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# Governor Tim Pawlenty's 2006 Supplemental Budget Recommendations

Money Matters 06.05  
March 2006

*This paper summarizes the Supplemental Budget recommendations submitted to the Legislature by Governor Tim Pawlenty. Part one summarizes the overall budget recommendations. Part two provides detailed recommendations organized according to the jurisdictions of the House of Representatives' fiscal committees. Part three discusses recommended changes to the tax laws. The Governor's Capital Budget recommendations are summarized in a separate Money Matters.*

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**House Fiscal Analysis Department Staff Assignments**  
2006 Session

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

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## Overview of the Governor's Supplemental Budget Recommendations

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The Governor's supplemental budget recommendations for the general fund use the projected \$88 million general fund balance projected in the February 2006 budget forecast and transfers the \$317 million in the tax relief account to the general fund. These amounts fund a net \$202 million in spending increases, \$44 million of revenue decreases and a \$159 million increase in the budget reserve.

In the health care access fund, the Governor recommends using \$59 million of the projected \$122 million balance for changes in the current biennium. The Governor recommends using, over a three year period, a projected balance in the federal TANF fund. The Governor also recommends increasing appropriations in the current biennium from the trunk highway fund by \$87 million.

The Governor's recommendations for changes in FY 2006-07 are projected to have a \$366 million impact when carried forward into FY 2008-09. Of the \$366 million, \$333 million would be in spending increases and \$33 million would be in revenues decreases.

The February 2005 general fund forecast projected a \$1,092 million balance for the FY 2008-09 biennium. After the Governor's recommendations, that balance would be \$726 million.

That forecast also highlighted two other pressures on the FY 2008-09 biennium. One is a constitutional amendment that will be presented to the voters in the November 2006 general election increasing the amount of motor vehicle sales tax dedicated to transportation funding. If that amendment is passed by the voters, general fund revenues will be decreased by \$172 million in the FY 2008-09 biennium. The forecast also projected the cost of adding inflation at the consumer price index (CPI) rates to the forecasted appropriations for FY 2008-09. This inflation cost would be \$943 million.

The chart below summarizes the general fund changes proposed by the Governor for FY 2006-07 and the impacts on FY 2008-09.

<b>Governor's General Fund Recommendations: March 2006</b>		
<b>Changes from Current Law</b>		
<i>Dollars in Millions</i>		
	<u>FY 2006-07</u>	<u>FY 2008-09</u>
<b>Resources</b>		
General Fund Balance	88	1,092
Tax Relief Account Transfer	<u>317</u>	<u>0</u>
<b>Subtotal - Resources</b>	<b>405</b>	<b>1,092</b>
<b>Uses</b>		
Spending Increases	202	333
Revenue Decreases	44	33
Budget Reserve Increase	<u>159</u>	<u>0</u>
<b>Subtotal - Uses</b>	<b>405</b>	<b>366</b>
<b>Balance</b>	<b>0</b>	<b>726</b>

The Governor's recommendations affect all areas of the general fund budget. The following chart shows the recommended changes by House fiscal committee. These changes are explained in the summaries by committee that follow in this publication.

<b>2006 Session General Fund Fiscal Tracking</b>						
Changes from Forecast Amounts - Based on February 2005 Forecast. House Fiscal Committee Structure						
A positive spending number is a cost, a positive revenue number is a revenue loss or cost.						
	<b>Gov FY 2006</b>	<b>Gov FY 2007</b>	<b>Gov FY 06-07</b>	<b>Gov FY 2008</b>	<b>Gov FY 2009</b>	<b>Gov FY 08-09</b>
Education - Spending	1,057	26,397	<b>27,454</b>	27,899	28,361	<b>56,260</b>
Higher Education - Spending	0	4,800	<b>4,800</b>	4,750	6,080	<b>10,830</b>
Taxes - Aids & Credits Spending	0	0	<b>0</b>	-90	-90	<b>-180</b>
Taxes - Tax Revenue Changes	5,190	43,620	<b>48,810</b>	40,985	44,630	<b>85,615</b>
Health - Spending	40,803	70,241	<b>111,044</b>	98,432	84,743	<b>183,175</b>
Health - Revenue	-3,174	-10,549	<b>-13,723</b>	-28,466	-24,053	<b>-52,519</b>
Jobs & Ec Opp (Ec Dev) - Spending	300	-149	<b>151</b>	4,091	2,241	<b>6,332</b>
Jobs & Ec Opp (DHS) - Spending	0	-10,048	<b>-10,048</b>	-10,067	-10,067	<b>-20,134</b>
Jobs & Ec Opp (Ec Dev) - Revenue	0	4,484	<b>4,484</b>	4,382	4,382	<b>8,764</b>
Jobs & Ec Opp (DHS) - Revenue	0	0	<b>0</b>	0	0	<b>0</b>
Agriculture & Environment - Spending	421	22,225	<b>22,646</b>	1,553	1,608	<b>3,161</b>
Agriculture & Environment - Revenue	0	-454	<b>-454</b>	-289	0	<b>-289</b>
Public Safety - Spending	3,869	15,032	<b>18,901</b>	12,977	12,977	<b>25,954</b>
Public Safety - Revenue	663	717	<b>1,380</b>	717	717	<b>1,434</b>
State Government - Spending	-1,950	10,025	<b>8,075</b>	8,550	8,550	<b>17,100</b>
State Government - Revenue	1,950	1,950	<b>3,900</b>	1,950	1,950	<b>3,900</b>
Transportation - Spending	0	7,349	<b>7,349</b>	-2,200	800	<b>-1,400</b>
Transportation - Revenue	0	0	<b>0</b>	-7,050	-7,050	<b>-14,100</b>
Capital Bill - Debt Service	0	4,869	<b>4,869</b>	16,774	32,798	<b>49,572</b>
Capital Bill - General Fund	0	6,280	<b>6,280</b>	0	2,500	<b>2,500</b>
Budget Reserve	0	159,153	<b>159,153</b>	0	0	<b>0</b>
Tax Relief Account	-316,716	0	<b>-316,716</b>	0	0	<b>0</b>
<b>Total</b>	<b>-267,587</b>	<b>355,942</b>	<b>88,355</b>	<b>174,898</b>	<b>191,077</b>	<b>365,975</b>
Budget Balance - February Forecast	0	88,355	<b>88,355</b>	374,853	717,079	1,091,932
<b>Balance</b>	<b>-267,587</b>	<b>267,587</b>	<b>0</b>	<b>199,955</b>	<b>526,002</b>	<b>725,957</b>
Potential Cost Impact - Transportation Constitutional Amendment				56,000	116,000	172,000

# Education Finance

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The Governor’s 2006 session supplemental budget recommendations for the fiscal year 2006-07 biennium includes \$27.5 million in additional general fund expenditures. In addition, the recommendations include a net increase of \$56.3 million for the fiscal year 2008-09 biennium, and \$8.8 million in property tax increases for taxes payable in calendar year 2007 (fiscal year 2008) and \$2.7 million in property tax increases for taxes payable in calendar year 2008 (fiscal year 2009).

<b>Education Finance - Governor's Supplemental Recommendations</b>						
<i>(Dollars in thousands)</i>						
	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 06-07</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 08-09</b>
<b>Department of Education</b>						
General Education	968	842	<b>1,810</b>	968	842	<b>1,810</b>
Education Excellence	0	13,069	<b>13,069</b>	0	13,069	<b>13,069</b>
Facilities and Technology	0	316	<b>316</b>	0	316	<b>316</b>
Early Childhood and Family Support	89	11,170	<b>11,259</b>	89	11,170	<b>11,259</b>
Self-Sufficiency and Lifelong Learning	0	1,000	<b>1,000</b>	0	1,000	<b>1,000</b>
<b>Net General Fund Change:</b>	<b>1,057</b>	<b>26,397</b>	<b>27,454</b>	<b>1,057</b>	<b>26,397</b>	<b>27,454</b>

All appropriations are for fiscal year 2006-07 unless otherwise noted.

## General Education

\$9,000 in savings in fiscal year 2007, and \$176,000 in equalization aid savings in fiscal years 2008-09 due to changes in the alternative teacher pay program. First, the Governor recommends allowing the integration districts and the Perpich Center for Arts education to participate in the program. Second, the Governor recommends allowing the districts which had participated in alternative compensation prior to fiscal year 2006 to remain on the old funding system for two additional years. The alternative compensation program is a mix of state aid and local property tax levy, and both of these changes result in less local levy (by \$42.4 million) than is forecast currently, resulting in less state equalization aid being paid.

\$1.8 million to fully fund transition revenue for districts with pre-kindergarten programs (the “High Five” program, for example) in fiscal year 2004. Currently, districts with those programs are eligible for four percent of the revenue that a full funded entitlement would provide.

## Education Excellence

- \$5 million for a pilot program to provide grants to five school districts to redesign their district and/or their high school programs. The goal of the grants would be to create innovation in education through curriculum redesign, course offering changes, teacher professional development and changes in how courses are delivered.

- \$7.3 million to expand the Advanced Placement and International Baccalaureate programs to an additional 10 school districts.
- \$500,000 for the Teach for Minnesota program (which would provide alternative licensure to license teachers for high needs schools and hard to staff schools) and for the Department of Education to encourage development of alternative teacher preparation programs for mid career professionals in higher education institutions.
- \$250,000 to develop of Mandarin Chinese curriculum, assessments and materials for schools.

### **Facilities and Technology**

\$316,000 for the Waseca school district to offset the loss of funds in the Health and Safety program that occurred as a result of a Department of Education calculation error. The district will also be able to levy \$344,000 per year for five years beginning in fiscal year 2008.

### **Early Childhood and Family Support**

- \$6.1 million to create a grant program to have education components introduced into child care services. Grant recipients would be designated by the Department of Education as having a strong developmental component and promoting kindergarten readiness.
- \$2.1 million to allow child care providers to participate in the Early Childhood and Family Education program.
- \$1.0 million to expand early childhood services to a group of birth to three-year-olds who are currently not eligible, thus bringing Minnesota's "Part C" eligibility criteria into compliance with federal law.
- \$1.5 million to provide early childhood intervention grants to school districts for children who have been determined to be not prepared for kindergarten.
- \$143,000 in fiscal years 2006 and 2007 to allow school districts to receive revenue for Kindergarten screenings that occur up to thirty days after the student has entered Kindergarten.
- \$287,000 to restore the Minnesota Kindergarten Readiness Assessment, which is used to help determine which districts are in need of intervention services for students preparing to enter Kindergarten.
- \$80,000 to match \$1.4 million of nonprofit funding for education materials for new parents.

**Self-Sufficiency and Lifelong Learning**

\$1 million for intensive English Instruction for new adult refugees. This appropriation, available for the current biennium only, would allow Adult Basic Education providers to add English a second language instruction to accommodate the large number of refugees entering Minnesota.

**Implications**

The biennial funding increase due to the Governor's education recommendations would be 0.2 percent for fiscal years 2006-07 and 0.4 percent for fiscal years 2008-09. The property tax increase would be 0.3 percent for fiscal years 2008-09.

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# Higher Education

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The Governor's supplemental budget for higher education recommends new general fund expenditures of \$5.1 million for FY 2006-07 and \$10.2 million in FY 2008-09. The Governor recommends an appropriation of \$5 million to the Office of Higher Education for implementation of recommendations made by the Rochester Higher Education Development Committee. The funds would be used to purchase higher education services in Rochester and the recommendation is for recurring funding into FY 2008-09. The Governor's recommendation anticipates appropriations of \$5 million in FY2008 and \$6.33 million in FY 2009 for the Rochester program. The Governor also recommends several technical changes to institutional eligibility for state grants and SELF loans and to residency requirements for individuals in the state grant program. These changes would result in net savings to the General Fund of \$300,000 in FY 2007 and \$350,000 annually in FY 2008-09. Finally, the Governor recommends an appropriation of \$100,000 annually beginning in FY 2007 to the Minnesota State Colleges and Universities to fund a systemwide veteran's assistance coordinator.

<b>Higher Education Finance - Governor's Supplemental Recommendations</b>						
<i>(Dollars in thousands)</i>						
	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 06-07</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 08-09</b>
<b>General Fund Expenditure Changes</b>						
Office of Higher Education	0	4,700	4,700	4,650	5980	10,630
Minnesota State Colleges and Universities	0	100	100	100	100	200
<b>Net General Fund Changes:</b>	<b>0</b>	<b>4,800</b>	<b>4,800</b>	<b>4,750</b>	<b>6,080</b>	<b>10,830</b>

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# Health Finance

The Governor recommends net general fund increase of \$96.8 million in the Health Finance area, and a total of \$125.8 million net increase in spending for all funds for FY 2006-07. A significant share of the recommended increase in general fund expenditures is for operational costs in State Operated Services (SOS) in the Department of Human Services. This is mostly due to increased growth in commitments for the Minnesota Sex Offender Program (MSOP) and Mentally Ill and Dangerous (MI&D) populations. The majority of increased spending in other funds includes various initiatives for the Departments of Human Services and Health from the Health Care Access Fund totaling \$28 million for FY 2006-07.

<b>Health Finance - Governor's Supplemental Recommendations</b>						
<i>(Dollars in thousands)</i>						
	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 06-07</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 08-09</b>
<b>General Fund Expenditure Changes</b>						
Department of Human Services	37,403	65,645	<b>103,048</b>	89,891	76,202	<b>166,093</b>
Veterans Homes Board	2,830	4,596	<b>7,426</b>	8,541	8,541	<b>17,082</b>
<b>subtotal expenditure changes:</b>	<b>40,233</b>	<b>70,241</b>	<b>110,474</b>	<b>98,432</b>	<b>84,743</b>	<b>183,175</b>
<b>General Fund Revenue Changes</b>	<b>(3,174)</b>	<b>(10,549)</b>	<b>(13,723)</b>	<b>(28,466)</b>	<b>(24,053)</b>	<b>(52,519)</b>
<b>Net General Fund Change:</b>	<b>37,059</b>	<b>59,692</b>	<b>96,751</b>	<b>69,966</b>	<b>60,690</b>	<b>130,656</b>
<b>Non-General Fund Expenditure Changes</b>						
<i>Health Care Access Fund (HCAF)</i>						
Department of Human Services	500	4,484	<b>4,984</b>	20,748	15,663	<b>36,411</b>
Department of Health	0	23,000	<b>23,000</b>	11,000	11,000	<b>22,000</b>
<b>Net HCAF Changes</b>	<b>500</b>	<b>27,484</b>	<b>27,984</b>	<b>31,748</b>	<b>26,663</b>	<b>58,411</b>
<i>State Government Special Revenue Fund (SGSR)</i>						
Health-Related Boards	514	572	<b>1,086</b>	67	67	<b>134</b>
Emergency Medical Services Board	0	50	<b>50</b>	50	50	<b>100</b>
<b>Net SGSR Changes</b>	<b>514</b>	<b>622</b>	<b>1,136</b>	<b>117</b>	<b>117</b>	<b>234</b>

## Department Of Human Services

The Governor recommends a net general fund increase for the Department of Human Services (DHS) of \$89.3 million in FY 2006-07 and \$113.6 million in FY 2008-09 in the Health Finance area.<sup>1</sup> The Governor's recommendations also include a net increase in funding for DHS from the Health Care Access Fund of \$5 million in FY 2006-07 and \$36.4 million in FY 2008-09.

### Mental Health System Transformation

The Governor recommends the reform of publicly funded mental health services as well as investments to improve statewide access. The proposal includes a combination of new spending, redirecting current state spending, and transfers from the Health Care Access Fund (HCAF). The net impact on the general fund of the Governor's mental health recommendations is zero in FY 2006-07 and in FY 2008-09. The net impact on the HCAF is a cost of \$3.4 million in FY 2006-07 and \$46.3 million in FY 2008-09. The mental health system transformation includes three components:

- *Creating a uniform mental health benefit set across all Minnesota Health Care Programs (MHCP).* This proposal includes making the mental health services currently available under Medical Assistance part of the standard benefit set under General Assistance Medical Care (GAMC) and MinnesotaCare (MnCare).
  - The funding for this proposal includes increased spending for GAMC of \$2.7 million in FY 2006-07 and \$12.3 million in FY 2008-09 from the general fund; and increased spending for MnCare of \$1.5 million in FY 2006-07 and \$10.3 million in FY 2008-09 from the HCAF.
  - State funded adult mental health grants (passed through to counties) are also reduced to reflect the transfer of mental health services from one payment source to another. GAMC and MnCare recipients who currently receive mental health services via the adult mental health grants will now receive those services as part of the standard benefit set under the health care programs. The reductions in the mental health grants total \$3.6 million in FY 2006-07 and \$19.2 million in FY 2008-09.
- *Integrating physical and mental health care services and coordinating them with social services and education.* This proposal is the second component to creating a standard benefit set across all publicly funded health care programs. This includes adding fee-for-services benefits to the Prepaid Medical Assistance Plan (PMAP) and increasing the number of public health care clients who receive mental health and health care services through prepaid, integrated service networks.
  - The funding for this proposal includes increased spending in Medical Assistance (MA) Basic Care, GAMC, and associated administrative costs as well as reductions in adult and child mental health grants to reflect the transfer of mental health services from one payment source to another. The net fiscal impact to the

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<sup>1</sup> The total general fund increase recommended by the Governor is \$79.3 million in FY 2006-07 and \$93.4 million in FY 2008-09. The difference reflects the jurisdictional difference of the DHS budget between the House Health Policy & Finance and the Jobs & Economic Opportunity Finance committees.

general fund is an increase of \$109,000 in FY 2006-07 and a decrease of \$466,000 in FY 2008-09. The net fiscal impact to the HCAF is zero in FY 2006-07 and an increase of \$4.5 million in FY 2008-09 for MnCare grants.

- The increased general fund spending totals \$109,000 in FY 2006-07 and \$27.9 million in FY 2008-09 for MA Basic Care (families with children & elderly/disabled), GAMC, and administrative and systems costs.
  - The reductions in general fund spending is zero for FY 2006-07 and totals \$28.4 million in FY 2008-09 in adult and child mental health grants and the elimination of a mental health target case management transfer to counties. The purpose of the reductions in county mental health grants is to offset the state assumption of the local match currently paid by counties for mental health services that would be covered under prepaid health care programs.
- *Targeting significant infrastructure investments to improve statewide access to mental health treatment.* The third element of the Governor's mental health system transformation focuses on new funding for improving access and infrastructure of mental health services for the uninsured and underinsured in the following areas:
    - Create a system for measuring mental health service outcomes. Administrative funding to DHS totaling \$119,000 in FY 2006-07 and \$204,000 in FY 2008-09 for developing a web-based statewide outcomes evaluation system for mental health services.
    - Ensure statewide access to crisis services and support the mental health service delivery infrastructure.
      - Increase adult and child mental health grants by \$1.3 million in FY 2006-07 and \$12.3 million in FY 2008-09 for mobile mental health crisis services.
      - Increase in administrative funding of \$150,000 in FY 2006-07 and \$104,000 in FY 2008-09 for mental health service tracking.
      - Increase in child services grants of \$1.7 million in FY 2006-07 and \$15.7 million in FY 2008-09 for children's mental health school-based infrastructure.
      - Increase adult and child mental health grants by \$0.5 million in FY 2006-07 and \$2.9 million in FY 2008-09 to support evidence-based and best practices.
      - Increase rates in MA Basic Care, GAMC, and MnCare for critical access providers to address workforce shortages totaling \$4.8 million for FY 2008-09 from the general fund and \$899,000 in FY 2008-09 from the HCAF.
      - Increase adult and child mental health grants by \$0.5 million in FY 2006-07 and \$4.5 million in FY 2008-09 for culturally specific and specialty mental health treatment.
    - Increased county share for uninsured commitments to state operated hospitals to improve financial incentives for ensuring community-based service access for the uninsured. This increases revenue to the general fund by \$1.6 million in FY 2006-07 and \$6.5 million in FY 2008-09.

The mental health system transformation initiative includes a transfer from the HCAF to the general fund to offset any increased spending in the general fund after reductions in other grants and increased revenue. The transfer totals \$1.87 million in FY 2006-07 and \$30.6 million in FY 2008-09.

### **State-Operated Services**

*Minnesota Security Hospital (MSH) shortfall related to growth in commitments of Mentally Ill and Dangerous persons.* The Governor recommends increasing the appropriation for operating costs to address the increase in referrals and commitment to the programs under MSH. The net impact to the general fund for this recommendation is \$31 million in FY 2006-07 and \$41.1 million in FY 2008-09. The funding covers growth in three programs in MSH: Transition Program, Adolescent Program, and Forensics Nursing Home Program for the following programs costs:

- \$27.3 million for the opening of 6 new units. This covers direct care staff, support staff, and non-salary costs such as food, supplies, and utilities.
- \$6.3 million for sustaining the programs' clinical oversight, management infrastructure and program integrity, and increased clinical, administrative and system-wide staffing related to the increased growth in referrals and commitments.

*Minnesota Sex Offender Program (MSOP) operating shortfall related to the growth in commitments.* The Governor recommends increasing the appropriation for operating costs resulting from higher than anticipated in referrals and commitment to the MSOP. The net impact to the general fund for this recommendation is \$33.7 million in FY 2006-07 and \$41.7 million in FY 2008-09. The increased funding recommend for the MSOP includes:

- \$22.9 million for an additional 100 beds (4 units) in FY 2006-07 to accommodate current population growth (50 beds in FY 2008-09 for projected population growth). This funding covers direct care staff, support staff, administrative and clinical staff, and non-salary costs such as food, drugs, and supplies.
- \$7.6 million in FY 2006-07 and \$10.6 million in FY 2008-09 for costs associated with leasing inmate space from the Department of Corrections (DOC). In order to meet immediate growth in MSOP commitments, DHS is temporary leasing space in a DOC facility at Moose Lake until the future expansion of the MSOP facilities at the Moose Lake campus are complete (part of the DHS capital request for 2006).
- \$2.3 million in FY 2006 for one-time costs associated with modifying the temporary DOC space at Moose Lake.
- \$7.5 million in expenditures savings for utilizing the Modified "K" building model related to the expansion of the MSOP facilities at Moose Lake (assumes adoption of the Governor's 2006 capital request to expand the Moose Lake facilities).

*Managing growth in commitment to the Minnesota Extended Treatment Options (METO) program.* The Governor recommends increasing funding to State-Operated Services to provide community-based support and crisis services for individuals who are at risk of commitment to the METO program and keep them in the least-restrictive community setting whenever possible.

Prior to the changes in the Mentally Retarded and Related Conditions (MR/RC) waiver in the 2003 legislative session, funding for these types of community-based services used to be available under the waiver program. The Governor is recommending an increase in funding for 51.5 FTE's to provide community support and crisis services due to the recent growth in admissions to the METO program. The net impact to the general fund is \$2 million in FY 2006-07 and \$2.3 million in FY 2008-09.

*State-Operated Services Salary Deficit.* The Governor recommends increasing appropriations to cover increased operating costs associated with labor contracts negotiations. This increase represents a two-percent cost-of-living increase and to fund costs of employee step increases. The net impact to the general fund is \$17.1 million in FY 2006-07 and \$20.6 million in FY 2008-09.

*Study of the epidemiology of children and juveniles at risk of becoming a criminal or predatory sex offender.* The Governor recommends a one-time expenditure of \$200,000 in FY 2007 for studies in two areas: children convicted of violent sex crimes who are enrolled in the All Children Excel (ACE) program in Ramsey county; and, the study of patients committed to the MSOP between the ages of 18 and 24.

## **Health Care and Long-term Care Changes**

*Federal Deficit Reduction Act requirements for health care programs.* The Governor recommends compliance with new federal requirements passed in the 2006 Deficit Reduction Act for Medical Assistance (MA), General Assistance Medical Care (GAMC), and MinnesotaCare (MnCare). The conforming changes result in a net reduction to the general fund of \$1.2 million in FY 2006-07 and \$7.7 million in FY 2008-09; and a net increase to the HCAF of \$1 million in FY 2006-07 and \$762,000 in FY 2008-09. Major changes that have a fiscal impact include:

- 60-month look-back period for asset transfers (MA long-term care)
- Start of penalty period for asset transfers (MA long-term care)
- Transfers involving annuities (MA long-term care)
- Home equity limit of \$500,000 (MA long-term care)
- Verification of citizenship
- Fractional asset transfers (MA long-term care)
- Long-term care partnership program

*Mandatory Asset Verification for GAMC and MnCare.* The Governor recommends that the current requirement for asset verification for MA also be made mandatory for GAMC and MnCare. The 2005 Legislature intended to require asset for verification for all Minnesota Health Care Programs, but the adopted language applied only to MA. This proposal aligns with the original intent of the 2005 Legislature. This change results in an expenditure savings of \$1.5 million in FY 2008-09 to the general fund for GAMC grants and a savings of \$6.2 million in FY 2008-09 for MnCare grants.

*Exempt certain GAMC groups from shifting to MnCare.* The Governor recommends that certain GAMC enrollees (see list below) be exempt from shifting to MnCare following the initial six-month eligibility period. This change was made in the 2005 Legislature to shift GAMC enrollees (who are not excluded by law) to MnCare after a temporary period of GAMC eligibility regardless of MnCare eligibility rules and without paying the MnCare premium. After the initial six-month period of temporary eligibility, enrollees must meet MnCare eligibility requirement and pay the premium. In the list below, the first three groups do not meet a MnCare basis of eligibility and the MnCare \$10,000 limit on inpatient services is problematic for persons receiving treatment through the Consolidated Chemical Dependency Treatment Fund (CCDTF). This change results in an increase to GAMC of \$2.1 million in FY 2006-07 and \$12.1 million in FY 2008-09 to the general fund, and a decrease in MnCare of \$1.8 million in FY 2006-07 and \$10.6 million in FY 2008-09 to the HCAF.

Exempt Groups:

- Persons with end stage renal disease (ESRD) with Medicare benefits
- Persons with private health insurance benefits
- Persons who retain GAMC eligibility when they become and remain incarcerated with the initial six-month period.
- Persons receiving treatment through the CCDTF

*Pay-for-Performance for health care providers.* The Governor recommends that a pay-for-performance system be developed for Minnesota's publicly funded health care programs to reward medical groups that demonstrate optimum care in serving enrollees with diabetes. The net impact to the general fund is an increase of \$75,000 in FY 2006-07 and \$160,000 in FY 2008-09 and the net impact to the HCAF is an increase of \$205,000 in FY 2006-07 and \$400,000 in FY 2008-09.

*Minnesota Pharmacy Access Program (MPAP).* The Governor recommends establishing the Minnesota Pharmacy Access Program to provide prescription drugs at affordable prices to low income Minnesotans who lack drug coverage. The program would provide a discounted rate (10 to 15 percent discount) for prescription drugs plus additional discounts on certain drugs where the Department receives a manufacturer rebate for persons meeting certain criteria. The net cost to the HCAF for this proposal is \$200,000 in FY 2006-07 and \$3.1 million in FY 2008-09. The funds cover increased administrative and systems costs and revenues from pharmaceutical rebates would be dedicated to a special revenue account.

*Medicare Part D implementation.* The Governor recommends an increased funding for the continued implementation of Medicare Part D. Implementation includes the provision of information and assistance for Medicare beneficiaries as well as management of federal policy and procedural changes that affect people who are dually enrolled in Medicare and Medical Assistance (MA). This proposal is funded out of the HCAF at a total cost of \$2 million in FY 2006-07 and \$2.7 million in FY 2008-09.

*Performance-Incentive Payments for Nursing Homes.* The Governor recommends providing nursing facilities the option to earn performance-incentive Medical Assistance (MA) payments (bonus payments) for achieving improvements in the quality of their services, rather than implementing a new nursing facility payment system. The net cost to the general fund for the performance-incentive payments is zero in FY 2008-09 because the proposals restores earlier

language and redirects funding appropriated in the 2005 legislative session for phasing in the new payment system to be used for performance-incentive payments instead. The value of the incentive payment total \$7.9 million in FY 2008-09.

*Nursing Facilities rate increase for Benton, Sherburne and Stearns counties.* The Governor recommends providing a Medical Assistance (MA) operating rate increase to nursing facilities in Benton, Sherburne, and Stearns counties. The rate increase brings nursing facilities rates for the three counties in the St. Cloud area in line with the median rates in the seven-county metro area and parts of northeastern Minnesota. The change will increase MA payments by \$1.8 million in FY 2006-07 and by \$3.9 million in FY 2008-09.

*Increase Ah-Gwah-Ching property rate for new nursing facility.* The 2005 Legislature requires DHS to sell or transfer up to 150 nursing home beds upon the sale or transfer of the state-operated Ah-Gwah-Ching nursing facility. The new nursing facility would require an increased property rate of \$35 per day (current law is \$18.50 per day). The cost of the proposal is the difference between the current law rate and new \$35 rate. This would increase MA payments by \$265,000 in FY 2008-09.

*Alternative Care (AC) Program Funding Shortfall.* The Governor recommends providing an appropriation to cover current case load projections for the Alternative Care Program. The 2005 Legislature made several changes to AC program eligibility that was projected to achieve a savings over the current and next biennium. The shortfall in the AC program is primarily due to lower than anticipated savings in the program from the 2005 changes. The Governor's proposal would provide ongoing funding to meet the projected caseload demand in the AC program. The net increase in funding is \$2.6 million in FY 2006-07 and \$800,000 in FY 2008-09.

## **Department Of Health**

The Governor recommends an increase in funding for the Minnesota Department of Health (MDH) of \$23 million in FY 2006-07 and \$22 million in FY 2008-09 from the Health Care Access Fund for three proposals.

### **Pandemic Influenza Preparedness**

The Governor recommends funding of \$10.5 million each fiscal year for three years beginning in FY 2007 from the Health Care Access Fund for preparedness activities to reduce the impact of pandemic influenza. The majority of the funds would be used for the following preparedness activities at the state and local level:

- Preparing communities to respond by providing grants mostly to county-level emergency management and public health agencies, regional hospital systems and tribal governments. About one-third of the funding will be used for these purposes, totaling \$13.8 million over three years.
- Providing for the use and distribution of antiviral drugs. MDH currently has the opportunity to purchase a limited stockpile of Tamiflu™ where the federal government

would cover 25 percent of the cost. Funding for a distribution system and the purchase of the antiviral drugs will total \$5.3 million over the three-year period.

- Coordinating and preparing with other state agencies to respond to a pandemic. The Departments of Human Services, Agriculture, Transportation, Education, Military Affairs, Natural Resources, Employee Relations, and the Board of Animal Health will all receive funding totaling \$2.4 million over three years for their role in the preparedness activities.
- Testing the system to respond effectively to a pandemic. Funds totaling \$1.1 million will provide for drills and exercises for the coordination of preparedness activities that involves agencies all at level of government.
- Over the three year period, MDH would receive \$5.4 million and Division of Homeland Security and Emergency Management in the Department of Public Safety would receive \$3.3 million of the total funding for various preparedness activities being the lead agencies for pandemic planning and response.

### **Minnesota E-Health Initiative**

The Governor recommends a one-time expenditure of \$12 million from the Health Care Access Fund to invest in interoperable electronic health records systems and other health information technology (HIT). The majority of the funding will be directed for matching grants to support community collaborative projects. The proposal will provide for 15 interoperable electronic health record and related HIT projects over three years. The proposal would also include \$500,000 of the total funding to implement the Minnesota e-health Coordination and Evaluation Center that will administer the grant program.

### **Immigrant Health**

The Governor recommends total funding of \$500,000 per year beginning in FY 2007 for tuberculosis (TB) treatment and case management (\$290,000) and perinatal hepatitis B treatment and prevention (\$210,000) to improve the health of immigrants in Minnesota. Funding for TB treatment will cover a public health nurse to case management and follow-up, grants to local public health agencies for staffing, and incentives to encourage completion of appropriate therapy. The funding for TB will cover medication and grants to local public health agencies to provide outreach and case management for individuals with TB infection or disease.

### **Veterans Homes Board**

The Governor recommends increased general fund spending for the Veterans Homes Board of \$7.4 million in FY 2006-07 and \$17.1 million in FY 2008-09. The funding covers the following three proposals:

- \$1.5 million in FY 2006-07 and \$2.3 million in FY 2008-09 for the consultant study recommendations for three of the home sites.
- \$759,000 in FY 2006-07 and \$9.4 million in FY 2008-09 to fund an operational shortfall due to lower than anticipated projected revenues.

- \$5.1 million in FY 2006-07 and \$5.3 million in FY 2008-09 to remedy deficiencies found in the Department of Health's survey of the Minneapolis Veterans Home and to prevent similar deficiencies at other homes around the state. The funds will also cover additional staff and equipment necessary to satisfy the Health Department's standards.

## **Health-Related Boards**

**Board of Chiropractic Examiners:** The Governor recommends a one-time funding of \$5,000 in FY 2006 only from the state government special revenue fund to cover unanticipated expenses for programming difficulties during the conversion to US Bank payment processing.

**Board of Dentistry:** The Governor recommends additional on-going funding of \$67,000 in FY 2006-07 and \$134,000 in FY 2008-09 from the state government special revenue fund. The funding will allow the Board to retain an in-house legal analyst at a lower cost for its basic legal services as opposed to contracting with the Attorney General's office.

**Board of Medical Practice:** The Governor recommends \$1 million in additional funding in FY 2006-07 from the state government special revenue fund. The funding will cover unanticipated costs of investigation legal work.

**Board of Physical Therapy:** The Governor recommends a one-time funding of \$9,000 in FY 2006 only from the state government special revenue fund to cover unanticipated expenses for programming difficulties during the conversion to US Bank payment processing.

## **Emergency Medical Services Board**

The Governor recommends additional on-going funding of \$50,000 in FY 2006-07 and \$100,000 in FY 2008-09 from the state government special revenue fund for the Emergency Medical Services Board. The additional funding will allow the Board to maintain the Health Professional Service Program's (HPSP) ability to address rising caseloads and maintain current service levels for their clients.

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# Agriculture, Environment and Natural Resources

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The Governor is recommending changes in expenditure and revenue that result in a net General Fund increase of \$22.2 million for the Agriculture, Environment and Natural Resources Finance area in FY 2006-07. Recommended expenditure and revenue changes result in a net General Fund increase for FY 2008-09 of \$2.9 million.

<b>Agriculture, Environment and Natural Resources Governor's Supplemental Recommendations</b> <i>(Dollars in thousands)</i>						
	<b>FY 06</b>	<b>FY 07</b>	<b>FY 06-07</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 08-09</b>
<b>General Fund Expenditure Changes</b>						
Agriculture	233	523	756	548	573	1,121
Pollution Control	0	20,000	20,000	0	0	0
Dept of Natural Resources	88	1,117	1,205	1,005	1,035	2,040
Board of Animal Health	100	585	685	0	0	0
<b>Subtotal expenditure changes:</b>	<b>421</b>	<b>22,225</b>	<b>22,646</b>	<b>1,553</b>	<b>1,608</b>	<b>3,161</b>
<b>General Fund Revenue Changes</b>						
Dept of Natural Resources	0	454	454	289	0	289
<b>subtotal revenue changes:</b>	<b>0</b>	<b>454</b>	<b>454</b>	<b>289</b>	<b>0</b>	<b>289</b>
<b>Net General Fund Change:</b>	<b>421</b>	<b>21,771</b>	<b>22,192</b>	<b>1,264</b>	<b>1,608</b>	<b>2,872</b>

## Agriculture Department

The Governor is recommending a total General Fund expenditure increase of \$756,000 in FY 2006-07, and \$1,121,000 in FY 2008-09 for the Agriculture Department. The list below indicates the specific changes requested by the Governor.

- **Invasive Species Staffing:** This increase of \$248,000 for FY 2006-07 adds staffing to the program to eradicate gypsy moths and other invasive species.
- **Livestock/Crop Compensation:** This increase of \$93,000 in FY 2006-07 is to provide additional funding to cover a rise in wolf predation claims on livestock.
- **Marketing Bio-Energy:** This increase of \$225,000 for FY 2006-07 is to increase promotion of greater use of biofuels.
- **BioSafety Containment Facility:** This request is for an increase of \$190,000 annually to provide for the operations of the containment facilities located at the University of Minnesota.

## **Animal Health Board**

**Bovine Tuberculosis Control:** The Governor is requesting \$685,000 in FY 2006-07 to test for and eliminate bovine tuberculosis in Minnesota's cattle population.

## **Pollution Control Agency**

**Clean Water Act:** The Governor is recommending a General Fund expenditure increase of \$20,000,000 in FY 2007-08 for implementing the Clean Water Act. This request includes funding for additional agencies involved in the Clean Water Act implementation. This request includes funds for water quality monitoring, development of total maximum Daily Load studies and installation of pollution control projects.

## **Department of Natural Resources (DNR)**

The Governor is recommending a total General Fund expenditure increase of \$1,205,000 in FY 2006-07, and \$2,040,000 in FY 2008-09 for the DNR. The list below indicates the changes requested by the Governor.

- **Bovine Tuberculosis Control:** This request is for \$220,000 for FY 2006-07 for testing and surveillance costs associated with the outbreak of Bovine TB in Northwestern Minnesota. The deer population will be monitored.
- **Invasive Species Control:** The Governor requests funding of \$975,000 for FY 2006-07 for increased monitoring and enforcement activities, increased prevention education and program implementation to control harmful invasive species.
- **Native Prairie Property Taxes:** The governor requests \$10,000 for FY 2006-07 for the costs to provide incentives for preservation of prairies by taxing native prairie lands not currently eligible for the Prairie Tax Exemption at the lower agricultural tax rate. General funds costs will also be incurred in Education Finance as increased equalization aid costs.

## **Non General Fund Requests**

- **Fish & Wildlife Habitat Corridors:** The Governor requests \$3.3 million for FY 2006-07 from the Environment & Natural Resources Trust Fund for increased funding for the Habitat Corridors program.
- **Forest Management Services to Landowners:** This proposal increases expenditures from the Special Revenue Fund by \$35,000 FY for 2006-07 for the development of forest management plans for private landowners. There is a corresponding increase in revenue to the fund.
- **State Forest Fees:** This proposal is to establish new fees for the use of state forests for special events. New revenues and expenditures from the Special Revenue fund are estimated at \$45,000 for FY 2006-07.

- **Land Appraisals:** This proposal is to reimburse donors who request it for the cost of land appraisal on donations of land to the state. The estimated expense is \$45,000 for FY 2006-07.
- **State Park Permits:** This request is to reduce the daily state park permit fee from the current \$7 dollars to \$5 dollars. The estimated loss of revenue and expenditures for the FY 2006-07 is \$320,000 from the Natural Resources Fund.
- **ATV Gas Tax:** This request would increase the expenditure of unrefunded gas tax from the ATV account by \$600,000 annually. There is an equal increase in revenue to the account as a result of increased use of gas by ATV users.
- **Horse Trail Pass:** This request is for a new annual trail use fee for horseback riders who use state trails. The estimate of revenue and expenditures for FY 2006-07 is \$314,000 annually from the Natural Resources Fund.

### **Legislative Commission on Minnesota Resources**

**Statewide Strategic Plan:** The Governor requests to use \$300,000 from the Environment and Natural Resources Trust Fund to develop a strategic conservation and preservation plan. The funds would be appropriated to the LCMR to contract the development of the plan.

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## Jobs & Economic Development Finance

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Governor Tim Pawlenty's 2006 supplemental budget recommendations would have a net general fund impact of a negative \$5.413 million in the FY 2006-07 biennium. Agencies' general fund spending would be reduced by \$9.9 million. General fund revenues would decrease by \$4.5 million.

On an all funds basis, the Governor's 2006 supplemental budget recommendations would increase agencies' FY 2006-07 appropriations by \$29.1 million in direct appropriations, and \$8.7 in statutory appropriations.

<b>Jobs &amp; Economic Opportunity - Governor's Supplemental Recommendations</b>						
<i>(Dollars in thousands)</i>						
	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 06-07</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 08-09</b>
<b>General Fund Expenditure Changes</b>						
Department of Employment and Economic Development	0	500	500	0	0	0
Boxing Board	0	50	50	50	50	100
Department of Labor and Industry	300	(699)	(399)	4,041	2,191	6,232
Department of Labor and Industry		(10,048)	(10,048)	(10,067)	(10,067)	(20,134)
<b>subtotal expenditure Changes:</b>	<b>300</b>	<b>(10,197)</b>	<b>(9,897)</b>	<b>(5,976)</b>	<b>(7,826)</b>	<b>(13,802)</b>
<b>General Fund Revenue Changes</b>						
DLI: Construction Code Consolidation	0	(4,485)	(4,485)	(4,383)	(4,383)	(8,766)
Boxing Board	0	1	1	1	1	2
<b>subtotal revenue changes:</b>	<b>0</b>	<b>(4,484)</b>	<b>(4,484)</b>	<b>(4,382)</b>	<b>(4,382)</b>	<b>(8,764)</b>
<b>Net General Fund Change:</b>	<b>300</b>	<b>(5,713)</b>	<b>(5,413)</b>	<b>(1,594)</b>	<b>(3,444)</b>	<b>(5,038)</b>

### Department of Employment & Economic Development (DEED)

The Department's general fund appropriations will increase by \$500,000 in FY 2007 under the Governor's proposed budget. The increase will fund a one-time grant to the BioBusiness Alliance. The Alliance would use the grant for industry analysis, bioscience business development, marketing, promotion, and company technical assistance, and retain 10 percent for grant processing and monitoring.

The Governor proposes that the Legislature appropriate \$18 million from the health care access fund to the University of Minnesota/Mayo Clinic Partnership in Biotechnology and Medical Genomics. This is a one-time appropriation in FY 2007 to support new collaborative research projects and infrastructure investments.

The Governor recommends that the Public Facilities Authority's bonding authority be increased from \$1.25 billion to \$1.5 billion. The increase in bonding authority will allow the PFA to sell bonds for another 3-5 years, depending on bonding appropriations.

The Governor also recommends that the dollars generated from the fee created in the 2005 session for the Small Business Innovation Research and Small Business Technology Transfer Assistance Programs be statutorily appropriated to support these programs. The fee is estimated to raise \$10,000 in FY 2007.

### **Department of Commerce**

The Governor makes no general fund recommendations for the Department of Commerce. The Governor, however, proposes two initiatives to be funded with non-general fund appropriations:

- Proposes to appropriate \$10 million in fiscal years 2007, 2008 and 2009 from the health care access fund to the Department for payment to the Minnesota Comprehensive Health Association (MCHA). The money would be used to reduce the annual assessments on health insurance companies.
- Proposes to appropriate \$477,500 in FY 2006 and \$477,500 in FY 2007 from the petroleum tank release cleanup fund to MNDOT. The proposal represents a settlement of all outstanding MNDOT Petrofund claims. The settlement is designed to reduce administrative costs for MNDOT and Commerce by eliminating the costs of preparing and processing approximately 200 Petrofund reimbursement applications.

### **Department of Labor & Industry (DLI)**

The Governor recommends that DLI receive increased general fund appropriations amounting to \$300,000 in FY 2006 and \$2 million in FY 2007 to develop a one-stop electronic licensing system. The money would be used to hire staff in FY 2006 to complete the planning, scope, timeframe, and cost estimates of the new system. The FY 2007 appropriation would support vendor contracts for overall project management and guidance. The Governor further recommends that Department's FY 2008-09 base general fund appropriations be increased by \$6,740,000 in FY 2008 and \$4,890,000 for the one-stop electronic licensing system.

The Governor also proposes a Construction Codes Consolidation funding initiative. His initiative is a follow up to his Executive Order #193 which transferred construction-related licensing and regulatory functions (Residential Contractors & Remodelers, Electrical Board, Building Codes and Standards, and Plumbing) to the Department of Labor & Industry. The Governor's proposal includes the following features:

- The proposal has a net general fund cost of \$1.786 million in FY 2007. The cost occurs because \$4.485 million in revenues now deposited in the general fund would instead be deposited in the new construction code fund. The revenue loss is partially offset by appropriating \$2.699 million in FY 2007 from the new construction code fund to replace general fund appropriations for the Boiler & High-Pressure Piping, Residential Contractor & Remodeler code units.
- Approximately \$2.4 million would be spent to upgrade and integrate the various computer applications and systems used by the five consolidated code units in the Department's new Construction Codes and Licensing Division (CCDL).

- \$272,000 in estimated FY 2007 fines and penalties would be deposited in assigned risk safety account in the workers' compensation fund. The dollars would be used to provide safety consultations to employers in the construction industry. Currently, the fines and penalties are deposited in the general and special revenue funds.
- The bill would make the Construction Codes and Licensing Division fully funded through statutory appropriations. Currently, the Division's separate code units are funded with both direct appropriations (Boiler & High-Pressure Piping and Residential Contractor and Remodeler, and Plumbing) and statutory appropriations (Electrical Board, and Building Codes and Standards).

### **Minnesota Boxing Commission**

The Governor recommends that the Minnesota Boxing Commission be reestablished. The Commission will be funded with a \$50,000 per year general fund appropriation for one part-time staff person and related expenses. The Commission was abolished by the 1999 Legislature and last was funded in Fiscal Year 2000.

### **Department of Human Services**

The Children & Economic Assistance Grants & Management Division within the Department of Human Services is under the jurisdiction of the Jobs & Economic Opportunity Finance Committee. The Governor's supplemental budget would reduce the Division's FY 2007 general fund budget by \$7.433 million. On an all fund basis, including statutory appropriations, the Division's FY 2007 budget will increase by \$6.262 million.

- The Governor recommends refinancing \$10.067 million in FY 2007 through FY 2009 general fund spending for the MFIP/TY Child Care Program by replacing GF dollars with a like amount from TANF funds. The proposal has no overall funding impact on the MFIP/TY Child Care Program. The proposal is designed to provide sufficient general fund revenues to support the Governor's \$10.067 million early childhood initiative at the Department of Education.
- The Governor proposes that the state implement the newly-required federal child support enforcement fee at \$25 per year. It applies to families who have never received cash assistance and who receive at least \$500 of child support collections per year. The fee is estimated to collect \$255,000 in FY 2007, with the proceeds to be split between a one-time \$100,000 appropriation to the DHS for PRISM (computerized collection and payment system) implementation costs, and \$155,000 in grants to the counties. In FY 2008 and beyond, the fee is estimated to generate \$340,000 per year. The entire proceeds would be granted to counties.
- The Governor recommends allocating \$154,000 in one-time federal funds to reimburse counties for their hurricane relief costs, based on documented relief expenditures.
- The Governor recommends that increased federal funding for child care be statutorily appropriated to the Basic Sliding Fee Child Care Program. The recommendation would mean an additional \$2.917 million in program funding per fiscal year.

The Governor also recommends a Mental Health Access and Improvement initiative that would have significant program and funding implications for the Children's Services Grants and Children & Community Services programs. This Governor's initiative will be considered in the Health Policy and Finance Committee, since it is a health care finance issue.

If enacted by the Legislature, the Governor's Mental Health Access and Improvement initiative will have the following impacts:

- Children Services Grants will be increased by \$2.615 million in FY 2007, \$10.460 million in FY 2008, and \$14.100 million in FY 2009.
- Children & Community Services Grants will be reduced by \$2.849 million beginning in FY 2009.

Additional information on the Governor's Mental Health Access and Improvement initiative is included the Health Policy and Finance Committee section.

# Public Safety Policy and Finance

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The Governor's supplemental budget recommends general fund spending of \$4.532 million for FY 2006, \$15.75 million for FY 2007 and \$27.4 million for FY 2008-09 in the public safety area.

<b>Public Safety - Governor's Supplemental Recommendations</b>						
(Dollars in thousands)						
	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 06-07</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 08-09</b>
<b>General Fund Expenditure Changes</b>						
Department of Corrections	3,213	10,596	13,809	10,596	10,596	21,192
Judicial Standards Board	172	0	172	0	0	0
Peace Officers Board	663	717	1,380	717	717	1,434
Public Defense Board	200	200	400	200	200	400
Department of Public Safety	284	3,486	3,770	2,181	2,181	4,362
Supreme Court	0	750	750	0	0	0
<b>Net General Fund Change:</b>	<b>4,532</b>	<b>15,749</b>	<b>20,281</b>	<b>13,694</b>	<b>13,694</b>	<b>27,388</b>

## Department of Corrections

The Governor recommends funding of \$3.2 million for FY 2006, and \$10.6 million for FY 2007.

- \$9.4 million in FY 2006 and \$18.6 million in FY 2007 for salary and benefit increases for operational and community service staff.
- Reductions of \$6.2 in FY 2006 and \$8.5 million in FY 2007 due to prison population increases being below projections. For FY 2006 there are now projected to be 230 fewer inmates and in FY 2007 the new projections show 335 fewer inmates.
- \$196,000 in FY 2007 for Scott County to become a Community Corrections Act County.
- \$300,000 in FY 2007 for grants to fund mentoring for children of inmates.

## Department of Public Safety

The Governor recommends funding of \$284,000 for FY 2006 and \$3.5 million for FY 2007.

- \$284,000 in FY 2006 for the state match costs that are related to three of the past disasters the state has experienced. This is a one-time appropriation.
- \$1 million for an internet child pornography team. The team will consist of BCA agents and support staff.

- \$2.186 million for an illegal immigration enforcement team.
- \$200,000 to provide for the posting of non-compliant sex offenders on the internet.
- \$100,000 for alcohol vendor training to help prevent youth access to alcohol.

### **Supreme Court**

The Governor is recommending an increase of \$750,000 for FY 2007 to implement the first part of the recommendations from the Supreme Court task force on chemical dependency.

### **Public Defense Board**

The Governor is recommending \$400,000 for FY 2006-07 for appellate transcripts.

### **Board of Judicial Standards**

The Governor is recommending a deficiency appropriation of \$172,000 in FY 2006 for the Board's increased costs for the proceedings of judicial misconduct. This is a one-time appropriation.

### **Peace Officers Board (POST)**

\$1.38 million in FY 2006-07 for training funds to local law enforcement agencies. This covers the deficit that is a result of the income on the drivers license fee reinstatement being below projections. This will make up the deficiency. This appropriation is for training reimbursement for law enforcement agencies.

# State Government Finance

The Governor recommends net general fund increases of \$12 million in the State Government Finance area. The majority of this funding is for new initiatives in the Department of Veterans Affairs.

<b>State Government Finance - Governor's Supplemental Recommendations</b>						
<i>(Dollars in thousands)</i>						
	FY 2006	FY 2007	FY 06-07	FY 2008	FY 2009	FY 08-09
<b>General Fund Expenditure Changes</b>						
Office Of Enterprise Technology	0	2,950	2,950	1,800	1,800	3,600
Department of Finance	0	325	325	0	0	0
State Board of Investment	0	(1,950)	(1,950)	(1,950)	(1,950)	(3,900)
Veterans Affairs	0	8,700	8,700	8,550	8,550	17,100
<b>subtotal expenditure Changes:</b>	<b>0</b>	<b>10,025</b>	<b>10,025</b>	<b>8,550</b>	<b>8,550</b>	<b>17,100</b>
<b>General Fund Revenue Changes</b>						
State Board of Investment	0	(1,950)	(1,950)	(1,950)	(1,950)	(3,900)
<b>subtotal revenue changes:</b>	<b>0</b>	<b>(1,950)</b>	<b>(1,950)</b>	<b>(1,950)</b>	<b>(1,950)</b>	<b>(3,900)</b>
<b>Net General Fund Change:</b>	<b>0</b>	<b>11,975</b>	<b>11,975</b>	<b>10,500</b>	<b>10,500</b>	<b>21,000</b>
<b>Non-General Fund Expenditure Changes</b>						
Employee Relations: Health Care Access						
PEIP Expansion for School Districts	60	2,260	2,320	0	0	0

## Department of Employee Relations, PEIP Expansion for School Districts

The Governor recommends \$2.3 million from the Health Care Access Fund to create a new health care plan for school districts and other governmental employers. The Public Employees Insurance Group (PEIP) will be renamed the Public Buyers Group, and will offer PEIP's existing health insurance plans as well as two new plans, including one that offers Health Savings Accounts as an option. The plans would be modeled on the Advantage Health Plan, the current health insurance plan for Minnesota state employees. Approximately 50 percent of the requested funding would be used to establish reserves for the new program. The remaining funding would be used for program design, actuarial consultants, and marketing.

## Office of Enterprise Technology, Enterprise IT Security Enhancement

The Governor is requesting \$2.95 million for the initial development of a comprehensive security program. The initiative includes implementation of new security technology, administration of more stringent access and authentication policies, and establishment and management of an enterprise-wide security architecture and comprehensive cyber-security plan as called for by the Legislative Auditor's report. It also provides for updating and expanding the security technologies which protect information resources against corruption, interception or loss. This initiative will require the addition of 14 staff specialists in cybersecurity targeted at enterprise-

wide prevention, intervention and recovery. Of the proposed new funding, \$1.75 million would be used for one-time start-up activities. The ongoing costs for staff salaries, licensing and maintenance will total \$1.2 million for the first year and \$1.8 million per year in the next biennium.

### **Department of Finance, Bankruptcy Counsel**

The Governor requests \$325,000 to provide funding for a special attorney to represent the state's interests in Northwest Airlines Chapter 11 bankruptcy proceedings. The state has \$36.9 million of general obligation (GO) bonds outstanding that were issued to build the Duluth Maintenance Facility; of this total \$21 million is scheduled to be paid by Northwest Airline lease payments.

### **State Board of Investment (SBI), Funding Source Restructuring**

The Governor is again recommending a change in the funding mechanism for the board. Currently, the SBI is funded through a direct general fund appropriation. The Board then charges its costs back to the state retirement plans, and the receipts are deposited back in the general fund.

Under the new proposal, the SBI would be allowed to deposit its billing receipts directly in a special revenue fund account for the Board's use. The expected revenues and expenditures for this activity are \$3.9 million for the biennium. A small general fund appropriation would remain to fund the Board's investment activities directly related to the General Fund itself.

### **Veterans Affairs Department**

The Governor recommends a total of \$8.7 million in additional appropriations for the Department of Veterans Affairs for new and expanded veterans programs. The package includes:

- **State Soldier's Assistance Program (SSAP) Grant**

A \$3 million increase to SSAP, bringing total biennial funding to \$4.4 million. This is a 210 percent increase in funding for the program. The additional funding will allow for enhanced services, such as family therapy or temporary financial assistance for veterans experiencing difficulties obtaining their VA benefits. Three additional staff would be needed to handle the applications, and determine eligibility and payment amounts.

- **Service Enhancement Grants for CVSO's**

\$3 million for a new incentive based grant program for County Veteran Services Offices (CVSO). Current annual funding for CVSO grants is \$95,000. This program will include a set of performance objectives that will emphasize training, coordination, support and accountability for the services provided to veterans throughout the state. Two new staff would be added, one to monitor compliance with benchmarks, and one to act as a full-time training officer.

- **Veterans Assistance Offices on Campus**

\$2.5 million to establish "Veterans Assistance Offices" at state-funded four-year colleges and universities, coordinated by the Minnesota Department of Veterans Affairs. These offices would serve as referral points for all state and federal veterans benefits, as well as community

and university services. The Department currently estimates that approximately 50 FTE would be needed for this initiative, including two supervisors and two support staff.

*Note: An additional \$100,000 per year is included in the Governor's recommendations for MnSCU in the Higher Education area to fund a system-wide coordinator to facilitate assistance to veterans.*

- **One-Stop Website & Internet Support**

\$200,000 to fund efforts to coordinate and manage information on available services for veterans and their families. Two additional staff, a Veterans Services Coordinator, and a Web Content Manager, would manage this effort.

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# Transportation

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The Governor's supplemental budget recommendations include several changes in the area of Transportation.

<b>Transportation Finance - Governor's Supplemental Recommendations</b>						
<i>(Dollars in thousands)</i>						
	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 06-07</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 08-09</b>
<b><u>Expenditure Changes</u></b>						
<b>Department of Transportation</b>						
General Fund	0	4,221	4,221	(3,000)	0	(3,000)
Trunk Highway Fund	0	88,000	88,000	0	0	0
<b>Department Of Public Safety</b>						
General Fund	0	3,128	3,128	800	800	1,600
<b>subtotal expenditure Changes:</b>	<b>0</b>	<b>95,349</b>	<b>95,349</b>	<b>(2,200)</b>	<b>800</b>	<b>(1,400)</b>
<b><u>Revenue Changes</u></b>						
<b>Department of Transportation</b>						
State Airports Fund	0	1,221	1,221	0	0	0
<b>Department of Public Safety</b>						
General Fund	0	0	0	7,050	7,050	14,100
<b>subtotal revenue changes:</b>	<b>0</b>	<b>1,221</b>	<b>1,221</b>	<b>7,050</b>	<b>7,050</b>	<b>14,100</b>

Changes in the budget for the Department of Public Safety include an additional \$3.1 million in FY 2007 for adding facial recognition technology for driver's license issuance and renewal to protect the public from identity theft. A technical change is also required to insure that revenues created by the increase in motor vehicle transfer fees continue to flow to the general fund as intended beyond FY 2007.

Changes to the Department of Transportation budget include an acceleration of a portion of repayments made to the state airports fund from the general fund. The fund was projected to be short of funds needed to meet the appropriation made by the legislature due to the ongoing Northwest Airlines bankruptcy and the failure of Northwest Airlines to pay property tax due. By moving \$3 million of the \$15 million repayment due in FY 2008 to FY 2007, MN/DOT can maintain the program at the appropriated level without project delays or reductions.

The Governor has also suggested an increase in road construction and program delivery to accelerate construction projects statewide. The increase totals \$88 million from the trunk highway fund.

Lastly the Governor recommends \$1.2 million from the general fund be transferred to the Trunk Highway fund to reimburse MN/DOT for the transfer of property to Medtronic for planned expansion in Mounds View.

No changes were recommended for Metropolitan Council Transit.

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## Taxes & Local Aids And Credits

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The Governor's supplemental budget recommendations include \$49 million in tax reductions in the FY 2006-07 biennium. The bulk of the tax reductions are due to federal conformity changes for individual income tax and corporate franchise tax. The Governor's supplemental budget recommendation does not include any general fund tax revenue increases.

General fund tax reductions for the FY 2006-07 biennium include \$36.4 million in tax reductions in FY 2006-07 for federal conformity, \$5.8 million in tax credits for citizenship and dairy investment, and \$4.1 million for a subtraction for military pensions from Minnesota taxable income and the alternative minimum tax. The Governor also proposes to accelerate the single-sales apportionment to a five-year phase-in, instead of a phase-in over 8 years. This acceleration proposal reduces tax revenues by \$1.6 million in the current biennium. The total revenue reduction from these proposed tax reductions in the FY 2008-09 biennium is \$85.6 million. Table 1 (on the following page) summarizes the impact of the proposed changes in general fund revenues.

While the Governor's supplemental budget does not seek additional, tax-generated revenue, one recommendation seeks to increase moneys in the general fund by making a transfer of \$317 million from the tax relief account on the last day of FY 2006.

Although no changes are planned for FY 2006-07 general fund expenditures, supplemental budget recommendations seek to make minor changes that would decrease general fund expenditures in the 2008-09 biennium. Slight reductions would be made in Disparity Reduction Aid (\$150,000) and the Agricultural Homestead Market Value Credit (\$30,000).

Finally, the Governor's supplemental budget seeks to increase the budget reserve by \$159 million at the end of FY 2007. This action would increase the anticipated reserve amount from \$653 million to \$812 million, reflecting approximately 5.1 percent of FY 2007 spending levels.

## Changes in General Fund Tax Revenues

	FY 2006	FY 2007	2006-07 Biennium	FY 2008	FY 2009	2008-09 Biennium
<b>Individual Income Tax &amp; Corporate Franchise Tax</b>						
<i>Enact a refundable citizenship tax credit- capped at \$300 per family</i>	0	(1,100)	<b>(1,100)</b>	(1,200)	(1,300)	<b>(2,500)</b>
<i>Exempt military pensions/retirement pay</i>	0	(4,100)	<b>(4,100)</b>	(8,600)	(13,600)	<b>(22,200)</b>
<i>Enact a 10% dairy investment credit</i>	0	(4,700)	<b>(4,700)</b>	(5,200)	(5,700)	<b>(10,900)</b>
<i>Accelerate single sales apportionment to a 5 year phase-in, rather than 8 year phase-in</i>		(1,700)	<b>(1,700)</b>	(7,700)	(13,400)	<b>(21,100)</b>
<b>Federal Conformity (income tax &amp; corporate franchise tax)</b>						
<i>Energy Tax Incentives Act of 2005</i>	(600)	(1,960)	<b>(2,560)</b>	(3,000)	(3,700)	<b>(6,700)</b>
<i>Gulf Opportunity Act of 2005</i>	(385)	(550)	<b>(935)</b>	(250)	(10)	<b>(260)</b>
<i>Katrina Emergency Tax Relief Act of 2005</i>	(4,205)	(30)	<b>(4,235)</b>	55	0	<b>55</b>
<i>Working Families Tax Relief Act of 2004</i>	0	(28,700)	<b>(28,700)</b>	(14,800)	(6,500)	<b>(21,300)</b>
<b>Sales &amp; Use Tax</b>						
<i>Exempt up to \$10,000 per resort for construction material</i>	0	(880)	<b>(880)</b>	(990)	(1,020)	<b>(2,010)</b>
<b>General Fund Revenue Change Total</b>	<b>(\$5,190)</b>	<b>(\$43,720)</b>	<b>(\$48,910)</b>	<b>(\$41,685)</b>	<b>(\$45,230)</b>	<b>(\$86,915)</b>

<sup>1</sup>Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

## Tax Revenues

### Individual Income Tax

**Enact a refundable tax credit:** The Governor proposes to enact a refundable individual income tax credit for qualified citizenship expenses incurred during the naturalization process. Qualified citizenship expenses include filing and application fees associated with the N-400 Naturalization application and enrollment fees for English as a Second Language classes. Eligibility for this credit is limited to households with income less than \$30,000 and the refundable credit is capped at \$300 per family per year. The revenue reduction to the general fund for this proposal is expected to be \$1.1 million in FY 2007.

**Subtraction for military pensions and retirement payments from Minnesota Taxable Income:** The income from military pensions and retirement payments are not exempt from Minnesota taxable income and from alternative minimum income under current law. The Governor recommends phasing-in a subtraction for military pension from income tax and alternative minimum tax over four years. The first year of the phase-in would provide an allowable subtraction amount of 25 percent of the pension up to \$7,500; 50 percent of the pension up to \$15,000 in the second year; up to 75 percent of the pension up to \$22,400 and 100 percent of the pension with no maximum in the fourth and succeeding years. The phase-in schedule is shown below:

Phase-In Schedule	Subtraction (% and dollar amount allowable)	
1 <sup>st</sup> Year	25%	up to \$7,500
2 <sup>nd</sup> Year	50%	up to \$15,000
3 <sup>rd</sup> Year	75%	up to \$22,500
4 <sup>th</sup> Year	100%	No maximum

When the proposal is fully phased-in in FY 2010, the revenue reduction to the general fund is expected to be \$19 million.

**Enact a non refundable dairy investment credit:** The governor proposes to create a nonrefundable credit against the individual income tax or corporate tax equal to 10 percent of the first \$500,000 of qualifying dairy investments. The proposal includes a 15 year carry forward of unused investment credit and limits the maximum credit to \$50,000. Expenditures that would qualify for this credit include, but are not limited to, the amounts spent on acquisition, construction, or improvements of buildings or facilities, barns, fences, watering facilities, milking parlors, and robotic equipment. The revenue reduction to the general fund from this provision is expected to be \$4.7 million in FY 2007.

## Corporate Franchise Income Tax

**Accelerate phase-in to 100 percent sales apportionment from eight years to five years.** Under current law, multi-state corporations pay tax based on a three factor formula. The three factors are based on the percentages of a corporation's total payroll, property and sales tax that are located in Minnesota. The phase-in of 100 percent singles sales factor apportionment begins in tax year 2007, the sales factor component of the formula increases from 75 percent to 100 percent over eight years. The governor's proposal would accelerate the phase-in of 100 percent single sales factor over a five year period rather than an eight year period, as shown below:

<b>Phase-in of 100% Singles Sales Factor Apportionment</b>		
<b>Tax Year</b>	<b>Current Law</b>	<b>Governor's Proposal</b>
2007	78%	80%
2008	81%	85%
2009	84%	90%
2010	87%	95%
2011	90%	100%
2012	93%	100%
2013	96%	100%
2014	100%	100%

This proposal will reduce corporate tax revenues by \$1.7 million in FY 2007 and when fully phased in it is expected to reduce corporate tax revenues by \$50 million per year. This move by the governor to accelerate phase-in schedule for singles sales apportionment is intended to promote Minnesota competitiveness by reducing tax burdens on companies that sell in national and international markets.

**Federal Conformity (individual income and corporate franchise tax)**

	FY 2006	FY 2007	2006-07 Biennium	FY 2008	FY 2009	2008-09 Biennium
<b>Energy Tax Incentives Act 2005</b>						
<i>Individual Income Tax</i>	(560)	(60)	(620)	0	40	(40)
<i>Corporate Tax</i>	(40)	(1,900)	(1,940)	(3,000)	(3,740)	(6,740)
<b>Subtotal</b>	(600)	(1,960)	(2,560)	(3,000)	(3,700)	(6,700)
<b>Katrina Emergency Relief Act 2005</b>						
<i>Individual Income Tax</i>	(3,885)	90	(3,795)	65	0	65
<i>Corporate Franchise Tax</i>	(320)	(120)	(440)	(10)	0	(10)
<b>Subtotal</b>	(4,205)	(30)	(4,235)	55	0	55
<b>Gulf Opportunity Zone Act of 2005</b>						
<i>Individual Income Tax</i>	(85)	(140)	(225)	(50)	10	(40)
<i>Corporate Tax</i>	(300)	(410)	(710)	(200)	(20)	(220)
<b>Subtotal</b>	(385)	(550)	(935)	(250)	(10)	(260)
<b>Working Families Tax Act Relief</b>						
<b>Subtotal</b>	0	(28,700)	(28,700)	(14,800)	(6,500)	(21,300)
<b>Federal Conformity Grand Total</b>	(\$5,190)	(\$31,240)	(\$36,430)	(\$17,995)	(\$10,210)	(\$28,205)

<sup>1</sup> Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

**Federal Conformity (individual income tax and corporate franchise tax)**

Federal laws are an integral component of Minnesota tax law because Minnesota uses federal taxable income as the starting point for Minnesota tax calculations for income tax and corporate filers. Conforming to federal tax laws is not automatic. As such, the governor proposes that the legislature consider the following federal law changes for enactment. Table 2 also summarizes the fiscal impact of the proposed changes to individual income tax and corporate franchise tax revenues.

Energy Tax Incentives Act of 2005. This act provides new incentives for solar and energy efficiency measures. Included in this act are the following provisions:

- The American Job Creation Act of 2004 included a provision to allow taxpayers to expense certain costs for investments to comply with EPA low sulfur diesel regulations. Federal conformity will allow the deduction to be passed-through to cooperative owners of expensing related costs to comply with EPA low sulfur regulations.

- Allows for a 10 percent personal tax credit for energy efficient improvements to existing homes. The maximum credit is \$500.
- Reduces the depreciation period for assets used in the transmission and distribution of electricity from 20 years to 15 years.
- Allows a taxpayer to deduct contributions to a qualified nuclear decommissioning fund and allows the fund to accumulate enough reserves to pay 100 percent of the plant's decommissioning costs.
- Creates a business tax credit for construction of new energy efficient homes.

**The Katrina Emergency Tax Relief Act of 2005.** This federal legislation includes but is not limited to new tax incentives for charitable gifts. The new law suspends the limits on certain charitable contributions, creates an exemption for those housing Hurricane Katrina displaced individuals, increases the standard mileage deduction rate for charitable vehicles and excludes from gross income mileage reimbursements to charitable volunteers. This act also provides:

- Additional \$500 personal exemption for housing hurricane Katrina displaced individuals.
- Extends to businesses other than C corporations the enhanced deduction for contributions of food inventory.
- Extends replacement period for non recognition of gain for property located in Hurricane Katrina disaster area.

**The Gulf Opportunity Act of 2005.** The intent of this federal legislation is to assist the Gulf Coast in its recovery from the past year's hurricane season. The Governor proposes:

- Additional first year depreciation for property in a Hurricane Katrina disaster area.
- Temporary suspension of limitations on charitable contributions. The Katrina Emergency tax relief act allowed charitable contribution relief for both individuals and corporations and this legislation expands it to include donations to assist relief efforts for victims of Hurricanes Rita and Wilma. For individuals, the percentage limitations on qualifying contribution will not be applied and the contribution amount cannot be more than the taxpayer's adjusted gross income. For corporations, qualifying contributions are allowed to the extent they do not exceed the corporation's taxable income.
- Suspension of certain limitations on personal casualty losses. Extends the personal casualty losses in the Katrina Emergency tax relief act to the losses resulting from Hurricanes Rita and Katrina. The limitation suspended is the \$100 limit per casualty and the 10 percent of adjusted gross income limit.

**Working Families Tax Relief Act of 2004.** Conformity with this federal legislation would allow Minnesota to conform to the federal change in the standard deduction for a married couple filing a joint return to be equal to twice the amount of the standard deduction for single filers, and the standard deduction for married persons filing separate returns to be equal to that for single filers. Under current law in tax year 2006, the standard deduction for married joint filers is 184 percent of the standard deduction for

single filers.<sup>1</sup> The standard deduction for married filers will be at 200 percent of the deduction for single filers in tax year 2009. This proposal would allow the Minnesota standard deduction for married joint filers to be at 200 percent of the deduction for single filers starting in tax year 2006.

**Standard Deduction for Married Joint Filers compared to Single Filers**

<b>Tax Year</b>	<b>Current Law</b>	<b>Governor's proposal</b>
2004	200%	----
2005	174%	----
2006	184%	200%
2007	187%	200%
2008	190%	200%
2009	200%	200%

There are over 400,000 filers that are expected experience a tax decrease in tax year 2006 if this recommendation is adopted.

## Sales and Use Tax

**Creates a sales and use tax exemption for construction materials and supplies used to expand or improve resorts.** The Governor proposes to grant a sales and use tax exemption for up to \$10,000 per resort per calendar year for construction materials and supplies related to physically expanding or making capital improvements to resorts. Resorts eligible for such an exemption under the Governor's proposal include resorts classified as 1c (small homestead resorts) or class 4c (commercial seasonal recreational residential) and any portion of a resort classified as class 3. The revenue reduction to the general fund for this proposal is \$880,000 in FY 2007.

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<sup>1</sup> Minnesota conformed to the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA 2001). This act provided for the gradual increase in the standard deduction for married joint filers relative to the standard deduction for single filers:

TY 2005: 174%  
TY 2006: 184%  
TY 2007: 187%  
TY 2008: 190%  
TY 2009: 200%

Minnesota also conformed to the Jobs Economic Growth Tax Relief Reconciliation Act of 2003 (JGTRRA0). This act increased the standard deduction for married joint filers to be equal to 200 percent of the deduction for single filers for tax year 2003 and 2004 only.

Minnesota did not conform to the federal Working Families Tax Relief Act (WFTRA 2004). This act accelerated the scheduled increase in the standard deduction for married filers to be equal to 200 percent of the deduction for single filers beginning in TY 2005, rather than 2009. Due to Minnesota's lack of conformity to this act, Minnesota married joint filers who claimed the federal standard deduction were required to add back to their Minnesota taxable income the difference between the federal standard deduction and the Minnesota standard deduction.

## Changes in General Fund Expenditures

Table 3 summarizes the impact of the proposed changes in general fund expenditures and fund transfers.

	FY 2006	FY 2007	FY 2006-07	FY 2008	FY 2009	FY 2008-09
<b>Property Tax Aids &amp; Credits</b>						
Disparity Reduction Aid Adjustments	\$0	\$ 0	\$ 0	\$(75)	\$(75)	\$(150)
Fractional agricultural homestead market value credit	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$(15)</u>	<u>\$(15)</u>	<u>\$(30)</u>
<b>Sub-total aid &amp; credit expenditure reductions:</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$(90)</b>	<b>\$(90)</b>	<b>\$(180)</b>
<b>TOTAL SPENDING CHANGES</b>	<b>\$0</b>	<b>(\$0)</b>	<b>(\$0)</b>	<b>(\$90)</b>	<b>(\$90)</b>	<b>(\$180)</b>
<b>TRANSFERS TO GENERAL FUND</b>						
<b>Transfer \$159.2 million to Budget Reserve</b>						
Unrestricted General Fund	\$159.2	\$0	\$0	\$0	\$0	\$0
Restricted General Fund - Budget Reserve	(\$159.2)	\$0	\$0	\$0	\$0	\$0
<b>Transfer \$316.7 million in Tax Relief Account to General Fund</b>						
Tax Relief Account	\$316.7	\$0	\$0	\$0	\$0	\$0
General Fund	(\$316.7)	\$0	\$0	\$0	\$0	\$0

<sup>1</sup> Positive numbers represent additional spending by the state and negative numbers represent a cost savings to the state.

## Expenditures

### Property Tax Aids a& Credits

**Authority to defer certain Disparity Reduction Aid adjustments:** Occasionally, when real property undergoes a change in class rate, it is difficult for the Department of Revenue to determine the appropriate adjustment to Disparity Reduction Aid; the data needed to make an informed adjustment is not available.

The Governor's supplemental budget seeks permissive authority for the Commissioner of Revenue to defer such an adjustment to Disparity Reduction Aid (DRA) for one year. Current law is silent regarding this issue.

This provision would reduce Disparity Reduction Aids by \$75,000 per year beginning in FY 2008.

**Modify Agricultural Homestead Market Value Credit calculation:** In the 2005 legislative session, *Chapter 151* changed the calculation of the market value homestead credit for fractional homesteads (i.e., property only partially homesteaded because one or more of the owners does not reside at the property) to more accurately reflect the credit due to each owner. Before then, homestead and non-homestead properties had the same class rate, which created a benefit to fractional homesteads using the market value credit.

The Governor's supplemental budget seeks to amend the calculation of the *agricultural* homestead market value credit to 1) clarify that its application is only for homestead farmlands (not the house, garage and one acre), and 2) more fairly allocate fractional agricultural homesteads credits, similar to the provision for residential homesteads that was passed last session. These changes would safeguard a property from receiving both credits (when one credit is intended) and also assure that a full owner of a same-valued agricultural homestead has a larger credit and lower tax than a partial owner.

This change would reduce Agricultural Homestead Market Value Credits by \$15,000 per year beginning in FY 2008.

### **Local Property Tax Relief**

**Cap on Local Property Tax Growth:** In an attempt to hold down increases in local property taxes, the Governor proposes to limit property taxes for 2007 by capping levy growth for counties and for cities with populations over 2,500 residents. More specifically, the Governor recommends 1) establishing the 2007 levy limit base for local taxes at the 2006 level plus inflation and household growth, and 2) a narrowing of the definition of allowable "special levies" for taxes payable in 2007, retaining only certain government debt-service obligations and emergency service provisions, and then including only special levies that have been approved by voters.

### **Budget Reserve**

**Transfer to Budget Reserve:** At the end of the 2005 legislative session, the cash flow account was restored to a balance of \$350 million and the budget reserve returned to its statutory level (established in 2001) of \$653 million. In FY 2001, the budget reserve of \$653 million was about 5 percent of \$13.1 billion in general fund expenditures. However, in FY 2006, \$653 million is approximately 4.1 percent of the Governor's proposed \$15.8 billion in estimated spending.

The Governor's supplemental budget recommends transferring \$159 million from the general fund to the budget reserve to provide additional resources for pending issues that may trigger

additional costs to the state. The transfer of \$159 million would increase the budget reserve to \$812 million, which is 5.1 percent of the Governor's FY 2007 estimated expenditures totaling \$15.8 billion.

It is important to note that the Governor cannot access the budget reserve moneys to offset a budget deficit without legislative involvement. This transfer moves \$159 million from the unrestricted general fund balance to the dedicated budget reserve within the general fund.

### **Tax Relief Account**

**Transfer to General Fund:** Current law (MS section 16A.1522, Subd. 4) requires that any end-of-biennium general fund balance be transferred to the tax relief account. In addition, 2005 session law required another transfer to occur: the first \$20 million of any amount transferred to the tax relief account on June 30, 2005, shall be transferred to the general fund. The law makes no further stipulations regarding the use of the remaining balance.

The November 2005 forecast indicated that \$336.7 million was transferred to the tax relief account on June 30, 2005, \$20 million was then transferred back to the general fund and \$316.7 million remains in the tax relief account.

The Governor now recommends transferring the remaining \$316.7 million to the general fund on June 30, 2006, the last day of FY 2006.

*For additional information on income, corporate, sales and health care taxes, contact Cynthia Templin at 651-297-8405, or [cynthia.templin@house.mn](mailto:cynthia.templin@house.mn).*

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