



AN OVERVIEW OF GOVERNOR TIM PAWLENTY'S FY 2008-09 BIENNIAL BUDGET RECOMMENDATIONS

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This paper provides an overall description and detail of Governor Tim Pawlenty's FY 2008-097 biennial budget recommendations. Part one is the summary section. Part two provides details organized according to the jurisdictions of the House of Representatives' fiscal committees and divisions.

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The Overall Budget Picture

The November 2006 forecast projects that general fund revenues would exceed expenditures by \$1.132 billion for the FY 2008-09 biennium. That forecast projects revenues of \$33.628 billion and expenditures of \$32.496 billion. That forecast also includes reserves of slightly over \$1 billion. The November forecast for FY 2008-09 was a \$394 million positive change compared to the \$737 million positive balance projected at the end of the 2006 session for FY 2008-09.

In addition, the November 2006 forecast projected a balance of \$1.038 billion for the FY 2006-07 biennium. Under current law, that amount is designated for a tax rebate. However, most discussions about the balance available for consideration by the 2007 Legislature add together this \$1.038 billion plus the \$1.132 billion for a balance of \$2.17 billion. These balance numbers do not estimate the effects of inflation in most of the expenditure areas of the budget.

The Governor's recommendations would result in general fund expenditures for FY 2008-09 of \$34.449 billion, \$1.953 billion or 6.0 percent higher than the projected expenditure level in the November 2006 forecast. The Governor's recommendation would result in FY 2008-09 general fund expenditures being \$2.944 billion or 9.3 percent higher than expenditures in FY 2006-07.

General Fund revenues in FY 2008-09 in the Governor's recommendations would be \$33.375 billion, \$143 million or 0.4 percent lower than the projected FY 2008-09 revenues in the November 2006 forecast. The Governor's recommendations result in revenues being \$1.13 billion or 3.5 percent higher than in FY 2006-07. The Governor recommends an increase of \$47 million in the current budget reserve and no changes in the cash flow account. The increase in the budget reserve would raise that balance to \$700 million. The budget reserve together with the cash flow account would then equal about 3.0 percent of FY 2008-09 biennial expenditures.

Table 1 (on the following page) summarizes the general fund resources available and expenditure amounts for the current biennium, next biennium and the planning estimates for the FY 2010-11 biennium assuming the Governor's recommendations for FY 2008-09 are enacted. The rows labeled "Gov" show change in the Governor's recommendations from the base level.

Table 1
General Fund: Fiscal Years 2006 -11
Governor's Recommendations, Change from Forecast
Dollars in millions

	FY 2006-07	FY 2008-09	Dollar Change	Percent Change	FY 2010-11	Dollar Change	Percent Change
Balance Forward	\$1,393	\$2,134			\$1,060		
Revenues (Base)	\$32,245	\$33,518			\$36,993		
Revenue Changes (Gov)		(\$143)			(\$141)		
Current Revenues	\$32,245	\$33,375	\$1,130	3.5%	\$36,852	\$3,477	10.4%
Total Resources Available	\$33,638	\$35,509			\$37,911		
Expenditures & Transfers (Base)	\$31,487	\$32,496			\$33,776		
Expenditures Change (Gov)	\$17	\$1,953			\$1,997		
Total Expenditures	\$31,504	\$34,449	\$2,944	9.3%	\$35,773	\$1,324	3.8%
Balance Before Reserves	\$2,134	\$1,060			\$2,138		
Reserves	\$1,113	\$1,003			\$1,003		
Reserve Change (Gov)		\$47			\$47		
Balance After Reserves	\$1,021	\$10			\$1,088		

To look at the bigger budget picture, projected expenditures in all operating funds for FY 2008-09 in the November forecast were \$52.4 billion. The Governor's recommendations for FY 2008-09 would set the total operating budget expenditures at approximately \$55.1 billion, \$2.7 billion higher than in the November 2006 forecast. In the Governor's recommendations for FY 2008-09, the general fund spending of \$29.814 billion is approximately 62 percent of the total all funds spending.

Revenues in all funds for FY 2008-09 are \$53.9 billion in the November forecast, in the Governor's recommendations those revenues are \$53.8 billion.

Table 2 summarizes the all funds numbers.

Table 2 All Funds: Fiscal Years 2008-09 Governor's Recommendations, Change from Forecast <i>Dollars in millions</i>				
	FY 2006-07	FY 2008-09	Dollar Change Biennium	% Change Biennium
Revenues (Base)	\$51,205	\$53,942		
Revenue Changes (Gov Est.)	<u>(\$40)</u>	<u>(\$99)</u>		
Current Revenues	\$51,165	\$53,842	\$2,677	5.2%
Expenditures & Transfers (Base)	\$50,615	\$52,362		
Expenditures Change (Gov Est)	<u>\$100</u>	<u>\$2,700</u>		
Total Expenditures	\$50,715	\$55,062	\$4,347	8.6%

General Fund Spending Grows in FY 2008 and 2009

Table 3 (on the next page) illustrates a fiscal year by fiscal year comparison of general fund revenues and expenditures in the Governor's proposed budget for FY 2008-09 using the same format as Table 1. Under the Governor's proposal, FY 2008 expenditures would increase \$986 million or 6.2 percent from the FY 2007 expenditure level. This is also a \$865 million increase over the base level of expenditures. In FY 2009 expenditures would increase by \$554 million or 3.3 percent over FY 2008. This is a \$1.089 billion increase over the base level of expenditures.

Table 3
General Fund by Fiscal Year: FY 2006-09
Governor's Recommendations, Change from Forecast
(Dollars in millions)

	Actual FY 2006	Gov's Rec FY 2007	Annual % Change	Gov's Rec FY 2008	Dollar Change	% Change	Gov's Rec FY 2009	Dollar Change	Annual % Change
Balance Forward	\$1,393	\$1,813		\$2,134			\$1,515		
Revenues (Base)	\$15,962	\$16,283		\$16,427			\$17,091		
Revenue Changes (Gov)				-\$98			-\$45		
Current Revenues	\$15,962	\$16,283	2.0%	\$16,329	\$47	0.3%	\$17,046	\$716	4.4%
Total Resources Available	\$17,355	\$18,096		\$18,463			\$18,561		
Expenditures & Transfers (Base)	\$15,542	\$15,945		\$16,083			\$16,413		
Expenditures Change (Gov)		\$17		\$865			\$1,089		
Total Expenditures	\$15,542	\$15,962	2.7%	\$16,948	\$986	6.2%	\$17,501	\$554	3.3%
Balance Before Reserves	\$1,813	\$2,134		\$1,515			\$1,060		
Reserves	\$1,113	\$1,113		\$1,003			\$1,003		
Reserve Change (Gov)				\$47			\$47		
Balance After Reserves	\$701	\$1,021		\$465			\$10		

Governor's Recommendations Include Some FY 2007 Changes

The Governor's recommendations include \$17.4 million of spending changes for FY 2007 and \$24 million of tax changes for taxes payable for calendar year 2006 that will affect FY 2007. A bill to enact those tax changes (H.F. 8) has passed the House and Senate.

The spending changes total \$9.9 million for several items including \$8.4 million for transit to make up for lower motor vehicle sales tax revenues. Another \$7.5 million of spending is the assumption of less end of year cancellations due to a recommendation to allow agencies to carry forward (rather than cancel back to the general fund) some unused appropriations.

For All Committees, FY 2008-09 Expenditures Are Above FY 2006-07 Levels

Table 4 shows changes in expenditures in the Governor's recommendations by committee. Table 4 shows the changes in the Governor's recommendations for FY 2008-09 to both the FY 2006-07 expenditures in that area and to the base level expenditures for FY 2008-09. The change in K-12 Education for FY 2008-09 compared to CY 2006-07 is complicated by the amount spent to reduce shifts in education payments and property tax levy recognition in FY 2006-07. For that reason, payments to reduce education shifts are shown on a separate line in this table. Refer to the summaries of those committee areas for more information.

Table 4 General Fund Expenditures - By Committee FY 2008-09 <i>(all dollars in thousands)</i>					
	Nov. 06 Frst FY 2006-07	Base FY 2008-09	Governor's Recs FY 2008-09	% Change Gov. FY 08-09 vs. FY 06-07	% Change Gov. vs. Base FY 08-09
K-12 Education	\$12,580,443	\$12,794,707	\$13,518,402	7.5%	5.7%
Education Shift Reduction Payments	\$609,435	-\$3,810	\$0	-100.0%	-100.0%
Early Childhood Learning	\$309,178	\$420,916	\$460,8409	49.1%	9.5%
Higher Education & Workforce Devlmp	\$2,904,389	\$2,913,354	\$3,343,730	15.1%	14.8%
Taxes and Tax Aids	\$2,991,867	\$3,106,793	\$3,172,293	6.0%	2.1%
Health Care & Human Services	\$7,887,490	\$8,885,792	\$9,008,323	14.2%	1.4%
Housing & Public Health Environment & Natural Resources	\$309,513	\$327,264	\$408,717	32.1%	24.9%
	\$295,894	\$284,434	\$345,557	16.8%	21.5%
Agriculture & Veterans	\$102,842	\$98,792	\$132,548	28.9%	34.2%
Energy	\$48,741	\$47,494	\$64,316	32.0%	35.4%
Minnesota Heritage	\$107,784	\$105,366	\$117,009	8.6%	11.1%
Public Safety	\$1,710,452	\$1,723,372	\$1,865,996	9.1%	8.3%
Transportation	\$207,770	\$224,964	\$335,697	61.6%	49.2%
State Government	\$594,349	\$582,929	\$694,951	16.9%	19.2%
Debt Service	\$752,098	\$901,953	\$895,798	19.1%	-0.7%
Dedicated Expenditures	\$88,034	\$97,498	\$97,186	10.4%	-0.3%
Other	-\$13,266	-\$20,000	-\$12,500	-5.8%	-37.5%
Total	\$31,487,013	\$32,491,818	\$34,448,863	9.4%	6.0%

Table 5 compares projected spending for FY 2010-11 under the Governor's recommendation compared to the base level under current law for FY 2010-11.

Table 5 General Fund Expenditures - By Committee FY 2010 - 11 (all dollars in thousands)			
	Base FY 2010 -11	Governor's Recs FY 2010 -11	Percentage Change Gov. vs. Base FY 2010 -11
K-12 Education	\$12,665,638	\$13,482,843	6.5%
Early Childhood Learning	\$429,094	\$496,620	15.7%
Higher Education & Workforce Development	\$2,912,508	\$3,252,733	11.7%
Taxes and Tax Aids	\$3,111,835	\$3,240,435	4.1%
Health Care & Human Services	\$10,186,185	\$10,425,930	2.4%
Housing & Public Health	\$326,764	\$371,530	13.7%
Environment & Natural Resources	\$285,979	\$342,457	19.7%
Agriculture & Veterans	\$98,792	\$139,395	41.1%
Energy	\$47,494	\$52,756	11.1%
Minnesota Heritage	\$105,366	\$116,274	10.4%
Public Safety	\$1,744,014	\$1,905,462	9.3%
Transportation	\$208,548	\$217,904	4.5%
State Government	\$583,235	\$665,319	14.1%
Debt Service	\$1,036,347	\$1,021,573	-1.4%
Dedicated Expenditures	\$54,626	\$54,314	-0.6%
Other	-\$20,000	-\$12,500	-37.5%
Total	\$33,776,425	\$35,773,045	5.9%

Governor Recommends Overall Revenue Decreases

The Governor's budget recommendations decrease net revenues to the general fund by \$142.2 million in FY 2008-09. Table 6 (on the next page) illustrates these revenue changes on a committee basis. In general, the Governor is recommending decreases in tax revenue and increases in a variety of fees. Much of the decrease in the Higher Education and Workforce Development area is not an overall decrease but a transfer of revenues from the general fund to other funds. The other revenue items are highlighted in the summary for each committee area.

Table 6 General Fund Revenue Changes - By Committee <i>Dollars in thousands</i> (positive number indicates positive effect on general fund)		
	Gov's Rec FY 2008-09	Gov's Rec FY 2010-11
K-12 Education	\$0	\$0
Early Childhood Education	\$0	\$0
Higher Education & Workforce Development	-\$9,256	-\$9,206
Taxes - Tax Changes	-\$214,400	-\$246,460
Health Care & Human Services	\$25,758	\$49,237
Housing & Public Health	\$0	\$0
Environment & Natural Resources	\$180	\$180
Agriculture & Veterans	\$0	\$0
Energy	\$4,371	\$4,634
Minnesota Heritage	\$0	\$0
Public Safety	-\$69	-\$92
Transportation	\$0	\$0
State Government	\$51,200	\$60,700
Total	-\$142,216	-\$141,007

Price of Government Would Increase by One Tenth of One Percent

The Governor and Legislature are required by law to adopt recommendations on the percent of personal income in Minnesota represented by the revenue projected to be raised by state and local governments. Under current law, revenue to be raised by state and local governments represents 16.1 percent of personal income for the FY 2008-09 biennium. The Governor's recommendation would make no change in the percent of personal income leaving that percentage at 16.1 percent. The revenue raised by state and local governments as a percent of personal income for the current biennium (FY 2006-07) is 16.5 percent.

Table 7 show price of government information for recent biennia and the effects of the Governor's proposals in FY 2008-09 and FY 2010-11.

Table 7 Price of Government (Dollars in Millions) Data is from the Nov. 2006 forecast Biennial basis						
	FY 2000-01	FY 2002-03	FY 2004-05	FY 2006-07	FY 2008-09	FY 2010-11
State own source revenues:	\$29,582	\$31,413	\$35,000	\$40,471	\$42,594	\$46,628
Local non-school revenues:	\$14,443	\$15,868	\$17,375	\$19,535	\$21,792	\$23,763
Local school district revenues:	\$4,786	\$4,089	\$3,777	\$4,621	\$5,624	\$6,477
Total revenues:	\$48,812	\$51,370	\$55,152	\$64,627	\$70,009	\$76,869
Minnesota personal income:	\$304,685	\$329,546	\$358,327	\$392,647	\$434,791	\$483,667
State and local revenues as a percent of personal income:	16.0%	15.6%	15.7%	16.5%	16.1%	15.9%
Governor's Recommendation January 2007					16.1%	15.8%

For more information, contact Bill Marx, Chief Fiscal Analyst, 651-296-7176 or bill.marx@house.mn

Agriculture, Rural Economies and Veterans Affairs

The Agriculture, Rural Economies and Veterans Affairs budget provides funding for the state activity related to the agricultural sector of the economy, and for the delivery of veterans services. Agencies funded include the Veterans Affairs Department, the Agriculture Department, the Animal Health Board, and the Agriculture Utilization Research Institute. The Governor recommends general fund appropriations of \$132.6 million dollars for FY 2008-09.

Agriculture, Rural Economies and Veterans Affairs Finance					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
	November Forecast FY 2006-07	Forecast Base FY 08-09	Governor's Recs FY 2008-09	Percentage Change Gov. FY 08-09 vs. FY 06-07	Percentage Change Gov. vs. Base FY 2008-09
Veterans Affairs	12,485	14,530	28,171	126%	94%
Agriculture, Dept of	79,891	75,140	93,514	17%	24%
Animal Health Bd.	7,266	5,922	6,863	-6%	16%
Agriculture Utilization Research Institute	3,200	3,200	4,000	25%	25%
Total	102,842	98,792	132,548	29%	34%

Veterans Affairs Department

The Governor recommends a total agency budget for the biennium of \$30.1 million dollars, of which \$28.2 million is general fund. This recommendation is an increase of \$15.7 million from the agency base level. Changes recommended to the general fund base budget by the Governor to the agency include the following items.

- An increase of \$1 million in each year for the State Soldiers Assistance Program. The program provides emergency cash assistance and expanded benefits for veterans.
- The Governor recommends an appropriation of \$3.3 million over the biennium to increase the grants to counties for the county veterans service officers.
- An increase of \$2 million in each year for additional outreach activities. Of this amount, \$1 million per year is for a grant to the Minnesota Assistance Council for Veterans to be used in helping homeless veterans.
- An additional \$250,000 in each year is recommended for grants to the Veterans Service Organizations.
- The Higher Education Assistance Offices program is recommended to be expanded with an appropriation of \$2.3 million in the biennium.

- A base increase of \$100,000 in each year to be used for enhancement of the agency information systems is recommended by the Governor.
- The MN State Veterans Cemetery in Little Falls, Minnesota is recommended to receive a \$75,000 increase in each year.
- The agency administrative base is recommended to be increased by \$500,000 a year.
- The agency compensation adjustment change item is recommended at \$58,000 in the first year and \$128,000 in the second year.

Department of Agriculture (MDA)

The Governor recommends a total Department of Agriculture budget of \$158.9 million, of which \$93.5 million is general fund dollars. Of this \$93.5 million, \$13.6 million is an increase over the biennial base. Changes recommended to the base budget by the Governor to the MDA include:

- An increase of \$739,000 to the invasive species exclusion and pest management programs of the department.
- The Governor recommends an appropriation of \$243,000 to support a new position to coordinate emergency planning and response to animal and human health threats.
- An appropriation of \$551,000 is recommended by the Governor to establish a computer based field inspection system for the records of the Dairy and Food Inspection Division.
- Funds are recommended for an additional field inspector to perform meat inspection duties. The requested amount is a biennium total of \$182,000.
- \$284,000 is recommended by the Governor to be used for the development of a statewide data base of livestock premises.
- The Governor recommends increasing the retail food handler plan review fees in order to bring the revenue into balance with the expenditures needed for the program. The revenue to and appropriation from the agriculture fund would be increased by \$13,000 in each year.
- The Governor recommends an increase of \$941,000 in the biennium to cover an increase in the rent charges for the newly occupied laboratory building.
- The Governor recommends increasing the fee charged to use the MN Grown logo. The increased revenue would be \$25,000 to the agriculture fund in the biennium. These funds and an increase of \$65,000 each year from the general fund would be appropriated to the Department for additional promotion activities.
- The Governor recommends an appropriation of \$4.5 million for Clean Water Legacy Act activities at the department.
- The Governor recommends \$10 million be appropriated to provide a package of incentives programs to encourage development of facilities to produce fuels derived from biomass and cellulosic materials.
- The Governor recommends an appropriation of \$266 thousand in the first year and \$538,000 in the second year for the compensation adjustment.

Animal Health Board

The Governor recommends a total Animal Health Board budget of \$11.1 million, of which \$6.9 million is general fund money. There are two new initiatives recommended by the Governor for funding.

- Appropriation increases to support the elimination of bovine tuberculosis are recommended at \$448,000 in the first year and \$363,000 in the second year.
- The Governor recommends that the agency receive a compensation adjustment of \$43,000 in the first year and \$87,000 in the second year.

Agriculture Utilization Research Institute

The Governor recommends a total AURI appropriation of \$4 million dollars, all of which is general fund money. This is an increase of \$800,000 to the general fund base budget.

For additional information on Agriculture, Rural Economies, and Veteran's Affairs Finance issues, contact Jim Reinholdz at 651.296.4281 or email: jim.reinholdz@house.mn.

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Capital Investment

The Governor's proposed capital budget for the 2007 legislative session includes \$59.8 million for general obligation bonds and \$10 million for user-financed bonds. The November forecast included debt service for a \$135 million general obligation bond package. Therefore, the general fund debt service costs will be \$6.2 million less over this biennium and \$14.8 million less in fiscal years 2010-11 under the Governor's proposal than amounts anticipated in the November forecast.

Two initiatives within the Governor's capital budget are in excess of \$10 million. They include:

- \$37.9 million for covering half of the costs for constructing a new arena at the Duluth Entertainment and Convention Center (DECC). The new arena would replace the 40-year-old arena and include a larger hockey rink and additional seating capacity.
- \$11.8 million for repairing the exterior of the Department of Transportation building on Constitution Avenue in Saint Paul. Damage to the support system for the building's exterior granite panels was discovered during tuckpointing of the building several years ago. Shelf angles and retaining clips have significant rust, reducing the load bearing capacity of the angles. If the support system fails, it is possible that a granite panel could fall from the building. Each panel weighs approximately 1200 pounds.

Additional projects recommended by the Governor are:

- Rural Finance Authority loans through the Department of Agriculture: \$10 million
- Oak Park Heights prison perimeter system: \$3.9 million
- Oak Park Heights prison ventilation system: \$2.2 million
- Property acquisition by the Administration Department: \$2.2 million
- Minnesota Zoo inflow and infiltration abatement: \$1.5 million
- City of Stillwater flood control phase III: \$0.2 million

In addition, the Governor proposes authorizing \$1.7 billion for trunk highway bonds. This will not have a direct impact on the general fund. Debt service payments will increase from the trunk highway fund, including an additional \$985,000 in debt service payments during fiscal year 2008 and \$11.4 million in fiscal year 2009.

If you have further questions on Capital Investment issues, please contact Koryn Zewers at 651-296-4178 or e-mail at koryn.zewers@house.mn.

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Early Childhood Learning Finance

The Early Childhood Learning budget provides funding for programs within two agencies – the Minnesota Department of Education (MDE) and the Department of Human Services (DHS). The programs funded in the MDE include Early Childhood and Family Support; Community Education and Prevention; and Self-Sufficiency and Lifelong Learning. The DHS funding appropriated by the committee goes toward the Children & Economic Assistance Grants program, which includes MFIP Child Care Assistance Grants, BSF Child Care Assistance Grants, and Child Care Development Grants.

The Governor recommends general fund appropriations of \$460.8 million for the programs administered by the agencies in the Early Childhood Learning committee in FY 2008-09.

Early Childhood Learning Finance Governor's FY 2008-09 General Fund Recommendations <i>(all dollars in thousands)</i>					
Agency / Program	Forecast FY 2006 - 07	Base FY 2008- 09	Gov's Recs FY 2008- 09	% Change Gov. 08-09 vs. FY 06-07	% Change Gov. vs. Base FY 08-09
Early Childhood & Family Support	95,666	102,539	138,956	45.3%	35.5%
Prevention	5,578	3,658	3,658	-34.4%	0%
Self-Sufficiency & Lifelong Learning	77,582	80,153	80,153	3.3%	0%
Children & Economic Assistance Grants	130,352	234,566	238,075	82.6%	1.5%
Total Expenditures:	309,178	420,916	460,842	49.1%	9.5%

Early Childhood & Family Support

The Governor recommends a total budget of \$152.7 million, \$139 million of which is general fund money. This is a recommended general fund increase of \$36.4 million dollars over the agency's current FY 2008-09 base spending level. Spending remains unchanged for existing programs, except for a reduction in Infants & Toddlers-Part C. This is a special education program that has historically been appropriated apart from the general special education program, and would be transferred back to the special education-regular and excess cost programs. New program initiatives recommended by the Governor include the following:

- The development and implementation of an early childhood scholarship fund, which will provide up to \$4,000 for each eligible child. Approximately 7,000 children will be served at a cost of \$28.5 million per year once the program is implemented in FY 2009. The recommended appropriation of \$392,000 in FY 2008 covers development of the initiative.
- The implementation of ECFE program accountability requirements, with a recommended \$211,000 in 2008 and \$196,000 for each additional year. This program would bring ECFE in line with other state funded early childhood programs.
- Funding for school readiness training directed toward programs that do not currently require teachers to be licensed. There would be \$155,000 allotted in the first year, and \$70,000 each year following.
- Spending of \$4.2 million each year to improve school readiness and head start programs. The goal of the recommendation is to ensure the readiness of four-year-olds who may not otherwise be prepared for kindergarten given the curriculum in their early childhood and child care programs.

Community Education and Prevention

The total budget recommendation for the 2008-09 biennium is \$3.7 million dollars, all of which is General Fund money. This is equal to the General Fund base budget.

Self-Sufficiency and Lifelong Learning

The Governor recommends a total budget of \$92.9 million, of which \$80.2 is appropriated through the General Fund and federal TANF funds. This spending amount is equal to the General Fund base budget. There is one change item in this program, called the Fatherhood Leadership Initiative. It would be funded entirely with TANF, at an amount of \$500,000 per year. The goal of the program is to promote the relationship between fathers and their children, reaching 2,250 fathers each year.

Children and Economic Assistance Grants

For the DHS program covered by the committee, the Governor recommends improving school readiness through the creation of financial incentives for program providers. These incentives will benefit an estimated 600 children and be carried out through the MFIP and BSF child care activities. The net impact on the General Fund is a cost of \$3.5 million in FY 2008-09, and \$5.2 million in FY 2010-11.

The overall recommended spending for the committee's portion of this DHS program is \$238 million in General Fund appropriations for the 2008-09 biennium. The chart below highlights the changes from the FY 2006-07 forecast to the FY 2008-09 base and Governor's recommendations.

Department of Human Services: Children & Economic Assistance Grants Governor's FY 2008-09 General Fund Recommendations <i>(all dollars in thousands)</i>					
Early Childhood Committee Activity	Forecast FY 06-07	Base FY 08-09	Gov's Recs FY 08-09	% Change Gov. 08-09 vs. FY 06-07	% Change Gov. vs. Base FY 08-09
MFIP Child Care	83,318	147,642	150,285	80.4%	1.8%
BSF Child Care	44,015	83,894	84,760	92.6%	1.0%
Child Care Development	3,019	3,030	3,030	0.4%	0%
Total Expenditures:	130,352	234,566	238,075	82.6%	1.5%

For additional information on Early Childhood Learning Finance issues, contact Emily Adriaens at 651.296.7171 or email: emily.adriaens@house.mn.

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Energy Finance & Policy Division

The Energy Finance & Policy Division has budget oversight jurisdiction for the Department of Commerce and the Public Utilities Commission.

The Governor recommends General Fund appropriations totaling \$64.316 million in the FY 2008-09 biennium for Department of Commerce and the Public Utilities Commission. The recommendation is \$16.822 million above base funding level, which is a 35 percent increase.

Governor's FY 2008-09 General Fund Recommendations <i>(Dollars in thousands)</i>					
	Forecast FY 06-07	Base FY 08-09	Gov's Recs FY 08-09	% Change Gov. FY 08-09 vs. FY 06-07	% Change Gov. vs. Base FY 08-09
Department of Commerce	40,230	39,168	53,801	34%	37%
Public Utilities Commission	8,511	8,326	10,515	24%	26%
Total	48,741	47,494	64,316	32%	35%

The net General Fund impact of the Governor's proposed budget is \$59.945 million. The \$64.3 million in General Fund appropriations is partially offset with \$4.371 in new General Fund revenues that the Governor recommends.

Department of Commerce

The Governor recommends \$53.801 million for the Department's FY 2008-09 General Fund appropriations. The recommendation is \$14.633 million more than the current law base, a 37% increase.

The net General Fund cost of the Governor's recommendations for the Department is \$12.5 million. The recommended \$14.633 million in appropriation increases are offset by revenue increases totaling \$2.188 million under the proposed budget.

Department of Commerce 2008-09 General Fund Appropriations <i>(dollars in thousands)</i>			
Division/Program	Current	Gov's Chg.	Gov's Rec.
Financial Examinations	11,988	747	12,735
Administrative Services	8,830	187	9,017
Market Assurance	10,726	1,489	12,215
Energy & Telecommunications	7,624	12,210	19,834

The recommended General Fund appropriations increases for the Department of Commerce are:

- \$200,000 each year to strengthen the regulation of licensed residential mortgage loan originators. The net General Fund fiscal impact of this recommendation is zero dollars. The entire cost will be offset with additional examination cost recovery collections.
- \$600,000 each year to fund seven additional position within the Market Assurance division. Four of the positions will specialize in investigating fraud that targets senior citizens. The other three positions will investigate fraud relating to housing and lending. The Governor proposes to pay for this initiative by increasing the cap on mutual fund securities filings from the current \$25 million per year cap to \$25.6 million.
- \$12 million in a one-time appropriation in FY 2008 to fund grants to service station owners to offset a portion of the cost of E85 pump installations. The grants are expected to leverage 1,500 new E85 pump installations by the end of calendar year 2010. The grants are projected to average \$8,000 per installation.
- \$342,000 in FY 2008 and \$691,000 in Fiscal Year 2009 is recommended for the Department's two percent compensation adjustment. The General Fund cost of this recommendation will be partially paid for with additional revenues from authorized cost recoveries totaling \$188,000 in FY 2008 and \$380,000 in FY 2009.

The Governor is recommending that the license fee for credit service organizations be increased from \$100 to \$1,000. The increase is estimated to raise \$10,000 per year in General Fund revenues.

The Governor is also recommending two major non-General Fund initiatives within the Department's Energy and Telecommunications Division.

- \$2.5 million each year of the FY 2008-09 biennium for renewable energy projects and community energy outreach and assistance grants.
- \$5 million each year of the FY 2008-09 biennium for grants to fund renewable energy research in Minnesota.

Both initiatives would be one-time for the FY 2008-09 Biennium only. To fund the initiatives, the Governor is recommending that \$7.5 million be transferred each year to the Commissioner of Commerce from Excel Energy's Renewable Development Fund established under Minnesota Statutes, section 116C.779.

Public Utilities Commission

The Governor is recommending \$10.515 million in General Fund appropriations for Public Utilities Commission in the FY 2008-09 biennium. The recommendation is \$2.189 million above the Commission's General Fund base, a 26 percent increase.

The net General Fund impact of the proposed increase is only \$6,000. The \$2.189 million increase in appropriations is offset with \$2.183 million in new General Fund revenues generated through the Commission's assessment authority on regulated industries.

- \$782,000 in FY 2008 and \$788,000 in Fiscal Year 2009 is recommended to continue funding for Reliability Administrator staff and research related to siting and routing of large energy facilities. Under current law, the Reliability Administrator authority would expire on June 30, 2007. The governor is recommending the authority be continued, and be changed from a special revenue to a General Fund appropriation. The net General Fund cost of this proposal is zero since the entire appropriation will be recovered through Commission assessments.
- \$189,000 in FY 2008 and \$191,000 in Fiscal Year 2009 is recommended to allow the Commission to hire two professional staff. The cost of this initiative will be fully recovered through assessments
- \$23,000 in each fiscal year is recommended to pay Minnesota's share of the cost of the National Regulatory Research Institute (NRRI). The Commission's assessment authority will recover the cost of this initiative.
- \$64,000 in FY 2008 and \$129,000 in Fiscal Year 2009 is recommended to provide the Commission with a two percent compensation adjustment. All but \$6,000 of these funds will be recovered through Commission assessments.

Fiscal Year 2010-11 Biennium Tails

The Governor's proposed budget would have General Fund appropriations for Energy Finance and Policy Division accounts equaling \$52.738 million in the FY 2010-11 biennium. This is an \$11.578 million reduction from the Governor's recommended FY 2008-09 biennium General Fund appropriations.

For additional information on Energy Finance issues, contact Ron Soderberg at 296-4162 or ron.soderberg@house.mn

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Environment and Natural Resources Finance

The Environment and Natural Resource budget provides funding for the management, protection and enhancement of the natural resources of the state. Agencies and programs funded include the Pollution Control Agency, the Department of Natural Resources, the Minnesota Conservation Corps, the Metropolitan Council Parks, the Board of Soil and Water Resources, and the recommendations of the Legislative Citizens Committee on Minnesota Resources. The Governor recommends general fund appropriations of \$345.6 million dollars for FY 2008-09.

Environment and Natural Resources Finance					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
	November Forecast FY 06-07	Forecast Base FY 08-09	Governor's Recs FY 08-09	Percentage Change Gov. FY 08- 09 vs. FY 06-07	Percentage Change Gov. vs. Base FY 2008-09
Pollution Control Agency	28,119	22,728	50,133	78%	121%
Natural Resources Dept	154,476	148,702	167,785	9%	13%
Natural Resources, Dept(OPENS)	66,594	75,242	75,242	13%	0%
Water & Soil Resources Bd	38,905	30,462	45,097	16%	48%
Metropolitan Council Parks	6,600	6,600	6,600	0%	0%
Minnesota Conservation Corps	700	700	700	0%	0%
Total	295,394	284,434	345,557	17%	21%

Pollution Control Agency (PCA)

The Governor recommends a total FY 2008-09 budget of \$325.3 million, of which \$50.1 million is general fund dollars for this agency. This is a recommended general fund increase of \$27.4 million dollars from the agency's current base. Changes recommended by the Governor to the agency budget include the following:

- An increase in each year of \$10.57 million of general fund to the Clean Water Legacy program is proposed for water protection activities.
- An annual increase of \$3 million in appropriations from the general fund in the biennium to support increased regulatory programs in ethanol, mining, power, and other industries. This is requested as a one time appropriation.

- The Governor requests compensation adjustments for the biennium from the general fund of \$265,000.
- An appropriation of \$3 million from the environmental fund for a change item named; "Green Fleets, Green Fuels, Green Energy". The funding is to promote the use of alternative fuels in vehicles, reduce air pollutant emissions and improve the efficiency of the state's transportation fleets. This is a one time request.
- An increase in the appropriation from the environmental fund for Air program activities of \$259,000 in FY 2008 and \$526,000 in FY 2009.
- An increase from the environmental fund of \$1.5 million dollars in each year for county SCORE grants. This increase restores funding to the FY 2002 levels.
- The request includes internal reprogramming of \$440,000 in the first year and \$370,000 in the second year from Land program activities to Water program activities.
- An increase of \$52,000 in each year from the remediation fund to be transferred to the Department of Health to be used for increased monitoring activities. The current amount transferred each year is \$200,000.

Department of Natural Resources (DNR)

The Governor recommends a total Department of Natural Resources budget of \$688.5 million, of which \$243.0 million is general fund dollars. This is a recommended general fund increase of \$19.1 million from the agency forecasted base. Highlights of the changes recommended by the Governor to the agency include the following items.

General Fund (and mixed fund)

- The Governor recommends funding of \$3 million for FY 2008 from the natural resources fund and \$2.9 million in FY 2009 from the general fund for management of state owned mineral resources.
- An increase of \$4 million from the general fund and \$14.7 million from the natural resources fund for DNR forest management activities. The increase in general fund is for additional technical support and cost share aid to non industrial private forest landowners. The natural resources fund increase is for increased and accelerated management activity on state forest lands.
- An increase of \$1.96 million from the general fund is for the sustainable forest resources act (M.S. 89A) management programs.
- The Governor requests \$55,000 per year to implement a statewide information campaign regarding the proposed statewide ban on the transport, storage or use of non approved firewood on state administered lands.
- The Governor recommends \$2.3 million over the biennium for acceleration programs to preserve and enhance prairie wetlands. \$575,000 each year is from the general fund and \$575,000 each year is from the game and fish fund.

- An appropriation of \$132,000 in each year from the general fund for programs to prevent the spread of disease from livestock to the wildlife population.
- An appropriation of \$3.26 million for Clean Water Legacy programs in DNR.
- A recommendation of \$1.716 million for surface and groundwater issues related to the development and expansion of ethanol production. This is a one time only request.
- The recommendation for compensation adjustment from the general fund is \$3.72 million for the biennium.

Other funds changes:

- From the natural resources fund is a recommendation for increased state park appropriations of \$1.25 million.
- The Governor requests \$700,000 in each year from the natural resources fund for an increase to the snowmobile grants in aid program.
- The Governor recommends the creation of a new invasive species account within the natural resources fund and an appropriation of \$3.235 million, and revenues of \$4.5 million for increased management and control of invasive species on public land and waters.
- Recommendations for improving the land records management process with an appropriation of \$701,000 in each year from the natural resources, and the game and fish funds.
- The Governor recommends increasing the percent of unrefunded gas tax transferred to the ATV account. The increased revenue of \$315,000 annually would be appropriated for ATV programs.
- An increase of \$2.384 million in the first year and \$4.851 million in the second year is requested for the "maintenance of service" item. This is a 3.5 percent appropriation increase from selected accounts within the natural resources, and the game and fish funds.
- \$139,000 is requested for increased appropriations from the game and fish fund to be used for upgrades at boat access facilities.
- The department is requesting that appropriations from seven dedicated account within the game and fish fund be changed from direct to statutory.
- The Governor requests in increase of \$300,000 in the biennium for expanded hunting and angling recruitment efforts.
- Establishment of a fee schedule for fishing contest permits is recommended. The increased revenue of \$108,000 per year would be appropriated for program costs.
- The Governor recommends an increase of \$100,000 a year from the game and fish fund for the roadsides habitat program.

- The Governor recommends that the forest land use account be changed to a statutory appropriation.

Board of Soil and Water Resources (BWSR)

The Governor recommends a total BWSR budget of \$48.473 million, of that amount \$45.097 million is from the General Fund. This is a recommended general fund increase of \$14.635 million from the agency base forecast. Included in the recommendation are five new general fund items.

- A recommendation of \$10.9 million for Clean Water Legacy Act appropriations.
- The Governor proposes funding the implementation of the priority recommendations of the Drainage Work Group at \$450,000 in the first year and \$800,000 in the second year.
- The Governor recommends \$1.120 million in the first year and \$1.060 million in the second year for improvements in the Wetland conservation Act implementation.
- \$100,000 is recommended to cover increased rent on the agency offices.
- \$205,000 is requested for compensation adjustments in the agency.

Minnesota Conservation Corps

The Governor recommends funding the MCC at the base level amount of \$1.68 million.

Metropolitan Council Parks

The Governor recommends funding at the base level of \$15.740 million, of which \$6.6 million is from the general fund

Legislative-Citizen Commission on Minnesota Resources (LCCMR)

The Governor does not make recommendations on the funding that is statutorily the responsibility of the LCCMR. The LCCMR will be presenting its recommendation on the funding to the legislature.

For additional information on Environment and Natural Resources Finance issues, contact Jim Reinholdz at 651.296.4281 or email: jim.reinholdz@house.mn.

Health Care and Human Services Finance

Governor Pawlenty's recommended level of spending for the Health Care and Human Services Finance committee totals just under \$9 billion from the general fund for the state fiscal 2008-2009 biennium. Additional spending from the Health Care Access Fund, federal TANF (temporary assistance to needy families) dollars, and other funds raises total spending to over \$10.7 billion.

The Governor's recommendations include changes in state policy to meet federal regulations, assistance to counties to help deal with cuts in federal aid, health care accessibility, performance measures, increased payment rates for long term care facilities, and increased access to mental health programs.

Key health care related measures include funding for electronic medical record keeping and the "Healthy Connections" initiative which would allow Minnesota residents without employer paid insurance to obtain plans with pre-tax dollars. The initiative also reduces premiums for persons under 21 years of age. The governor also recommends an additional \$44 million for the biennium to increase mental health care programs throughout the state.

Health Care and Human Services Finance					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
	November Forecast FY 06-07	Forecast Base FY 08-09	Governor's Recs FY 2008-09	Percentage Change Gov. FY 08-09 vs. FY 06-07	Percentage Change Gov. vs. Base FY 2008-09
Dept of Human Services	7,887,490	8,958,453	9,085,869	15%	1%
Dept. of Health	7,330	7,330	7,330	0%	0%
Total	7,894,820	8,965,783	9,093,199		

Department of Human Services

The Governor has three initiatives primarily dedicated to compliance with federal law. Those recommendations include:

- \$3.6 million for the biennium for MFIP (Minnesota Family Investment Plan) compliance. The Governor recommends changes to work programs and client employment plans to meet federal maintenance-of-effort requirements. Without the changes, the state faces federal TANF dollar sanctions.

- \$2.4 million for background studies for foster care parents to meet standards of the Adam Walsh Child Protection Act.
- \$91,000 for Immigration Status Validation. Currently, the state verifies immigration status when a person enrolls in public assistance. This new funding would provide dollars to verify immigration status for public assistance clients on an annual basis, as required by federal law.

Health Care related initiatives include:

- \$16.3 million from the health care access fund for the "Healthy Connections" initiative. The proposal seeks to expand health care coverage of citizens by providing dollars for a Minnesota Health Insurance Exchange, where persons without employer paid coverage can purchase health care with pretax dollars. The program would also expand eligibility for people under 21 years of age by increasing allowable poverty levels and reducing premiums.

The request would also create a Minnesota Care II option allowing the enrollee to select from private market options with 50cent lower premiums for children. Families that select the Minnesota Care II option would be allowed to switch back to "Minnesota Care Classic" during annual renewal.

- \$1.9 million for Q-care: Pay for Performance initiatives. The program would provide payment incentives for optimal care practices of Minnesota Health Plan enrollees with chronic conditions including diabetes and certain cardiac problems.
- \$10.3 million for continuing critical access dental coverage for MA recipients. The cost would be paid for with a transfer of Health Care Access Fund dollars.

The Governor proposed three initiatives for long term care and assisted living programs:

- \$91 million for the general fund for Medical Assistance payment rate increases for long term care providers. Continuing care facilities for the elderly and disabled would receive increases of 2 percent annually for the biennium. Nursing facilities would receive 1.5 percent annually with the possibility of an additional .5 percent annually based on performance.
- The Governor recommends tightening use of Elderly Waiver funds for assisted living. The proposal would require individual care plans to assess the clients personal need for supervision and as opposed to funding 24 hour care for all persons served. The proposal would cost \$53,000 in FY 2008, but would then provide a savings of \$181,000 per year starting in 2009.

- \$3.2 million for Home and Community Based Service Provider Standards. This proposal would implement similar standards for home and community based services as are required in long term care facilities. The increased funding would fund several FTE's at the department to monitor providers, conduct additional background checks for provider applicants, and fund payment rate increases to help service providers meet the new standards.

Governor Pawlenty also included a recommendation for increased funding and changes in delivery of mental health care through state health care programs. The proposal stems from recommendations made by the Minnesota Mental Health Action group, a public/private action group dedicated to mental health interests. This initiative includes:

- \$45 million to improve accessibility and quality of public mental health care. The recommendations include adopting a set of mental health benefits that are consistent across all Minnesota public health care plans. The plans should also provide for both inpatient and out patient services.

The proposal would also fund rate increases to providers that were not included in previous rate adjustments. The rate increases would provide additional funding for certain providers of adult and children's mental health care.

Funding is included for departmental costs associated with monitoring mental health providers, collecting data on patient outcomes, and reducing county share for inpatient treatment.

\$20 million of the funding for the biennium is target at improved child mental health. This would include school based mental health programs and children's mental health collaboratives.

Governor Pawlenty also included several additional requests including the following:

- \$1.5 million for increased support for deaf-blind programs.
- \$1.1 million for increasing the HIV/AIDS insurance program.
- \$30 for expanding the Nursing Home Report Card program.
- \$72 million in TANF refinancing. The measure would shift allowable expenses to the TANF fund for programs currently funded by the state general fund. This would free up general fund dollars to be used elsewhere in the state budget.
- \$40 million in one time spending to help counties deal with federal budget cuts in case management funding.

Department of Health

Under the current committee structure in the House, only the program area of Policy Quality and Compliance within the Department of Health is included in the Health Care and Human Services Committee budget. This program area is responsible for promoting quality health care and monitoring providers for compliance with state and federal regulations. The Governor's recommendations in this area include:

- \$18.5 million for E-health Grants. These grants would support the increased electronic record keeping of health records in rural areas. The grants may be used for technology or planning.
- \$16 million for MERC federal compliance. The Governor suggests dollars from the health care access fund be used to offset losses to the Medical Education and Research Costs fund due to changes in federal regulations. The funding will be eligible for up to \$5 million in federal match.
- \$30 million for the Department of Health's portion of the Healthy Connections initiative. The proposal seeks to expand health care coverage of citizens by providing dollars for a Minnesota Health Insurance Exchange where persons without employer paid coverage can purchase health care with pretax dollars. The program would also expand eligibility for people under 21 years of age by increasing allowable poverty levels and reducing premiums.
- \$600,000 to fund a health care access study each biennium to gather data about Minnesota's citizen access to health care.
- Several small fee changes for Housing with Services fees, Mortuary Science license fees, Occupational Therapy license fees, and Hearing Instrument Dispenser licenses fees.

For further information on Health Care and Human Services Finance issues contact John Walz, House Fiscal Analysis Department 651-296-8236 or john.walz@house.mn

Higher Education & Workforce Development

The Higher Education and Workforce Development Committee has budget jurisdiction for 14 state departments, agencies and boards. The committee has all the accounts of previous higher education committees plus a variety of accounts dealing with jobs, workforce training, economic development and professional licensure.

The Governor recommends total FY 2008-09 General Fund appropriations for the Higher Education & Workforce Development Committee of \$3.344 billion. This is an increase of \$440 million (15.1 percent) from FY 2006-07 expenditures and \$431 million (14.8 percent) from the FY 2008-09 adjusted base. The following table summarizes the Governor's General Fund recommendations for each of the committee's accounts:

Higher Education & Workforce Development <i>(all dollars in thousands)</i>					
	November Forecast FY 06-07	Forecast Base FY 08-09	Governor's Recs FY 08-09	Percent Change Gov. FY 08-09 vs. FY 06-07	Percent Change Gov. vs. Base FY 08-09
Office of Higher Education	346,186	354,362	491,797	42.1	38.8
MN State Colleges and Universities	1,202,888	1,204,388	1,327,388	10.4	10.2
University of Minnesota	1,210,770	1,261,680	1,415,080	16.9	12.2
Mayo Foundation	2,753	2,090	2,452	-10.9	17.3
Accountancy Board	1,122	974	992	-11.6	1.8
Architecture/Engineering Board	1,832	1,570	1,600	-12.7	1.9
Barber/Cosmetologist Examiner Board	1,699	1,398	1,835	8.0	31.3
Boxing Commission	50	0	50	na	na
Employment & Econ. Development	125,072	75,346	95,859	-23.4	27.2
Labor & Industry	7,337	6,868	1,818	-75.2	-73.5
Mediation Services Bureau	3,548	3,546	3,727	5.0	5.1
Region 3- Occupation Tax Higher Education Facilities Authority	1,132	1,132	1,132	0.0	0.0
Iron Range Resources	na				
Workers Comp Court of Appeals	na				
Total	2,904,389	2,913,354	3,343,730	15.1	14.8

notes:

- 1) U of M 2008-2009 numbers include stadium payments
- 2) U of M/ Mayo Foundation 2008-2009 base numbers include transfer of St Cloud Hospital Residency Program
- 3) HEFA, IRRRB & Workers Comp Court of Appeals receive no General Fund appropriations

Office of Higher Education (OHE)

The Governor recommends total FY 2008-09 General Fund appropriations for HESO of \$491.8 million. This is an increase of \$145.6 million (42 percent) from FY 2006-07 expenditures and \$137.4 million (38.8 percent) from the adjusted base. Specific recommendations, all for recurring changes, within this funding level include:

- Achieve Grants – \$92 million to start a new grant program that will pay students \$314 per course for each “rigorous” content course they take in high school. Courses that would be considered rigorous include Advanced Placement, International Baccalaureate, Post Secondary Enrollment Options or the College Level Examination Program (CLEP). To qualify, students would need to come from families with incomes of \$100,000 or less and funds earned could be used at public or private higher education institutions in Minnesota.
- Minnesota GI Bill Program - \$30 million to fund payments of up to \$1,000 per semester (\$2,000 per fiscal year) to military veterans (or the spouses and children of Minnesota Veterans who were severely disabled or killed as a result of service) to assist with post secondary costs as defined in statute. This is “last dollar in” which means the benefit covers eligible costs remaining after other forms of aid (federal veterans benefits, PELL Grants, State Grants) and there is a lifetime maximum of \$10,000 per individual.
- State Grants – Increases of \$5.598 million (3.8%) in FY 2008 and \$6.568 million (4.5%) in FY 2009. Total appropriations would be \$151.5 in FY 2008 and \$152.5 in FY 2009. Within this spending level the Governor funds several changes to the program. The tuition maximums would be increased by \$400 to \$9,838 for four year programs and \$6,836 for two year programs. In addition, the Governor would set the Living and Miscellaneous Expense (LME) portion of the formula at \$5,550. This is \$200 more than the LME figure in statute for FY 2007 but \$475 lower than the actual amount of the LME in the current academic year. The 2005 legislature authorized OHE to temporarily increase the LME if there were surplus funds in the program for the second year of the FY2006-2007 biennium. There was a surplus and The Office raised the LME figure to \$6,035 for the current academic year. Finally, the Governor reduces the rate at which students assets are “taxed” as part of the federal needs analysis when calculating State Grants. This change would offset the Assigned Family Responsibility to 95% for dependent students, 67% for independent students with dependents other than a spouse and 85% for other independent students.
- Work Study – The Governor recommends funding of \$24.9 million for the biennium. This is the current law base.
- Interstate Tuition Reciprocity – The Governor recommends a \$2 million increase for a total of \$4 million for the biennium for this program. The new funds are for a projected increase in the cost of the North Dakota agreement.
- Learning Network of Minnesota – The Governor recommends an increase in funding of \$1.15 million (13.6%) for a total of \$9.6 million for the biennium. The new funding is

for personnel, hardware, software and expansion of service levels through the network including a switch from Asynchronous Transfer Mode to Multi Protocol Label Switching mandated by the Office of Enterprise Technology.

- Outreach Programs – The Governor recommends funding of \$6.84 million for the FY 2008-2009 biennium for the Gear Up/Get Ready and other college planning outreach programs. This is the current law base.
- Mn College Savings Program – The Governor recommends funding of \$2.04 million for administration and matching grants in the FY 2008-2009 biennium. This is the current law base.
- MINITEX and MnLINK – The Governor recommends level funding of \$9.6 million for FY2008-2009 for MINITEX and \$800,000 for the MnLINK library systems. These are the current law base amounts.
- Compensation Adjustment – The Governor recommends \$119,000 be added to the agency base to cover compensation increases for the FY 2008-2009 biennium.

In addition, the Governor proposes that the statutes regulating private and out of state public post secondary education be amended to re-align schools into degree granting (in Chapter 136A.61) and non-degree granting (in Chapter 141). Registration programs are supported by fees paid by the institutions registering. OHE anticipates this re-alignment will reduce fee revenue by \$10,000 per year.

Minnesota State Colleges and Universities

The Governor recommends total FY 2008-09 General Fund appropriations for the Minnesota State Colleges and Universities of \$1.327 billion. This is an increase of \$124.5 million (10.4 percent) from FY 2006-07 appropriations and an increase of \$123 million (10.2 percent) from the adjusted base. Specific recommendations within this funding level include:

- \$17 million in FY 2008 and \$21 million in FY 2009 for Strategic Advancements. Within these funds, \$12 million for the biennium is for the Access, Opportunity and Success portion of the system request. Funding is for MnSCU campuses to develop or expand outreach, recruitment and retention programs for traditionally underrepresented groups of students. Other funds in the Strategic Advancement initiative include \$10 million to increase enrollments, promote career opportunities and increase the number of teaching graduates in science, technology, engineering and mathematics (STEM) programs. Also, \$3 million would fund a new Bioscience Center of Excellence. In addition, \$3 million is for curriculum development in allied health fields to help expand enrollment in these programs. Finally, \$10 million in Strategic Advancement funds support the MnSCU systems Management Innovation initiative.
- \$60 million (\$45 million one time and \$15 million recurring) for Technology Infrastructure. These initiative funds MnSCU's highest priority technology projects including expansion of on-line opportunities and systems modernization.

- \$25 million for Performance. This one-time funding initiative is an attempt to introduce performance funding to the MnSCU budget by paying the system \$25 million for achieving any 3 of 5 performance goals. Listed goals are 1) increase the number of students who take STEM courses by 5%; 2) increase enrollment in upper division Center of Excellence programs by 5% each year; 3) increase the number of students trained on the use of electronic medical record technology by 1,400; 4) increase the number of students taking on-line courses or increase on-line course offerings by 10%; 5) Expand by 10% the reach/utilization of “awards of excellence” or other initiatives that reward advances in excellence and efficiency.

University of Minnesota

The Governor recommends total FY 2008-09 General Fund appropriations for the University of Minnesota of \$1.415 billion. This includes \$20.5 million in support of bonds for a new on-campus football stadium and represents an increase of \$204.3 million (16.9 percent) from FY 2006-07 appropriations and \$153.4 million (12.2 percent) from the adjusted base. The University’s base also reflects the transfer in of the St Cloud Hospital residency program from the Mayo Foundation. Specific recommendations within this funding level include:

- \$28.5 million for Competitive Compensation. This initiative provides funding to address competitive market pressures for faculty and researchers
- \$27.9 million Health Workforce and Clinical Sciences. This initiative is to expand enrollment in allied health programs, increase the number of nurses, and change and improve health education across the state.
- \$15.6 million for Science and Engineering. This initiative will fund a new resource center for medical device development, translational research in neuroscience, development of applications in nanotechnology and creates a cross-disciplinary research institute in science and engineering.
- \$11.5 million for Environment, Ag Systems and Renewable Energy. This initiative provides funding for research on the environment, renewable energy and agriculture. It also provides additional funding to the Veterinary Diagnostic Laboratory.
- \$6.9 million for Technology and Related Infrastructure. This initiative provides funding for high performance computer networks and national research connectivity.
- \$25 million for Performance. This one-time funding initiative is an attempt to introduce performance funding to the University’s budget by paying the system \$25 million for achieving any 3 of 5 performance goals. Listed goals are 1) increase national faculty awards in arts, humanities, science, engineering and health by 5%; 2) maintain or improve rank in national share of NIH funding; 3) increase number of post doctoral appointees by 5%; 4) increase support from key funders of renewable energy; 5) increase by 5 the number of “high value licenses” to a Minnesota based commercial partner or the number of “venture-quality start-up companies” in Minnesota that are identified and developed by the university’s Office of Technology Commercialization.
- \$38 million for the Minnesota Partnership for Biotechnology and Medical Genomics. This is a research partnership between the University and the Mayo Foundation. The

Governor counts this one-time appropriation as the final payment of a \$70 million research plan. The partnership received \$30 million in the FY2006-2007 biennium and \$2 million in the FY2004-2005 biennium.

The Governor proposes current law base funding of \$44.5 million from cigarette tax revenue through the Miscellaneous Special Revenue Fund to the Academic Health Center. The Governor also proposes current law base funding of \$4.3 million in Health Care Access fund appropriations for primary care physician training.

Mayo Foundation

The Governor recommends FY 2008-09 General Fund appropriations of \$2.5 million. This represents an increase of \$362,000 (17.3%) over the adjusted base. A significant base adjustment was the transfer of \$692,000 for the St Cloud Hospital residency program from Mayo to the University of Minnesota. New appropriations at Mayo will restore funding for capitation grants and residency stipends to its FY 2004-2005 funding levels. In addition, the Governor recommends \$38 million in funding for the U of M/Mayo Partnership for Biotechnology and Medical Genomics. See the U of M section for details.

Board of Accountancy

The Governor recommends FY 2008-09 General Fund appropriations of \$992,000. This is an increase of \$18,000 (1.8%) over the current law base for compensation increases.

Board of Architecture and Engineering

The Governor recommends FY 2008-09 General Fund appropriations of \$1.6 million. This is an increase of \$30,000 (1.9%) over the current law base for compensation increases.

Board of Barber/Cosmetologist Examiners

The Governor recommends FY 2008-09 General Fund appropriations of \$1.835 million. This is an increase of \$437,000 (31.3%) over the current law base for compensation increases and additional Cosmetology positions.

Minnesota Boxing Commission

The Governor recommends FY 2008-09 General Fund appropriations of \$50,000. This is one-time, transitional funding. The Commission was created in the 2006 legislative session and given a one-time General Fund appropriation of \$50,000. The Commission was intended to be self-sustaining after FY 2007 but has only generated \$4,000 in receipts from matches in its first year.

Department of Employment and Economic Development

The Governor recommends FY 2008-09 General Fund appropriations of \$95.859 million. This is an increase of \$20.513 million (27.2%) over the current law base but a decrease of \$24.225 million (-20.2%) from FY 2006-2007 appropriations. General Fund initiatives proposed by the Governor include:

- \$1 million for BioBusiness Alliance. This one-time appropriation would fund an update of a previous bioindustry assessment including workforce gap analysis in partnership with DEED and MnSCU. It would also fund the start-up, move or expansion in Minnesota of two companies. In addition, funding is to complete the development plan for the statewide bioscience community.
- \$250,000 for University Enterprise Laboratories. This on-time appropriation will assist UEL, a non-profit business incubator, in efforts to assist early stage bioscience companies.
- \$7 million for the Minnesota Investment Fund. This one-time appropriation will be used to provide grants to economic development projects throughout the state.
- \$2 million for Redevelopment Grants. This one-time appropriation would fund a statewide program to redevelop previously used, underdeveloped sites.
- \$200,000 for Small Community Technical Assistance. This recurring appropriation through the Public Facilities Authority is to provide grants to small unsewered communities to provide technical assistance.
- \$1 million for the Urban Initiative Program. This one-time appropriation would be used to expand the small business loan program to support growing minority business demand and to expand service areas.
- \$1 million for Extended Employment Basic Program. This on-going appropriation replaces one-time funding from the Workforce Development Fund and will continue the present level of employment support services for individuals with severe disabilities who are currently employed.
- \$800,000 for Extended Employment Mental Illness. This on-going appropriation replaces one-time funding from the Workforce Development Fund and will continue the present level of employment support services for individuals with serious mental illness who are seeking employment or are currently employed.
- \$2 million for the State Services for the Blind Communication Center. This on-going appropriation for operational costs of the SSB Communication Center to provide access to the printed word by blind, visually impaired and print handicapped Minnesotans. \$100,000 of this appropriation is to satisfy the state match for federal funding.
- \$3 million for Vocational Rehabilitation State Match. This on-going appropriation is the state match for federal Rehabilitation Service funding for employment programs for Minnesotans with disabilities. These funds will be matched with \$13 million in federal funds.
- \$1 million for Minnesota Youth Career Guides. This on-going appropriation is to extend and expand a successful pilot program the Career Guide initiative. Post secondary students majoring in counseling, or related fields, are trained as career guides and place in local educational agencies. These individuals will bring career exploration to 200,000 youth per year; the program also includes a training component.

- \$192,000 for Unemployment Fund Reimbursements. This one-time appropriation is to reimburse the Unemployment Insurance Trust Fund for some delinquent obligations.
- \$300,000 for Local Labor Market Information. This on-going appropriation is to replace federal funding that has previously paid for state labor market analysis.
- \$200,000 for Positively Minnesota Marketing. This one-time appropriation will be matched by public and private funds to market Minnesota for new business development.
- \$571,000 is for agency compensation adjustments.

The Governor also recommends dedication of the contamination tax to fund the Contamination Cleanup Grant Program. This would remove \$312,000 in revenue from the General Fund and dedicate the same amount in the Special Revenue Fund,

Department of Labor and Industry

The Governor recommends FY 2008-09 General Fund appropriations of \$1.818 million. This is a decrease of \$5.05 million (-73.5%) over the current law base. General Fund changes result from three Governor's initiatives. The Construction Code Consolidation initiative continues a program of consolidating construction code licensing, adjusting fees and removing the activities from the General Fund and putting it in the Construction Codes Fund in the Special Revenue fund. This activity removes \$5.6 million in expenditures from the General Fund as well as \$9.264 million in revenue reductions. Other General Fund change recommendations made by the Governor include \$151,000 for increased compensation and \$400,000 for Enhanced Labor Law Regulation.

The Governor also recommends two non General Fund change items. \$920,000 from the Workers Compensation Fund is for the Minnesota Occupational Safety and Health Administration. This funding initiative, matched by federal funds is for increased staffing to meet federal benchmark levels. In addition, the Governor recommends an additional \$380,000 from the Workers Compensation Fund for the Workers Compensation System Interface which will enhance the Department's ability to capture data from and present data too injured workers, employers, insurers and others.

Bureau of Mediation Services

The Governor recommends FY 2008-09 General Fund appropriations of \$3.727 million. This is an increase of \$181,000 (5.1%) over the current law base. Additional funds are for compensation increases and increases to grants for Area Labor Management Councils under the Labor Management Cooperation Grant Program. In addition, the Governor recommends increasing the arbitrator filing fee to \$100 per year. This change is expected to generate \$8,000 in new General Fund revenue.

Higher Education Facilities Authority

This agency receives no General Fund appropriations. The Governor recommends FY 2008-09 statutory base level appropriations of \$521,000 from the Miscellaneous Agency Fund.

Iron Range Resources

The Governor recommends for FY 2008-09 that \$86.731 be appropriated for the agency from the Iron Range Resources and Rehabilitation Fund, the Giants Ridge Golf and Ski Resort Fund, and the Northeast Minnesota Economic Protection Fund. These are all statutory base level appropriations.

Workers Comp Court of Appeals

This court receives no General Fund appropriation. The Governor recommends FY2008-2009 appropriations of \$3.373 million from the Workers Compensation Special Fund. This is an increase of \$137,000 (4.2%) for compensation increases.

If you have any further questions on higher education and workforce development related issues, please contact Doug Berg at 296-5346 or doug.berg@house.mn.

Housing & Public Health

The Housing Policy and Finance and Public Health Finance budget provides funding for a number of agencies. The committee covers all of the Minnesota Housing Finance Agency (MFHA), the majority of the Minnesota Department of Health (MDH), and one program from the Department of Human Services (DHS). It also covers a number of boards, including: Veteran's Home Board, Disability Council, Ombudsman for Mental Health and Developmental Disabilities, Ombudsperson for Families, Emergency Medical Services Board, Veterinary Medicine Board, Behavioral Health & Therapy Board, Chiropractors Board, Dentistry Board, Dietetics & Nutrition Practice, Marriage & Family Therapy Board, Medical Practice Board, Nursing Home Administrators Board, Nursing Board, Optometry Board, Pharmacy Board, Physical Therapy Board, Podiatry Board, Psychology Board, and Social Work Board.

The Governor recommends General Fund appropriations of \$408.7 million dollars for FY 2008-09 for the accounts listed in this committee.

Housing and Public Health Finance Governor's FY 2008-09 General Fund Recommendations <i>(all dollars in thousands)</i>					
Agency / Program	Forecast FY 2006-07	Base FY 2008-09	Gov's Recs FY 2008-09	% Change Gov. 08- 09 vs. FY 06-07	% Change Gov. vs. Base FY 08-09
Housing Finance Agency	70,470	78,876	114,376	62.3%	45.0%
DHS - Children and Economic Assistance Grants	32,014	31,566	35,486	10.8%	12.4%
Department of Health	129,671	130,916	156,676	20.8%	19.7%
Veterans Home Board	66,298	75,530	90,368	36.3%	19.6%
Disability Council	1,018	0	1,022	0.4%	
MH Ombudsman	2,974	2,924	3,188	7.2%	9.0%
Ombudsperson for Families	551	490	508	-7.8%	3.7%
EMS Board	6,623	6,762	7,093	7.1%	4.9%
Total Expenditures:	309,619	327,064	408,717	32.0%	25.0%

Housing Finance Agency

The Governor recommends a total budget of \$525.5 million, of which \$114.4 million is General Fund spending. This is an increase of \$35.5 million over the agency's current FY 2008-09 base.

The agency's financing comes from bond sales (this makes up the majority of financing), federal funds, agency resources, and state aid. MHFA funds housing in the following program areas: Development & Redevelopment; Homeownership Loans; Homeless Prevention & Supportive Housing; Preservation of Existing Housing; and Resident & Organization Support. Changes recommended by the Governor to these programs include the following:

- *Development & Redevelopment*

There is only one recommended change in this activity, but it is substantial. The Governor recommends the implementation of an Economic Development and Housing Challenge program to encourage the development of affordable housing in Minnesota. There is a one-time appropriation in FY 2008 of \$15 million, which would bring General Fund spending to \$25.9 million. After that, the funding amount returns to the FY 2008-09 base level of \$10.9 million per year.

- *Homeownership Loans*

This activity is supported mostly through bond proceeds, and will receive \$1.8 million in General Fund money for FY 2008-09. The Governor made no recommended change.

- *Homeless Prevention and Supportive Housing*

The goal of ending long-term homelessness is carried out through the following supportive housing activities: the Housing Trust Fund Program, the Bridges Program, and the Family Homeless Prevention and Assistance Program. The Governor has recommended the initiative, Preventing and Ending Long-Term Homelessness, which would provide an additional \$15 million for FY 2008-09. The proposal provides \$10 million in 2008 and \$5 million for each subsequent year. In 2008, the \$10 million is appropriated as follows:

Housing Trust Fund: \$250,000 annual base increase plus \$5 million one-time

Bridges: \$1 million annual base increase

Family Homeless Prevention: \$3.75 million annual base increase

The total appropriation for this budget activity is \$46.4 million over the biennium, with \$42.3 million coming from the General Fund.

- *Preservation of Existing Housing*

The Governor's budget recommends two change items to impact the goal of preserving existing housing stock in Minnesota. The first is a Public Housing Preservation initiative that would put a one-time amount of \$2.5 million toward the program. The second is Rehabilitation Loans, an initiative which strives to restore the base spending to FY 2002 levels and provide more funding above the base. This appropriation is \$1.7 in 2008 and \$315,000 for each year following. The total General Fund spending for FY 2008-09 is \$30.4 million.

- *Resident & Organization Support*

The programs funded in this activity include homebuyer education and foreclosure prevention; regional planning and coordinating activities; and nonprofit operating costs. The Governor recommends an increase in spending in these areas through the Enhancing the Existing Housing Services Infrastructure change item. This would increase two specific programs by \$815,000 in 2008 and \$185,000 each additional year. The programs affected include:

Capacity Building Grant: \$90,000 annual base increase to restore prior cuts
HECAT: \$95,000 annual base increase plus \$630,000 one-time

The General Fund recommendation for the entire program is \$3 million out of a total spending amount of \$5.6 million for FY 2008-09.

Department of Human Services - Children and Economic Assistance Grants

- Refugee Services Grants are supported entirely by federal funds. The Governor has made no change to the base FY 2008-09 budget of \$34.6 million.
- In the activity Other Child and Economic Assistance Grants, the Governor has recommended one change. The initiative is a Long-Term Homeless Implementation, which provides support for the next step in the state's business plan to End Long-Term Homelessness. The annual expenditure from the General Fund is \$2 million, with an offset of an administrative FFP amount of \$40,000 per year. The net impact is \$1.96 million annually. The Governor recommends an appropriation of \$35.4 million for the activity over FY 2008-09.

Department of Health

This committee has control over appropriations for the entire Minnesota Department of Health (MDH) except for the Policy Quality Compliance program, which is in the committee on Health Care and Human Services. The following recommendations were made for the agency's other main programs:

- *Community & Family Health*

The Governor recommends an appropriation of \$87.9 million for this program in the 2008-09 biennium. This is an increase in spending of approximately \$1.8 million, which is done through the following new initiatives:

Home Visiting: Federal TANF funds applied through grants to local public health and tribal governments for the provision of family home visiting services. The Governor recommends \$2.5 million in 2008 and \$5.5 million each year after.

MN ENABL: This program is Minnesota Education Now and Babies Later, which is an abstinence education program that exists in the current base budget. The Governor recommends replacing federal abstinence funds with federal TANF

funds at an amount of \$500,000 each year for the program. The program is also funded from the General Fund and State Government Special Revenue Fund.

Fetal Alcohol Spectrum Disorders: This program is currently funded through a grant from the MN Organization on Fetal Alcohol Syndrome. The Governor recommends increasing the amount by appropriating an additional \$900,000 in General Fund money each year. This would increase the funding by 76%, bringing it up to just over \$2 million per year.

Loan Forgiveness Increase/Consolidation: This change is made to maintain service levels and simplify administration for the loan forgiveness program. The Governor recommends an appropriation from the Health Care Access Fund of \$760,000 in FY 2008 and \$930,000 each year following. The impact on the General Fund will be an annual savings of \$155,000.

- *Health Protection*

The Governor recommends an appropriation of \$40.5 million for this program in FY 2008-09. This is an increase of \$22.6 million over the base level. The increase in spending is shown in the following change items:

State Well Program Maintenance: The Governor recommends an increase in well management fees in order to generate \$600,000 in additional revenue per year to maintain service levels in the Well Management Program. There is no impact on the General Fund.

Tuberculosis Prevention: The recommended appropriation of \$652,000 in FY 2008 and \$655,000 each subsequent year would provide funding for tuberculosis testing, treatment, and case management in order to stop the spread of the disease.

Public Health Laboratory Operations: This program covers the unanticipated costs associated with lease rates and operation of the agency's new laboratory building. The Governor recommends spending \$1.048 million in FY 2008 and \$1.177 million each year following. This will be an increase of nearly \$1 million in the biennium for lab services which were previously allocated \$134,000.

Newborn Screening: The fee for screening would increase by \$20 to a cost of \$81 per newborn in order to offset the Governor's spending recommendation of \$1.9 million in FY 2008 and \$2.4 million in each subsequent year from the State Government Special Revenue Fund. There is no impact on the General Fund.

Specimen Handling Fee Increase: The Governor recommends a State Government Special Revenue Fund appropriation of \$51,000 each year to address the increasing costs of handling lab specimens. This expenditure would be offset by a \$10 increase in the lab specimen handling fee, bringing the fee up to \$25.

Pandemic Influenza Preparedness: There was a one-time appropriation made by the 2006 legislature to address the issue of a pandemic flu, and the Governor recommends appropriating more General Funds to continue the program. The appropriation is \$12.4 million in FY 2008, \$7.4 million in FY 2009, and \$4.4 million each additional year.

- *Minority & Multicultural Health*

The Governor recommends an appropriation of \$10 million for this program in FY 2008-09, which is a slight increase over the base level. The increase is due to a compensation adjustment of \$30,000 for the biennium.

- *Administrative Support Service*

The Governor recommends an appropriation of \$18.2 million for this program in FY 2008-09. This is an increase over the base level, once again due to compensation adjustments for the agency.

- *Other Change Items*

The Governor recommends spending an additional \$2 million per year out of the Health Care Access Fund in order to develop an integrated state-wide disease surveillance system. The new program is called Disease Surveillance Modernization, and it would have no impact on the General Fund.

Veterans Home Board

The recommendation for FY 2008-09 is to appropriate \$90.4 million in General Fund money to this program. This is a recommended General Fund increase of \$14.8 million from the agency's forecasted base. The changes recommended by the Governor include a Repair & Betterments initiative, which appropriates \$4 million in General Fund money in FY 2008 and FY 2009, and \$2 million for each subsequent year to improve facilities all over the state. The Governor also recommends maintaining current service levels by appropriating \$544,000 in FY 2008 and \$790,000 each year following. And finally, a compensation adjustment increasing compensation related costs by 3.25% annually. This is a recommended General Fund expenditure of \$1.8 million in FY 2008 and \$3.7 million each year after that.

Ombudsman for Mental Health and Developmental Disabilities

The Governor recommends the following changes to bring the agency's FY 2008-09 appropriations to \$3.2 million. The agency is funded entirely through the State General Fund.

- *Maintain Current Services & FY 2007 Deficiency*

The Governor recommends a deficiency appropriation of \$66,000 for FY 2007, due to unanticipated costs. In order to maintain service levels, the appropriation for FY 2008 is \$106,000 and \$79,000 per year after that.

- *Completion of New Case Tracking Software*

This recommendation is made in order to fund part of the Small Agency Technology initiative covered by the Office of Enterprise Technology (OET). The current appropriation is \$0, and in order to receive funding the agency will work with OET to reach an agreement to transfer funds. There will be no impact on the General Fund.

- *Compensation Adjustment*

The Governor recommends General Fund appropriations of \$26,000 in FY 2008, and \$53,000 each year following in order to increase compensation by 2% annually.

Ombudsperson for Families

The Governor recommends a total budget of \$508,000 from General Funds. This is an increase of \$18,000 over the base level, due to the Governor's compensation adjustment recommendation. He recommends an increase of \$6,000 in FY 2008, and \$12,000 each additional year.

Disability Council

The amount appropriated to this agency from the General Fund for FY 2006-07 was \$1.018 million. The program was slated to sunset, but the Governor recommends continuing the Council with a General Fund appropriation of \$500,000 each year. There is also a compensation adjustment recommended of \$7,000 in FY 2008 and \$15,000 each subsequent year. This brings the Governor's total recommendation for the biennium to \$1.022 million.

Emergency Medical Services Board

The Governor recommends a total EMS budget of \$11.9 million dollars, of which \$7.1 million is General Fund money. This is a slight increase over the General Fund base budget for FY 08-09. The Governor made the following recommended changes to the board:

- *State EMS Medical Director*

This appropriation of \$50,000 in General Fund money each year would allow the board to hire a part-time physician medical director.

- *Emergency Preparedness Coordinator*

This increase would result in a new full-time Emergency Preparedness Coordinator, at a General Fund cost of \$75,000 per year.

- *HPSP Case Manager*

The State Government Special Revenue Fund appropriation of \$75,000 is for a full-time case manager. This would not impact the General Fund.

- *EMS Compensation Adjustment*

The Governor recommends an appropriation of \$27,000 in FY 2008 and \$54,000 in following years to raise compensation funded by the General Fund by 2% annually.

- *HPSP Compensation Adjustment*

This increase in spending through the State Government Special Revenue Fund represents an increase in compensation of 2% annually. The appropriation is \$16,000 in FY 2008 and \$33,000 each year after that.

Health-Related Boards

There are 15 health-related boards the committee will oversee through the 2007 legislative session. These boards receive funding through the State Government Special Revenue Fund. The Governor recommends spending a total of \$29.2 million in the next biennium. This is a slight increase over the base budget for FY 08-09. The majority of change items in the recommendation are due to changes in the operating budgets, compensation adjustments, and retirement payouts. The chart below highlights the recommended funding amounts:

Health-Related Boards					
Governor's FY 2008-09 State Govt. Special Revenue Fund Recommendations					
(all dollars in thousands)					
Board	Forecast FY 2006-07	Base FY 2008-09	Gov's Recs FY 2008-09	% Change Gov. vs. FY 06-07	% Change Gov. vs. Base FY 08-09
Behavioral Health & Therapy	1,346	1,346	788	-41.5%	-41.5%
Chiropractors	838	838	897	7.0%	7.0%
Dentistry	1,993	1,910	1,996	0.2%	4.5%
Dietetics & Nutrition	202	202	222	9.9%	9.9%
Marriage & Family Therapy	258	262	288	11.6%	9.9%
Medical Practice	8,498	8,538	7,794	-8.3%	-8.7%
Nursing Home Admin	1,285	1,238	1,280	-0.4%	3.4%
Nursing	6,709	7,262	8,131	21.2%	12.0%
Optometry	192	192	212	10.4%	10.4%
Pharmacy	2,733	2,688	2,817	3.1%	4.8%
Physical Therapy	417	414	601	44.1%	45.2%
Podiatry	102	106	117	14.7%	10.4%
Psychology	1,360	1,360	1,594	17.2%	17.2%
Social Work	1,951	1,946	2,019	3.5%	3.8%
Veterinary Medicine	342	342	425	24.3%	24.3%
Total Expenditures:	28,226	28,644	29,181	3.4%	1.9%

For additional information on Housing and Public Health Finance issues, contact Emily Adriaens at 651.296.7171 or email: emily.adriaens@house.mn

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K-12 Education Finance

For the FY 2008-09 biennium, the Governor recommends \$13.5 billion in general fund state aid for K-12 education. This compares with the November forecast of current law FY 2008-09 spending of \$12.8 billion, for a total increase of \$723.7 million, or 5.7 percent over current law. For the FY 2010-11 biennium, the Governor's budget recommendations include total state appropriations of \$13.5 billion, an increase of \$817.2 million from the November forecast appropriations, or 6.5 percent.

School district property tax levies in the Governor's budget recommendations would decrease from current law for each year from FY 2009 to FY 2011. Compared to current law, the Governor's budget recommendations would decrease property taxes for FY 2009 by \$43.1 million, or 2.2 percent, for FY 2010 by \$42.0 million, or 2.1 percent, and for FY 2011 by \$40.5 million, or 1.9 percent.

K-12 Education Finance					
Total General Fund Spending					
<i>(all dollars in thousands)</i>					
	November Forecast FY 2006-07	Forecast Base FY 2008- 09	Governor's Recs FY 2008-09	Percentage Change Gov. FY 2008- 09 vs. FY 2006-07	Percentage Change Gov. vs. Base FY 2008-09
Education Aids					
General Education	11,374,544	11,004,992	11,377,341	0.0%	3.4%
Education Excellence	258,543	283,379	556,305	115.2%	96.3%
Special Programs	1,322,858	1,290,691	1,327,434	0.3%	2.8%
Facilities & Technology	97,977	79,254	117,253	19.7%	47.9%
Nutrition	30,385	32,373	32,373	6.5%	0.0%
Libraries	23,753	23,146	23,831	0.3%	3.0%
Education Aids Subtotal	13,108,060	12,713,835	13,434,537	2.5%	5.7%
Department of Education					
MN State Academies	45,589	45,694	47,069	3.2%	3.0%
Center for Arts Education	21,934	21,932	23,031	5.0%	5.0%
	13,295	13,246	13,763	3.5%	3.9%
Total	13,188,878	12,794,707	13,518,400	2.5%	5.7%

The following summarizes the Governor's budget initiatives, with the cost expressed as a biennial total for FY 2008-09 from the general fund, unless otherwise noted:

General Education Program

- \$291.6 million in additional state spending to increase the basic formula amount by 2.0 percent per year. In FY 2008, the formula is increased by \$100, from \$4,974 to \$5,074. In FY 2009, the formula is increased by \$102, to \$5,176.
- \$5.7 million to link the formula allowance for the QComp Alternative Compensation program to the basic formula amount, so that increases in the basic formula amount will also increase the amount allocated for QComp. The current QComp formula amount is \$260, the new formula amount is calculated as 5.23 percent of the basic formula amount (\$266 for FY 2008 and \$272 for FY 2009).
- \$6.9 million in aid and \$2.1 million in levy authority to expand the cap on the QComp program. Currently, \$75.6 million is available for districts to participate in QComp. Once that cap is reached, additional districts will not be eligible for funding under the program. The Governor's proposal would increase the cap on funding for the program by 10 percent per year. Because of the growth factor aspect of the proposal, for FY 2010-11, the projected aid impact grows to \$39.3 million, and the projected levy impact increases to \$11.9 million.
- \$2.2 million to increase the Limited English Proficiency formula allowances by 2 percent per year.
- \$3.8 million to increase the Extended Time formula allowance by 2 percent per year.
- \$14.7 million to increase the limit on Extended Time revenue. Currently, districts with extended time programs may count pupils as up to 1.2 pupils in average daily membership, based on the amount of time spent in extended time programs. The Governor's proposal would increase the limit for extended time pupils to 1.5.
- \$200,000 in state aid and \$675,000 in local levy as part of a simplification of the Equity revenue program. The Equity revenue program change would create a statewide formula, as opposed to the current regional equity formulas, and would substitute factors based on the basic formula allowance in place of the 95th percentiles and the 10 percent of average referendum amount. Transition revenue is adjusted to make up for any lost revenue a district experiences due to these changes in Equity revenue.
- \$3.6 million to update the Transportation Sparsity funding formula factors. The factors were initially (in 1995) calculated based on the relationship between transportation costs per student and population density. The Department of Education has reevaluated the formulas based on more current data.
- For F 2009, \$40.1 million in aid cost and \$44.5 million in levy reduction from increasing the equalizing factor for the Operating Capital revenue program from \$10,700 to \$17,590

per pupil of adjusted net tax capacity. This change is property tax relief; it does not change the amount of revenue districts receive under the program, only the source.

Other General Education Programs

- \$1.5 million to increase other formula-based programs by 2 percent per year, including Nonpublic Pupil Transportation, Nonpublic Pupil revenue and Tribal Contract Schools.
- \$1.1 million in state aid cost and \$1.5 million in levy reduction due to the inclusion of more equalized levies in the calculation of abatement revenue. Currently, not all revenues are included in the calculation of abatement revenue, which is intended to make districts whole on an aid and levy revenue basis, for levy reductions tied to property tax abatements. Because not all revenues are included, the abatement revenue the district receives consists of a mix of aid and levy with a greater proportion in levy than what would have been the case if all equalized revenue programs were included in the calculation of abatement revenue.

Education Excellence

- \$9.0 million to supplement the current testing appropriation, and an additional \$5.9 million to provide districts with computer based tests to evaluate progress outside of the regular schedule of standardized tests.
- \$15.4 million to expand the number of schools able to offer Advanced Placement and International Baccalaureate programs.
- \$1.5 million to more than double the amount of money for the Collaborative Urban Educator Program, which is administered by Concordia University, the University of St. Thomas and Hamline University, in an attempt to recruit and train teachers of color.
- \$2.0 million to establish the Minnesota Reading Corps, aimed at improving reading skills for children between age three and third grade. This program will expand the opportunities provided under the current partnership between Youthworks and ServeMinnesota programs, which provide the same services.
- \$500,000 to expand the number of schools offering Mandarin Chinese instruction, or to support local districts with quality foreign language programs. This follows a 2005 Legislative appropriation of \$250,000 per year for FY 2006 and FY 2007 to develop the curriculum for Mandarin Chinese instruction.
- \$928,000 to increase participation in the Educational Planning and Assessment System (EPAS). EPAS provides planning and assessment services to students, helping them to evaluate and prepare for their post-secondary options.
- \$75.1 million to fund "3R High Schools." 3R schools will be allocated \$68 per student in FY 2008 and \$200 per student in FY 2009. The program would require that high schools provide college access programs, personal graduation plans, high quality teacher and

principal leadership and rigorous courses, as well as requiring that schools use data to improve their curriculum, instruction, school culture, organization and management. In addition, as part of this initiative, the Governor proposes that all high school students be required to take at least one year of post-secondary education, including college programs or career and technical courses.

- \$150.0 million on a one-time basis for grants to schools that achieve three or more star ratings in either math or reading. The money will be allocated on a per student basis, with \$75 million available per year to be divided among districts based on the number of students served in schools which achieve three star or better ratings. The range of funding is between \$90 and \$150 per pupil. If 75 percent of students qualify, the funding amount would be \$120 per pupil.
- \$6.0 million for math and science teacher academies, which would provide staff development for teachers during summer institutes and during the school year, as well as providing curriculum development services and instructional materials for schools and school districts.
- \$2.0 million for districts who wish to participate in alternative calendar pilot programs. The programs could include, but are not limited to, extended day, extended year, or year-round school calendars.
- \$4.4 million for the “Minnesota First Five Teacher Induction Project,” which is designed to help district retain teachers and improve teacher effectiveness, particularly in high-need license areas.

Special Education

- \$30.3 million in net increases to the Special Education Regular program. Regular Special Education is increased 2 percent per year. In addition, Special Education Transition Programs for Students with Disabilities funding is rolled into the Regular Special Education program after being increased by 2 percent per year. Finally, the special Part C appropriation, which is for special education services, is eliminated as a separate appropriation and included in both the Special Education Regular and Excess Cost formulas.
- \$4.9 million in net increases to the Special Education Excess Cost program. Excess Cost is increased by 2 percent per year. In addition, the special Part C appropriation, which is for special education services, is eliminated as a separate appropriation and included in both the Special Education Regular and Excess Cost formulas.
- In non-funding related special education recommendations, the Governor is also requesting that all Special Education Regular funding be changed from being calculated on a second prior year basis to a prior year basis.

Facilities and Technology

- \$38.0 million in one-time funding for technology. The appropriation would be directed to districts in a competitive grant process to improve school technology capacity and increase the use of technology in providing curriculum. \$2.5 million per year is reserved to provide incentives for districts to develop online courses and to expand course offerings to students via online courses.

Libraries

- \$485,000 to increase Basic Library Support grants by 2 percent per year.
- \$200,000 for a statewide comprehensive library study, in an attempt to improve cooperation and gain efficiencies in libraries of all types, including government, school, public, academic and special libraries.

Minnesota Department of Education

- \$967,000 for an increase to the agency's base operating budget. The increase is equal to 2 percent per year of the agency's general fund compensation costs.
- \$408,000 in one-time funding to pay for rulemaking for Career and Technical Education and the state's graduation required assessments.

Minnesota State Academies for the Deaf and Blind

- \$597,000 for an increase to the agency's base operating budget. The increase is equal to 2 percent per year of the agency's general fund compensation costs.
- \$220,000 for a campus-wide security system. \$200,000 in FY 2008 is for design, purchasing and implementation of the system, with \$20,000 in FY 2009 and later for ongoing staff costs to maintain the system.
- \$182,000 for technology staff. The Governor recommends that the Office of Enterprise Technology allocate funding for small agencies, including the academies, to acquire new technology. This appropriation would provide support staff for that new technology, as well as existing technology in use in the academies.
- \$100,000 to cover the additional costs of the existing mainstreaming contract between the academies and the Faribault school district.

Perpich Center for Arts Education

- \$314,000 for an increase to the agency's base operating budget. The increase is equal to 2 percent per year of the agency's general fund compensation costs.
- \$203,000 to implement a high school to college transition program, which would mandate that all Center students graduate with some college credits, and provide funding

for the Center to create a six-year diploma/bachelor's degree program, both in collaboration with the University of Minnesota or the Minnesota State Colleges and Universities system.

Implications

As is shown in the table below, total revenue increases with the Governor's proposals will be 5.5 percent for FY 2008 and 4.0 percent for 2009. The increases are, however, driven in part by significant increases (6.9 percent and 13.5 percent) in the projected increase in voter-approved operating referendums by local districts.

Total School District General Fund Revenue (State Aid & Local Levy)						
Revenue per average daily membership						
	Operating Ref. Rev.	Percent Change	Other Revenue	Percent Change	Total Revenue	Percent Change
2004	514	47.3%	7,384	0.3%	7,898	2.4%
2005	611	18.9%	7,385	0.0%	7,996	1.2%
2006	646	5.7%	7,672	3.9%	8,318	4.0%
2007	727	12.5%	8,060	5.1%	8,787	5.6%
2008	777	6.9%	8,492	5.4%	9,269	5.5%
2009	882	13.5%	8,749	3.0%	9,631	4.0%

source: Minnesota Department of Finance

In total, state aid for schools is projected to increase 2.5 percent between the FY 2006-07 biennium and the FY 2008-09 biennium. The small increase from biennium is due primarily to the more than \$600 million in one-time shift payments made in FY 2006. Excluding those shift payments, the biennium to biennium increase is 7.7 percent.

For further information on K-12 Education Finance related issues contact Greg Crowe at (651) 296-7165 or greg.crowe@house.mn

Minnesota Heritage Finance Division

The Governor recommends General Fund appropriations totaling \$117.63 million in the FY 2008-09 biennium for the 13 state departments, councils, and boards within the Minnesota Heritage Finance Division's budget jurisdiction. The recommendation is \$11.72 million above the forecast base funding level, an 11.1 percent increase.

Governor's FY 2008-09 General Fund Recommendations					
<i>(Dollars in thousands)</i>					
	Forecast FY 06-07	Base FY 08-09	Gov's Recs FY 08-09	% Change Gov. FY 08-09vs. Forecast FY 06-07	% Change Gov. vs. Current Law FY 08-09
Amateur Sports Commission	\$ 2,073	\$ 1,912	\$ 1,925	-7.1	0.7
Arts Board	17,189	17,186	18,207	5.9	5.9
Council on Asians Pacific Minnesotans	483	480	572	18.4	19.2
Council on Black Minnesotans	559	556	650	16.3	16.9
Council on Chicano Latino Affairs	569	542	616	8.3	13.7
Indian Affairs Council	1,019	950	968	-5.0	1.9
Explore Minnesota Tourism	21,154	19,402	23,606	11.6	21.7
Historical Society	46,650	46,250	50,802	8.9	9.8
Public Broadcasting	3,710	3,710	3,910	5.4	5.4
Science Museum of Minnesota	1,500	1,500	2,000	33.3	33.3
Zoological Board	12,878	12,878	13,753	6.8	6.8
Total	\$107,784	\$105,666	\$117,009	8.5 %	10.7 %

Notes: The Division also has appropriation oversight for the Humanities Commission. The Commission does not receive a base appropriation from the State of Minnesota..

Amateur Sports Commission (MASC)

The Governor recommends General Fund appropriations of \$960,000 in FY 2008 and \$965,000 in FY 2009 for the Amateur Sports Commission. Of the total, \$750,000 each year is for the Target Center Lease payment. The remainder is for the Commission's operating budget. The Governor's recommendation is \$13,000 above the forecast base and funds a two percent compensation adjustment.

The Governor is also recommending reducing the General Fund appropriation for the Amateur Sports Commission by the amount earned from leasing state land adjacent to the National Sports Center in Blaine. No dollar amount is attached to this recommendation, although it clearly has fiscal implications.

Arts Board

The Governor recommends that the Board receive a General Fund appropriation of \$18.207 million for the FY 2008-09 biennium. This is \$1.021 million above the Board's forecast base.

Minnesota Arts Board			
2008-09 General Fund Appropriations			
(dollars in thousands)			
Program	Base	Gov's Chg.	Gov's Rec.
Operation & Services	808	473	1,281
Grants & Subsidies	11,534	314	11,848
Regional Arts Council	4,844	234	5,078

The specific recommendations include:

- \$500,000 each year to increase the state's investment in the Arts.
- \$7,000 in FY 2008 and \$14,000 in FY 2009 to fund a two percent compensation adjustment.

Council on Asian-Pacific Minnesotans

The Governor recommends a General Fund appropriation of \$572,000 for the Council on Asian-Pacific Minnesotans in the FY 2008-09 biennium. The recommendation is \$92,000 above forecast base, an increase of 19.2 percent.

- \$43,000 in FY 2008 and \$36,000 in FY 2009 to allow for increased its staffing to meet the issue needs of the state's growing Asian-American and Pacific Islander community.
- \$4,000 in FY 2008 and \$9,000 in FY 2009 to fund a two percent compensation adjustment.

The Governor also recommends funding the Asian-Pacific Council's Technology Upgrade Plan. This recommendation is part of the Small Agency Technology initiative included in the Office of Enterprise Technology budget request.

Council on Black Minnesotans

The Governor recommends a direct appropriation of \$650,000 for the Council on Black Minnesotans in the FY 2008-09 biennium. The recommendation is \$94,000 above forecast base, an increase of 13.7 percent.

- \$40,000 in FY 2008 and \$41,000 in FY 2009 to enable the council to better address the issues facing the black community, and to fund the state's annual Martin Luther King celebration.
- \$4,000 in FY 2008 and \$9,000 in FY 2009 to fund a two percent compensation adjustment.

Chicano-Latino Affairs Council

The Governor recommends a General Fund appropriation of \$616,000 for the Chicano-Latino Affairs Council in the FY 2008-09 biennium. The recommendation is \$74,000 above forecast base, an increase of 13.7 percent.

- \$31,000 each year of the biennium is for the Council to increase staffing to meet the issue needs of the state's growing Latino community.
- \$4,000 in FY 2008 and \$8,000 in FY 2009 to fund a two percent compensation adjustment.

Minnesota Indian Affairs Council

The Governor recommends a General Fund appropriation of \$968,000 for the Minnesota Indian Affairs Council in the FY 2008-09 biennium. The recommendation is \$18,000 above forecast base, and provides sufficient funds to accommodate a two percent compensation adjustment.

Explore Minnesota Tourism

The Governor recommends that Explore Minnesota Tourism's General Fund appropriation for 2008-09 biennium be \$23,606 million. The recommendation is \$4.204 million above the forecast base, a 21.7 percent increase. The recommendation contains three major components.

- \$1 million in FY 2008 and \$2 million in FY 2009 to increase tourism marketing efforts. One million dollars each year is an increase to base level funding, and one million dollars in FY 2009 and beyond will be added to the current private match incentive program.
- \$68,000 in FY 2008 and \$136,000 in FY 2009 to fund the two percent compensation adjustment.
- \$500,000 each year to fund a grant to the Minnesota Film and TV Board for the "Snowbate" film and television production incentive program.

Historical Society

The Governor recommends FY 2008-09 General Fund appropriations for the Historical Society totaling \$50.802 million, a \$4.552 million increase from the current law base. The table below depicts the Society's program-specific funding under the Governor's proposed budget.

Minnesota Historical Society			
2008-09 General Fund Appropriations			
(dollars in thousands)			
Program	Base	Gov's Chg.	Gov's Rec.
Education & Outreach	26,282	2,970	29,252
Preservation & Access	19,544	1,180	20,724
FarmAmerica	256		256
MN International Center	85		85
MN Military Museum	67	402	469
MN Air National Guard	16		16

- \$1 million of new funding in FY 2008-09 to replace the heating, ventilation and air conditioning (HVAC) control system and for lease rate increases at the Minnesota History Center.
- \$2 million in FY 2008 for a one-time appropriation for Minnesota Sesquicentennial Commission. The Governor further recommends that no more than \$500,000 of the appropriation be used for Commission staff, administration and support costs, and at least \$750,000 must be use for competitive local matching grants local events and projects. The remainder would be used for planning and support of statewide activities.
- \$308,000 in FY 2008 for a one-time appropriation to support the preservation of the Civil War era and Spanish-American War era battle flags housed in the State Capitol Rotunda.
- \$842,000 of new funding in FY 2008-09 to fund a two percent compensation adjustment.
- \$201,000 each year of the FY 2008-09 biennium to increase the state's support for the Minnesota Military Museum at Camp Ripley.

Public Broadcasting

The Governor recommends a \$3.910 million appropriation for Public Radio and Public Television in the FY 2008-09 biennium. The recommendation is \$200,000 above forecast base and would increase funding by \$100,000 each year for AMPERS Public Radio Grants.

Public Broadcasting			
2008-09 General Fund Appropriations			
(dollars in thousands)			
Program	Base	Gov's Chg.	Gov's Rec.
Public TV Grants	1,926		1,926
Public TV Equipment	796		796
Region Cable 6	34		34
AMPERS Public Radio Grants	574	200	774
MN Public Radio Grants	380		380

Science Museum of Minnesota

The Governor's budget recommends an appropriation of \$2.0 million to the Science Museum in the FY 2008-09. The recommendation is a \$250,000 per year increase above the Science Museum's forecast base level. The percentage increase is 33.3%

Minnesota Zoological Garden (MZG)

The Governor recommends the Minnesota Zoo receive a General Fund appropriation of \$13.75 million in the FY 2008-09 biennium. The recommendation is \$875,000 above the forecast base, a 6.8 percent increase.

- \$250,000 each year is offset the Zoo's increasing utilities cost.

- \$124,000 in FY 2008 and \$251,000 in FY 2009 to fund the two percent compensation adjustment.

The Governor also recommends appropriations of \$137,000 in FY 2008 and \$138,000 in FY 2009 to the Zoo from the Natural Resources Fund lottery in lieu dollars.

Fiscal Year 2010-11 Biennium Tails

The Governor's proposed budget would have General Fund appropriations for Minnesota Heritage Finance Division accounts equaling \$116.882 million in the FY 2010-11 biennium. This is a \$744,000 reduction from the Governor's recommended FY 2008-09 biennium General Fund appropriations.

For additional information on Minnesota Heritage Finance issues, contact Ron Soderberg at 296-4162 or ron.soderberg@house.mn

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Public Safety Finance

The Governor's budget recommends a general fund appropriation of \$1.866 billion for the FY 2008-09 biennium. This is a \$155.84 million (9.11 percent) increase from the previous biennium, and a 8.28 percent increase from current law. The public safety budget makes up 5.4 percent of the Governor's proposed general fund budget for FY 2008-09. The following relate to the general fund unless otherwise noted (dollar amounts are for the biennium).

Public Safety Finance					
Total General Fund Spending					
(all dollars in thousands)					
	November Forecast Spending in FY 2006-07	Current Law FY 08-09	Gov's Recs FY 08-09	Percentage Change Gov. FY 08-09 vs. November FY 06-07	Percentage Change Gov. vs. Current Law FY 2008-09
Supreme Court	85,369	84,342	89,470	4.80%	6.08%
Court of Appeals	16,378	16,378	17,374	6.08%	6.08%
Trial Courts	462,171	462,506	490,626	6.16%	6.08%
Tax Court	1,465	1,452	1,600	9.22%	10.19%
Uniform Laws Cmsn.	96	90	110	14.58%	22.22%
Judicial Standards Bd.	726	504	903	24.38%	79.17%
Public Defense Board	122,504	123,602	131,117	7.03%	6.08%
Public Safety Dept.	171,776	156,344	183,687	6.93%	17.49%
Private Detective Board	279	252	258	-7.53%	2.38%
Human Rights Dept.	7,030	6,980	8,625	22.69%	23.57%
Corrections Department	841,384	869,996	941,026	11.84%	8.16%
Sentencing Guidelines	972	926	1,200	23.46%	29.59%
Total	1,710,150	1,723,372	1,865,996	9.11%	8.28%

Supreme Court

The Governor is recommending a biennial appropriation of \$89.47 million, an increase of \$5.128 million from the FY 2008-09 base. The Governor makes no specific recommendations on judicial branch agency change requests for the FY 2008-09 biennium, but says the increase recognizes compensation, caseload and other cost pressures.

Court of Appeals

The Governor is recommending a biennial appropriation of \$17.374 million, an increase of \$996,000 from the FY 2008-09 base. The Governor makes no specific recommendations on judicial branch agency change requests for the FY 2008-09 biennium, but says the increase recognizes compensation, caseload and other cost pressures.

District Courts

The Governor is recommending a biennial appropriation of \$490.626 million, an increase of \$28.12 million from the FY 2008-09 base. The Governor makes no specific recommendations on judicial branch agency change requests for the FY 2008-09 biennium, but says the increase recognizes compensation, caseload and other cost pressures.

Tax Court

The Governor is recommending a biennial appropriation of \$1.6 million, an increase of \$148,000 from the FY 2008-09 base. The increase will go for compensation and to maintain existing functions.

The Governor is also recommending a deficiency appropriation for FY 2007 of \$47,000 to fund a shortfall for this fiscal year.

Board of Judicial Standards

The Governor is recommending a biennial appropriation of \$903,000. This is an increase of \$399,000 from the FY 2008-09 base. The increase represents a compensation adjustment and for a new investigative/hearing account that will cover special investigative and hearing costs that are not currently in the Board's budget.

The Governor is also recommending a deficiency appropriation for FY 2007 of \$90,000 to fund two judicial disciplinary proceedings.

Public Safety

The Public Safety Policy and Finance Committee is responsible for six programs in the Department of Public Safety (other programs in the agency are the responsibility of the Transportation Finance Committee). The Governor is recommending a biennial appropriation of \$183.687 million for these public safety programs. This is a increase of \$27.3 million from the FY 2008-09 base. The Governor is recommending the following:

- \$1.865 million for a compensation increase.

Homeland Security and Emergency Management

- \$500,000 to be added to the \$400,000 base for the state match for federal disaster assistance.
- \$1.107 million for a deficiency request for FY 2007. This will serve as a state match for federal disaster assistance for the Red River Valley flooding that took place in 2006.

Bureau of Criminal Apprehension (BCA)

- \$15.539 million increase for increased funding for CrimNET.
- \$2.889 million for 20 additional forensic scientists.

Fire Marshal

Beginning in FY 2008 the activities previously funded by the general fund will now be funded by a special revenue fund. The special revenue is collected from insurance companies and is deposited into the fire safety account.

Office of Justice Programs

- \$500,000 for an increase to the crime victim reparations.
- \$2.5 million increase in state funds for the gang and drug task force. This amount will make up for a loss of federal funds.
- \$400,000 for a school safety center.
- \$910,000 is for continued funding for the crime victim notification system.

911 Emergency Services/ARMER

The Governor is recommending an increase of \$23 million in state government special revenue to expand the statewide interoperable public safety communication system (ARMER). This will be funded by increasing the 911 fee by 10 cents per month for the second year (FY 09) and then 10 cents per month each year after that for the next two years. The current monthly charge is 65 cents. This is the fee charged to each customer for a telephone line. The revenue increases will go to pay off prior year obligations to telephone utility companies and to pay for the state's cost in building the statewide trunked public safety radio system.

Private Detectives Board

The Governor is recommending a biennial appropriation of \$258,000, which is an increase of \$6,000 for compensation increases.

POST Board

The Governor is recommending a biennial appropriation of \$8.497 million. This is an increase of \$69,000 for operating cost increases and compensation adjustments. The POST Board is a special revenue account.

Public Defense Board

The Governor is recommending a biennial appropriation of \$131.117 million, this is a increase of \$7.515 million. The Governor makes no specific recommendations on judicial branch agency change requests for the FY 2008-09 biennium, but says the increase recognizes compensation, caseload and other cost pressures

The Governor does recommend a deficiency appropriation for FY 2007 of \$200,000 for a transcript shortage.

Department of Corrections

The Governor is recommending a biennial appropriation of \$941 million, which is an increase of over \$71 million from the FY 2008-09 base. The Governor is recommending the following:

- \$2.5 million for the increased costs of health services.
- \$3.95 million to annualize costs from funding changes during the 2006 session.
- \$3 million for increases in fuel and utility costs for the correctional institutions.
- \$1 million to cover the increased costs of health insurance for retirees in the Corrections Employees Retirement Plan.
- \$3.95 million for ten new intensive supervision agents, increases due to extension of the Conditional Release (CRP) program, funding for the interstate Compact for Adult Offenders and additional funding for the risk assessment/community notification and civil commitment.
- \$17.15 million for offender supervision. This includes additional funding for county probation officer reimbursement, community corrections act counties and for the Department of Corrections Probation and Supervise Release. This also includes additional funding for sex offender management and sex offender assessments.
- \$1.2 million to maintain the Sentencing to Service (STS) program.
- \$4.38 million to increase the funding for the short-term offenders that are housed in county jails. The DOC believes this will raise the per diem that counties receive from under nine dollars a day to around \$30 per day.
- \$3 million for increased funding for offender reentry services.
- \$30.9 million for an increase in compensation related costs.

Sentencing Guidelines

The Governor is recommending a biennial appropriation of \$1.2 million, which is an increase of \$274,000 to maintain existing functions and for a compensation increase.

Human Rights Department

The Governor is recommending a biennial appropriation of \$8.625 million, which is an increase of \$1.645 million. \$187,000 of this increase is for compensation and the other \$1.458 million is for a case management initiative that will replace the current 10 year old system.

Uniform Laws Commission

The Governor is recommending a biennial appropriation of \$110,000, which is an increase of \$20,000. This is for both past dues and an increase in dues for their membership in the National Conference of Commissioners on Uniform State Laws.

For additional information on public safety issues, contact Gary Karger at 296-4181 or gary.karger@house.mn.

State Government Finance

The Governor recommends total General Fund appropriations of \$694.95 million for the state agencies and programs under the jurisdiction of the State Government Finance committee. This recommended amount is an increase of \$112 million, or 19.2 percent, from the forecasted base for FY 2008-09. The majority of this new funding is for technology initiatives in the Office of Enterprise Technology and several other agencies. The Governor's recommendation also includes \$51.2 million in new general fund revenues and a \$7.5 million change to the cancellation adjustment, bringing the net recommended spending to \$651.25 million.

State Government Finance: Total General Fund Spending (all dollars in thousands)					
Agency / Program	Forecast FY 2006-07	Base FY 2008-09	Governor's Recs FY 2008-09	% Change Gov. 08-09 vs. FY 06-07	% Change Gov. vs. Base FY 08-09
Legislature	124,535	123,828	126,633	1.7%	2.3%
Governor's Office	7,452	7,168	7,359	-1.2%	2.7%
State Auditor	16,826	16,546	17,043	1.3%	3.0%
Attorney General	54,203	45,538	47,347	-12.6%	4.0%
Secretary of State	11,988	11,958	12,221	1.9%	2.2%
Campaign Finance Bd	1,414	1,388	1,430	1.1%	3.0%
Public Subsidy - Campaign Finance	3,995	4,070	4,070	1.9%	0.0%
Capitol Area Arch. Board	567	540	617	8.8%	14.3%
Investment Board*	2,575	302	302	-88.3%	0.0%
Administrative Hearings	538	524	566	5.2%	8.0%
Office of Enterprise Technology	5,517	7,406	54,917	895.4%	641.5%
Dept. of Administration	37,917	35,946	46,395	22.4%	29.1%
Dept. of Finance	31,561	29,616	37,713	19.5%	27.3%
Dept. of Employee Relations	12,446	12,637	13,918	11.8%	10.1%
Dept. of Revenue	207,904	207,940	240,981	15.9%	15.9%
Dept. of Military Affairs	33,965	35,999	41,916	23.4%	16.4%
Contingent Accounts	0	500	500		0.0%
Tort Claims	161	322	322	100.0%	0.0%
MN State Retirement	8,867	2,919	2,919	-67.1%	0.0%
Local Pension Aids	54,557	55,534	55,534	1.8%	0.0%
Misc.Open General Fund	<u>(23,450)</u>	<u>(17,752)</u>	<u>(17,752)</u>	<u>-24.3%</u>	<u>0.0%</u>
Total Expenditures:	592,971	582,389	694,951	17.1%	19.22%
New Revenues:			51,200		
Cancellation Adjustment: Carryforward for IT projects			7,500		
Net Recommended Spending:			651,251		

Constitutional Offices

Because of the separation of branches of government and constitutional offices, the Governor acknowledged the right of these offices to present their budgets directly to the legislature for consideration. The Governor does not comment on any specific initiatives requested by constitutional offices or the Legislature. However, the Governor's Budget does include recommended overall spending levels for each office.

Constitutional Offices Budget Requests (dollars in thousands)			
	November Forecast	Governor's Recommendation	Constitutional Office Request
Attorney General	45,538	47,347	49,028
Governor	7,168	7,359	7,359
Secretary of State	11,958	12,221	Not Yet Available
State Auditor	16,546	17,043	18,709

Attorney General's Office (AGO)

The Attorney General's Office (AGO) requests \$49.03 million in direct appropriations from the General Fund for the biennium, an increase of \$3.5 million, or 7.7 percent, from base level funding. This level of funding includes an increase of \$1.745 million each year for thirteen additional attorney positions and one additional investigator position, to handle duties related to:

- Civil commitment of sex offenders (two attorneys)
- Prosecution of methamphetamine and other drug cases (two attorneys)
- Veterans Assistance (two attorneys)
- Criminal appeals on behalf of counties (one attorney)
- Predatory lending cases (three attorneys and one investigator)
- Anti-trust violations (one attorney)
- Illegal actions of the pharmaceutical industry (two attorneys)

The Governor's recommended direct General Fund spending level for the AGO is \$47.3 million, an increase of \$1.8 million, or 3.97 percent, from the projected FY 2008-09 base.

In addition to the direct General Fund appropriation for the AGO, the office also receives funding through partner agreements with state agencies. Total budgeted general fund expenditures for partner agencies are \$16.1 million for the biennium. Non-general fund expenditures for partner agreements are planned at \$1.9 million.

Other Funds

The AGO requests \$3.4 million from the State Government Special Revenue Fund for services provided to health related licensing boards. The AGO also requests \$290,000 from the Environmental Trust Fund and \$968,000 from the Remediation Fund for investigating and prosecuting environmental crime and for responsibilities associated with insurance claims settlements and recovery associated with landfills in the landfill cleanup program.

Governor's Office

The Governor requests \$7.4 million for the biennium to fund his own office, an increase of \$191,000 million, or 2.7 percent, from the FY 2008-09 base level funding.

The Governor's Office also plans to spend \$420,000 per year for the Washington DC office. The office is funded through inter-agency agreements with 11 executive branch agencies. This funding arrangement was established in FY 2003, after the general fund support for the DC office was abolished.

Secretary of State

The Governor's recommended spending for this office is \$12.2 million, an increase of \$263,000, or 2.2 percent from the current base level.

The new Secretary of State has requested additional time to prepare the office's budget request.

State Auditor

The State Auditor's office requests \$18.7 million, an increase of \$2.2 million, or 13 percent, over FY 2008-09 base funding. The Auditor's request includes two change items:

- \$1.5 million for the biennium to help retain current staff and to cover increases in salary and health care costs. Approximately 70 percent of this general fund increase would be offset by reimbursements from audit clients, reducing the net general fund cost to \$473,000 for the biennium.
- \$625,000 for additional staff in the Tax Increment Financing (TIF) division to audit Job Opportunity Building Zones (JOBZ). A 2005 law requires the TIF division to audit JOBZ operations, but the Auditor did not receive any additional funding for this duty. The Attorney General recently issued an opinion stating that the State Auditor could not use the statutory appropriation from the TIF deduction to conduct these audits.

The Governor's recommended spending for this office is \$17 million, an increase of \$497,000, or 3.0 percent, from current law.

Legislature

The Legislature does not participate in the executive agency budget process. Legislative budget requests will be available after their approval by House and Senate leadership.

The Governor recommends a total of \$126.6 million for the Legislature, an increase of \$2.8 million, or 2.3 percent, from the FY 2008-09 base.

Legislature: Governor's Recommended Funding			
<i>General Fund only, \$ in thousands</i>			
	November Forecast	Governor's Rec.	\$ Change
House	55,580	56,839	1,259
Senate	41,308	42,244	936
Legislative Coordinating Commission	26,940	27,550	610
Totals:	123,828	126,633	2,805

State Agencies

Department of Administration

The Governor recommends General Fund spending of \$46.4 million for the biennium. This is an increase of \$10.5 million, or 29 percent, from the 2008-09 base.

State Facilities Services (previously known as Facilities Management)

The Governor recommends total funding of \$29.5 million, an increase of \$7.6 million, or 35 percent, from base. This program includes the State Architect's office, Plant Management, Real Estate Management, and the In-Lieu-of-Rent activity, which funds space costs for the Legislature, Governor's residence, Veterans Services organizations, and ceremonial spaces in the Capitol and the Capitol mall. Specific funding recommendations include:

- \$6.7 million to purchase and implement a web-enabled shared Real Property Enterprise System for all state agencies that manage property with buildings. \$500,000 for Energy Conservation Re-commissioning. This program will identify equipment and controls inefficiencies in state buildings, and implement low or no-cost energy conservation improvements in select buildings.
- \$427,000 for the compensation adjustment.

Non-General Fund activities:

In addition to these General Fund activities, significant non-general fund accounts include:

- The Facilities Repair and Replacement Account is an account in the special revenue fund used for asset preservation projects for buildings funded through bond proceeds. Projected expenditures from this account are \$7.8 million for the biennium.
- The Plant Management internal service fund is used for building and grounds operations for buildings under the custodial control of the department. Projected expenditures from this fund are \$89.8 million for the biennium.

State and Community Services

The Governor recommends total General Fund appropriations of \$5.2 million, an increase of \$300,000, or 6.0 percent, over base funding. This program includes a variety of activities, such as Travel Management, the Information Policy Analysis office, the State Demographer, Land Management Information Center (LMIC), the Environmental Quality Board, and the State Archaeologist. Communications Media, which includes the state bookstore, central mailing, and Office Supply Connection (central stores) is also part of this program area. The increased funding in this program is for one initiative:

- \$300,000 for the State Demographer to prepare and promote the 2010 census.

Non-General Fund activities:

In addition to these General Fund activities and the LMIC service bureau, significant non-general fund accounts include 4 internal service funds:

Internal Service Fund	Purpose	Biennial Expenditures
Risk Management	Self-insurance company for the state's property and casualty insurance coverage	\$26 million
Communications.Media	Office supplies, bookstore, and mailing services for agencies	\$35.6million
Travel Management	Provides long-term rental vehicles and support services	\$43.4 million

Administrative / Management Services

The Governor recommends total General Fund spending of \$11.6 million, an increase of \$2.5 million, or 27.5 percent, from base. Specific recommendations include:

- \$500,000 for a new office of Grants Management. The office would provide direction for standardizing grant management polices and procedures, with the goal of improving oversight and accountability. This recommendation is an outcome of the Drive to Excellence, and parallels a recommendation in the 2007 Legislative Auditor's report on this issue.

- \$561,000 in one-time funds for a Professional/Technical Contract Savings negotiation unit within Materials Management. This would be a two year pilot program to assist agencies in negotiating contracts. Goals include consolidating redundant contracts across agencies, and training agency staff to avoid legal pitfalls.
- \$500,000 for the Small Agency Resource Team (SMART). This team would provide administrative, human resources and financial management assistance to small agencies and boards.
- \$850,000 in one-time funds for a Targeted Group Disparity Study. This is a statutorily required study to determine if state purchases from minority and female-owned small business are statistically proportionate to the market representation of such businesses.
- \$98,000 for the compensation adjustment.

Non-General Fund activities:

Significant non-general fund accounts include two internal service funds:

Internal Service Fund	Purpose	Biennial Expenditures
Management Analysis	Consulting and training services for state agencies	\$3.7 million
Materials Distribution	Surplus services and cooperative purchasing programs	\$15.8 million

Office of Administrative Hearings (OAH)

This agency is supported mainly by the Workers' Compensation Special Fund and revolving fund revenues. The Governor recommends direct appropriations of \$14.8 million for the biennium from the Workers Compensation Fund. This is a \$266,000, or 1.8 percent increase over the base. The increased funding would be for an additional judge position. The OAH expects this increase to have a minimal impact on the assessments to workers compensation insurers and self-insured employers.

OAH also receives a general fund appropriation for the Municipal Boundaries Adjustment unit, which was transferred to the office in 2005. The Governor is recommending an 8.0 percent increase to this unit, which amounts to \$42,000 for the biennium. The increase is for the compensation adjustment and to cover increased rent costs as the unit moves to space in the Stassen building.

Campaign Finance and Public Disclosure Board

The Governor recommends a General Fund operating budget of \$1.4 million, an increase of \$42,000, or 3.0 percent, over the forecast FY 2008-09 base. This increase is for the compensation adjustment, and to cover the small agency's projected rent increases and other operational costs.

Public Subsidy Program:

The Governor is not recommending any changes to this program. Base funding is \$4.1 million for the biennium.

Capitol Area Architectural Planning Board (CAAPB)

The Governor recommends a direct appropriation of \$617,000 for the CAAPB in the FY 2008-09 biennium. The recommendation is \$77,000 above forecast base, an increase of 14.3 percent.

- \$29,000 in FY 2008 and \$33,000 in FY 2009. The increase will allow the office to return to full-time operations.
- \$5,000 in FY 2008 and \$10,000 in FY 2009 to fund a two percent compensation adjustment.

Additional recommendations affecting the Board are included in the Department of Administration Small Agency Resource Team (SMART) proposal to manage the Board's human resources and financial management activities, and \$10,000 in the Office of Enterprise Technology's (OET) Small Agency IT Initiative for upgrading of the CAAPB's web site. The Governor is also recommending that revenue the Board receives from its Capitol area project review and planning activities be statutorily appropriated.

Contingent Accounts

The Governor recommends \$500,000 for the General Fund portion of the contingent accounts. The contingent accounts are appropriations made to provide supplemental funding to state agencies in emergencies or for unexpected deficiencies. The Governor may approve expenditures from the accounts only after consulting with the Legislative Advisory Commission (LAC). However, the Governor can release funds even if the LAC recommends against the expenditure.

In addition to the General Fund appropriation, the Governor recommends appropriations of \$800,000 from the State Government Special Revenue Fund, and \$200,000 from the Workers Compensation Special Fund.

Department of Employee Relations (DOER)

The Governor recommends a direct General Fund appropriation of \$12.6 million, a \$1.3 million increase, or 11.3 percent, over base funding. This recommendation includes funding for the compensation adjustment (\$281,000) and one new initiative:

- \$1 million increase for the Center for Health Care Purchasing Improvement, bringing total funding for this activity to \$1.4 million. The center, which was established by the 2006 Legislature, is intended to aid the state in developing and using more common strategies and approaches for health care performance measurement and health care purchasing.

The department's budget also includes a \$1.3 million open General Fund appropriation for the Workers Compensation Reinsurance Association (WCRA) premium.

Non-General Fund Activities: The General Fund appropriations for the Department of Employee Relations make up only about one percent of the total funds administered by that agency, but provides funding for 40 percent of the agency's operational budget. Non-general fund programs include the State Employee Insurance Program (SEGIP), Public Employees Insurance Program (PEIP), and the Worker's Compensation division.

Note: In December of 2006, the Governor announced his intent to disassemble the Department of

Employee Relations and to distribute its functions among other state agencies, including the Departments of Administration and Finance.

Office of Enterprise Technology (OET)

The Governor recommends a direct General Fund appropriation of \$54.9 million for this office, which is an increase of \$47.5 million, or 641 percent, over the office's general fund base. Of this amount, \$30.4 would be a permanent increase in funding. This increased funding includes the compensation adjustment (\$126,000) and 5 new technology initiatives:

- \$11.5 million to fund the consolidation of IT services throughout state agencies, including data centers, email systems and other infrastructure.
- \$15 million in one-time funding for Phase I of a Minnesota Electronic Licensing System. The funds would be used to design and build a scaleable electronic licensing system. 5 agencies would be part of this first phase.
- \$17.1 million for a Comprehensive Enterprise Security Program. \$10.4 million of this amount is budgeted for the purchase of enterprise security tools, which would allow OET to scan critical systems for vulnerabilities, and to monitor systems with an intrusion detection tool. Funds would also be used to hire additional IT security staff.
- \$2.5 million for Small Agency Technology assistance. This initiative consolidates IT requests from 6 small agencies.
- \$1.4 million for eight additional staff to focus on improved planning, analysis and oversight of state IT investments.

Non-General Fund activities

The majority of the non-general fund portion of OET is the Enterprise Technology Fund (or what was formerly known as the *InterTech* internal service fund). Computer services and telecommunications management provided by OET are funded through state agency reimbursements to the agency's internal service fund.

Enterprise Technology Fund: FY 2008-09 Budgeted Expenditures	
<i>(dollars in thousands)</i>	
Computing Services	63,560
Telecommunication Services	69,392
Enterprise Planning & Management	28,956
Enterprise Application Development	3,388
Enterprise IT Security	4,585
IT Standards and Resource Management	<u>2,200</u>
Total Enterprise Technology Fund	172,081

Department of Finance

The Governor recommends a total of \$37.7 million for the biennium, an increase of \$8.1 million, or 27.3 percent, from current law. This funding level includes \$782,000 for the compensation adjustment, and additional funding for two initiatives:

- \$315,000 in one-time funds for a special attorney to represent the state's interests in Northwest Airlines Chapter 11 bankruptcy proceedings.
- \$7 million for the Minnesota Accounting and Procurement System (MAPS) risk mitigation and replacement plan. \$500,000 would be used to continue the planning process for eventual replacement of the system. The remaining \$6.5 million would be used for to development and implement a risk mitigation strategy, and to move MAPS to its own mainframe.

State Board of Investment (SBI)

The 2006 Legislature changed the funding mechanism for the SBI to allow the board to charge each retirement plan directly for its share of the Board's operations, and deposit the receipts a special revenue fund for the Board's use. The expected revenues and expenditures for this activity are \$4.8 million for the biennium. A small general fund appropriation (\$302,000) is used to fund the Board's investment activities directly related to the General Fund itself.

Lawful Gambling Control Board

The Governor is recommending a direct Special Revenue fund appropriation of \$5.7 million for the biennium. This level includes an increase of \$139,000 for the compensation adjustment. The Board's activities are funded from a percentage (.1%) of gross receipts on charitable gambling, and license/permit fees for manufacturers and distributors.

Minnesota Racing Commission

The Governor is recommending a direct Special Revenue fund appropriation of \$2 million for the biennium. This level includes an increase of \$359,000 for upgrades to the commission's four data processing systems. The Commission's activities are now directly funded through racetrack, racing, and occupational license fees, as well as reimbursements from Canterbury for the cost of stewards, veterinarians, and laboratory services.

Lottery

The Governor recommended total operating expenses for the Lottery of \$55.5 million for the biennium, with net proceeds estimated at \$146.8 million. Total state proceeds are projected to be \$223.7 million for the biennium, with \$123.8 million in estimated General Fund revenues. These total revenues include the net proceeds, in-lieu-of-sales tax, and unclaimed prizes.

Lottery: Governor's Recommended FY 2008-09 Budget	
<i>(dollars in thousands)</i>	
Gross Revenue	821,563
Direct Costs	619,269
Operating Expense	55,519
Net Proceeds	146,776

Department of Military Affairs

The Governor recommends a direct General Fund appropriation of \$41 million for the biennium, an increase of \$5.9 million, or 16.9 percent over the base. The new spending includes \$172,000 for the compensation adjustment, and 4 new initiatives:

- \$185,000 in one-time funds for special assessments.
- \$3.5 million for increased funding for armory maintenance. Funds would be used to hire new staff (both full-time and part-time) for cleaning and maintenance duties, and would also be used to contract for snow removal and ground maintenance. The Department has been relying on National Guard units to perform these duties since 2002, when budget cuts forced the lay-off of maintenance staff. However, increased troop deployments as well as a need for more technical expertise in boiler maintenance and repairs have made this arrangement increasingly unworkable.
- \$1.5 million in one-time funds to support the National Guard's reintegration program for returning soldiers. State funds will be used to continue and strengthen a pilot program funded by the federal government.
- \$560,000 increase for three new general support employees. One position would be a quartermaster to track and account for state property, a task that has increased in complexity with continuing troop deployments. The other two positions would be dedicated to developing state-level military response plans for emergencies, natural disasters and major events (including domestic attacks).

In addition to this direct General Fund appropriation, the Department has an open and standing appropriation for emergency services. Planned expenditures from this appropriation are \$891,000 for the biennium.

Public-Local Employees Retirement

Three public retirement programs under the State Government Finance committee's jurisdiction receive either direct or open General Fund appropriations. The funds include:

- MN State Retirement System - \$2.9 million for benefits paid to former legislators and elected officials.
- First Class City Teachers State Aid - a \$37.5 million appropriation to reduce the unfunded liabilities of the St. Paul teachers retirement funds and to the Teachers Retirement Association (TRA) for the assumed liabilities of the Minneapolis Teachers Retirement Association.
- The Minneapolis Employees Retirement Fund (MERF) - \$18 million to reduce the plan's unfunded liability.

Department of Revenue

The Governor recommends a direct general fund appropriation of \$237.2 million for the biennium, an increase of \$33 million, or 16.2 percent, over the base. This increase is due to four initiatives:

- \$16 million for the Integrated Tax System. Would allow the purchase of a commercial, off-

the-shelf software product to support all 28 tax types administered by the department.

- \$10.2 million in spending for another Tax Compliance initiative. Funds would be used to hire additional staff to increase tax auditing and enforcement activities. This initiative is expected to generate \$51.2 million in new revenues, for a net gain of \$41 million.
- \$5 million for the compensation adjustment.
- \$1.8 million for property-tax related technology enhancements.

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

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Transportation

The Governor's recommended 2008-2009 budget for transportation increases general fund spending by approximately \$128 million for the biennium. This includes a one-time \$100 million transfer from the general fund to the trunk highway fund. From all funds, the budget for transportation totals \$4.0 billion for fiscal years 2008-09, which is roughly \$130 million more in total direct appropriations from the previous biennium. The table below details changes in general fund spending for transportation related purposes.

Transportation Finance <i>(all dollars in thousands, general fund only)</i>					
	Forecast FY 2006- 07	Base FY 2008-09	Governor's Recs FY 08-09	% Change Gov. FY 08-09 vs. Forecast FY 06-07	% Change Gov. vs. Base FY 2008-09
Department of Transportation	38,840	53,442	154,690	298%	189%
Department of Public Safety	12,680	14,016	23,501	85%	68%
Metropolitan Council Transit	156,256	157,506	157,506	1%	0%
Total	207,776	224,964	335,697	62%	49%

Highlights from the Governor's budget include:

Department of Transportation

- \$100 million will be transferred from the general fund into the trunk highway fund as a one-time transfer.
- \$1.7 billion will be authorized for trunk highway bonding over the next 10 years, and \$12.4 million will be included for debt service for those bonds for this biennium.
- \$90 million will be transferred from the state road construction appropriation to other trunk highway fund appropriations in fiscal year 2008, and \$77 million will be transferred back into the state road construction appropriation in fiscal year 2009.
- Changes to the dedication of the motor vehicle sales tax and the sales tax on motor vehicle leases will add \$40.2 million to the highway users tax distribution fund and \$18.0 million to the newly created transit assistance fund. This will in turn reduce the general fund balance by an equal amount.

- General fund revenues will decrease by \$8.8 million over the biennium due to a trunk highway fund sales tax exemption. Spending from the trunk highway fund will decrease by the same amount. In addition, general fund revenues will decrease by an additional \$7.7 million based on the sales tax exemption for the Northstar commuter rail project. This will allow for additional resources for the Northstar project.
- \$21.5 million additional spending on operations and maintenance of state roads.
- \$27,000 in general fund spending and \$18.7 million from other funds for the compensation adjustment.

Department of Public Safety

- The fees for driver's licenses, license reinstatement for gasoline theft, titles, license plates, and partial renewals for vehicle leases will be increased generating an additional \$7.1 million dollars in revenue for this biennium.
- \$6.0 million over this biennium for information technology security and disaster recovery.
- \$3.4 million in fiscal year 2008 and \$5.0 million in fiscal year 2009 to increase funding for the state patrol. \$1.3 million of this revenue each year will be used for fuel costs. The remainder will be used for troopers and related costs. Approximately 40 new troopers will be added based on current cost assumptions.
- \$1.5 million per year for additional security at the State Capitol complex.
- \$339,000 in general fund spending and \$10.963 million in other funds spending for the compensation adjustment.

Metropolitan Council Transit

- Material changes to the Metropolitan Council's budget are made in the form of a fiscal year 2007 deficiency appropriation in the amount of \$7.8 million from the general fund to reflect the shortfall in revenues generated from the motor vehicle sales tax.
- No material change is made to the Met Council Transit budget for fiscal years 2008-09. The Metropolitan Council will receive an amount equal to the agency's base.
- Additional revenue will be available through statutory appropriations due to a dedication of sales tax to transportation in the amount of \$22.4 million in fiscal year 2008 and \$49.3 million in fiscal year 2009. This includes changes to the motor vehicle sales tax as well as the sales tax on leases.

Implications

Of the \$100 million transferred from the general fund to the trunk highway fund, \$95 million will be allocated to state road construction. This will offset state road construction reductions proposed in other areas of the budget for fiscal year 2008 and ultimately increase state road construction spending by a total of \$5 million. Spending on state road construction will also

increase by an additional \$77 million in fiscal year 2009, which will potentially allow for the acceleration of some highway projects.

Transfers within the trunk highway fund will allow for an increase in spending on operations and maintenance of state roads. This additional \$21.5 million will add dollars for pavement striping, pothole repair, bridge maintenance, and other needs.

In November 2006, Minnesota passed a constitutional amendment to dedicate all state revenues generated from the motor vehicle sales tax to transportation purposes rather than only a portion of these revenues. The Governor recommends enacting legislation to implement this amendment.

Beginning in 2001, the motor vehicle sales tax was used as a source of funds to replace local property tax for funding transit. While it has outpaced growth in property tax revenues in many years, it is subject to greater volatility. In fiscal year 2008 the motor vehicle sales tax is projected to take in \$6.9 million less than in fiscal year 2007 and then resume slow growth for the next few years. Revenue projections for the motor vehicle sales tax have dropped by over \$36 million for fiscal year 2007 since the February 2006 forecast. The Governor's budget specifically addresses some of the slowing growth by proposing a deficiency appropriation of \$8.4 million for fiscal year 2007. This appropriation will include \$7.85 million for the Metropolitan Council and \$522,000 for transit in greater Minnesota.

The Governor's budget also details a proposal to statutorily dedicate the sales tax on motor vehicle leases to highway and transit purposes. The proposal mirrors the constitutional amendment passed by voters in November for the motor vehicle sales tax where 60% of the revenues generated by the tax will be dedicated to highway purposes and 40% will be dedicated to transit. Of the 40% dedicated to transit, 38% will be available for metro area transit and 2% will be available for greater Minnesota transit. This proposal will be phased in over the same five year period as the motor vehicle sales tax and will be fully implemented by fiscal year 2012. This proposal will generate an additional \$67 million in revenue for transportation over this biennium and an additional \$89.8 million in fiscal years 2010 and 2011.

In addition, the Governor's budget outlines an increase in spending on technology-related areas of the transportation budget. This will include enhancements to the security of information technology within the Department of Public Safety to secure private information supplied to the Department through a number of its divisions, such as Driver and Vehicle Services, Bureau of Criminal Apprehension, State Fire Marshall, and others. In addition, the Governor has recommended additional spending on the public safety radio communications infrastructure as well as for a pilot project to examine technologies to replace the gas tax with a fuel-neutral mileage charge.

If you have any further questions on transportation related issues, please contact Koryn Zewers at 651-296-4178 or koryn.zewers@house.mn.

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Taxes & Local Aids and Credits

Changes in General Fund Revenue

For the FY 2008-09 biennium, the Governor recommends reducing general fund tax revenues by \$214.4 million and increasing general fund expenditures by \$65.5 million. For the FY 2010-11 biennium, the Governor would increase revenues by \$246.6 million and increase tax expenditures by \$128.6 million. The Governor's budget does not include any general fund tax increase.

In the FY 2008-09 biennium, the Governor proposes several tax changes that would reduce revenue. Of the \$214.4 million in general fund revenue reductions proposed, 53 percent (\$112.975 million) provide relief to individuals and corporations, 16 percent (\$34.425 million) provide tax relief for businesses mainly from sales tax, and 31 percent (\$67 million) shifts revenue from the sales tax on motor vehicle leases from the general fund to transportation.

Highlights of the Governor proposal for individual income tax and corporate franchise tax reductions include: income tax exemptions for military pensions (\$13.4 million), exemption for some military pay such as training (\$3.1 million), deductions for higher education tuition expenses (\$37.5 million) and tax credits for investments in dairy farms (\$9.6 million). There is also a tax credit for investments in a regional angel investment network (\$6million) and a proposal to accelerate the phase-in of single sales apportionment by FY 2010 (\$20.1 million).

The Governor also proposes sales tax changes that will reduce revenues. These changes include eliminating the capital equipment refund for two groups (\$11 million), exempting construction materials and other items for certain taxpayers (\$22.595 million), and transferring sales tax revenue from motor vehicle leases for transportation purposes over a period of five years.

Table 1. General Fund Tax Revenue Changes						
<i>(Dollars in thousands¹)</i>						
	FY 2008	FY 2009	2008-09 Biennium	FY 2010	FY 2011	2010-11 Biennium
Individual Income Tax & Corporate Franchise Tax						
<i>Enact a 25% non refundable credit for investment in a Regional Angel Investment Network. (effective 7/1/07)</i>	(\$6,000)	0	(6,000)	0	0	0
<i>Exempt military pensions, 4 year phase-in (effective 1/1/07)</i>	(4,300)	(9,100)	(13,400)	(14,200)	(20,000)	(34,200)
<i>Exempt military pay, 4 year phase-in (effective 1/1/07)</i>	(1,000)	(2,100)	(3,100)	(3,400)	(7,400)	(8,100)
<i>Enact a 10% dairy investment credit(effective 1/1/07)</i>	(4,800)	(4,800)	(9,600)	(4,800)	(4,800)	(9,600)

<i>Expand Section 125 Plans (Effective 1/1/09)</i>	0	(2,300)	(2,300)	(6,300)	(8,100)	(14,400)
<i>Accelerate single sales apportionment to phase-in by 2011, rather than 2014 (effective 1/1/08).</i>	(4,200)	(15,900)	(20,100)	(23,100)	(28,100)	(51,200)
Federal Conformity (income tax & corporate franchise tax)						
<i>Heroes Earned Retirement Opportunities Act</i>	Negl	Negl	Negl	Negl	Negl	Negl
<i>Pension Protection Act of 2006</i>	(4,925)	(2,220)	(7,145)	(2,720)	(14,670)	(17,390)
<i>Tax Relief and Health Care of 2006</i>	(48,700)	(2,630)	(51,330)	(2,180)	(1,935)	(4,115)
Sales & Use Tax						
<i>Eliminate capital equipment refund requirement for small businesses (effective 7/1/07)</i>	(5,450)	(3,120)	(8,570)	(2,020)	(470)	(2,490)
<i>Eliminate capital equipment refund requirement for wood products (7/1/07)</i>	(1,650)	(830)	(2,480)	(280)	(80)	(360)
<i>Transfer motor vehicle lease sales tax revenue from GF to transportation (7/1/07)</i>	(30,600)	(36,400)	(67,000)	(41,600)	(48,200)	(89,800)
<i>Conform to SSTP definition of "bundled transaction" (effective 1/1/08)</i>	(100)	(250)	(350)	(260)	(270)	(530)
<i>Exempt Thomson West for construction materials, furniture from expansion renovation project (effective 1/1/07 to 12/31/11)</i>	(3,815)	(2,295)	(6,110)	(1,495)	(1,100)	(2,595)
<i>Exempt MNDOT from transportation purchases from Trunk Highway Fund (7/1/07)</i>	(4,125)	(4,660)	(8,785)	(4,820)	(4,990)	(9,810)
<i>Exempt Northstar commuter rail construction for materials and equipment (1/1/07)</i>	(4,600)	(3,100)	(7,700)	0	0	0
Other Taxes						
<i>JOBZ 10-yr extension of tax benefits if agreement is signed by 2015.</i>	(100)	(300)	(400)	(700)	(1,200)	(1,900)
<i>Adjustment of Pollution Control for facilities (1/1/07)</i>	(50)	20	(30)	20	10	30
General Fund Revenue Change Total	(\$1245,415)	(\$89,985)	(\$214,400)	(\$107,855)	(\$138,605)	(\$246,460)

Individual Income Tax

Exempt all military pay, military pensions and retirement payments from Minnesota income tax. The Governor recommends phasing-in this subtraction for military pay and pensions from income tax and alternative minimum tax over 4 years. This subtraction would also apply to compensation received for active-duty services including regular training, summer camp, drill pay and taxable military disability pensions. Tax year 2007 would be the first year of the phase-in allowing for a subtraction of 25 percent (up to \$7,500). This subtraction would be fully phased-in by tax year 2010 allowing a subtraction of 100 percent of qualifying military pay and pension from individual income tax with no maximum amount. When fully phased-in, in tax year 2010, the total expected general fund revenue reduction is \$24.7 million in FY 2011. About 17,000 to 18,000 taxpayers may be eligible for this deduction.

Enact a 10 percent non-refundable dairy investment credit. The Governor recommends the creation of a non-refundable credit against individual and corporate taxes equal to 10 percent of the first \$500,000 of qualifying dairy investments over six years (tax year 2007 to tax year 2012). Any unused credit could be carried forward over 15 years and the maximum credit is limited to \$50,000. Qualifying expenditures for this credit include, but are not limited to, the amounts spent on acquisition, construction, or improvements of buildings or facilities, barns, fences, milking parlors and robotic equipment. The credit is expected to offset tax on 2,400 returns each year. Assuming all the available credit is used to offset tax liability, the expected reduction in general fund revenue for this initiative with its 15 year carried forward is \$62.4 million.

Enact a 25 percent non refundable credit for investment in a Regional Angel Investment Network. The Governor proposes a credit equal to 25 percent of the seed and equity capital invested by individual and corporate investors to a Regional Angel Investment Network. The total amount of credit (capped at \$6 million in FY 2008) would support \$24 million in new investments for emerging and developing businesses. No individual taxpayer could receive a credit of more than \$600,000 per year, with a 10 year carry forward, not to exceed the taxpayer's liability.

Regional Investment Network Fund

The Governor proposes to create a regional investment credit for investment in a qualified regional angel investment network. The regional angel investment network is defined in the Governor's proposal as a pool investment fund that;

- Is organized as a limited liability company and consists of members who are accredited investors within the meaning of Regulation D of the Securities and Exchange Commission or consists of members that are not accredited investors that make equity investments or investments in notes that pay interest or other fixed amount of any combination of both.
- Primarily makes investments in qualified small business ventures
- Has no fewer than 5 separate investors and no investor owns more than 25 percent of the outstanding ownership interests in the fund.

Expand the number of businesses who offer pre-tax plans for health insurance premiums (Section 125 plans). The Governor recommends expanding the use of Section 125 plans to enable individuals to purchase health coverage with pre-tax dollars by requiring employers with 11 or more employees to establish Section 125 plans by January 1, 2009. Employers who do not offer group health insurance would be required to establish a section 125 premium only plan and designate the Minnesota Health Insurance Exchange (MnHIE) as their health plan. The MnHIE would be created to assist employers setting up plans. As more businesses offer these programs, and more employees utilize them, the collection of individual income tax revenues are expected to be reduced by \$16.7 million from FY 2009 to FY 2011. About 29,000 individual income taxpayers are expected to be impacted by this provision. The Governor recommends offsetting the anticipated general fund loss with an appropriation from the health care access fund (HCAF) that is equal to the estimated general fund loss.

Federal Conformity

Federal conformity is when the legislature must act on changes in federal tax code and decide if these federal changes should be incorporated into Minnesota tax laws. Any change in a federal law that changes the definition of federal taxable income requires that Minnesota either conform to the federal change or add a line on the Minnesota return to add back (or subtract) the difference. To avoid or minimize the need for taxpayers to recalculate their federal taxable income, the Governor recommends conforming to three federal acts for all tax years affected by federal law changes (tax year 2006 to tax year 2011).

The Heroes Earned Retirement Opportunities Act. This act allows nontaxable combat pay to be included in earned income in determining the allowable deductible contribution to an individual retirement account (IRA).

The Pension Protection Act of 2006. This act makes changes to federal provisions on employer-provided defined benefit or contribution plans, IRAs, and KEOGH plans. Most of the fiscal impact is from allowing tax-free distributions up to \$3,000 from government pension plans for premiums for health and long-term care insurance for public safety officers. Another provision included in this act with fiscal impact is the allowance of tax-free distributions for up to \$100,000 from an IRA for charitable purposes for taxpayers age 70.5 years and older. Other provisions in this act include:

- Making permanent the 2001 law changes to IRAs, including increased contribution limits (Effective 1/1/11)
- Making permanent the 2001 law changes to pension provisions, including increased limits on contributions and benefits (Effective 1/1/11)
- Make permanent the 2001 law changes to Section 529 qualified tuition programs (Effective 1/1/2011)
- Rollovers of certain retirement plan distribution by non spouse beneficiaries (Effective 7/1/2007)
- Extend to businesses other than C corporations the enhanced deduction for contributions of food inventory (Effective for tax year 2006 and tax year 2007).
- Limitations on charitable contribution deductions (Effective August 2006).

The Tax Relief and Health Care Act of 2006. This act extends a number of tax deductions that expire at the end of 2005 for an additional two years. The deductions for tuition and related expenses and classroom teacher expenses are included.¹ (The higher education tuition deduction was claimed on about 111,000 returns filed by Minnesota residents, and the educator expense deduction was claimed on about 54,000 returns in 2004.) Other items tax items affecting individual and corporate tax deductions that were extended in this act include:

- Extend and expand to petroleum products the expensing of environmental remediation costs (Effective 1/1/06 to 12/31/2007);
- Extend and accelerate depreciation for business property on Indian Reservations(Effective 1/1/06 to 12/31/07);
- Extend 15-year straight-line cost recovery for leasehold and restaurant improvements (Effective 1/1/06 to 12/31/07);
- Extend enhanced deduction for qualified computer contributions (Effective tax year 2006 and tax year 2007);
- Extend suspension of income limit on percentage depletion for oil and gas from marginal wells (Effective tax year 2006 and tax year 2007);
- Extend election to include combat pay in earned income for earned income credit/working family credit (tax year 2007); and
- Extend allowance of deduction for certain energy efficient building property. (Effective 1/1/2008 to 12/31/2008).

Federal Conformity (individual income and corporate franchise tax)

	FY 2009	FY 2009	2008-09 Biennium	FY 2010	FY 2011	2010-11 Biennium
Heroes Earned Retirement Opportunities Act of 2005	Negl	Negl	Negl	Negl	Negl	Negl
Pension Protection Act of 2006						
<i>Individual Income Tax</i>	(4,525)	(2,220)	(6,745)	(2,720)	(14,670)	(17,390)
<i>Corporate Franchise Tax</i>	(400)	0	(400)	0	0	(17,390)
Subtotal	(4,925)	(2,220)	(7,145)	(2,720)	(14,670)	(17,390)
Tax Relief Act and Health Care Act of 2006						
<i>Individual Income Tax</i>	(43,750)	(1,105)	(44,885)	(1,010)	(920)	(1,930)
<i>Corporate Tax</i>	(4,950)	(1,525)	(6,475)	(1,170)	(1,015)	(2,185)
Subtotal	(48,700)	(2,630)	951,330)	(2,180)	(1,935)	(4,115)
Federal Conformity Grand Total	(53,625)	(4,850)	(58,475)	(4,900)	(16,605)	(21,505)

Negative numbers represent a cost to the state and positive numbers represent a gain to the state

¹ Under current law, the deduction for qualified tuition expenses allows taxpayers to deduct up to \$4,000 of higher education tuition and related expenses. To qualify for this deduction, adjusted gross income must be between \$65,000 and \$80,000 (between \$130,000 and \$160,000 for a joint return).

Under current law, the deduction for educator expenses provides for a deduction from educator classroom expenses for up to \$250.

Laws of 2007, Chapter 1

In January 2007, the legislature passed legislation conforming to the recently enacted federal income tax changes that affect 2006 Minnesota income tax returns. The federal laws enacted include the Heroes Earned Retirement Opportunity Act of 2006, the Pension Protection Act of 2006 and the Tax Relief Act and Health Care Act of 2006. With the enactment of Chapter 1, about 160,000 taxpayers will not have to make adjustments for the differences in state tax and federal tax laws. The cost of federal conformity for tax year 2006 is \$27.58 million. About 90 percent of the tax year 2006 cost are paid in FY 2007. The costs for FY 2007 to FY 2011 will be built into the February 2006 forecast by the Minnesota Department of Finance.

Corporate Franchise Income Tax

Accelerate phase-in to 100 percent sales apportionment from an eight-year period (complete in 2014) to a four-year period (complete in 2011). Under current law, multi-state corporations pay tax based on a three factor formula. The 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 single sales factor apportionment began in tax year 2007, the sales factor component of the formula increases from 78 percent to 100 percent over eight years. The Governor’s proposal would accelerate the phase-in of 100 percent single sales factor over a four-year period rather than an eight-year period, as shown in table 3;

Table 3. Governor's Proposed Acceleration for the Single Sales Factor for Apportionment.

Phase-in of 100% Single Sales Factor Apportionment		
Tax Year	Current Law	Governor’s Proposal
2007	78%	78%
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 during the 4-year phase-in period by \$70 million from FY 2008 to FY 2011. When this proposal is fully phased-in, it is expected to reduce corporate tax revenues by \$30-40 million each year. This move by the Governor to accelerate the phase-in schedule for single sales apportionment is intended to promote Minnesota competitiveness by reducing tax burdens on companies that sell in national and international

markets. About 9,000 corporations are expected to experience either a tax increase or a tax decrease with the enactment of this provision.

Sales and Use Tax

Dedicate sales tax from motor vehicle leases to transportation. Under current law, tax revenue from motor vehicle leases is deposited into the general fund. The Governor proposes to statutorily dedicate the sales tax on motor vehicle leases using the same distribution as the constitutional dedication of the motor vehicle sales tax (MVST). As such, general fund sales tax revenue from leases of motor vehicles would be 100% allocated to highways and transit over a five-year phase-in period from 2008 to 2012. Starting in FY 2008, the Highway User Tax Distribution fund (HUTD) would receive 60 percent of the additional revenue and the transit fund would receive the remaining 40 percent of the additional tax revenue. From FY 2008 to FY 2011, the estimated reduction in general fund revenue is nearly \$160 million.

Enact an upfront sales tax exemption for capital equipment purchased or leases two groups. Under current law, Minnesota exempts sales and use tax for capital equipment² but this exemption is administered as a tax refund. To improve competitiveness of the forest industry and to mitigate financial hardships on small businesses, the Governor recommends an upfront exemption for capital equipment purchased or leased by two groups: (1) small businesses; (2) the forest products industry. In this proposal, the term "small business" would be defined statutorily as a production industry that includes businesses with annual gross revenues of less than \$1 million and 20 or fewer employees. In FY 2008, there would be an estimated one-time loss of revenue to the general fund because of the shift in timing from the claims for capital equipment refunds to the capital equipment sales tax exemption

Exempt sales and use taxes for the construction materials, tools, equipment, furniture and fixtures necessary for the expansion of Thomson West in Eagan. Thomson West is a legal reference office and data center facility. The Governor proposes a sales and use tax exemption that would apply only to the expansion and renovation of Thomson West. This total project is estimated to cost \$100 million (63 percent of this cost will be for construction materials, supplies, furniture, fixtures) and take up to five years to complete (completion by FY 2012). If enacted, this provision is estimated to reduce general fund revenues by \$8.7 million from FY 2008 to FY 2011.

Exempt sales and use tax for purchases by the Minnesota Department of Transportation (MnDOT) from the Truck Highway Fund and purchases related to the Northstar commuter rail project. Purchases by MnDOT from the Truck Highway Fund would be ongoing. The amount used to pay sales tax would be used to buy the same amount of transportation products. This exemption is expected to reduce general fund revenues by more \$4 million each year. The exemption from purchases related to the first-phase of the Northstar corridor project is for two years only (FY 2008-09). The project cost of the first phase is

² The exemption applies to machinery and equipment used for manufacturing, fabricating, mining or refining tangible personal property to sell at retail. The exemption also applies to transmitting results to a customer of an online computerized data-retrieval system to sell at retail; or generating electricity or steam to sell at retail.

estimated to be \$300 million (excluding sales tax). Of that amount, \$118 million includes taxable costs. If this provision is enacted for the first phase, the estimated reduction in general fund revenues will be \$7.7 million. If this provision is enacted for the entire life of the project, the reduction in general fund revenues will exceed \$7.7 million.

Conform to the Streamline Sales Tax Program (SSTP) definition of bundled transactions. The Governor recommends conforming to this definition as adopted by the SSTP Governing Board in December 2006. The SSTP definition of "bundled transaction" is a transaction that includes both taxable and nontaxable items. Under current law, sellers pay use tax on the purchase price of the taxable component when the entire transaction is not subject to sales tax. If Minnesota conforms to this definition, sellers would be required to pay use tax on the taxable component of bundled transaction if the purchase price of the component is more than \$100. Starting in FY 2008 and each year thereafter, this provision is expected to result in a reduction in general fund revenues of \$100,000 or more.

Other Taxes

Extend the Job Opportunity Zone Program (JOBZ) benefits available for ten years for any qualifying business that enter the program prior to the program's expiration date of December 2015. The JOBZ program was created in 2003. Since the program's inception, there are 262 businesses operating in the zone with capital investments over \$394 million as of September 2006. These businesses have created a total of 4,012 jobs paying an average hourly salary of \$15.82. Under current law, the number of businesses participating is expected to decline each year. The Governor recommends extending the tax benefits through 2025 to help keep participation at a constant level through calendar year 2015. Table 4 shows the estimated cost of the JOBZ program per year and cumulatively if 35 businesses continue to participate in the program through FY 2016. With this extension of tax benefits, the total cost of this program is expected to increase by 54 percent (\$28 million) through 2016.

Table 4. Governor's JOBZ proposal – Extension of Tax Benefits

Fiscal Year	Count of new JOBZ businesses participating each year with extension of tax benefits	Annual Cost with extension of tax benefits	Cumulative Costs with extension of tax benefits
2008	2	(\$100,000)	(\$100,000)
2009	4	(\$200,000)	(\$300,000)
2010	7	(\$350,000)	(\$650,000)
2011	11	(\$550,000)	(\$1,200,000)
2012	18	(\$900,000)	(\$2,100,000)
2013	26	(\$1,300,000)	(\$3,400,000)
2014	32	(\$1,600,000)	(\$5,000,000)
2015	35	(\$1,750,000)	(\$6,575,000)
2016	<u>35</u>	<u>(\$1,750,000)</u>	<u>(\$8,500,000)</u>
TOTAL	170	(\$8,500,000)	(\$28,000,000)

Adjustment for Pollution Control Facilities. If a pollution control facility was placed in service on or before December 31, 1986, Minnesota law did not conform to amortization allowed under federal law. As such, an adjustment on the state return for amortization was required each year. The Governor proposes to allow certain pollution control facilities (placed in service before 1987) to make a one-time write-off of any remaining equipment being depreciated. While most equipment of this nature has already been depreciated over the past 20 years, this provision would repeal this adjustment and allow any remaining equipment (with a useful life of more than 20 years) to transition to federal law. This proposal would decrease revenue to the general fund in FY 2008 and increase revenues to the general fund in FY 2009, FY 2010 and FY 2011.

Local Aids and Credits

Changes in General Fund Expenditures

The Governor recommends raising net general fund base-level expenditures by \$65.5 million, or about 2.1%, for FYs 2008-2009 and by \$128.6 million in FYs 2010-11 for property tax aids and credits. These changes are reflected in three specific programs: market value homestead credits (+\$47 million in FY 08-09), homeowner property tax refunds (+\$8.5 million in FY 08-09), and local government aid (LGA, +\$10 million in FY 08-09). In addition to these property tax relief enhancements, the Governor seeks to control local property tax increases with the imposition of levy limits for any local government, excluding counties, with a population greater than 2,500 whose aid plus levy base (including special levies) is comprised of more than 33 percent state aid.

	November Forecast FY 2006-07	Base FY 2008-09	Governor's Rec's FY 2008-09	Percentage Change Gov. FY 2008-09 vs. Nov. FY 2006-07	Percentage Change Gov. vs. Base FY 2008-09
Refunds					
Homeowner Property Tax Refund	\$382,188	\$448,100	\$456,600	19.5%	1.9%
Renter Property Tax Refund	301,609	308,100	308,100	2.2%	0.0%
Political Contribution Refund	11,908	13,800	13,800	15.9%	0.0%
Other Refunds	50,773	66,669	66,669	31.3%	0.0%
Total Refunds	746,478	836,669	845,169	13.2%	1.0%
		Biennial Change	\$8,500		
Local Aids					
Local Government Aid	\$921,370	\$969,116	\$979,116	6.3%	1.0%
County Program Aid	411,104	409,838	409,838	-0.3%	0.0%
Local Pension Aids	214,107	222,437	222,437	3.9%	0.0%
Other Local Aids	45,700	42,537	42,537	-6.9%	0.1%
Total Aids	1,592,281	1,643,928	1,653,928	3.9%	0.6%
		Biennial Change	\$10,000		
Property Tax Credits					
Market Value Homestead Credit	\$562,326	\$532,217	\$579,217	3.0%	8.8%
Market Value Agricultural Credit	49,626	49,736	49,736	0.2%	0.0%
Senior Property Tax Deferral	612	1,075	1,075	75.7%	0.0%
Other Credits	40,544	43,168	43,168	6.5%	0.0%
Total Credits	653,108	626,196	673,196	3.1%	7.5%
		Biennial Change	\$47,000		
		Total Change FY 08-09	\$65,500		
Total	\$2,991,867	\$3,106,793	\$3,172,293	6.0%	2.1%

¹Negative numbers represent expenditure reductions (budget savings) and positive numbers represent expenditure increases.

To better understand the impact of the Governor's proposed changes, it is helpful to distinguish among Minnesota's property tax relief programs and who benefits from each one.

- **Property tax aids** are state payments to specific local taxing jurisdictions (counties, cities, school districts) with the purpose of replacing property tax levy income.
- **Property tax credits** reduce property tax liabilities for individual taxpayers; local taxing jurisdictions receive state payments for these credits.
- **Property tax refunds** are direct payments to homeowners from the state.

In all cases, the programmatic effect is that property tax payers pay less than what the taxes would be otherwise, and the state makes up the difference. However, support to local governments varies greatly from program to program.

Local Aids and Credits	<u>FY 2008-09</u>	<u>FY 2010-11</u>
Homeowner's Property Tax Refund	\$ 8.5 million	\$ 21.5 million

The Governor proposes to increase property tax refunds for eligible homeowners by raising the maximum refund by 10 to 25 percent, depending on income level. For persons with incomes of less than \$10,000, the maximum refund would increase by 25 percent; for persons with incomes of \$10,000 to \$20,000, the maximum refund would increase by 20 percent; for income of \$20,000 to \$40,000, an increase of 15 percent; and for incomes of \$40,000 or more, an increase 10 percent.

Table 2
Baseline FY 2007 + Governor's Proposal for
Homeowner Property Tax Refunds

Gross Income Category	Number of Filers	Average Refund	No Filers at Maximum Refund	Governor's Proposal	
				Approx % Increase in Max Refund	FY 09 Average Increase for Filer at Max
\$0-\$10,000	22,500	\$930	5,040	25	\$350
\$10,000 - \$20,000	52,000	800	7,660	20	260
\$20,000 - \$30,000	63,000	690	7,230	15	220
\$30,000 - \$40,000	65,100	600	5,960	15	190
\$40,000 - \$50,000	56,800	530	4,940	10	170
\$50,000 - \$60,000	39,800	480	3,820	10	130
\$60,000 - \$70,000	22,700	440	2,790	10	130
\$70,000 - \$80,000	10,400	410	1,800	10	120
\$80,000 or more	6,300	340	2,080	10	100
Total	338,600	\$620	41,310		\$200

Source: Department of Revenue

Tax - Related Changes in other areas of the budget

Property Tax Relief

Operating Capital Levy (K-12 Education) \$40.1 million \$91.6 million

Beginning in FY 2009, the Governor proposes to increase the equalization factor for the operating capital levy from \$10,700 to \$17,590. This change would provide a levy reduction for 328 of Minnesota's 340 school districts.

Short Term Offender Reimbursement (Corrections) \$ 4.4 million \$4.4 million

Beginning in FY 2009, the Governor proposes to increase the housing reimbursement for short term offenders in county facilities from less than \$10 to \$30 per day.

Targeted Case Management (Human Services) \$ 40.0 million \$ -0-

In FY 2008, the Governor recommends a one-time, \$40 million appropriation for counties to help mitigate an anticipated \$87 million cut in federal-fund match for targeted case management services. Counties are responsible for the non-federal portion of expenditures for these services.

Property Tax Administration

Tax Compliance Initiative (Department of Revenue)

Expenditures **\$10.3 million \$ 11.8 million**
 Revenues **\$ 51.2 million \$ 60.7 million**
Net Impact – Additional Revenues \$ 40.9 million \$ 48.9 million

The Governor seeks to appropriate funding to hire 68 new auditors to increase auditing and enforcement activities to close "Minnesota's income tax gap."

Dedicated General Fund & Non-General Fund Changes

Table 4							
Changes in Dedicated General Fund & Non-General Fund Revenues							
<i>(Dollars in thousands¹)</i>							
	Effec. Date	FY 2008	FY2009	FY 08-09 Biennium	FY 2010	FY 2011	FY 10-11 Biennium
Contamination Tax							
- Dedicated GF	7/1/07	(\$156)	(\$156)	(\$312)	(\$156)	(\$156)	(\$312)
- Transfer to Special Revenue (DEED)	7/1/07	\$156	\$156	\$312	\$156	\$156	\$312
Section 125 Health plans							
-Health Care Access Fund	1/1/09	0	(2,300)	(2,300)	(6,300)	(8,100)	(14,400)
-Transfer to GF	1/1/09	0	2,300	2,300	6,300	8,100	14,400

¹ Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

