96-97 biennium by 10%. Capitated rates are the premiums paid to health plans for health care provided under managed care contracts and are established in part by discounting the latest fee-for-service rates by 10% for the AFDC, needy children, and GA/GAMC populations and by 5% for the aged populations. The capitated rate for health care services provided to MA clients currently includes the same discount. This reduction in GAMC managed care rates will have the greatest effect on the health care plans serving a large proportion of public clients. Applying the discount to GAMC, results in savings of $12,188,000.

Eliminating basic dental services in GAMC provided to adults. Dental services considered emergency or preventive would still be available. The eliminated services include: fillings, restorations, root canals, dentures, and anesthesia. The savings with this proposal are: $10,886,000.

Home & Community Based Waiver program changes include additional savings in the costs of personal care attendants beyond what is proposed in the original Governor's budget plus the elimination of the TEFRA option for disabled children under MA. Currently under TEFRA 3,900 children receive health care services through Medical Assistance on a sliding fee scale. Alternate plans include serving a portion of the children under waivers and grants. The proposal includes procedure changes shifting the responsibility of determining needed services from the providers to public health nurses and setting minimum standards for personal care attendants. The proposal will save an additional $9,546,000, and provide an additional $1,800,000 in mental health grants.

SFY 1995 Changes

In addition, the Governor recommends a reduction to the base of $2,000,000 for the Department of Human Services and $250,000 for the Department of Health. The Governor proposes an additional $245,000 to cover the costs of the meningitis outbreak in Mankato for the Department of Health.
MinnesotaCare Finance Division

Introduction
The most significant change in the Health Care Access Fund with the release of the February forecast and the Governor's supplemental budget recommendations is in the bottom line, where the fund balance in fiscal year 1999 changes from a $84,657,000 surplus, (assuming approval of the federal §1115 waiver) to a $220,220,000 surplus. The difference between the November and February fund balances is even more dramatic if it is assumed that the waiver will not be approved. In that case, the fund balance in 1999 changes from a deficit of $30,412,000 to a surplus of $199,147,000. The table below shows the fund balance based on the February forecast for each year, fiscal years 1996-1999, under both scenarios, approval and non-approval of the waiver.

<table>
<thead>
<tr>
<th>Year</th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
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<tr>
<td>Balance with Waiver</td>
<td>$108,623</td>
<td>$164,085</td>
<td>$205,031</td>
<td>$220,220</td>
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<tr>
<td>Balance without Waiver</td>
<td>$101,604</td>
<td>$155,699</td>
<td>$190,572</td>
<td>$199,147</td>
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</tbody>
</table>

Factors Contributing to Fund Balance Shift
The two factors which had the largest positive impact on the fund were a reduction in forecasted grant expenditures and the elimination of the transfer to the General Fund. The two largest negative factors were losses in federal participation due to changes in the requested §1115 waiver, and a reduction in the amount of projected revenues to the fund.

Reduced Grant Expenditures
The primary reason for the large shift in the ending balance of the fund is a projected reduction of more than $179 million for services. The table below shows the original and supplemental budget recommendations for direct and statutory grants projected during FY96-99, paid to providers for services given to MinnesotaCare enrollees. The significant difference in the total grant expenditures between the November and February forecasts reflects changes in the projections of the number of enrollees in the program and how they utilize services. In this case, the primary driving forces are slower-than-expected enrollment of single adults, and lower-than-expected utilization and cost of services for families with children.

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<tr>
<td>Budget</td>
<td>$74,285</td>
<td>$135,999</td>
<td>$176,324</td>
<td>$217,165</td>
<td>$268,292</td>
<td>$872,065</td>
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<tr>
<td>Supplement</td>
<td>$56,810</td>
<td>$100,280</td>
<td>$148,141</td>
<td>$172,652</td>
<td>$214,897</td>
<td>$692,780</td>
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<td>Difference</td>
<td>$17,475</td>
<td>$35,719</td>
<td>$28,183</td>
<td>$44,513</td>
<td>$53,395</td>
<td>$179,285</td>
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</table>
Elimination of the Transfer to the General Fund
The other major factor contributing to the surplus in the fund is the elimination of the transfer to the General Fund for added MA and GAMC costs due to MinnesotaCare. The elimination of the transfer results in savings of $62,013,000 to the fund over the four year period 1996-1999. During this biennium, the Governor's budget indicates a savings to the Health Care Access Fund, and a loss of revenue to the General Fund, of $3,882,000. This is what the transfer would have been under the revised forecast.

Waiver Changes
The supplemental budget recommendations include scaling back the enrollment in the combined MinnesotaCare/MA program, and therefore the federal participation, of families with children with incomes up to 275% of poverty to just the children in those families. This would reduce the federal participation in the fund for both administration of the program and services costs for the enrolled participants by $161,918,000. However, it would also reduce the costs to the fund by $71,712,000. The net impact of this change would be to reduce the fund balance by $90,206,000.

Revenue Reductions
The supplemental budget recommendations include forecast adjustments that reduce revenue to the fund. Overall, the 2% hospital tax, the 2% provider tax, and premiums paid by enrollees are expected to drop by $18,968,000. However, $1,000,000 will be raised through payback of an additional MEIP loan, leaving a net impact of $17,968,000 lost to the fund in revenues.

Other Supplemental Budget Recommendations
The Department of Employee Relations is given an additional $1,000,000 loan for MEIP in 1996, which must be paid back by 1998. The payback portion of the loan is reflected in the revenue changes.

The Department of Human Services receives $42,000 less for reduced cashier staff.

Judiciary Finance Division
The Governor's supplemental budget for FY95 contains reductions of $2,510,000 and a deficiency expenditure of $81,000. In FY96-97, the Governor's supplemental budget contains reductions of $1,000,000 and increases of $6,000. The following are the major change items in the criminal justice area:

Peace Office Standards and Training Board
There is a deficiency recommendation of $81,000 for FY 95. This deficiency is for legal expenses that have occurred during the year.

Department of Corrections
For FY 95 there is a reduction in the budget of $2,510,000. For FY 96 there is a $1 million reduction in the Governor's budget recommendations for the Department's management services area.

Sentencing Guidelines
Inflation for small agencies was left out of the original budget submission. This is now included with $2,000 for FY 96 and $4,000 for FY 97.
Implications

Even though the Department of Corrections budget has been reduced by over $2 million in FY 95 and $1 million in FY 96 it still has one of the larger increases in the state budget. The cost of corrections is expected to grow by $61 million over the current biennium.

Environment and Natural Resources Finance Division

The Governor's supplemental budget contains reductions of $1,534,000 in FY95 and a deficiency expenditure of $140,000 in FY95, leaving a net reduction in General Fund spending of a $1,394,000 in FY95. In FY96-97, the Governor's supplemental budget contains reductions of $4,750,000 and new expenditures of $808,000, for a net reduction to the General Fund of $3,942,000 in FY96-97.

FY95 Changes

The supplemental budget recommendations includes the following reductions in FY95:

- Department of Natural Resources ($802,000)
- Agriculture Department ($113,000)
- Pollution Control Agency ($569,000)
- Office of Environmental Assistance ($50,000)

In the Department of Natural Resources the governor recommends a deficiency appropriation for FY95 of $140,000 to fund repair of damage to the O’Brien State Park due to an arson fire.

FY96-97 Changes

Department of Natural Resources

A reduction of $4,250,000 through Elimination of Payment in Lieu of taxes on tax forfeited lands. The governor recommends that the counties be given more control over the land in exchange.

An expenditure increase of $808,000 for completion of a resource inventory ordered by the courts on the treaty rights suit.

Pollution Control Agency

A reduction of $105,000 in the feedlot program.

A reduction of $50,000 in the household hazardous waste program.

A reduction of $95,000 in the policy and operations support program.

Implications:

The Governor's supplemental recommendations continue the pattern of decline for support for Environment and Natural Resource programs. The $3.9 million dollar reduction represents a reduction of 1% from the previously recommended budget. The largest item of impact will be on the counties who currently receive the payment in lieu of tax payment on the item recommended for elimination by the Governor.
Economic Development, Infrastructure and Regulation Finance Division

Department of Trade and Economic Development

The Governor recommends $4,000,000 from the General Fund in additional Economic Recovery Grants in FY95 to fund business expansion projects submitted to the Department before 12/31/94. Communities requesting support include Becker, Brooklyn Park, Nashwauk, St. Paul, St. Louis County, Minneapolis, Benson and Park Rapids.

The Governor recommends $14,000,000 from the General Fund in FY96 for contamination cleanup grants to Minneapolis and St. Paul, and to the inner-ring suburbs of the metropolitan area. These funds are to be used to clean up contaminated sites where there is a serious private or public redevelopment potential, in the hope that the sites would be transformed from a blighting influence to a marketable asset. Sites that do not qualify for PCA funds are eligible for the program, and the applicants must match state dollars one to one.

The Governor recommends $3,000,000 from the General Fund to be contributed to the Biomedical Engineering Center at the University of Minnesota, to leverage private funds for an endowment fund.

The supplemental budget includes $2,000,000 in General Fund savings due to the elimination of the Community Resource Program, which provides grants to Minneapolis, St. Paul and Duluth to address crime, school readiness, individual self-support, and the capacity of neighborhood based organizations to create neighborhood stability. The program targets distressed neighborhoods characterized by high unemployment, low incomes and deteriorating housing.

The supplemental budget includes two General Fund base adjustments: $25,000 reduction each year of the biennium to remove a one-time appropriation inadvertently left in the agency's base by the Department of Finance for the Lake Superior Center, and; $100,000 reduction each year to sunset the Affirmative Enterprise program, which provides grants to businesses for training and support services for disabled workers.

Minnesota World Trade Center Corporation

The supplemental budget adds $450,000 from the General Fund in FY96 to allow the corporation to make a full and final payment of its remaining 1988 debt. The initial debt of $750,587 was incurred for conference center furniture, fixtures, and equipment.

Department of Economic Security

The supplemental budget includes a reduction of $400,000 to the Department's General Fund appropriation due to the elimination of Lead Abatement fund. Lead abatement swab team work has been impeded by the difficulty contractors have had finding affordable lead hazard reduction insurance and concern over liability issues.

The Governor recommends a $600,000 reduction in the food shelf program.

Department of Labor and Industry
The Governor recommends that $320,000 be added from the Workers' Compensation Fund to hire 14 temporary staff for the Information Processing Center to assist with the conversion of records from paper to computer imaged documents for the DAEDALUS project, which is a project designed to create imaged documents of workers' compensation claim files, and eliminate the need for those files in paper form.

Transportation Finance Division

The Governor's supplemental budget recommendations contain no changes from his initial budget in Transportation.

State Government Finance Division

Net spending for new initiatives totals $960,000. The reductions included $3,907,000 in reductions to initiatives that were introduced in January. In addition, changes in net revenues total $904,000. One significant omission from the Governor's January budget, which is corrected in the supplemental budget, is $1,500,000 over the biennium for the Target Center bailout. Excluding the Target Center addition to the budget, the other expenditure changes are from insurance and retirement and programs. The largest revenue gain comes from a proposed reduction to employer and employee contribution rates to the Police & Fire Fund administered by the Public Employees' Retirement Association. In addition, the cost of exempting the Department of Administration from sales taxes on purchases of telephone services and equipment purchases has been revised from $500,000 to $1,000,000 for the biennium.

State Board of Investment

The Local Relief Association Account Management initiative costs $40,000 per fiscal year. This initiative also sets up a non-dedicated receipt return of $36,000 per fiscal year to the General Fund for a net effect to the General Fund of $8,000. This appropriation is for one new full-time position to manage the accounts of local relief associations that participate in the Minnesota Supplemental Investment Fund Pool.

Department of Administration

The Governor's initiative for Electronic Commerce Services has been reduced by $250,000 per fiscal year. The new total for the project is $1,750,000.

The total cost in lost revenues to the State for this initiative has been increased by $250,000 per fiscal year. The Governor's Telecommunications Infrastructure initiative would cost the General Fund $500,000 per fiscal year in lost sales taxes for a total of $1,000,000 instead of the $500,000 biennial total initially reported. Administration is seeking a statutory change to exempt telephone services and equipment purchases from sales tax.

A $835,000 reduction to loans to the Revolving Fund for purchases of automobiles. This money is repaid to the General Fund in the same year it is loaned.
Department of Employee Relations

The Minnesota Quality College was eliminated, saving $500,000 over the biennium.

The Governor recommends a reduction of $300,000 in FY96 and $250,000 in FY97 to the appropriation from the General Fund for premiums to the Workers’ Compensation Reinsurance Association.

Department of Revenue

The Governor's initiative for Business Process Investment was eliminated, at a savings of $2,072,000 for the biennium.

Amateur Sports Commission

The Governor's original budget omitted the state payment for the Target Center buyout. This increases General Fund expenditures by $750,000 per fiscal year.

For FY97, the Governor recommends a reduction in the contribution rates to the Police & Fire Fund administered by the Public Employees’ Retirement Association. Employer contributions would be reduced 1.03% and the employee rate by 0.69%. This increases revenues to the General Fund for the next biennium by $1,404,000.

Local Pension Funds

According to the February forecast, General Fund expenditures of $35,000 each fiscal year can be reduced from Local Police/Fire Amortization Aid.

Capital Investment Committee

The Governor's supplemental budget recommendations contain no changes from his initial budget for the Capital Investment Committee.

Taxes

State Aids and Credits and Property Taxes
The Governor’s January budget recommended a $77 million dollar reduction of state aids to local units of government that was the result of three factors: 1) $31 million reduction in the indexing of LGA, DRA, Non-School HACA, and Attached Machinery Aid; 2) $24 million in an across the board 1% reduction to finance the Cambridge Bank judgment, and; 3) $22 million reduction by eliminating the “general fund advance” which is money loaned from the general fund to the LGTF for FY 1996.

Two of the three components of the Governor’s January budget recommendation were rationalized on the basis of the status of the November forecast, namely dollars dedicated to repayment of the Cambridge Bank judgment, and dollars “loaned” from the General Fund to the Local Government Trust Fund. Only the recommended elimination of the indexing of state aids is unrelated to the outcome of the February budget and forecast.
The February budget and forecast documentation shows the following impacts on the General Fund relative to the budget released in January: 1) a reduced obligation for the Cambridge Bank judgment in the next biennium and 2) increased revenues to the LGTF which effectively reduces the estimated general fund loan to the LGTF. However, the Governor proposed no changes in recommended state aid reductions to local governments to reflect the improved forecast.

**Savings From Cambridge Bank Judgement**

The Governor is now proposing a new financing plan involving a revenue bond to pay for the Cambridge Bank judgement in FY 1996 and 1997. The budget document states that “this plan will reduce the state’s FY 1996-97 estimated cost by $78 million.”

The Governor’s January budget recommendation asserted that $24 million of the proposed cut was “a 1% reduction” to offset the cost of the Cambridge Bank settlement, which at the time was estimated at $160 million. Since the actual cost under the new plan has been decreased by over half, the Governor might have restored half of the recommended cut however, he did not adjust the recommended cut.

**Reduction in the General Fund Loan to the LGTF**

The Governor’s January budget recommendation included a $22 million dollar reduction in aids to local units of government by eliminating a general fund advance to the LGTF for aids payable in FY 1996. The $22 million was the Department of Revenues estimate of the amount that the LGTF would be short at the end of FY 1996.

According to the February forecast document, the net of sales tax and MVET revenues are up over the November forecast amount by about $27 million. The LGTF’s share of this revenue increase is roughly $8.3 million which would reduce the general fund advance to the LGTF by that amount.

No changes were made in the Governor’s budget recommendation to reflect the improved forecast.

**Governor Recommends Elimination of Payment in Lieu of Taxes (PILT) on Tax-Forfeited Land**

The Governor has recommended that the payments in lieu of taxes on tax forfeited lands administered by the counties be eliminated. Under current law, counties receive 75 cents per acre in PILT payments annually on tax forfeited land. The current annual law general fund obligation for these payments are $2.125 million for FY 1996 through FY 1999. PILT payments are designated for local resource development activities and for general property tax levy reduction.

The impact of this recommendation would be borne disproportionately by many of the northeastern counties which currently hold significant amounts of tax forfeited land.
### Where the General Fund Dollars Come From

**Governor's Recommendation**

($ in millions)

#### 1996-97 Biennium

$18,637 million

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#### Balance Forward 6-30-95

$886

- Non-Dedicated Revenues
  - Individual Income Tax $7,894
  - Sales Tax 5,599
  - Corporate Tax 1,265
  - Motor Vehicle Excise Tax 724
  - Gross Earnings Tax 318
  - Liquor, Wine, Beer Taxes 111
  - Cigarette & Tobacco Taxes 320
  - Other Tax Revenues 573
  - All Other Revenues 673

\[ \text{Subtotal Non-Dedicated Revenues} = 17,477 \]

- Dedicated Revenue 168
- Transfers From Other Funds 65
- Prior Year Adjustments 41

\[ \text{Subtotal Current Resources} = 17,751 \]

#### TOTAL AVAILABLE RESOURCES, F.Y. 1996-97

$18,637

- Less: Estimated Expenditures -18064
- Cash Flow Account -350
- Budget Reserve -220

**Projected General Fund Balance 6-30-97**

February 28, 1995 Governor's Recommendation

$3

Source: 1996-97 Minnesota Biennial Budget: Executive Budget Summary
Where the General Fund Dollars Go
Governor's Recommendation
($ in millions)

1996-97 Biennium
$18,064 million
$350 million Cash Flow Account
$220 million Budget Reserve

Total Available Resources, FY 1996-97 $18,637

Major Spending Items
- Education Finance $5,692
- Property Tax Recognition -166
- Children & Education Services 98
- Post-Secondary Education 2,119
- Property Tax Aids & Credits 2,359
- Health & Human Services 5,020
- Environment and Natural Resources 363
- Economic Development 343
- Transportation 183
- Criminal Justice 835
- State Government 527
- Debt Service 542
- Estimated Cancellations -20

Subtotal-Major Spending Items $17,896

Dedicated Expenditures 168

TOTAL ESTIMATED EXPENDITURES, FY 1996-97 $18,064

Cash Flow Account 350
Budget Reserve 220

Projected General Fund Balance 6-30-97
February 28, 1995 Governor's Recommendation $3

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