

Money Matters

A Publication of the House Fiscal Analysis Department

SUMMARY OF THE FISCAL ACTIONS OF THE 1999 LEGISLATURE

Minnesota's General Fund Budget for the FY 2000-01 Biennium

This paper provides an overview and details of the enacted FY 2000-01 biennial budget. Part one summarizes the overall budget. Part two provides appropriation details organized according to the jurisdictions of the House of Representatives' fiscal committees. Part three discusses the sales tax rebate, income tax rate reductions and other changes to the tax laws.

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The House Fiscal Analysis Department Home Page is at: <http://www.house.leg.state.mn.us/fiscal/FAHOME.HTM>
The Web page has fiscal staff publications from recent years as well as spreadsheets for the major finance bills for the past three sessions.

Budget Overview

Overview: The 1999 Legislature considered the allocation of \$28.3 billion in general fund resources over the three year period of fiscal years 1999, 2000 and 2001. Of the \$28.3 billion, \$2.9 billion resulted from revenue available in FY 1999 and \$25 billion is from resources projected to be available in FY 2000 and 2001. An additional \$400 million was made available by converting \$400 million of capital projects funded with general fund appropriations to projects funded with the sale of general obligation bonds.

The 1999 legislative session was unique in that not only was the Legislature making decisions about the upcoming biennium (FY 2000-01) but it also made substantial allocations in the current fiscal year (FY 1999). A sales tax rebate of \$1.25 billion was funded out of FY 1999 resources. Tobacco settlement funds received in FY 1999 of \$460.8 million were transferred to the tobacco settlement fund in FY 1999. Supplemental appropriations of about \$77 million were also made in FY 1999. Allocations in FY 2000-01 include state tax reductions of \$1.4 billion, another \$507 million to the tobacco settlement fund and \$23.44 billion for programs. [Table 1](#) summarizes the state general fund situation for the three fiscal years.

The general fund is the largest single portion of the state budget. Appropriations from other funds will bring all appropriations in the state budget for FY 2000-01 to approximately \$37 billion. Other funds are usually dedicated for specific purposes such as health care access for health care and trunk highway for highways and bridges.

State General Fund Resources

The February 1999 general fund forecast projected that the ending balance for FY 1999 would be \$1.24 billion. Much of that amount was made up of income tax revenues exceeding earlier projections. However, that balance also included \$460.8 million of tobacco settlements. The Legislature also added \$400 million to the general fund amount available in FY 1999 by reversing an action taken in November that shifted \$400 million of capital projects from bonding to general fund appropriations. (Legislation passed in 1998 had directed the up to \$400 million of bonds to be canceled and those projects to be funded with general fund appropriations available in FY 1999 as determined by the November 1998 forecast.)

Total general fund resources for the FY 2000-01 biennium are \$26.531 billion. The single largest source of revenue is the personal income tax at \$11.94 billion or 45 percent of the total. Sales tax makes up \$7.344 billion or 27.7 percent. These two revenue sources make up 72.7 percent of the total resources available for FY 2000-01. Another substantial amount of the resources available is the \$1.496 billion budget balance carried forward from FY 1999.

Table [2](#) and [Figure 1](#) show in chart and graph form revenues for FY 2000-01.

Table 1

State General Fund Summary	
FY 1999, 2000, 2001	
(Dollars in Millions)	
<i>Resources</i>	
Balance Forward from FY 99	\$2,875.1
Bonding for Capital Projects	\$400.0
Current Biennium (FY 00-01) Resources	\$25,030.5
Total Resources Available	\$28,305.6
<i>Allocation of Resources</i>	
Sales Tax Rebate	\$1,251.3
Income and Other State Tax Reductions	\$1,402.7
Tobacco Settlement Fund Endowments	\$967.9
Program Spending	\$23,442.5
Reserves	\$1,105.1
Budget Balance - Unspent	\$136.1
<i>Note: Of the \$28.3 billion of resources available, \$1.22 billion (\$460.8 million in FY 1999 and \$760.6 million in FY 2000-01) is from the tobacco lawsuit settlement.</i>	

Budget Overview

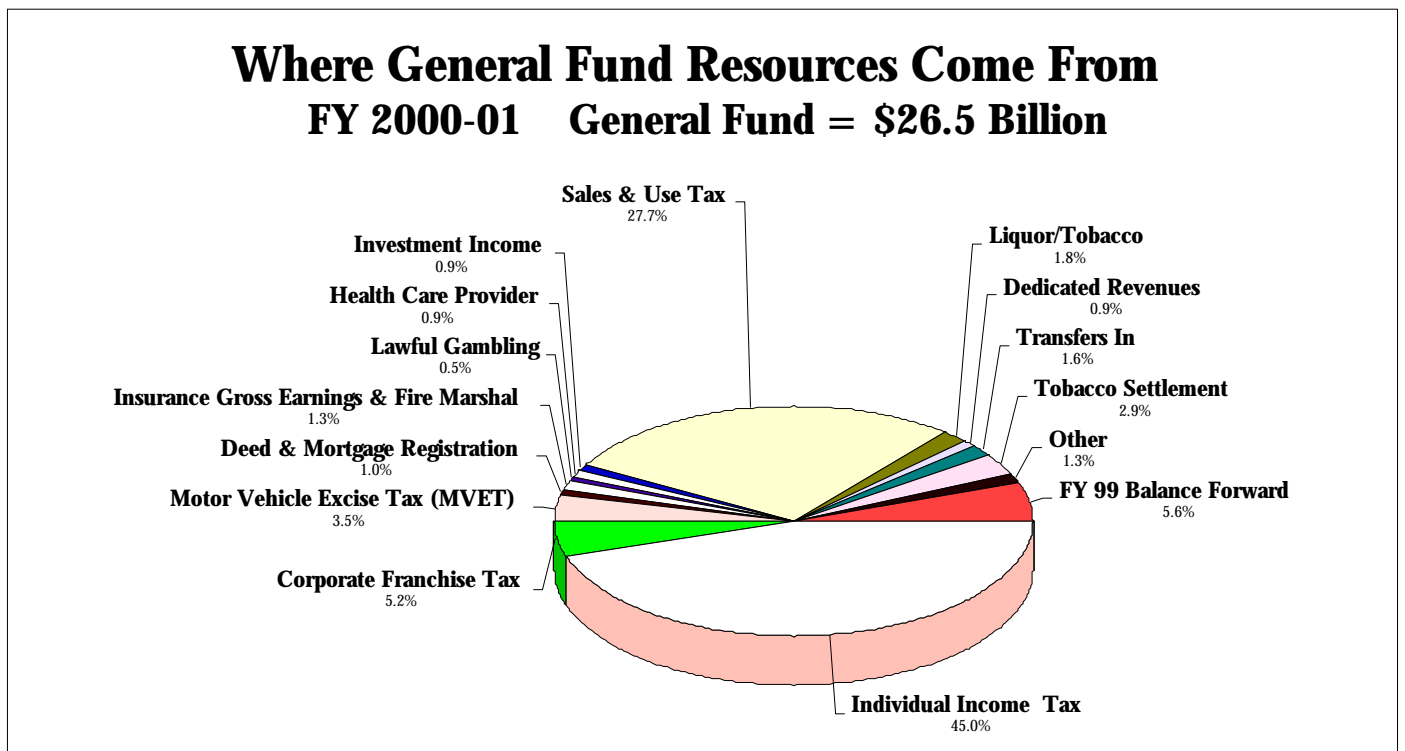
Table 2

**State General Fund Resources By Major Category for FY 2000-01
Based on February 1999 Forecast
(Dollars in millions)**

	FY 2000-01	% of total
Individual Income Tax	\$11,940,200	45.0%
Sales & Use Tax	\$7,344,339	27.7%
Corporate Franchise Tax	\$1,383,500	5.2%
Motor Vehicle Excise Tax (MVET)	\$916,200	3.5%
Deed & Mortgage Registration	\$252,200	1.0%
Insurance Gross Earnings & Fire Marshal	\$350,400	1.3%
Lawful Gambling	\$126,692	0.5%
Health Care Provider	\$244,614	0.9%
Investment Income	\$234,000	0.9%
Liquor/Tobacco	\$475,692	1.8%
Dedicated Revenues	\$237,320	0.9%
Transfers In	\$428,969	1.6%
Tobacco Settlement	\$760,606	2.9%
Other	\$340,786	1.3%
FY 99 Balance Forward	\$1,495,900	5.6%
Total Resources	\$26,531,418	100.0%

*Balance forward from 1999 adjusted for 1999 Session actions
Revenues are prior to tax reductions enacted in the 1999 Legislative session for FY 2000 & 2001*

Figure 1



State General Fund Expenditures

State general fund expenditures, including reserves, will be \$24.4 billion in FY 2000-01, an increase of \$1.44 billion or 6.3 percent over FY 1998-99. Excluding reserves, expenditures will be \$23.3 billion, an increase of \$1.97 billion or 9.2 percent. Again, these amounts are affected by changes made in appropriations in both the FY 2000-01 biennium and in FY 1999. The change from biennium to biennium actually increased because the general fund appropriation for capital projects in FY 1999 was decreased by the \$400 million in capital projects that was converted to bonding. [Table 3](#) shows appropriation amounts for the FY 1998-99 biennium and for the FY 2000-01 biennium. The largest percent increases in general fund appropriations were in the K-12 Education and Family and Early Childhood Education areas, both about 24 percent. The drastic change in Other Bills reflects the remaining general fund appropriation of \$500 million for capital projects in the 1998 Capital Bill.

Table 3

Change in Appropriations from FY 1998-99 to FY 2000-01
(Dollars in millions)

	1998-99 Enacted	2000-01 Enacted	Change	Percent Change
Total Expenditures				
Property Tax Aids & Credits	\$2,606.7	\$3,224.6	\$617.9	23.7%
K-12 Education	\$6,917.6	\$7,872.7	\$955.1	13.8%
Family & Early Childhood Education	\$370.3	\$459.8	\$89.5	24.2%
Higher Education	\$2,444.1	\$2,615.5	\$171.4	7.0%
Health & Human Services	\$4,781.9	\$5,367.9	\$586.0	12.3%
Environment & Agriculture	\$488.5	\$521.0	\$32.5	6.7%
Agriculture Relief (HF 1 & 414)	\$69.4	\$0	(\$69.4)	(100.0)%
Economic Development	\$416.6	\$414.1	(\$2.5)	(0.6)%
Transportation	\$151.8	\$166.1	\$14.3	9.4%
Judiciary	\$1,004.4	\$1,132.2	\$127.8	12.7%
State Government	\$755.6	\$721.4	\$(34.2)	(4.5)%
Debt Service	\$545.2	\$585.8	\$40.6	7.4%
Other Bill Spending (capital, taxes, etc.)	\$493.5	\$(1.8)	\$(495.3)	(100.4)%
Dedicated Expenditures	\$283.1	\$221.6	\$(61.5)	(21.7)%
Total - Expenditures	\$21,328.7	\$23,300.9	\$1,972.2	9.2%
Budget Reserve	\$622.0	\$622.0	\$0.0	0.0%
Cash Flow Account	\$350.0	\$350.0	\$0.0	0.0%
Dedicated Reserves	\$131.8	\$131.8	\$0.0	0.0%
Tax Reform Account	\$200.0	\$0.0	\$(200.0)	-100.0%
Property Tax Reform Account	\$330.2	\$0.0	\$(330.2)	-100.0%
Total - Expenditures & Reserves	\$22,962.7	\$24,404.7	\$1,442.0	6.3%

Notes: a.) The conference amounts for FY 98-99 are increased by FY 99 appropriations in bills passed during the 1999 session and decreased by the amount shifted to bonding.

b.) Enacted numbers include the effects of vetoes.

Total general fund resources for FY 2000-01 are \$26.531 billion. Tables [4](#) and [Figure 2](#) show in chart and pie graph the allocation of those resources. This number is substantially higher than the \$24.4 billion discussed in the previous

Budget Overview

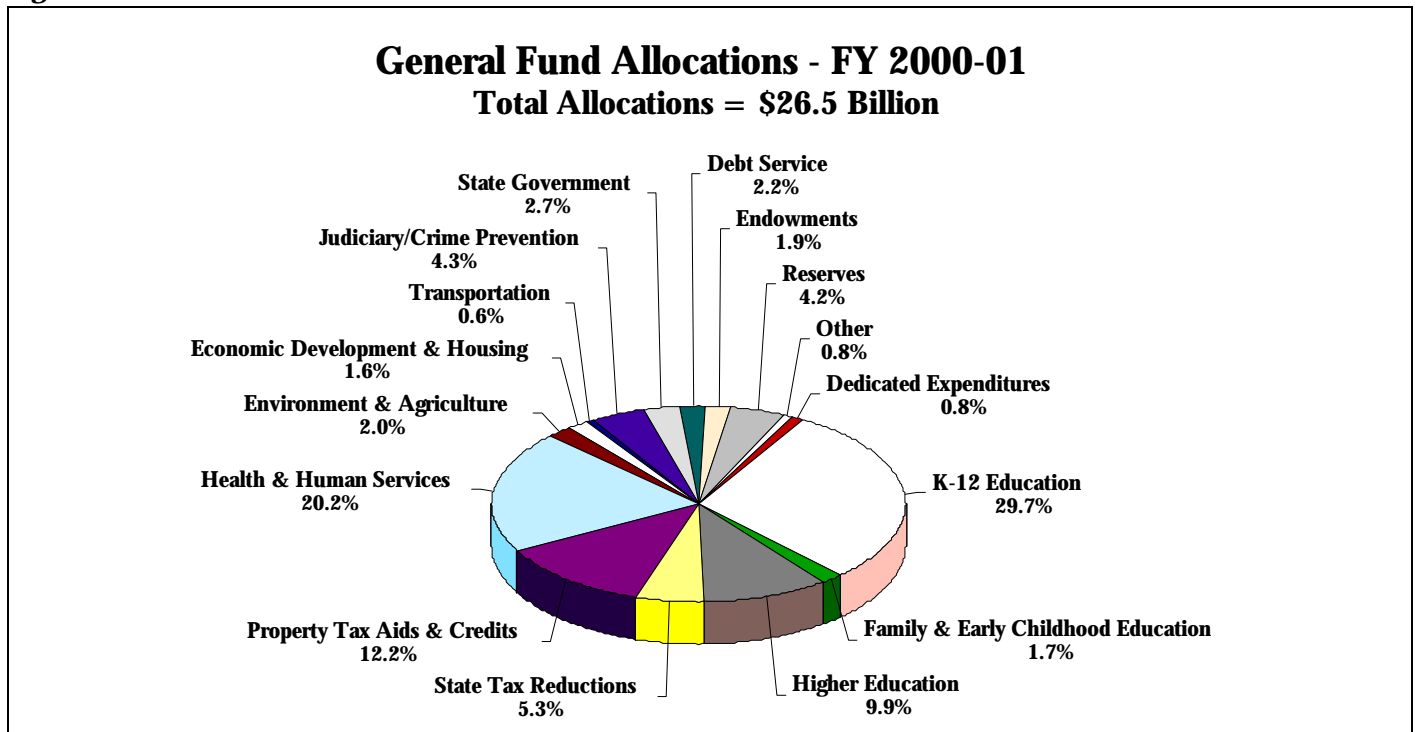
paragraph because it includes resources that were used for state tax reductions (\$1.412 billion), the tobacco endowment (\$507 million) and resources that were not committed and will carry over into FY 2002.

Table 4

**General Fund Allocations - FY 2000-01 By Omnibus Bill
Based on 1999 Legislative Actions And Gov's Vetoes (includes state revenue reductions)
(Dollars in millions)**

	FY 2000-01	Percent of total
K-12 Education	\$7,872.7	29.7%
Family & Early Childhood Education	\$459.8	1.7%
Higher Education	\$2,615.5	9.9%
State Tax Reductions	\$1,412.1	5.3%
Property Tax Aids & Credits	\$3,224.6	12.2%
Health & Human Services	\$5,367.9	20.2%
Environment & Agriculture	\$521.0	2.0%
Economic Development & Housing	\$414.1	1.6%
Transportation	\$166.1	0.6%
Judiciary/Crime Prevention	\$1,132.2	4.3%
State Government	\$721.4	2.7%
Debt Service	\$585.8	2.2%
Endowments	\$507.1	1.9%
Reserves	\$1,105.1	4.2%
Other	\$202.9	0.8%
Dedicated Expenditures	\$221.6	0.8%
Total	\$26,529.9	100.0%

Figure 2



FY 2002-03 General Fund Budget

Based on projected revenues and expenditures, and including 2.5 percent inflation, the general fund budget for FY 2002-03 is also balanced. An unresolved issue for FY 2002-03 is the disposition of the \$401.8 million of tobacco settlement (one-time) funds for that biennium. The estimated balance at the end of FY 2003 includes those funds. [Table 5](#) illustrates the estimated budget situation for FY 2002-03 given the current budget information and adding 2.5 percent inflation on almost all expenditures (planning estimate inflation) for each of those years. This planning estimate inflation adds about \$896 million to the expenditure total. It is important to note that these inflationary increases are not part of a budget base but are added in for planning purposes. [Table 5](#) shows the projected general fund budget for FY 2002-03 with the planning estimate inflation shown as a separate category.

Table 5

FY 2002-03 General Fund Budget

(Dollars in millions)

Resources

FY 2001 Balance Forward	\$1,241.2
Tax and Other Revenues	\$24,792.1
Tobacco Lawsuit Revenues	\$769.5
Total Resources	\$26,802.8

Expenditures

K-12 Education	\$7,961.8
Family & Early Childhood Education	\$543.1
Higher Education	\$2,676.0
Property Tax Aids & Credits	\$3,495.4
Health & Human Services	\$6,032.8
Environment & Agriculture	\$504.4
Economic Development	\$352.4
Transportation	\$164.6
Judiciary/Crime Prevention	\$1,169.6
State Government	\$684.1
Debt Service	\$614.9
Other	\$(20.0)
Planning Estimate Inflation	\$895.7
Dedicated Expenditures	\$221.6

Subtotal - Expenditures	\$25,295.9
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Budget Reserve	\$622.0
Cash Flow Account	\$350.0
Dedicated Reserves	\$133.1

Subtotal - Reserves	\$1,105.1
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Total Expenditures & Reserves	\$26,401.0
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Balance	\$401.8
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Budget Overview

Tobacco Lawsuit Revenues Increase State Revenues

Beginning in FY 1999, the state received payments resulting from its lawsuit against the tobacco companies. Settlement of the lawsuit resulted in the state receiving two types of payments. Settlement payments are received in fiscal years 1999 through 2003. Annual payments begin in FY 2000. Legislation passed in 1999 directs the tobacco settlement payments received in FY 1999, 2000 and 2001 to be deposited in a new tobacco settlement fund. Revenue in the fund is appropriated for several endowments. The 1999 Legislature did not decide to deposit settlement funds received in FY 2002 and 2003 somewhere other than the general fund. The annual payments will be deposited in the general fund and are not designated for any specific purpose. [Table 6](#) shows the tobacco lawsuit payments forecasted to be received in FY 1999-2003.

Table 6

Tobacco Lawsuit Payments Received by the State

(Dollars in millions)

	FY 99	FY 00	FY 01	FY 02	FY 03
Settlement Payments (one-time)	\$460.8	\$249.8	\$257.3	\$265.0	\$136.8
Annual Payments	\$0.0	\$118.2	\$135.3	\$181.1	\$186.6
Total	\$460.8	\$368.0	\$392.6	\$446.2	\$323.4

Contingent Allocations

The sales tax rebate was set at \$1.25 billion but up to an additional \$50 million is added to that amount if that amount of additional revenue is received between the February 1999 forecast and the close of FY 1999 on June 30.

The K-12 Education general education formula for FY 2001 is increased by \$50 per pupil unit if the additional revenue is projected to be available in the FY 2000-01 biennium and if revenues are projected to exceed expenditures in FY 2002 and 2003 by the amount needed to fund the formula increase in those years.

The Surplus

The February 1999 general fund forecast showed a general fund "surplus" over the three year period of FY 1999-2001 of over \$4 billion. In discussing how the surplus was used, it is important to know what the forecast measured and how the "surplus" was determined. The forecast compares total resources available over the three year period to forecasted expenditures for the same period. For FY 2000-01 the expenditure amounts were planning estimates that included 2.5 percent per year inflation added to the base amounts. [Table 7](#) illustrates how the "surplus" was allocated. When a negative amount is shown, less was allocated than had been forecast. Also, two sources of funding were used to add more funds to the total available - bonding for capital projects that were previously funded directly from the general fund and using the \$200 million in the Tax Reform and Reduction Account to fund a portion of the sales tax rebate.

Table 7

Use of the FY 1999-2001 Surplus
Compares estimated amounts for bills passed in the 1999 session to the planning estimates
for those bills in the February 1999 forecast.

(Dollars in millions)

	Feb 99 Forecast FY 00-01	1999 Enacted FY 00-01	Change	Percent of \$4 Billion Total
Tax Reform & Reduction Account	\$200.0	\$0.0	\$(200.0)	-4.9%
Converting Capital Projects to Bonding		\$(400.0)	\$(400.0)	-9.9%
FY 99 Farm Aid		\$70.7	\$70.7	1.7%
Other FY 99 spending (Deficiencies)		\$7.1	\$7.1	0.2%
FY 99 Sales Tax Rebate		\$1,251.3	\$1,251.3	30.9%
FY 99 Endowments		\$460.8	\$460.8	11.4%
K-12 Education	\$7,394.6	\$7,872.8	\$478.2	11.8%
Family & Early Childhood Education	\$534.2	\$459.8	\$(74.4)	-1.8%
Higher Education	\$2,466.5	\$2,615.5	\$149.0	3.7%
Property Tax Aids & Credits	\$3,205.6	\$3,226.4	\$20.8	0.5%
Endowments	\$0.0	\$507.1	\$507.1	12.5%
Health & Human Services	\$5,392.9	\$5,367.6	\$(25.3)	-0.6%
Environment & Agriculture	\$493.3	\$521.0	\$27.7	0.7%
Economic Development & Housing	\$374.9	\$414.2	\$39.3	1.0%
Transportation	\$154.3	\$166.0	\$11.7	0.3%
Judiciary/Crime Prevention	\$1,112.3	\$1,132.2	\$19.9	0.5%
State Government	\$692.3	\$721.4	\$29.1	0.7%
Debt Service	\$521.4	\$585.7	\$64.3	1.6%
State Tax Reductions	\$0.0	\$1,412.1	\$1,412.1	34.9%
Rebate Investment Income Loss	\$0.0	\$62.2	\$62.2	1.5%
Budget Balance		\$136.1	\$136.1	3.4%
Total Change - FY 1999-2001			\$4,047.6	100.0%

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

Family and Early Childhood Finance

Overview: The Legislature approved \$460.1 million from the general fund, \$85.2 million from local levies and \$80.4 million from the federal TANF block grant for expenditures on early childhood education, child care, prevention and intervention and self sufficiency programs within the Family and Early Childhood Education Omnibus Act ([1999 Laws of Minnesota, Chapter 205](#)). From the general fund there is an increase of \$90 million, or 24 percent over general fund spending in the FY 1998-99 biennium. Most of the change in the general fund from FY 1998-99 to FY 2000-01 is due to levy-to-state aid refinancing for community education programs and from projected increases in fully funded forecasted programs related to self-sufficiency.

The Governor line-item vetoed four items, totaling \$325,000. Vetoed items are shown in the summary by activity. The act as signed by the Governor, after the line-item vetoes, appropriated \$459.802 million from the general fund in FY 2000-01. [Table 8](#) summarizes the general fund spending authorized by Chapter 205. ([link to detailed spreadsheet](#))

Table 8

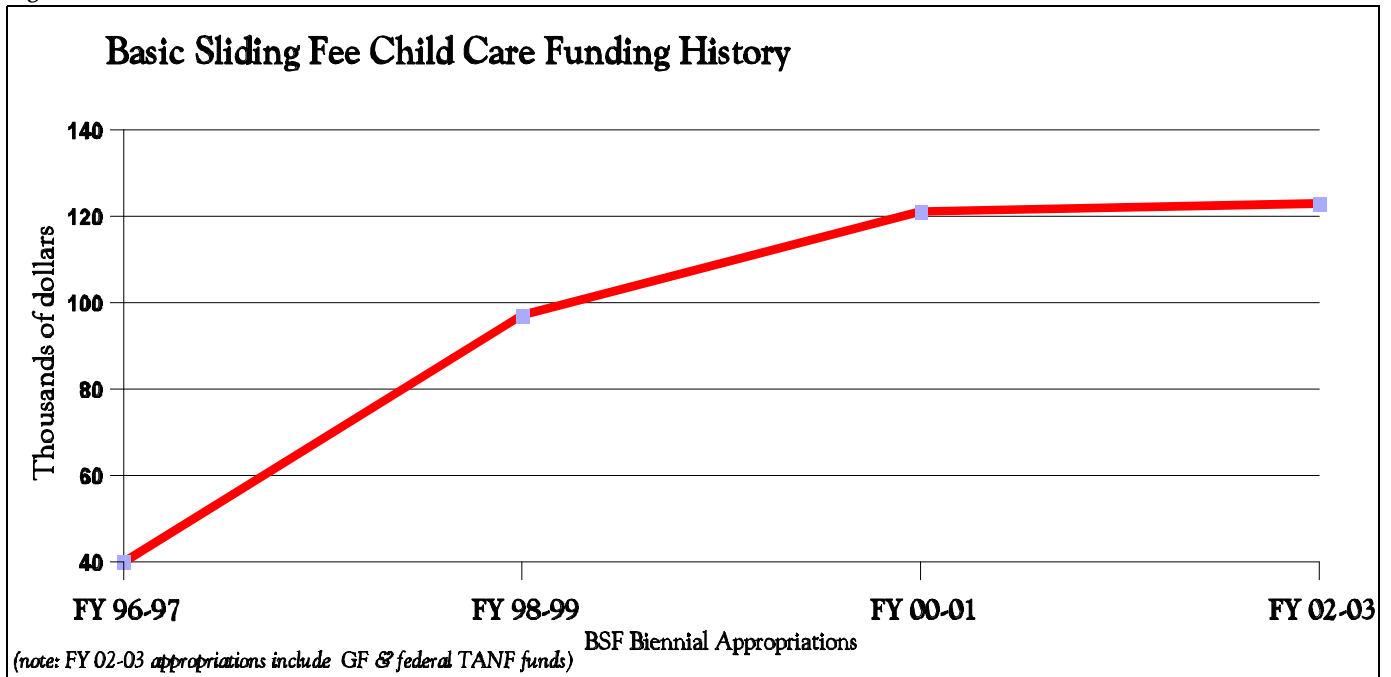
Family & Early Childhood Education Finance			
Total General Fund Spending			
(Dollars in thousands)			
	FY 1998-99 Forecast Spending	FY 2000-01 Chapter 205 Enacted	FY 2002-03 Chapter 205 Tails
Children & Family Support	\$270,015	\$326,474	\$405,748
Community & Systems Change	\$18,861	\$37,674	\$34,190
Prevention & Intervention	\$24,880	\$17,660	\$17,960
Self Sufficiency	\$54,577	\$77,994	\$85,251
Total General Fund	\$370,333	\$459,802	\$543,149

This section provides details of the omnibus family and early childhood education act by activity:

Children & Family Support:

- \$100,000 million from the general fund is added to the base of the forecasted MFIP child care program in FY 2000-01. The total biennial amount appropriated to this program is \$174.8 million. Projected growth in the MFIP employment services caseload is the principal factor driving the forecasted increase in the base appropriation for the MFIP child care program. The forecasted increase and the total appropriation for the MFIP child care program is slightly less than Governor’s budget proposal in the February Forecast because co-payment restructuring enacted by the Legislature will have the effect of reducing the total cost of the program.
- \$20.97 million from both general fund and federal TANF block grant funds are added to the Basic Sliding Fee (BSF) child care program in FY 2000-01. The total biennial amount appropriated to this program is \$122.5 million (See [Figure 3](#)). With the fiscal and policy changes approved the Legislature, up to 2,600 additional families in FY 2000 and 2,400 additional families in FY 2001 will be able to access the program.

Figure 3



- \$2 million from the general fund is added to the base of the Early Childhood Health Screening Program and reimbursement to school districts for the comprehensive health screening test is increased from \$25 to \$40. The total biennial amount appropriated to this program is \$5.1 million.
- After the levy-to-state aid refinancing, \$965,000 from the general fund is added to the Early Childhood Family Education (ECFE) program as a one-time appropriation in FY 2000. The levy for this program was also adjusted to maintain the same proportion of aid and levy as under current law. Total biennial funding for this program is \$78.1 million from both the general fund and levy. In FY 2000, the Legislature is fully funding the program and additional legislative action will be needed during the next legislative session to fund the program at 100 percent of its forecasted general fund aid entitlement level in FY 2001.
- \$1.58 million from the federal TANF block grant fund in FY 2000-01 is added to the child care development program as a one-time appropriation. The total biennial amount appropriated to this program is \$5.3 million from both the general fund and federal TANF block grant. The additional appropriation from the federal TANF block grant fund is needed to be in compliance with federal child care development block fund (CCDF) grant regulations. Of the \$1.58 million from federal TANF available, \$100,000 is for improvements to child care facilities and business planning and \$20,000 is for the Department of Children, Families and Learning (CFL) and the Department of Revenue to provide assistance for establishing child care pre-tax accounts.
- \$350,000 from the federal TANF block grant fund is for program integrity and fraud prevention in child care assistance programs in FY 2000-01. This appropriation will ensure that the recovery of overpayments of child care assistance will be returned to the child care assistance program.
- \$400,000 from the general fund is eliminated from the base of the Part H program in FY 2000-01. Base funding for this program began in the FY 1996-97 biennium to supplement federal Part C, IDEA funds for projected increases in the number of eligible children and families identified and served. Both the Legislature and the Governor agreed to eliminate base funding for this program because funds appropriated in previous biennia have never been expended.

Family & Early Childhood Finance

Community & Systems Change:

- \$6.3 million is reduced from the general fund appropriation of the Family Service Collaborative program in FY 2000-01. The recommended decrease enacted by the Legislature coincides with the Governor's recommendation to phase-out existing collaboratives and funding for the program. The general fund appropriation for the program of \$7.3 million in FY 2000-01 will continue to provide assistance to the current and pending collaboratives.
- \$50,000, in one-time funding, from the general fund in FY 2000-01 is to help sustain the First Call for Help program in existing counties.
- The School Age Care Aid program (formerly known as Extended Day Disabled) will be fully funded based on its revenue formula in statute. The equalizing factor for this program was adjusted to maintain the same proportion of aid and levy as under current law.

Prevention & Intervention:

- \$1 million from the general fund is added to the base of the After-School Enrichment Grant program in FY 2000-01. The total biennial amount appropriated to this program is \$10.5 million. Of the total appropriation, \$200,000 is earmarked for the delivery of after school activities at state armories.
- \$1 million from the general fund is for the Adolescent Parenting Program in FY 2000-01. Of the total appropriation, \$200,000 is one-time funding and is not added to the base.
- \$500,000 from the general fund is for the Male Responsibility program. The Legislature did not authorize the elimination of this program as the Governor proposed.
- \$300,000 from the special revenue fund is a one-time appropriation for culturally appropriate substance-abuse grants for American Indian Youth.
- \$300,000 from the special revenue fund is a one-time appropriation for a community collaborative project for children and youth. This project is expected to leverage approximately \$900,000 of non-state resources.
- \$4.990 million from the general fund from the Office of Drug Policy in CFL is transferred to the Department of Public Safety in FY 2000-01. The Legislature and the Governor concurred on this proposal.

Self Sufficiency:

- After levy-to-state aid refinancing, approximately \$9 million was added to the base of the Adult Basic Education (ABE) program to fully fund the program according to the statutory aid formula. The total biennial amount appropriated to this program is \$42.6 million. For determining the amount of state aid for this program, the Legislature opted to use prior year student data as a variable in its budget calculations. Using prior year student data will give the program more stability in its funding and will have the effect of reducing the overall cost of fully funding the program.
- \$1.96 million from the general fund in FY 2000 is for ABE basic population aid. This additional aid over the existing ABE revenue formula is intended to help sparsely populated school districts continue offering ABE program services.
- \$2.6 million from the general fund in FY 2000-01 is added to the base of the Adult Graduation Aid program. The total biennial amount to be appropriated to this program is \$7.9 million. In FY 2000, the Legislature adjusted the formula to reflect a slower rate of growth in the program than what was proposed in the Governor's budget. Beginning in FY 2001, this program will be fully funded according to the statutory aid formula.
- \$150,000 in one-time funding in FY 2000-01 from the general fund is to set-up a contract with a public broadcasting network for GED instruction. This initiative was originally funded in FY 1998-99 as a one-time appropriation. In

FY 1998-99, CFL awarded a contract to Pioneer Public TV to broadcast GED instruction to an area covering 175 communities or 300,000 homes in Southwestern, Minnesota. **This appropriation was vetoed by the Governor.**

- \$500,000 is from the general fund to establish base funding for the Lead Abatement Program. The Legislature did not authorize the elimination of this program as the Governor proposed. Of the amount allocated for this program, \$300,000 is a one-time appropriation. Funds for this program are expected to leverage federal Housing and Urban Development funds and private funds from the Shriver Foundation.
- \$500,000 is from the general fund to establish base funding for the Family Assets for Independence program. This funding will provide a life-time savings match for approximately 165 income eligible families to achieve an education, buy a home or start a business. The state will match \$1.5 for every \$1 of private money within from the family asset account.
- \$700,000 from the general fund is to establish a base for the Emergency Shelter grant program in FY 2000-01.
- \$866,000 from the general fund is added to the base of the Transitional Housing program. The total biennial amount appropriated to this program is \$3.975 million. Within the appropriation, funds are earmarked for homeless veterans, Perspective, Inc, Hennepin County's Kid Capacity initiative, and the St. Louis Park Meadowbrook Collaborative. **The latter three earmarks, totaling \$175,000, were line-item vetoed by the Governor.**

Implications

The projected FY 2002-03 general fund budget tails for the family and early childhood education omnibus act are \$543 million or \$9.9 million under the Governor's tails. Despite being under the Governor's tails, general fund expenditures for the family and early childhood education programs are estimated to jump \$83 million in FY 2002-03 or 19 percent over FY 2000-01 general fund spending. Most of the projected general fund increase in FY 2002-03 spending is not a result of a net increase in program expenditures but rather \$60 million of the expected increase is the result of a one-time refinancing initiative in FY 2000-01 to replace the general fund base for the BSF child care program with federal TANF funds. In FY 2002-03, the general fund base for the BSF child care program will be restored. Corresponding with the change in the general fund base, the proportion of federal TANF funds for the basic sliding fee program will drop from \$80.4 million in FY 2000-01 to \$20.4 million in FY 2002-03.

For more information on Family and Early Childhood Education issues, contact: Cynthia Coronado Templin at 651-296-5384 or Cynthia.Templin@house.leg.state.mn.us

K-12 Education Finance

The K-12 Education Finance Omnibus Act ([1999 Laws of Minnesota, Chapter 241](#)) authorized \$7.8 billion in state aid for K-12 Education. This compares with the November forecast of current law FY 2000-01 K-12 education spending of \$7.1 billion, an increase of \$773.1 million, or 10.8 percent. When compared to spending in FY 1999 of \$3.6 billion, the FY 2000 appropriation of \$3.9 billion is an increase of 9.3 percent. The FY 2001 appropriation of \$4.0 billion is an increase of 4.0 percent over the FY 2000 appropriation.

Education property taxes are slightly higher than current law. Property taxes for FY 2000 (the pay 1999 property taxes already being levied) decreased by \$23.7 million over FY 1999, or 1.1 percent, to \$2.2 billion. Property taxes for FY 2001 (payable 2000) are estimated to increase by \$61.5 million, or 3.4 percent over FY 2000, to \$2.3 billion. The enacted FY 2001 levy amount is \$12.1 million more than current law levies for FY 2001. [Table 9](#) summarizes the general fund spending authorized by Chapter 241. ([link to detailed spreadsheet](#))

Table 9

K-12 Education Finance			
Total General Fund Spending			
(dollars in thousands)			
	FY 1998-99 Forecast Spending	FY 2000-01 Chapter 241 Enacted	FY 2002-03 Chapter 241 Tails
General Education	\$5,393,132	\$6,274,690	\$6,385,586
Special Programs	\$797,730	\$1,207,063	\$1,279,157
Lifework Development	\$39,795	\$25,191	\$12,726
Facilities & Technology	\$122,612	\$150,864	\$132,483
Education Excellence	\$21,591	\$40,303	\$28,954
Other Programs	\$60,621	\$83,048	\$89,084
Nutrition	\$16,296	\$22,612	\$17,612
Libraries	\$18,316	\$21,983	\$21,346
Discontinued Programs	\$245,223	\$0	\$0
Property Tax Shift Payments	\$108,905	\$0	\$0
Children, Families & Learning	\$62,985	\$62,059	\$59,528
Perpich School for the Arts	\$11,488	\$14,639	\$14,800
State Academies	\$18,886	\$20,297	\$20,516
Total General Fund	\$6,917,580	\$7,922,749	\$8,061,792

** The totals for FY 2000-01 and FY 2002-03 are different from those in the Budget Overview totals due to the inclusion in this chart of \$50 million in FY 2001 and \$100 million in FY 2002-03. These contingent amounts are available to be spent only if the November 1999 forecast of general fund revenues and expenditures projects adequate amounts to cover those increases.*

The following summarizes the provisions in Chapter 241, with the costs expressed as a biennial total increase over base, unless otherwise noted:

General Education

The basic formula amount increases by approximately 4.7 percent between FY 1999 and FY 2000, and by 3.2 percent between FY 2000 and FY 2001. For FY 2000, the formula increases from \$3,530 in FY 1999 to \$3,740, and for FY 2001 increases again to \$3,925. Up to \$50 of the FY 2001 formula is contingent on the money to fund the increase being available when the November 1999 forecast of expenditures and revenues becomes available. There are two components

to the increases in the formula between FY 1999 and FY 2001: increases which amount to the 4.7 percent and 3.2 percent, and roll-ins as explained in [Table 10](#):

Table 10: Increases in General Education Formula

	FY 2000	FY 2001
Formula Allowance *	\$3,740	\$3,925
Increase	\$210	\$185
Roll-Ins **	\$43	\$67
Net Increase	\$167 4.7%	\$118 3.2%

* The FY 2001 formula allowance includes the contingent \$50 per pupil.

** FY 2000 includes the \$43 roll-in of graduation standards revenue, FY 2001 includes the \$67 roll-in of district cooperation revenue.

The formula allowance also includes a reserve, which districts can choose to allocate to class-size reduction, full-day kindergarten or reducing special education student-to-instructor ratios.

- \$85.9 million for class size reduction programs targeted toward grades K-3 achieving a 17:1 student to teacher ratio. The revenue is generated through pupil weighting increases for kindergarten students, from .53 to .557, and for pupils in grades 1 to 3, from 1.06 to 1.115.
- \$15.0 million to pay for increased operating referendum equalization. Class size reduction expenditures by school districts are expected to generate additional lease levy costs for school districts (\$10.5 million in FY 2001). To offset that levy increase, an increase in operating levy equalization will result in a concurrent levy decrease. The equalization level increases from \$350 in FY 2000 to \$415 in FY 2001 and later. In addition, the cap for operating referendum is increased from 25 percent of the basic formula amount minus \$300 to 25 percent of the basic formula amount.
- \$41.9 million for equity revenue. A district with an excess levy referendum qualifies for equity revenue if their basic, supplemental, transition and referendum revenue is below the 90th percentile of that revenue in all districts in that region (where the region is defined as the seven county metro area or the balance of the state). If the district qualifies, its equity index is calculated based on where it falls in relation to the rest of the districts in that region. The index is then multiplied by \$30. The product of that calculation is added to \$10, and that number is multiplied by the district's pupil count to generate its equity revenue. A district that does not have a referendum receives \$22 per pupil for FY 2000 and FY 2001, and \$10 per pupil in FY 2002 and later. Districts with their headquarters in cities of the first class are not eligible for equity revenue.
- \$16.3 million to increase the Basic Skills Limited English Proficiency revenue cap. Also, requires a reserve account in FY 2000 and later for Basic Skills revenue, eliminates the \$22.50 match required for Basic Skills Assurance of Mastery revenue, and allows a district for one year to reserve 5 percent of compensatory revenue to be allocated by the district, rather than to the site where the students generating it attend.
- \$53.6 million to ensure continuation of learning year pupil units, which is slated to be sunset on July 1, 1999.
- \$8.5 million to increase the pre-kindergarten pupil weighting from 1 to 1.25. Since these students are special education pupils, this change results in a reduction in the cross-subsidization of those students with general education revenue from other sources.

K-12 Education Finance

- \$9.5 million to eliminate the supplemental revenue reduction in districts which have low property values, and to add the Anoka-Hennepin and Osseo districts to supplemental revenue.
- Adjusted marginal cost pupil units are created, replacing weighted average pupil units, but calculating adjusted marginal cost pupil units as .9 times the current year weighted pupil units plus .1 times the previous year's weighted pupil units. Also, pupil units are changed in all cases except referendum to be pupil units served, rather than resident pupil units.
- \$3.5 million in fund transfers and miscellaneous levies for various districts, including Monticello, White Bear Lake, Oklee, Deer River, Faribault, Westonka, Eden Prairie and Tracy. Levy cost of \$2.5 million.

General Education programs eliminated:

- Transportation Safety, savings \$2.7 million
- Wide Area Transportation Program, savings \$100,000

Special Programs

- \$59.6 million to increase the regular special education revenue cap in FY 2000 and FY 2001. For FY 2002 and later, the program growth factor for regular special education revenue is increased from 1.0 to 1.012.
- \$36.1 million for excess cost special education excess cost revenue, as a result of reducing the excess cost threshold from 5.7 percent of general education revenue to 4.4 percent and increasing the reimbursement rate for excess cost from 70 percent to 75 percent. In FY 2002, establish a statewide excess cost revenue cap similar to that for regular special education aid. The growth factor for the statewide excess cost revenue cap would be 1.044 in FY 2002 and 1.02 in FY 2003 and later.
- \$14 million for First Grade Preparedness programs, which will basically allow current all day kindergarten program to continue operating.

Special Education programs eliminated:

- ASL: Teacher Education Hearing Impaired, savings \$25,000
- Mexican Origin Education Grants, savings \$75,000
- Lay Advocates Program, savings \$10,000
- Options Plus Grants, savings \$150,000
- Homeless Student Aid, savings \$100,000
- Voluntary InterAgency Intervention Demonstration Projects, savings \$500,000

Lifework Development

- \$318,000 in additional funding for the Minnesota Foundation for Student Organizations.

Lifework Development programs eliminated:

- Basic Secondary Vocational Aid, savings \$12.7 million (the program is eliminated effective FY 2001)
- Work Study Student Compensation, savings \$100,000

Facilities And Technology

- \$5 million for Telecommunication Access Grants.

- \$5.0 million for disaster relief grants and disaster-related pupil losses for districts in the Red River Valley from flooding, and districts in south central Minnesota for tornado damage.
- \$750,000 for the Urban League Street Academy.
- \$27,000 to cover the initial conversion from levy to aid of debt service costs resulting from a provision which removes the requirement that districts have 66 pupils per grade in grades 9-12 to qualify for debt service equalization on 9-12 facilities.

Facilities and Technology programs eliminated:

- Historic Building Revenue, savings \$401,000 aid, \$90,000 per year in levy.

Education Excellence

- \$13 million in Graduation Standards Support for support of statewide testing, the Clearinghouse of Best Practices and the Graduation Standards Curriculum Repository.
- \$4.5 million for teacher programs, including an \$800,000 increase for the Collaborative Urban Educator program, a teacher training program at Hamline University, for a professional teacher certification program, and for best practices program for teachers of special needs students.
- \$500,000 for a matching grant with the National Geographic Society Education Foundation for an excellence in geographic education program.
- \$100,000 for a program offering horseback riding as an alternative education method for children with disabilities.
- \$1.3 million to increase charter school building lease aid to the lessor of 90 percent of the lease cost or \$1,500 per pupil.
- \$100,000 to provide integration aid to charter schools.
- \$80,000 to continue the Homework Hotline.

Education Excellence programs eliminated:

- School Enrichment Partnership Grants, savings \$500,000

Other Programs

- \$6.4 million to fully fund the nonpublic pupil aid and nonpublic transportation formulas, which had been prorated., and to eliminate the impact that changes in the general education formula have on nonpublic transportation revenue due to the roll-in of district cooperation and the roll-out of training and experience revenue.
- \$450,000 to the Minnesota Learning Resource Center.
- \$458,000 for HIV education training sites.
- \$50,000 for operation of the Angle Inlet school.
- \$500,000 to continue the Partners for Quality School Improvement program.

Academic Performance programs eliminated:

- Family Connections Aid, savings \$500,000

Nutrition

- \$860,000 to reduce the proration in the basic school lunch per meal reimbursement rate.

K-12 Education Finance

- \$5.0 million for the “Fast Break for Learning” program, which will provide grants to elementary schools for breakfast programs. Schools in the program must provide \$1 for every \$3 provided in state aid, through the charging of fees to students on a sliding scale, or through the soliciting of nonpublic funds.

Nutrition and Other programs eliminated:

- Summer Food Service Aid, savings \$30,000
- School Breakfast Outreach Program, savings \$30,000

Libraries

- \$2.4 million for Regional Library Telecommunication Aid., to allow access and connectivity with the Minnesota Library Information Network, other databases and Internet resources.
- \$1.4 million to supplement Basic Library Grants.
- \$500,000 for a database access program to provide statewide licenses to commercial electronic databases of periodicals, encyclopedias, and associated reference materials for school media centers, public libraries, state government agency libraries, and public or private college or university libraries.
- \$212,000 for the Minnesota Library for the Blind.

Library programs eliminated:

- Librarians of Color Grants, savings \$110,000
- Children’s Library Services Grants, savings \$300,000
- Regional Library Outreach, savings \$500,000

Lola And Rudy Perpich Minnesota Center For Arts Education

\$2.1 over their base budget for salary increases, statewide professional development, allowing the Center to provide professional development in the arts for graduation standards implementation and other activities, for information technology improvements, for instructional programs and basic residential services, such as transportation and safety, and for general administrative services and facilities functions, including capital repair and replacement costs.

Minnesota State Academies For The Deaf And Blind

\$1.7 million over their base budget for salary increase, for educational programming in relation to students’ career development and life skills, for reading, writing and math remediation services, to maintain the existing computer infrastructure and to integrate technology into the classroom, and for ongoing repair, maintenance and asset preservation of Academy facilities.

Department of Children, Families And Learning

\$1.0 million for salary increases, to upgrade the computer servers in the agency which are used for data reporting by schools on student achievement, student data and district financial data and to develop an Internet server to facilitate transferring student transcripts between school districts, and between school districts and higher education institutions. The funds may also be used for additional information technology/program finance staff positions in the Department to work on aid calculation and payment systems, to develop a comprehensive technology/data management operating and strategic management plan, and for litigation costs associated with the education adequacy/desegregation lawsuits.

Implications

The overall level of funding in this act, both aid and levy, as well as the changes in the Omnibus Tax Act will mean that the state share of education funding for FY 2000 will be 70.3 percent, and in FY 2001 will be 72.1 percent.

The switch to marginal pupil units will dampen the impact of changes in enrollment on school districts. For the districts in the state which are declining, which is the majority of districts, it will reduce the impact that the decline has on them, allowing them to generate revenue off of a higher number of pupils than they would be able to if they were using a count of pupils in the district. For growing districts, additional students will not result in as much revenue, as the growth will be dampened in much the same way the decline is in shrinking districts.

The act requires that districts provide information which shows which students generated which revenue, on a site basis, and then to show how the district reallocated that revenue among its sites could prove useful to citizens in school districts in understanding how the education funding system does and does not account for cost differentials between school sites within a district.

For more information on K-12 Finance issues, contact Greg Crowe at 651-296-7165 or Greg.Crowe@house.leg.state.mn.us

Higher Education Finance

The Omnibus Higher Education Finance Act ([1999 Laws of Minnesota, Chapter 214](#)) provides a total of \$2.6 billion in general fund appropriations for the FY 2000-01 biennium. This represents an increase of \$237.5 million (10 percent) over the adjusted base budget for the FY 2000-01 biennium or \$171.4 million (7 percent) over FY 1998-99 forecast spending. For several biennia there have been substantial variances between forecast spending and base allocations in higher education because of one-time expenditures. Chapter 214 eliminates this difference by allocating only recurring funds in the second year of the biennium (FY 2001). In addition, the higher education act contains \$5.6 million in Health Care Access Fund expenditures for primary care physician training. The Governor vetoed new appropriations of \$200,000 from the Health Care Access fund for tuition waivers for health care education and \$250,000 from the Lottery Prize Fund for research on addictive behavior. Chapter 214 also assumes general fund “tails” spending in the FY 2002-03 biennium of \$2.7 billion. [Table 11](#) summarizes forecast spending for the current biennium, as well as the adjusted base and appropriation for the FY 2000-01 biennium and “tails” for each higher education account. ([link to detailed spreadsheet](#))

Table 11

Higher Education Finance Total General Fund Spending (dollars in thousands)				
	FY 1998-99 Forecast Spending	FY 2000-01 Adjusted Base	FY 2000-01 Chapter 214 Spending	FY 2002-03 Chapter 214 Tails
HESO	\$278,548	\$281,535	\$310,453	\$321,054
Mayo	\$2,309	\$2,564	\$3,183	\$3,274
MnSCU	\$1,051,585	\$1,011,835	\$1,115,791	\$1,144,588
U of M	\$1,111,692	\$1,082,057	\$1,186,013	\$1,207,084
Total	\$2,444,134	\$2,377,991	\$2,615,500	\$2,676,000

Higher Education Services Office (HESO)

Chapter 214 allocates a biennial total of \$310.5 million for the Higher Education Services Office. This represents an increase of \$28.9 million (10.3 percent) over the adjusted base, or \$31.9 million (11.5 percent) over FY 1998-99 spending. Specific appropriations related to the Higher Education Services Office include:

- \$28 million in additional funding for the State Grant Program including: \$4.6 million to cover increases of 3 percent annually in public tuition and fees and \$5.4 million to increase the tuition maximums for private college students by the same percentage. \$4.1 million is to reduce the student share of the cost of attendance from 47 percent to 46 percent in the second year of the biennium. \$13.2 million is to increase the Living and Miscellaneous Expense allowance portion of the program raising it \$190 in the first year to \$5,075 and \$110 in the second year to \$5,185. \$870,000 is to reduce the minimum grant from \$300 to \$100.
- \$3 million in additional work-study funding to add new students to the program.
- \$4.7 million in additional funding for the MINITEX interlibrary loan system. This appropriation covers additional staffing, moving operations into the Minnesota Library Access Center, on-line databases, journals and periodicals as well as operating funds for the new MNLINK on-line library system.

- \$1.5 million for additional telecommunications costs and equipment through the Learning Network of Minnesota (formerly called the Telecommunications Council).
- \$250,000 to continue the National Service Scholars program.
- \$1 million to fund additional early intervention for college attendance (TRIO) efforts.

Minnesota State Colleges and Universities (MnSCU)

For the Minnesota State Colleges and Universities, Ch. 214 spends a total of \$1.116 billion. This represents an increase of \$104 million (10.3 percent) over the adjusted base or \$64.2 million (6.1 percent over forecast spending). For the FY 2000-01 biennium the bill includes:

- \$55.6 million for general inflation including compensation.
- \$10 million for campus financial distress and equity funding. These funds are to be distributed as grants of no larger than \$500,000 to those campuses which are both underfunded on a per student basis comparative to other campuses and which also are currently under some financial distress.
- \$2.5 million for improved curriculum development.
- \$1.7 million for the new Degree Audit Reporting System. This system will track and allow students to understand their progress toward meeting degree requirements as well as credit transfer issues.
- \$6 million for improved technology infrastructure and Y2K issues.
- \$1.5 million for continuation of The Virtual U and ISEEK (employment and education information) programs
- \$10 million for expanded Customized Training and new Leveraged Equipment purchases.
- \$16 million for additional building repair and betterment throughout the MnSCU system.
- \$500,000 for expansion of the farm business/small business management program.
- \$350,000 for the Bemidji State University Center for Research and Innovation.
- \$100,000 for the Central Lakes College, Staples Campus Agriculture Program.
- \$100,000 for the Southwest State University Rural Research Center.

University of Minnesota

For the University of Minnesota, Ch. 214 allocates a biennial total of \$1.19 billion. This represents an increase of \$104 million (9.6 percent) over the adjusted base or \$74.3 million (6.7 percent) over forecast spending. For the FY 2000-01 biennium the bill includes:

- \$69.4 million for general compensation inflation and special compensation for some faculty.
- \$15 million for Improving the Undergraduate Experience. This item contains funding for freshman seminars, technology enhanced learning, libraries, and potentially expansion of course offerings at the University Center Rochester.
- \$11 million for Connecting the University to the Community. Programs funded through this section include: the Agricultural Rapid Response Fund; regional agricultural partnerships; commercialization of technology; animal health & food safety; the Virtual U; the University Center Rochester; digital library resources and the wireless technology testbed.

- \$9.1 million for additional facilities repair and betterment.

Mayo Medical School

Ch. 214 allocates a total of \$3.2 million to the Mayo Foundation. This represents an increase of \$619,000 (24 percent) over the adjusted base. This reflects increased costs for the capitation grants to the medical school and the Family Practice Residency program as well as the addition of one fully funded capitation grant in rural medicine for each program.

Implications

The University of Minnesota argued in its budget request that there is a major problem on the horizon in medical and health care education. A variety of factors including managed care, reductions in patient care revenue from university physicians, reduced federal funding for Graduate Medical Expense Reimbursement (GME), rapid growth of educational expenses and the need to expend funds to match health care curricula to the future community/prevention based health care system were cited by the university as reasons for a potential revenue/expenditure gap of \$80 million. As part of the solution to this problem the University was seeking \$5 million in direct appropriations for revamping health care education as well as \$30 million in income from an endowment established for medical education with proceeds from the states tobacco settlement. No funds were appropriated in Chapter 214 for these purposes, however, an endowment which will direct approximately \$16 million to the University over the biennium was established (see Health and Human Services Section). This is obviously far less than the University's request but the effect on medical education remains to be seen. The request was not meant to address the entire problem and there are other partners (i.e. the private health care sector and possibly the federal government) who have yet to address the problem. Certainly the University faces substantial challenges in the next several years which may result in some retrenching of medical education. The size of the problem after the actions of the 1999 legislature and the effect on the production of the proper number of trained health care workers will continue to be matter of uncertainty and concern for the legislature during the FY 2000-01 biennium.

For MnSCU, Chapter 214 appropriations will require some campuses to retrench their operations in FY 2000. Because of enrollment losses, MnSCU's base budget is reduced by approximately \$27 million going into the FY 2000-01 biennium. While Chapter 214 provides \$104 million in funding above the base for FY 2000-01, much of it is in the second year and much of it is for restricted purposes (i.e. facilities repair or customized training). In FY 2000, MnSCU receives an increase of approximately \$18 million over base in unrestricted funds (inflation). The system also will distribute slightly over \$3 million in recurring funds from the previous biennium that was used as a "safety net" for campuses. In total this means that MnSCU actually has approximately \$5 million less in funding for campus operations in FY 2000 than it did in FY 1999. Combined with increases in the cost of salaries and substantial projected increases in health care costs system wide, this will mean budget cutting and probable faculty/staff layoffs at some campuses. System wide the picture improves for FY 2001 since the general inflation funding falls heavily in that year of the biennium and enrollment projections are up, however, individual campuses which do not reverse negative enrollment trends will have similar budget problems to deal with in the second year of the biennium.

For more information on Higher Education Finance issues, contact Doug Berg at (612) 296-5346 or Doug.Berg@house.leg.state.mn.us

Health and Human Services Finance

Net general fund spending authorized in Article 1 of the Omnibus Health and Human Services Act ([1999 Laws of Minnesota, Chapter 245](#)) totals \$5.368 billion for the FY 2000-01 biennium. Article 11 of the Act provides for the establishment of two endowment funds with proceeds from the one-time tobacco settlement payments -- a total of \$968 million. Excluding establishment of the endowment funds, the biennial budget for Health and Human Services (H&HS) programs and activities will increase by \$585.9 million, a 12.3 percent increase compared to the previous biennium. Forecast-related expenditures (e.g., Medical Assistance (MA), Minnesota Family Investment Program (MFIP), and Chemical Dependency treatment) account for 26 percent of the anticipated increase during the upcoming biennium. H&HS spending in fiscal years 2002 and 2003 is expected to reach \$6.033 billion from the general fund, an additional 12.4 percent increase compared to the 2000-01 biennium. ([link to detailed spreadsheet](#))

Table 12

Health and Human Services Finance			
Total General Fund Spending			
(dollars in thousands)			
Agency	FY 1998-99 Forecast Spending	FY 2000-01 Chapter 245 Enacted	FY 2002-03 Chapter 245 Tails
Human Services	\$4,614,296	\$5,179,358	\$5,844,378
Health	\$117,662	\$128,481	\$124,930
Veterans Homes Board	\$43,761	\$53,224	\$56,416
EMS Board	\$1,959	\$2,443	\$2,624
Council on Disabilities	\$1,275	\$1,320	\$1,340
Ombudsman for MH/MR	\$2,711	\$2,716	\$2,756
Ombudsperson for Families	\$318	\$337	\$342
Total General Fund	\$4,781,982	\$5,367,879	\$6,032,786

Significant Spending Initiatives

Significant spending items within the Health and Human Services budget include \$99.0 million for a four percent cost of living adjustment (COLA) in FY 2000 and a three percent COLA in FY 2001, \$21.2 million to fully fund the Senior Drug Program this biennium, \$20.2 million to provide rate increases for professional providers and hospital services under the MA, MinnesotaCare, and General Assistance Medical Care (GAMC) programs, and \$7.1 million to provide additional waiver slots for people with Developmental Disabilities. Concerns brought to the Legislature by nursing facilities, ICFs/MRs, and other health care providers, who continue to have problems hiring and retaining direct care staff who can deliver quality care to Minnesota's vulnerable populations, made the issue of providing a COLA this biennium a foregone conclusion. A three percent rate increase for physicians and professional service providers was deemed necessary to maintain and preserve access to Minnesota's public assistance programs, particularly since providers have not seen an increase in payment rates since fiscal year 1992. Additional waiver slots were provided to ensure that people with developmental disabilities who can live independently in the community are afforded the opportunity and resources to do so.

Health Care Access Fund Taxes

The provider tax and the gross premium tax, which help fund the MinnesotaCare program and other health care access initiatives, were affected by changes during the 1999 Legislature. Under current law, the provider tax would have returned

Health & Human Services Finance

to 2.0 percent on January 1, 2000. The Omnibus Tax Act ([1999 Laws, Chapter 243](#)) maintains the provider tax at 1.5 percent through December 31, 2001.

The Governor vetoed a provision in the Omnibus Tax Act that would have transferred \$84.9 million over three years from the general fund to the Health Care Access fund to preserve the balance of funds in the account. The veto has no effect on the status of the provider tax; it will remain at 1.5 percent. However, the 1.0 percent gross premium tax, a tax assessed on the gross premiums collected by HMOs, community integrated services networks, and non-profit health service plans will be collected beginning January 1, 2000. Under current law, the 1.0 percent tax is not collected if the Commissioner of Finance determines that there will be a structural surplus in the fund for the next fiscal year. In other words, if revenues less expenditures are projected to be greater than zero, no tax is imposed. Otherwise, the tax is collected at 0.25 percent increments sufficient to eliminate the projected deficit.

Prior to the Governor's veto, the gross premiums tax would have been 0.0 percent in calendar year 2000 (beginning January 1, 2000), 0.25 percent in calendar year 2001, 0.0 percent in calendar year 2002, and 0.5 percent in calendar year 2003. As a result of the veto, the tax will be collected at 1.0 percent through calendar year 2002 then lowered to 0.5 percent on January 1, 2003.

Temporary Assistance for Needy Families (TANF) ([link to TANF spreadsheet](#))

Spending from the federal Temporary Assistance for Needy Families (TANF) block grant totaled \$596.3 million for the 2000-2001 biennium, an increase of \$211.5 million compared to current spending. Of the increased appropriation, approximately \$90.0 million (42.6 percent) represents an effort to use federal TANF block grant monies instead of the general fund to finance existing operations. These refinancing decisions are driven by the growth in unencumbered funds in the federal TANF reserve account, which remain in the U.S. Treasury not the state's coffers. According to current projections, an estimated \$189 million will remain in the federal TANF reserve in FY 2003. The possibility exists that the federal government may recapture unexpended funds carried-forward from prior years when funding for the TANF block grant is reauthorized for FY 2003.

Excluding refinancing mechanisms, federal TANF spending increased by \$91.1 million (Health and Human Services committees) and \$30.4 million (non-Health and Human Services committees) primarily related to child care assistance. Additional H&HS spending initiatives include \$25.9 million for additional resources to counties to serve MFIP recipients and \$28.7 million to disregard \$100 of unearned income for MFIP participants receiving housing subsidies.

Endowment Funds

The Governor and the Legislature approved setting aside \$968 million of the one-time - not ongoing - settlement payments from the tobacco proceeds for two endowment funds: the Tobacco Use Prevention and Local Public Health Endowment Fund (\$590.5 million) and the Medical Education Endowment Fund (\$377.5 million) [See [Table 13](#) on the following page.] Interest earnings, up to five percent of the fair market value of the fund, will be appropriated each July 1st for tobacco use prevention, local public health, and medical education; the principal will remain intact. However, on January 1, 2000, a one-time payment of five percent of the interest earnings is appropriated to the Commissioner of Health for tobacco use prevention grants.

Of the **Tobacco Use Prevention and Local Public Health Endowment Fund**, which represents 61 percent of the total allocation, 67 percent of the interest earnings will be used for Statewide Tobacco Use Prevention Grants, 16.5 percent for Local Tobacco Use Prevention Grants, and 16.5 percent for Local Public Health activities. Thirty-nine percent of the endowment fund allocation will be set aside in the **Medical Education Fund**. Of that amount, interest earnings in the following amounts (70 percent in FY 2000, 49 percent in FY 2001, and 42 percent in FY 2002 and beyond) will be used for "...the instructional costs of health professional programs at the academic health center and affiliated teaching institutions...." The balance of the interest earnings (30 percent in FY 2000, 51 percent in FY 2001, and 58 percent in FY 2002) will be used for Medical Education and distributed according to the existing Medical Education and Research Costs formula.

Table 13

<u>Endowment Funds (Total Allocations)</u>					
	Medical Education		Tobacco Use Prevention & Local Public Health		
	Academic Health Center (*)	Medical Education (*)	Statewide Tobacco Prevention Grants	Local Tobacco Prevention Grants	Local Public Health Grants
Allocation (in millions)	N/A	N/A	\$396.88	\$96.80	\$96.80
Allocation (in percent)	16.00%	23.00%	41.00%	10.00%	10.00%

* Total allocations for Medical Education equal \$377.5 million. Percentages reflect FY 2002 distribution.

<u>Endowment Funds (Estimated Distribution of Interest Earnings)</u>					
Fiscal Year	Academic Health Center	Medical Education	Statewide Tobacco Prevention Grants	Local Tobacco Prevention Grants	Local Public Health Grants
2000	\$7,994,986	\$3,426,423	\$4,727,842	\$1,164,319	\$1,164,319
2001	\$8,019,389	\$8,346,711	\$9,455,683	\$2,328,638	\$2,328,638
2002	\$7,927,492	\$10,947,490	\$14,688,518	\$3,617,322	\$3,617,322
2003	\$7,927,492	\$10,947,490	\$20,316,340	\$5,003,278	\$5,003,278

Department of Human Services

A general fund budget of \$5.179 billion for fiscal years 2000 and 2001 was approved for the Department of Human Services (DHS), an increase of \$564.8 million compared to the 1998-1999 biennium. In fiscal years 2002 and 2003, the general fund budget for DHS is expected to rise to \$5.844 billion, an increase of \$665.0 million or 12.4 percent compared to the previous biennium. Spending out of the Health Care Access Fund totals \$301.2 million. All initiatives highlighted below are increased biennial appropriations out of the general fund unless otherwise indicated.

Base Reductions

Biennial base funding was eliminated (unless otherwise noted) for the following programs, grants, or activities:

- \$78,000 for Day Training and Habilitation for Hennepin County;
- \$300,000 for supplemental nutrition funding for Ramsey, St. Louis, Koochiching, and Itasca Counties;
- \$200,000 for Project Empowerment;
- \$150,000 for Inhalant Abuse grants;
- \$5.5 million for new leased space;
- \$460,000 for statewide administrative systems; and
- \$160,000 for Asian Child Welfare grants when the program sunsets on June 30, 2001.

Biennial base funding was reduced (unless otherwise noted) by the amounts indicated for the following programs, grants, or activities:

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- \$200,000 in FY 2001 for the Homesharing Program. The program will sunset on June 30, 2001;
- \$2.6 million for the Food Stamp Employment & Training program; and
- \$5.0 million for the MAXIS computer system (one-time reduction in fiscal years 2002 and 2003).

Base funding was continued either fully or partially for the following programs, which were recommended for elimination by the Governor:

- \$460,000 for the Epilepsy Demonstration Project (fully restored);
- \$30,000 for Non-profit Camping grants (fully restored);
- \$280,000 for the New Chance Program (fully restored using TANF dollars);
- \$280,000 for the Indian Child Welfare Law Center (fully restored using TANF dollars);
- \$520,000 for the Parents Fair Share Program (partially restored using TANF dollars); and
- \$1.0 million for the Asian-American Juvenile Crime Prevention program (fully restored by the Omnibus Crime Bill).

Children's Grants

- \$9.3 million from the federal TANF block grant to continue concurrent permanency planning for children in out-of-home placement;
- \$4.4 million to expand services under the MA program and provide additional funding for community-based services for children with severe emotional disturbances;
- \$2.9 million net increase to expedite the adoption of special needs children waiting for placement through the Adoption Assistance program; and
- \$1.4 million to provide ongoing, operational funding for the county-based, child welfare services computer system known as the Social Services Information System.

Basic Health Care Grants

- \$1.6 million net increase to provide funding from the Health Care Access Fund (HCAF) to remove MinnesotaCare co-payments for one year for parents with income under 175 percent of federal poverty guidelines and to apply the same insurance barriers for MA and General Assistance Medical Care enrollees as MA and GAMC applicants;
- \$6.3 million in net savings as a result of refinancing special education services reimbursable under the MA program and developing cost-based reimbursement systems to report and claim federal revenues for special education services that school districts are required to provide;
- \$1.1 million in net savings as a result of a) increasing prescription drug utilization review and b) developing a Maximum Allowable Cost program for multi-source prescription drugs not on the federal upper payment limit;
- \$5.9 million out of the general fund and \$1.7 million out of the Health Care Access Fund to increase hospital payment rates by a) 0.3 percent and 2.8 percent in fiscal years 2001 and 2001, respectively, for inpatient services and b) 8 percent in fiscal year 2000 for outpatient services for MA, GAMC, and MinnesotaCare;
- \$9.0 million out of the general fund and \$3.7 million out of the Health Care Access Fund to increase payment rates by 3.0 percent for physicians, dentists, and other health care providers of MA, GAMC, and MinnesotaCare services;
- \$926,000 in savings out of the general fund and \$5.1 million in savings out of the Health Care Access fund as a result of eliminating the "100-hour rule", which requires the primary wage earner to work no more than 100 hours in order to retain MA eligibility. Eliminating the requirement precipitates a movement of GAMC and MinnesotaCare enrollees to MA;

- \$2.7 million to adopt the scheduled phase-out of cost-based reimbursement for Rural Health Clinics and Federal Qualified Health Centers according to the federal Balanced Budget Act of 1997;
- \$916,000 in savings as a result of implementing a care management model of review for physical therapy, occupational therapy, and speech language pathology services;
- \$1.2 million out of the general fund and \$267,000 out of the Health Care Access fund to test pilot a program that will allow for the payment of telemedicine consultations in MA, GAMC, and MinnesotaCare;
- \$17,000 in net savings out of the general fund and \$82,000 in savings out of the Health Care Access fund to allow people with disabilities who have earnings to pay a premium in order to receive health insurance coverage under MA;
- \$21.2 million to fully-fund the Senior Drug Program (\$19 million) and the induced enrollment effect in the Qualified Medicare Beneficiaries and Service Limited Medicare Beneficiaries (\$2.2 million) programs as a result of fully funding the Senior Drug program;
- \$1.1 million net increase out of the Health Care Access Fund to hire additional staff in order to improve claims processing and case management for the MinnesotaCare program;
- \$1.4 million to increase the MA income standard for the elderly and disabled by 3 percent on July 1, 2000, from \$467/month to \$481/month for an individual based on the current federal poverty guidelines. This change has the effect of decreasing the amount an individual needs to spend down to MA coverage, allowing the person to retain more of their income;
- \$393,000 to increase Prepaid Medical Assistance Program capitation rates for non-metropolitan counties from 88 percent to 89 percent of the metropolitan rates effective January 1, 2001.

State Operated Services

- \$5.0 million in net savings to complete the downsizing of programs serving persons with developmental disabilities and increasing staff in the community to support individuals transferred from the state's Regional Treatment Centers.

Continuing Care and Community Support Grants

- \$30.0 million in savings to the general fund and a \$30.0 million increase from the federal TANF block grant to temporarily refinance the Community Social Services Act;
- \$12.4 million in one-time spending from the federal TANF block grant for increased funding to counties for the Community Social Services Act;
- \$6.4 million to increase the number of Developmental Disabilities (DD) Waivers (commonly called Mental Retardation and Related Conditions or MR/RC waivers) slots by 100 each of the next four years. Within the existing DD Waiver forecast, an additional 100 waiver slots each year will be made available beginning July 1, 2000 through a reallocation of conversion and diversion waiver slots;
- \$3.5 million to increase enrollment in the Family Support Grant program;
- \$2.0 million to increase enrollment in the DD Semi-Independent Living Skills grant program;
- \$1.6 million net increase to assure federal compliance in the provision of home health services under the MA program;
- \$99.0 million to provide cost of living adjustments of 4.0 percent in FY 2000 and 3.0 percent in FY 2001 for nursing facilities, ICFs/MRs, and other continuing care providers. Slightly different increases apply to nursing facilities and ICFs/MRs based on a unique allocation formula. On average, nursing facilities' compensation-related costs will increase 4.8 percent and 3.6 percent in fiscal years 2000 and 2001, respectively, while all other operating costs will

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increase by 3.4 percent and 2.6 percent in fiscal years 2000 and 2001, respectively. ICFs/MRs, on average, will see increases of 4.6 percent and 3.6 percent for compensation-related costs in fiscal years 2000 and 2001, respectively, and 3.6 percent and 2.0 percent in fiscal years 2000 and 2001, respectively for all other operating costs;

- \$65,000 to provide a one-time payment to an ICF/MR in Ramsey County that had reimbursement costs disallowed through a field audit; **[This provision was line-item vetoed by the Governor.];**
- \$4.1 million net increase to allow seniors who are eligible for the Elderly Waiver program but who cannot afford to contribute to their long-term care services to remain enrolled in the Alternative Care program;
- \$1.0 million in net savings to adjust funding for the Alternative Care program consistent with caseload projections under current law;
- \$450,000 to cover the cost associated with raising the asset level which triggers a premium payment for enrollment in the Alternative Care program;
- \$1.8 million in net savings as a result of transferring service costs from the state-funded Group Residential Housing (GRH) program to the state- and federally-funded home and community-based services waiver programs;
- \$1.4 million in savings by transferring approval of supplemental room and board GRH expenditures to county human services agencies;
- \$894,000 to provide a one-time 2 percent cost of living adjustment for the GRH supplemental services base rate and \$381,000 to provide GRH supplementary service rate increases for two facilities: one in Ramsey County and one in Hennepin County;
- \$200,000 to pay for chemical dependency treatment for repeat offenders at the Brainerd Regional Treatment Center; **[This provision was line-item vetoed by the Governor.];** and
- \$561,000 million net increase to implement a phased-out cost sharing arrangement with counties and provide a 0.25 percentage point increase in the capitation payment rate for the Demonstration Project for People with Disabilities.

Economic Support Grants

- \$4.9 million from the federal TANF block grant to provide food stamps to legal non-citizens on MFIP;
- \$1.4 million to provide food stamps through the state-funded Minnesota Food Assistance Program to all eligible legal non-citizens in FY 2000 and legal non-citizens over age 50 beginning in FY 2001 and beyond;
- \$4.7 million in savings as a result of eliminating the state TANF reserve and transferring the balance to the general fund in FY 2000. The federal TANF reserve will remain in place;
- \$801,000 out of the general fund and \$6.2 million out of the federal TANF block grant to maintain the MFIP exit level -- the level at which recipients must exit the program -- at 120 percent of the federal poverty guidelines. Based on the current federal poverty guidelines, the exit level will be \$16,656 for a family of three;
- \$28.7 million from the federal TANF block grant to provide an 18-month exemption from counting \$100 as unearned income for MFIP recipients receiving a housing subsidy. Beginning January 1, 2001, this exemption will only apply to a) individuals age 60 or over, b) individuals who are certified disabled, or c) individuals whose presence is required to care for a disabled family member;
- \$25.9 million out of the federal TANF block grant to counties to reduce employment services caseloads and provide additional services to MFIP clients;

- \$16.7 million as a result of delaying the transfer of payments for Battered Women's Shelter from DHS to the Crime Victims Services Center of the Department of Corrections by one year. A savings of \$16.7 million is reflected in Department of Corrections budget;
- \$2.8 million in net savings as a result of moving individuals who qualify for MA by virtue of their eligibility for Supplemental Security Income from the state-funded General Assistance and GAMC programs to the state- and federally-funded MA for individuals; and
- \$6.0 million to provide additional funding for the child support collections system known as PRISM.

Minnesota Department of Health

The Department of Health's general fund budget for the upcoming biennium is \$128.5 million. In fiscal years 2002 and 2003, the Department's budget will decline by \$3.6 million or 2.8 percent compared to the previous biennium. The State Government Special Revenue biennial budget will be \$50.6 million, while the Health Care Access Fund budget will be \$20.0 million.

Base Reductions: Biennial base funding for the following programs or activities was eliminated:

- \$262,000 in savings to the Health Care Access Fund in FY 2000 as a result of sunsetting the Regional Coordinating Boards on June 30, 1999 -- one year earlier than under current law;
- \$150,000 for the Lead-safe Certification Program (Governor's initiative);
- \$150,000 for the State Lead Clean-up Equipment Grants program (Governor's initiative);
- \$60,000 for Dental Health Grants (Governor's initiative);
- \$719,000 for the Fetal Alcohol Syndrome (FAS) Coordinating Board;
- \$200,000 for the Office of Health Care and Consumer Assistance; and
- \$2.2 million in fiscal years 2002 and 2003 for Tobacco Prevention and Control activities, which will be restored using interest earnings from the Tobacco Use Prevention and Control Endowment Fund.

Biennial base funding for the following programs or activities was reduced:

- \$1.1 million (annually) for new leased space beginning in FY 2001;
- \$200,000 for FAS curriculum development (transfer to DCFL);
- \$800,000 for FAS public awareness campaign; and
- \$800,000 for FAS diagnostic clinic development.

Health Systems and Special Populations

- \$629,000 out of the State Government Special Revenue fund, accompanied by a comparable fee increase, to continue to fund the Department's regulatory oversight of Health Maintenance Organizations;
- \$950,000 out of the State Government Special Revenue fund to conduct background studies of non-Minnesota residents who have direct contact with patients as well as non-direct care staff for applicable licensed settings (e.g. nursing facilities); and
- \$5.6 million for Rural Hospital Capital Improvement grants. The program will sunset on June 30, 2001.

Health Protection

- \$2.4 million out of the State Government Special Revenue fund to conduct increased sample analyses required under the federal Safe Drinking Water Act;
- \$377,000 out of the State Government Special Revenue fund to pay for additional information systems costs and indirect costs for the Well Management program;

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- \$250,000 from the State Government Special Revenue fund, which will be offset by increased fee revenues of \$125,000 annually, to provide Food, Beverage, and Lodging inspection services in Beltrami and Ottertail counties;
- \$246,000 out of the State Government Special Revenue fund, which will be offset by \$165,000 in annual fee revenues, to implement the Food Manager Certification Program;
- \$156,000 out of the State Government Special Revenue Fund to take over responsibilities for regulating certain radioactive materials from the federal Nuclear Regulatory Commission. These costs will be borne by the regulated entities through fees set by the department; and
- \$2.2 million to pay for medications and vaccines to prevent or control the transmission of communicable diseases.

Management Support

- \$800,000 to provide staffing (\$400,000) for the minority health improvement program and one-time grant funds (\$400,000) for local health agencies to create baseline data and develop implementation strategies to address minority health disparities.

Minnesota Veterans Homes Board

The legislature approved a biennial base budget of \$53.0 million for the Minnesota Veterans Homes Board. Significant budget initiatives include \$2.0 million to fund statewide asset preservation and repairs for Minnesota's Veterans Homes.

Health Occupations Licensing Boards – Board of Physical Therapy

\$412,000 to establish a new board of Physical Therapy. The program will be self-supporting through occupational licensing fees.

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

Judiciary Finance

The Omnibus Crime Prevention and Judiciary Finance Act ([1999 Laws of Minnesota, Chapter 216](#)) authorized net general fund spending of \$1.13 billion for the FY 2000-01 biennium. The tails for FY 2002-03 are \$1.17 billion. ([link to detailed spreadsheet](#))

Table 14

Judiciary Finance Total General Fund Spending (dollars in thousands)

Agency	FY 1998-99 Forecast Spending	FY 2000-01 Chapter 216 Enacted	FY 2002-03 Chapter 216 Tails
Department of Corrections	\$604,295	\$672,605	\$697,342
Trial Courts	\$144,716	\$155,999	\$158,950
Board of Public Defense	\$84,663	\$91,889	\$95,234
Public Safety	\$76,790	\$81,505	\$76,354
Supreme Court	\$47,602	\$51,833	\$50,648
Court of Appeals	\$12,467	\$12,999	\$13,098
Bd. of Judicial Standards	\$561	\$471	\$476
Tax Court	\$1,619	\$1,331	\$1,342
Private Detectives Bd	\$262	\$275	\$280
POST Bd. (includes special revenue)	\$148	\$600	\$600
Uniform Law Commission	\$71	\$75	\$76
Human Rights	\$7,645	\$7,786	\$7,848
Ombudsman for Corrections	\$1,163	\$870	\$800
Sentencing Guidelines	\$880	\$1,095	\$956
Crime Victim Services Center	\$15,289	\$45,152	\$62,244
Crime Victim Ombudsman	\$749	\$793	\$798
Other	\$5,702	\$6,948	\$2,632
Total General Fund:	\$1,004,622	\$1,132,226	\$1,169,678

Supreme Court

A biennial appropriation of \$51.833 million was approved. Major new initiatives include the following:

- \$73,000 for interpreters, translating court forms, and to provide technical and staff assistance to self represented litigants.
- \$100,000 to improve judicial security, staff for chief justice, human resources and court services programs.
- \$3 million for technology.
- \$100,000 for judicial branch infrastructure.
- The victim offender mediation grant program is moved to the Crime Victim Services Center.
- \$300,000 for county commitment holdover reimbursements.
- \$1 million for regional jail planning grants.
- \$143,000 for research and to maintain law library collection.

Court of Appeals

A biennial appropriation of \$13 million was approved.

District Court

A biennial appropriation of \$156 million was approved. New initiatives include the following:

- \$4.7 million for 13 additional judge units and six law clerk positions.

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- \$94,000 for two referee conversions.
- \$225,000 for the expanded use of interactive video.
- \$350,000 for continued funding for the community courts.
- \$400,000 for infrastructure changes.

Tax Court

A biennial appropriation of \$1.3 million was approved.

Board of Judicial Standards

A biennial appropriation of \$471,000 was approved.

Public Safety

The Division is responsible for seven programs in the Department of Public Safety (other programs in the agency are the responsibility of the Transportation Finance Division). A biennial appropriation of \$82 million was approved. New initiatives include the following:

Emergency Management

- \$2.074 million to cover projected state match obligations for federal disaster assistance.
- \$120,000 for bomb disposal expenses.

BCA

- \$9 million for upgrades and expansion of the criminal justice data network.
- \$744,000 for increased lab costs related to DWI investigations.
- \$555,000 for upgrades and expansion of the laboratory information management system.
- \$800,000 for equipment and operating expenses for the BCA satellite lab.
- \$125,000 for the expansion of DNA testing.
- \$15,000 is for a study on capitol security.

Fire Marshall

- \$52,000 for a fire code development and training position.

Alcohol & Gambling Enforcement

- \$150,000 is for underage compliance checks.

Law Enforcement & Community Grants

- Transfers the functions and funding of the Office of Drug Policy from the Department of Education, Children, and Families.
- \$400,000 for the southwest regional training center.
- \$50,000 for a crosswalk safety campaign.
- \$100,000 for the northwest community law enforcement scholarships.
- \$30,000 for defibrillator grants.
- \$100,000 for teenage prostitution prevention grants.
- \$1.5 million for CODEFOR implementation.
- \$300,000 for the weed and seed program.
- \$400,000 for the center for rural violence prevention.
- \$250,000 increase in funding for the juvenile weekend camp at Ripley. The program is also transferred from the Department of Corrections to the Department of Public Safety.
- \$1 million for Asian-American violence prevention grants.
- \$5.1 million for the gang strike force.
- \$500,000 for overtime for law enforcement.

- \$500,000 for a Ramsey County domestic abuse pilot program. **This was vetoed by the Governor.**
- \$1 million for Minnesota HEALS (criminal justice information systems).
- \$10,000 for a public safety training study.

Crime Victim Services Center

A biennial appropriation of \$45 million was approved. New initiatives include the following:

- \$95,000 for computer system enhancements.
- \$100,000 to increase the emergency fund for crime victims.
- \$16.681 million reduction in FY 2000 for a one-year postponement of the battered women's shelter per diem transfer from the Department of Human Services, and \$109,000 in FY 2001 to administer the program once it is transferred.
- \$75,000 is for a crime victim/witness pilot project.
- \$412,000 is funding for two battered women's shelters.
- \$50,000 is for an Asian-Pacific violence prevention study.
- \$143,000 is for a domestic fatality review team pilot program.
- \$600,000 is for a residential program for women leaving prostitution.
- \$60,000 is for a St. Paul victim intervention project.

Crime Victim Ombudsman

A biennial appropriation of \$793,000 was approved. New initiatives include the following:

- \$20,000 to develop a case management system.

Private Detectives Board

A biennial appropriation of \$275,000 was approved.

POST Board

A biennial appropriation of \$600,000 in general funds and \$8.7 million in special revenue was approved. New initiatives include \$600,000 for police pursuit training.

Auto Theft Prevention Board

A biennial appropriation of \$4.16 million was approved. New initiatives include \$400,000 for stop sticks and driving simulators.

Public Defense Board

A biennial appropriation of \$92 million was approved. New initiatives include the following:

- \$2.5 million for additional compensation for board employees doing comparable work to other state employees with like years of experience.
- \$300,000 for a statewide connection project. This will connect the 50 percent of regional offices and part time law offices that are not connected.
- \$250,000 for an increase funding for the public defense corporations.

Department of Corrections

A biennial appropriation of \$673 million was approved. Major new initiatives by program include the following:

Institutions

- \$1.2 million for asset preservation and repair (also includes juvenile facilities).
- \$1.4 million for operating expenses for the expansion of the mental health and infirmary unit.

Juvenile Services

- \$200,000 for academic education at Red Wing.

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- \$130,000 for vocational education at Red Wing.
- \$400,000 for program expansion and aftercare services for juveniles leaving state facilities.
- \$200,000 for severance costs for personnel at the Sauk Centre facility.

Community Services

- \$300,000 for probation and supervised release services.
- \$1 million for additional state agents and grants to counties for increased intensive community supervision.
- \$500,000 for additional residential services (half-way houses) to address growing inmate populations.
- \$100,000 for an emergency housing initiative for offenders leaving state facilities.
- \$500,000 to expand the STS program.
- \$350,000 for county probation officer reimbursement. This is to maintain county probation officer reimbursement at the statutory 50 per cent level.
- \$5 million for statewide probation caseload/workload reduction.
- \$50,000 for community-based sex offender treatment.
- \$100,000 for programing for adult female offenders in the community.
- \$500,000 for Dakota county community justice zone.
- \$230,000 for restorative justice grants.
- \$50,000 for juvenile mentoring grants.

Management Services

- \$2 million for technology improvements.

Ombudsman for Corrections

A biennial appropriation of \$870,000 was approved.

Sentencing Guidelines

A biennial appropriation of \$1.095 million was approved. New initiatives include \$150,000 to develop an electronic sentencing worksheet.

Human Rights Department

A biennial appropriation of \$7.786 million was approved.

Uniform Laws Commission

A biennial appropriation of \$75,000 was approved.

Department of Administration

New initiatives include the following:

- \$3.386 million for the new BCA headquarters for planning and design.
- \$168,000 for the maintenance of buildings at Sauk Centre.

Economic Security

New initiatives include the following \$1 million for Minnesota Cities grants.

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

Environment, Natural Resources and Agriculture Finance

Overview: The FY 2000-01 enacted budget for Environment, Natural Resources and Agriculture Finance ([1999 Laws of Minnesota, Chapter 231](#)) authorizes total general fund spending of \$521 million, an increase of \$32.5 million over forecasted spending for the FY 1998-99 biennium. Projected tails are \$504.5 million. [Table 15](#) summarizes the general fund spending authorized by Chapter 231.

Table 15

Environment, Natural Resources and AG Finance			
Total General Fund Spending			
(dollars in thousands)			
	FY 1998-99 Forecast Spending	FY 2000-01 Chapter 231 Enacted	FY 2002-03 Chapter 231 Tails
Pollution Control Agency	\$27,635	\$33,749	\$33,455
Environmental Assistance	\$38,480	\$40,773	\$41,006
Minnesota Zoo	\$13,195	\$14,378	\$14,458
Natural Resources	\$220,073	\$233,410	\$221,520
Natural Resources (Open)	\$39,012	\$39,364	\$39,364
Water & Soil Board	\$34,028	\$37,124	\$36,456
MN/WI Commission	\$286	\$304	\$308
Voyageurs Nat. Park Comm.	\$127	\$0	\$0
Science Museum	\$2,300	\$2,328	\$2,328
Academy of Science	\$82	\$82	\$82
Agriculture Dept	\$48,949	\$45,491	\$41,352
Agriculture Dept (Open)	\$49,651	\$68,447	\$65,340
Animal Health Board	\$6,166	\$5,574	\$5,410
Horticulture Society	\$164	\$164	\$164
Ag Utilization Institute	\$8,350	\$7,760	\$8,260
Other Agencies	\$0	(\$7,934)	(\$5,024)
Total General Fund	\$488,498	\$521,014	\$504,479

* 1998-1999 Forecast Spending includes:
 - \$800,000 to the MN Zoo for operation deficiency.
 - \$1,255,000 to Animal Health Board for pseudorabies vaccinations.

Environment and Natural Resources Details

The enacted budget for Environment and Natural Resources portion of Chapter 231 authorizes total spending of \$928.8 million, with \$395.3 million from the general fund. Tails for the FY 2002-03 are \$845.7 million, with \$385.4 million from the general fund. ([link to detailed spreadsheet](#))

Table 16

Environment & Natural Resources Finance							
(dollars in thousands)							
FY 1998-99 Actual		FY 2000-01 Enacted		Increase over FY 1998-99		FY 2002-03 Tails	
General Fund	All Funds	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
\$375,531	\$822,755	\$395,255	\$928,804	5.25%	12.89%	\$385,377	\$845,702

Revenues to the general fund are: Once-Thru Cooling Fee (FY00-01 = \$4,057,000; FY02-03 = \$1,200,000); Motor Vehicle Account (FY00-01 = \$2,400,000; FY02-03 = \$2,400,000.)

Environment & Natural Resources Finance

Pollution Control Agency – The Governor signed into law a total Pollution Control Agency budget of \$250.87 million, of which \$33.75 million (13.5%) is General Fund dollars. This is compared to current biennium funding of \$193.45 million, of which \$27.6 million is from the general fund. Changes to the agency base budget include the following:

General Fund:

- \$2.75 million base increase to supplement the Clean Water Partnership Grant Program.
- \$126,000 one-time funding for the administration of the Water Quality Wastewater Infrastructure Fund.
- \$600,000 one-time funding for continuing research of malformed frogs.
- \$901,000 base increase to support county feedlot programs.
- \$750,000 base increase for studies to establish Total Maximum Daily Load Limits to protect water quality.
- \$100,000 one-time funding for West Mille Lacs Sanitary District.
- \$323,000 base increase to implement or complete program development for mercury reduction strategies.

Petroleum Tank Release Cleanup Fund:

- \$250,000 one-time funding for emergency spill response equipment for emergency stations along the Mississippi River.
- \$1.1 million to continue the Leaking Underground Storage Tank appropriation from the last biennial budget. This appropriation would remain in the base through FY 2003.

Solid Waste Fund

- \$85,000 one-time funding to Benton County to cover bond payments associated with the clean-up of county landfill.
- \$10.2 million over the biennium to set up a Landfill Trust Fund. These funds will be invested by the State Board of Investment and the proceeds will be used for the maintenance of landfills.
- \$396,000 to the Department of Health to conduct health assessments on landfills. This activity was previously funded out of the Metro Landfill Contingency Fund.
- \$965,000 to allow additional solid waste disposal facilities to be included in the landfill cleanup program.
- In FY1999, the listed metals program ran a \$117,000 deficiency. The program was under consideration for a fee increase from \$295 to \$750 and for an additional appropriation from the Solid Waste fund to continue to review of 220 products containing listed metals. Neither the fee increase nor the appropriation passed, therefore, PCA will have to downsize the program significantly to continue this review.

The Governor vetoed \$200,000 in one-time funding to the University of Minnesota for the development of wastewater cooperatives. The veto message stated there is “tension between this group and local units of government” which “makes it doubtful that they will be able to create a model system that will be acceptable to the affected communities.”

Office of Environmental Assistance (OEA) – The Office of Environmental Assistance received a total budget of \$46.8 million, of which \$40.8 million (87.1 percent) is General Fund dollars. This is compared to current biennium funding of \$46.2 million, of which \$38.5 million is General Fund. Changes to the agency base budget include the following:

General Fund:

- \$1.6 million base increase to provide additional resources to achieve environmental protection and resource conservation goals.
- \$350,000 base increase to further the environmental education goals.

Minnesota-Wisconsin Boundary Commission – The Governor signed into law a total Minnesota-Wisconsin Boundary Commission budget of \$371,000 of which \$304,000 (81.9 percent) is general fund dollars. There is no change compared to the current biennium.

Minnesota Zoological Garden (MZG) – The Governor signed into law a total MZG budget of \$34.3 million, of which \$14.4 million (12.8%) is General Fund dollars. Changes to the MZG base budget include the following:

- \$3.4 million base increase for operational costs.
- [1999 Laws of Minnesota Chapter 141 \(Deficiency Bill\)](#) provides an appropriation of \$800,000 for FY 1999 for an operation deficiency. MZG board is required to submit a report to the Governor and the Legislature by Feb. 1, 2000 recommending legislative changes which would be necessary for the change of governing structure. Release of the 2001 appropriation (\$1.7 million) is contingent upon making significant progress toward financial self-sufficiency.

Department of Natural Resources (DNR) – The Department of Natural Resources received a total budget of \$514.8 million, of which \$272.8 million (53.2 percent) is General Fund dollars. This is compared to current biennium funding of \$474.3 million, of which \$259.6 million is General Fund. Changes to the agency base budget include the following:

General Fund:

- \$4.5 million decrease to eliminate spending on lower priority programs.
- \$3.0 million base increase to maintain and repair the public's infrastructure investment.
- \$2.95 million base increase for the Red River Flood Water Mitigation.
- \$2.1 million around the state for the development or recreational trails.
- \$1.7 million base increase to improve State Park operations.
- \$1.6 million the first year to the Division of Fish and Wildlife. (\$1.6 million the second year was vetoed.)
- \$1.2 million base increase to expand and enhance computer infrastructure.
- \$1.1 million one-time funding to establish a loan program to protect streams.
- \$1.0 million one-time funding to continue the Sustainable Forest Resources Council.
- \$500,000 the first year for walleye stocking. (\$500,000 the second year was vetoed.)
- \$468,000 one-time funding for the construction of Ring Dikes in the Red River Valley.
- \$360,000 base increase to continue the effort to reach out to minority citizens.
- \$350,000 one-time funding for projects in the Cannon River Watershed.
- \$302,000 one-time funding to convert the 800 MHZ radio system in the metro area.
- \$225,000 one-time funding increase to the forestry grants program.
- \$200,000 base increase to the Minnesota Conservation Corps.
- \$177,000 base increase to increase the Information Center's capacity to meet demands for information.
- \$150,000 base increase to the Mississippi Headwaters Board.
- \$118,000 one-time funding to complete the dredging of Red Lake River.
- \$50,000 one-time funding for the Interstate Park Fire and Rescue.
- \$20,000 one-time funding for a study on Coon Lake.

Natural Resources Fund:

- \$450,000 reduction reflecting the elimination of the \$50 personal watercraft surcharge.
- \$1.5 million increase to expand off-road vehicle facilities.
- Regardless of the Governor's initial recommendation, the portion of unrefunded gas tax which is directed to the snowmobile grant-in aid program will remain at 1.0 percent. \$2.2 million has been reallocated to the programs throughout DNR.
- The snowmobile stud surcharge \$50 that was initiated in 1997 was eliminated. The funds collected are allocated for repair of state trails. A new fee of \$12 has been initiated to take the place of the surcharge. The estimated revenue from the fee is \$1 million per year which is allocated to the repair of paved public trails.

Environment & Natural Resources Finance

- Instead of raising only the personal watercraft fees to \$25, the Legislature adopted the Governor's philosophy that one user group should not be discriminated against. Therefore, Chapter 231 raises all watercraft fees. The new fees will generate an estimated \$1 million over the biennium. [Table 17](#) shows the increases.

Table 17

Class of Watercraft	Previous Fee	New Fee
Personal Watercraft	\$12	\$25
Under 17 feet	\$12	\$12
17 - 19 feet	\$12	\$18
19 - 26 feet	\$20	\$30
26 - 40 feet	\$30	\$45
Over 40 feet	\$40	\$60

Game and Fish Fund:

- \$1.4 million increase to use the current and projected balances in wildlife dedicated accounts.
- \$2.1 million reduction is incorporated to restrain spending to the resources in the most recent forecast.
- The Electronic Licensing System costs of \$800,000 in FY 2000 and \$1.9 million in FY2001 will be offset by savings realized by ending the paper license process and increased non-dedicated receipts.

The Governor vetoed three general fund items within the DNR budget totaling \$2.3 million.

- Ditch Assessment Payments (\$232,000). The veto message states, "This appropriation circumvents a dispute currently in mediation, and undermines the Department of Natural Resource's authority to verify the benefit of county assessments...Language requiring the counties to complete the mediation process was excluded from the bill."
- The second year of funding for the Fish and Game Division (\$1.565 million) and the second year of funding for the walleye stocking program (\$500,000). The Governor vetoed these items because he believes, "the legislature must come back in the 2000 session and adopt the fee increases which had been agreed to..." The Governor also stated that his support for general fund increases in these activities was contingent upon passage of legislation increasing the fees.

Board of Soil and Water Resources (BWSR) – The Governor signed into law a total Board of Soil and Water Resources budget of \$38.4 million, of which \$37.1 million (96.6 percent) is General Fund dollars. This is compared to current biennium funding of \$35.6 million, of which \$34 million is General Fund. Changes to the agency base budget include the following:

- \$1.653 million to shift the funding of nine FTEs from bonding proceeds to the general fund.
- \$456,000 base increase for the general service allocation to SWCDs.
- \$200,000 base increase for the Red River Basin Management.
- \$1.0 million base increase for feedlot water quality grants.
- \$1.0 million base increase for cast share grant program.
- \$74,000 base increase for the Minnesota River Basin Board.

Citizens' Council on Voyagers National Park (CCVNP) – For FY 2000-01 the Legislature appropriated a total CCVNP budget of \$134,000. **However, the Governor vetoed all funding to the Citizen's Council stating "It does not**

appear that 20 years of continued funding for this Council has yielded any demonstrable results in resolving issues of local concern.”

Science Museum of Minnesota (SMM) – The Governor signed into law a total SMM budget of \$2.3 million, all of which is General Fund dollars. There is no change compared to the current biennium.

Academy of Science – The Governor signed into law a total Academy of Science budget of \$82,000, all of which is General Fund dollars. There is no change compared to the current biennium.

Legislative Commission on Minnesota Resources (LCMR) – The Governor signed into law a total \$40.6 million to 117 projects.

The Governor vetoed three LCMR recommended projects totaling \$1.65 million:

- Climate Variability and Change Impacts (\$350,000.) This activity was to develop a database of climate measures relevant to recreation, tourism, agriculture, and forestry, and to construct climate scenarios for Minnesota over the next 50 years. The Governor’s veto message states “I question any study that claims it will be useful over a fifty-year period. I am not sufficiently confident that this expenditure of funds will result in meaningful analysis and findings.”
- Hyland Lake Environmental Center (\$100,000.) Funding would have been for predesign and design of an environmental education center in Hyland-Bush-Anderson Lakes Regional Park Reserve. The Governor vetoed this initiative claiming that, “The role of the state in supporting capital requests for environmental learning centers is unclear and should be clarified ...”
- Trout Stream Protection (\$1.2 million). The Governor vetoes this asserting, “This appears to be intended for one local project and other agency funds should be sufficient.”

Agriculture and Rural Development

The Agriculture and Rural Development portion of Chapter 231 authorizes net total spending of \$182.9 million, with \$125.8 million from the general fund. Projected tails for the FY 2002-03 are \$173.7 million, with \$119.1 million from the general fund. The Governor made no line item vetoes on the agricultural portion of the bill. ([link to detailed spreadsheet](#))

Table 18

Agriculture and Rural Development (dollars in thousands)							
FY 1998-99 Actual		FY 2000-01 Enacted		Increase over FY 1998-99		FY 2002-03 Tails	
General Fund	All Funds	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
\$108,858	\$157,565	\$125,759	\$182,880	15.53%	16.07%	\$119,102	\$173,714

FY 1998-99 figures include \$1.3 million to AHB for pseudorabies vaccinations.

Revenues to the general fund are: Ethanol Development Fund (FY00-01 = \$1,517,000; FY02-03 = \$1,014,000); Food Inspection (FY00-01 = \$410,000; FY02-03 = \$410,000.)

Department of Agriculture (MDA) – The Governor signed into law a total Department of Agriculture budget of \$167.97 million, of which \$113.9 million (67.8 percent) is General Fund dollars. The general fund total includes an open appropriation of \$68.4 million for the ethanol producer payment program. This is compared to current biennium funding of \$141.5 million, of which \$94.2 million is General Fund, (including \$49.7 million in ethanol producer payments.) The bill also statutorily appropriates special revenue funds which were previously directly appropriated. Other changes to the agency budget include the following:

Environment & Natural Resources Finance

General Fund:

- \$1.75 million base increase for food safety.
- \$1.55 million base increase for information technology infrastructure, to continue Project Unity, and to equip office and field staff with computer equipment.
- \$1.5 million base increase for additional staff to perform regulatory and inspection services.
- \$900,000 base increase to return the department's food inspection and regulatory efforts to adequate levels.
- \$900,000 one-time funding for a new agriculture marketing initiative.
- \$900,000 one-time funding for research on soybean white mold.
- \$750,000 one-time funding to continue research on feedlot technology alternatives.
- \$500,000 base increase to provide information on diversification of agricultural products.
- \$500,000 one-time funding for a development loan to the Little Falls ethanol plant.
- \$300,000 one-time funding to MAELC for farm management grants and planning of an Urban Ag high school.
- \$250,000 base reduction in FY2000 from the Dairy Diagnostic program.
- \$250,000 one-time funding to the Dairy Inspection Account.
- \$200,000 base reduction from the MN Grown Producer Coupon program.
- \$200,000 base reduction from the Ethanol Promotion and Education program; \$100,000 is reallocated to Ag in the Classroom (\$70,000) and Apiary inspection (\$30,000.)
- \$200,000 one-time funding to develop alternative energy from poultry litter.
- \$160,000 base increase for reimbursement of livestock losses due to timber wolf depredation.
- \$100,000 one-time funding to establish a method by which laboratory equipment will be upgraded and replaced to meet laboratory standards.
- \$100,000 one-time funding for environmental cluster agencies to explore the possibilities of combining laboratory facilities in a state-owned building.
- \$100,000 base reduction in Family Farm Payments.
- \$100,000 one-time transfer of General Fund dollars to the Seed Inspection account.
- \$100,000 base increase for the Organic Cost Share Payment program.
- \$100,000 one-time funding for the Farm Safety and Health program.
- \$50,000 one-time funding for a port access study.
- \$30,000 one-time funding for a round table on producer contracts.
- \$60,000 base increase to the Farm Advocates program.
- \$50,000 base increase for Ag Info Centers.
- \$15,000 one-time funding to conduct a dairy study.

Environmental Fund:

- \$120,000 increase for the MERLA (State Superfund) program.

Animal Health Board– The Governor signed into law a total Animal Health Board budget of \$6.3 million, of which \$5.8 million (91.1 percent) is General Fund dollars. This is compared to current biennium funding of \$5.8 million, of which \$4.9 million is General Fund. Changes to the agency base budget include the following:

- \$236,000 base increase to identify and investigate Avian Pneumovirus in turkeys.
- \$100,000 one-time funding for control of paratuberculosis (Johne's disease.)
- 1999 Laws of Minnesota Chapter 45 appropriates \$1.255 million in Fiscal Year 1999 to the Animal Health Board for continued efforts to control pseudorabies in swine. This appropriation is to cover the cost of blood tests, laboratory fees, and vaccines, and is available until June 30, 2000.

Minnesota State Horticultural Society (MSHS) – The Governor signed into law a total Minnesota State Horticultural Society budget of \$164,000, all of which is General Fund dollars. There is no change compared to the current biennium.

Agriculture Utilization Research Institute (AURI)– The Governor signed into law a total AURI budget of \$8.2 million of which \$7.8 million (95.1 percent) is General Fund dollars. This is compared to current biennium funding of \$8.75 million, of which \$8.4 million is General Fund. Changes to the agency base budget include the following:

- \$500,000 base reduction in FY2000.

Other Agency Funding– The bill contained \$450,000 to the Department of Transportation (MnDOT) and the to Department of Trade and Economic Development (DTED).

- \$200,000 to MnDOT for a study involving the alternatives to building a bridge through a calcareous fen located in Savage, MN.
- \$250,000 to DTED for a livestock processing plant located in Windom, MN.

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

Jobs & Economic Development Finance

Overview: The Omnibus Jobs & Economic Development Finance Bill ([1999 Laws of Minnesota, Chapter 223](#)) includes direct and open General Fund appropriations totaling \$414.1 million in the FY 2000-01 biennium. The total includes one-time direct General Fund appropriations of \$31 million for new housing and \$29 million for workforce development programs. ([link to detailed spreadsheet](#))

The Governor line item vetoed four appropriations totaling \$1.2 million. Of the vetoed items, \$700,000 were for programs funded from the general fund, and \$452,000 were for programs funded from the new Workforce Development Fund.

Table 19

Jobs & Economic Development Finance			
Total General Fund Spending			
(dollars in thousands)			
Agency	FY 1998-99 Forecast Spending	FY 2000-01 Chapter 223 Enacted	FY 2002-03 Chapter 223 Tails
Trade & Economic Development	\$113,083	\$75,623	\$70,964
Minnesota Technology, Inc.	\$19,574	\$13,650	\$12,210
World Trade Center	\$230	\$0	\$0
Economic Security	\$79,771	\$76,733	\$74,560
Housing Finance	\$83,156	\$114,040	\$79,664
Commerce	\$28,776	\$33,076	\$31,731
Accountancy, Bd of	\$1,159	\$1,231	\$1,257
Architecture/ Eng, Bd of	\$1,451	\$1,564	\$1,595
Barbers Examiners, Bd of	\$276	\$293	\$298
Boxing, Bd of	\$161	\$84	\$0
Labor & Industry	\$7,958	\$7,649	\$6,962
Mediation Services	\$4,131	\$4,310	\$4,372
Labor Interpretive Center	\$421	\$0	\$0
Public Utilities Commission	\$7,534	\$7,661	\$7,796
Public Service	\$17,033	\$21,074	\$22,804
Historical Society	\$47,433	\$49,728	\$49,636
MN Municipal Board	\$622	\$0	\$0
Council on Black Minnesotans	\$567	\$649	\$658
Council for Chicano Latino Affairs	\$605	\$638	\$648
Council for Asian-Pacific Minnesotans	\$541	\$563	\$572
Council on Indian Affairs	\$1,208	\$1,118	\$1,134
Region 3 - Occupation Tax (IRRRB)	\$1,336	\$1,336	\$1,336
Office of Strategic Planning	\$0	\$650	\$654
Military Affairs	\$0	\$100	\$0
Dept of Administration	\$0	\$20	\$0
Other (Workforce Development)	\$0	\$29,000	\$0
Revenues	\$0	(\$26,690)	(\$16,503)
Total General Fund	\$417,026	\$414,100	\$352,348

Chapter 223 creates a new special fund in the state treasury called the Workforce Development Fund. The Fund incorporates and expands upon the former Workforce Investment Fund, better known as the Dislocated Worker Program Fund. The Workforce Development Fund received a one-time \$29 million transfer from the general fund for the FY 2000-01 biennium. The bill appropriated these dollars to several workforce development and job training programs. In addition, the bill appropriates \$10 million of federal Temporary Aid to Needy Families (TANF) funds. The appropriations cover a variety of programs designed to meet the employment training and housing needs of Minnesota Families Investment Program (MFIP) recipients.

Economic Development details: The following sections summarize the major features of the 1999 Omnibus Jobs & Economic Development Finance Bill for the 24 state departments, agencies, boards and councils under the budget jurisdiction of the Jobs and Economic Development Finance Committee.

Department of Trade and Economic Development – The Legislature appropriated \$103.3 million to DTED for the FY 2000-01 biennium. Of this total, \$75.9 million were in General Fund direct and open appropriations. An additional \$27.4 million was appropriated from special funds, including \$3 million in TANF funds, \$21.5 million from the new Workforce Development Fund, and \$2.9 from the Trunk Highway and Environment Funds. Highlights include:

- \$5.0 million increase in funding for tourism marketing, research and partnerships.
- \$750,000 in one-time FY 2000 funding for the Journey Travel Destination System. This appropriation must be matched at least 1:1 with private resources.
- \$1.0 million one-time increase in funding for the Minnesota Investment Fund.
- \$2.0 million one-time increase in funding for the Contaminated Site Cleanup program.
- \$3.0 million one-time increase in funding for the Redevelopment Account program.
- \$16.25 million one-time increase in funding for the Jobs Skills Partnership customized training program. Funded by the Workforce Development Fund, the increase represents more than a doubling of current program resources (137 percent).

Pass-through Grantees -- [Table 20](#) shows funding by the Legislature for the ten DTED pass-through grantees which the Governor had recommended be zeroed out.

Table 20

DTED Pass-Through Grants		
Grantee	FY 2000	FY 2001
Advantage Minnesota	\$400,000	\$0
County and District Agricultural Societies	\$50,000	\$0
Micro-Enterprise Technical Assistance	\$220,000	\$220,000
Rural Policy and Development Center	\$200,000	\$0
Metro Economic Development Assn.	\$155,000	\$155,000
Women Venture	\$265,000	\$265,000
St. Paul Rehabilitation Center	\$450,000	\$0
Hennepin and Ramsey County CDCs	\$0	\$0
Community Development Corporations	\$0	\$0
Community Resources Program	\$500,000	\$0

Jobs & Economic Development Finance

The Legislature directed that all DTED pass-through grantees be subject to a study by the Director of the Office of Strategic and Long-Range Planning. The study will evaluate each grantee’s effectiveness, nonstate resources leveraging success, and consistency with the administering state agency’s mission. All pass-through grantees state funding will be eliminated either after FY 2000 or FY 2001, subject to the evaluation study results and subsequent legislative action.

DTED also received “one-time” appropriations for the following projects and grants:

Table 21

DTED One-Time Grants	
Grantee	FY 2000
Windom Economic Development Grant	\$250,000
Lake Superior Mississippi Railroad Grant	\$50,000
St. Paul Gateway Improvements	\$50,000
Fridley Infrastructure Grant	\$50,000
Grimm Farm Restoration Grant	\$150,000
Lake Benton Visitor Center & Depot Grant	\$75,000
Duluth Technology Village	\$450,000
Root River Regional Arts Center	\$100,000
Ely Tech Center Rehabilitation	\$150,000
Camp Heartland Center	\$350,000
Perham Business Tech Center	\$75,000
Owatonna Infrastructure Grant (Vetoed by Governor)	\$300,000

Minnesota Technology, Inc. – The Legislature appropriated \$13.65 million in General Funds to Minnesota Technology in FY 2000-01. The appropriation encompasses a \$4 million reduction due to the elimination of MTI’s Technology Partnership Program, and a \$1.5 million temporary base funding reduction in FY 2000. Also reduced are state grants to several of MTI administered pass-through grantees which the Governor recommended be eliminated.

The new grant levels for MTI pass-through grantees for the FY 2000-01 biennium are:

Table 22

MTI Pass-Through Grants		
Grantee	FY 2000	FY 2001
Minnesota Project Innovation, Inc.	\$700,000	\$500,000
Natural Resources Research Institute	\$850,000	\$450,000
Minnesota Inventors Congress	\$70,000	\$70,000
Minnesota Council for Quality	\$100,000	\$0
MN Cold Weather Research Center	\$100,000	\$100,000

The Legislature directed that MTI pass-through grantees be subject to the same evaluation study by the Director of the Office of Strategic and Long-Range Planning as the DTED pass-through grantees. State funding for all MTI pass-through grantees will be eliminated either after FY 2000 or FY 2001, subject to the evaluation study and subsequent legislative action.

Minnesota World Trade Center Corporation – The Legislature sunset the Center as an independent corporation effective July 1, 1999. All assets, duties, responsibilities of the corporation are transferred to the Department of Trade and Economic Development.

Department of Economic Security – The Legislature appropriated \$84.7 million to the Department for FY 2000-01, of which \$76.7 million is from the general fund. An additional \$8 million was appropriated to DES from the new Workforce Development Fund and TANF. (A \$370,000 supplemental FY 1999 deficiency appropriation for the Workforce Service for the Blind Program was also appropriated in separate legislation, 1999 Laws of Minnesota, Chapter 141).

The major changes in FY 2000-01 Departmental appropriations are:

- \$236,000 in a one-time cash match to secure \$4.1 million under the new federal Juvenile Accountability Incentive Block Grant.
- \$1.6 million in additional funding for Workforce Services for the Blind.
- \$1.4 million in one-time funding in FY 2000, to be matched by the Minnesota Foundation, to convert the Communication Center of State Services for the Blind from analog to digital technology, and to move the Radio Talking Book Service to a new frequency.
- \$1.95 million for a 10 percent per year increase in the reimbursement rates for the providers of extended employment services for the severely disabled.
- \$100,000 for repair and preservation of agency-owned buildings.
- \$200,000 increase in funding for the Centers for Independent Living.
- \$200,000 in one-time funds for a Youthbuild Tech Demonstration Project. The regular Youthbuild Program received a \$100,000 increase from the Workforce Development Fund.
- \$454,000 increase in funding for the Displaced Homemaker Program. This appropriation is from the Workforce Development Fund and is a one-time appropriation. Of this appropriation, \$100,000 each year is specified for grants to St. Paul District 5 Planning Council to operate a community work empowerment support group demonstration project. **(Planning Council grants vetoed by Governor)**.
- \$100,000 increase for the Employment Center for the Deaf & Hard of Hearing. This appropriation is from the Workforce Development Fund.
- \$252,000 in one-time grants to Advocating Change Together. This appropriation is from the Workforce Development Fund. **(Vetoed by Governor)**
- \$5 million in one-time matching funds to access \$10 million in federal Department of Labor Welfare-to-Work funds to provide employment training programs for hard to serve welfare recipients. This appropriation is from the Workforce Development Fund.
- \$500,000 to fund the Extended Employment Welfare-to-Work program. This appropriation is from TANF funds and is one-time.

Minnesota Housing Finance Agency – A record \$114 million in General Fund dollars were appropriated by the Legislature to Minnesota Housing Finance Agency for the FY 2000-01 biennium. Of this total, \$31 million is a special one-time General Fund appropriation. The agency also received \$6.5 million in TANF funds, making the total FY 2000-01 biennium appropriation from all funds more than \$120 million.

Jobs & Economic Development Finance

The major changes in the Legislature's appropriation for housing finance in FY 2000-01 include:

- \$10 million in additional funding to the Affordable Rental Investment Fund to give MHFA additional resources to preserve federal-assisted affordable rental housing. This General Fund appropriation is one-time and is not added to the agency's budget base.
- \$6 million in increased funding for the Community Rehabilitation Fund to facilitate additional construction, acquisition and rehabilitation of affordable housing. Of this amount, \$2 million is one-time funding.
- \$20 million in one-time funding for the Economic Development and Housing Challenge Program. This program, designed to leverage local, private employer and foundation dollars, provides grants or loans to support a community or region economic development activities by meeting locally identified housing needs. The grants or loans may be used for construction, acquisition and rehabilitation.
- \$8 million in one-time funding for the Innovative and Inclusionary Housing Program. The appropriation is equally split between Metro and Greater Minnesota with \$4 million being earmarked for each area. The seven county metro area program will be administered by the Metropolitan Council. MHFA will administer the Greater Minnesota program.
- \$1 million in one-time funding for the School Stability Demonstration Project. The project, the goal of which is to better the academic performance of at risk youth, will fund programs designed to secure stable housing for families with school-age children who have a history of frequent moves. The project may also serve unaccompanied youth.
- \$300,000 in increased funding for the Bridges Program, the agency rental assistance program for individuals and families with mental illness.
- \$250,000 in increased funding for the Rental Assistance for Family Stabilization (RAFS) Program. This increase is one-time. The entire RAFS program is funded with TANF dollars in the 2000-01 biennium.
- \$750,000 in increased funding for the Family Homeless Prevention and Assistance Program. TANF dollars will fund \$2.225 million of this program's 2000-01 biennium cost. The remaining \$4.25 million in cost will be funded by the general fund.
- \$100,000 to establish a home ownership counseling program for individuals with mental retardation.
- An additional fiscal-related item is the repeal of MHFA's administrative cost ceiling. The cost ceiling is replaced with a detailed annual report to the Legislature on agency's administrative expenses.

Department of Commerce –The FY 2000-01 General Fund appropriation to the Department is \$33.1 million. The Department also received \$3.2 million in special revenue funds, including direction appropriations from the Petroleum Tank Cleanup and Workers Compensation Special Funds. Highlights include:

- \$1.4 million in one-time dollars in FY 2000 to redesign and re-engineer the department's data bases.
- \$90,000 in FY 2000 to expand the department's web site and provide for on-line capacity to process applications and fee collections. This appropriation is one-time.
- \$189,000 for a casualty actuary position. General Fund dollars will fund one-half of the position. The other half is funded from the Workers' Compensation fund.
- \$212,000 for a EDP examiner position in the agency's financial examinations program. The position is paid for by additional fees generated from the work performed.

The Legislature also approved the Governor's recommendation to institute several Department fee changes which will yield estimated non-dedicated General Fund revenues of \$2.12 million in the FY 2000-01 biennium.

Board of Accountancy – The Legislature approved a FY 2000-01 General Fund appropriation for the Board at the base level of \$1.2 million. The Legislature also approved three fee changes that Board put forth and the Governor recommended. The fee changes are expected to generate \$19,000 in the FY 2000-01 biennium.

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience and Interior Design – The Legislature approved a FY 2000-01 General Fund appropriation for the Board of \$1.56 million, a \$93,000 increase over base funding. The increase funds several operations changes, including new computer services and supplies, paying increased dues to national councils, paying pass-through costs for national examinations, and developing an improved examination for land surveyor license applicants.

A fee change from \$70 to \$104 for Board issued licenses and biennial renewals was approved. The increase addresses past under-recovery of actual Board costs, and will recover the full cost of Board in the FY 2000-01 biennium. The fee increases will raise an estimated \$570,000 in FY 2000-01.

The Legislature also approved a \$21,000 deficiency appropriation for the Board for FY 1999.

Board of Barber Examiners – The Legislature approved a General Fund appropriation at the base level of \$293,000 in FY 2000-01. The Legislature also approved several Board requested fee changes for license renewals.

Board of Boxing – The Legislature sunset the Board of Boxing effective June 30, 2000. A General Fund appropriation of \$84,000 was approved for the Board's FY 2000 operations.

Board of Electricity – This Board receives no General Fund appropriations. The Legislature froze the Board's fees for one year and directed the Board to come back to the 2000 Legislature with a plan for any fee increase it may recommend. This action was in response to the Governor having tentatively concurred with the Board's request to increase the electrical inspection fee schedule in FY 2001.

Department of Labor & Industry – The Legislature directly appropriated \$49.6 million to the Department for the FY 2000-01 biennium. Of this total, the direct General Fund appropriation is \$7.6 million, the direct appropriation from the Workers' Compensation fund is \$40.4 million, and \$1.5 million is a direct appropriation from the Workforce Development Fund. The major changes in the Agency's budget are:

- \$764,000 increase for a new codes and inspection system to improve the agency's licensing and inspection of boilers, pressure vessels, boats-for-hire, hobby boilers, and high pressure and ammonia piping systems. Non-dedicated user fees will be increased by \$366,000 per year beginning in FY 2001 to recover the cost of this initiative.
- \$24,000 increase in one-time FY 2000 funding as the general fund share of a technology initiative to rewire the agency's existing technical infrastructure network and procure an end-user reporting tool. The remaining \$691,000 of this initiative's cost is paid for from the Workers Compensation Fund.
- \$1.544 million from the Workforce Development Fund to continue the Apprenticeship Program. The Governor had recommended that the Apprenticeship Program be abolished.

Labor Interpretive Center – The Legislature rejected the Governor's recommendation that the Labor Interpretive Center be eliminated and its purpose and responsibilities be transferred to the Minnesota Historical Society. Rather, the Legislature reduced the Center's General Fund operating support to \$200,000 per year, and set forth the Legislature's intention that the Center increase the nonstate share of its operating budget. **(Vetoed by Governor)**.

Jobs & Economic Development Finance

The Legislature also amended the 1998 bonding law which funded \$6 million towards the Center's new building. The amendment requires that the balance of the Center's building costs be paid for with nonstate funds.

Bureau of Mediation Services – The Legislature approved FY 2000-01 General Fund appropriations for the Bureau at the base level of \$4.3 million. No new initiatives were funded.

Public Utilities Commission – The FY 2000-01 General Fund appropriation for the Commission approved by the Legislature totals \$7.7 million, an increase of \$188,000 over base. The increase allows the Commission to hire two new staff to handle the additional workload attributable to deregulation of the telecommunications industry. It is estimated that the Commission's non-dedicated revenues will increase by \$511,000 in the next biennium. Part of the increase will also be used to pay for the Commission's technology initiative approved in the Omnibus State Government Finance bill.

Department of Public Service – The Legislature concurred with the Governor's recommendation that DPS receive General Fund direct and open appropriations of \$21.1 million in FY 2000-01, a \$530,000 increase over base. The appropriation includes the following change items:

- \$262,000 to fund two engineering positions that will evaluate capacity issues in electric generation, transmission and distribution filings.
- \$268,000 to fund three rate analysts to handle the additional workload associated with telephone rate filings.

The new positions will be funded from the Department's non-dedicated fee revenues which are expected to increase by \$530,000 in FY 2000-01.

Minnesota Historical Society (MHS) – The MHS will receive a \$49.7 million General Fund appropriation in the FY 2000-01 biennium. The appropriation encompasses the following initiatives:

- \$1.142 million for continuation of salary increases approved in the 1998 First Special Session, but only funded as a one-time appropriation.
- \$200,000 increase for information technology. This is a one-time appropriation in FY 2000.
- \$50,000 for asset preservation and repair.
- \$80,000 for the operating cost of the Northwest Fur Company Post. This is a one-time appropriation in FY 2000.
- \$100,000 to relocate to historic Bruentrup Farm Buildings in Maplewood.
- \$50,000 to Fridley Historical Museum.
- \$50,000 to the Little Falls Fishing Museum and Environmental Education Center.
- \$10,000 to Winona County Historical Society.

Minnesota Municipal Board – Consistent with the 1997 Law which sunset the Municipal Board, the Legislature approved \$162,000 in funding the Board for the six-month period July 1 through December 31, 1999. On January 1, 2000, the Board's duties, responsibilities, staff and assets transfer to the Office of Strategic and Long Range Planning. The Legislature appropriated \$488,000 to Planning for their new responsibilities. (Note: The 1999 Omnibus Tax Bill moved up the sunset of the Municipal Board by seven months to June 1, 1999.)

Council on Black Minnesotans – The Legislature approved a \$649,000 General Fund appropriation to the Council for the FY 2000-01 biennium. The appropriation includes \$25,000 each year to cover the costs associated with the board's work in organizing the Martin Luther King Jr. Holiday program.

Chicano Latino Affairs Council – The Legislature approved a \$638,000 General Fund appropriation to the Council for the FY 2000-01 biennium. This appropriation is at the base budget level. It includes no new initiatives, programs or staff.

Council on Asia-Pacific Minnesotans – The Legislature approved a \$563,000 General Fund appropriation to the Council for the FY 2000-01 biennium. This appropriation is at the base budget level. It includes no new initiatives, programs or staff.

Minnesota Indian Affairs Council – The Legislature approved a \$1,118,000 General Fund appropriation to the Council for the FY 2000-01 biennium. This appropriation is at the base budget level. It includes no new initiatives, programs or staff.

Workers Compensation Court of Appeals – This agency receives no General Fund appropriation. The Legislature approved an FY 2000-01 direct appropriation from the Workers Compensation Special Fund at the base level of \$3.128 million.

Iron Range Resources and Rehabilitation Board – The Legislature approved a base level General Fund open appropriation totaling \$1.336 million for the Region 3 - Occupation Tax.

FY 2002-03 Budget Implications (Tails) – The ongoing direct and open General Fund budget obligations of the 1999 Omnibus Jobs & Economic Development Finance Bill for the FY 2002-03 biennium are an estimated \$352.4 million. This amount is \$14 million less than the Department of Finance's estimate of \$366.4 million in FY 2002-2003 tails for the Governor's recommended budget.

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

State Government Finance

The State Government Finance Omnibus Act ([1999 Laws of Minnesota, Chapter 250](#)), as passed by the 1999 Legislature, authorized net General Fund spending of \$728.8 million, a decrease of \$27.6 million from forecasted spending in the FY 1998-99 biennium. Direct General Fund appropriations totaled \$658.5 million, with an additional \$71.6 million in open General Fund spending. These appropriations were offset by \$1.4 million in new General Fund revenues. The Governor vetoed \$7.4 million in individual appropriations. With these vetoes, total spending for the division was reduced to \$721.4 million. ([link to detailed spreadsheet](#))

Table 23

State Government Finance Total General Fund Spending			
	FY 1998-99 Forecast Spending	FY 2000-01 Chapter 250 Enacted	FY 2002-03 Chapter 250 Tails
Attorney General	\$56,884	\$51,397	\$49,880
Governor's Office	\$7,700	\$8,223	\$8,342
Secretary of State	\$11,843	\$18,104	\$12,128
State Auditor	\$15,618	\$18,278	\$18,622
State Treasurer	\$5,814	\$4,846	\$4,566
Legislature	\$117,046	\$121,079	\$125,432
Administration (includes Public Broadcasting)*	\$104,374	\$74,647	\$57,244
Administrative Hearings	\$0	\$400	\$0
Amateur Sports Commission	\$8,624	\$2,758	\$2,778
Arts Board	\$26,202	\$26,158	\$26,188
Capitol Area Planning Board (CAAP)	\$871	\$1,194	\$612
Campaign Finance & Public Disclosure Board*	\$5,132	\$5,523	\$5,252
Contingent Accounts / Tort Claims	\$3,405	\$750	\$750
Employee Relations Department (DOER)	\$16,519	\$21,528	\$21,266
Finance (includes non-operating)*	\$56,117	\$42,373	\$40,260
Government Innovation & Cooperation Board	\$2,321	\$2,032	\$2,036
Humanities Commission	\$1,772	\$1,806	\$1,818
Investment Board	\$4,410	\$4,686	\$4,752
Indirect Cost Receipts	(\$46,407)	(\$42,819)	(\$48,531)
Lawful Gambling Board	\$4,450	\$4,424	\$4,482
Minnesota Racing Commission	\$742	\$792	\$804
Military Affairs	\$22,352	\$21,937	\$22,012
Political Contribution Refunds	\$9,312	\$7,903	\$9,256
Public-Local Employees Retirement Funds	\$84,026	\$71,028	\$69,950
Revenue Department*	\$169,449	\$184,983	\$174,434
Strategic & Long-Range Planning	\$11,570	\$11,308	\$8,834
Tax Refund Interest	\$35,878	\$47,000	\$44,000
Veterans Affairs	\$20,768	\$10,254	\$8,712
Veterans Service Organizations	\$148	\$148	\$148
Other (Revenues)		(\$1,384)	\$8,052
Total General Fund	\$756,940	\$721,356	\$684,079

The Governor's vetoes included \$6 million in grant funds to the Amateur Sports Commission, \$1 million for the Humanities Commission's MotherRead / FatherRead program, \$113,000 for grants to public television stations for digital conversion, \$100,000 for bleacher safety grants, and \$220,000 to fund a one-year continuation of the Intergovernmental Information Systems Advisory Council (IISAC).

The final State Government bill reflected changes made in a delete-everything amendment to HF 878, the last bill passed by the Legislature on the final day of session. The original State Government Finance conference report, SF 2223, was vetoed by the Governor (and repealed by HF 878).

The HF 878 amendment incorporated \$16 million in additional technology funding requested by the Governor. Approximately \$9 million of this spending was used to offset planned spending or "tails" in the FY 2002-03 biennium. Spending on two other Governor's initiatives, the state employee insurance rate stabilization and contingency reserve in the Department of Employee Relations, and the asset preservation account in the Department of Administration, was either eliminated or greatly reduced in order to fund the technology package.

Constitutional Offices

Attorney General's Office (AGO)

The Attorney General's Office received \$51.4 million for the biennium, including \$1.9 million in one-time funds for information technology upgrades. This funding level is a decrease of \$5.5 million from forecasted spending in FY 1998-99. However, it should be noted that the current spending level includes transfer payments from several state agencies with established partnership agreements with the AGO for provision of legal services. In the FY 2000-01 biennium, the funding for these agreements is directly appropriated to the partner agencies so it is not reflected in the enacted budget figures for the AGO. These partner agencies will then transfer funds back to the AGO as payment for services.

In addition, the AGO has statutory authority to enter into reimbursable agreements for legal services provided to other "non-partner" state agencies. The revenue received from these agreements in FY 2000-01 is projected to increase 11.4 percent over the FY 1998-99 biennium. Chapter 250 requires the AGO and Department of Finance to continue a joint review of the funding mechanism for state agency legal services, including further examination of these partner and non-partner agency funding agreements. A second report is due to the legislature by February 15, 2000.

Governor's Office

The Governor's request of \$8.2 million for the biennium, an increase of \$523,000 over current spending, was fully funded.

Secretary of State

The Secretary of State received \$18 million for the biennium, an increase of \$6.2 million. This funding level includes a base reduction of \$3.5 million for the Presidential Primary, which was repealed in Chapter 250. \$5.8 million in one-time funding was provided for the office's technology initiatives. New spending items include:

- \$2.5 million to convert microfilmed documents to a digital image format.
- \$2.75 million to finish an upgrade of the office's computer systems.
- \$543,000 to complete the Year 2000 conversion project.
- \$82,000 to develop new election training materials.
- \$18,000 increase to base to cover costs for training elected officials, and costs for testing voting equipment.
- \$10,000 for additional Geographical Information Systems (GIS) costs.

State Auditor

The State Auditor's office received \$18.3 million, an increase of \$2.7 million over current spending. Agency requested change items totaling \$1.8 million were approved, including:

State Government Finance

- \$1.3 million to increase salaries for prospective and recently hired auditors, in order to reduce high staff attrition.
- \$294,000 to fund 2.5 additional positions for expanded oversight of pension fund investments.
- \$196,000 to add staff to the Special Investigations Division.

State Treasurer

The State Treasurer received \$4.85 million for the biennium, including \$75,000 in one-time funds for a portion of the Electronic Government Services technology initiative. A one-time appropriation of \$278,000 was also provided to cover the office's costs for processing the sales tax rebate approved in Chapter 243, the omnibus tax bill.

Legislature

The legislature appropriated a total of \$121.1 million for its own operations, an increase of \$4 million over current spending. This funding level includes:

- \$53 million for the House of Representatives, a decrease of \$538,000 from current spending. This funding level is \$1 million below the Governor's recommended spending level.
- \$39.7 million for the Senate, an increase of \$1.7 million over current spending. This appropriation is \$2.5 million above the Governor's recommendation. \$40,000 was included for Senate media services to produce a videotape on the legislative process.
- \$28.4 million for the Legislative Coordinating Commission, including \$12 million for the Revisor's office, and \$10.1 million for the Legislative Audit Commission.

State Agencies

Department of Administration

Total general fund appropriations for the Department of Administration are \$62.6 million for the biennium, an decrease of \$27.8 million from current spending. This decrease reflects significant one-time appropriations in FY 1998-99 for the Year 2000 project. New spending initiatives for the FY 2000-01 biennium total \$13.1 million, including \$12.8 million in technology initiatives:

- \$2.5 million for Year 2000 contingency funds. The funding level includes \$350,000 for ongoing operations of the Y2K project office, with language allowing the office to access another \$150,000 if needed. The remainder of the funds are to complete the modifications to state agency business systems.
- \$4.4 million in total for 3 different pieces of the Electronic Government Services initiative: \$2.1 million to provide directory services infrastructure, \$340,000 to conduct security impact analysis and planning, and \$1.4 million to establish a statewide encryption infrastructure.
- \$2.3 million one-time funds for on-going costs for state agencies' participation in the state-county telecommunications collaboration project. Beginning July 1, 2001, these costs must be included in the appropriate state agencies' base budgets.
- \$1.1 million in one-time funding to replace expiring federal funding for the STAR (System of Technology to Achieve Results) program, which provides technology-related assistance to individuals with disabilities. \$900,000 of this amount is for program operations, and \$210,000 is one-time funding to begin an Augmentative and Alternative Communication grant program.
- \$750,000 in one-time funds for costs associated with the information policy training program.

- \$200,000 one-time funds for Project Greenstart at the Children's Museum in St. Paul.
- \$100,000 for bleacher safety grants. **The Governor vetoed this appropriation.**

Implementation of Governor Ventura's recommendation to establish a special revenue account for asset preservation was delayed until FY 2002. This change will result in a \$9.5 million loss of revenue to the general fund for the FY 2002-03 biennium. In the FY 2000-01 biennium, two specific capital asset projects were funded directly:

- \$1.7 million for demolition of the Capitol Square building. The site will be restructured as a temporary parking lot.
- \$520,000 to rebuild and upgrade the electronic security systems in the Capitol Complex.

In non-general fund initiatives, the legislature appropriated an additional \$1.37 million from the State Government Special Revenue Fund to cover anticipated increased in the Metropolitan Radio Board budget. This appropriation is from the monthly 911 fees on telephone lines.

Minnesota Office of Technology (OT) - The Office of Technology was moved into the Department of Administration in agreement with the Governor's plans. However, the FY 2001 appropriation is not available until the 2000 Legislature has approved the department's long-range plan for the missions and goals of the office. The legislature appropriated a total of \$7.8 million for this office, a decrease of \$2.6 million from current spending. \$4.4 million was allocated for salaries and operating expenses, and \$3.4 million for specific projects:

- \$1.7 million from the general fund for one-time transfers to small state agencies to provide basic technology infrastructure. This initiative also includes an additional \$428,000 from other funds.
- \$500,000 one-time appropriation for continuation of the One-Stop Licensing project.
- \$936,000 in base funding for North Star II, the state's web site.
- \$220,000 to continue the Intergovernmental Information Systems Advisory Council (IISAC) for one year beyond the original sunset date of July 1, 1999. **The Governor vetoed this appropriation. With the veto of the IISAC funding total appropriations for OT were reduced to \$7.6 million.**

Public Broadcasting - The legislature appropriated a total of \$6.7 million for public radio and television.

- Public Radio: \$1.6 million total. \$640,000 is for community service grants to AMPERS stations only, and \$988,000 is for equipment grants to both Minnesota Public Radio and AMPERS stations.
- Public Television: \$4.1 million in total grants, including \$2.9 million in matching grants and \$1.2 million in equipment grants. **A separate one-time appropriation of \$113,000 to assist non-commercial stations convert to digital signals was vetoed by the Governor.**
- Legislative Television appropriations remain at base spending levels of \$882,000.

Administrative Hearings

This agency is supported by the Workers' Compensation Special Fund and normally does not receive general fund money. However, the 1999 Legislature appropriated a one-time supplement of \$400,000 from the general fund to cover the office's remaining fixed costs related to the child support hearings division. The Supreme Court ordered that this function be moved to the judicial branch.

Amateur Sports Commission(MASC)

The legislature appropriated a total of \$7.3 million for the biennium, which included \$6 million in grant funds for Mighty Ducks and Mighty Kids programs. The grant funds consisted of \$4 million for ice arena grants, and \$2 million for grants to local governments for amateur athletic facilities and programs. **The Governor vetoed the entire \$6 million in grant funds, leaving the MASC with \$1.3 million for commission operations.**

State Arts Board

The State Arts Board received \$26.2 million for the biennium, a decrease of \$44,000 from current spending. This funding level includes \$17 million in general grant funds, and \$7.1 million in grants for the Regional Arts Councils.

Capitol Area Architectural Planning Board (CAAP)

The legislature appropriated \$1.2 million for the biennium to the CAAP Board. \$608,000 is for the board's operations, and the remaining \$586,000 is for three one-time projects: \$250,000 for a contribution to the Hubert H. Humphrey memorial on the Capitol mall, \$10,000 to provide an corrective plaque regarding the Spanish American war, and \$346,000 for a contribution to the national World War II veteran's memorial in Washington DC.

Campaign Finance and Public Disclosure Board

The legislature appropriated a General Fund budget of \$1.42 million, an increase of \$343,000 over current spending. The Board's initiative of \$404,000 for an upgrade to the Campaign Finance software was funded. An FY 1999 deficiency appropriation of \$15,000 to pay legal fees resulting from a litigation over the commercial use of board-collected information was funded separately in [Chapter 141](#), the deficiency bill.

Department of Employee Relations (DOER)

Total General Fund appropriations for DOER are \$20.9 million, an increase of \$5.9 million over current spending. Three new initiatives were funded:

- \$4.75 million for rate stabilization and to self-insure all medical coverage provided to state employees through the State Employee Group Insurance Program (SEGIP). The Governor had originally recommended \$20 million for this initiative; the final allocation was reduced significantly to fund technology projects within the departments of Administration, Finance and Revenue.
- \$310,000 to implement an optional, participant-paid long-term care insurance program available to state employees, their spouses and parents. The program may not be implemented before April 1, 2000, and the department must seek specific legislative authorization before it may self-insure this program.
- \$138,000 in additional one-time funding for the government training service. Base funding for this program is \$100,000.

Department of Finance

The legislature appropriated a total of \$42.4 million for the biennium, a decrease of \$5.6 million from current spending. This decrease reflects the legislature's decision to bill state agencies for the entire operating costs of the statewide administrative systems, instead of appropriating a portion of these costs to the department. The department is authorized to bill agencies up \$15.04 million for these costs in the FY 2000-01 biennium.

The department received \$6.8 million for its major initiative, an upgrade of the state's personnel and payroll system. The Commissioner of Finance is required to develop a long-range plan for all state business systems, which must include discussion of expected life-cycle costs, factors driving increases in operating costs, and evaluation of the potential for using either private vendors or developing and maintaining system software in-house.

Board of Government Innovation and Cooperation - The legislature appropriated \$2.04 million for the Board, including \$1.88 million in grant funds for local governments. The Governor had proposed eliminating the Board, but did not choose to veto the funding.

Humanities Commission - The legislature appropriated \$2.8 million, an increase of \$1 million over current spending. **The Governor vetoed \$1 million in additional one-time funding for the MotherRead / FatherRead literacy program, reducing the Commission's total appropriation to \$1.8 million.**

Investment Board - The legislature appropriated \$4.7 million for the biennium, an increase of \$276,000 over current spending.

Lawful Gambling Control Board - The legislature appropriated \$4.4 million for the biennium to the Lawful Gambling Control Board, a decrease of \$26,000 from current spending.

Minnesota Racing Commission - The legislature appropriated a total of \$2.9 million for the biennium, with General Fund spending totaling \$792,000. The remaining \$2.2 million is a statutory appropriation in a Special Revenue Reimbursement Account.

The Department of Military Affairs

The legislature appropriated \$21.9 million for the biennium, a decrease of \$415,000 from current spending. Three new initiatives were funded:

- \$2 million in one-time funding to reduce the backlog of armory and airbase repair and maintenance.
- \$70,000 to raise the level of support for National Guard unit operating costs.
- \$70,000 in one-time funds for the Minnesota National Guard youth camp at Camp Ripley.

Political Contribution Refunds - The legislature appropriated \$7.8 million for the Political Contribution Refund program, a decrease of \$1.5 million over current spending. This is an open General Fund appropriation.

Public-Local Employees Retirement

- Minnesota State Retirement System (MSRS): \$8 million for legislators' and constitutional officer's retirement.
- Minneapolis Employees Retirement Fund (MERF): \$12.9 million, after a \$6.2 million actuarial reduction was applied to MERF's base.
- Local Police & Fire Amortization Aid: \$12.6 million for the biennium.
- Teacher's State Aid - First Class Cities: \$37.5 million open General Fund appropriation.

Department of Revenue

The legislature appropriated \$181.2 million for the biennium, an increase of \$16.4 million over current spending. New spending items total \$12.6 million:

- \$12 million in a one-time appropriation for re-engineering the computer systems and business processes supporting the state's income tax system. This appropriation does not expire at the end of the biennium, and is intended to cover 4 years of the project. However, the carry-forward funds are only available upon approval of the commissioner of finance, after receiving the recommendation of the chairs of the House and Senate state government finance committees.
- \$400,000 in one-time funds to administer the farm relief program enacted in the omnibus tax bill, Chapter 243.
- \$195,000 for a network security firewall.

Strategic and Long Range Planning (Minnesota Planning)

State Government Finance

The legislature appropriated \$11.3 million for the Office of Strategic and Long Range Planning, a decrease of \$262,000 million from current spending. Several new initiatives were funded:

- \$1.6 million to conclude the General Environmental Impact Study (GEIS) on animal feedlots. The 1998 Legislature appropriated \$1.2 million to the Environmental Quality Board for the initial phase of the GEIS.
- \$200,000 in one-time funds for program evaluations of state agencies.
- \$200,000 for an urban development GEIS.
- \$150,000 for one-time grants to regional development commissions.
- \$100,000 to integrate the office's information technology functions.
- \$100,000 for a one-time appropriation to promote the 2000 Census.
- \$100,000 to cover the final administrative costs for the community based planning program. This program will sunset in FY 2001.
- \$100,000 for a grant to the Mankato area growth management project.

Department of Veterans Affairs

The Department of Veterans Affairs received \$10.3 million, a decrease of \$10.2 million from current spending. This decrease reflects the significant one-time appropriation in FY 1997 for the Persian Gulf bonus program. New spending includes:

- An additional \$1.6 million was included for the Persian Gulf bonus program. \$1.49 million is for the bonus payments, and \$105,000 is to administer the program.
- \$130,000 increase in base funding for Guardianship activities.
- \$167,000 increase in base funding to cover increased agency head salaries and other personnel costs.
- \$25,000 in one-time funds to provide grants to local veteran's organizations to provide transportation to Veterans Administration medical facilities.

Veterans' Service Organizations

- Disabled American Veterans (DAV) - The legislature appropriated \$26,000 for the biennium to the DAV, the same as current spending.
- Military Order of the Purple Heart - The legislature appropriated \$40,000 for the biennium, the same as current spending levels.
- Veterans of Foreign Wars (VFW) Claims and Service Office: The legislature appropriated \$82,000 for the VFW Claims and Service Office, the same as current spending.

Year 2000 Revolving Loan Fund: \$20 million was appropriated to the Commissioner of Finance to establish a Year 2000 Loan fund for local governments. The loans are available to school districts, counties, joint powers boards and cities and towns, and may only be used for Year 2000 remediation of problems likely to affect public health and safety, or cause catastrophic loss to property or the environment. The loans must be repaid by the end of FY 2001.

Implications for the State Government Finance Division for the next biennium: Projected spending for the FY 2002-03 biennium is \$684.1 million, which is \$28.4 million below the Governor's projected spending for the division. As noted, many of the technology projects were funded at a four year level, with authority to carry-forward these appropriations into the next biennium.

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

Transportation Finance

The 1999 Omnibus Transportation Finance bill ([Laws of 1999, Chapter 238](#)) appropriated over \$3.2 million for transportation purposes in the FY 2000-01 biennium. Total general fund spending was \$166 million for the biennium, and over \$2 billion from the trunk highway fund. The final bill passed by conference committee differs substantially from the budgets introduced by the House, the Senate, and the Governor, as several projects were moved to the capital investment bill. The capital investment bill contained \$60 million for light rail, a Governor and Senate position, as well as money for local bridges and the Transportation Revolving Loan Fund (TRLF). The TRLF, a House position funded at \$10 million, and local bridges also funded at \$10 million were vetoed from the bonding bill by Governor Ventura. ([link to detailed spreadsheet](#))

Table 24

Transportation Finance Total General Fund Spending (dollars in thousands)

	FY 1998-99 Forecast Spending	FY 2000-01 Chapter 238 Enacted	FY 2002-03 Chapter 238 Tails
Transportation	\$31,428	\$32,900	\$31,850
Public Safety	\$19,636	\$23,282	\$22,827
Metropolitan Council	\$100,702	\$109,902	\$109,902
Total General Fund	\$151,766	\$166,084	\$164,579

General fund spending was kept to a minimum in the bill, however, to create general fund flexibility, two programs were eliminated from budget bases. The committee cut \$61,000 annually from the bicycle safety program in the Department of Public Safety, and \$100,000 annually from the St. Cloud Driver Safety Center.

General fund initiatives included:

- \$1.8 million annually for rural transit grants.
- \$11.2 million addition to the Met Council for Metro Transit.
- \$200,000 annually to the soft body armor reimbursement program.
- \$835,000 for a new helicopter for the State Patrol.
- \$492,000 for additional protection for elected officials through Capitol Security.

The legislature funded the governor’s request to preserve rural transit service as well as add service to new counties. To accomplish this, the committee permanently funded the preservation of service and added one-time expenditures for the service expansion. Additional dollars will need to be provided in the future to maintain these service increases in rural communities.

In addition, the Met Council requested money for service preservation and a three percent service increase in the metro area. The legislature funded the service preservation and a three-quarters of one percent increase in service for the biennium. The money was allocated more heavily in the first year to allow the Met Council to institute the full three percent service increase and seek funding in the future to maintain the higher level. The “tails” to preserve existing service were included in the funding package, but dollars for the service increase will disappear at the end of the biennium if further funding is not provided by either the Legislature or the Met Council in the future. It is important to remember, however, that there will be no reductions in any transit service in the state do to legislative cuts.

Transportation Finance

The legislature did eliminate many of Governor Ventura's trunk highway fund initiatives and was able to add dollars to road projects. The conference committee report included an additional \$5 million over the governor's proposal for county turnback projects. In addition, the bill included \$7 million more than the governor's proposal for state road construction. With a jump in the incoming federal funds and slight growth from state gas tax and "tab fee" revenues, the construction program will grow to \$521 million by FY 2001.

Other Trunk Highway fund initiatives include:

- \$9 million for the biennium for additional maintenance, safety devices, and traffic control on state highways.
- \$7.5 million for small MN/DOT capital projects throughout the state.
- \$3 million for the biennium for computer software and personnel for the Department of Transportation.
- \$1.8 million for additional examiners and testing equipment at the driver license exam stations.
- \$1.5 million for a federally required study of transportation patterns.
- \$750,000 annually for MN/DOT's transportation worker program.
- \$735,000 in FY2000 for the State Patrol trooper training academy.
- \$694,000 annually to the State Patrol for communications equipment.

An initiative from the Highway User Tax Distribution Fund creates funding to the Department of Public Safety that will allow vehicle registration transactions to be done by credit card on the Internet in FY 2001. The Governor's only veto in the bill was to eliminate a provision that required the Department of Transportation to hire additional maintenance workers and was funded at \$3 million annually from the trunk highway fund.

Implications

The committee was able to fund transit service increases but not in perpetuity. To maintain these increases, money will need to be provided by the legislature in the future or generated from local sources. The veto of the local bridge matching funds in the Capital Investment bill will force the program to run out of money this December until funds are provided by the 2000 legislature. No federal funds will be lost as a result of this veto, but some projects may be delayed an extra year.

A provision in the bill once again places a new "sunset" of the one percent gas tax transfer to the snowmobile account. The current law was to revert from a temporary one percent transfer of gas tax revenues back to the original three-quarters of one percent transfer in FY 2000. The Environment bill sought to have the temporary one percent transfer made permanent at a cost of \$1.1 million annually to the trunk highway fund. The Transportation bill allowed the transfer for FY 2000, but then sunsets back to the three-quarters of one percent transfer in FY 2001. This issue is almost certain to be re-visited in the 2000 legislative session.

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

Capital Investment

The 1999 Capital Investment Bill, ([Laws of 1999, Chapter 240](#)) was a key piece of legislation in the final negotiations between the Legislature and the Governor. The bill included a cash-to-bonds conversion, which freed up \$400 million dollars to resolve the sales tax rebate and endowment issues. In addition, the bill appropriated \$150 million in new bond financed projects including \$60 million for the final state share of the light rail project in the Hiawatha Corridor. Also included was a \$20 million appropriation for a Direct Reduced Iron Grant and \$4.7 million in bond re-authorizations to extend the time limit for completion of projects set to automatically cancel without legislative action. The governor exercised his veto power throughout the bill, cutting out over \$30 million in total projects. ([Link to detailed spreadsheet](#))

The cash-to-bonds provision was included to essentially un-do action taken by the Commissioner of Finance at the direction of the 1998 omnibus tax bill ([Laws of 1998, Chapter 389, Art. 9 Sec. 2](#)). One stipulation required that if collections of taxes exceeded estimates, thereby creating new budget “surpluses”, the dollars should be used to buy down state debt by replacing up to \$400 million of bond authorizations from the 1998 bonding bill with cash. The governor proposed reversing this provision with a cash-to-bonds proposal early in the 1999 session, and this proposal finally ended up in the capital investment bill as part of a larger budget deal between the executive branch and the legislature.

Appropriations for \$150 million in new projects were included in the legislation, though the governor vetoed projects totaling \$30 million. Surviving projects included:

- \$5.3 million for the Southwest and East metro magnet schools.
- \$18.9 million for flood mitigation projects in the Red River Valley and St. Paul.
- \$3 million for a solid waste incinerator in Perham.
- \$2.2 million for federal drinking water matching funds.
- \$20.5 for the wastewater infrastructure grants.
- \$3 million for capital asset preservation (CAPRA)
- \$1 million for a grant to Itasca County for infrastructure improvements related to a Direct Reduced Iron plant.
- \$60 million for a light rail project in the Hiawatha corridor.
- \$1.8 for emergency sewer repair at the Faribault correctional facility.
- \$440,000 for a loan to Brooklyn Park for the construction of a pedestrian bridge.
- A re-authorization of \$4 million in railroad bonds for the rail bank projects.

Vetoed provisions include:

- \$6.1 million for new boilers at Winona State University.
- \$3.7 million for blight elimination near Moorehead State University/
- \$1.25 million for heating and cooling improvements at Ridgewater Community College.
- \$10 million for local bridge matching funds.
- \$10 million for the Transportation Revolving Loan Fund.
- \$1 million for Grass Lake restoration.
- \$1.3 million for Lazarus Creek preservation.
- Re-authorizations totaling \$614,000 for the Labor Interpretive Center.

Governor Ventura also vetoed a \$20 million appropriation for a Direct Reduced Iron grant. The appropriation was contained in the bonding bill and the 1999 omnibus tax bill. Language in the capital investment bill limited the total

Capital Investment

appropriation to \$20 million and was somewhat redundant. Though the governor vetoed the \$20 million in the bonding bill, the money is still appropriated in the tax bill. The veto “cleans up” redundant language, but has no real effect on state spending for this purpose.

Implications

All indications are that Governor Ventura plans to keep the bonding bill at a level of \$400 million. The governor has vetoed projects this year that are certain to arise next year including local bridge matching funds and new boilers at Winona State University. With great needs anticipated for local bridge funds, wastewater funding, maximum effort school loans, a new BCA facility as well as CAPRA and HEAPR needs, there will be fierce competition for scarce bonding dollars in the 2000 legislative session.

For more information on Capital Investment issues, contact John Walz at 651-296-8236 or John.Walz@house.leg.state.mn.us

Tax Revenues, Local Aid and Credits

Emergency Agricultural Tax Relief and Farm Assistance

[Chapter 112, 1999 Laws of Minnesota](#) was adopted to provide immediate, temporary agricultural tax relief and farm assistance to Minnesota's ailing farm economy. Chapter 112, which became law on April 23, 1999, without the Governor's signature, directs \$70 million in one-time assistance to individuals who are actively engaged in farming and/or are bearing a financial risk in the production of crops or livestock.

Farms may qualify by having been assigned a unique farm number as reported on the form 156EZ to the farm service agency (FSA), including at least 40 acres of effective agricultural use land. Qualified individuals include "farm operators," defined as the operator of the farm on the form 156EZ, and "farmers" or "farmers at risk," defined as persons who produce an agricultural crop or livestock and are certified by FSA as bearing a percentage of the risk for the farm's operation.

Payments are equal to \$4 per acre of farmland, multiplied by the percentage of risk borne by the operator or farmer for that farm. In lieu of a per acre payment, livestock producers operating less than 160 acres may elect to receive a payment equal to their first half 1999 property taxes provided that the facility produced at least \$10,000 in sales of unprocessed livestock or unprocessed dairy products, as reported on schedule F of form 1065, 1120, or 1120S of the farmer's federal income tax return for either taxable years 1997 or 1998.

The maximum payment for each farm and each individual is \$5,600. Consequently, multiple interests in a single farm operation may collectively receive no more than \$5,600 for that farm operation and an individual having an interest in multiple farm operations may receive no more than \$5,600 for all the farm operations in which he or she has an interest.

Applications were mailed to farmers and made available at county offices on May 25, 1999. Agricultural producers and farm owners have until September 1, 1999, to apply to the Department of Revenue for relief. Payments are to be distributed within 30 days of receipt of an application by the Department.

Omnibus Tax Act – Tax Rebates and Permanent Tax Cuts

Overview: The primary focus for tax policy during the 1999 legislative session was on permanent income tax rate reductions and a one-time sales tax rebate. The Omnibus Tax Act ([Chapter 243, 1999 Laws of Minnesota](#)) contains \$1.4 billion in state tax reductions for the FY 2000-01 biennium, of which \$1.3 billion is attributable to permanent income tax reductions. Chapter 243 also provides for a \$1.25 billion one-time sales tax rebate. For property taxes, the act continues the compression of property tax class rates begun in 1997 and 1998. ([link to detailed spreadsheet](#))

Sales Tax Rebate

The 1999 omnibus tax act includes a one-time rebate of at least \$1.25 billion, with as much as \$50 million added if actual FY1999 general fund revenues exceed the February forecast by that much. The Department of Revenue received a one-time appropriation of \$1.26 million to administer the sales tax rebate. [Table 25](#) illustrates the funding for the sales tax rebate.

FY 1999 Sales Tax Rebate	
Sales tax rebate	(\$1,250,000)
Sales tax rebate – administration	(\$1,257)
Sales Tax Rebate	(\$1,251,257)

Table 25

Taxes, Local Aid and Credits

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

- Received a property tax rebate on a 1997 Minnesota income tax return;
- Paid income tax (before refundable credits) in 1997, and was not be claimed as a dependent on another taxpayer's return;
- Had homeowner property taxes reduced to zero in 1997 due to flood damage; or
- Was a non-resident and paid no Minnesota income tax in 1997, but paid at least \$10 in Minnesota sales tax on non-business purchases and has receipts for those purchases.

Only the last group – non-residents with Minnesota sales tax receipts – will need to apply for the rebate. All others will receive their rebate automatically. To be eligible, 1997 tax returns must have been filed by June 15, 1999.

The rebate amount will equal 69 percent of what the Department of Revenue estimates the household paid in sales tax in 1997. Rebate amounts will be larger for those with higher incomes, but will be capped at a maximum of \$5000. There is no adjustment for family size, but married taxpayers and heads of household will receive larger rebates than single persons with the same income. Income is defined as federal taxable income plus “Minnesota additions” – primarily state income taxes claimed as itemized deductions on the federal tax return. The rebate schedule is shown in [Table 26](#).

Table 26

Sales Tax Rebate for Minnesota Residents					
Income	Single	Others	Income	Single	Others
Less than \$2,500	\$ 204	\$ 358	\$ 70,000 - \$ 79,999	\$ 958	\$1,162
\$ 2,500 - \$ 4,999	249	469	\$ 80,000 - \$ 89,999	958	1,276
\$ 5,000 - \$ 9,999	299	502	\$ 90,000 - \$ 99,999	958	1,417
\$ 10,000 - \$ 14,999	408	549	\$100,000 - \$119,999	1,154	1,535
\$ 15,000 - \$ 19,999	464	604	\$120,000 - \$139,999	1,154	1,682
\$ 20,000 - \$ 24,999	496	641	\$140,000 - \$159,999	1,394	1,818
\$ 25,000 - \$ 29,999	515	690	\$160,000 - \$179,999	1,394	1,946
\$ 30,000 - \$ 34,999	570	762	\$180,000 - \$199,999	1,394	2,067
\$ 35,000 - \$ 39,999	570	820	\$200,000 - \$399,999	1,889	2,644
\$ 40,000 - \$ 44,999	649	874	\$400,000 - \$599,999	2,485	3,479
\$ 45,000 - \$ 49,999	649	921	\$600,000 - \$799,999	2,500	4,175
\$ 50,000 - \$ 59,999	776	969	\$800,000 - \$999,999	2,500	4,785
\$ 60,000 - \$ 69,999	776	1,071	Over \$1,000,000	2,500	5,000

Note: “Income” is 1997 federal taxable income plus Minnesota additions to income. (This is not the same as total income; nontaxable income is excluded, and personal exemptions, the standard deduction, and any itemized deductions other than state income tax have all been subtracted.) “Others” include married couples filing joint returns, plus those filing as head of household or surviving spouse. Rebates will be adjusted proportionately if the total rebate exceeds \$1.25 million. Part-year residents and non-residents who paid income tax in 1997 will receive a fraction of these totals based on the portion of their income apportioned to Minnesota.

Implications of the Sales Tax Rebate

The sales tax rebate differs from the property tax rebates of the prior two years in several important ways. First, it is much larger – almost three times as large as the earlier rebates. Second, the sales tax rebate is “automatic.” No application is necessary. The earlier rebates created considerable confusion, and a significant number of eligible taxpayers failed to receive them. Third, the rebate will be received as a separate check, rather than a reduction in income taxes. This will make the rebate more visible. Fourth, the sales tax rebate is unlikely to increase federal income taxes. Previous rebates increased federal tax liability for Minnesotans who itemized deductions. The Department of Revenue estimates that between 17 and 18 percent of the total amount paid in property tax rebates has been passed on to the federal government in this way. Because sales taxes cannot be claimed as an itemized deduction, the sales tax rebate is not expected to affect federal tax liabilities. Fifth, the sales tax rebate is more inclusive. About 20 percent more taxpayers (an additional 350,000) will receive the sales tax rebate than received the property tax rebate. These include people who pay income taxes but are neither homeowners nor renters – such as adult children living at home, or older parents living with their adult children.

Despite these differences, the distribution of the sales tax rebate across income levels is very similar to that for the earlier property tax rebates. [Table 27](#) shows the estimated distribution of the sales tax and property tax rebates by adjusted gross income. The distribution of the rebate differs strikingly, however, from the distribution of permanent income tax relief included in the omnibus tax act. This can be seen by comparing [Tables 27](#) (below) and [32](#) on page 71.

Table 27

Share of Tax Rebates by Level of Income		
Adjusted Gross Income (1997)	Sales Tax Rebate	Property Tax Rebate (1997)
Under \$30,000	28%	28%
\$ 30,000 to \$ 49,999	21%	19%
\$ 50,000 to \$ 99,999	33%	33%
\$100,000 to \$199,999	11%	13%
\$200,000 and Over	7%	7%
Total	100%	100%

Note: Table ignores any induced change in federal taxes resulting from the property tax rebate.

Permanent Income Tax Reductions

[Table 29](#) on page 67 summarizes the three structural changes to the state’s individual income tax system: a reduction in individual income tax rates, the marriage penalty credit, and an increase in the working family credit.

Reduce Income Tax Rates – The 1999 omnibus tax bill reduced individual income tax rates in each of the three income tax brackets. Minnesota’s lowest and highest tax rates were each reduced by 0.5 percentage points (from 6% to 5.5% and from 8.5% to 8%); the middle tax rate was reduced by 0.75 percentage points (from 8% to 7.25%). [Table 28](#) shows the 1999 tax brackets. In 1999, of all Minnesotans who have tax liability (before tax credits), 44 percent will pay 5.5% tax on their last dollar of income, 50 percent will pay 7.25% tax on their last dollar of income, and 6 percent will pay 8% tax on their last dollar of income.¹

¹ These are counts by tax return. If joint returns are counted as two taxpayers, the percentages are 41 percent at 5.5%, 52 percent at 7.25%, and 7 percent at the 8% tax rate.

Taxes, Local Aid and Credits

The alternative minimum tax (AMT) rate was also reduced by 0.5 percent (from 7% to 6.5%). Without this change, the reduction in income tax rates would have substantially increased the number of taxpayers subject to the AMT.

Table 28

1999 Tax Rates, Before and After Tax Cut, by Filing Status				
Ranges of Minnesota Taxable Income			Tax Rates	
Joint Return	Single Filer	Head of Household	Old	New
\$1 - \$25,220	\$1 - \$17,250	\$1 - \$21,240	6.00%	5.50%
\$25,221 - \$100,200	\$17,251 - \$56,680	\$21,240 - \$85,350	8.00%	7.25%
\$100,201 and over	\$56,681 and over	\$85,351 and over	8.50%	8.00%

Provide Marriage Penalty Credit -- The omnibus tax act did not change the widths of the tax brackets, so the tax brackets for married couples filing jointly are still less than twice as wide as the tax brackets for single taxpayers. In the past, this has resulted in a “marriage penalty” for some married taxpayers. Consider, for example, a married couple with no dependents, each spouse earning \$40,000, with \$16,000 in itemized deductions. Using the *new* tax rates, this couple – filing a joint return – would pay \$162 more tax than two single people with the same earnings (\$3,800 in tax rather than \$3,638). The Omnibus tax bill eliminates this marriage penalty by giving this couple a \$162 “marriage penalty credit.” This credit, which will be found on a look-up table in the tax booklet, will eliminate the marriage penalty due to the tax brackets. The maximum marriage penalty credit in 1999 will be \$261. In general, the largest marriage penalty credits will go to married couples with equal or nearly equal earned incomes. If one spouse has little or no earned income, the couple will receive no marriage penalty credit because the tax brackets result in no marriage penalty in such cases.

Why a marriage penalty credit rather than adjusting the tax brackets?
 It would have been simpler to eliminate the marriage penalty by making the joint tax brackets twice as wide as the single tax brackets. This was the approach proposed by Governor Ventura, and it was also the method chosen in the House tax bill. Unlike the marriage penalty credit, doubling the single tax brackets would have reduced taxes for *all* married couples, even those with no marriage penalty. Because it reduces taxes only for those who have a marriage penalty, the marriage penalty credit costs only about half as much. It is a more cost effective way to eliminate the marriage penalty. This allowed more of the available funds to be used for rate reduction.

Increase working family credit – The omnibus tax act increased the working family credit for all eligible low income workers with children. The number of eligible taxpayers did not change, nor was there any increase in the credit for those with no children. The annual credit rose by up to \$43 for workers with one child and up to \$75 for workers with two or more children. For those with one child, the credit per \$100 of earnings rose from \$6.80 to \$7.45 (on the first \$6,680 of earnings); for those with two or more children, the credit per \$100 of earnings rose from \$8.00 to \$8.80 (on the first \$9,390 of earnings). The subsidy rate for the “second tier” of earnings was not changed, so the percentage increase in the credit was greatest for those with low earnings. The rate at which the credit phases out with higher incomes was increased by enough to leave the number of eligible workers unchanged.

Table 29

Permanent Income Tax Reductions (\$ in Thousands)							
Tax Provision	FY1999	FY2000	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03
Reduce tax rates (including AMT)	0	(722,900)	(494,800)	(1,217,700)	(517,400)	(540,000)	(1,057,400)
Provide marriage penalty credit	0	(46,200)	(48,400)	(94,600)	(50,900)	(52,800)	(103,700)
Increase working family credit	0	(6,000)	(6,100)	(12,100)	(6,200)	(6,300)	(12,500)
Subtotal: Individual Income Taxes - Structural changes	0	(775,100)	(549,300)	(1,324,400)	(574,500)	(599,100)	(1,173,600)

Other Income Tax Provisions ([Table 30](#))

- **Allow charitable contributions deduction for non-itemizers** – The omnibus tax act will allow those who claim the standard deduction (rather than itemizing) to deduct half of any charitable contributions in excess of \$500.
- **Phase out the K-12 education credit** – Eligibility for the education credit was previously limited to those with incomes below \$33,500. If income exceeded this level by even one dollar, the taxpayer lost the entire credit (up to \$2000). The omnibus tax act eliminates this “cliff” by phasing out the credit between incomes of \$33,500 and \$37,500. No credit will be allowed to those with incomes over \$37,500.
- **Redefine eligibility for K-12 education credit and subtraction** – Effective beginning in 2000, educational expenses will be eligible if the child is a “qualifying child” rather than a “dependent.” “Qualifying child” is the definition used to determine eligibility for the federal earned income tax credit and the Minnesota working family credit. The change will make custodial parents eligible for the tax benefits, even if a divorce decree or separation agreement grants the noncustodial parent the right to claim the child as a dependent.
- **Unwind 1980's addbacks in one year (2000)** – Minnesota did not immediately conform to several federal income tax changes in the early 1980's, including the ACRS rules for accelerated depreciation and federal tax deductions for contributions to individual retirement accounts, self-employed retirement plans (Keoghs), and public employee pension plans. These deductions from federal taxable income had to be “added back” in calculating Minnesota taxable income in the early 1980s, and they are generally deductible in later years instead. The omnibus tax act allows all remaining deductions to be claimed in one year (2000) rather than being delayed until future years. This will simplify Minnesota income taxes, removing three lines from the Minnesota’s Schedule M-1M (“Additions and Subtractions from Income”), along with over a full page of instructions. The affected taxpayers will pay less tax in 2000, but more tax in later years. This provision applies only to individuals, not to corporate taxpayers.
- **Conform to federal law changes** – The Omnibus tax act conforms to numerous changes in the federal definition of “taxable income” made by Congress in 1998. Failure to conform to these changes would complicate the Minnesota tax returns.
- **S corporation banks: Allow tax credit for shareholders** – The omnibus tax act allows shareholders of a bank S corporation a credit equal to 80 percent of the corporate franchise tax paid by the S corporation bank. Under federal law, S corporations pay no corporate tax, but shareholders pay individual income tax on their share of the income of those corporations. The new provision allows banks to elect to be S corporations for Minnesota tax purposes. Although

it maintains the corporate level Minnesota tax on the bank S corporations, the 80 percent credit on the individual income tax return moves Minnesota closer to full conformity with federal tax treatment.

- **S corporation banks: Change AMT rules for shareholders** – Retroactively for the 1998 tax year, the Omnibus tax bill allows shareholders of S corporation banks to subtract “federal taxes paid” in calculating AMT income, just as they did in calculating income for the regular corporate tax. (This subtraction is eliminated for tax years after 1998, replaced by the tax credit for shareholders.)
- **Increase sales apportionment factor for corporate tax** – For multistate companies, Minnesota’s share of corporate income is calculated as a weighted average of the shares of the corporation’s sales, payroll, and property that are located in Minnesota. In recent years, the Minnesota share of sales has been weighted at 70%, while the Minnesota shares of payroll and property have each been weighted at 15%. The Omnibus tax bill raises the weight on Minnesota’s share of sales to 75%, reducing each of the other factors’ weights to 12.5%. This change will generally reduce taxes on Minnesota companies that produce more in Minnesota than they sell here, while raising taxes on companies that sell more in Minnesota than they produce here. The increased weight on the in-state share of total sales is designed to increase the competitiveness of Minnesota-based production facilities. It mirrors a national trend as other states are also moving toward a heavier weight on the sales factor. The change is effective for tax years beginning after December 31, 2000.
- **Redefine business income and provide amnesty for corporate taxpayers** – The omnibus tax act defines “business income” to include all income that can be constitutionally subject to apportionment. In most cases, *non*-business income is assigned to a company’s home state. For years beginning before January 1, 1999, the bill provides an amnesty for corporations that reported all income as business income. The commissioner may not assess additional tax for these past years by characterizing any of that income as *non*-business income. These provisions are in response to recent court rulings that changed the previously accepted definition of non-business income. The amnesty provision will reduce Minnesota tax revenues in future years (revenues that might otherwise have been achieved by auditing earlier year returns).
- **Credit for corporate taxes paid to another state** – Allows a corporation to claim a credit for taxes paid to another state if (1) the other state treats the income as non-business income and assigns it to the state and (2) Minnesota treats the income as business income and apportions it. The credit equals the tax paid to the other state, multiplied by the Minnesota apportionment percentage, but it cannot exceed the amount of Minnesota tax on the income. The credit is designed to avoid cases where differences in the way states define non-business income cause the same income to be taxed twice.
- **Interaction effect: Income tax increase due to property tax cuts** – As described below, the omnibus tax act includes provisions that reduce property taxes for homeowners, farmers, and businesses. This reduces income tax deductions (itemized deductions for homeowners and deductible costs for farmers and businesses), which results in higher income tax liabilities. This is an interaction effect, not the result of any change in income tax law.

Table 30

Other Changes in Individual Income and Corporate Franchise Taxes							
(\$ in thousands)							
Tax Provision	FY1999	FY2000	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03
Allow charitable contributions deduction (partial) for non-itemizers	0	(3,080)	(3,450)	(6,530)	(3,720)	(3,990)	(7,710)
Phase out K-12 education credit; redefine qualifying child	0	(4,670)	(5,035)	(9,705)	(5,285)	(5,550)	(10,835)
Unwind 1980's addbacks (ACRS, IRA's, and pensions) in one year	0	0	(69,100)	(69,100)	4,500	4,500	9,000
Conform to federal tax changes (individual and corporate)	9,500	8,130	5,270	13,400	2,460	1,460	3,920
S corporation banks: Provide tax credit for shareholders	0	(5,000)	(5,600)	(10,600)	6,100	6,400	(12,500)
S corporation banks: Change AMT for shareholders	0	(430)	0	(430)	0	0	0
Increase sales apportionment for corporate tax	0	0	0	0	(11,500)	(11,900)	(23,400)
Clarify definition of business income and provide amnesty	0	0	0	0	0	(1,500)	(1,500)
Provide credit for corporate tax paid to another state	0	0	0	0	0	(1,800)	(1,800)
Interaction effect: Income tax increase due to property tax cuts	0	0	6,100	6,100	6,400	6,700	13,100
Subtotal: Other Income & Corporate Tax Changes	9,500	(\$5,050)	(\$71,815)	(\$76,865)	(\$1,045)	(\$5,680)	(\$31,725)

Implications of Permanent Income Tax Cuts

Impact on Representative Households – [Table 31](#) illustrates the tax cut resulting from the combined structural changes in the income tax (rate changes, marriage penalty credit, and working family credit). The examples assume that those with incomes of \$25,000 and below take the standard deduction, and that those with higher incomes claim itemized deductions equal to 22 percent of gross income.

Table 31
Effect of Omnibus Tax Bill Income Tax Changes in 1999

Married couple with two dependents (spouses have equal incomes)

Adjusted Gross Income	Amount of Tax		Change in Tax	
	Old Law	New Law	Dollars	Percent
\$ 10,000	(764)	(840)	(76)	n/a
25,000	(84)	(151)	(67)	n/a
50,000	1,736	1,427	(309)	(18)%
75,000	3,296	2,840	(456)	(14)%
100,000	4,856	4,254	(602)	(12)%
250,000	15,417	14,002	(1,415)	(9)%
500,000	33,097	30,642	(2,455)	(7)%

Head of household with one dependent

Adjusted Gross Income	Amount of Tax		Change in Tax	
	Old Law	New Law	Dollars	Percent
\$ 10,000	(462)	(506)	(44)	n/a
25,000	697	624	(73)	(11)%
50,000	2,255	2,057	(198)	(9)%
75,000	3,815	3,471	(344)	(9)%
100,000	5,375	4,885	(490)	(9)%
250,000	15,917	14,770	(1,147)	(7)%
500,000	33,251	31,084	(2,167)	(7)%

Single filer with no dependents

Adjusted Gross Income	Amount of Tax		Change in Tax	
	Old Law	New Law	Dollars	Percent
\$ 10,000	(175)	(160)	(15)	(8)%
25,000	1,091	1,000	(91)	(8)%
50,000	2,555	2,326	(229)	(9)%
75,000	4,115	3,740	(375)	(9)%
100,000	5,768	5,293	(475)	(8)%
250,000	16,261	15,169	(1,092)	(7)%
500,000	33,474	31,369	(2,105)	(6)%

On average, the structural changes in the income tax will reduce income taxes by 9.0 percent but the tax reductions vary by income and household type. When measured in dollars, the tax cuts increase with income. If measured as a percent of tax, though, those with incomes between \$50,000 and \$100,000 get the largest tax cuts. The marriage penalty credit provides the greatest benefit (in dollars) to two-earner couples with equal shares of income. The expanded working family credit provides a tax cut to low-income households with children.

Distribution of Income Tax Cuts by Income Level – [Table 32](#) shows the distribution of tax filers, tax liability under previous law, and tax cuts by income level. As shown on the table, the 64 percent of tax filers with incomes under \$50,000 would have paid 18 percent of all income taxes and will receive 20 percent of total tax cuts. The top 9 percent of all tax returns, with incomes over \$100,000, would have paid 47 percent of all income taxes and will received 40 percent of the total income tax cut.

Table 32

Percent of Filers, Tax Liability, and Income Tax Cuts, by Level of Income			
Adjusted Gross Income	Percent of All Filers	Percent of Tax Liability (before tax cut)	Percent of Total Tax Cut
Under \$30,000	41%	5%	7%
\$ 30,000 to \$ 49,999	23%	13%	13%
\$ 50,000 to \$ 99,999	27%	35%	40%
\$100,000 to \$199,999	7%	19%	19%
\$200,000 and Over	2%	28%	21%
Total	100%	100%	100%

Impact on Minnesota’s income tax ranking – By reducing taxes by an average of 9 percent, the omnibus tax act may have significantly reduced Minnesota’s income tax relative to other states. A rough estimate can be made on how this tax cut will change Minnesota’s place on the two most well-known rankings.

- **State income tax collections (from the U.S. Department of Commerce):** The most recent national data on state income tax collections (for both 1997 and 1998 fiscal years) show that Minnesota was ranked second in income tax paid per capita and second in income tax paid as a percent of income.² If taxes had been reduced by 9 percent in fiscal 1998, Minnesota’s state income tax ranking would have dropped to sixth in taxes per capita and fourth in taxes as a percent of income.
- **Tax rankings for typical households:** A recent study calculated 1997 income tax burdens for typical households at selected income levels in all states. These rankings - along with the comparison rankings using the 1999 tax rates, marriage penalty credit, and working family credit provisions - are shown in [Table 33](#) on the next page.

Minnesota’s actual change in ranking will be smaller than either of these estimates suggest, however, because other states have also reduced their income tax rates in 1998 and 1999.

² The ranking is based on data from the U.S. Commerce Department. Collections for fiscal 1998 are adjusted by adding back the 1997 property tax rebate, which is counted as an income tax cut in the Commerce data. Without that adjustment, Minnesota ranked sixth in income tax paid per capita and fourth in income taxes paid as a percent of income in 1998.

Table 33

Impact of Permanent Tax Cuts on State Income Tax Rankings for Typical Households (assuming no tax changes in other states)						
Income	State Ranking of Total Income Tax Liability in 1997					
	Married with (2 children)		Head of Household (2 children)		Single	
	Old Law	New Law	Old Law	New Law	Old Law	New Law
\$ 25,000	27	42	24	41	11	17
50,000	9	13	9	14	7	10
100,000	6	10	7	11	7	9
200,000	5	9	n/a	n/a	5	8

Source: Minnesota Taxpayers Association. Old law rankings assume no property tax rebate. Rankings for highest income heads of households were not calculated because the number of such households is so small.

Sales and Use Taxes

Table 34, below, summarizes the effects of changes to the state’s sales and use taxes.

Table 34

Sales and Use Taxes (dollars in thousands)							
Tax Provision	FY1999	FY2000	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03
Exempt TV commercials	0	(1,000)	(1,100)	(2,100)	(1,100)	(1,200)	(2,300)
Exempt purchases by non-profit outpatient surgical centers	0	(80)	(80)	(160)	(82)	(85)	(167)
Exempt carnival and fair prizes	0	(60)	(65)	(125)	(65)	(65)	(130)
Exempt waste containers used to produce taxable services	0	(162)	(195)	(357)	(195)	(195)	(390)
Exempt construction materials for biosolids facilities (7/1/98 - 6/30/01)	(110)	(190)	(370)	(560)	(0)	0	0
Exempt construction materials for biomass electrical generating facility (day after enactment - 6/30/01)	0	(520)	0	(520)	0	0	0
Exempt construction materials for Windom agricult. processing facility (day after enactment - 12/31/01)	0	0	(410)	(410)	(170)	0	(170)
Allow construction materials suppliers to use cash accounting	0	(80)	0	(80)	0	0	0
Exempt metal casting equipment (effective for all open years)	0	(50)	0	(50)	0	0	0
Subtotal: Sales and Use Taxes	(110)	(2,142)	(2,220)	(4,362)	(1,612)	(1,545)	(3,157)

Unless otherwise specified, all provisions are effective for purchases made after 6/30/99.

- **Exempt TV commercials** – Exempts television commercials, along with tangible goods used or consumed in pre-production, production, and post-production. (The exemption does not include machinery and equipment or fuels used for space heating and lighting.)
- **Exempt purchases by non-profit out-patient surgical centers** – Exempts tangible personal used in providing outpatient surgical care and urgent care at a non-profit outpatient surgical center. The exemption was previously only available to non-profit hospitals. Purchases by physicians' offices, clinics, and other medical facilities would remain taxable.
- **Exempt carnival and fair prizes** – Exempts prizes for games of skill or chance conducted at community carnivals, festivals, and fairs lasting less than six days.
- **Exempt waste containers used to produce taxable services** – Provides a sales tax exemption to waste management containers and compactors purchased by waste management service providers and furnished to their customers as part of the provided service. Waste management providers are eligible for this sales and use tax exemption only if their services are subject to waste management taxes.
- **Exempt construction materials for biosolids facilities** – Extends the exemption for biosolids processing equipment to the materials used in constructing buildings to house the equipment. Effective retroactively to sales after June 30, 1998 but limited to sales before July 1, 2001.
- **Exempt construction materials for biomass electrical generating facility** – Exempts construction materials, supplies and equipment used in construction, improvement, or expansion of an electrical generating facility meeting specific requirements. Effective from the date of final enactment until June 30, 2001. (Only one such facility is expected to receive the exemption.)
- **Exempt construction materials and supplies for agricultural processing plant** – Exempts materials, supplies and equipment used in the expansion, remodeling, or improvement of a beef slaughtering facility that meets specific requirements. Exemption applies to purchases by the owner or a contractor. Project must be completed by December 31, 2001. (Only one beef slaughtering facility, in Windom, is expected to meet these requirements.)
- **Allow construction materials suppliers to use cash accounting** – Provides sellers of construction materials the option of reporting their sales on either a cash or an accrual basis, regardless of the accounting method used for income tax purposes.
- **Exempt metal casting equipment** – Explicitly exempts crucibles and other items used in metal casting. Effective retroactively for all open tax years and for appeals for which time has not run out.

Miscellaneous General Fund Taxes

[Table 35](#), below, summarizes changes to gambling taxes and the insurance premiums taxes.

Table 35

Miscellaneous General Fund Taxes							
Tax Provision	FY1999	FY2000	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03
Gambling taxes – reduce tax rates	0	(3,060)	(3,330)	(6,390)	(3,330)	(3,330)	(6,660)
Insurance premiums taxes – change retaliatory provisions (1/1/00)	0	(35)	(70)	(105)	(70)	(70)	(140)
Subtotal: Miscellaneous Taxes	0	(3,095)	(3,400)	(6,495)	((3,400)	(3,400)	(6,800)

Unless specified, provisions are effective after June 30, 1999.

Gambling Taxes – Reduces lawful gambling taxes by 5.25 percent. The old and new tax rates are shown in [Table 36](#).

Table 36

Changes in Lawful Gambling Taxes		
Type of Tax	Previous Tax Rate	New Tax Rate
Paddlewheel, raffles, bingo	9.5% of gross profit	9%
Pulltabs, tipboards	1.9% of ideal gross	1.8%
Combined receipts \$500,000 to \$700,000 \$700,000 to \$900,000 Over \$900,000	1.9% of amount over \$500,000 \$ 3,800 plus 3.8% of amount over \$700,000 \$11,400 plus 5.7% of amount over \$900,000	1.8% \$3,600+ 3.6% \$10,800+ 5.4%

Insurance Taxes – Provides that all assessments, including the insurance guarantee association assessment, are excluded from the retaliatory tax calculation.

Property Tax Relief and Reform

The Omnibus Tax Act also contains \$140 million for property tax reductions in FY 2000-01 and \$283 million in FY 2002-03. Of the \$140 million in FY 2000-01, \$70.5 million is to offset increases to homeowner property taxes resulting from market value increases and reductions in other classes of property, \$46.4 million is for farmers, and \$5.9 million is for seasonal recreation residential property owners. Class rate compression begun in the 1997 and 1998 session is continued but most rate reductions are more limited. Reforms also include an increase from \$75,000 to \$76,000 in the threshold between the lower and the upper tier for residential properties and revisions to the agricultural land classification. In terms of effective tax rates, farmers and cabin owners, followed by homeowners, will receive the largest property tax benefits on a statewide basis.

[Table 37](#) on the next page shows the property tax class rate changes.

Table 37
Class Rate Schedule

Property Type	Payable 1997	Payable 1998	Payable 1999	Payable 2000
Residential Homestead:				
< \$76,000 ¹	1.00%	1.00%	1.00%	1.00%
> \$76,000	2.00	1.85	1.70	1.65
Residential Non-homestead:				
Single unit:				
< \$76,000 ¹	2.30	1.90	1.25	1.20
> \$76,000	2.30	2.10	1.70	1.65
2-3 unit and undeveloped land	2.30	2.10	1.70	1.65
Market-rate Apartments:				
Regular	3.40	2.90	2.50	2.40
Small city	2.30	2.30	2.15	2.15
Low-income Apartments:				
Title II	2.30	2.00	-	-
Farmer's Home Administration	2.00	1.90	-	-
New Class 4d	-	-	1.00	1.00
Commercial/Industrial/Public Utility:				
< \$150,000 ²	3.00	2.70	2.45	2.40
> \$150,000	4.60	4.00	3.50	3.40
Seasonal Recreational Commercial:				
Homestead resorts (1c)	1.00	1.00	1.00	1.00
Seasonal resorts (4c)	2.30	2.10	1.80	1.65
Seasonal Recreational Residential:				
< \$76,000 ¹	1.75	1.40	1.25	1.20
> \$76,000	2.50	2.50	2.20	1.65
Disabled Homestead (< \$32,000)	0.45	0.45	0.45	0.45
Agricultural Land & Buildings:				
Homestead:				
< \$115,000	0.45	0.40	0.35	0.35
\$115,000 - \$600,000:				
< 320 acres	1.00	0.90	0.80	0.80
> 320 acres	1.50	1.40	1.25	0.80
> \$600,000:				
< 320 acres	1.00	0.90	0.80	1.20
> 320 acres	1.50	1.40	1.25	1.20
Non-homestead	1.50	1.40	1.25	1.20
Education Homestead Credit:				
Rate	-	32%	66.2%	83%
Maximum	-	\$225	\$320	\$390
Education Agricultural Credit:				
Homestead	-	-	-	54%
Nonhomestead	-	-	-	50%

¹First tier limit was \$72,000 for payable 1997, \$75,000 for payable 1998 and 1999.

²First tier limit was \$100,000 for payable 1997.

Taxes, Local Aid and Credits

Highlights of the new class rates are:

For Farmers. On a statewide basis, property taxes on agricultural production land are expected to be \$57 million lower, or about 19.6 percent, for pay 2000 relative to pay 1999. The tax relief results from both changes to the existing class rate structure for agricultural land and the implementation of a new agricultural education credit for both homesteaded and non-homesteaded agricultural production land, not including the house, garage and one acre.

Chapter 243 eliminates the existing acreage threshold for farmland valued at greater than \$115,000 and replaces it with a new structure based entirely on value. The class rate on the first \$115,000 in estimated market value remains 0.35 percent but the current class rate of 0.8 percent on value greater than \$115,000 up to 320 acres now applies to all value over \$115,000 but less than \$600,000, regardless of the number of acres on the farm. Land valued greater than \$600,000 will have a class rate of 1.20 percent. Actual tax burdens for individual farms will depend on several factors, including the size of the farm and the value of the land, changes in market values and tax levies, and the mix of properties in the taxing jurisdiction. Property taxes paid on agricultural homestead land up to the first \$600,000 in value will be eligible for the property tax refund program.

For cabin owners. The class rate for the first tier (up to \$76,000 in value) of seasonal recreational residential property is reduced from 1.25 percent to 1.2 percent and the class rate for the upper tier (greater than \$76,000) is reduced from 2.2 percent to 1.65 percent. The larger reduction in the class rate on the upper tier of seasonal recreational property relative to the class rate changes for other types of properties achieves uniformity between seasonal recreational residential property and non-homesteaded residential property, which are taxed at different rates under current law. Local government HACA is enhanced to limit the impact of “shifts” onto other classes of property due to reductions in the net tax capacity of residential seasonal recreational property.

For homeowners. The class rate on the second tier (greater than \$76,000) is reduced from 1.7 percent to 1.65 percent for taxes payable 2000. The education homestead credit is enhanced to limit the impact of “shifts” onto homes due to reductions in the class rates for other types of properties and to mitigate increases in property taxes attributable to market value increases from pay 1999 to pay 2000.

For businesses. The class rate on the first tier (up to \$150,000 in value) is reduced from 2.45 percent to 2.4 percent and the class rate for the upper tier (C/I value greater than \$150,000) is reduced from 3.5 percent to 3.4 percent, for taxes payable 2000.

For rental properties. The class rate for regular market rate apartments, which account for over 80 percent of all apartment market value statewide, is reduced from 2.5 percent to 2.4 percent for taxes payable 2000.

Other changes to class rates and property classifications include:

- the special class rate applying to certain warehouse property that is converted to apartments is eliminated since the regular apartment rate is now similar to the special rate;
- manufactured home park land is subject to the same class rates as residential nonhomestead property with the intent that one-half of the property tax savings accruing under this change be used for capital improvements or home improvements;
- the special class rate for employment property is eliminated since the new class rates for commercial-industrial property are effectively lower than the current class rates for employment property; and
- the definition of agricultural products is expanded to include “insects primarily bred to be used as food for animals” and to include trees grown for sale as a crop, and not sold for timber, lumber, wood or wood products. As a result, properties meeting these definitions will be taxed at a lower class rate than under current law.

Enhanced Credit Programs

Education Homestead Credit - The education homestead credit is enhanced to both protect homeowners from property tax increases or “shifts” resulting from reductions in the class rate for other types of properties, as well as to mitigate increases in tax liabilities due to increasing market values. Under current law, for taxes payable 2000, the State would pay 67.2 percent of the general education property tax levy up to a maximum of \$335. The 1999 Omnibus Tax Act increases the State share to 83 percent of the general education levy up to a maximum of \$390. The cost of the credit increase is \$70.5 million in FY 2001 and \$161.4 in FY 2002-03.

Agricultural Education Credit - A new credit is established to provide owners of agricultural production land with relief from general education taxes. The credit is equal to 54 percent of the general education tax on homesteaded agricultural land and 50 percent of the general education tax on non-homesteaded agricultural land. The credit does not apply to the house, garage and one acre. The cost of the new credit is \$40.5 million in FY 2001 and \$92.7 million in FY 2002-03.

Homestead and Agricultural Credit Aid - Homestead and Agricultural Credit Aid (HACA) payments to local governments will be increased to offset “shifts” in property taxes to other classes of property due to reductions in the upper tier class rate for residential seasonal recreational property and the reduction in the class rate on homesteaded agricultural land valued between \$115,000 and \$600,000 that is 320 acres or more. Payments are equal to the amount of net tax capacity lost due to either of these changes multiplied by the local tax rate, less any reduction specified in current law for the recapture of school HACA for special education costs. An additional \$10.3 million will be added to HACA in FY 2001 and \$23.3 million in FY 2002-03. In addition, a current law provision requiring that \$10 million of HACA be transferred to family preservation aid beginning in FY 2001 is repealed in conjunction with the State takeover of district courts.

Table 38

Property Tax Relief - Enhanced Credit Programs (dollars in thousands)							
Tax Provision	FY1999	FY2000	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03
Educational Homestead Credit	0	0	(70,500)	(70,500)	(79,900)	(81,500)	(161,400)
Agricultural Educational Credit	0	0	(40,500)	(40,500)	(45,900)	(46,800)	(92,700)
Homestead and Agricultural Credit Aid (HACA) – offset for agriculture homesteads	0	0	(5,900)*	(5,900)	(6,800)*	(7,400)*	(14,200)
Homestead and Agricultural Credit Aid (HACA) – offset for residential seasonal recreational class rate changes	0	0	(4,400)	(4,400)	(4,500)	(4,600)	(9,100)
Subtotal: Property Tax Relief	0	0	(121,300)	(121,300)	(137,100)	(140,300)	(277,400)

* HACA costs are net of the recapture of special education school HACA in the amount of \$2.1 million in FY 2001, \$1.4 million in FY 2002, and \$0.8 million in FY 2003.

Other Property Tax Relief Provisions

In addition to class rate compression and enhanced credit programs, the 1999 Omnibus Tax Act continues and/or expands a variety of provisions intended to control property taxes or to provide relief for specific groups of property tax payers.

[Table 39](#) on the next page summarizes these provisions.

Table 39

Other Property Tax Relief Provisions (dollars in thousands)							
Tax Provision	FY1999	FY2000	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03
Senior deferral program	\$0	\$0	(\$55)	(\$55)	(\$55)	(\$55)	(\$110)
Low-income apartment aid	\$0	\$0	(\$225)	(\$225)	\$0	\$0	\$0
Tornado damaged property abatements	\$0	(\$130)	\$0	(\$130)	\$0	\$0	\$0
Charity care aid	\$0		(\$10,000)	(\$10,000)	\$0	\$0	\$0
Goodhue county levy adjustment	\$0	(\$422)	\$211	(\$211)	\$211	\$0	\$211
TIF-pre-1982 pooling	\$0	(\$2,480)	(\$1,500)	(\$3,980)	(\$1,500)	(\$1,500)	(\$3,000)
TIF grant fund	\$0	\$0	(\$4,000)	(\$4,000)	\$0	\$0	\$0
Subtotal: Other Property Tax Relief Provisions	\$0	(\$3,032)	(\$15,569)	(\$18,601)	(\$1,344)	(\$1,555)	(\$2,899)

Limits on Market Value Increases - The 1999 Omnibus Tax Act continues limited market value for agricultural homestead and non-homestead property, residential homestead and non-homesteaded property, and seasonal recreational residential property (cabins) and increases the limitation to the greater of 8.5 percent of the preceding year's assessment or 15 percent of the difference between the current assessment and the preceding assessment. Under current law, value increases are limited to the greater of 10 percent of the preceding year's assessment or 25 percent of the total difference.

Levy Limits - Current law levy limits on local governments are extended through payable 2000 tax year. The levy limit base for counties is adjusted downward to reflect the State takeover of district court operations currently funded by counties.

Senior Deferral Program - The senior deferral program, which allows seniors to defer payment of a portion of their property taxes if the owner(s) are at least 65 years of age or older, is expanded to allow more seniors to qualify and to all qualifying seniors to defer more of their tax liability. Under Chapter 243, the maximum household income allowed for eligibility will increase from \$30,000 to \$60,000 and the maximum property tax amount which the property owner will be allowed to defer is increased to any tax liability in excess of 3 percent of their income, rather than 5 percent under current law. These provisions are effective for deferral of property taxes payable in 2000 and thereafter. The homeowner will be required to pay recording and/or filing fees at the time a senior deferral lien is satisfied.

Low-Income Apartment Aid - Chapter 243 reduces the qualifying threshold for low-income apartment aid from 2.5 to 2.0 percent of net tax capacity to allow more cities to qualify for aid. The program, established in 1998, provides aid to cities that had their net tax capacity reduced by more than the threshold as a result of conversion of some apartments to low-income apartments (class 4d property). The aid amount is equal to the reduction in net tax capacity above the threshold multiple by the local tax rate. The aid program sunsets on June 30, 2000.

Charity Aid - A one-time appropriation of \$10 million is provided in FY 2001 to reimburse certain hospitals medical care to indigents that do not reside in the county in which the hospital is located. To qualify the hospital must have a medical assistance disproportionate population adjustment for medical assistance reimbursement purposes that is greater than 16 percent. The hospital reports to the county the amount spent for charity care in 1998, which then reports to the Commissioner of Revenue. Payments are distributed to counties which must pass the funds through to qualified hospitals

and the amounts paid are reduced proportionately for each county if the total aid applied for exceeds \$10 million. Hennepin County is required to reduce its levy limit base for payable 2000 by the amount of charity aid received.

“This Old House” Program - Chapter 243 revises the “this old house” program, which allows homeowners to defer value increases due to improvements on older homes. These changes include that:

- The age at which a house is eligible for exclusion of value from taxability is increased from 35 to 45 years. Qualifying homes between 45 and 70 years are allowed to exclude 50 percent of the value of the improvement.
- All homes having a value of up to \$400,000 will be eligible for the program. Under current law, only houses valued at \$150,000 or less are eligible with two exceptions: the limit is \$300,000 if the house is located in a city or town in which 50 percent or more of the owner occupied housing units were constructed before 1960 and the median family income is less than the statewide median family income; or no valuation limit applies if the house is located in a city or town in which 45 percent or more of the owner occupied housing units were constructed before 1940, 45 percent of the housing units are rental, and the median value of owner-occupied housing units is less than the statewide median value of owner-occupied housing units.
- The minimum value of a qualifying improvement is increased from \$1,000 to \$5,000 and the current provision that only three improvements may be excluded is eliminated. Current provisions specifying a maximum exclusion of \$25,000 or \$50,000, depending on the age of the house, are maintained.
- The phase-in period for adding value back to the tax roll is changed so that one-half of the excluded value is added back in each of the two subsequent years if the total value excluded is less than \$10,000. If the total amount excluded is greater than \$10,000, then 20 percent is added back in each of the next 5 years. Under current law, at the end of the 10-year exclusion period the value excluded is added back at 20 percent per year.

Utility Properties - Chapter 243 makes several changes affecting the taxation of real and personal property owned by public utilities, including:

- allowing the first \$150,000 of value of each piece of real property owned by public utility in a county to be taxed at the lower tier commercial-industrial class rate. This change gives public utilities the same treatment given to all other commercial and industrial property in the 1997 omnibus tax law. All personal property owned by public utilities remains classified at the class rate for the higher tier of commercial-industrial property.
- allowing homestead classification of land and buildings owned by and leased from a utility if the lease is for a term of 20 years or more, the occupant is using the property as a permanent residence, and the occupant is paying property taxes and any special assessments levied on the property; and
- exempting from personal property taxation the attached machinery and other personal property of a proposed electric utility peaking facility in Martin County, as well as the tools, implements, and machinery of a proposed direct reduction facility for a taconite mine direct-reduction steel mill in Itasca County, and allowing for the continued exemption of the tools, implements, and machinery of certain privately owned electrical generating facilities if sold to a Minnesota public utility.

In addition, the Commissioner of Revenue is directed to study the taxation of utility generation facilities and to report, by December 1, 2000, to the Senate committees on taxes and jobs, energy, and community development, the House committees on taxes and commerce, and to the Governor. The study is to assess taxation under restructuring of the electric industry, the effects on revenue to local government, and the sufficiency of Minnesota’s future electric power supply.

Transit Zones Tax - Chapter 243 eliminates the transit zone classification for new structures, except for those currently under development or planned for development. Effective payable 2000, the transit zone class rate is frozen at 2.975 percent

Taxes, Local Aid and Credits

or the class rate of the upper tier of commercial-industrial property, whichever is less. Properties currently qualifying for transit zone classification must continue to meet certain ownership and occupancy restrictions in order to continue to qualify for the transit zone classification.

Further, a personal property tax is imposed on the leaseholds of tenants of certain structures which qualify for the transit zone classification. The tax is equal to the market value of the property covered by the lease times the class rate differential between the regular upper-tier commercial-industrial rate and the transit zone rate, multiplied by local tax rate. The tax does not apply to a lease or binding agreement that was executed/entered into before May 1, 1999, or a lease under an expansion option contained in a binding written agreement. Effective payable 2001 and thereafter.

Conservation Easements - Chapter 243 authorizes cities, counties, and towns to purchase property development rights in the form of conservation easements by defining “development rights in the form of conservation easements” as a capital improvement for which county capital improvement bonds may be issued, as well as by authorizing cities, counties, and towns to issue debt obligations to purchase development rights.

Changes Affecting Homestead Designation - Four changes to the definition of homesteads will effect how certain properties are classified, and, subsequently, the class rates applied to those properties. Those changes include that:

- Nieces and nephews of a property owner are included in the definition of relative and, thereby, allowing them to qualify for relative homestead treatment;
- Agricultural property owned by a shareholder of a family farm corporation, or a partner or partnership, which is leased to the family farm corporation or partnership by that shareholder or partner, is entitled to agricultural homestead treatment if the owner is both living on the property and is actively engaged in farming the land on behalf of the corporation or partnership;
- Each shareholder who lives on and is actively farming land that is owned by a family farm corporation is entitled to full homestead treatment on the agricultural land—currently shareholders receive homestead treatment only on the house, garage and one acre;
- Homestead classification will be allowed on agricultural land where the owner does not live on the farm but lives within four cities or townships provided that the owner actively farms the land, is a Minnesota resident, and does not claim another agricultural homestead in Minnesota. Current law provisions allowing agricultural homestead designation if the owner lives off the farm in a home bordered on two sides by agricultural land or certain public lands are sunset. Only properties classified as such in the 1998 assessment year will continue receiving that designation.

Tax Increment Financing

The 1999 Omnibus Tax Act makes several revisions effecting how the tax increments collected by local governments can be used. Chapter 243:

- Reduces the required local contribution for housing districts from 10 percent to 5 percent;
- Prohibits the use of increments for social and recreational facilities;
- Permits pooling to make up deficits that resulted from property tax rate compression enacted in 1997, 1998, and 1999;
- Appropriates \$4 million in additional money to the grant pool for deficits caused by the property tax rate compression;
- Provides a new enforcement mechanism authorizing the attorney general to petition the tax court to suspend the TIF authority of a municipality or development authority for violations referred by the state auditor; and
- Ratifies pre-1982 pooling, if it was done before receiving a non-compliance notice from the State Auditor or the end of 1999.

In addition, Chapter 243 includes special law authority for the cities of Onamia, St. Cloud, Dawson, Brooklyn Center, St. Paul, Jackson, Minnesota, and Fridley .

Miscellaneous Property Tax Provisions

District Courts - Language contained in Chapter 243 effectuates policy provisions contained in Chapter 216, the Omnibus Judiciary Finance Act, to facilitate the State takeover of all district court functions in the 5th, 7th, and 9th judicial districts beginning in FY2000, as well as the statewide takeover of selected court functions. In particular, Chapter 243 appropriates \$18.7 million annually to the Supreme Court, increases general fund revenues \$7.1 million annually for the collection fines and fees currently collected by local governments, and reduces HACA payments to counties by \$11.7 million to reflect the reduction in county court expenses.

The 1999 Omnibus Tax Act also contains the following cost- and non-cost-provisions.

- Counties are authorized to levy up to \$1 dollar per resident, in CY 2000 only, to help pay the costs associated with redistricting following the 2000 census;
- The metropolitan council's authority to levy property taxes for the tax base revitalization account of the livable communities fund is eliminated effective beginning with taxes payable in 2000.
- Property owners are authorized to refuse to allow an assessor to inspect their property, either orally or in writing, but the county board may not adjust the market value or the classification of a property in a way that would benefit the property in cases in which the assessor is not allowed to inspect the property and the interior of any buildings or structures.
- Local government cooperation and combination plans are allowed to phase-in a higher tax rate for the area that has the lower tax rate in equal proportions and in a pattern that reflects the time it takes to provide equal services to the lower taxed properties over a maximum of six years.
- Assessment practices regarding elderly assisted living facilities remain unchanged through assessment year 1999.
- Border city development zones, which were established by the 1998 Legislature to assist five cities on the State's western border to attract new businesses and revitalize their economies, are exempted from the maximum limits on tax reductions enacted in the 1998 session if the Commissioner of Revenue finds that certain conditions are met, including that the business to which the tax reductions are provided: makes an initial investment in the city of at least \$1 million; employs 25 new or additional employees in the city; and pays the employees more than the average wage for the county.
- The Commissioner of Trade and Economic Development is provided an additional \$1.5 million in FY 2000 for additional border city enterprise zone credits in 5 cities on the State's western border.
- The deadline for expending the \$1.2 million appropriated for border city enterprise zone competitiveness grants in the 1997 second special session flood relief act is extended by 6 months to June 30, 1999.
- Local performance aid is repealed effective FY 2000. Amounts equal to each local government's 1999 local performance aid will be added into a city's local governmental aid payments or into a county's HACA payment in FY 2000.
- The taconite production tax rate is frozen at the pay 1998 level of \$2.141 per gross ton through production year 1999. Current law would have allowed the rate to increase by the implicit price deflator beginning in production year 1999.
- \$20 million is appropriated to the Minnesota Minerals 21st Century Fund to be used for the development of a direct reduced iron production facility, provided that the IRRRB matches any funds appropriated to the extent used for loans or equity investments.

Offers-in-Compromise

The Department of Revenue is required to establish a program of offers-in-compromise of tax liabilities modeled on the offers-in-compromise program established by the Internal Revenue Service, including guidelines to be used by department employees when determining whether an offer-in-compromise or an offer to make installment payments is adequate and should be accepted to resolve a dispute over unpaid taxes. Specific program requirements include that:

- the guidelines must provide that the department will not reject an offer-in-compromise or installment payment offer from a low-income taxpayer solely on the basis of the amount of the offer and that offers regarding issues of liability rather than the ability to pay may not be rejected only because the commissioner is unable to locate the taxpayer's return or information to verify the liability;
- taxpayers will not be required to provide an audited, reviewed, or compiled financial statement;
- payment plans are expected to provide tax payers with an adequate means to provide for their basic living expenses, including that a taxpayer's interest in a motor vehicle will not be considered an asset.
- the commissioner must establish procedures for an administrative review of a proposed rejection of an offer before the rejection is communicated to the taxpayer and taxpayers must be allowed to request reconsideration of a written rejection to the commissioner; and
- the presentation of a counteroffer or a written rejection of the offer by the commissioner if the amount offered by the taxpayer in an offer-in-compromise is not accepted by the commissioner.

State Tax Changes Affecting Other Funds

Health Care Access Fund: Maintain provider tax at 1.5 percent for calendar years 2000 and 2001 – The health care provider tax was scheduled to increase to two percent on January 1, 2000. The omnibus tax act maintains the current 1.5 percent tax rate through December 31, 2001. This reduces tax revenue deposits in the Health Care Access Fund by \$84.9 million spread over three fiscal years.

The act also provides several new exemptions from the provider tax:

- **K-12 schools** – Exempts from the provider tax schools that employ a health care provider to provide free services to their students.
- **Services to nursing homes** – Eliminates the tax on providers who contract to provide services to nursing homes. Services provided to individual nursing home residents remain subject to tax.
- **Income from certain examinations** – Exempts examinations for purposes of utilization reviews, insurance claims or eligibility, litigation, and employment, including reviews of medical records for those purposes.

[Table 40](#) on the next page details the provisions affecting the Health Care Access Fund.

Table 40

Health Care Access Fund (dollars in thousands)							
Tax Provision	FY1999	FY2000	FY2001	FY 2000-01	FY2002	FY2003	FY 2002-03

Maintain provider tax at 1.5% (1/1/00 to 12/31/01)	0	(12,700)	(41,300)	(54,000)	(30,900)	0	(30,900)
Exempt K-12 schools	0	(10)	(15)	(25)	(17)	(20)	(37)
Exempt services to nursing homes	0	(5)	(8)	(13)	(9)	(10)	(19)
Exempt income from certain examinations (effective 1/1/99)	(485)	(330)	(287)	(617)	(338)	(410)	(748)
Total: Health Care Access Fund	(485)	(13,045)	(41,610)	(54,655)	(31,264)	(440)	(31,704)

Unless specified, provisions are effective January 1, 2000.

Governor’s Line-Item Veto: The omnibus tax bill, as passed by the legislature, included an \$84.9 million transfer from the general fund to the Health Care Access Fund to replace the revenues lost from the reduction in the provider tax rate. This provision was line-item vetoed by the Governor. Because the lost revenues are not replaced, the fund balance in the Health Care Access Fund will fall. The fund balance forecast for the end of the 1999 fiscal year is \$270 million, including a “federal reserve” of \$150 million. That balance is projected to fall to a total of \$204 million by the end of the 2003 fiscal year.

The Governor’s veto will cause the premiums tax on Health Maintenance Organizations and non-profit health plans to “blink back on” at the full one percent rate on January 1, 2000. This tax is only levied in years when the balance in the fund is forecast to fall. If the transfer from the General Fund had occurred, the premiums tax was not expected to blink back on until January 1, 2003 (at a 0.5% rate). The revenue from this premiums tax (\$18 million in calendar year 2000) partly offsets the revenue loss from the freeze on the provider tax rate.

State Airports Fund: Set maximum registration fee for agricultural aircraft – Aircraft owned and operated solely for agricultural purposes will pay no more than \$500 per year in aircraft registration tax. This tax is otherwise levied at a rate of one percent of value, but no less than 0.25 percent of the manufacturer’s list price. [Table 41](#) shows the fiscal impact of this change.

Table 41

State Airports Fund (dollars in thousands)							
Tax Provision	FY1999	FY 2000	FY 2001	FY 2000-01	FY 2002	FY 2003	FY 2002-03
Set maximum registration tax (\$500) on agricultural aircraft	\$0	(\$25)	(\$25)	(\$50)	(\$25)	(\$25)	(\$50)
Total: State Airports Fund	\$0	(\$25)	(\$25)	(\$50)	(\$25)	(\$25)	(\$50)

Unless specified, provisions are effective after June 30, 1999.

Required Rebate Proposals in Future Budgets

If the unrestricted general fund balance is forecast to have a surplus of 0.5 percent or more at the end of a future biennium (based on either the preceding November or February forecasts), the governor will present a plan to the legislature for rebating the entire surplus to taxpayers. The legislature must “enact, modify, or reject” the Governor’s proposal by April 15th of the odd-numbered year. Any positive unrestricted general fund balance at the end of the biennium will be deposited in the tax relief account.

Taxes, Local Aid and Credits

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

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