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Money Matters

A Publication of the Minnesota House Ways and Means Staff on Government Finance Issues

SUMMARY OF THE GOVERNOR'S 1996 SESSION BUDGET RECOMMENDATIONS

This issue of Money Matters is intended to be used as a resource document. It provides an overall description of the Governor's capital and supplemental operating budget proposals, and is followed by discussions of the Governor's supplemental budget detail, organized by committee/division, and then the capital budget detail, also organized by committee/division. For an overview of the entire operating budget, see Money Matters, volume 10, number III, and Money Matters, volume 10, number IV.

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Budget Overview: The Big Picture

Governor's Proposal Differs from Current Law

On January 17, the Governor released his FY 1996-97 supplemental budget recommendations. The recommendations spend the $824 million additional funds available from the November 1995 forecast in ways substantially different from current law. The Governor proposes to spend an additional $160 million on a variety of initiatives, reduce taxes by $24 million, establish a $500 million school cash flow account and increase the reserve by $140 million. Table 1 compares the Governor's proposal to current law.

Table 1

Summary: Governor Carlson's Supplemental Budget Proposal
($ in millions)

	Current Law	Governor's Proposal
Tax Changes	$0	$24
Additional Spending	$0	$160
Added to the Reserve	$15	$140
School Shift Buy down	$794	$0
School Cash Flow Account	$0	$500
Balance Left Over	$15	$0
Total	$824	$824

Current law requires the budget reserve to be increased to $220 million. After that, any additional money available from the forecast is committed to reducing the K-12 education property tax revenue recognition shift. The funds available in the November forecast were adequate to completely eliminate the shift. However, the Governor is proposing to change current law and take the one-time savings available from increasing the shift back to 48% to establish a school cash flow account. The school cash flow account is intended to eliminate the short-term borrowing school districts engage in because of the shift by speeding up education aid payments.

Total Amount of Money in Reserve Increased Substantially

The Governor's proposal also increases the total amount of money held in some form of reserve in the state to $1.2 billion. The budget reserve is increased from $220 million to $345 million, the cash flow account remains at $350 million and the new cash flow account for schools (to be held in the state's treasury) is established at $500 million. This is a significant increase over the FY 1992-93 reserve level of $360 million.

Capital Recommendation Totals $588 million

The Governor also submitted his capital budget request in January. State agency bonding requests totaled $1.1 billion for this session. Of that amount, the Governor recommended funding for $588.0 million worth of projects, paid for with a combination of $481.8 million in General Obligation bonds, $75.8 million in bonds which are user financed, $29.4 million in Trunk Highway Funds, and $922,000 in direct General Fund appropriations.

If the Governor's capital budget was adopted, the ratio of total debt service payments to total non-dedicated General Fund revenues would be 2.99 percent in the FY 1998-99 biennium, slightly under the 3 percent recommended by the Department of Finance in its debt capacity planning framework. Depending on the cash flow of the projects adopted, there is approximately $3 million in additional debt capacity available before the 3 percent guideline is exceeded.

The Governor's operating budget includes $7.2 million for additional debt service, above the $445.7 million projected during the 1995 session. The additional debt service is needed primarily because the cash expenditures for projects are expected to occur earlier than originally estimated.

Governor's Budget Increases FY 1998-99 Tails

The Governor's budget produces a projected shortfall in FY 1998-99. The November forecast projected a nearly balanced budget at the end of next biennium (–$28 million). Under the Governor's proposal, the ending balance is projected to be –$180 million. There may also be some additional tail costs if, for example, the Legislature does not adopt the Governor's request to switch the funding for the health care infrastructure proposal from the General Fund in FY 97 to the Health Care Access Fund in FY 1998-99. In addition to the tail estimates, the spending caps placed on K-12 education financing remain under the Governor's proposal. Without the caps, the projected shortfall would increase to approximately –$500 million at the end of next biennium.

To control costs in the future, the Governor recommends adoption of "global budgeting." Global budgeting would adopt spending goals and state the proportion of the budget to be dedicated to specific areas (e.g., 32.3 percent of total General Fund resources for K-12 education, 17 percent for health care, 4.9 percent for criminal justice, etc.). The targets would cover a four year period, based on projected revenues. The spending targets included in the Governor's global budget proposal presented this session would limit the FY 1998-99 total spending increase to 5.7%; the increased spending for FY 1998-99 over FY 1996-97 in the Governor's actual supplemental proposal is 6.7%.

Table 2 shows the final FY 1994-95 figures, the projections and percent increases under the Governor's budget for FY 1996-97, and projections and percent increases for FY 1998-99.

Table 2

General Fund Revenues and Expenditures
($ in millions)

	FY 94-95	FY 96-97		FY 98-99	
Revenue	$17,798.7	$19,316.4	8.5%	$20,342.5	5.3%
Expenditures	$16,741.9	$18,121.4	8.2%	$19,327.6	6.7%
Reserve/Cash Flow	$500.0	$1,195.0		$1,195.0	
Balance	$556.8	$0.0		($180.1)	

The Governor's supplemental budget proposal does not account for any potential federal reductions, nor will the February forecast.

Price of Government Estimates Change Based on November Forecast

November's forecast produced a budget surplus, primarily because the economy did not go into the downturn projected last February. Among the effects of this were higher revenues than expected (especially in sales taxes). The Departments of Finance and Revenue re-computed the price of government figures (i.e., the ratio of state and local revenues to total personal income) based on the new revenue estimates and revised personal income projections. The results are shown in Table 3. For more explanation of the changes behind these figures, please see the price of government discussion under *Taxes* in this paper.

Table 3

Price of Government
($ in billions)

	FY 96/CY 95	FY 97/CY 96	FY 98/CY 97	FY 99/CY 98
Total Revenues	$19.5	$20.4	$21.0	$21.8
MN Personal Income	$107.7	$112.3	$116.8	$121.6
Revenue as a % of Total State Personal Income	18.1%	18.1%	18.0%	17.9%

Finally, Table 4 summarizes the Governor's spending proposal by finance and tax division. More detail follows in the paper.

Table 4

Governor's Supplemental Budget Request Summary: FY 1996-97
$'s in millions

	Revenues	Expenditures	Net
Tax Changes	($22.2)	$2.0	$24.2
Education		$51.7	$51.7
Higher Education		$15.0	$15.0
Health & Human Services	$0.5	$21.1	$20.6
Environment		$2.7	$2.7
Economic Development		$19.4	$19.4
Transportation		$6.7	$6.7
Judiciary		$15.5	$15.5
State Government		$28.4	$28.4
Total Spending	($21.7)	$162.5	$184.2
K-12 Shift		($794.0)	($794.0)
Budget Reserve		$140.0	$140.0
School Cash Flow Account		$500.0	$500.0

For additional information, contact Marcie Jefferys, Chief Fiscal Analyst, room 373, 296-5384

Supplemental Operating Budget Recommendations Detail

K-12 Education Finance Division

The Governor's operating budget proposals for K-12 Education

Excluding changes related to the property tax revenue recognition shift, the Governor is recommending $51.7 million of additional spending in K-12 education for the current biennium (FY 1996-97), with spending tails in the next biennium (FY 1998-99) increased by about $31 million. The Governor also makes adjustments in the appropriations caps for FY 98 and FY 99 (school years 1997-98 and 1998-99) but leaves the caps in place. Removal of those caps would cost approximately $292 million in the next biennium.

The property tax revenue recognition shift would be at 18.3 percent for FY 96 (1995-96 school year), but would be returned to 48 percent in FY 97. The state savings from the shift increase would be used to establish a school cash flow account in the state treasury. The combined result of the Governor's proposals would result in a slight decrease in school district property taxes payable in calendar year 1997.

The Governor's K-12 Education operating budget recommendations in detail

This section provides details of the Governor's K-12 education proposals. Fiscal impacts are for FY 97, unless otherwise indicated. If enacted, the Governor's budget would:

Provide grants for after-school enrichment pilot programs for children in grades four through eight. Programs must be collaborative and would be targeted to neighborhoods with a substantial number of children at risk for crime, poverty and teen pregnancy. Cost: $5 million.

Provide one-time funds for a School Hardware Grant Program. Funds would be allocated on a per pupil basis and would require a 40 percent match. Cost: $12 million.

Add additional funds to the telecommunications access grant program established in 1995 to connect all K-12 school and public libraries. Funds would be used to connect schools, provide Internet and two-way video access. Cost: $8 million.

Establish a competitive grant program to enhance technology in after-school programs. Funds would have to be matched locally. Cost: $1 million.

Establish two sites to solicit technology hardware from private companies and refurbish that hardware for school use. Cost: $1 million.

Provide vouchers for students from low income families in Brooklyn Center, Minneapolis, St. Paul, and a rural district to attend non-public schools. The basic voucher would be for up to $3,000, additional vouchers would be available for transportation and special education. Public schools would continue to receive funding for students who receive a voucher and leave but the amount of the voucher would be subtracted from the public school funding. Cost: $15 million.

Make several corrections in FY 96 and FY 97 appropriations to reflect funding levels intended in the 1995 legislative session. Cost: $3.9 million.

Increase funding for the Department of Children, Families and Learning (DCFL) to reflect a commitment made by the 1995 K-12 Education Finance Conference Committee and the Governor to provide $12.5 million for continued development of the graduation standards. Cost: $3.5 million.

Provide additional resources to the DCFL and the Attorney General's Office for litigation costs associated with lawsuit brought against the state regarding school desegregation. Cost: $700,000.

Cover the salary supplement costs for the Faribault Residential Academies and the Minnesota Center for Arts Education. Cost: $900,000.

Repeal the reduction in the property tax revenue recognition shift in current law, return the shift to 48 percent (48 percent of next year's property tax revenue for schools is shifted into the current fiscal year and state aid to schools is reduced by the amount shifted). Establish a $500 million school cash flow account in the state treasury that school districts could borrow from when districts have cash flow needs. School district borrowing from the account related to the shift would be interest free, other borrowing would be with interest.
Cost: –$794 million to increase the shift, $500 million to establish the cash flow account.

Implications of the Governor's operating budget proposals

Technology is often expressed as one of the greatest need areas for school districts. Both the hardware and connections between districts are areas of need. These are both addressed in the Governor's proposal.

The Governor's voucher proposal differs from the earlier Brandl-Weber proposal in that the Governor's proposal would allow school districts to keep the difference between the revenue they currently receive for the student and the amount of the voucher. The Brandl-Weber voucher proposal had no increased state cost, the Governor's proposal costs $15 million in FY 97, and has tails of $28.5 million next biennium.

School districts are being paid $502 million in FY 96 as the property tax revenue recognition shift is being reduced to 18.3 percent according to current law. This $502 million replaces calendar year 1996 property tax revenue being shifted back (or "unshifted") into FY 97. The shift would be reduced to 0 at an additional cost of $292 million in FY 97 if the law was not changed. The Governor's recommendation to increase the shift to 48 percent in FY 97 will require the state to withhold that $502 million from districts in FY 97. Continuous dramatic changes in the shift percent make managing school district cash flow very difficult.

While the Governor makes some adjustments in the appropriations caps for FY 98 and 99, reductions in the general education formula allowance and the secondary pupil unit weighting remain in effect. The general education formula will be reduced from $3,505 per pupil unit in FY 97 to $3,430 in FY 98 and after. Students in grades 7-12 currently count as 1.3 pupil units, that would be reduced to 1.25 in FY 98 and 1.2 in FY 99 and after. Restoring these formulas to their FY 97 level would cost approximately $292 million in FY 98 and FY 99.

For additional information, contact Bill Marx, Fiscal Analyst, room 361, 296-7176

Higher Education Finance Division

The Governor's operating budget proposals for Higher Education

The Governor's supplemental budget recommends spending an additional $15 million for higher education in FY 97. This represents less than a 1 percent increase over the adopted FY 1996-97 budget. Spending is recommended for five new initiatives.

The Governor's higher education division operating budget recommendations in detail.

This section provides details of the Governor's budget for the higher education division and the University of Minnesota division. Fiscal impacts are for FY 1997, unless otherwise indicated. If enacted, the Governor's budget would:

University of Minnesota

Increase spending at the University of Minnesota to help restructure the Academic Health Center (AHC), including $5 million for redesign of the health care curriculum to make it more current with modern health care delivery in Minnesota's managed care environment and $9.5 million for the purchase of new technology related to health care instruction and telemedicine. Cost: $14.5 million in FY 97, and an additional $5.5 million in FY 98 for purchasing new technology.

Higher Education Services Office

Create a new grant program at the Higher Education Services Office for after-school tutoring of students in grades four through eight. This program is a one year expenditure with the assumption that after links are established between colleges, college students and community organizations, funding will continue from the private and nonprofit sectors. Grants would go to public or private nonprofit organizations hiring college students to provide the tutoring. Cost: $200,000.

Minnesota State Colleges and Universities

Establish an Applied Research, Design and Development Center at Bemidji State University. The center would actively seek applied research contracts with Minnesota companies, focusing primarily in the areas of cold weather testing and manufacturing. Cost: $50,000 in FY 97, $35,000 in FY 98.

Department of Administration

Appropriate funds to the Department of Administration Information Policy Office to plan for implementation of a statewide online library information system (catalog). Funds would be used to evaluate systems, select a vendor and write a contract for the electronic catalog. Cost: $250,000.

Implications of the Governor's operating budget proposals

The new grant program set up to provide tutoring of youth by college students is being proposed as a one year appropriation. The legislature will want to consider whether this program, if enacted, will achieve it's goals in a single year or whether an ongoing program would be more effective.

Planning for a statewide electronic library catalog system has been under discussion in the library planning task force for more than a year. There is agreement on the library task force and with the state's higher education systems that this is the direction library planning should go. The Department of Administration has not previously been involved in library planning and has no experience in library operations. The Legislature may wish to coordinate this project with, or place it in, one of the higher education systems or a statewide library service organization such as MINITEX.

The initiatives related to the University of Minnesota Academic Health Center will need to be discussed in the context of overall future state needs in health sciences education and the University's ability to function in the managed care market. Specifically, the structure of the University's affiliation with Fairview Health Systems and the potential transfer of the University Hospital to Fairview will be relevant even though the Governor's recommendation is for the medical school rather than the hospital.

For additional information, contact Doug Berg, Fiscal Analyst, room 374, 296-5346.

Health and Human Services Finance Division

The Governor's operating budget proposals for Health and Human Services

The Governor's supplemental budget recommends an appropriation of $21.094 million for the Departments of Health and Human Services for FY 96 and FY 97. The proposal continues the expansion of managed health care in Minnesota. Administrative and procedural changes will begin to integrate the administration of Minnesota's three public health care programs, Medical Assistance, General Assistance Medical Care, and MinnesotaCare.

The supplemental budget identifies more than $248 million in savings for the 1996-1997 biennium in the welfare and health care entitlement accounts. Savings have come because of: 1) a continuing strong economy causing a drop in enrollment in the welfare and health care programs, 2) lower health care per person and hospital costs, 3) receipt of county health care claims deferred from FY 1995, and 4) a reduction in AFDC and Medical Assistance costs specifically due to the availability of MinnesotaCare.

The Governor's proposal for the Department of Health involves three projects: 1) the establishment of a Medical Education and Research Trust Fund; 2) funds for local public health agencies to provide core public health functions and to begin the separation of public health services from other health care services; and 3) a program to monitor and supervise health professionals who are not practicing with adequate skill or safety.

The Governor's Health and Human Services operating budget recommendations in detail.

This section provides details of the Governor's Health and Human Services proposals by agency. Fiscal impacts are for FY 97, unless otherwise indicated. If enacted, the Governor's budget would:

Department of Health

Establish a Medical Education Trust Fund and increase funding for core public health functions. The funding shifts to the Health Care Access fund in FY 1998-99. Cost: $14 million.

Expand the Health Professional Services Program. Cost: $150,000.

Department of Human Services

Establish a monitoring technology within the department to evaluate the performance of the information systems. Cost: $250,000.

Increase funding for training and implementation of the Social Services Information System. Cost: $950,000.

Increase funding to continue implementation of the federal 1115 Waiver, develop managed health care for disabled populations, consolidate regulations, and maximize reimbursement from federal Medicare and food stamps for services currently being paid out of state funds. Cost: $2.6 million.

Increase adoption assistance to support the adoption of special-needs children relieving a backlog of 850 cases in the Metropolitan area. Cost: $1.5 million.

Increase funding for the Minnesota Family Investment Program to accelerate the timing of the evaluation to prepare for federal welfare reform. Cost: $185,000.

Increase funding for the managed health care program to provide enrollment and education services to an additional 180,000 clients. Cost: $1.5 million.

Increase funding for litigation costs associated with the defense of State Medical Assistance policies. Cost: $500,000.

Changes in the entitlement programs are as follows:

Decrease child care funding for AFDC parents participating in employment and training programs. Savings: –$2.1 million.

Increase General Assistance funds for technical changes in the state and county share split. Costs: $1.4 million.

Decrease the Consolidated Chemical Dependency Treatment Fund due to the reduction in the cost per client served and delays in billing. Savings: $4.8 million.

Decrease the General Assistant Medical Care expenditures because of enrollment reductions and lower costs per person receiving care. Savings: $82.5 million.

Decrease Group Residential Housing payments because of a reduction in the caseload. Savings: $6.5 million.

Decrease Medical Assistance payments for long term care due to the reallocation of costs reimbursing the county share and a caseload reduction. Savings: $29.5 million.

Decrease Medical Assistance payments because of an overall reduction in enrollment that is offset, in part, by a small increase in enrollment by the disabled population, which has the highest costs per client. Savings: 31.7 million.

Increase funds for the Minnesota Family Investment Program due to a drop in federal financial participation. Costs: $64,000.

Decrease funds for the Minnesota Supplemental Aid grants serving disabled persons due to a reduction in the caseload. Savings: $1.6 million.

Decrease expenditures for the AFDC program due to a reduction in the caseload, currently at its lowest level since 1991. Savings: $29.9 million.

Implications of the Governor's operating budget proposals

Potential federal budget changes will affect most of the programs in the Health and Human Services budget, far more than any other part of the state budget. The proposed budget prepares Minnesota for the potential impact of the federal decisions through acceleration of managed care and implementation of the federal 115 waiver.

The FY 1998-99 Biennium will realize a $4.994 million reduction in General Fund expenditures due to additional savings coming from enrollment decreases in the welfare and health care programs and shifting $28 million in expenditures from the General Funds to the Health Care Access Fund. The rationale for this shift is not clear. The initiatives will have a significant effect on all the state's health care programs . The shift transfers the funding obligation from one serving 88 percent of the state's health care clients (General Fund) to one serving 12 percent of clients (Health Care Access Fund).

For additional information, contact Vicki Kunerth, Fiscal Analyst, room 376, 296-5483.

MinnesotaCare Finance Division

The Governor's operating budget proposals for MinnesotaCare

The Governor's supplemental budget for the FY 1996-97 biennium does not include any expenditures out of the Health Care Access Fund, for which the MinnesotaCare Finance Division is responsible. The Health and Human Services Finance Division does have three items that could affect the Health Care Access Fund. The first is planning money for the future integration of the State's public health plans: Medical Assistance, General Assistance Medical Care, and MinnesotaCare. In addition, the Governor recommends funding two initiatives related to the State Health Systems Infrastructure. The money for the programs for the FY 1996-97 biennium would come out of the General Fund, but any future expenditures for the program would be made from the Health Care Access Fund.

The Governor's MinnesotaCare operating budget recommendations in detail

For detailed information on the items listed above, refer to the Health and Human Services section of this paper.

For additional information, contact Greg Crowe, Fiscal Analyst, room 378, 296-7165.

Judiciary Finance Division

The Governor's operating budget proposals for Judiciary

The Governor's budget recommends an appropriation of $564,000 in FY 96 and $14.8 million in FY 97, for a total of $15.4 million. Most of the Governor's recommendations deal with crime prevention and improved safety for citizens.

The Governor's Judiciary operating budget recommendations in detail

This section provides details of the Governor's Criminal Justice proposals by agency. Fiscal impacts are for FY 97, unless otherwise indicated. If enacted, the Governor's budget would:

Department of Public Safety

Create a vehicle theft prevention program within the Department of Public Safety. Funds for this program would come from a $.50 surcharge on automobile insurance policies when they are renewed. Cost: $930,000 in FY 97, with expected costs of $1.7 million FY 98 and FY 99.

Add six forensic scientists to the Bureau of Criminal Apprehension to reduce lab turn-around time and six special agents to provide timely investigative response in greater Minnesota. Cost: $740,000 in FY 97, FY 98, and FY 99.

Increase the appropriation for the implementation of two Safe Streets initiatives. One component will make $1.1 million available to selected law enforcement agencies to coordinate efforts and deploy personnel to strictly enforce laws and ordinances. A second component will make $1.8 million available as grants for community policing activities statewide. Cost: $3 million.

Cover the State's share of costs associated with the Presidential disaster declaration for the wind storm of 1995, which caused damages in excess of $6.5 million. Cost: $464,000 in FY 96 and $30,000 in FY 97.

Judicial Standards Board

Increase funding for investigation and public hearings regarding a complaint against a judge. Cost: $100,000 in FY 96 and $50,000 in FY 97.

Department of Corrections

Fund a structural deficiency, as it is called by the Governor. The deficiency is based on the difference between the amount appropriated to the Department for FY 97 and the Department's needs. The Governor and the Legislature acknowledged this deficiency at the end of the 1995 session. Cost: $7 million.

Create a grant program for a coordinated community-based system of services and programs for children coming into contact with the juvenile justice system. Prevention programs, early intervention programs and treatment services will be developed through local community collaborations. Cost: $4 million.

Implications of the Governor's operating budget proposals

The Governor's crime package is one of several that have been presented this year. The crime packages deal mainly with prevention.

For additional information, contact Gary Karger, Fiscal Analyst, room 385, 296-4181.

Environment and Natural Resources Finance Division

The Governor's operating budget proposals for Environment and Natural Resources

The governor's supplemental budget recommends a General Fund appropriation of $713,000 in FY 96 and $2.03 million in FY 97, for a biennial General Fund total of $2.743 million. This recommended appropriation is for six separate initiatives in the Department of Natural Resources and Pollution Control Agency. The biennial increase would be less than a 1 percent of the November forecast for Environment and Natural Resources General Fund spending. The governor's supplemental budget also recommends an appropriation of $34 million for FY 97 from the Water Pollution Control Revolving Fund.

The Governor's Environment and Natural Resources recommendations in detail

This section provides details of the Governor's Environment and Natural Resources proposals by agency. Fiscal impacts are the FY 97 biennium. If enacted, the Governor's budget would:

Department of Natural Resources

Appropriate money for costs related to the repair of damage to DNR facilities, roads, parklands, and forests. The damage was caused by the severe windstorm in the northern sections of the state in July 1995.
Cost: $313,000.

Increase appropriations for the operations support function of the DNR. This would restore one half of the reduction in the operations support budget from the 1995 session adopted budget. Cost: $380,000.

Fund the development of a plan for a recreational system in the Minnesota Valley. Cost: $150,000.

Develop a new protected water access at Taconite Harbor on Lake Superior. Cost: $1.5 million.

Pollution Control Agency

Fund the costs incurred in response to the law suit filed against the state based upon the PCA's decision to not order an Environmental Impact Statement for the expansion of the Potlach Company's facility in Cook. Cost: $200,000.

Fund a project for a detailed assessment of the Water quality Point Source Program. This recommendation came from the task force report on the program's operations. Cost: $200,000.

Nonpoint source pollution

Increases the statutory appropriation level from the water pollution control revolving fund, to be used for loans in the Agriculture Best Management Practices, Clean Water Partnership, Small Cities Development and Tourism Programs. These funds are received from the federal government. Cost: $34 million.

Implications of the Governor's operating budget proposals

The Governor's budget recommendations in the environment area are very minimal, resulting in less than a 1% change from the current budget. Most of the items recommended are in response to unexpected incidents and costs.

For additional information, contact Jim Reinholdz, Fiscal Analyst, room 370, 296-4119

Economic Development, Infrastructure and Regulation Finance Division

The Governor's operating budget proposals for Economic Development, Infrastructure and Regulation

The Governor's supplemental budget proposes $19,422,000 in new spending for Economic Development, Infrastructure and Regulation. Governor Carlson is proposing adding state funding to some programs cut at the federal level, several new initiatives, and initiatives that failed to be adopted during the 1995 legislative session.

The Governor's Economic Development, Infrastructure and Regulation budget recommendations in detail

This section provides details of the Governor's Economic Development, Infrastructure and Regulation operating budget proposals by agency. Fiscal impacts are for FY 97, unless otherwise indicated. If enacted, the Governor's budget would:

Trade and Economic Development

Establish a Minnesota Investment Fund asking to help finance private business projects. The program is designed to attract new businesses to Minnesota and promote expansion of existing companies. Cost: $6 million.

Create a Bio-Medical facility at the University of Minnesota. It is hoped the center would help attract other medical technology companies to Minnesota. Cost: $3 million (private matching funds required).

Institute the "One-Stop Permitting" database intended to streamline permitting and licensing. Cost: $737,000, with expected costs of $600,000 in FY 98.

Transfer dollars from Contaminated Site grants to pay for additional administrative costs of the program. Cost: $0 (shifts $117,000 from grants to administration).

World Trade Center

Retire the debt on the World Trade Center. Cost: $285,000.

Economic Security

Increase state spending on youth employment programs to compensate for federal cuts. Cost: $6.0 million.

Purchase equipment for the Minnesota Workforce Center database system. The database is designed to supply information to employers and the general public. Cost: $1.8 million in FY 97, with expected costs of $1.8 million in FY 98 to complete the system.

Establish the Uniform Business Identifier computer database. The system is designed to streamline business licensing and reduce paperwork by allowing business information to be stored on one statewide system. Cost: $1.6 million in FY 97, with expected costs of $2.6 million in FY 98 to complete the purchase.

Commerce

Increase legal services provided by the Attorney General to the Petroleum Tank Release Clean-Up program. The request is due to an increase in the contested claims for reimbursement from the Petro Fund. Cost: $117,000 in FY 97, with expected costs of $93,000 per year thereafter.

Labor and Industry

Complete the Daedalus paperless computer record keeping system. The system allows Labor and industry to keep hundreds of thousands of pages of Workers Compensation claim files on an instantly accessible laser-disc format. Cost: $2.8 million from the Workers Compensation Special Fund.

Other Provisions

Delete the sunset provision of M.S. 268.9783, the Dislocated Worker pilot project. Technical corrections are also requested for laws relating to Workers Compensation/Self-Insurance. The clarification would allow the implementation of new rate regulation and self-insurance laws passed by the Legislature. The possibility of state funding for Low Income Home Energy Assistance is also left open, pending federal budget negotiations.

Implications of the Governor's operating budget proposals

According to the Governor's estimates, failure to fund the Minnesota Investment Fund would result in a loss of new revenue. The projection shows a $76 million increase in new state and local tax revenue between FY 98 and FY 03. This revenue is the projected result of business expansion created by the $6 million in grants from the fund.

For additional information, contact John Walz, Fiscal Analyst, room 383, 296-8236

Transportation Finance Division

The Governor's operating budget proposals for Transportation

Governor Carlson is proposing $6.7 million in new General Fund spending and $42.8 million in Trunk Highway Fund spending for transportation purposes.

The Governor's Transportation operating budget recommendations in detail

This section provides details of the Governor's transportation proposals by agency. Fiscal impacts are for FY 97, unless otherwise indicated. If enacted, the Governor's budget would:

Metropolitan Council

Increase funding for Transit Operations. Funding is requested to maintain and redesign the current mass transit system. The appropriation is intended to keep service at current levels and improve operating efficiency. Cost: $6 million for FY 9, with expected costs of $3 million per year thereafter.

Public Safety

Add 46 positions for the State Highway Patrol and for Capital Security. The additional patrolmen would ensure that all regions of the state would have a patrolman on duty 24 hours per day. Cost: $467,000 General Fund and $3.4 million Trunk Highway for FY 97, with expected costs of $576,000 General Fund and $4.4 million Trunk Highway Fund for the FY 1998-99 biennium.

Increase programming and analysis support for Public Safety programs, with 14 new computer programming positions to meet daily responsibilities. Cost: $230,000 General Fund and $765,000 of Trunk Highway Fund for fiscal 1997 and $230,000 General Fund and $765,000 Trunk Highway Fund per year thereafter.

Increased funding for State Road Construction by expending the current fund balance. Cost: $38.6 million Trunk Highway Fund for FY 97 and $58,500,000 for the FY 1998-99 biennium.

Implications of the Governor's operating budget proposals

Metropolitan Council Transit Operations has been forced to decrease service and increase rates to stay within its budget. Without the $6 million in additional funds, further cutbacks and rate increases are likely. The increases also decrease ridership, which again may push up the fares.

For additional information, contact John Walz, Fiscal Analyst, room 383, 296-8236

State Government Finance Division

The Governor's operating budget proposals for State Government

The Governor's FY 1996-97 supplemental budget recommends spending $20.2 million from the General Fund for new initiatives. It also spends $35,000 from a Special Revenue Fund. The Governor highlights state agency information systems requests in a newly created category entitled Technology. Each agency's technology or information systems budget request was shown in two places in the budget document. It appears under the finance division to which it is assigned in the Legislature, and it appears under the new category title of Technology. The Governor intends to provoke more Legislative discussion on technology issues. It also recommends that in FY 1998-99 the departments of Administration and Finance prepare a Strategic Information Technology Budget. This budget is designed to expand the process of evaluating existing state information technology assets, define shortcomings and future needs, assist in allocating limited financial resources and help assess the long-term impact of information system proposals.

The single largest recommendation in this division is for Critical Statewide Operating Systems. This recommendation totals nearly $30 million in FY 1996-97 and FY 1998-99. The Departments of Finance, Employee Relations and Administration are the sponsoring agencies.

The Governor's State Government operating budget recommendations in detail

This section provides details of the Governor's State Government proposals by agency. Fiscal impacts are for FY 97, unless otherwise indicated. If enacted, the Governor's budget would:

Department of Human Rights

Create an Alternative Dispute Resolution program. This recommendation expands the use of Alternative Dispute Resolution to resolve disputes filed with the Department under the Human Rights Act. Cost: $75,000 in FY 97, and $150,000 in each year of the FY 1998-99 biennium.

Remove money in FY 97 from the General Fund and establish a Special Revenue Fund to be used solely for the litigation budget. This is a reimbursement to the department for costs incurred in proving violations of the Human Rights Act. This money is paid by the violator and is currently deposited into the General Fund as a non-dedicated receipt. Cost: $35,000 in FY 97, and $70,000 in each year of the FY 1998-99 biennium.

Department of Administration

Create the Year 2000 Project. This is the first phase of the project. The recommendation is for an impact assessment and contractor procurement to begin modifications to essential information systems for conversion to the year 2000. The Governor anticipates that an impact analysis will provide the data necessary to assess Minnesota's needs. Cost: $7.2 million.

Departments of Finance, Administration and Employee Relations

These agencies have two joint projects which, if adopted, would:

Increase funding related to Critical Statewide Operating Systems. This is for Department operating costs associated with MnAssist. MnAssist consists of the new Minnesota Accounting and Procurement System (MAPS), the Statewide Employee Management (payroll, human resources, reporting and interfaces) Application (SEMA4), and Information Access (IA), the information warehouse and report depository. This recommendation includes funds for completion and stabilization of these systems and funds for system usage charges (Intertech charges), contract programmer analyst assistance, and temporary and permanent state staff. Cost: $12.9 million in FY 97, with an expected cost of $17 million in the FY 1998-99 biennium.

Reallocate funds within the General Fund to a proposed Technology Investment/Staff Development Account. This reallocation comes from savings realized in agency operating budgets due to retirements. The savings would be credited to the new account within the General Fund and then granted to agencies for technology investment and staff development projects. These projects would be reviewed by the Commissioners of Finance, Employee Relations and Administration. All agencies supported by the General Fund are eligible except Public Safety (some employees are eligible), Higher Education, Metropolitan Agencies, Constitutional Officers, Legislature, Judicial Branch and agency heads. Cost: $2.0 million in FY 97, with expected costs of $11.5 million in FY 98, and $19.7 million in FY 99.

Implications of the Governor's operating budget recommendations

The Governor's recommendations for funding the Critical Statewide Operating Systems and the Technology Investment/Staff Development Account will affect state employment. There will be full-time and temporary jobs created related to MnAssist and the Year 2000 projects. However, since the proposed funding for the Staff Development Account comes from captured retirement savings, many permanent full-time positions might remain unfilled. Agencies which opt for the retirement savings may reallocate those funds toward employee skill development or technology investment. The Governor predicts a long term savings in FY 01 of $37.7 million, which represents an expected 169 full-time equivalents.

For additional information, contact Kim Cousin, Fiscal Analyst, room 372, 296-4117.

Taxes

The Governor's supplemental budget proposals affecting revenues and tax policy

The Governor's tax revenues initiatives would result in net General Fund revenue losses of $22.2 million in FY 1997-98 and additional revenue loss of $68.3 million in FY 1998-99. The greatest revenue impact is in proposed "EdVest" savings accounts, based on "American Dream Savings Accounts" in the Congressional budget program of 1995. If adopted, savers could set aside up to $4,000 in a tax-free account and take out the money and interest tax free after five years, if the proceeds are applied to cost of higher education. The Governor also proposes to totally eliminate the sales tax on business replacement capital equipment by June 30, 1998. Current law would reduce the rate to 2 percent by that date. The revenue loss is $4.4 million for the current biennium, and $29.6 million in FY 1998-99.

Other tax initiatives would equalize the tax treatment of full- and part-year residents who have non-Minnesota municipal bond income; and, the Governor recommends a proportional allocation method of taxing multi-state (mainly transportation) firms that lease trucks, aircraft, boats and other moveable property.

In the property tax arena, the Governor would create a "workstead property tax refund" for qualifying business property owners at a cost to the state of $2 million per year, beginning in FY 96. He also recommends the repeal of a change in the administration of Homeowners Property Tax Refund and Targeting programs. Under current law, those benefits would be an adjustment on the property tax statement, starting in 1997.

Table 5

Governor's 1996 Supplemental Budget Tax Policy Recommendations

($in millions)

	FY 96	FY 97	FY 1996-97	FY 98	FY 99	FY 1998-99	Fund
Revenues*							
Create "EdVest" Individual Income Tax Exemptions	$0.000	($14.300)	($14.300)	($16.000)	($17.900)	($33.900)	GF
Tax non-Minnesota bond interest income of part-year residents	$0.000	$0.100	$0.100	$0.100	$0.100	$0.200	GF
Phase in sales tax exemption for replacement capital equipment	$0.000	($4.400)	($4.400)	($10.900)	($18.700)	($29.600)	GF
Adopt model law for leased property -- Corporate Income Tax	($1.100)	($2.500)	($3.600)	($2.500)	($2.500)	($5.000)	GF
Subtotal	**($1.100)**	**($21.100)**	**($22.200)**	**($29.300)**	**($39.000)**	**($68.300)**	
Eliminate Ethanol Credit -- Highway User Fund	$0.000	$0.100	$0.100	$0.300	$0.400	$0.700	HUDTF
Expenditures							
Create new "Workstead property tax refund" for businesses	$0.000	$2.000	$2.000	$2.000	$2.000	$4.000	GF
Repeal law re. property tax refund on property tax statement	$0.000	$0.000	$0.000	$0.000	($0.750)	($0.750)	GF
Savings, homeowners' Targeting Refund -- administrative costs**	$0.000	$0.000	$0.000	$0.000	$2.900	$2.900	GF
Savings, administration of Police-Fire Aid payments	$0.000	$0.000	$0.000	($2.745)	($2.370)	($5.115)	GF
Subtotal	**$0.000**	**$2.000**	**$2.000**	**($0.745)**	**$1.780**	**$1.035**	**GF**
Total Impact of Governor's Tax Policy Initiatives, Expressed as "Spending"	**$1.100**	**$23.100**	**$24.200**	**$31.300**	**$43.150**	**$74.450**	
*Note: Negative numbers in the "Revenues" sections indicate revenue losses or tax expenditures; positive numbers indicate additional revenues.							
**The Department of Finance is not carrying these savings to the bottom line for this section of the budget.							

The Governor's tax policy recommendations in detail

"EdVest" Savings Accounts

The Governor would create a new individual income tax exemption for savers who set aside money for post-secondary education. Individuals could set aside $2,000 a year and married couples could save $4,000 a year in an "EdVest" account, tax-free. Savers could start their accounts in Tax Year 1996; after five years, both the initial contribution and return on savings could be withdrawn tax free, if used for post-secondary education. If the saver uses the money for another purpose, withdrawals would be taxed at the 8.5 percent (top state marginal) rate. The policy objective is to encourage parents to save for the costs of education after high school. The revenue estimate assumes that only taxpayers with federal adjusted gross incomes (FAGI) above $50,000 per year would take advantage of EdVest accounts. One-fourth of taxpayers with FAGI of $50,000 to $100,000, and 60 percent of higher-income taxpayers are expected to use the accounts. The tax expenditure (revenue loss) for "EdVest" savings is estimated to be $14.3 million in FY 97, and $33.9 million in FY 1998-99.

EdVest Fund. The budget document states that "the Governor also recommends the creation of an **EdVest Fund** to award families and individuals who save for post-secondary education," made up of contributions from corporations, foundations and individuals, to be distributed to students who use savings from an EdVest Savings Account to pay for college. No additional information about this fund is provided in the tax section nor the Higher Education section, so it is impossible to determine if contributors would be entitled to tax deductions (for "donations that lessen the burdens of government"). Under current law, the grants would be taxable income to the beneficiary. Based on the economic profile in the revenue estimate, it is doubtful whether student-recipients would be eligible for scholarship assistance based upon need.

Implications of EdVest Savings Accounts. Revenue estimates are provided only for the first three years of the EdVest tax exemption, primarily reflecting initial savings deposits. The long-term revenue losses for such accounts are likely to be many times greater. The accounts are modeled on the "American Dream Savings Accounts," (or back-loaded IRA) proposals in the U.S. Congress: a proposal that is estimated to grow by six fold in revenue loss per year, after the first seven years.

The budget narrative fails to provide information on several points that affect long-term revenue implications, among them: (1) whether taxpayers could convert existing savings accounts and IRA's to "EdVest" accounts (since the anticipated participation group are not eligible for tax-deferred IRA's under current law);
(2) whether proceeds of home equity loans and mortgage refinancing could be deposited in EdVest accounts (thus allowing tax deduction for interest as well as a tax exclusion for the principal);
(3) whether grandparents, aunts and uncles could accumulate such accounts on behalf of younger relatives; and,
(4) whether there would be limits on the types of investments allowed, e.g., bank savings accounts and certificates of deposit, government bond funds and the like.

If the accounts would be a variation on the IRA, it is questionable whether overall savings would increase, since the economic tax literature suggests that savings would merely be shifted to tax-exempt accounts.

Municipal bonds held by part-year residents

Current law allows part-year Minnesota residents to receive income from non-Minnesota state and municipal bonds, free from state taxes. Minnesota residents are taxed on their income from bond interest paid by other states and their municipalities. This outcome appears to be an inadvertent error, resulting from an earlier change in the law. The Governor would correct this inequity by taxing non-Minnesota bond interest received by part-year residents in proportion to their Minnesota income, (e.g., the same as year-around residents). The policy objective is tax equity. This provision would increase revenues by $100,000 in FY 97; and by $200,000 in FY 1998-99.

Elimination of the sales tax on replacement capital equipment

Under a 1994 law, the sales and use tax rate on business replacement capital equipment is being reduced in stages, until it reaches 2 percent starting in FY 99 (after June 30, 1998). The Governor would accelerate the phaseout timetable, and completely phase out the tax on the current target date for a 2 percent rate, as shown in Table 6.

Table 6

Replacement Capital Equipment Tax Rate Phase-out

Fiscal Year	**Current law:**	**Proposed rate:**	**Fiscal impact (in $ millions):**
FY 97 (July 1, 1996 – June 30, 1997)	3.8%	3.0%	($4.4)
FY 98 (July 1, 1997 – June 30, 1998)	2.9%	1.5%	($10.9)
FY 99 (after June 30, 1998)	2.0%	0.0%	($18.7)

There are two principal tax policy objectives for the Governor's initiative. First, it would eliminate the "tax pyramiding" that occurs when taxes on the equipment used to produce goods are passed through to consumers, who then pay sales tax on the total retail price of taxable products. Second, manufacturing firms take taxes into account when they decide where to locate and expand their businesses. In addition to the price impact, part of the tax is borne by workers in lower wages and benefits than they otherwise would receive, and part by investors, who receive a lower return on capital. The Governor believes that illumining the sales tax on replacement capital equipment would promote economic growth and job creation. The tax expenditure is a revenue loss of $4.4 million in FY 97, and of a further $29.6 million in FY 1998-99.

Implications of eliminating the sales tax on business replacement capital equipment. The explanation of the Governor's tax policy objectives (above) gives the affirmative case for this tax expenditure. A discussion the Sales Tax Advisory Committee raised a concern about the *cumulative* fiscal impact of exempting replacement capital equipment; that is, the revenue estimate only reflects the *additional* revenue loss from accelerating the tax phaseout and ultimately eliminating the tax. (The revenue loss for current law is in the budget's revenue baseline.) In light of anticipated cuts in federal funding, a panel member recommended that the Legislature should consider a "revenue neutral" package, whereby the sales tax relief for businesses would be tied to offsetting expansion(s)of the sales tax base, another tax, or specific budget cuts. Proponents have argued that the economic stimulus the tax break provides will offset at least part of the revenue loss; however, that "dynamic revenue estimates" are not currently used in Minnesota, nor at the federal level, to estimate tax impacts.

Uniform tax treatment of leased movable property

The Governor recommends that Minnesota change the way it taxes multi-state corporations which lease "movable property" such as motor vehicles, railroad rolling stock, aircraft, and vessels. Large transportation companies primarily would be affected. Under current law, income (receipts) are allocated to the state where the property is based. The Governor's proposal would change this to an allocation formula, proportionate to where property is used. The policy objective is to "more fairly reflect the business activities conducted in this state" and ... "provide for consistent treatment of sales income resulting from the lease of movable property." The revenue losses are estimated at $1.1 million in FY 96, $2.5 million in FY 97; and $5.0 million in FY 1998-99.

Implications of uniform tax treatment of leased movable property. This proposal appears to be based upon part of a recommendation from the Multistate Tax Commission (MTC). The MTC recommendation, however, primarily addresses financial institution apportionment, model laws that were negotiated over a ten-year period by state tax administrators and financial institution representatives. The current version of Minnesota's financial institution apportionment formula is abased on a early draft of that proposal and it contains several technical and compliance problems. It remains for the introduction of a bill to learn whether the Administration will address those problems and issues this year; but the revenue estimate suggests that financial institutions will not be part of the legislation.

Phase Out Ethanol–Blended Motor Fuel Credit

The Governor's supplemental budget recommends a phase out of the credit motor fuel distributors receive on sales of ethanol–blended fuels to the state, local governmental units, and for use in transporting students. Under existing law, distributors receive an $0.80 per gallon credit against their motor fuels excise tax liability. Under the Governor's recommendation, the credit will be reduced to $0.60 per gallon after October 1, 1996, then down to $0.40 per gallon after October 1, 1997, then down to $0.20 per gallon after October 1, 1998, and finally eliminated after October 1, 1999. The Governor's supplemental budget contends that the credit is no longer necessary to encourage use of ethanol–blended fuels because "ethanol currently is used in over half of the gasoline received in Minnesota and oxygenated gasoline will be required in all Minnesota counties by 10-1-97."

Savings: Highway User Fund expenditures for the credit will be reduced $0.1 million in FY 1996–97 and $0.7 million in FY 1998–99.

Cost: General Fund expenditures will increase by an unknown portion of $0.1 million in FY 1996–97 and an unknown portion of $0.7 million in FY 1998–99 because the state will pay higher prices for fuel; school aids may need to be increased to compensate school districts for increased fuel costs.

Workstead Property Tax Relief

The Governor recommends that a "workstead" property tax refund be provided to owners of manufacturing businesses with 100 or less employees located in cities containing Federal Empowerment Zones. The "workstead" property tax relief program is capped at $2.0 million per year beginning in FY 97.

Property Tax Refunds Off Property Tax Statements

The Governor recommends repeal of the 1995 legislation that accounts for state property tax relief on the property tax statement rather than being paid directly to individuals. Legislation passed in 1995 changed the method in which the state property tax refund and targeted refund to homeowners was paid from a state issued check directly to the taxpayer, to a payment to counties which would be passed through to the taxpayer and accounted for on the property tax statement. Repeal of this provision in law would save $2.7 million in FY 98 and $500,000 in FY 99 in reduced administrative costs to counties.

Streamline Distribution Process for Aid to Police and Fire

The Governor recommends that the process for distributing Police and Fire State Aid be streamlined to eliminate unnecessary steps and reduce administrative costs for both the state and the jurisdictions receiving the state aid. The Governor's supplemental budget states that the administrative changes proposed in this provision will result in State Police Aid payments occurring one month after they occur under present law, but that this "should present no difficulty for local jurisdictions." This provision is expected to save $750,000 in additional cancellations to the general fund in FY 99.

Price of Government

November Forecast Has Mixed Impact On Price of Government Outlook

After the release of the November 1995 forecast, the Department of Finance prepared revised "Price of Government" targets for CY 95/FY 96 through CY 98/FY 99. The Price of Government targets for this biennium are lower under the November 1995 forecast than they were under the February 1995 forecast, but for the next biennium are higher under November forecast than under the February forecast.

In odd-numbered years, the "Price of Government" legislation requires the Governor to recommend and the Legislature to adopt targets for maximum total state and local revenues during the next two bienniums. The legislation requires those target maximums to be expressed as percentages of projected total personal income in Minnesota, rather than as dollar amounts. Those percentage target maximums are based on projections of future economic performance and revenue collections.

As new economic and revenue forecasts have become available, the Department of Finance has revised the target maximums to reflect those new forecasts. For example, during last session, the Governor submitted target recommendations to the Legislature that were based on the November 1994 forecast, as the law provides. The Department of Finance subsequently revised those recommendations to reflect the February 1995 forecast. The Legislature adopted those revised target recommendations. Now the Department of Finance again has revised the targets adopted by the Legislature to reflect the November 1995 forecast.

The Price of Government target maximums that the Legislature adopted, which were based on the February 1995 forecast, were 18.2 percent in CY 95/FY 96, 18.2 percent in CY 96/FY 97, 17.9 percent in CY 97/FY 98, and 17.7 percent in CY 98/FY 99. The revised target maximums, based on the November 1995 forecast, are 18.1 percent in CY 95/FY 96 (down 0.1 percent), 18.1 percent in CY 96/FY 97 (down 0.1 percent), 18.0 percent in CY 97/FY 98 (up 0.1 percent), and 17.9 percent in CY 98/FY 99 (up 0.2 percent).

Two factors are primarily responsible for the differences between the November and February target maximums.

- The November target maximums are based on a projection of faster growth in total personal income during this biennium than the projection underlying the February targets. Conversely, for the next biennium, the November targets are based on a projection of slower growth in total personal income than the projection underlying the February targets. This is because the November forecast projects stable economic growth, whereas the February forecast projected very slow economic growth during the first year of this biennium and more rapid economic growth beginning toward the end of the this biennium.

- The Department of Revenue increased its projection of the property tax growth rate. The impact of the difference between the faster growth rate underlying the November targets and the slower growth rate underlying the February targets becomes more pronounced in later years.

It is important to remember that the Price of Government target maximums adopted by the Legislature are targets, not limits on taxes. Moreover, those targets are based on projections and assumption that may prove not to be accurate. Because the Price of Government law imposes no limits on local governments' ability to levy taxes, local governments do not "violate" the Price of Government law if the sum of their local property tax levies in a particular year cause the actual ratio of total state and local revenues to total personal income to be higher than the target adopted by the Legislature.

For additional information, contact Bill Connors, Fiscal Analyst, room 430, 296-5813,
M.J. Hedstrom, Fiscal Analyst, room 428, 296-1237, or
Matt Shands, Fiscal Analyst, room 432, 296-4162.

Capital Budget Recommendations

For general capital budget questions, contact Greg Crowe, Fiscal Analyst, room 378, 296-7165.

K-12 Education Finance Division

The Governor's capital budget proposals for K-12 Education

The Governor's capital budget recommendations include $26.2 million for school districts, public libraries, the Faribault Residential Academies and the Minnesota Center for Arts Education. The major new program in these recommendations is the $20 million for a youth initiative.

The Governor's K-12 Education capital budget recommendations in detail

This section provides details of the Governor's K-12 Education proposals by agency. If enacted, the Governor's budget would fund:

Minnesota Center for Arts Education

Upgrading of the Delta Dormitory, including connecting to the central computer system, electrical wiring, ductwork, carpets, window treatments and a commercial stove. Cost: $612,000.

Asset preservation, including installation of sprinkler systems in existing buildings, replacement of deteriorating sidewalks and partial reconstruction of a road to a dormitory. Cost: $366,000.

Department of Children, Families and Learning (including school districts)

A new youth initiative. Grants would be available for school districts to repair, replace or construct recreation buildings and school buildings to provide youth in grades four through eight with enrichment activities during non-school hours. Enrichment programs could include academic programs, homework assistance, computer and other technology use and other recreational and cultural activities. Of this amount, $5 million each is for grants in Minneapolis and in St. Paul. The other $10 million would be for grants in the rest of the state with priority to areas with high concentrations of low income students. Cost: $20 million.

Accessibility grants for school districts, targeted to remove architectural barriers in school districts that have recently consolidated. Cost: $2 million.

Public library accessibility grants, for removal of architectural barriers in public libraries. Cost: $1 million.

Faribault Residential Academies

Asset preservation. Projects include window replacement, heating and cooling system remodeling, electrical system updating, roof repair and fire alarm system repair. Cost: $935,000.

Sidewalk replacement on the Academy for the Blind campus. Cost: $67,000.

Demolition of Dow Hall and the Old Industrial Building. Dow Hall has been vacated for several years and is a potential safety hazard. The Old Industrial Building has been condemned. A parking lot would replace these buildings. Cost: $1.2 million.

For additional information, contact Bill Marx, Fiscal Analyst, room 361, 296-7176

Higher Education Finance Division

The Governor's capital budget proposals for Higher Education

The Governor proposes $152 million in general obligation bonding for higher education. $54 million in capital financing would go for two projects at the Minnesota State Colleges and Universities and $98 million would go for six projects at the University of Minnesota. Some projects, such as repair and betterment, are recommended to be finance entirely by the state. Many other recommendations in higher education are subject to user financing of one-third of the project debt service.

The Governor's Higher Education capital budget recommendations in detail

This section provides details of the Governor's Higher Education proposals. If enacted, the Governor's budget would fund:

University of Minnesota

Higher Education Asset Preservation and Renewal (HEAPR) health and life safety improvements. Individual repair and betterment projects located throughout university buildings on all campuses statewide and are not subject to one-third user debt service. Cost: $18 million.

HEAPR facility renewal improvements. Recommended facilities renewals are modernizing outdated classroom space and are not subject to one-third debt service. Cost: $6 million.

Minnesota Library Access Center (MLAC), an underground, climate controlled archival facility for library materials. The facility will store and distribute materials from libraries throughout the state, improving library acquisition and planning statewide. It also houses a digitizing facility to improve the availability of library and archival materials online statewide. The Governor recommends this project be subject to one-third user financing. Cost: $43.1 million.

A new architecture building, including extensive renovations of the existing architecture building and 75,000 additional gross square feet of new space, allowing the University to consolidate the College of Architecture and Landscape Architecture in one facility. The Governor recommends the University pay debt service on $4.2 million, and that the University raise an additional 4.2 million from private sources. Cost: $21.0 million.

The Willmar poultry testing facility. This is for land acquisition and construction of a poultry testing laboratory for statewide usage. It is not recommended to carry one-third user financing. Cost: $104,000.

Academic Health Center, Centers of Excellence. This project includes $3.5 million for a new Magnetic Resonance Research Building and $3 million to remodel an existing building for a Molecular and Cellular Therapeutics facility. Both of these items would be subject to one-third user financing. In addition, the Governor is recommending up to $3 million, to be matched dollar for dollar by Fairview Hospital/University of Minnesota, to plan a transit way between Fairview and the University campus. Cost: $9.5 million.

Minnesota State Colleges and Universities

Higher Education Asset Preservation and Renewal (HEAPR). Individual repair and betterment projects located in university buildings on all campuses and not subject to one-third user debt service. Cost: $24 million.

A new library at St. Cloud State University. This facility would replace the current library which is undersized for future campus needs. This project is recommended to be subject to one-third user financing.
Cost: $29.995 million.

For additional information, contact Doug Berg, Fiscal Analyst, room 374 , 296-5346.

Health and Human Services Finance Division

The Governor's capital budget proposals for Health and Human Services
The Governor's Health and Human Services Capital budget recommends $4.1 million in general obligation bonds for Department of Human Services projects, primarily to renovate or improve the properties on the RTC campuses. Similarly, the budget also recommends $742,000 in general obligation bonds to renovate and improve Veterans Homes properties.

The Governor's Health and Human Services capital budget recommendations in detail

This section provides details of the Governor's Health and Human Services proposals by agency. If enacted, the Governor's budget would fund:

Department of Human Services

Asset Preservation, to maintain and improve the properties in the RTC system. Cost: $2 million.

Design and construction funding for a replacement hospital and linkage with a campus building for shared services at Anoka-Metro RTC. Cost: $332,000.

Heating, Ventilation, and Air Conditioning replacement and renovation for the Brainerd RTC campus. Cost: $1.8 million.

Veterans Home Board

Asset Preservation, to maintain and improve the properties for the Minneapolis and Hastings homes, which have the oldest structures in the system. Cost: $500,000.

Design and Construction for program rooms and a yard area for patients with Alzheimer's disease or dementia located at the Silver Bay Veterans Home. Cost: $242,000.

For additional information, contact Vicki Kunerth, Fiscal Analyst, room 376, 296-5483.

Judiciary Finance Division

The Governor's capital budget proposals for Judiciary Finance

The Governor recommends a capital budget of $109.3 million in general obligation bonds for FY 96 for criminal justice. The expected future spending associated with his recommendations includes $31 million in FY 98 and $2 million in FY 00.

This section provides details of the Governor's Judiciary Finance proposals. All bonding recommendations in the Governor's criminal justice bonding proposals are for the Department of Corrections. If enacted, the Governor's bonding requests would fund:

Construction of a new 800 bed prison to house the state's more dangerous and difficult to manage male felons in close custody. Cost: $99.999 million.

Design and construction of a new 100 bed health services center at the Stillwater correctional facility. Cost: $2.581 million in FY 96 and $23.1 million in FY 98.

Expansion of inmate bed capacity at the Brainerd Regional Treatment Center. The bond dollars would be for ADA renovation, fencing, and security. Ninety beds would be developed for the aging or disabled inmates and 210 beds would be developed for inmates meeting minimum custody criteria. Cost: $1.5 million.

Design of a 72-80 bed segregation unit at the Lino Lakes Correctional facility. Cost: $842,000 in FY 96 for design, with expected construction costs of $5.88 million in FY 98.

Relocation and renovation of the visiting, laundry, and X-ray rooms at the St. Cloud Correctional facility. Cost: $2.38 million.

Capital asset preservation. Cost: $2 million in FY 96, $2 million in FY 98 $2 million.

Implications of the Governor's capital budget proposals

The most significant request is $99.9 million for a new 800 bed close-security prison that is to be completed in 2000. There is some concern that the prison is too expensive, with some questioning whether the State is constructing a overly ambitious "Cadillac" prison. In addition, there are concerns about the high operating costs of the prison. The Bureau of Prisons has estimated that operating a prison over its useful life costs 15 to 20 times its construction costs. The estimated operating costs of the prison will be $40,000 per year per inmate, or $32 million per year.

According to bed projections recently released by the Department of Corrections, a year after the new prison is open there will be a bed shortage of over 500 beds. The department did request in their bonding recommendations a 400 bed adult male close custody facility that would cost $64 million. The Governor did not recommend this request.

For additional information, contact Gary Karger, Fiscal Analyst, room 385, 296-4181.

Environment and Natural Resources Finance Division

The Governor's capital budget proposals for Environment and Natural Resources

The governor's FY 96 capital budget request for the Environment and Natural Resources totals $155.773 million. The major areas of recommended funding include environmental protection, management of natural resources, outdoor recreation and preserving state assets.

The Governor has indicated that his recommendations were made taking into account the appropriations made in the 1995 session from the environmental trust fund and the Minnesota resources fund. These are the recommendations that are made by the Legislative Commission on Minnesota Resources. In the 1995 session approximately $15 million was appropriated from these funds for projects that are eligible for capital budget funding.

The Governor's Environment and Natural Resources capital improvement recommendations in detail

This section provides details of the Governor's Environment and Natural Resources capital budget proposals by agency. If enacted, the Governor's budget would fund:

Minnesota Department of Agriculture

Increased authority to issue bonds to be used for the Rural Finance Authority Loan Participation program, to purchase participation interest in loans to be made to farmers. Cost: $41 million.

Office of Environmental Assistance

Additional funds for the Solid Waste Processing Facilities Capital Assistance program, which provides grants to local governments to aid in the financing of solid waste processing facilities. Cost: $8 million.

Department of Natural Resources

Capital funds for dam repair, reconstruction and removal. Cost: $1.2 million.

Statewide asset preservation for Department of Natural Resources (DNR) buildings. Cost: $2 million.

State park building rehabilitation. Currently the DNR has identified needs in excess of $10 million on the park buildings. Cost: $1.5 million.

State park rehabilitation of non-building facilities, such as campsites, trails, roads and parking areas. Cost: $1.5 million.

State trail rehabilitation. Priority projects as listed by the Governor's recommendations include the Luce Line, Douglas, and North Shore state trails. The Governor recommends that the debt service on the North Shore Trail portion of the funding request be paid by the snowmobile account. Cost: $500,000.

Well sealing on state lands. The request includes $276,000 in a direct General Fund appropriation. Cost: $500,000.

Increased Flood Hazard Mitigation grants. The projects recommended by the Governor are located in Rochester, Montevideo, Cook, special district-Area II, Polk County, and Mahnomen County. Cost: $2.5 million.

New consolidated field offices. The Governor's priorities include the DNR offices in Grand Marais, International Falls, Warroad, and Windom. Cost: $7.1 million.

State park building development. Cost: $1 million.

Replacement and reconstruction of state forest roads and bridges. Cost: $250,000.

Rehabilitation and improvement of state forest campgrounds and day use areas. Cost: $400,000.

Development of Wildlife Management Areas and Scientific and Natural Areas. The funds are to be used for fencing, erosion control, access roads, parking lots and improving forest and grassland habitat. Cost: $1.3 million.

Acquisition of Wildlife Management Areas and Scientific and Natural Areas. Cost: $2.4 million.

Completion of the acquisition of lands located along the St. Louis River. Cost: $2.2 million.

Completion of the office consolidations at Detroit Lakes, Aitkin, Cambridge, and Two Harbors. Cost: $2.2 million.

Rehabilitation of existing water access facilities. Cost: $500,000.

Acquisition and development of state trails. Trails identified as priorities by the Governor include the Paul Bunyan, Luce Line, Heartland, Root River, and Shooting Star state trails. Cost: $3.5 million.

Rehabilitation of the DNR fish culture facilities. Improvements include hatcheries, rearing ponds, and holding facilities. Cost: $500,000.

Predesign cost of future office facility consolidations. Cost: $100,000.

Acquisition, development, and rehabilitation of projects within the metro regional park system. Cost: $4.5 million.

Fisheries improvement projects. Cost: $500,000.

Acquisition of trout stream easements and aquatic management areas for fisheries management purposes. Cost: $500,000.

Pollution Control Agency

Construction of 10 permanent monitoring stations to provide continuous water quality data at river and stream locations. General obligation bonds were allocated for these stations in the 1994 capital budget. However, State bond counsel has determined that these are not tax exempt bondable projects and that General Fund monies must be used. Cost: $200,000, direct General Fund appropriation.

Additional money for the combined sewer overflow program. The funds are to be used in the Red Wing project. Cost: $3.3 million.

Department of Trade and Economic Development, Public Facilities Authority

The water pollution control revolving fund. The state receives federal dollars and is required to match the funds. The state match is proposed to be used for municipal wastewater projects. Cost: $4 million.

The drinking water revolving fund. The state is required to match federal funds at the rate of $1 for every $5 of federal money. The funds would be used to address drinking water improvements statewide through loans to local government. Cost: $2 million.

Wastewater infrastructure fund grants, used to provide an additional subsidy to local wastewater projects. Cost: $2 million.

Board of Water and Soil Resources

RIM reserve program, used to acquire conservation easements from landowners. Cost: $7.5 million.

New funds for the area II grant-in-aid program. The project shares with the local units of government the construction cost of floodwater retention structures. The area II project includes the five major subbasins of the Minnesota River. Cost: $750,000.

Minnesota Zoological Gardens

Reconstruction of roadways and paths at the zoo. Cost: $750,000.

Grants to Local Political Subdivisions

The governor's capital budget recommendations contain requests for capital funding of several local political subdivision projects related to the Environment and Natural Resources, including:

A grant to the city of St. Paul to be used for construction of a new facility to be used by the Science Museum of Minnesota. Cost: $33.8 million.

A grant for the construction of a facility for exhibits, programs and events about Lake Superior at the Lake Superior Center, located in the city of Duluth. Cost: $14 million.

Predesign costs for the redevelopment of the Twin Cities Army Ammunition Plant, located in Arden Hills. Cost: $300,000.

A grant to the Stearns County Park Department to be used for the development of the Quarry Park and Nature preserve. Cost: $1.6 million.

Implications of the Governor's capital budget proposals

With $156 million of the Governor's $588.0 million bonding proposals, the Governor's recommends that a significant portion of the total capital budget be used for environmental projects. Several large building projects, including the Science Museum and the Lake Superior Center, make up a large portion of the recommended budget. Neither of these projects are State owned buildings, but are proposed as grants to local political subdivisions.

In his recommendations, the Governor has indicated in a number of items that he has taken into account the recommendations regarding similar funding from other sources, most often the Legislative Commission on Minnesota Resources recommendations.

For additional information, contact Jim Reinholdz, Fiscal Analyst, room 370, 296-4119

Economic Development, Infrastructure and Regulation Finance Division

The Governor's capital budget proposals for Economic Development, Infrastructure and Regulation

The Governor is proposing $11 million in bonding for FY 96, most of which would go toward energy investment loans.

The Governor's Economic Development, Infrastructure and Regulation capital budget recommendations in detail

This section provides details of the Governor's Economic Development, Infrastructure and Regulation proposals by agency. If enacted, the Governor's budget would fund:

Economic Security

Head Start improvement grants, to relocate or improve many of the state's 34 Head Start buildings. Cost: $2 million.

Historical Society

Critical restoration funding to the Historical Society, to be used to restore deteriorating buildings owned by the Minnesota Historical Society. Cost: $2 million.

Restoration of county and local historical sites. Cost: $500,000.

Housing Finance

Loans to local government for Transitional Housing. These loans will be used by local governments to construct and rehabilitate housing to be used by low income persons. Cost: $2.5 million.

Public Service

Additional Energy Investment Loans. This program has provided loans to school districts and local units of government to implement energy efficiency projects that would pay for themselves in ten years. The energy savings are then used by the recipient to repay the debt on the bonds. Cost: $4 million.

Implications of the Governor's capital budget proposals

Without the funding for Energy Investment Loans, local governments may lack the capital to initiate the projects which would be designed to pay for themselves in energy savings within a ten year period. In the long run, these project would provide a net gain in savings to local taxpayers.

For additional information, contact John Walz, Fiscal Analyst, room 383, 296-8236.

Transportation Finance Division

The Governor's capital budget proposals for Transportation

The Governor is recommending over $49 million in bonding projects for the Transportation Finance Division. The projects include replacement and additions to several MN/DOT buildings, as well as a Metro Public Safety Radio System.

The Governor's Transportation capital budget recommendations in detail

This section provides details of the Governor's Transportation proposals by agency. If enacted, the Governor's budget would fund:

Public Safety

Expanded driver license stations. Expansion is needed to handle an increase in applicants. Cost: $1.2 million Trunk Highway Bonds.

Transportation

Additions to and replacements of MN/DOT truck stations. Truck stations include; Deer Lake, Pipestone, Rushford, Hastings, Gaylord, Garrison, Hibbing, Long Prairie, Forest Lake, Erskine and Dilworth.
Cost: $6.8 million Trunk Highway Bonds.

Repair and replacement of several of Minnesota's bridges. Funding would be used to repair and replace those most critically in need. Cost: $10 million General Obligation, $16 million Federal Funding and $24 million local participation.

Metro Public Safety Radio System. This system would be provide a cohesive network for the metro area and be expandable in the future to include greater Minnesota. Cost: $15 million General Obligation and $15 million local participation.

Replacement of MN/DOT Bemidji Headquarters. Cost: $9 million Trunk Highway Bonds.

Asbestos removal from various buildings and a survey of others for the existence of asbestos. Cost: $225,000 Trunk Highway Bonds.

Construction of new chemical/salt storage buildings statewide. Cost: $1.0 million Trunk Highway Bonds

Addition to the Central Services Building. This would add heated service bays for radio installation. Cost: $855,000 Trunk Highway Bonds

Expansion of the State Patrol Headquarters in Rochester. Addition would include extra office space for dispatchers and spaces for impounded vehicle. Cost: $1.3 million Trunk Highway Bonds

Assist the development of Minnesota's port system. Funding would upgrade port sites along the Mississippi river and Lake Superior. Cost: $3 million General Obligation and $1.3 million local participation.

Construction of three new Class II rest areas. Locations in Filmore, Cook and Kanabec counties. Cost: $120,000 Trunk Highway Bonds.

Designs for building replacements and additions. Cost: $677,000 Trunk Highway Bonds.

Construct pole-type unheated storage facilities at MN/DOT buildings statewide. Cost: $387,000 Trunk Highway Bonds

Purchase surplus land from the federal government when made available. The land is located next to Central Services Complex and MN/DOT requests acquisition when the land becomes available. The land would be used for future expansion. Cost $200,000 Trunk Highway Bonds.

Implications of the Governor's capital budget proposals

MN/DOT feels the funding for bridge replacement is critical. Much of the request is needed to leverage federal dollars available to the state. Other funding would replace bridges less than 30 feet long, which do not qualify for federal aid.

For additional information, contact John Walz, Fiscal Analyst, room 383, 296-8236

State Government Finance Division

The Governor's capital budget proposal for State Government

The Governor recommends $79.4 million in total spending on capital projects for FY 96. Of this amount $71.4 million is from General Obligation bonds, $7.7 million is from the Trunk Highway Fund and $261,000 is from the General Fund. The Governor expands the Legislature's "Mighty Ducks" grants by providing $18.8 million to the Amateur Sports Commission. This recommendation includes money for an Olympic-size ice sheet and tennis facility adjacent to Mariucci Arena on the University's Twin Cities campus and statewide development of women's ice hockey. The Governor's capital budget includes associated costs in FY 98 of $173.4 million and in FY 00 of $31.6 million.

The Governor's State Government capital budget recommendations in detail

This section provides details of the Governor's State Government proposals by agency. If enacted, the Governor's budget would fund:

Department of Administration

The Capital Asset Preservation and Replacement Account (CAPRA), which allows for maintenance of existing assets and facilities statewide. There are several agencies that benefit from this recommendation: Administration; Corrections, Children, Families, and Learning; Natural Resources; Human Services; Economic

Security; Military Affairs; Veterans Home Board; MN Zoological Garden; and MN Historical Society.
Cost: $16 million.

Increased access for individuals with disabilities through the Statewide Building Access project which removes barriers to state-owned buildings, programs and services per the federal Americans with Disabilities Act.
Cost: $10 million.

Continued renovations in the Transportation Building. Cost: $5.5 million from the Trunk Highway Fund.

Improvements, upgrades and modifications to existing elevators in the Capitol. Cost: $1.7 million.

Agency relocation. Agencies planning relocations include: Labor & Industry (St. Cloud); Human Services (St. Cloud); Human Rights; Transportation; Public Safety; Health; Children, Families and Learning; and the Private Detective and Protective Agent Services Board. Cost: $261,000 from the General Fund and $2.2 million from the Trunk Highway Fund.

An architectural design competition and complete design and construction documents for a new Department of Health building and parking ramp. Cost: $4.9 million.

Design of a new Department of Revenue building. Cost: $1.9 million.

Predesign and acquisition of existing facilities, design and renovation or expansion of the warehouse type buildings located between Lafayette Park and the Capitol Complex (Support Services Facility).
Cost: $8 million.

Improvements to the electrical utility infrastructure within the Capitol Complex. Cost: $1.6 million.

Predesign, land acquisition, design and construction of a new warehouse type facility for a new Travel Management Center. Cost: $2.7 million.

Amateur Sports Commission

An additional $8.8 million for "Mighty Ducks" Community Ice Center Grants and $10 million for design and construction of an Olympic-size ice sheet and tennis court facility adjacent to Mariucci Arena.
Cost: $18.8 million.

Capitol Area Architectural and Planning Board (CAAPB)

Reconstruction (structural stabilization) of terraces of the Capitol Building. Cost: $4.8 million.

Military Affairs

Two projects in Military Affairs: 1) $400,000 for renovation of 30 kitchen facilities at various Armory locations statewide, and 2) $532,000 for asset preservation at various Armory locations statewide. Cost: $932,000.

For additional information, contact Kim Cousin, Fiscal Analyst, room 372, 296-4117.