

# *Fiscal Review*

*Minnesota State Senate*

*2008 Session*



# Dates of the 2008 Legislative Session

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to May 18, 2008**

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## REPORT PREFACE

The *Fiscal Review* is an annual report of budget and fiscal policy actions taken by the Minnesota Legislature. The report covers all budgetary funds (All Funds) with special attention given to the General Fund, which is required by the Minnesota State Constitution to be balanced. Budgetary funds reflect the operating budget for the state but include only about 40 of the over 130 different state funds established in law.

Minnesota operates on a two-year (biennial) budget enacted in odd-year legislative sessions; biennial budget revisions and major capital investments tend to be the focus of even-year legislative sessions. While most revenue and expenditure amounts are presented as biennial amounts, annual amounts may provide a more complete understanding of the timing of revenue and appropriations. Additional detail is available by consulting legislative budget tracking sheets at:

[http://www.senate.mn/departments/fiscalpol/tracking/index.php?ls=&archive\\_year=2008](http://www.senate.mn/departments/fiscalpol/tracking/index.php?ls=&archive_year=2008)

Additional detail may also be obtained by contacting the relevant Senate fiscal staff.

### **Appropriations Defined**

Appropriations are authorizations made by the Legislature to spend money from the state treasury for the purposes established by law. The Minnesota Constitution prohibits the payment of money out of the treasury unless appropriated by the Legislature. The Governor may veto appropriations but cannot create appropriations.

Direct appropriations are authorizations to spend a specific dollar amount, usually for a limited time period such as one year or a biennium. Open appropriations, which are less common, authorize an open-ended spending level, such as a “sum-sufficient” to meet a defined need or formula. The amounts shown in the *Fiscal Review* for open appropriations reflect estimates of expected spending.

Most direct appropriations are established in session law and expire at the end of the biennium, or other specified time, and must be renewed every two years in order to continue spending authority. Statutory appropriations, on the other hand, are set in state statutes and provide ongoing authority to spend money from the treasury even if a biennial budget is not adopted. Statutory appropriations may authorize either a specific dollar amount or an open-ended amount.

Distinct from the various appropriation types, dedicated revenues and expenditures refer to streams of revenue that are dedicated to specific funding purposes. Amounts shown for authorized spending levels reflect estimates of the revenues to be generated and the allocation of those revenues established in law.

Further, it should be noted that significant portions of some state agency operations, such as the Department's of Administration and Finance, are funded through charges to the other state agencies. Monies appropriated to an agency may be used to purchase services from another state agency whose mission it is, in part, to provide for centralized operating functions. To fully describe budget activity while avoiding double-counting, budget totals are reported based on the agency to which funds are appropriated, but some *Fiscal Review* chapters also discuss agency activities that are supported through charges to other state agencies.

### **Appropriations versus Spending**

Amounts shown in the *Fiscal Review* for the current biennium (FY 2008-2009) reflect appropriation levels authorized by the Legislature. Amounts shown for the next biennium, often referred to as appropriation "tails," reflect estimates of future biennial spending assuming current law programs are carried forward for another two years. This *Fiscal Review*, which reports primarily on adjustments made to the biennial budget enacted in 2007, compares current biennial appropriations to those previously enacted for the same period (e.g. FY 2008-2009), as well as to the February 2008 Forecast "base." In general, "base" spending refers to the amounts that would be spent based on the enacted budget and existing entitlements prior to any adjustments made by the 2008 Legislature.

### **Guide to 2008 Fiscal Policy Legislation**

Omnibus bills often contain provisions that affect multiple budget areas. Most fiscal policy provisions enacted by the 2008 Legislature were contained in the Omnibus Supplemental Finance Bill (Chapter 363) or the Omnibus Supplemental Tax Bill (Chapter 366). The following table provides a guide to the *Fiscal Review* chapters that capture the state budget provisions contained in various laws enacted in 2008.

SESSION LAW CHAPTER	DESCRIPTION (FISCAL REVIEW CHAPTER)
<b>Chapter 151, Dedicated Funding</b>	Authorizes a constitutional amendment on the November 2008 ballot to increase the state general sales tax by 3/8ths of one percent and dedicates the receipts (see <b>Dedicated Funding</b> ).
<b>Chapter 152, Omnibus Transportation Finance</b>	Increases dedicated revenues such as motor fuels and motor vehicle registration taxes to fund highway and transit projects (see <b>Transportation and Capital Investment</b> ).
<b>Chapter 154, Omnibus Tax Technical Bill</b>	Conforming Minnesota tax laws to certain federal tax code changes (see <b>State Tax Revenues and Tax Aids and Credits</b> ).
<b>Chapter 179, Omnibus Capital Investment I</b>	Various bonding authorizations (see <b>Capital Investment</b> ).
<b>Chapter 288, I-35W Survivor Compensation Fund</b>	(See <b>State Government Finance and I-35W Bridge Collapse</b> ).
<b>Chapter 358, Health Care Reform</b>	Various changes related to public and private health care service delivery in Minnesota and to state funded health care programs (see <b>Health Care Reform</b> ).
<b>Chapter 363, Omnibus Supplemental Budget Bill</b>	<p>Net appropriation reductions and nontax revenues and transfers made to various budget areas to eliminate the General Fund budget deficit.</p> <ul style="list-style-type: none"> <li>• Articles 1-3, (see <b>E-12 Education</b>)</li> <li>• Article 4, (see <b>Higher Education</b>)</li> <li>• Article 5-6, (see <b>Environment and Energy</b>)</li> <li>• Article 7-9, (see <b>Agriculture, Veterans &amp; Military Affairs</b>)</li> <li>• Article 10, (see <b>Economic Development</b>)</li> <li>• Article 11, (see <b>Transportation</b>)</li> <li>• Article 12, (see <b>Judiciary &amp; Public Safety</b>)</li> <li>• Article 13, (see <b>State Government Finance</b>)</li> <li>• Article 14, (see <b>State Budget Overview</b>)</li> <li>• Articles 15–19, (see <b>Health &amp; Human Services</b>)</li> </ul>
<b>Chapter 365, Omnibus Capital Investment II</b>	Various bonding authorizations (see <b>Capital Investment</b> ).
<b>Chapter 366, Omnibus Tax Bill</b>	Modifications to various revenues and tax aid and credit programs (see <b>State Tax Revenues and Tax Aids &amp; Credits</b> ).

In addition, a variety of other laws enacted during 2008 also have state budget impacts, including: Chapter 226, the Claims Bill; Chapter 274, Bovine Tuberculosis Prevention (see Agriculture, Veterans and Military Affairs); Chapters 287 and 350, Transportation Policy (see Transportation); Chapter 296, Legislative Energy Commission (see Environment and Energy); Chapter 297, Agricultural Policy Bill (see Agriculture, Veterans and Military Affairs); Chapter 298, Higher Education Policy Bill, (see Higher Education); Chapter 310, Education Policy Bill (see E-12 Education and Higher Education); Chapter 340, Cap and Trade (see Environment and Energy); and Chapter 349, Omnibus Pensions Bill (see State Government Finance).

## STATE BUDGET OVERVIEW AND HIGHLIGHTS

The state budget actions enacted by the 2008 Legislature focused on elimination of a projected \$935 million General Fund deficit for FY 2008-2009 and on providing increased funding for transportation and transit programs and for statewide capital improvements. The projected General Fund deficit was resolved through a combination of new revenues, spending reductions, transfers-in from nongeneral funds, and use of the budget reserve. The revised General Fund budget balance is now a positive \$6 million for FY 2008-2009.

### ALL FUNDS BUDGET SUMMARY

As summarized in Table 1, the Minnesota state budget for the FY 2008-2009 biennium now totals \$56.5 billion for all funds, an increase of \$1.1 billion over the previously enacted budget for FY 2008-2009 and \$573 million over the 2008 February Forecast.

<b>Table 1</b> <b>FY 2008-2009 Biennial Budget—All Funds Spending</b> <b>Comparison of End-of-Session 2007* to End-of-Session 2008</b> <i>(dollars in millions)</i>					
	Original Budget	Forecast Changes	Forecast Base (02/07)	Legislative Changes	Current Budget
General Fund	34,621	97	34,718	-125	34,593
Other Funds	7,909	391	8,300	376	8,677
Federal Funds*	12,880	20	12,900	322	13,222
<b>Total Spending</b>	<b>55,410</b>	<b>508</b>	<b>55,918</b>	<b>573</b>	<b>56,492</b>

\* Includes federal TANF and federal fund spending; some federal monies are spent through other funds, such as highway funds.

The \$573 million net increase relative to the February Forecast reflects a decrease of \$125 million in General Fund spending, a \$376 million increase in state nongeneral fund spending, and a \$322 million increase in federal funds received by the state. The nongeneral fund increases, however, are generally not in the same program areas as the General Fund reductions. Much of the budget increase for federal funds and nongeneral state funds is attributable to spending for transportation and transit programs, including federal funds for the reconstruction of the I-35W Bridge over the Mississippi River in Minneapolis.

Table 2 summarizes the changes in all-funds spending by budget area. Changes in the transportation budget account for \$468 million of the \$573 million net increase. In addition, net spending also increased for education, capital projects and debt service, and agriculture and veterans programs. Those increases are partially offset by decreases in spending for human services, state government operations, higher education, and other budget areas.

<b>Table 2</b> <b>All Funds Biennial Budget by Budget Area</b> <b>Comparison to FY 2006-2007 and Forecast</b> <i>(dollars in millions)</i>					
<b>Budget Area</b>	<b>Original Budget</b>	<b>Forecast Changes</b>	<b>Forecast Base (02/07)</b>	<b>Legislative Changes</b>	<b>Current Budget</b>
E-12 Education	15,165	44	15,209	<b>30</b>	15,239
Higher Education	3,214	0	3,214	<b>-17</b>	3,198
Health & Human Services*	21,290	-13	21,277	<b>-57</b>	21,220
Agriculture & Veterans	433	6	439	<b>17</b>	456
Environment, Energy, Natural Resources**	1,530	25	1,555	<b>79</b>	1,633
Economic Development	1,200	24	1,224	<b>-6</b>	1,218
Public Safety	1,417	20	1,437	<b>2</b>	1,439
Judiciary	772	0	772	<b>-5</b>	767
Transportation	4,894	68	4,962	<b>468</b>	5,431
State Government	806	7	813	<b>37</b>	850
Property Tax Aids & Credits	3,094	42	3,136	<b>2</b>	3,138
Debt Service	1,475	295	1,770	<b>9</b>	1779
Capital Projects	21	0	21	<b>14</b>	35
Other	99	-10	89	<b>0</b>	89
<b>Total Spending</b>	<b>55,410</b>	<b>508</b>	<b>55,918</b>	<b>573</b>	<b>56,492</b>

\* Includes \$32.7M for county TCM and amounts for Veterans Home Board.

\*\* Amounts for FY 2009 LCCMR appropriations included revised budget only.

## GENERAL FUND SUMMARY

As shown in Table 3, the FY 2008-2009 biennial budget enacted during the 2007 session, along with the disaster relief provisions enacted during the September 2007 First Special Session, provided for a positive General Fund balance of \$294 million. By the February 2008 state budget forecast, however, the projected General Fund budget balance had declined to a negative \$935 million. The \$1.229 billion change consisted primarily of a \$1.27 billion decline in projected General Fund revenues.

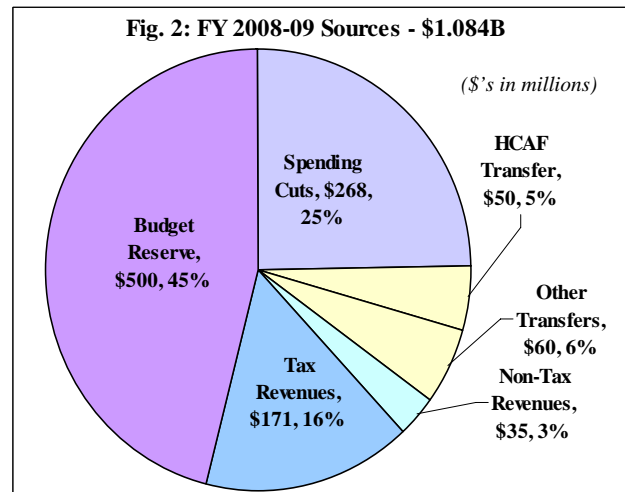
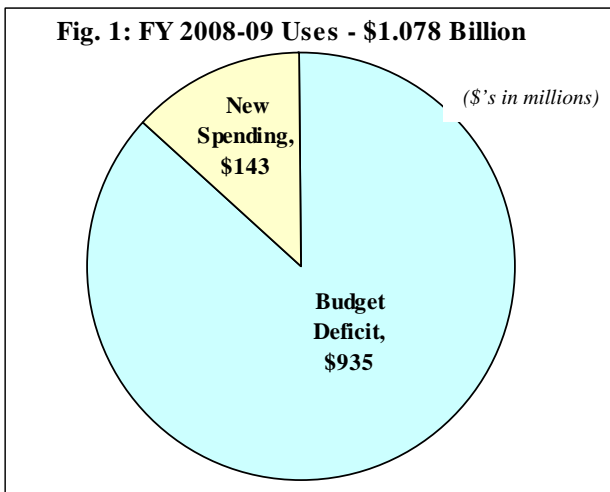


<b>Table 3</b>					
<b>Comparison of FY 2008-09 General Fund Budget Balance, 2007 End-of-Session, Feb. 2008 Forecast, and Current</b>					
<i>(\$'s in millions)</i>	<b>2007 End-of-Session</b>	<i>Forecast Changes*</i>	<b>Feb. 08 Forecast</b>	<i>2008 Leg. Changes</i>	<b>Current Budget</b>
<b>Resources:</b>					
Balance Forward	2,106	139	2,245		2,245
Revenues & Transfers-in	33,812	(1,270)	32,542		32,857
Tax Revenue Changes**				171	
Non-Tax Revenue Changes				35	
Transfers-In				110	
Net Change				315	
<b>Uses:</b>					
Expenditures	34,621	(97)	34,718		34,593
Additional Spending				143	
Spending Reductions				(268)	
Net Change				(125)	
Reserves	1,003		1,003	(500)	503
<b>Budget Balance (Resources – Uses)</b>	<b>294</b>	<b>(1,229)</b>	<b>(935)</b>		<b>6</b>

\* For more information on these forecast changes see Fiscal Issue Brief posted at <http://www.senate.mn/departments/fiscalpol/reports/index.php?ls=85#header>.

\*\*Includes revenue from tax compliance and bank data match initiatives.

The 2008 Legislature eliminated the projected \$935 million deficit and funded \$143 million of targeted spending increases through a combination of new revenues, spending reductions, fund transfers, and use of the budget reserve. As shown in the two shaded columns of Table 3, FY 2008-2009 General Fund revenues are now projected to total \$32.857 billion, \$315 million more than the February Forecast. Spending is projected to total \$34.593 billion, \$125 million less than the February Forecast. The changes in revenues and spending, along with \$500 million from the budget reserve, results in a positive projected General Fund balance of \$6 million for the biennium ending June 30, 2009.



As shown in Figure 2, of the \$1.084 billion directed toward General Fund deficit elimination and spending increases, \$500 million, or about 45 percent, is from a reduction in the budget reserve. Reductions to previously enacted appropriations account for \$268

million or 25 percent of the budget solution, while new revenues of \$208 million account for 19 percent. Onetime transfers from other state funds account for \$110 million, or about eleven percent of the solution, including a \$50 million transfer from the Health Care Access Fund (HCAF) that must be repaid from General Fund savings resulting from the health care reforms enacted in 2008.

### General Fund Revenue Changes

FY 2008-2009 revenues are projected to be \$32.857 billion, an increase of \$315 million relative to the February Forecast. This amount includes \$110 million in transfers from other funds, an increase of \$35 million in nontax revenues, and net new tax revenue of \$171 million, including revenue from tax compliance initiatives.

<b>Table 4</b>		
<b>Summary of General Fund Revenue Changes</b>		
<i>(dollars in millions)</i>		
	<b>FY 2008-09</b>	<b>FY 2010-11</b>
<b>Feb. 2008 Forecast Revenue</b>	<b>32,542</b>	<b>35,044</b>
<b><u>Tax Revenue Changes</u></b>		
Ch. 152 – Transportation Finance	-0.4	-72
Ch. 154 – Federal Tax Conformity	0	-4
Ch. 366 – Omnibus Tax Bill	141	141
Ch. 358 – Individual Health Premiums		-2
Ch. 363 – Bank Data Matches	10	20
Ch. 363 – Expanded Tax Compliance Staff	<u>21</u>	<u>42</u>
<b>Total Tax Revenue Changes</b>	<b>171</b>	<b>125</b>
<b><u>Non-Tax Revenue Changes</u></b>		
Ch. 152 – Transportation Finance		-9
Ch. 363 – Omnibus Supplemental Finance		
Elimination of Mutual Fund Fee Cap	21	23
Worker’s Comp. Assigned Risk Plan	15	
Other	<u>-1</u>	<u>-</u>
<b>Total Non-Tax Revenue Changes</b>	<b>35</b>	<b>14</b>
<b><u>Transfers-In Changes</u></b>		
Ch. 363 – Omnibus Supplemental Finance		
Health Care Access Fund	50	
State Airports Fund	15	
Other Funds	42	3
Ch. 366 – HIF Fund	1	*
Ch. 363 – Health Care Reform	<u>0</u>	<u>2</u>
<b>Total Transfer-in Changes</b>	<b>107</b>	<b>4</b>
<b>Total Revenue Changes</b>	<b>315</b>	<b>142</b>
<b>Revised Revenues</b>	<b>32,857</b>	<b>35,187</b>

\* Less than \$1 million but results in total transfers of \$4 million.

While most FY 2008-2009 revenue increases, other than changes for June accelerated sales tax, carry forward into future budget years, the permanent revenue increases are partially offset by revenue reductions attributable to the dedication of sales taxes on motor vehicle leases enacted in the Transportation Finance Bill and other tax changes that begin in FY 2010.

### General Fund Spending Changes

As shown in Table 5, FY 2008-2009 General Fund spending is now projected to be \$34.593 billion, a net decrease of \$125.3 million relative the 2008 February Forecast. Legislative changes enacted in 2008 resulted in a FY 2008-2009 net spending reduction in most budget areas, with the exceptions of early childhood and K-12 education and debt service and capital projects. The increase for state government finance primarily reflects a \$38.0 million onetime appropriation for the I-35W Survivor Compensation Fund and increased funding to hire staff to conduct more tax compliance initiatives.

<b>Budget Area</b>	<b>Original Budget</b>	<b>Forecast Changes</b>	<b>Fcst. Base (02/07)</b>	<b>Legislative Changes</b>	<b>Current Budget</b>
E-12 Education	13,781	24	13,805	25	13,830
Higher Education	3,155	-	3,155	-17	3,138
Property Tax Aids and Credits	3,109	42	3,152	2	3,154
Health & Human Services*	9,728	63	9,791	-172	9,619
Public Safety	1,136	-	1,136	-5	1,131
Judiciary	750	0	750	-5	745
Transportation	249	-	249	3	252
Environment, Energy, & Natural Resources	448	3	451	-7	443
Ag & Veterans	184	3	187	1	189
Economic Development	389	8	397	-3	394
State Government**	656	8	664	37	701
Debt Service	913	-44	869	2	871
Capital Projects	21	0	21	14	35
Other	102	-10	91	0	91
<b>Total for Budget Area</b>	<b>34,621</b>	<b>97</b>	<b>34,718</b>	<b>-125</b>	<b>34,593</b>

\* Health and Human Service amounts include \$32.7 million appropriated to a contingency account for purposes of reimbursing counties for loss of federal funds for targeted case management.

\*\* Includes \$38.0 million legislative change for I-35W Bridge Survivor Compensation.

The net General Fund decrease consists of targeted appropriation increases of \$142.9 million, along with appropriation reductions of \$268.3 million. Table 6 summarizes the General Fund appropriation changes made by the 2008 Legislature by budget area, including new spending and spending cuts for FY 2008-2009. Of the \$142.9 million in new spending for the current biennium, \$101.0 million, or 71 percent, is for onetime spending priorities, and \$7.5 million is spending necessary to leverage new

revenues, such as the bank data match delinquent tax collection efforts and expanded tax compliance efforts funded in the state government budget.

<b>Table 6</b>				
<b>General Fund Spending Changes by Budget Area</b>				
	<b>FY 2008-09</b>			
<i>(dollars in millions)</i>	<b>New Spending</b>	<b>Spending Reductions</b>	<b>Net Change</b>	<b>FY 2010-11 Net Change</b>
E-12 Education	46.0	-20.3	25.7	48.6
Higher Education	0.7	-22.4	-21.6	-33.4
Health & Human Services	8.4	-180.7	-172.3	-220.4
Agriculture & Veterans	12.1	-10.6	1.5	9.3
Environment & Energy	1.4	-8.5	-7.1	-3.7
Economic Development	8.0	-6.5	1.5	-1.2
Public Safety	0.4	-5.1	-4.7	-10.4
Judiciary	0	-5.5	-5.5	-11.0
Transportation	2.8	-0.2	2.6	-0.4
State Government	7.4	-8.5	-1.1	3.3
Property Tax Aids & Credits	1.6	0	1.6	182.3
Debt Service & Capital Projects	16.1	0	16.1	40.1
Other- Victims Compensation Fund	38.0	0	38.0	0
<b>Total</b>	<b>142.9</b>	<b>-268.3</b>	<b>-125.3</b>	<b>3.1</b>

Budget savings resulting from the continuation of permanent spending reductions into future budget years (FY 2010-2011) are offset by ongoing spending increases. Relative to the 2008 February Forecast, FY 2010-2011 spending is projected to be \$3.1 million higher. Permanent spending increases consisted primarily of K-12 education provisions related to eliminating the permanent school fund subtraction from the general education program, and funding for bovine tuberculosis response, veterans programs, nursing homes, debt service, and for individual property tax relief and local government aid beginning in calendar year 2009 (FY 2010).

#### **General Fund Tails, FY 2010-2011**

As summarized in Table 7, FY 2010-2011 General Fund revenues are now projected to total \$35.187 billion, \$143 million more than the February Forecast, and spending is projected to total \$36.133 billion, \$3 million more than the February Forecast. As a result, the budgetary balance<sup>1</sup> for FY 2010-2011 is now projected to be \$940 million before considering the potential impact of price-inflation on the costs of delivering state government services, and \$2.0 billion if the planning estimate for inflation is included.

<sup>1</sup>“Budgetary balance” refers to the amount expected to be left on the bottom line after expenditures and reserves have been subtracted from total available resources, including carry-forwards from previous biennia, and is consistent with the constitutional expectation that the budget be balanced.

<b>Table 7</b>			
<b>Revised FY 2010-2011 Planning Estimates</b>			
<i>(dollars in millions)</i>	<b>Feb. 08 Forecast</b>	<i>2008 Legislative Changes</i>	<b>FY 2010-11</b>
Resources:			
Balance Forward	1,003		509
Reduced Budget Reserve		(500)	
Unreserved FY08-09 Balance		6	
Revenues & Transfers-in	35,044		35,187
Tax Revenue Changes**		125	
Non-Tax Revenue Changes		14	
<u>Transfers-In</u>		<u>4</u>	
Net Change		143	
Uses:			
Expenditures	36,130		36,133
Additional Spending		352	
<u>Spending Reductions</u>		<u>(349)</u>	
Net Change		3	
Reserves	1,003		503
Budget Balance (Resources – Uses)	(1,086)		(940)
<i>Planning Estimate Inflation</i>	<i>(1,040)</i>		<i>(1,040)</i>
<i>Inflation Adjusted Shortfall</i>	<i>(2,126)</i>		<i>(1,980)</i>

\*\*Includes revenue from tax compliance and bank data match initiatives.

The projected structural imbalance<sup>2</sup> of \$946 million for FY 2010-2011, or the difference between expected revenues to be collected during FY 2010-2011 and expected spending during the same period, is similar to the projected budget imbalance of \$940 million, since the projected carryforward balance from FY 2008-2009 is minimal (\$6 million).

#### **Budget Reserve and Cash Flow Accounts**

The budget deficit solution reduced the budget reserve from \$653 million to \$153 million. No changes were made to the cash flow account, which remains at \$350 million. A total of \$503 million remains in these two accounts.

Previously enacted statutory provisions (Minnesota Statutes, section 16A.152) provide for the replenishment of the budget reserve up to \$653 million if, on the basis of a forecast of General Fund revenues and expenditures, the Commissioner of Finance determines that there will be a positive unrestricted General Fund balance at the close of the biennium.

<sup>2</sup> “Structural balance” is a measure that indicates the sustainability of current revenue and spending patterns by comparing whether biennial revenues are greater than biennial spending.

## **HIGHLIGHTS BY BUDGET AREA**

Following are the highlights of the changes made in each budget area; changes are discussed for fully in the relevant chapters.

### **Revenues**

The February Forecast revenue projections for FY 2008-2009 were \$1.23 billion lower than biennial revenues projected during the 2007 legislative session, when the biennial budget was adopted. The 2008 Legislature increased General Fund revenues by a net of \$315.4 million for FY 2008-2009, including a net increase in tax revenues of \$170.8 million, or 0.6 percent, relative to the February Forecast. The other revenues consisted largely of transfers into the General Fund from other funds.

### **E – 12 Education Budget**

General fund spending for E-12 education increased by a net of \$25.7 million for FY 2008-2009, or 0.2 percent, relative to the 2008 February Forecast. The net change primarily reflects an appropriation increase of \$43.7 million to fund a onetime increase of \$51 per-pupil unit for FY 2009. While the \$51 per-pupil unit will benefit all school districts, the FY 2009 costs are partially offset by reductions in selected education programs. Beginning in FY 2010-2011, the Permanent School Trust Fund subtraction from the general education payments is eliminated. The subtraction elimination will increase education funding about \$30 million per year in FY 2010-2011.

### **Higher Education Budget**

State funding for higher education systems and programs totals \$3.2 billion, \$17 million less than previously enacted for FY 2008-2009. All of the change is attributable to reductions in General Fund appropriations, which account for over 98 percent of state spending for higher education. The \$17 million consists primarily of general reductions for MnSCU (\$7.8 million) and the University of Minnesota (\$12.3 million). An increase in federal student financial aid funding allowed \$14.3 million of state funds to be directed toward increased state grants for eligible students.

### **Health and Human Services Budget**

Relative to the 2008 February Forecast, appropriations from all sources decreased by a net of \$57.7 million for FY 2008-2009, with General Fund decreases of \$172.2 million being partially offset by increases of \$16.2 million in the Health Care Access Fund and by \$85.3 million in the TANF Fund. General Fund changes include reductions in payments to hospitals; cuts in grant programs; reductions in managed home and community-based waiver funding; delays in the timing of various expenditures; and the temporary use of federal TANF funds to pay for some services that had previously been funded with General Funds. Appropriations were increased \$5.8 million to fund a two-percent COLA for nursing facilities. In addition, a variety of transfers were also made from dedicated funds to the General Fund, including \$50 million from HCAF, which is to be repaid through demonstrated General Fund savings resulting from health care reform measures also enacted in 2008.

### **Health Care Reform**

Chapter 358 contains a variety of health care reform measures funded largely by HCAF, including appropriation increases of \$13.5 million in FY 2009 and \$129.0 million in FY 2010-2011. In addition, this legislation included several provisions that contribute to a net General Fund spending reduction of \$3.8 million in FY 2009 and by \$18.5 million in FY 2010-2011. The health care reforms include cost containment measures expected to reduce health care expenditures within the Minnesota marketplace by 12 percent—or \$6.9 billion—by 2015, as well as improve the quality of health care, broaden public health activities, and expand health care coverage to an additional 12,000 Minnesotans.

### **Environment, Energy, and Natural Resources Budget**

The 2008 Legislature increased state appropriations for the environment and energy budget areas by \$78.5 million from all funds, including a net General Fund reduction of \$7.1 million. Most of the all funds increase is attributable to an increase in federal funds and appropriation of the FY 2009 LCCMR budget. In addition, General Fund balance was achieved in part through the elimination of the revenue cap on mutual fund registration fees—which will increase General Fund revenues by \$25.6 million—as well as various onetime transfers from nongeneral funds into the General Fund totaling \$19.7 million for FY 2008-2009.

### **Agriculture and Veterans Affairs Budget**

While spending for agriculture and veterans programs is expected to be \$17.1 million more than the 2008 February Forecast for FY 2008-2009, and \$22.7 million more than the previously enacted budget for FY 2008-2009, much of the increase is attributable to a \$13.7 million increase in federal funds for this program area. A net increase of \$1.4 million in General Fund support includes a \$6.1 million increase to combat bovine tuberculosis and a \$4.1 increase for various veterans programs. Those and other targeted appropriation increases are partially offset estimated savings of \$10.1 million in the state appropriation for the G.I Bill funding. These savings are made possible largely because of increased federal funds resulting in lower participation in the state program than previously anticipated.

### **Economic Development Budget**

General Fund appropriations for economic development activities decreased by a net of \$3.3 million, including targeted spending increases offset by various reductions. In addition, efforts to balance the General Fund budget included \$12.8 million of transfers-in from other funds.

### **Judiciary Budget**

The General Fund budget for Minnesota's court system and related operations was reduced by \$5.5 million, or 7.4 percent, relative to the previously enacted budget for FY 2008-2009. This budget now totals \$744.9 million, 97 percent of which comes from the General Fund, and most is attributable to the personnel costs for judges, court staff, and public defenders. The \$5.5 million includes a \$1.0 million reduction for the Supreme Court (1.1 percent), a \$2.8 million reduction for the district courts (0.6 percent), and a \$1.5 million reduction for the Public Defense Board (1.1 percent).

### **Public Safety Budget**

The public safety budget for FY 2008-2009 totals \$1.4 billion following changes enacted during the 2008 legislative session. The budget reflects a reduction of \$4.7 million, or 0.4 percent, relative to previously enacted state appropriations. The \$4.7 million includes funding reductions for counties to pay the costs of housing short-term offenders (\$2.1 million); implementation of the CriMNet system (\$1.3 million); sentence-to-service program (\$0.6 million); and other cuts. While state agencies were awarded additional federal grants totaling \$6.7 million, these grants are for specific projects and do not offset the General Fund budget reductions.

### **Transportation Budget**

The transportation budget now totals \$5.4 billion, \$468.4 million, or 9.4 percent, more than the amount forecast in February, and \$536.4 million, or 11.0 percent, more than the previously enacted budget for FY 2008-2009. While 2008 legislative actions reduced appropriations in many budgets to balance the General Fund, funding increases to the transportation budget, which is funded 96 percent from nongeneral funds, reflects passage of a major transportation finance package supported by increases in dedicated revenues, such as the motor fuels tax, motor vehicle registration tax, and trunk highway bonds. In addition, \$275.2 million of the increase since the previously enacted budget reflects additional federal funds attributable primarily to the reconstruction of the I-35W Bridge over the Mississippi in Minneapolis. General Fund spending will increase by a net of \$2.3 million for FY 2008-2009, reflecting targeted onetime appropriations offset in part by several appropriation reductions.

### **State Government Budget**

While General Fund appropriations for the state government budget accounts increased by a net of \$4.9 million for FY 2008-2009, the net change consists largely of across-the-board reductions in state agency budgets offset by a few selected appropriation increases, including \$7.4 million the Department of Revenue to support tax compliance initiatives and a onetime appropriation of \$38.0 million to be administered by the Department of Finance for the survivors of the I-35W Bridge collapse. The tax compliance efforts are expected to increase General Fund tax revenues by \$31.0 million in FY 2009 and \$62.0 million in FY 2010-2011 (see also State Tax Revenues chapter).

### **Tax Aids and Credits**

While the 2008 Legislature made only modest changes to tax aid and credit programs for FY 2008-2009—a net increase of \$1.6 million or less than one-tenth of one percent over the February Forecast—increases in direct property tax relief and local government aids beginning in calendar year 2009 (FY 2010) are expected to increase General Fund spending by a net of \$182.3 million in FY 2010-2011. Changes enacted for aid payable in calendar year 2009 (FY 2010) include \$15.5 million to support various changes to the homeowner property tax refund program, \$42 million increase for local government aid (LGA), and \$22 million for county program aid. Levy limits will be imposed on local units of government—counties and cities with populations over 2,500 persons—for taxes payable in years 2009 through 2011.



**Debt Service**

Three bills enacted in 2008 contain a total of \$1.027 billion of increased bond authorizations for various capital improvement projects, including \$883 million of general obligation bonds, \$56.9 million of user-financed bonds to be paid by MnSCU, and \$25.0 million of revenue bonds for the new closed landfill program. General obligation bonds included funding for higher education facilities; transportation; public works; environment and natural resource projects; state capitol building maintenance; the expansion of correctional facilities; and many other projects. In addition to bond authorizations, direct General Fund appropriations were increased \$14.4 million in FY 2009 for various capital projects that require cash rather than bonds. General Fund spending for debt service will increase by \$1.6 million in FY 2009 and by \$30.8 million in FY 2010-2011 to accommodate the increase general obligation bonding authority.

**I-35W Survivor Compensation Relief Fund**

The 2008 Legislature appropriated \$38.0 million to provide monetary compensation to survivors of the I-35W Bridge collapse. Of the \$38.0 million, \$36.6 million is available for payments to individual survivors; \$610,000 is for a grant to Waite House, a nonprofit service agency in South Minneapolis that had a bus load of children on the bridge when it collapsed; and \$750,000 is to cover the costs of the three-member Special Masters panel appointed to administer the fund. Payments to participating survivors are for uncompensated damages, defined as total damages that would be compensable under state tort law and wrongful death statutes, less compensation already received from insurers and certain other sources, up to a maximum of \$400,000 per individual. In addition, \$12.6 million is set aside for payments to survivors whose uncompensated damages exceed \$400,000, including, in priority order, uncompensated medical costs, loss of income, and future earning capacity. Compensation does not include payments for punitive damages or attorney fees.

**Proposed Constitutional Amendment**

The 2008 Legislature adopted Chapter 151, which provided for a proposed amendment to the Minnesota Constitution to be placed on the November 2008 general election ballot. The proposed amendment would authorize an additional 3/8ths of one percent sales tax, with the proceeds dedicated to clean water, wildlife, cultural heritage, and natural areas. While the proceeds would be generally dedicated, the monies would be subject to appropriation by the Legislature.

## STATE TAX REVENUES

The February 2008 forecast projected state General Fund tax revenues of \$30.2 billion for FY 2008-2009, \$1.23 billion lower than anticipated because of a downturn in the economy. Legislative actions in 2008 increased General Fund tax revenues by a net of \$170.8 million, or 0.57 percent, to \$30.4 billion for FY 2008-2009. In addition, the 2008 Legislature also enacted a transportation finance package expected to increase nongeneral tax revenues by an estimated \$163.9 million annually when fully implemented.

As summarized in Table 1, the net increase of \$170.8 million included: \$109 million from the changes affecting foreign operating corporations; \$35.5 million from an increase in June accelerated payments; and \$10 million from bank data matches.

Most General Fund tax changes enacted in 2008 were contained in two omnibus tax bills: Chapter 154, the Omnibus Technical Tax Act, conformed Minnesota's tax laws to the federal tax code; and Chapter 366, the Omnibus Tax Act, contained various changes to Minnesota's individual, corporate, and sales tax laws. In addition, the last section of this chapter discusses General Fund and non-General Fund tax changes contained in other legislation enacted in 2008, including:

- Chapter 152, the Omnibus Transportation Funding Act, which contained various tax provisions related to gasoline and registration taxes;
- Chapter 363, the State Government Omnibus Finance Act, which generated tax revenues from enhanced compliance efforts and bank data matching; and
- Chapter 358, health care reform, which provided for a health insurance premium tax credit.

<b>Table 1</b>					
<b>General Fund Tax Revenue, FY 2008-2009</b>					
<i>(dollars in thousands)</i>					
<b>Tax Types</b>	<b>2007 Enacted Budget</b>	<b>Feb. 2008 Forecast Changes FY 2008-2009</b>	<b>Forecast Amounts (2/2008)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
Individual Income	15,567,400	(222,000)	15,345,400	4,395	15,349,795
Corporate Income & Bank Excise	2,208,900	(448,900)	1,760,000	109,565	1,869,565
Sales	9,432,268	(287,147)	9,145,121	31,466	9,176,587
Motor Vehicle Sales	316,681	(23,325)	293,356	0	293,356
Statewide Property	1,401,672	39,970	1,441,642	0	1,441,642
Estate	227,000	16,000	243,000	0	243,000
Alcohol Excise	150,739	(1,274)	149,465	810	150,275
Cigarettes and Tobacco Excise	383,189	(12,609)	370,580	2,260	372,840
Taconite	8,200	3,989	12,189	0	12,189
Mortgage Registry	233,400	(49,200)	184,200	0	184,200

<b>Table 1 continued</b>					
<b>Tax Types</b>	<b>2007 Enacted Budget</b>	<b>Feb. 2008 Forecast Changes FY 2008-2009</b>	<b>Forecast Amounts (2/2008)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
Deed Transfer	212,300	(57,100)	155,200	0	155,200
Insurance Gross Earnings & Fire Marshall	582,200	(78,400)	503,800	1,500	505,300
Controlled Substance	10	(6)	4	0	4
Other Gross Earnings	100	20	120	0	120
Lawful Gambling	110,142	(11,810)	98,332	0	98,332
Medical Assistance Surcharges	424,294	2,502	426,796	0	426,796
Income Tax Reciprocity	140,155	3,269	143,424	0	143,424
Motor Vehicle Registration Tax	1,420	(35)	1,385	0	1,385
Fur Clothing Gross Receipts	421	(78)	343	(173)	170
Compliance Revenues	102,400	(102,400)	0	21,000	21,000
Other Tax Refunds	(61,627)	(5,162)	(66,789)	0	(66,789)
<b>Total Tax Revenues</b>	<b>31,441,264</b>	<b>(1,233,696)</b>	<b>30,207,568</b>	<b>170,823</b>	<b>30,378,391</b>

Table 2 summarizes non-General Fund state tax revenues, which are projected to total \$4.45 billion for FY 2008-2009. The majority of these revenues, \$3.05 billion or 68 percent, are generated by fuel taxes, the motor vehicle sales tax, and the motor vehicle registration tax, and deposited in the Highway User Tax Distribution Fund. MinnesotaCare provider taxes and insurance premium taxes deposited in the Health Care Access Fund account for \$1.04 billion, or 23 percent of other fund tax revenues.

<b>Table 2</b>					
<b>Other Funds Tax Revenues, FY 2008-2009</b>					
<i>(dollars in thousands)</i>					
<b>Tax Types</b>	<b>2007 Enacted Budget</b>	<b>Feb. 2008 Forecast Changes FY 2008-2009</b>	<b>Forecast Amounts (2/2008)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
Sales	41,216	0	41,216	0	41,216
Fuels Taxes	1,320,467	(31,341)	1,289,126	146,500	1,435,626
Motor Vehicle Sales and Registration	1,669,722	(66,696)	1,603,026	17,378	1,620,404
Cigarette and Tobacco	61,600	0	61,600	0	61,600
Taconite Production Tax	45,068	10,875	55,943	0	55,943
Mortgage Registry and Deed	872	(50)	822	0	822
MnCare Provider Taxes	895,282	(10,282)	885,000	0	885,000
Insurance Gross Earnings	155,600	2,600	158,200	0	158,200
Lawful Gambling	114	2	116	0	116
Solid Waste Management Tax	94,933	(1,012)	93,921	0	93,921
Unemployment Insurance Tax	88,508	(532)	87,976	0	87,976
Airflight Property / Aircraft Registration	41,812	(14,406)	27,406	0	27,406
Other Excise and All Other	6,100	0	6,100	0	6,100
Other Tax Refunds	(22,000)	1,500	(20,500)	0	(20,500)
<b>Total Tax Revenues</b>	<b>4,399,294</b>	<b>(109,342)</b>	<b>4,289,952</b>	<b>163,878</b>	<b>4,453,830</b>

## **Federal Conformity**

Minnesota uses federal taxable income as the starting point for determining state income tax liability. Typically, Minnesota adopts federal changes to taxable income. Most of the federal law changes enacted through February 13, 2008, were adopted for Minnesota income tax purposes. The provisions of the federal tax code that were adopted by the state include:

- **The Heroes Earned Retirement Opportunities Act:** allowed military personnel to count tax-exempt combat pay as earned income for the purpose of qualifying for tax deductible contributions to IRAs, effective retroactively to tax year 2004;
- **The Pension Protection Act of 2006:** made changes related to pensions, IRAs, Keogh plans, and charitable deductions;
- **The Tax Relief and Health Care Act of 2006:** extended several expiring deductions, implemented new provisions related to health savings accounts, and provided a new itemized deduction for mortgage insurance premiums;
- **The Small Business and Work Opportunity Tax Act of 2007:** increased and extended section 179 expensing, and increased from 14 to 18 the age through which the unearned income of children is taxed at the parents' marginal rate. Minnesota retained its current law treatment of section 179 expensing, requiring taxpayers to add back to taxable income 80 percent of the additional expensing amount in the first tax year, and then subtract one-fifth of the amount added back in each of the five following tax years;
- **The Clean Renewable and Conservation Act of 2007:** increased the amortization period for geological and geophysical expenditures from five to seven years;
- **The Mortgage Forgiveness and Debt Relief Act of 2007:** excluded from gross income discharges of indebtedness on principal residences, extended the itemized deductions for mortgage insurance premiums for two years, and increased the amount of capital gain on a principal residence that a surviving spouse may exclude from gross income; and
- **The Economic Stimulus Act of 2008:** increased section 179 expensing and provided 50 percent bonus depreciation for taxable year 2008. Minnesota retained its treatment related to expensing and bonus depreciation as explained above.

**Table 3**  
**General Fund Tax Revenue Changes Relative to Forecast**  
*(dollars in thousands)*

<b>Tax Provisions</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>Federal Conformity</b>						
Heroes Earned Retirement Opportunities Act of 2006	negligible	0	negligible	0	0	0
Pension Protection Act of 2006	(2,800)	(1,520)	(4,320)	(1,970)	(13,820)	(15,790)
Tax Relief and Health Care Act of 2006 (partial) <sup>a</sup>	(4,560)	(1,745)	(6,305)	(1,315)	(1,190)	(2,505)
Mortgage Forgiveness Debt Relief Act of 2007	(905)	(2,230)	(3,135)	(1,985)	(1,040)	(3,025)
Small Business and Work Opportunity Act of 2007	50	(125)	(75)	(390)	800	410
Clean Renewable Energy & Conservation Act of 2007	0	25	25	35	50	85
Economic Stimulus Act of 2008, with 80% add back and five-yr recovery <sup>b</sup>	0	6,440	6,440	13,065	(3,755)	9,310
Individual Income Tax	(6,000)	(2,630)	(8,630)	(900)	(16,140)	(17,040)
Corporate Income & Bank Excise Tax	(2,215)	3,475	1,260	8,340	(2,815)	5,525
<b>Federal Conformity Subtotal</b>	<b>(8,215)</b>	<b>845</b>	<b>(7,370)</b>	<b>7,440</b>	<b>(18,955)</b>	<b>(11,515)</b>
<b>Total General Fund Tax Revenue Changes</b>	<b>(8,240)</b>	<b>158,236</b>	<b>149,996</b>	<b>57,744</b>	<b>25,007</b>	<b>82,751</b>

<sup>a</sup> Items excluded from conformity include: (1) deduction for higher education tuition deductions; (2) educator classroom expense deductions; and (3) extension of enhanced deduction for qualified computer deductions. The additional state cost for conforming to these items was \$20.53 million in FY 2009.

<sup>b</sup> For individual income and corporate franchise tax, Minnesota: (1) increased section 179 expensing, with an 80% add back and a five-year recovery; (2) allowed 50% bonus depreciation with 80% add back and a five-year recovery. The cost of conforming in FY 2009 was \$150.4 million and \$51.1 million in revenue gains in FY 10-11.

Conforming to federal tax laws for both individual income and corporate franchise taxes reduced General Fund revenues by \$7.4 million in FY 2008-2009. Minnesota, however, did not conform to other federal tax law changes that would have further reduced state General Fund revenues, including:

- deduction for higher education tuition expenses for tax year 2007 only;
- deduction for teacher classroom expenses for tax year 2007 only;
- enhanced deduction for corporate donations of computer equipment for tax year 2007 only;
- increase in section 179 expensing for tax years 2007 and 2008; and
- allowance of 50 percent bonus depreciation for tax years 2008 and 2009.

### **Individual Income Tax**

As summarized in Table 4, Chapters 154 and 366 included four provisions providing income tax benefits for members of the military that had nominal fiscal impacts in FY 2008-2009, but cost \$30.2 million in FY 2010-2011. These provisions include the following:

- The current income tax credit for military service in a combat zone or qualified hazardous duty area was increased from \$59 per month of service to \$120 per month of service.
- Service personnel will be able to subtract from federal taxable income compensation earned for instate training.
- A new military service credit was enacted that allows individuals who have served at least 20 years in the military or have a service-connected total and permanent disability rating of 100 percent to take a credit of up to \$750 per taxable year for those with adjusted gross income (AGI) below \$30,000. The credit is reduced by ten percent of AGI in excess of \$30,000. Those with AGI over \$37,000 are not eligible for this credit. Eligible individuals may claim the credit annually.
- An existing subtraction from taxable income for out-of-state military service was extended to the National Guard as part of a technical correction.

In addition to the military provisions, two individual income tax provisions will increase General Fund revenue in FY 2008-09 and thereafter, including:

- Contractor Withholding: contractors in building, heavy, and civil engineering construction or specialty trades will be required to withhold two percent of any payments greater than \$600 per year per individual worker. Additional contractor withholding will generate \$1 million in FY 2009 and \$2 million each year thereafter.
- Deferred Compensation for Nonresidents: current law, allowing nonresidents to exclude income that was earned while a resident, was reformed so that compensation earned while a resident is included as a taxable income even if the recipient is a nonresident when it is received. This provision will generate \$2.4 million in FY 2009 and \$5.3 million in FY 2010-2011.

**Table 4**  
**General Fund Tax Revenue Changes Relative to Forecast**  
*(dollars in thousands)*

<b>Tax Provisions</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>Individual Income Tax</b>						
Subtraction for AmeriCorps / Nat'l Service Trust Education Awards (1/1/08)	0	(110)	(110)	(110)	(120)	(230)
Subtraction for Active Duty Military Outside MN	0	(125)	(125)	(130)	(140)	(270)
Veterans Tax Credit capped at \$750 a year, effective tax year 2009	0	0		(10,300)	(10,300)	(20,600)
Active Military Combat Zone Credit Increase to \$120 per month, effective tax year 2009				(1,100)	(1,100)	(2,200)
Military Pay Subtraction, effective tax year 2009				(3,500)	(3,600)	(7,100)
Repeal Deferred Compensation Exclusion for Nonresidents	0	2,400	2,400	2,600	2,700	5,300
Contractor Payment Withholding Requirement	0	1,000	1,000	2,000	2,000	4,000
Prohibit Deduction for Fines and Penalties	0	260	260	130	60	190
Income Tax Interactions with Property Tax Provisions	0	0	0	154	154	308
Health Insurance Premium Credit** Note: Revenue impacts tracked in Chapter 358 Transfer from HCAA.	0	0	0	(730)	(730)	(1,460)
Low-Income Motor Fuel Tax Credit (Chapter 152)	0	0	0	(29,800)	(30,700)	(60,500)
Rental Car Fee (Chapter 152)	0	(400)	(400)	(1,400)	(2,400)	(3,800)
Tax Debtor Data Matches (Chapter 363)	0	10,000	10,000	10,000	10,000	20,000
<b>Individual Income Tax Subtotal</b>	0	13,025	13,025	(32,186)	(34,176)	(66,362)
<b>Corporate Franchise Tax</b>						
Foreign Operating Corp. Provisions (tax year 08)	0	109,000	109,000	86,000	89,000	175,000
Border City Enterprise Zone Allocations	0	(705)	(705)	0	0	0
Mutual Fund Service Providers, Changes in Apportionment, effective tax year 2010	0	0	0	(600)	(2,200)	(2,800)
Bovine TB Income Tax Testing Credit	0	0	0	340	340	680
Interactions with Property Tax Provisions	0	0	0	(50)	(50)	(100)
Various Penalty Provisions	0	10	10	50	30	80
<b>Corporate Income &amp; Bank Excise Subtotal</b>	0	108,305	108,305	85,740	87,120	172,860
<b>Total General Fund Tax Revenue Changes</b>	(8,240)	158,236	149,996	57,744	25,007	82,751

## **Corporate Franchise Tax**

The definition of a foreign operating corporation (FOC) was changed to clarify that an interest charged domestic international sales corporation is not an FOC. The current law requirement that the average of the corporation's percentage of property and payrolls assigned to a location outside of the United States must be 80 percent or more was eliminated.

To qualify as an FOC as a result of the change in definition, at least 80 percent of a corporation's gross income from all sources in the tax year must be active foreign business income. The subtraction from taxable income for a corporation for 80 percent of royalties or similar income derived from an FOC was also modified so that it is not applicable if the income resulting from the payments is income from sources within the United States.

The following additions to taxable income were added to reflect the change to the definition of an FOC:

- interest and intangible expenses, losses, and costs paid, accrued, or incurred by any member of the taxpayer's unitary group, to or for the benefit of a corporation that is a member of that group that qualifies as an FOC;
- interest income and income generated from intangible property received or accrued by an FOC that is a member of the taxpayer's unitary group;
- dividends attributable to the income of an FOC that is a member of the taxpayer's unitary group equal to the dividends-paid deduction of a real estate investment trust to the FOC; and
- income of an FOC that is a member of the taxpayer's unitary group in an amount that is equal to the gains derived from the sale of real or personal property that is located in the United States.

As illustrated in Table 4, these changes in definition and treatment of FOCs will generate an estimated \$109 million in additional General Fund revenues in FY 2009 and \$175 million in revenues in FY 2010-2011.

In addition to the FOC provisions, the Legislature created three other new corporate franchise tax credits and tax expenditures, including:

- **Mutual Fund Apportionment:** The definition of the sales factor for sales of services to mutual fund companies was amended so that the sales are determined by the mailing address of the shareholders of the fund rather than as sales made to the mutual fund itself. This provision will cost \$2.8 million in FY 2010-2011.
- **Border City Enterprise Zone Credit:** The border city enterprise zones allocation was increased by \$705,000 in fiscal year 2009. A seed capital investment credit



was created that is funded only with allocations from border city enterprise zones. The credit is equal to 45 percent of the amount invested, to a maximum annual credit of \$112,500 in a business that relies on innovation, research, or the development of new products or processes and operates primarily in border cities.

- **Bovine Testing Credit:** The current bovine testing credit was modified to limit corporate filers to 25 percent rather than 50 percent of expenses incurred for testing for bovine tuberculosis.

### **Sales and Excise Taxes**

As summarized in Table 5, General Fund sales tax revenues will increase by a net \$31.5 million in FY 2008-2009. Most of the change is due to a onetime shift forward of existing sales tax collections, with that shift offset by modest revenue losses attributable to various other provisions. By FY 2010-2011, the combined changes will reduce sales tax revenues by an estimated \$18.2 million.

### **June Accelerated Payments**

The requirement that businesses with an annual liability of \$120,000 or more pay 78 percent of their estimated June sales tax before the end of June was increased to 90 percent for the general sales tax, the cigarette tax, the tobacco products tax, and taxes on alcoholic beverages. The revenue estimates for the cigarette tax and tobacco products tax included both the excise tax and the health impact fee. This change was enacted in two phases. Chapter 154 increased the June accelerated liability from 78 percent to 80 percent and Chapter 366 increased it from 80 percent to 90 percent. These changes are effective for payments made in June 2009. Combined, these shifts will increase revenues by \$35.5 million in FY 2009.

### **Sales Tax Exemptions**

Exemptions were granted for a number of items, including repair and replacement parts for emergency response vehicles, construction materials for low-income housing, and Itasca County public safety radio communication equipment. The most significant exemption was the \$8.5 million in FY 2010-2011 for vehicles and repair parts for the Northstar Corridor rail project and construction materials for the Central Corridor light rail project.

**Table 5**  
**General Fund Tax Revenue Changes Relative to Forecast**  
*(dollars in thousands)*

<b>Tax Provisions</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>Sales and Use and Excise Taxes</b>						
June Accelerated Payments - Increase from 78% to 90% effective June 30, 2009	0	32,500	32,500	760	1,400	2,160
Commuter & Light Rail: Northstar Vehicles & Parts	0	0	0	(3,400)	(100)	(3,500)
Commuter & Light Rail: Central Corridor Construction (\$5m cap)	0	0	0	(1,830)	(3,170)	(5,000)
Streamlined Sales Tax: Sales Tax Exemption on Third-Party Aggregate Delivery - DOR	0	(1,010)	(1,010)	(1,120)	(1,140)	(2,260)
Streamlined Sales Tax: Bundled Transactions - DOR	(25)	(65)	(90)	(68)	(70)	(138)
Streamlined Sales Tax: Clothing Definition Change, Eliminate Fur Gross Receipts Tax, Subject to Sales Tax	0	193	193	0	0	0
Emergency Response Vehicle Exemptions (Repair Parts)	0	(2)	(2)	(2)	(2)	(4)
Construction Materials for Low-Income Housing	0	0	0	(600)	(700)	(1,300)
Public Safety Radio; Communication Products for Itasca County, retroactive 7/1/08	0	(125)	(125)	negligible	negligible	negligible
Sales Tax on Leases Dedicated to MVST (Chapter 152)	0	0	0	0	(8,140)	(8,140)
<b>Sales and Use Tax Subtotal</b>	(25)	31,491	31,466	(6,260)	(11,922)	(18,182)
June Accelerated Payments - Alcohol Excise Tax - Increase from 78% to 90%	0	810	810	10	10	20
June Accelerated Payments - Cigarette & Tobacco Excise Tax - Increase from 78% to 90%	0	2,260	2,260	0	(70)	(70)
<b>Insurance Gross Earnings &amp; Fire Marshall</b>						
Surplus Lines Insurance Stamping Office	0	1,500	1,500	3,000	3,000	6,000
<b>Subtotal Other Tax &amp; Non-Tax Revenues</b>	0	1,500	1,500	3,000	3,000	6,000
<b>Total General Fund Tax Revenue Changes</b>	(8,240)	158,236	149,996	57,744	25,007	82,751

### **Local Sales Taxes**

Cook County and the cities of Bemidji, North Mankato, Clearwater, and Winona were granted authority to impose a local option sales tax, subject to voter approval. Uses of proceeds received from existing local option sales taxes in Mankato, Two Harbors, and Proctor were extended for additional purposes. Mankato was given authority to impose food and beverage taxes; Duluth was authorized to increase the rate of its existing food and beverage taxes; and Cook County was allowed to impose additional lodging and admissions taxes.

### **Surplus Lines Insurance Stamping Office**

Beginning with insurance policies written or renewed in 2009, surplus lines licensees must submit for stamping and pay a fee for insurance policies to the newly created nonprofit Surplus Lines Association of Minnesota. The directors of the surplus lines stamping office are charged with developing a fee schedule. An estimated \$1.5 million in revenues will be generated from stamping fees in FY 2009, increasing to \$3 million annually thereafter.

## **TAX PROVISIONS CONTAINED IN OTHER BILLS**

### **Tax Debtor Data Matches**

In Chapter 363, the Legislature established a tax debtor data matching program that allows the Commissioner of Revenue to request financial information from Minnesota financial institutions to facilitate the collection of delinquent taxes. Table 4 shows that this tax compliance effort is estimated to raise \$10 million in revenues. The chapter entitled State Government discusses the administrative costs associated with this initiative.

### **Gasoline Excise Tax**

In Chapter 152, the Legislature increased Minnesota's gasoline excise tax of 20 cents per gallon by five cents per gallon, which will be phased in with an increase of two cents on April 1, 2008, and three cents on October 1, 2008. The tax increases are projected to raise \$10.5 million in fiscal year 2008 and \$121 million in fiscal year 2009. See the Transportation chapter for details.

### **Lower-Income Motor Fuels Tax Credit**

Chapter 152 also established a refundable income tax credit to mitigate the impact of the increased gasoline excise tax on lower income taxpayers. For married couples and single filers, the credit will be \$25; for married couples filing separately, the credit will be \$12.50 per taxpayer. The credit is effective for tax year 2009 and thereafter and, as shown on Table 4, is estimated to cost about \$30 million annually beginning in fiscal year 2010. The credit is funded with revenues from the Motor Vehicle Leasing Sales Tax. See the Transportation chapter for additional details.

### **Motor Vehicle Leasing Sales Tax Dedicated**

After subtracting the amount needed to fund the motor fuels tax credit, Chapter 152 dedicated the remaining tax revenues from the existing 6.5 percent sales tax on motor

vehicle leases to the County State-Aid Highway Fund and the Greater Minnesota transit account in the Transit Assistance Fund. Currently, these revenues are deposited in the General Fund. The revenue shift will begin in fiscal 2010 and be fully phased in by fiscal year 2012, when about \$8.1 million will be evenly distributed to the two transportation funds (see Table 5).

### **Rental Car Fee**

Chapter 152 increased the existing fee on short-term lease or rental of passenger vehicles from three percent to five percent. Table 4 shows that this fee increase is estimated to provide an additional \$400,000 in revenues in fiscal year 2009, and \$3.8 million in fiscal years 2010-2011. See the Transportation chapter for additional details.

### **Health Insurance Premium Credit**

Chapter 366 contained a provision for a credit of \$350 for employers who do not currently provide health insurance to employees to defray the costs of 125 Plans. As part of the negotiated agreement on health care reform between the Legislature and the Governor, however, the provision was to be a limited, once-a-lifetime tax credit for uninsured individuals with incomes between 275 and 300 percent of federal poverty guidelines who purchase health care. An agreement is in place to correct this inconsistency early in the 2010 legislative session. Table 4 shows the estimated cost of \$1.5 million in FY 2010-2011 for the individual tax credits, which will be funded from the Health Care Access Fund.

### **Proposed Constitutional Amendment—Sales Tax Dedication**

The Legislature in Chapter 151 authorized a constitutional amendment on the 2008 general election ballot to impose an additional 3.8 (0.375) of one percent sales tax and dedicate the proceeds for clean water, wildlife and outdoor heritage, parks and trails, and arts and cultural heritage. If adopted by the voters, an estimated \$273.8 million per year will be raised when fully implemented in fiscal year 2011. See the Proposed Constitutional Amendment—Sales Tax Dedication chapter for details on how the additional sales tax revenues would be allocated.

For questions or more information related to this chapter, please contact Susan.Vonmosch@senate.mn

## EARLY CHILDHOOD THROUGH SECONDARY EDUCATION

The 2008 Legislature approved modest increases to E-12 education in the Omnibus Supplemental Budget Act. The E-12 accounts were increased by \$25.7 million in FY 2008-2009 and \$48.6 million in FY 2010-2011 above the February Forecast base. E-12 property taxes are estimated to increase by \$2.8 million for the 2010-2011 biennium related to 2008 policy decisions. State funding for E-12 education comes almost exclusively from the General Fund; nongeneral fund budget changes were negligible.

Table 1 summarizes the E-12 budget changes that were included in the Omnibus Supplemental Act. The \$25.7 million net increase in E-12 spending for FY 2008-2009 includes spending reductions of \$20.2 million and appropriation increases of \$45.9 million. The discussion following the table provides additional detail on the major spending changes throughout the act.

<b>Table 1</b> <b>General Fund Changes Relative to Forecast</b> <i>(dollars in thousands)</i>						
<b>Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>General Fund Spending Changes</b>						
Onetime General Education Aid, \$51 per AMCPU	0	43,776	43,776	4,863	0	4,863
Q. Comp Limit--Capture Growth Assumption	0	(10,257)	(10,257)	(14,005)	(1,430)	(15,435)
Transition Revenue -- Reciprocity w/Adjoining States	0	0	0	41	45	86
Eliminate Permanent School Trust Fund Subtraction	0	0	0	29,999	30,646	60,645
Advance Final Payment	0	(6,715)	(6,715)	0	0	0
Declining Pupil Aid, ISD #239, Rushford-Peterson	0	158	158	158	0	158
Sparsity Adjustment Grant, ISD #356, Lancaster	0	100	100	100	100	200
"Get Ready, Get Credit" CLEP	(800)	(1,150)	(1,950)	(1,650)	(1,650)	(3,300)
Principals Leadership Institute	0	275	275	0	0	0
Humanities Commission	0	275	275	0	0	0
Special Education Task Force	20	0	20	0	0	0
Disaster Relief Grants	(436)	0	(436)	0	0	0
Kindergarten Milk	0	402	402	418	434	852
Health and Developmental Screening Aid	0	936	936	1,111	1,170	2,281
MDE, Agency Budget Changes	0	(842)	(842)	(892)	(892)	(1,784)
<b>Total Spending Changes</b>	<b>(1,216)</b>	<b>26,958</b>	<b>25,742</b>	<b>20,143</b>	<b>28,423</b>	<b>48,566</b>

## **GENERAL EDUCATION**

### **\$51 per Adjusted Marginal Cost Pupil Unit**

In 2007, when the FY 2008-2009 biennial budget was originally set, the Legislature increased the basic formula allowance by two percent in FY 2008 and an additional one percent in FY 2009. In 2008, the Legislature provided an additional \$51 per adjusted marginal cost pupil unit (AMCPU) in new funding for FY 2009, amounting to \$43.7 million of additional General Fund spending. This budget change item constitutes the bulk of new education funding in FY 2008-2009, and is approximately equivalent to a one percent increase to the basic formula. However, the new money was not made as a permanent statutory change and was not added to the basic formula allowance. As a result, the funding is a onetime increase for FY 2009 only and the funding does not drive increases to the sparsity, transportation sparsity, compensatory, or operating referendum cap formulas as would have occurred if the increase had been added to the basic formula.

### **Basic Alternative Teacher Compensation Revenue**

The Legislature reduced spending for the basic alternative teacher compensation program by cutting the program's capped allocation by \$10.3 million in FY 2009 and \$15.4 million in FY 2010-2011. Established in 2005, the program allows districts and charter schools that have an approved plan to adopt an alternative teacher pay system and receive up to \$260 per AMCPU in basic alternative teacher compensation revenue. Under prior law, the program has a capped aid allocation of \$75.8 million per year. However, since the program's inception, the program has never received sufficient district and charter school participation to fully utilize the program's full allocation. The current participation would utilize only one-half of the formula allocation. The 2008 Legislature made reductions to the capped allocation to generate savings in the E-12 budget. The cap reductions represent cuts to the overall education budget, but do not reduce actual participation in the program. Instead, these cuts would reduce the amount that could be spent on new alternative teacher compensation districts and charter schools if the participation in FY 2009 and 2010 proves to be greater than the Legislature anticipates. These reductions are for two years with the base allocation set to return to \$75.8 million in FY 2011.

### **Permanent School Trust Fund Subtraction**

Beginning in FY 2010, E-12 education spending will increase by \$60.6 million to permanently eliminate the Permanent School Trust Fund (PSTF) subtraction from the general education revenue program. In so doing, the Legislature provides increased funding of approximately \$38 for every resident pupil in the state.

The PSTF is a fund operated by the State Board of Investment into which funds generated from school trust lands are deposited. According to the Minnesota Constitution, funds generated from school trust lands must be deposited in the PSTF and the principal of these funds shall be perpetual and inviolate forever. However, the interest and dividends arising from the fund shall be distributed to the school districts.

In 1971, the Legislature created the PSTF subtraction and the policy has continued since that time. The subtraction reduces the amount that school districts receive from the general education program (funded by the General Fund) in an amount equal to what the districts (charter schools were excluded from this subtraction) receive from the PSTF. Prior to the 2008 law change, a dollar provided to school districts from the PSTF created a dollar of savings in the general education program. Many legislators saw a conflict between this longstanding policy and the Minnesota State Constitution.

Under Article XI, section 8, of the Minnesota Constitution, “the net interest and dividends arising from the (Permanent School Trust) fund shall be distributed to the different school districts.” While interest and dividends from the PSTF were distributed to the school districts, an identical amount of state funds is subtracted from the same districts. As a result, districts saw no net benefit from the PSTF land money. The change made in 2008 reflects the belief that the spirit of the constitutional intent would be better met by eliminating the subtraction. Beginning in FY 2010, districts will again see the benefits of the funds generated by PSTF lands. Furthermore, revenue projections for the permanent school trust fund lands suggest that this revenue source will substantially increase in the decades ahead. The elimination of this subtraction will create a growing revenue source for school districts.

### **Advance Final Payment**

The Legislature repealed the advance final payment statute for districts and charter schools that were in statutory operating debt (SOD). Repealing this statute reduced the general education appropriation by \$6.7 million in FY 2009 only. The advance final payment law allowed schools that were in SOD to have an accelerated state aid payment schedule. In most cases, eligible districts and charter schools received payments equal to 97 percent for the current year and three percent for a prior year, rather than the 90/10 payment schedule followed for other districts and charter schools. The advance final payment schedule system was created in 2002 to assist certain schools while the state adjusted the payment system from the traditional 90/10 schedule to an 80/20 schedule in an effort to assist in balancing the state’s overall budget. At the time, it was feared that SOD districts and charter schools might be negatively affected with cash flow problems if they were not treated separately. However, the advance final payment schedule was never eliminated after the state “bought back” payment schedule shifts and returned districts and charter schools to a 90/10 schedule in 2006.

## **OTHER EDUCATION PROGRAMS**

### **“Get Ready, Get Credit” College Level Examination Program (CLEP)**

The 2008 Legislature reduced the appropriations to the CLEP program by \$1.9 million in FY 2008-2009 and \$3.3 million in FY 2010-2011. The CLEP program was originally created in 2005 to fund testing fees for high school students seeking postsecondary education credit. The program, however, has been underutilized and over 97 percent of the program’s appropriations were cancelled back to the General Fund in both FY 2006 and FY 2007. Because the forecasted utilization of the program for FY 2008 and FY 2009 also appeared to be quite low and likely to result in underspending, the Legislature

reduced the appropriation from \$1.7 million to \$850,000 for FY 2008 and from \$1.7 million to \$500,000 for FY 2009. In addition, the Legislature made the program onetime, such that, unless reestablished by the Legislature, the program will discontinue in FY 2010.

### **Principals Leadership Institute; Humanities Commission**

The Legislature appropriated \$275,000 each for the Principals Leadership Institute and the Humanities Commission. These appropriations are for FY 2009 only.

### **Disaster Relief Grants**

During the 2007 special session, the Legislature appropriated \$584,000 to assist several flood-affected school districts in southeast Minnesota with potential facility needs. In 2008, it was clear that most of the flood appropriations for these districts were unnecessary because the districts had received insurance payments or funding through other sources. Therefore, the Legislature reduced the facility funding to flooded districts by \$436,000. In one case, however, the Legislature redirected some of these savings back to the Rushford-Peterson school district, the district hardest hit by flooding. That district received an additional \$158,000 in FY 2009 to assist with pupil dislocations associated with the floods.

### **Kindergarten Milk**

The Legislature increased the reimbursement for kindergarten milk from 14 cents per carton to 20 cents per carton beginning in FY 2009 in recognition of the increased price pressure on dairy products. This permanent change increased the school breakfast aid (of which the kindergarten milk program is a part) by \$402,000 in FY 2009. This initiative carries an \$852,000 cost in FY 2010-2011.

### **Health and Developmental Screening Aid**

The Legislature increased appropriations for health and developmental screening aid by \$936,000 in FY 2009 and \$2.3 million in FY 2010-2011. As an incentive to encourage screening children at earlier ages, the per-child screening allowances were structured to provide increased aid for screening children at earlier ages. The age-three allowance grew from \$50 to \$75 per screening, the age-four allowance increased from \$40 to \$50 per screening, and the age-five allowance increased from \$30 to \$40 per screening.

### **Minnesota Department of Education Operating Budget**

Similar to all state agencies, the Department of Education's operating budget was reduced by four percent, or \$892,000 for FY 2009. The overall cut to the agency was \$842,000 because the Legislature added \$50,000 to the agency to reduce the academic achievement gap. The Legislature did not make any reductions to the operating funds at the Perpich Center for Arts Education or the Faribault Academies.

Table 2 displays all funds within state government related to E-12 education by agency. The all funds analysis reflects the basic changes that were evident in the General Fund, summarized in Table 1. In the Department of Education, General Fund appropriations account for \$13.8 billion of the \$15.2 billion, or 90.9 percent, of the all funds education



budget for the 2008-2009 biennium. Again, the primary changes since the conclusion of the 2007 session are the increased pupil counts in the E-12 system, which increased forecasted spending in the General and Federal Funds, and the enhanced per pupil spending that the Legislature allocated to schools in FY 2009. The Faribault Academies funding is flat since the 2007 session and, again, the Perpich Center is projected to see increased federal funds of \$2.3 million.

<b>Table 2</b>					
<b>Biennial Spending by Agency &amp; Fund--All Funds, FY 2008-09</b>					
<i>(dollars in thousands)</i>					
<b>Agency</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2007)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Department of Education</b>					
General Fund	13,743,239	23,614	13,766,853	25,742	13,792,595
Special Revenue Fund	17,223	0	17,223	17	17,240
Endowment & Permanent School Fund	52,096	5,012	57,108	0	57,108
Federal Fund	1,307,902	13,336	1,321,238	4,049	1,325,287
Max. Effort School Loan Fund	0	0	0	0	0
Gift Fund	259	0	259	0	259
<b>Total for Department of Education</b>	<b>15,120,719</b>	<b>41,962</b>	<b>15,162,681</b>	<b>29,808</b>	<b>15,192,489</b>
<b>Faribault Academies</b>					
General Fund	23,703	0	23,703	0	23,703
Special Revenue Fund	3,865	0	3,865	0	3,865
Federal Fund	468	0	468	0	468
Gift Fund	66	0	66	0	66
<b>Total for Faribault Academies</b>	<b>28,102</b>	<b>0</b>	<b>28,102</b>	<b>0</b>	<b>28,102</b>
<b>Perpich Center for Arts Education</b>					
General Fund	14,019	0	14,019	0	14,019
Special Revenue Fund	1,803	0	1,803	0	1,803
Federal Fund	698	1,644	2,342	625	2,967
Gift Fund	0	0	0	0	0
<b>Total Perpich Center for Arts Educ.</b>	<b>16,520</b>	<b>1,644</b>	<b>18,164</b>	<b>625</b>	<b>18,789</b>
<b>Totals by Fund</b>					
General Fund	13,780,961	23,614	13,804,575	25,742	13,830,317
Special Revenue Fund	22,891	0	22,891	17	22,908
Endowment & Permanent School Fund	52,096	5,012	57,108	0	57,108
Federal Fund	1,309,068	14,980	1,324,048	4,674	1,328,722
Max. Effort School Loan Fund	0	0	0	0	0
Gift Fund	325	0	325	0	325
<b>Total for Budget Area</b>	<b>15,165,341</b>	<b>43,606</b>	<b>15,208,947</b>	<b>30,433</b>	<b>15,239,380</b>

For questions or more information related to this chapter, please contact [Eric.Nauman@senate.mn](mailto:Eric.Nauman@senate.mn)

## HIGHER EDUCATION

Legislative action reduced state General Fund spending for higher education for the 2008-2009 biennium by \$16.8 million as shown in Table 1. The reductions were enacted in Chapter 363, article 4, the Omnibus Supplemental Budget Bill, and include a \$1.5 million reduction to the Office of Higher Education, a \$7.9 million reduction to the Minnesota State Colleges and Universities (MnSCU), and a \$12.3 million reduction to the University of Minnesota. In Chapter 248, the Legislature appropriated \$4.9 million to the University of Minnesota to complete a study of workers' lung health, resulting in a net reduction of \$7.4 million in General Fund spending for the University of Minnesota. Although operating budgets were reduced, more than \$300 million was provided for assorted capital improvement projects at University of Minnesota and MnSCU campuses.

<b>Table 1</b> <b>Biennial General Fund Spending by Agency, FY 2008-2009</b> <i>(dollars in thousands)</i>					
	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Feb. 2008 Forecast Amounts</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
Office of Higher Education	380,742	4	380,746	(1,471)	379,275
MN State Colleges and Universities	1,356,180		1,356,180	(7,880)	1,348,300
University of Minnesota	1,415,784		1,415,784	(7,400)	1,408,384
Mayo Foundation	2,452		2,452		2,452
<b>Total General Fund Changes</b>	<b>3,155,158</b>	<b>4</b>	<b>3,155,162</b>	<b>(16,751)</b>	<b>3,138,411</b>

Table 2 summarizes higher education spending for all funds; there were no changes in nongeneral fund appropriations since adoption of the biennial budget last session.

<b>Table 2</b> <b>FY 2008-2009 Biennial Spending by Agency and Fund - All Funds, FY 2008-2009</b> <i>(dollars in thousands)</i>					
<b>Agency/Fund</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Feb. 2008 Forecast Amounts</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Office of Higher Education</b>					
General Fund	380,742	4	380,746	(1,471)	379,275
Special Revenue	738		738		738
Federal Fund	9,539		9,539		9,539
<b>Total Office of Higher Education</b>	<b>391,019</b>	<b>4</b>	<b>391,023</b>	<b>(1,471)</b>	<b>389,552</b>
<b>MN State Colleges &amp; Universities</b>					
General Fund	1,356,180		1,356,180	(7,880)	1,348,300
<b>Total for MnSCU</b>	<b>1,356,180</b>		<b>1,356,180</b>	<b>(7,880)</b>	<b>1,348,300</b>
<b>University of Minnesota</b>					
General Fund	1,415,784		1,415,784	(7,400)	1,408,384
Health Care Access	4,314		4,314		4,314
Special Revenue	44,500		44,500		44,500
<b>Total University of Minnesota</b>	<b>1,464,598</b>		<b>1,464,598</b>	<b>(7,400)</b>	<b>1,457,198</b>

Table 2 continued	Original Budget (enacted 2007)	Forecast Changes	Feb. 2008 Forecast Amounts	Legislative Changes	Current Budget (Revised 2008)
<b>Agency/Fund</b>					
<b>Mayo Foundation</b>					
General Fund	2,452		2,452		2,452
<b>Total for Mayo Foundation</b>	<b>2,452</b>		<b>2,452</b>		<b>2,452</b>
<b>Totals by Fund</b>					
General Fund	3,155,158	4	3,155,162	(16,751)	3,138,411
Special Revenue Fund	45,238		45,238		45,238
Federal Fund	9,539		9,539		9,539
Health Care Access Fund	4,314		4,314		4,314
<b>Higher Education Total</b>	<b>3,214,249</b>	<b>4</b>	<b>3,214,253</b>	<b>(16,751)</b>	<b>3,197,502</b>

### Funding for Higher Education Institutions

Net General Fund spending for the University of Minnesota was reduced by \$7.4 million for the 2008-2009 biennium. Reductions will be allocated by the Board of Regents; however, the Legislature directed the board to not increase tuition and fees beyond the amount currently proposed for the 2008-2009 academic year. The system's base funding was reduced by \$8.7 million in each year in FY 2010 and FY 2011. In Chapter 248, the Legislature appropriated \$4.9 million from the General Fund in fiscal year 2008 to the University of Minnesota to conduct a comprehensive science and evidence-based study of workers' lung health. The University must complete the study by December 31, 2013, and provide annual reports that contain preliminary findings and recommendations to the Legislature until that date.

Funding for MnSCU was reduced by \$7.9 million for the 2008-2009 biennium, including General Fund reductions of \$5 million from the appropriation for technology; \$1 million from central reserves; and the balance from the chancellor's office. The Legislature placed a number of conditions on the board's allocation of budget reductions to the system's activities, including that: the Board of Trustees must not reduce technology expenditures or grants to the campuses; must reallocate state appropriations to reduce tuition increases to two percent at two-year institutions and three percent at four-year institutions; and must reimburse institutions that lost tuition revenue due to the elimination of nonresident tuition at some MnSCU institutions. The system's base funding was reduced by \$7.7 million in each year in FY 2010 and FY 2011.

### Student Financial Aid

The Legislature adopted a series of provisions affecting state financial aid programs. The definition of "Minnesota resident" was expanded for the purpose of receiving state-funded financial aid to include "a spouse or dependent of a veteran who meets state residency requirements." Changes to specific financial aid programs were as follows:

**State Grant Program**—The state grant program works in tandem with the federal Pell Grant program in that student need is funded initially with federal need-based financial aid funds and then with state grant funds. An \$11.3 million increase in the federal government's Pell Grant money available to Minnesota students provided an opportunity to use state money to enhance the state grant program. Modifications to the program included increasing the living and miscellaneous

expense allowance from the 2007-2008 academic year level of \$5,900, to \$6,200 for the 2008-2009 academic year.

In addition, the Office of Higher Education’s authority to use a surplus in the state grant program in the second year of the biennium to increase the living and miscellaneous expense allowance was made permanent. Prior to this year, the authority had been granted on a session-to-session basis.

**Power of You Program**—The Legislature established the Power of You Program to award financial aid grants to income-eligible students who graduate from a Minneapolis or St. Paul public high school. Students receive a \$1,200 grant to attend Minneapolis Community and Technical College, St. Paul College, or Metropolitan State University. A onetime appropriation of \$600,000, which must be matched with an equal amount of nonstate money, was made for this program.

**Teachers of Diverse Backgrounds Financial Aid Pilot Program**—A onetime appropriation of \$120,000 was enacted to increase the diversity of teachers in classrooms. The pilot program will be implemented by Winona State University in partnership with Rochester Public Schools, and St. Cloud State University in partnership with the Robbinsdale school district. Grants are awarded to eligible students in the junior and senior year of a teacher education program.

Table 3 summarizes biennial General Fund spending changes for higher education by function. The incorporation of changes made during the 2008 session with forecast changes yields a reduction in higher education spending of \$33.5 million for the 2010-2011 biennium.

<b>Table 3</b>						
<b>General Fund Spending Changes Relative to Forecast</b>						
<i>(dollars in thousands)</i>						
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-09</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-11</b>
Office of Higher Education Operating Budget Reduction		(111)	(111)	(111)	(111)	(222)
Reciprocity Payments		(250)	(250)	(250)	(250)	(500)
College Savings Program-Payment Date Change		(1,020)	(1,020)			
Cancel Software Rewrite Unused Appropriation		(90)	(90)			
MnSCU Operating Budget Reduction	(1,000)	(7,600)	(8,600)	(7,700)	(7,700)	(15,400)
Power of You Program		600	600			
Teacher Diversity Grants		120	120			
University of Minnesota-Operating Budget Reduction	(6,150)	(6,150)	(12,300)	(8,700)	(8,700)	(17,400)
Workers’ Lung Health Study	4,900	0	4,900			
<b>Subtotal Spending Changes</b>	<b>(2,250)</b>	<b>(14,501)</b>	<b>(16,751)</b>	<b>(16,761)</b>	<b>(16,761)</b>	<b>(33,522)</b>
Transfer from Special Revenue Fund		118	118			
<b>Total Spending Changes</b>	<b>(2,250)</b>	<b>(14,619)</b>	<b>(16,869)</b>	<b>(16,761)</b>	<b>(16,761)</b>	<b>(33,522)</b>

### **Additional Provisions**

Several provisions having fiscal policy implications but no impact on the higher education budget were included in Chapter 297, the Omnibus Agriculture and Veterans Bill, and Chapter 298, the Omnibus Higher Education Policy Bill:

***Achieve Scholarship Program***—Existing statutory language was amended to enhance the distribution of the scholarships, including that: awards must be made within the appropriation available; students must be enrolled for at least three credits to be eligible to receive a scholarship; students must have graduated from a Minnesota high school to be eligible to receive a scholarship; students must use the \$1,200 scholarship during the four-year period immediately following graduation from high school; and the recipient's adjusted family income must be less than \$75,000 for the year prior to the academic year in which the award is used.

***Minnesota GI Bill Program***—The cost of attendance used to determine the amount a student is eligible for was increased from 110 percent to 120 percent of the state grant budget formula amount. The maximum annual benefit was increased from \$2,000 to \$3,000, and a minimum award of \$50 per term was established.

In addition, the Legislature revised the MnSCU Board of Trustees selection process to require that the Minnesota AFL-CIO recruit and screen qualified labor candidates for recommendation to the Governor for appointment to the board. The Governor is not bound by the recommendations received. Further, student members on the board must be enrolled at least half-time.

The balance of noteworthy programmatic changes in Chapter 298 dealt with the regulation of private not-for-profit and for-profit colleges and universities in the state; authorizing the disclosure of information as enacted under the federal Family Educational Rights and Privacy Act; establishing a working group to develop recommendations and proposed legislation for the education and regulation of oral health practitioners; and clarifying policies and procedures used to determine eligibility for the Indian Scholarship.

### **INVESTMENT IN HIGHER EDUCATION FACILITIES**

Chapter 179, the Omnibus Capital Investment Bill, authorized \$105.2 million for the construction and improvement of facilities at the University of Minnesota, and \$234.2 for the construction and improvement of facilities at MnSCU. The bonding bill also authorized \$6.5 million for the National Hockey Center at St. Cloud State University, and authorized an increase in the MnSCU Board's authority to issue revenue bonds from \$150 million to \$200 million.

The Legislature adopted a key piece of legislation to benefit the University of Minnesota. A biomedical science research facilities funding program was established to provide state appropriations for up to 75 percent of the project costs of each of four Board of Regents

projects. Payments to cover the state's share of the cost of each project will be made to the University on an annual basis following a payment schedule specified in statute. Beginning in 2010, annual appropriations will be transferred to the University of Minnesota to pay the state's share of the four projects. The principal amount of bonds issued by the University to pay the state's share of the projects must not exceed \$219 million. The Board of Regents must pay the remaining 25 percent of the cost of each project, and must not use tuition revenue to pay the University's share. Up to \$850,000 will be transferred to the University in FY 2010, with the amount to be transferred increasing each year until 2015. The amount to be transferred that year and each year thereafter for up to 25 years, following certification of the last project, is up to \$15.6 million.

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## HEALTH AND HUMAN SERVICES

Chapter 363, article 18, decreased FY 2008-2009 appropriations from all sources for health and human services programs by \$57.3 million relative to the February 2008 forecast. General Fund spending decreased by \$172.2 million, while spending from the Health Care Access Fund (HCAF) increased by \$13.8 million, and spending from federal Temporary Assistance for Needy Families (TANF) increased by \$85.3 million. General Fund spending reductions consist largely of reduced spending for economic assistance programs, somewhat offset by increased spending from the TANF fund; payment cuts to health care providers and health plans; and a onetime transfer from the HCAF.

Prior to 2008 legislative action, projected spending for health and human services programs had decreased by \$85.6 million relative to the 2007 end of session projections, including \$143.7 million in lower TANF spending and a \$141.9 million reduction in spending from the HCAF. General Fund spending increased by \$64.0 million from the end of the 2007 session projections to the February 2008 forecast. Table 2 summarizes spending changes since the 2007 session.

<b>Table 1a</b>						
<b>General Fund Changes Relative to Forecast</b>						
<i>(dollars in thousands)</i>						
<b>Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>General Fund Spending Changes</b>						
<b>Department of Human Services</b>						
<b>HF 1812-Omnibus Budget Bill</b>						
Federal Compliance: MA Cost Sharing Limits	0	18	18	55	60	115
Federal Compliance: Child Support Assignment	0	0	0	104	138	242
Federal Compliance MA Targeted Case Mgmt	0	(18)	(18)	(9)	1	(8)
Federal Compliance: County IGT/NH Rate Add-On	(2,306)	(2,295)	(4,601)	(2,283)	(2,271)	(4,554)
Long-Term Homelessness Implementation	0	145	145	0	0	0
Food Shelf Programs	0	500	500	0	0	0
Modify MFIP Work Bonus and FS Simplification	0	0	0	(7)	(33)	(40)
Long-Term Care Partnership - MA Modifications	0	4	4	34	88	122
American Indian Youth Treatment	0	2,000	2,000	0	0	0
Administrative Budget Reduction	0	(3,520)	(3,520)	(3,506)	(3,505)	(7,011)
Adoption Assistance/RCA Forecast Change	(311)	(686)	(997)	0	0	0
Reduce TANF MOE to 75%	(8,834)	(11,779)	(20,613)	(11,779)	(2,945)	(14,724)
Return MFIP Cash Spending to 2007 EOS Level	(21,085)	(38,281)	(59,366)	596	500	1,096

<b>Table 1a continued Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008- 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010- 2011</b>
Accelerate Use of CCDF General Fund Spending	0	(9,227)	(9,227)	217	0	217
Reduce Pre-K Exploratory Program Appropriation	0	(250)	(250)	0	0	0
Restructure HIV Grant Funding	0	(2,394)	(2,394)	2,394	0	2,394
Eliminate Willmar Meth Treatment Activity	(225)	(300)	(525)	0	0	0
County Grant Payment Delay	0	(7,716)	(7,716)	0	0	0
Inpatient Hospital Payment Delay	(14,028)	3,968	(10,060)	10,060	0	10,060
Increase MHCP Managed Care Withhold	0	(13,641)	(13,641)	(33,933)	(9,465)	(43,398)
Limit MHCP Managed Care Admin Spending	0	(2,145)	(2,145)	(5,350)	(6,025)	(11,375)
Delay Inpatient Hospital Rebasing	0	(9,728)	(9,728)	(41,026)	(32,414)	(73,440)
Reduce FFS Outpatient Hospital Rates by 3%	0	(369)	(369)	(460)	(477)	(937)
Reduce Inpatient Hospital Rates by 3%	0	(8,385)	(8,385)	(8,378)	(8,396)	(16,774)
2% COLA For Nursing Facilities	0	5,754	5,754	5,753	4,260	10,013
Delay Effective Date for LTC COLA For FY 2009	0	(7,460)	(7,460)	0	0	0
Reduce Fee-For-Service Pharmacy Rates	0	(2,574)	(2,574)	(3,162)	(3,536)	(6,698)
Freeze Substance Abuse Treatment Rates	0	(1,503)	(1,503)	(1,489)	(1,086)	(2,575)
Freeze MNDHO Waiver Services/New Rate System	0	(450)	(450)	(1,444)	(2,684)	(4,128)
Reduce DHS Grant Programs by 1.8%	0	(2,441)	(2,441)	(2,427)	(2,376)	(4,803)
Manage Home and Community Based Waiver Growth	0	(4,946)	(4,946)	(11,595)	(12,774)	(24,369)
Reduce MSOP Base 4% (excluding treatment)	0	0	0	(2,329)	(2,329)	(4,658)
<b>SF 3780 - Health Care Reform Bill*</b>						
Health Care Homes	0	824	824	557	2,182	2,739
Seamless Coverage for MinnesotaCare Eligible Kids	0	(3,657)	(3,657)	(8,642)	(9,575)	(18,217)
DHS Total	(46,789)	(120,552)	(167,341)	(118,049)	(92,662)	(210,711)
DHS Net of FPP	(46,789)	(120,552)	(167,341)	(118,049)	(92,662)	(210,711)
<b>Department of Health</b>						
<b>HF 1812-Omnibus Budget Bill</b>						
Eliminate MN Enable	0	(220)	(220)	(220)	(220)	(440)
Reduce MERC Supplemental Payments	0	(2,000)	(2,000)	(1,000)	(1,000)	(2,000)
Reduce MDH Grants by 1.8%	0	(810)	(810)	(810)	(810)	(1,620)
Operating Budget Reduction	0	(1,100)	(1,100)	(1,054)	(1,054)	(2,108)
<b>SF 3780 - Health Care Reform Bill</b>						
Fund FQHC Subsidies with HCAF	0	(824)	(824)	(1,500)	(1,500)	(3,000)
MDH Total	0	(4,954)	(4,954)	(4,584)	(4,584)	(9,168)
Dept. of Finance Technical Adjustments	0	8	8	(244)	(254)	(498)
<b>Total Spending Changes</b>	<b>(46,789)</b>	<b>(125,498)</b>	<b>(172,287)</b>	<b>(122,877)</b>	<b>(97,500)</b>	<b>(220,377)</b>



<b>Table 1a continued Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008- 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010- 2011</b>
<b>General Fund Revenue Changes</b>						
<i>(if needed)</i>						
DHS Special Revenue Transfer	0	2,784	2,784	2,984	0	2,984
Eliminate County NF IGT	(2,306)	(2,295)	(4,601)	(2,283)	(2,271)	(4,554)
Transfer Portion of DHS Carryforward	0	1,098	1,098	0	0	0
SOS Past Due County Receivables	0	2,200	2,200	0	0	0
DHS Transfer in from Health Care Access Fund	0	50,000	50,000	0	0	0
Loss of County Share from 4% Reduction to MSOP	0	0	0	(232)	(232)	(464)
Transfer From Health Related Boards SGSR Fund	0	3,219	3,219	0	0	0
EMS Board Transfer in from SGSR Account	0	6,200	6,200	0	0	0
Transfer from HCAF for Health Care Tax Credit	0	0	0	730	730	1,460
<b>Total Revenue Changes</b>	<b>(2,306)</b>	<b>63,206</b>	<b>60,900</b>	<b>1,199</b>	<b>(1,773)</b>	<b>(574)</b>
<b>Net Changes</b>	<b>(44,483)</b>	<b>(188,704)</b>	<b>(233,187)</b>	<b>(124,076)</b>	<b>(95,727)</b>	<b>(219,803)</b>

\*See Health Care Reform section for detailed table on General Fund and non-General Fund appropriations for SF 3780.

### **Department of Human Services (DHS)**

Chapter 363 decreased General Fund appropriations to DHS by \$167.3 million for FY 2008-2009. These savings were partially offset by appropriation increases of \$4.7 million from the HCAF and \$85.3 million from the federal TANF fund.

### **General Fund Changes**

#### *Provider Payment Reductions*

Of the General Fund decrease for FY 2008-2009, \$33.2 million came from reductions in health care provider payments, including:

- \$10.1 million in onetime savings from a delay in inpatient hospital payments. This change replaces a preexisting inpatient hospital delay that was originally passed during the 2005 session. The previous delay specified a set level of payments to be delayed from FY 2008 to FY 2009. The new delay shifts the full value of June payments for FY 2008 to FY 2009. The delay creates \$10.1 million of new spending in FY 2010-2011.
- A delay from FY 2009 to FY 2012 of inpatient hospital rates rebasing, which is a process that incorporates hospital-specific inflation into the payment rates. The delay reduced spending by \$9.7 million in FY 2009 and by \$73.4 million in FY 2010-2011. The law had required that DHS rebase each hospital's Medical Assistance (MA) and General Assistance Medical Care (GAMC) fee-for-service rates forward every two years based on costs of each hospital. Hospital rates were last rebased in 2007 using 2002 data.

- A reduction in inpatient fee-for-service hospital rates, for savings of \$8.4 million in FY 2009 and \$16.8 million in FY 2010-2011. Relative to previous levels, the rates were reduced 3.46 percent in FY 2009; 1.9 percent in FY 2010; and 1.79 percent in FY 2011.
- A savings of \$369,000 in FY 2009 and 937,000 in FY 2010-2011 from a three percent reduction in outpatient fee-for-service hospital rates.
- A reduction in fee-for-service pharmacy reimbursements of \$2.6 million in FY 2009 and \$6.7 million in FY 2010-2011. The budget savings reflects a reduction in the reimbursement rate from Average Wholesale Price minus 12 percent to Average Wholesale Price minus 14 percent for MA and GAMC fee-for-service programs.
- \$1.5 million in savings in FY 2009 and \$6.7 million in FY 2010-2011 from freezing substance abuse treatment rates. This provision freezes payments to chemical dependency treatment providers for FY 2009 at rates not to exceed those in effect on May 30, 2008.

#### *Payment Reductions to Health Plans*

Nearly \$16.6 million of General Fund reductions in FY 2009 were achieved by reducing payments to health plans for enrollees in the Minnesota Health Care Programs.

- Reductions of \$13.6 million in FY 2009 and \$43.4 million in FY 2010-2011 related to an increase in the amount withheld from managed care organizations (MCOs) each contract year. Beginning with contract year 2009, the amount withheld from MCO capitation payments will increase by two percent, from five percent to seven percent. The amount withheld will be returned to the MCOs no earlier than July of the year following the contract period for which the funds were withheld. The return of the additional funds is not contingent on performance.
- The administrative spending allowed for MCOs in their contracts with DHS was limited to an overall average of 6.6 percent, for savings of \$2.1 million FY 2009 and \$11.4 million in FY 2010-2011. The calculation of administrative costs does not include the Gross Premium Tax, and the Commissioner of DHS is given the flexibility to reduce or eliminate administrative requirements so that health plans are able to meet the administrative spending cap. This cap also results in HCAF reductions of \$770,000 in FY 2009 and \$4.7 million in FY 2010-2011.

#### *TANF Financing*

Nearly \$80.0 million of General Fund reductions were made by converting existing General Fund appropriations for the Minnesota Family Investment Program (MFIP) to appropriations from TANF. This was achieved through two mechanisms. First, provisions of Chapter 232, which passed separately, reduced an anticipated penalty related to the state's work participation rate. This legislation reduced the amount of the

state's maintenance of effort from 80 percent to 75 percent, for savings of \$20.6 million in FY 2008-2009 and FY \$14.7 million in FY 2010-2011. The second mechanism was to increase TANF spending for MFIP to levels that existed prior to the 2007 end-of-session projections and to make corresponding reductions in General Fund spending for MFIP. This change saved the General Fund \$59.3 million in FY 2008-2009 and increased spending from the General Fund by \$1.1 million in FY 2010-2011.

*Other General Fund Spending Changes*

- a onetime reduction of \$1.1 million in the department's carryforward authority that was to be used for technology;
- a \$5.9 million reduction in the department's central office administrative appropriation, with a net impact of \$3.5 million after accounting for the reduced federal match on administrative costs. To implement this item, the department estimated that approximately 39 fulltime equivalent positions will be eliminated;
- onetime savings of \$2.4 million for FY 2009 from restructuring the HIV/AIDS state grant budget by capturing a short-term surplus in the fund and complying with federal rules that require pharmaceutical rebate funds be spent first before federal funds. As a result, the rebate funds will be spent in FY 2009 in lieu of general funds and General Fund spending will increase by \$2.4 million in FY 2010;
- \$7.7 million of onetime savings for FY 2009 by delaying from May to July certain social services payments to counties. The programs affected are adult mental health grants, children mental health screening grants, semi-independent living skills grants, and family support grants;
- \$7.5 million of onetime savings in FY 2009 by delaying from July 1, 2008, until October 1, 2008, the FY 2009 cost-of-living adjustment for long-term care providers other than nursing homes (i.e. home and community based service providers);
- a savings of \$2.4 million in FY 2009 and \$4.8 million in FY 2010-2011 by reducing most DHS administered grant programs by 1.8 percent. Grant programs exempt from the reduction include adult and children mental health grants, adoption assistance, relative custody assistance grants, and medical and education research grants; and
- \$4.9 million of reductions in FY 2009 and \$24.4 million in FY 2010-2011 for limits on the growth of home and community based waiver programs. Annual growth in the community alternatives for disabled individuals program will be limited to 1,500 allocations. The traumatic brain injury program will be limited to 200 allocations annually. This provision also provides \$250,000 of new funds in FY 2009 and \$1 million in FY 2010-2011 to make certain waiver and home care

eligible individuals eligible to receive Minnesota Supplemental Aid (MSA) shelter needy housing payments.

In addition to the spending reductions, funding was increased by \$5.8 million in FY 2009 and \$10.0 million in FY 2010-2011 to provide nursing facilities with a one percent permanent rate increase beginning in October 2008 and an additional onetime rate increase of one percent for the 12 months running from October 2008 through September 2009.

#### *Other General Fund Revenue Changes*

- a transfer to the General Fund of \$2.8 million in FY 2009 and another transfer of \$2.9 million in FY 2009 from the Special Revenue Fund accounts for chemical dependency treatment and health care outreach;
- \$2.2 million in new revenue from expanded authority for DHS to collect past-due county receivables for state operated services (SOS). Counties currently are required to pay a county share for a variety SOS services. Ninety-six percent of these payments are made within 90 days. For those claims over 90 days, this provision will allow DHS to deposit in the state's General Fund federal reimbursement that would otherwise be paid to the counties; and
- for FY 2009, \$50 million will be transferred from the HCAF to the General Fund on a onetime basis. The full amount of the transfer is to be repaid to the HCAF when and if the changes to the state-administered health care programs passed as part of the health care reform bill (see section below) result in accumulated savings that meet or exceed \$50 million.

#### **TANF Fund**

In addition to the new TANF financing changes discussed above, \$7.1 million was appropriated for FY 2009 and FY 2010 for supported work grants to help MFIP clients transition to new employment opportunities. This increase was partially offset by \$2.1 million in savings from lower MFIP caseloads.

#### **Department of Health**

General Fund appropriations for the Department of Health (MDH) were decreased by \$4.1 million in FY 2009 and by \$6.1 million in FY 2010-2011. The reductions came primarily from three sources:

- \$2.0 million in FY 2009 and \$2.0 million in FY 2010-2011 in lower supplemental payments to the Mayo Clinic for graduate medical education;
- \$810,000 in FY 2009 and \$2.1 million in FY 2010-2011 attributable to a 1.8 percent across-the-board reduction in MDH administered grant programs; and

- \$1.1 million in FY 2009 and \$2.1 million in FY 2010-2011 from a four percent reduction in the agency's operating budget, which the agency estimated will result in a reduction of 15 fulltime equivalent employees.

### Health Related Boards

In FY 2009, the Commissioner of Finance will transfer \$3.2 million from the State Government Special Revenue Fund to the General Fund. Additionally, the Emergency Medical Services Regulatory Board will transfer \$6.2 million in FY 2009 from the longevity awards account to the General Fund.

<b>Table 1b</b>					
<b>General Fund Biennial Spending by Agency</b>					
<i>(dollars in thousands)</i>					
<b>Agency</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2008)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Department of Human Services</b>	9,429,928	96,615	9,526,543	(167,335)	9,359,208
<b>Department of Health</b>	164,050	14	164,064	(4,952)	159,112
<b>Veterans Homes Board</b>	88,390	0	88,390	0	88,390
<b>Emergency Medical Services Board</b>	7,347	150	7,497	0	7,497
<b>Council on Disability</b>	1,336	0	1,336	0	1,336
<b>Ombudsman for Mental Health &amp; Mental Retardation</b>	3,239	0	3,239	0	3,239
<b>Ombudsperson for Families</b>	520	0	520	0	520
<b>Total for Budget Area</b>	<b>9,694,810</b>	<b>96,779</b>	<b>9,791,589</b>	<b>(172,287)</b>	<b>9,619,302</b>
* As adjusted by FY 2007 deficiency and other appropriation changes made by the 2007 Legislature.					

<b>Table 2</b>					
<b>All Funds Biennial Spending by Agency &amp; Fund, FY 2008-2009</b>					
<i>(dollars in thousands)</i>					
<b>Agency</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Department of Human Services</b>					
General Fund	9,462,593	63,950	9,526,543	(167,335)	9,359,208
General Fund Transfers Out	(166,363)	(24,876)	(191,239)	0	(191,239)
Endowment	2	0	2	0	2
Federal Fund	9,028,172	22,045	9,050,217	9,227	9,059,444
Federal TANF	393,621	(38,562)	355,059	85,325	440,384
Gift Fund	72	0	72	0	72

<b>Table 2 continued</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Agency</b>					
Health Care Access Fund	954,372	(179,092)	775,280	4,723	780,003
Special Revenue Fund	480,327	138,876	619,203	(2,069)	617,134
State Government Special Revenue Fund	1,114	0	1,114	0	1,114
<b>Total for Department of Human Services</b>	<b>20,154,112</b>	<b>(17,861)</b>	<b>20,136,251</b>	<b>(70,129)</b>	<b>20,066,122</b>
<b>Department of Health</b>					
General Fund	164,050	14	164,064	(4,952)	159,112
General Fund Transfers Out					
Federal Fund	380,888	3,936	384,824	6,944	391,768
Federal TANF	23,151		23,151	0	23,151
Petroleum Tank Release Cleanup Fund				1	1
Health Care Access Fund	28,933		28,933	9,033	37,966
Medical Education & Research Fund	150,959	42	151,001		151,001
Remediation Fund	504	600	1,104		1,104
Special Revenue Fund	100,012		100,012		100,012
State Government Special Revenue Fund	86,618		86,618	963	87,581
<b>Total for Department of Health</b>	<b>935,115</b>	<b>4,592</b>	<b>939,707</b>	<b>11,989</b>	<b>951,696</b>
<b>Veterans Homes Board</b>					
General Fund	88,390		88,390		88,390
General Fund Transfers Out	(88,390)		(88,390)		(88,390)
Federal Fund					
Gift Fund	1,218		1,218		1,218
Special Revenue Fund	152,383		152,383		152,383
<b>Total for Veterans Homes Board</b>	<b>153,601</b>		<b>153,601</b>		<b>153,601</b>
<b>Health Related Boards</b>					
General Fund					
Special Revenue Fund	418		418		418
State Government Special Revenue Fund	29,181		29,181	691	29,872
<b>Total for Health Related Boards</b>	<b>29,599</b>		<b>29,599</b>	<b>691</b>	<b>30,290</b>
<b>Emergency Medical Services Board</b>					
General Fund	7,347	150	7,347		7,497
Special Revenue Fund	2,836		2,836		2,836
State Government Special Revenue Fund	1,391		1,391		1,391
Federal Fund	600		600		600
Gift	2		2		2

Table 2 continued Agency	Original Budget (Enacted 2007)	Forecast Changes	Forecast Amounts	Legislative Changes	Current Budget (Revised 2008)
<b>Total for Emergency Medical Services Board</b>	<b>12,176</b>	<b>150</b>	<b>12,326</b>	<b>0</b>	<b>12,326</b>
<b>Council on Disability</b>					
General Fund	1,336	0	1,336	0	1,336
Special Revenue Fund	0	0	0	0	0
<b>Total for Council on Disability</b>	<b>1,336</b>	<b>0</b>	<b>1,336</b>	<b>0</b>	<b>1,336</b>
<b>Ombudsman for MH/MR</b>					
General Fund	3,239		3,239		3,239
<b>Total for Ombudsman for MH/MR</b>	<b>3,239</b>		<b>3,239</b>		<b>3,239</b>
<b>Ombudsperson for Families</b>					
General Fund	520		520		520
Special Revenue Fund	384		384		384
<b>Total for Ombudsperson for Families</b>	<b>904</b>		<b>904</b>		<b>904</b>
<b>Totals by Fund</b>					
General Fund	9,727,677	63,912	9,791,589	(172,287)	9,619,302
General Fund Transfers Out	(254,753)	(24,876)	(279,629)	0	(279,629)
Endowment	2	0	2	0	2
Federal Fund	9,409,660	25,981	9,435,641	16,171	9,451,812
Federal TANF	416,772	(38,562)	378,210	85,325	463,535
Gift Fund	1,292		1,292		1,292
Petroleum Tank Release Cleanup Fund				1	1
Remediation Fund	504	600	1,104	0	1,104
Health Care Access Fund	946,070	(141,857)	804,213	13,756	817,969
Medical Education & Research Fund	150,959	42	151,001		151,001
Special Revenue Fund	736,360	138,876	875,236	(2,369)	872,867
State Government Special Revenue Fund	118,304	0	118,304	1,654	119,958
<b>Total for Health and Human Services</b>	<b>21,290,082</b>	<b>(13,119)</b>	<b>21,276,963</b>	<b>(57,749)</b>	<b>21,219,514</b>

\* As adjusted by FY 2007 deficiency and other appropriation changes made by the 2007 Legislature.

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## HEALTH CARE REFORM

Chapter 358 included a variety of health care reform measures arising out of discussions by the Legislature’s Health Care Access Commission and the Governor’s Health Care Transformation Task Force during the Summer and Fall of 2007. [[www.commissions.leg.state.mn.us/lchca/HCAC%20Report%20final%202-08.pdf](http://www.commissions.leg.state.mn.us/lchca/HCAC%20Report%20final%202-08.pdf) and [www.health.state.mn.us/divs/hpsc/hep/transform/ttfreportfinal.pdf](http://www.health.state.mn.us/divs/hpsc/hep/transform/ttfreportfinal.pdf).] The reforms are intended to contain health care costs, improve the quality of health care, broaden public health activities, and expand health care coverage to an additional 12,000 Minnesotans. The law sets a cost containment goal of reducing health care expenditures within the Minnesota health care marketplace by 12 percent by 2015, or an estimated \$6.9 billion.

To accomplish these goals, \$13.5 million in FY 2009, and \$129 million in FY 2010-2011 was appropriated from the Health Care Access Fund (HCAF). After accounting for this spending, the projected balance in the HCAF at the end of FY 2011 is \$250 million. In addition, Chapter 358 also included several provisions that reduce General Fund spending by a net of \$3.8 million in FY 2009, and by \$18.5 million in FY 2010-2011, relative to the February 2008 forecast.

<b>Health Care Reform Items –SF 3780</b> <i>(dollars in thousands)</i>							
<b>Change Item</b>	<b>Fund</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>Department of Human Services</b>							
Health Care Homes	GF*	0	824	824	557	2,182	2,739
Seamless Coverage for MinnesotaCare Eligible Kids	GF	0	(3,657)	(3,657)	(8,642)	(9,575)	(18,217)
Application and Renewal Automation	HCAF	0	140	140	30	30	60
MinnesotaCare One Month Rolling Eligibility	HCAF	0	345	345	4,257	5,039	9,296
MinnesotaCare Reduction for Families with Kids	HCAF	0	0	0	1,705	2,678	4,383
MinnesotaCare Increase Family Income Cap	HCAF	0	0	0	472	1,105	1,577
MNCare Increase Adults Income Limit to 250% FPG	HCAF	0	148	148	3,472	6,711	10,183
MinnesotaCare Grace Month	HCAF	0	339	339	8,855	10,375	19,230
MinnesotaCare Outreach Funding	HCAF	0	0	0	1,320	2,666	3,986
Seamless Coverage for MinnesotaCare Eligible Kids	HCAF	0	3,657	3,657	8,642	9,575	18,217
Long-term Care Worker Insurance Study	HCAF	0	482	482	0	0	0



<b>Department of Human Services Total</b>		<b>0</b>	<b>2,278</b>	<b>2,278</b>	<b>20,668</b>	<b>30,786</b>	<b>51,454</b>
<b>Department of Health</b>							
Fund FQHC Subsidies with HCAF	GF	0	(824)	(824)	(1,500)	(1,500)	(3,000)
Administrative Funding for Health Reform Activities	HCAF	0	3,851	3,851	3,342	2,774	6,116
Statewide Health Improvement Program	HCAF	0	0	0	20,000	27,000	47,000
Statewide Health Savings Research and Measurement	HCAF	0	152	152	152	152	304
Section 125 Implementation Grants -Transfer to DEED	HCAF	0	1,000	1,000	0	0	0
Health Care Homes	HCAF	0	513	513	985	1,203	2,188
Community Benefit Standards	HCAF	0	84	84	0	0	0
Health Care Work Force Shortage Study	HCAF	0	84	84	0	0	0
Health Care Affordability Study	HCAF	0	500	500	0	0	0
Open Door Health Center Appropriation	HCAF	0	350	350	0	0	0
FQHC Subsidies	HCAF	0	1,824	1,824	2,500	2,500	5,000
<b>Dept. of Health Total</b>		<b>0</b>	<b>7,534</b>	<b>7,534</b>	<b>25,479</b>	<b>32,129</b>	<b>57,608</b>
<b>Total Spending Changes</b>		<b>0</b>	<b>9,812</b>	<b>9,812</b>	<b>46,147</b>	<b>62,915</b>	<b>109,062</b>
<b>General Fund Revenue Changes</b>							
Limited Tax Credit For Uninsured Between 275%-300%		0	0	0	(757)	(757)	(1,514)
<b>Total Revenue Changes</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>(757)</b>	<b>(757)</b>	<b>(1,514)</b>
<b>Net Changes</b>		<b>0</b>	<b>9,812</b>	<b>9,812</b>	<b>46,904</b>	<b>63,672</b>	<b>110,576</b>

\*General Fund items from SF 3871 are also displayed and included in the totals of Table 1a of the Health and Human Services section.

### Department of Health

Chapter 358 appropriated \$8.4 million in FY 2009 and \$60.6 million in FY 2010-2011 to the Minnesota Department of Health (MDH) from the HCAF. The chapter also decreased the department's General Fund appropriation by \$824,000 in FY 2009 and \$3.0 million in FY 2010-2011. Major provisions include:

Statewide Health Improvement: \$47.0 million from the HCAF is made available for the FY 2010-2011 biennium for expanded public health programs to reduce obesity and tobacco use. Grants are to be awarded on a competitive basis to community health boards and tribes for evidence-based strategies to achieve specific health improvement goals. To

this end, the commissioner is directed to set measurable outcomes for the programs, provide technical assistance to local units to meet those goals, and biennially evaluate the programs' effectiveness. A local ten percent match is required, and state funds may not be used to supplant current funding. The program will sunset at the end of FY 2011. The Commissioner of Health is required to recommend to the Legislature sustainable sources of funding for this initiative in the first report on the efficacy of the grants, due January 15, 2010.

Workforce Shortage: \$84,000 was also provided to MDH to study health care workforce shortages and the potential for fully utilizing nonphysician providers, due January 15, 2009.

Health Care Affordability: The Commissioners of Health and Human Services were appropriated \$500,000 to develop a health care affordability proposal by January 2009 for people with gross family incomes of 300 percent or less of the Federal Poverty Guidelines (FPG), so that the portion of their expenses does not exceed the affordability standards established in law (Minnesota Statutes, section 256L.15, subdivision 2, paragraph (d)).

Health Care Homes: The law also encourages the expansion of health care homes, which are personal clinicians or primary clinics that help patients with chronic health conditions better manage their conditions through coordinated care and regular monitoring. Public health care program enrollees will be encouraged to choose a health care home.

MDH received an appropriation from the HCAF of \$513,000 in FY 2009 and \$2.2 million in FY 2010-2011 to work jointly with the Department of Human Services (DHS) to develop certification standards for these homes. Participation by providers will be voluntary, but if providers do participate they must adhere to state requirements and will receive an additional payment per patient from public and private plans for providing health care home services. Additional payment amounts will vary according to complexity of patient health conditions. In addition, MDH is directed to establish an information exchange regarding best practices quality improvement, create learning collaboratives for providers, and evaluate the impact of the homes on quality, cost, and outcomes.

Administrative Funding and Other Initiatives: MDH received \$3.9 million in FY 2009 and \$6.1 million for FY 2010-2011 for additional administrative activities related to overseeing the implementation of this law, including:

- **Payment Reform**—the Commissioner of Health is required to develop a plan that will increase the utilization of high-quality, low-cost providers by creating transparent prices, encouraging greater innovation, providing comparative information to consumers on health care costs and quality across providers, and reducing administrative burdens on providers. The commissioner is also required to develop a peer group system of providers based on the quality of care for specific conditions (risk adjusted for differences in the characteristics of their

patients), and to disseminate information to providers on their rankings on costs, quality, and resource use. Data collected under these provisions are nonpublic. Entities that the commissioner contracts with to develop the system may not have a direct financial interest in the outcome of the system.

- A Health Care Cost and Quality Work Group—the Commissioner of Health must convene a work group to develop strategies to help consumers better understand the importance of health care cost and quality. By January 2011, the state and local governments are to use these strategies to strengthen the incentives for their employees to use high-quality and low-cost providers. Health plans are to utilize the strategies to develop products that will encourage consumers to do the same. Health plans that offer coverage in the individual or small employer market must offer at least one product that uses the strategies to establish financial incentives for consumers to choose high-quality and low-cost providers through enrollee cost sharing or selective provider networks.
- Baskets of care pricing—to allow consumers to compare cost and quality across providers for the same services and to encourage the provision of coordinated care for chronic diseases (e.g., heart disease, diabetes, asthma, depression), the Commissioner of Health is directed to define the kinds of services that should be provided to patients with those conditions, including patient-directed, decision making support models. Providers are authorized to establish package prices for those baskets of care, beginning January 2010, and must charge the same package price for providing that care, regardless of who is paying for it. The commissioner is to establish quality measures for the defined baskets of care before the provision goes into effect and must begin publishing comparative price and quality information on the baskets by July 2010.
- Essential health care benefit set—by January 2010, the Commissioner of Health must report back to the Legislature on recommendations developed in conjunction with a work group on a benefit set that includes services and technologies that are evidence-based, cost-effective, and provide lower enrollee cost sharing.
- Claims adjudication costs—the commissioner must convene a work group to make recommendations on reducing claims adjudication costs by adopting more uniform payment methods. The group must also study the potential impact of establishing uniform processes to replace individually negotiated processes between providers and payers.
- Electronic health records—providers must use nationally certified electronic health record systems when available. Providers, purchasers, prescribers, and dispensers of pharmaceuticals are required to establish and maintain an electronic prescription drug program for transmitting information electronically.

Increase Funding for Health Care Safety Net Clinics: Federally Qualified Health Clinics (FQHCs) received an increased appropriation of \$1.8 million in FY 2009 and \$5 million

in FY 2010-2011 from the HCAF. General Fund spending on FQHCs was reduced by \$824,000 in FY 2009 and by \$3 million in FY 2010-2011, resulting in a net spending increase of \$1 million in FY 2009 and \$2 million in FY 2010-2011. The Open Door Health Center in Mankato received a onetime grant of \$350,000.

### **Department of Human Services**

Chapter 358 appropriated \$5.1 million to DHS in FY 2009 and \$65.5 million in FY 2010-2011 from the HCAF, and reduced General Fund spending to the department by \$2.8 million in FY 2009 and \$15.5 million in FY 2010-2011. The HCAF appropriation was for two purposes: to increase access to MinnesotaCare and to establish health care homes for Minnesota State Health Care Program enrollees.

Access to Health Care: Most of the increased appropriations from the HCAF are for provisions that expand outreach efforts and make it easier for people to access public health care programs, including:

- expanding DHS capacity to conduct outreach to families with children who are potentially eligible for MinnesotaCare through coordination with the Department of Education and the federal lunch program (unless parents elect not to allow the information to be shared);
- increasing to \$25 from \$20 the outreach bonus paid to schools, insurance agents, and others that identify and assist potential public health care program enrollees with the application process. This increases HCAF spending by \$4.0 million in FY 2010-2011;
- increasing the MinnesotaCare upper income eligibility limit for parents in families with income from \$50,000 to \$57,500, at a cost of \$1.5million in FY 2010-2011;
- increasing the income limit for MinnesotaCare eligibility for adults without children from 200 percent of Federal Poverty Guidelines (FPG) to 250 percent and reducing the premiums, beginning July 2009, costing \$148,000 in FY 2009 and \$9.9 million in FY 2010-2011;
- establishing rolling eligibility for MinnesotaCare that allows enrollees a month to reapply after their coverage period ends before they are disenrolled. This costs \$348,000 in FY 2009 and 9.3 million in FY 2010-2011;
- granting MinnesotaCare enrollees a “grace” month by extending the date for disenrollment for failure to pay premiums to the first day of the following month rather than the month the premium was due, at a cost of \$339,000 in FY 2009 and \$19.2 million in FY 2010-2011;
- reducing the percentage of income that MinnesotaCare enrollees must pay in premiums from a maximum of 9.8 percent of their gross household income to 7.2 percent, costing \$4.4 million in FY 2009; and

- appropriating \$482,000 in onetime funds to study ways to facilitate long-term care employee health insurance through rates the state pays their employers.

Health Care Homes: The department received \$824,000 in FY 2009 and \$2.7 million in FY 2010-2011 from the General Fund to establish health care homes for certain enrollees in the Medical Assistance (MA) program. The appropriation expires at the end of FY 2011.

Seamless Coverage for MinnesotaCare Children: Chapter 382 reduced General Fund spending by \$3.7 million in FY 2009 and \$18.2 million in FY 2010-2011 by converting funding for the transitional MA program to the HCAF. The transitional MA program covers children for two months after they lose their eligibility because family income exceeds program limits. The two additional months of MA coverage are intended to provide children continuous coverage while their application for MinnesotaCare is being processed.

### **Section 125 Plans and Health Care Tax Credits**

By July 2009, employers with 11 or more fulltime employees must establish Section 125 plans to allow their employees to purchase individual market or employer-based health plan coverage with pretax dollars. Employers do not have to offer or purchase care for their employees. Self-insured employers and those that offer group health insurance are exempt from this requirement. Employers affected by the provision may opt out if they indicate they have received information on the benefits of offering Section 125 plans.

To encourage employers to establish the plans, \$1 million was appropriated on a onetime basis to the Commissioner of Employment and Economic Development. The Commissioner may award grants up to \$350 to small employers who establish the plans.

As part of the negotiated agreement between the Governor and the Legislature, the tax bill was to include a limited, once-in-a-lifetime tax credit for health care purchased by the uninsured who have household incomes between 275 percent and 300 percent of FPG. This provision was modified to be a credit for employers in the tax conference committee, but is expected to be corrected in the next legislative session. The Health Care Access Fund revenue lost associated with this item was 1.5 million in FY 2010-2011.

For questions or more information related to this chapter, please contact David.Godfrey@senate.mn

## AGRICULTURE, VETERANS, AND MILITARY AFFAIRS

The agriculture, veterans, and military affairs budget was one of the few to see an overall increase in General Fund spending for FY 2008-2009, an increase of \$1.4 million. Savings of \$10.0 million due to lower than expected costs in the G.I. college program largely offset increased expenditures in a number of veteran's programs. In addition, \$6 million was appropriated to the Board of Animal Health for bovine tuberculosis prevention. Most changes, unless otherwise noted, were contained in Chapter 363, article 7.

<b>Table 1</b>					
<b>General Fund by Agency FY 2008- 2009</b>					
<i>(dollars in thousands)</i>					
Agency	Original Budget (Enacted 2007)	Forecast Changes	Forecast Amounts (2/2007)	Legislative Changes	Current Budget (Revised 2008)
					93,796
<b>Department of Agriculture</b>	93,412	196	93,608	188	
<b>Board of Animal Health</b>	7,029		7,029	6,144	13,173
<b>Agriculture Utilization Research Institute</b>	6,200		6,200		6,200
<b>Department of Military Affairs</b>	40,593	3,077	43,670	390	44,060
<b>Department of Veterans Affairs*</b>	36,750		36,750	(5,305)	31,445
<b>Total for Agriculture, Veterans, and Military Affairs</b>	<b>183,984</b>	<b>3,273</b>	<b>187,257</b>	<b>1,417</b>	<b>188,674</b>
* Does not include Veterans Home Board					

### Department of Agriculture

As shown in Table 2, the Legislature reduced General Fund appropriations for operations of the Department of Agriculture by a total of \$812,000 for the 2008-2009 biennium. Of that amount, \$310,000 is attributable to the elimination of ethanol production payments for facilities no longer producing ethanol. In addition, the Legislature appropriated \$1 million in onetime funding for a new livestock investment grant program. Under the program, livestock owners can apply to the Department of Agriculture for a grant equal to ten percent of the first \$500,000 in livestock facility investments. The minimum investment for a grant must be \$4,000 and the Commissioner of Agriculture will prioritize grant requests based on need. In addition, in Chapter 297, the Legislature modified the agriculture waste pesticide program, which will increase Agriculture Fund expenditures by about \$803,000 annually.

**Table 2**  
**Summary of General Fund Changes Relative to Forecast**  
**Agriculture, Veterans, and Military Affairs**  
*(dollars in thousands)*

<b>Agency/Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>Spending Changes</b>						
<b>Department of Agriculture</b>						
Budget Reductions		(812)	(812)	(302)	(302)	(604)
Livestock Investment Grants		1,000	1,000			
<b>Board of Animal Health</b>						
Bovine TB Prevention & Herd Buyouts	3,972	2,172	6,144	2,172	2,172	4,344
<b>Department of Military Affairs</b>						
Program Changes		390	390	350	350	700
<b>Department of Veterans Affairs*</b>						
G.I. Bill Changes & Forecast Adjustments	(5,150)	(4,300)	(9,450)			
Veterans Assistance Programs		4,145	4,145	2,420	2,420	4,840
<b>Total Spending Changes</b>	<b>(1,178)</b>	<b>,595</b>	<b>1,417</b>	<b>4,640</b>	<b>4,640</b>	<b>9,280</b>
<b>Revenue Changes</b>		<b>(100)</b>	<b>(100)</b>	<b>(100)</b>	<b>(100)</b>	<b>(200)</b>
<b>Net Changes</b>	<b>(1,178)</b>	<b>2,695</b>	<b>1,517</b>	<b>4,740</b>	<b>4,740</b>	<b>9,480</b>

\* Does not include Veterans Home Board

**Board of Animal Health**

Chapter 274 appropriated \$6.1 million to the Board of Animal Health for bovine tuberculosis prevention, including herd buyout and fencing programs. Under the buyout program, cattle owners with herds located within the “Bovine Tuberculosis Management Zone,” which refers to an area surrounding wild deer found with Bovine TB in Northwestern Minnesota, are eligible for a buyout program that will pay the owner \$500 for each animal slaughtered and \$50 per head, per year thereafter, until the zone is declared TB-free. In return for the buyout payment, the cattle owner must sign a contract that the owner will not raise cattle in a large area of Northwestern Minnesota. Permanent funding will be \$2.2 million annually for these activities.

**Department of Military Affairs**

The Legislature increased General Fund appropriations to the Department of Military Affairs by \$390,000 for the 2008-2009 biennium. The increase is for the following programs: \$180,000 for the state navigator program; \$135,000 for a program to help returning National Guard medics satisfies Emergency Medical Technician requirements; and \$75,000 for an employer support program. In addition, Chapter 363 authorized the Adjutant General to conduct timber sales on lands at Camp Ripley and retain the

proceeds to help manage the timber resources at that location. This change is expected to redirect about \$100,000 of revenue from the General Fund to the Special Revenue Fund.

**Department of Veterans Affairs**

The Legislature appropriated an additional \$4.145 million from the General Fund for various programs administered by the Department of Veterans Affairs. This additional spending was more than offset with estimated savings of \$10.05 million for the 2008-2009 biennium under the state’s portion of the G.I. Bill. These savings are a result of increased federal contributions to the program and lower than expected enrollments. The appropriation changes are listed in Table 3.

<b>Table 3</b>	
<b>Department of Veterans Affairs</b>	
<b>General Fund Changes</b>	
<i>(dollars in thousands)</i>	
<b>Program Name</b>	<b>FY 2009</b>
State Soldiers Assistance Program	2,500
County Veterans Service Offices	500
Veterans Case Workers	500
Veteran Claims Office	250
LinkVET Helpline	220
Assistance for Homeless Vets (MACV)	250
Peer-to-Peer Counseling	25
Vets Home Capacity Study	200
Vets Home Board Transfer Savings	(300)
<b>Total</b>	<b>4,145</b>



**Table 4**  
**Biennial Spending by Agency & Fund**  
**FY 2008-2009**  
*(dollars in thousands)*

<b>Agency</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2007)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Department of Agriculture</b>					
General Fund	93,412	196	3,608	188	93,796
Agricultural Fund	35,566	2,882	8,448	803	39,251
Special Revenue Fund	6,963		6,963		6,963
Remediation Fund	5,501	(600)	4,901		4,901
Gift Fund	92		92		92
Federal Fund	12,074		12,074	3,874	15,948
<b>Total Dept. of Agriculture</b>	<b>153,608</b>	<b>2,478</b>	<b>156,086</b>	<b>4,865</b>	<b>160,951</b>
<b>Board of Animal Health</b>					
General Fund	7,029		7,029	6,144	13,173
Special Revenue Fund	102		102	670	772
Federal Fund	4,172		4,172	9,504	13,676
<b>Total Board of Animal Health</b>	<b>11,303</b>		<b>11,303</b>	<b>16,318</b>	<b>27,621</b>
<b>Agriculture Utilization Research Institute</b>					
General Fund	6,200		6,200		6,200
<b>Total Agriculture Utilization Research Institute</b>	<b>6,200</b>		<b>6,200</b>		<b>6,200</b>
<b>Department of Military Affairs</b>					
General Fund	40,593	3,077	43,670	390	44,060
Special Revenue Fund	2,395		2,395	300	2,695
Federal Fund	180,633		180,633		180,633
<b>Total Dept. of Military Affairs</b>	<b>223,621</b>	<b>3,077</b>	<b>226,698</b>	<b>690</b>	<b>227,388</b>
<b>Department of Veterans Affairs*</b>					
General Fund	36,750		36,750	(5,305)	31,445
Special Revenue Fund	1,145		1,145	200	1,345
Gift Fund	25		25		25
Federal Fund	800		800	350	1,150
<b>Total Dept. of Veterans Affairs</b>	<b>38,720</b>		<b>38,720</b>	<b>(4,755)</b>	<b>33,965</b>
<b>Totals by Fund</b>					
General Fund	183,984	3,273	187,257	1,417	188,674
Agricultural Fund	35,566	2,882	38,448	803	39,251
Special Revenue Fund	10,605		10,605	1,170	11,775
Remediation Fund	5,501	(600)	4,901		4,901
Gift Fund	117		117		117
Federal Fund	197,679		197,679	13,728	211,407
<b>Total for Agriculture, Veterans, and Military Affairs</b>	<b>433,452</b>	<b>5,555</b>	<b>439,007</b>	<b>17,118</b>	<b>456,125</b>
* Does not include Veterans Home Board					

For questions or more information related to this chapter, please contact Daniel.Mueller@senate.mn

## ENVIRONMENT AND ENERGY

Changes enacted by the 2008 Legislature decreased state appropriations for all funds by about \$3.4 million for the environment and energy budget area. This included a net General Fund reduction of just over \$7 million, an increase of about \$2.5 million from the Natural Resources Fund, and an increase of almost \$1 million from the Game and Fish Fund. Forecast changes accounted for an additional \$24.8 million in increased statutory appropriations and carryforwards across all funds.

<b>Table 1</b>					
<b>General Fund by Agency, FY 2008-09</b>					
<i>(dollars in thousands)</i>					
<b>Agency</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2007)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Pollution Control Agency</b>	56,925		56,925	(603)	56,322
<b>Minnesota Zoo</b>	14,193		14,193		14,193
<b>Department of Natural Resources</b>	246,583	1,389	247,972	(2,522)	245,450
<b>Board of Water &amp; Soil Resources</b>	52,435	1,173	53,608	235	53,843
<b>Met Council Regional Parks</b>	8,100		8,100	(100)	8,000
<b>MN Conservation Corps</b>	1,000		1,000		1,000
<b>Science Museum of Minnesota</b>	2,500		2,500		2,500
<b>Public Utilities Commission</b>	10,780		10,780		10,780
<b>Department of Commerce</b>	55,504		55,504	(4,106)	51,398
<b>Total for Budget Area</b>	<b>448,020</b>	<b>2,562</b>	<b>450,582</b>	<b>(7,096)</b>	<b>443,486</b>

### **Pollution Control Agency**

In Chapter 363, article 5, the Legislature reduced General Fund appropriations for agency operations of the Pollution Control Agency by \$623,000. In addition, \$20,000 was appropriated on a onetime basis to conduct solid waste studies. The Governor vetoed an appropriation of \$134,000 from the Environmental Fund for the adoption of a rule to regulate motor vehicle emissions based on California emission standards. As a result of a new program created in Chapter 179, about \$108,000 from the Remediation Fund will be used to pay off bonds to help clean up closed landfill sites.

**Table 2**  
**General Fund Changes Relative to Forecast**  
*(dollars in thousands)*

<b>Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>General Fund Spending Changes</b>						
<b>Pollution Control Agency</b>						
Budget Reductions		(623)	(623)	(623)	(623)	(1,246)
Solid Waste Studies		20	20			
<b>Department Natural Resources</b>						
Budget Reductions; Land & Minerals		(425)	(425)	(425)	(425)	(850)
Budget Reductions; Water Mgmt.	(98)	(90)	(188)	(90)	(90)	(180)
Budget Reductions; Parks & Rec.		(220)	(220)	(220)	(220)	(440)
Budget Reductions; Trails & Waterways		(50)	(50)			
Budget Reductions; Fish & Wildlife		(427)	(427)	(427)	(427)	(854)
Budget Reductions; Ecological Services	(230)		(230)			
Budget Reductions; Enforcement		(543)	(543)	(543)	(543)	(1,086)
Budget Reductions; Operations		(755)	(755)	(255)	(255)	(510)
Forest Initiatives		250	250	197	197	394
PILT for New Vermilion Park				330	330	660
Zoo Accreditation (Little Falls & Duluth)		66	66			
<b>Board of Water &amp; Soil Resources</b>						
Grant & Program Reductions		(315)	(315)	(268)	(268)	(536)
Flood Grants - State Costs		450	450	275		275
Star Lakes		100	100			
<b>Met Council Regional Parks</b>						
Regional Grants Gen Fund Offset		(300)	(300)			
Como Zoo Grant		200	200			
<b>Department of Commerce-Energy</b>						
E-85/Ethanol Pump Grants		(1,250)	(1,250)	1,000		1,000
Renewable Hydrogen Initiative Grants	(2,600)		(2,600)			
Solar Rebate Program	200		200			
Unclaimed Property Compliance		130	130	130	130	260
Other Budget Reductions	(270)	(316)	(586)	(316)	(316)	(632)
<b>Total Spending Changes</b>	<b>(2,998)</b>	<b>(4,098)</b>	<b>(7,096)</b>	<b>(1,235)</b>	<b>(2,510)</b>	<b>(3,745)</b>
<b>General Fund Revenue Changes</b>						
DNR; Water Usage Fee Increase		500	500	500	500	1,000
Other Nontax Revenue		332	332	289	289	578
Repeal Mutual Fund Registration Cap		20,500	20,500	11,000	11,500	22,500
Transfers from Other Funds	1,400	18,283	19,683			
Total Revenue Changes	1,400	39,615	41,015	11,789	12,289	24,078
<b>Net Changes</b>	<b>(4,398)</b>	<b>(43,713)</b>	<b>(48,111)</b>	<b>(13,024)</b>	<b>(14,799)</b>	<b>(27,823)</b>

### **Department of Natural Resources**

In Chapter 363, article 5, the Legislature reduced General Fund appropriations to the Department of Natural Resources (DNR) by over \$2.8 million. As shown in Table 2, those reductions were allocated across the functional areas of the DNR. In addition to the General Fund reductions, the Legislature also increased the following appropriations:

- \$250,000 from the General Fund for forest fragmentation studies and forest information;
- almost \$2.3 million from the Natural Resources Fund for a variety of parks, trails, and enforcement initiatives and General Fund replacement funding; and
- \$754,000 from the Game and Fish Fund for a fish virus surveillance program and other hunting and shooting initiatives.

In other actions, \$66,000 was appropriated from the General Fund in Chapter 368 for accreditation grants to the Little Falls and Lake Superior Zoos. Also in Chapter 368, \$240,000 was appropriated from the Game and Fish Fund for other fishing-related and aquaculture initiatives. Chapter 179, which is discussed more fully in the capital investment chapter, appropriated \$22 million bond proceeds to purchase land and begin development of the new Lake Vermilion State Park. Relative to that anticipated purchase, Chapter 368 provides for increased payments in lieu of taxes for local governments for any land acquired for the Lake Vermilion State Park. These are estimated to total \$330,000 annually beginning in FY 2010.

The Legislature also approved \$1.5 million in onetime transfers to the General Fund (see Table 3), and enacted increased water-use fees expected to increase nontax General Fund revenues by \$500,000 annually.

### **Board of Water and Soil Resources**

In Chapter 363, article 5, the Legislature reduced General Fund appropriations to the Board of Water and Soil Resources by \$315,000. Also in Chapter 363, the Legislature appropriated an additional \$450,000 in onetime funding for areas flooded in Southeastern Minnesota in 2007 and \$100,000 in onetime funding for a grant to the newly created Star Lakes Board. The Star Lakes Board was created to designate star lakes and rivers in the state. To receive this designation, a lake or river association must develop a plan and address specific issues on the lake or river, including water quality and shoreland.

### **Metropolitan Regional Parks**

In Chapter 363, article 5, the Legislature reduced the General Fund appropriations for regional park grants by \$300,000 and appropriated \$200,000 to the Como Park Zoo for infrastructure development. Article 5 also included a \$300,000 appropriation for regional park grants from the Natural Resources Fund.

## Department of Commerce

In Chapter 363, article 6, the Legislature reduced General Fund appropriations to the Department of Commerce by about \$4.4 million and appropriated \$330,000 for new initiatives for a net General Fund savings of \$4.1 million. The Legislature also approved about \$20.1 million in onetime transfers to the General Fund (see Table 3), and enacted \$20.8 million of new, nontax revenues.

The Legislature made a reduction of \$540,000 to the base appropriation for the Do Not Call program, which maintains a list of telephone numbers of residential subscribers who object to receiving telephone solicitations. Although Minnesota continues to have regulatory authority over the program, most enforcement occurs through the federal program, which is overseen by the Federal Trade Commission.

Two provisions that will be administered by the Department of Commerce and result in additional general fund revenue are:

- **Unclaimed Property Compliance**—The Legislature added \$130,000 to the Department of Commerce base in FY 2009 for additional staffing in the Unclaimed Property Division to improve holder compliance with the state law requirement that businesses file an annual unclaimed property report. The improved enforcement is estimated to increase revenues by \$260,000.
- **Mutual Fund Registration Cap**—The Legislature removed the \$25.6 million cap on the total amount of mutual fund registration fees that may be collected, which is estimated to raise \$20.5 million of revenue for the General Fund in FY 2009, and about \$11 million annually for FY 2010 and after, because revenues in excess of the cap will no longer be redistributed back to fee payers.

<b>Agency: Account or Fund</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-09</b>
DNR: Stream Protection Account	1,400		1,400
DNR: MN Resources Fund		103	103
Dept. of Commerce: Insurance Fraud Prevention Account		3,000	3,000
Dept. of Commerce: Real Estate Education Research Account		850	850
Dept. of Commerce: Consumer Education Account		100	100
Dept. of Commerce: Auto Theft Prevention Account		230	230
Dept. of Commerce: Workers' Comp Assigned Risk Account (Chapter 348)	4,900		4,900
Dept. of Commerce: Workers' Comp Assigned Risk Account (Chapter 363)		10,000	10,000
PUC: Telephone Assistance Fund		4,000	4,000
<b>TOTAL</b>	<b>6,300</b>	<b>18,283</b>	<b>24,583</b>

## **OTHER ENERGY INITIATIVES**

### **Cap and Trade**

In Chapter 340, the Legislature designated \$500,000 from an existing Renewable Development Fund renewable energy grant program for three studies to evaluate how implementation of a regional greenhouse gas cap and trade program will affect the economy, environment, and public health of Minnesota. Of that amount, \$75,000 was transferred to the University of Minnesota to evaluate governance options for determining expenditures of potential revenue to the state. A cap and trade program is a system in which total statewide or regional greenhouse gas emissions are capped and sources are permitted to emit a specified percentage, which is determined by a competitive auction or allowance process. The Legislature authorized the Legislative Greenhouse Gas Accord Advisory Group, a team of six legislators, to participate in the Governors' Midwestern Greenhouse Gas Accord stakeholder group, which is developing a model rule for a regional cap and trade program.

### **Legislative Energy Commission**

In Chapter 296, the Legislative Electric Energy Task Force was transformed into the Legislative Energy Commission, which has a broader charge to evaluate state energy policies and the degree to which they promote an environmentally and economically sustainable energy future, including progress in achieving the renewable energy standard and greenhouse gas emissions reductions. The commission has the authority to assess up to \$250,000 from energy utilities each year to perform its duties.

### **Wind Energy Conversion System Aggregation Program**

Chapter 296 established the Wind Energy Conversion System (WECS) Aggregation Program to create a clearinghouse to coordinate umbrella sales arrangements for groups of individuals, farmers' cooperatives, school districts, and other political subdivisions to aggregate small-volume purchases in order to place large orders for WECS. The program will make it easier to acquire equipment necessary for wind development. The Commissioner of Commerce has the authority to assess up to \$100,000 from energy utilities to operate the program.

### **Telecommunications**

In Chapter 296, the Legislature made two appropriations from the Telecommunications Access Minnesota Fund account for telecommunications-related projects. \$85,000 was appropriated for a state video franchising study to evaluate the impact of state laws that require video service franchises to be issued by a state agency. The study will examine issues related to new and incumbent providers, public access programming, and municipal revenues. In addition, \$175,000 was appropriated to develop a comprehensive statewide inventory and map of existing broadband service and capability.

### **Renewable Development Fund Grants**

In various chapters, the Legislature specified a number of grants to be awarded from the Renewable Development Fund, including:

- \$500,000 to the University of Minnesota and the Metropolitan Council for a algae-to-biofuels research project (Chapter 363);
- \$200,000 to the Commissioner of Commerce for a Green Jobs Task Force and a report on state programs to determine their potential to promote the growth of a green economy (Chapter 363);
- \$100,000 to the city of St. Paul for a site evaluation of the Ford manufacturing plant and for workforce development (Chapter 363);
- \$250,000 to the Commissioner of Commerce for activities and research for the Green Manufacturing Initiative (Chapter 363); and
- \$500,000 for the cap and trade program (Chapter 340).

**Table 4**  
**Biennial Spending by Agency and Fund - All Funds, FY 2008-2009**  
*(dollars in thousands)*

Agency	Original Budget (Enacted 2007)	Forecast Changes	Forecast Amounts (2/2007)	Legislative Changes	Current Budget (Revised 2008)
<b>Pollution Control Agency</b>					
General Fund	56,925		56,925	(603)	56,322
Environmental Fund	131,119	(48)	131,071		131,071
Remediation Fund	77,579	12,918	90,497	108	90,605
Special Revenue Fund	26,957		26,957		26,957
State Gov Special Revenue Fund	98		98		98
Petroleum Tank Release Cleanup Fund	1,000		1,000		1,000
Gift Fund	22	3,000	3,022		3,022
Federal Fund	43,004		43,004		43,004
<b>Total for Pollution Control Agency</b>	<b>336,704</b>	<b>15,870</b>	<b>352,574</b>	<b>(495)</b>	<b>352,079</b>
<b>Minnesota Zoo</b>					
General Fund	14,193		14,193		14,193
Special Revenue Fund	21,955		21,955		21,955
Natural Resources Fund	275		275		275
Gift Fund	2,621		2,621		2,621
<b>Total for Minnesota Zoo</b>	<b>39,044</b>		<b>39,044</b>		<b>39,044</b>
<b>Department of Natural Resources</b>					
General Fund	246,583	1,389	247,972	(2,522)	245,450
Natural Resources Fund	160,218	6,053	166,271	2,273	168,544
Game & Fish Fund	189,961	633	190,594	994	191,588
Special Revenue Fund	43,650		43,650		43,650
Remediation Fund	1,370	735	2,105		2,105
Endowment & Permanent School Fund	436		436		436
Gift Fund	3,215		3,215		3,215
Federal Fund	44,430	843	45,273	9,057	54,330
<b>Total for Department of Natural Resources</b>	<b>689,863</b>	<b>9,653</b>	<b>699,516</b>	<b>9,802</b>	<b>709,318</b>
<b>Board of Water &amp; Soil Resources</b>					
General Fund	52,435	1,173	53,608	235	53,843
Special Revenue Fund	2,908	(32)	2,876		2,876
Federal Fund		50	50		50
<b>Total for Board of Water &amp; Soil Resources</b>	<b>55,343</b>	<b>1,191</b>	<b>56,534</b>	<b>235</b>	<b>56,769</b>
<b>Met Council Regional Parks</b>					
General Fund	8,100		8,100	(100)	8,000
Natural Resources Fund	9,140		9,140	300	9,440
<b>Total for Met Council Regional Parks</b>	<b>17,240</b>		<b>17,240</b>	<b>200</b>	<b>17,440</b>
<b>MN Conservation Corps</b>					
General Fund	1,000		1,000		1,000
Natural Resources Fund	980		980		980



<b>Table 4 continued</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2007)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Agency</b>					
<b>Total for MN Conservation Corps</b>	<b>1,980</b>		<b>1,980</b>		<b>1,980</b>
<b>Science Museum of Minnesota</b>					
General Fund	2,500		2,500		2,500
<b>Total for Science Museum of MN</b>	<b>2,500</b>		<b>2,500</b>		<b>2,500</b>
<b>Minnesota Resources (LCCMR)</b>					
Environment & Nat. Resources Trust Fund*	22,866		22,866	22,866	45,732
Minnesota Future Resources Fund					
<b>Total for Minnesota Resources (LCCMR)</b>	<b>22,866</b>		<b>22,866</b>	<b>22,866</b>	<b>45,732</b>
<b>Public Utilities Commission</b>					
General Fund	10,780		10,780		10,780
Special Revenue Fund	4,250		4,250		4,250
<b>Total for Public Utilities Commission</b>	<b>15,030</b>		<b>15,030</b>		<b>15,030</b>
<b>Department of Commerce</b>					
General Fund	55,504		55,504	(4,106)	51,398
Special Revenue Fund	67,141	(2,000)	65,141		65,141
Petroleum Tank Release Cleanup Fund	32,458	57	32,515		32,515
Workers' Compensation Special Fund	1,670		1,670		1,670
Federal Fund	192,541		192,541	50,000	242,541
<b>Total for Department of Commerce</b>	<b>349,314</b>	<b>(1,943)</b>	<b>347,371</b>	<b>45,894</b>	<b>393,265</b>
<b>Totals by Fund</b>					
General Fund	448,020	2,562	450,582	(7,096)	443,486
Environmental Fund	131,119	(48)	131,071		131,071
Remediation Fund	78,949	13,653	92,602	108	92,710
Special Revenue Fund	166,861	(2,032)	164,829		164,829
Natural Resources Fund	170,613	6,053	176,666	2,573	179,239
Game & Fish Fund	189,961	633	190,594	994	191,588
Environment & Nat. Resources Trust Fund*	22,866		22,866	22,866	45,732
Endowment & Permanent School Fund	436		436		436
State Gov Special Revenue Fund	98		98		98
Gift Fund	5,858	3,000	8,858		8,858
Petroleum Tank Release Cleanup Fund	33,458	57	33,515		33,515
Workers' Compensation Special Fund	1,670		1,670		1,670
Federal Fund	279,975	893	280,868	59,057	339,925
<b>Total for Environment and Energy</b>	<b>1,529,884</b>	<b>24,771</b>	<b>1,554,655</b>	<b>78,502</b>	<b>1,633,157</b>

\* Amounts for the LCCMR reflect actual appropriations from the Environment and Natural Resources Trust Fund

For questions or more information related to this chapter, please contact Daniel.Mueller@senate.mn

## ECONOMIC DEVELOPMENT

The economic development supplemental budget appropriations and changes were enacted in Chapter 363, article 10, the Omnibus Supplement Budget Bill. While General Fund appropriations decreased by a net of \$3.3 million for FY 2008-2009, or less than one percent of the \$396.9 million spending projected in the February Forecast, the changes include both appropriation reductions and appropriation increases. To balance the General Fund deficit, several program appropriations were cut; however, some programs also received new appropriations. In addition, \$12.8 million of revenue was brought into the fund through five transactions specified in Table 3. The original General Fund budget for FY 2008-2009, subsequent appropriation changes, and current revised budget are shown, by agency, in Table 1.

<b>Table 1</b>					
<b>Economic Development Budget</b>					
<b>General Fund Biennial Budget by Agency, FY2008-09</b>					
<i>(dollars in thousands)</i>					
<b>Agency</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes*</b>	<b>Forecast Amounts (2/2008)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
Employment and Economic Development	151,574	6,907	158,481	(5,163)	153,318
Explore Minnesota Tourism	22,308	784	23,092	1,299	24,391
Housing Finance Agency	132,557		132,557	(200)	132,357
Accountancy Board	1,001		1,001		1,001
Architecture, Engineering, Surveying, Landscaping, Geoscience	1,615		1,615		1,615
Barbers and Cosmetologists Examiners	1,578		1,578		1,578
Combative Sports(Boxing) Commission	50		50	80	130
Labor and Industry	2,093		2,093	(43)	2,050
Meditation Services Bureau	3,768		3,768	(69)	3,699
Historical Society	50,498		50,498	750	51,248
Arts Board	20,442		20,442		20,442
Humanities Commission	500		500		500
Region 3 Occupation Tax - Open	1,132	46	1,178		1,178
<b>Totals Economic Development Budget</b>	<b>389,116</b>	<b>7,737</b>	<b>396,853</b>	<b>(3,346)</b>	<b>393,507</b>

### **Employment and Economic Development**

General Fund appropriations for the Department of Employment and Economic Development were reduced by a net \$2.6 million, or two percent, for FY 2008-2009. Various funding changes were made to programs administered by the department and are shown in Table 2.

**Table 2**  
**Economic Development Budget**  
**General Fund Changes Relative to Forecast**  
*(dollars in thousands)*

<b>Agency/Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008 - 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010 - 2011</b>
<b>Employment &amp; Economic Development:</b>						
Office of Science & Technology		400	400			
Veterans Business Assistance		400	400			
Industry Sector Training Program		120	120			
Lifetrack Resources Pilot Program		75	75			
Minnesota Investment Fund	(3,000)		(3,000)			
Foreign Trade Zones		(608)	(608)			
Job Skills Partnership Account		(2,000)	(2,000)			
Operating Budget Reduction		(550)	(550)	(550)	(550)	(1,100)
<b>Explore Minnesota Tourism</b>						
Film Board Jobs Production Program		1,299	1,299			
<b>Combative Sports (Boxing) Commission</b>						
Increase Budget Base		80	80	80	80	160
<b>Historical Society</b>						
Sesquicentennial Commission Administration	175		175			
Sesquicentennial Commission Grants	575		575			
<b>Housing Finance</b>						
Agency Program Reduction		(200)	(200)			
<b>Labor and Industry</b>						
Operating Budget Reduction		(43)	(43)	(43)	(43)	(86)
<b>Mediation Services</b>						
Operating Budget Reduction		(69)	(69)	(69)	(69)	(138)
<b>Total General Fund Spending Changes</b>	<b>(2,250)</b>	<b>(1,096)</b>	<b>(3,346)</b>	<b>(582)</b>	<b>(582)</b>	<b>(1,164)</b>

The reductions include:

- \$550,000 from the department's operating budget for FY 2008-2009 and the following biennium; and
- \$3 million of a 2008 appropriation to the Minnesota Investment Fund when plans to construct a legal reference office and data center facility were suspended. \$1 million of the remaining balance was directed for a biomass heating grants and loans pilot project that provides funding for publicly owned facilities, including schools, higher education buildings, and buildings owned by local units of government.

Several programs received appropriation increases including:

- \$400,000 in FY 2009 for the establishment of the Office of Science and Technology, which will coordinate public and private efforts to procure federal funding and conduct collaborative research and development, primarily for small and medium-sized businesses;
- \$400,000 in FY 2009 for the military reservist economic injury loan program, which provides interest-free loans to businesses that have sustained a substantial economic injury as result of the deployment of an essential employee. In addition, the Legislature extended the dislocated worker program to include veterans who have recently been discharged and are either unemployed or underemployed;
- \$120,000 in FY 2008-2009 for a grant to HIRED to support its training initiatives in specific, high-demand industries. HIRED provides low-income and disadvantaged people, as well as dislocated workers, with career counseling and training to help them qualify for and obtain jobs; and
- \$75,000 in FY 2008-2009 for a grant to Lifetrack Resources for a pilot program in the city of Rochester that focuses on immigrant and refugee collaborative programs relating to job-seeking skills, workplace orientation, intensive job development, functional work English, and onsite job coaching.

### **Labor and Industry**

The Legislature reduced the appropriation to the Department of Labor and Industry by \$43,000, or two percent of the \$2.1 million appropriation for FY 2008-2009 and the following biennium. The Legislature specifically noted that the reduction may not result in a decrease to funding available for prevailing wage enforcement. The reduction is shown in Table 2.

### **Other Agencies**

In addition, the Legislature made changes to the General Fund appropriations of several other agencies in the economic development budget area, including the following, which are depicted in Table 2:

- a reduction of \$69,000 in FY 2009 to the Bureau of Mediation Services;
- an appropriation of \$575,000 in Chapter 363 and \$175,000 in Chapter 155 to the Minnesota Historical Society for the MN Sesquicentennial Commission;
- an appropriation of \$80,000 in FY 2009 and the following biennium to the Boxing Commission, which was renamed the Combative Sports Commission in Chapter 300 to reflect its new regulatory authority over several fighting styles;
- an appropriation of \$1.3 million to Explore Minnesota Tourism for a grant to the MN Film and TV Board for the jobs production program. \$500,000 of the balance

in the special marketing account was directed for a onetime grant to the board for the production of a film in Minnesota in 2008 and 2009; and

- a reduction of \$200,000 to the Housing Finance Agency program budget in FY 2009. The \$3 billion debt ceiling on the aggregate principal amount of bonds and notes outstanding at any time was raised to \$5 billion to allow funding for more projects, including housing finance and rehabilitation loans and assistance to low-income families.

**Unemployment Insurance**

The Legislature authorized the extension of unemployment insurance program benefits in three situations. Unemployed workers who experienced economic hardship due to delays in payments because of the Department of Employment and Economic Development’s new computerized system will be eligible for extra benefits. Workers laid off from the Ainsworth Lumber Company in the city of Cook will be eligible for an additional 13 weeks of benefits. A specified former Northwest Airlines employee is also eligible for benefits.

**GENERAL FUND REVENUE CHANGES**

In addition to the spending reductions, Chapter 363 included several changes that will increase nontax revenue to the General Fund by \$12.8 million in FY 2008-2009. None of the changes mentioned in Table 3 will contribute to the General Fund balance beyond the current biennium.

<b>Table 3</b> <b>Economic Development Budget</b> <b>General Fund Revenue Changes</b> <i>(dollars in thousands)</i>				
<b>Agency/Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008 - 2009</b>	<b>FY 2010 - 2011</b>
<b>Employment and Economic Development</b>				
Transfers:				
Workforce Development Fund		8,000	8,000	
Methamphetamine Lab Cleanup Fund		150	150	
Cancellations:				
Foreign Trade Zone Appropriation		608	608	
Job Skills Partnership Account		2,000	2,000	
Revenue Reduction:				
Upper Red Lake Loan Program	(3)	(12)	(15)	(13)
<b>Labor and Industry</b>				
Transfer:				
Code Consolidation Fund		2,000	2,000	
<b>Total General Revenue Changes</b>	<b>(3)</b>	<b>12,746</b>	<b>12,743</b>	<b>(13)</b>

As summarized in Table 3, the nontax revenues result from two cancellations of non-General Fund appropriations that are then transferred to the General Fund, as well as

three onetime transfers of balances from non-General Funds. More specifically, the changes include:

- cancellation of a 2005 General Fund appropriation to the Foreign Trade Zone Authority, estimated to be \$608,000;
- cancellation of a \$2 million Workforce Development Fund appropriation to the Job Skills Partnership Account;
- transfer of \$8 million from the balance of the Workforce Development Fund to the General Fund;
- transfer of \$150,000 of the balance in the methamphetamine laboratory cleanup revolving loan account in the General Fund; and
- transfer of \$2 million from the construction code account to the Special Revenue Fund.

Table 4 summarizes the overall biennial spending by agency and fund within the economic development budget area.

Agency/Fund	Original Budget (Enacted 2007)	Forecast Changes	Forecast Amounts (2/2008)	Legislative Changes	Current Budget (Revised 2008)
<b>Employment &amp; Economic Development</b>					
General Fund	151,574	6,907	158,481	(5,163)	153,318
Special Revenue Fund	14,984		14,984		14,984
Workforce Development Fund	91,465	12,859	104,324	(8,000)	96,324
Petroleum Tank Release Cleanup Fund	12,400	3,886	16,286		16,286
Remediation Fund	1,400	37	1,437		1,437
Federal Funds	472,787		472,787		472,787
Federal TANF Reserve Fund	0		0		0
Gift Funds	1,693		1,693		1,693
<b>Total for Employment &amp; Economic Development</b>	746,303	23,689	769,992	(13,163)	756,829
Other Statutory Funds	560,154		560,154		560,154
<b>Explore Minnesota Tourism</b>					
General Fund	22,308	784	23,092	1,299	24,391
Special Revenue Fund	2,156		2,156		2,156
Federal Funds	510		510		510
<b>Total for Explore Minnesota Tourism</b>	24,974	784	25,758	1,299	27,057

<b>Table 4 continued</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2008)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Agency/Fund</b>					
<b>Housing Finance Agency</b>					
General Fund	132,557		132,557	(200)	132,357
General Fund Transfers Out	(132,557)		(132,557)	200	(132,357)
Federal Fund			0	4,983	4,983
<b>Total for Housing Finance Agency</b>	<b>0</b>		<b>0</b>	<b>4,983</b>	<b>4,983</b>
Other Statutory Funds	411,146		411,146		411,146
<b>Accountancy Board</b>					
General Fund	1,001		1,001		1,001
<b>Total for Accountancy Board</b>	<b>1,001</b>		<b>1,001</b>		<b>1,001</b>
<b>Arch, Eng, Surveyors, Landscape, Geo.</b>					
General Fund	1,615		1,615		1,615
<b>Total for Arch, Eng, Surveyors, Landscape, Geo.</b>	<b>1,615</b>		<b>1,615</b>		<b>1,615</b>
<b>Barbers &amp; Cosmetologists Examiners</b>					
General Fund	1,578		1,578		1,578
<b>Total for Barbers &amp; Cosmetologists Examiners</b>	<b>1,578</b>		<b>1,578</b>		<b>1,578</b>
<b>Boxing Commission</b>					
General Fund	50		50	80	130
Special Revenue Fund	50		50		50
<b>Total for Boxing Commission</b>	<b>100</b>		<b>100</b>	<b>80</b>	<b>180</b>
<b>Labor and Industry</b>					
General Fund	2,093		2,093	(43)	2,050
State Government Special Revenue Fund	51,598		51,598		51,598
Special Revenue Fund	10,276		10,276		10,276
Workforce Development Fund	1,543		1,543		1,543
Workers' Compensation Special Fund	193,915	(115)	193,800		193,800
Federal Funds	11,761		11,761		11,761
<b>Total for Labor and Industry</b>	<b>271,186</b>	<b>(115)</b>	<b>271,071</b>	<b>(43)</b>	<b>271,028</b>
<b>Mediation Services</b>					
General Fund	3,768		3,768	(69)	3,699
Special Revenue Fund	2		2		2
<b>Total for Mediation Services</b>	<b>3,770</b>		<b>3,770</b>	<b>(69)</b>	<b>3,701</b>
<b>Workers' Comp Court of Appeals</b>					
Workers' Compensation Special Fund	3,363		3,363		3,363
<b>Total for Workers' Comp Court of Appeals</b>	<b>3,363</b>		<b>3,363</b>		<b>3,363</b>
<b>Historical Society</b>					
General Fund	50,498		50,498	750	51,248
Special Revenue Fund	1,796		1,796		1,796
<b>Total for Historical Society</b>	<b>52,294</b>		<b>52,294</b>	<b>750</b>	<b>53,044</b>
Other Statutory Funds	29,346		29,346		29,346
<b>Arts Board</b>					
General Fund	20,442		20,442		20,442

<b>Table 4 continued</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2008)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
Special Revenue Fund	4		4		4
Federal Funds	1,340		1,340	30	1,370
Gift Funds	80		80		80
<b>Total for Arts Board</b>	<b>21,866</b>		<b>21,866</b>	<b>30</b>	<b>21,896</b>
<b>Humanities Commission</b>					
General Fund	500		500		500
<b>Total for Humanities Commission</b>	<b>500</b>		<b>500</b>		<b>500</b>
<b>Iron Range Resources &amp; Rehab Board</b>					
Iron Range Resources & Rehab Fund	68,199	(3,799)	64,400		64,400
Economic Protection Trust Fund	3,132	3,660	6,792		6,792
<b>Total for Iron Range Resources &amp; Rehab Board</b>	<b>71,331</b>	<b>(139)</b>	<b>71,192</b>		<b>71,192</b>
<b>Region 3 Occupation Tax</b>					
General Fund - Open	1,132	46	1,178		1,178
General Fund Transfers Out	(1,132)	(46)	(1,178)		(1,178)
<b>Total Region 3 Occupation Tax</b>	<b>0</b>		<b>0</b>		<b>0</b>
<b>Totals by Fund</b>					
General Fund	387,984	7,691	395,675	(3,346)	392,329
General Fund - Open	1,132	46	1,178		1,178
General Fund Transfers Out	(133,689)	(46)	(133,735)	200	(133,535)
Gift Funds	1,773		1,773		1,773
State Government Special Revenue	51,598		51,598		51,598
Special Revenue	29,268		29,268		29,268
Workforce Development Fund	93,008	12,859	105,867	(8,000)	97,867
Workers' Compensation Special Fund	197,278	(115)	197,163		197,163
Remediation Fund	1,400	37	1,437		1,437
Petroleum Tank Release Cleanup Fund	12,400	3,886	16,286		16,286
Federal Funds	486,398		486,398	5,013	491,411
Federal TANF Reserve Fund	0		0		0
Iron Range Resources & Rehab Fund	68,199	(3,799)	64,400		64,400
Economic Protection Trust Fund	3,132	3,660	6,792		6,792
<b>Total</b>	<b>1,199,881</b>	<b>24,219</b>	<b>1,224,198</b>	<b>(6,133)</b>	<b>1,217,967</b>
Other Statutory Funds	1,000,646		1,000,646		1,000,646
<b>Totals of All Funds</b>	<b>2,200,527</b>	<b>24,219</b>	<b>2,224,746</b>	<b>6,133)</b>	<b>2,218,613</b>

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## JUDICIARY

The state General Fund budget for the judiciary now totals \$744.9 million for FY 2008-2009, a reduction of \$5.5 million. The reductions, which are contained in Chapter 363, article 12, were general reductions, allowing the Courts and the Board of Public Defense to determine how the reductions are allocated. All cuts are carried forward into the 2010-2011 biennium as permanent reductions. The all funds budget for the judiciary is \$766.9 million, but no changes were made to nongeneral funds.

<b>Table 1</b> <b>Judiciary Spending Changes—General Fund</b> <b>2008 Legislative Session</b> <i>(dollars in thousands)</i>		
Agency/Change Item	FY 2008-2009	FY 2010-2011
<b>Spending Changes</b>		
Supreme Court	-831	-1,662
Civil Legal Services	-120	-240
Court of Appeals	-250	-500
District Courts	-2,800	-5,600
Board of Public Defense	-1,491	-2,982
<b>Total Spending Changes</b>	<b>-5,492</b>	<b>-10,984</b>
<b>Revenue Changes</b>		
Criminal and Traffic Fine Surcharge Increase	1,215	3,240
<b>Net General Fund Changes</b>	<b>-4,277</b>	<b>-7,744</b>

The reductions of \$5.5 million include:

- **Supreme Court**—a reduction of \$831,000 in FY 2009, as well as a reduction of \$120,000 in the FY 2009 appropriation to Civil Legal Services (which are funded through the Supreme Court). This represents 2.1 percent of the Supreme Court’s total budget.
- **Court of Appeals**—a reduction of \$250,000 for FY 2009, or 2.35 percent of its total budget.
- **District Courts**—a reduction of \$2.8 million for FY 2009, or 1.1 percent of their total budget.
- **Board of Public Defense**—a reduction of \$1.491 million, or 2.14 percent of its total budget for the FY 2009 appropriation. In implementing this budget reduction, the board laid off 21 public defenders and arranged the voluntary separation of an additional 32 public defenders. The board also decided that it

would not represent adult clients in Children in Need of Protective Services (CHIPS) cases.

**Criminal and Traffic Surcharge Increase**

The Legislature increased the criminal and traffic surcharge from \$72 to \$75. The change is estimated to increase revenues by \$1.2 million in FY 2009 and \$1.6 million each year thereafter.

<b>Table 2</b> <b>FY 2008-2009 Biennial Spending by Agency and Fund -- All Funds</b> <b>Judiciary Budget</b> <i>(dollars in thousands)</i>					
<b>Agency</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Feb. 2008 Forecast Amounts</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Supreme Court</b>					
General Fund	90,515		90,515	-951	89,564
Federal Fund	9,025		9,025		9,025
Gift Fund	119		119		119
Special Revenue Fund	2,237		2,237		2,237
<b>Supreme Court Total</b>	<b>101,896</b>		<b>101,896</b>	<b>-951</b>	<b>100,945</b>
<b>Court of Appeals</b>					
General Fund	20,386		20,386	-250	20,136
<b>Legal Professional Boards</b>					
Special Revenue Fund	9,444		9,444		9,444
<b>District Courts</b>					
General Fund	500,993		500,993	-2,800	498,193
Federal Fund	824		824		824
Special Revenue Fund	270		270		270
<b>District Court Total</b>	<b>502,087</b>		<b>502,087</b>	<b>-2,800</b>	<b>499,287</b>
<b>Tax Court</b>					
General Fund	1,619		1,619		1,619
<b>Uniform Laws Commission</b>					
General Fund	110		110		110
<b>Board on Judicial Standards</b>					
General Fund	910		910		910
<b>Board of Public Defense</b>					
General Fund	135,867		135,867	-1,491	134,376
Gift Fund	104		104		104
<b>Board of Public Defense Total</b>	<b>135,971</b>		<b>135,971</b>	<b>-1,491</b>	<b>134,480</b>
<b>Fund Totals</b>					
General Fund	750,400		750,400	-5,492	744,908
Federal Fund	9,849		9,849	0	9,849
Gift Fund	223		223	0	223
Special Revenue Fund	11,951		11,951	0	11,951
<b>Total All Funds</b>	<b>772,423</b>		<b>772,423</b>	<b>-5,492</b>	<b>766,931</b>

For questions or more information related to this chapter, please contact Chris.Turner@senate.mn

## PUBLIC SAFETY

The state General Fund budget for public safety now totals \$1.132 billion for the 2008-2009 biennium, a net reduction of \$5.1 million. Including all funds, the public safety budget for FY 2008-2009 is now \$1.439 billion. The permanent reductions, along with two targeted appropriation increases, are contained in Chapter 363, article 12. In addition, a \$17,000 General Fund appropriation to the Department of Corrections is made in the Claims Bill, Chapter 226.

<b>Table 1</b> <b>Public Safety Spending Changes—General Fund</b> <b>2008 Legislative Session</b> <i>(dollars in thousands)</i>		
Agency/Change Item	FY 2008-2009	FY 2010-2011
<b>Department of Public Safety</b>		
Homeland Security -- federal match	360	
Homeland Security -- CAT/HazMat Team Reimbursements	-40	-80
BCA -- CrimNet	-1,265	-2,530
Office of Justice Programs -- Financial Crimes Task Force	-450	-900
Office of Justice Programs -- Squad Car Upgrades	-52	-500
Agency-Wide Reduction	-250	-500
<b>Department of Human Rights</b>	-149	-298
<b>Department of Corrections</b>		
Short-Term Offender Reimbursements	-2,100	-4,200
Sentencing-to-Service	-600	-1,200
Eight-day Juvenile Hold Grants	-184	-184
Chapter 363 – Claims Bill	17	
<b>Total General Fund Changes</b>	<b>-4,713</b>	<b>-10,392</b>

### Department of Public Safety

The Legislature reduced the FY 2009 appropriation to the Department of Public Safety (DPS) by \$2.1 million, or 2.19 percent of its total budget, including a \$250,000 general agency-wide administrative reduction. In addition, the Legislature reduced funding by:

- \$40,000 from Hazardous Material (HazMat) and Chemical Assessment Team (CAT) reimbursements;
- \$1,265,000 from the CrimNet criminal justice information program;
- \$450,000 from the Financial Crimes Task Force; and
- \$52,000 from squad car technology upgrade grants.

In addition, Chapter 363, article 12, contained two targeted appropriation increases, including a \$360,000 onetime appropriation to DPS for the state match of federal disaster relief for the Red River flood in 2006.

**POST Board**

In addition to a \$50,000 appropriation for peace officer training, the Legislature cut \$25,000 from the Peace Officers' Standards and Training (POST) Board, for a net budget increase of \$25,000. In addition, appropriations were increased by \$50,000 from the Special Revenue Fund to the POST Board for officer training grants.

**Department of Human Rights**

The Legislature reduced the FY 2009 appropriation to the Department of Human Rights by \$149,000, or four percent of its total budget.

**Department of Corrections**

The Legislature made three reductions to the previously enacted Department of Corrections budget for FY 2008-2009. The reductions included: a onetime reduction of \$2.1 million in FY 2009 only in the appropriation for grants to counties to house short-term offenders; a reduction of \$600,000 in the FY 2009 appropriation for the sentencing-to-service program; and a reduction of \$92,000 each year in grants to counties providing juvenile eight-day hold services.

**General Fund Transfer**

The Legislature transferred \$2 million in fiscal year 2009 from the Fire Safety Account in the Special Revenue Fund to the General Fund. The Fire Safety Account is funded by a 0.65 percent surcharge on premiums for homeowner's insurance policies, commercial fire policies, and commercial nonliability insurance policies.

**Table 2**  
**FY 2008-2009 Biennial Spending by Agency and Fund—All Funds**  
**Public Safety Budget**  
*(dollars in thousands)*

	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Feb. 2008 Forecast Amounts</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Department of Public Safety</b>					
General Fund	190,728		190,728	-1,697	189,031
Federal Fund	79,232	14,642	93,874	6,593	100,467
Special Revenue Fund	38,706		38,706		38,706
State Government Special Revenue Fund	103,828	5,400	109,228		109,228
Gift Fund	8		8		8
<b>Department of Public Safety Total</b>	<b>412,502</b>		<b>432,544</b>	<b>4,896</b>	<b>437,440</b>
<b>POST Board</b>					
Special Revenue Fund	9,124		9,124	25	9,149
<b>Private Detective Board</b>					
General Fund	261		261		261
<b>Human Rights</b>					
General Fund	8,719		8,719	-149	8,570
Special Revenue Fund	366		366		366
<b>Human Rights Total</b>	<b>9,085</b>		<b>9,085</b>	<b>-149</b>	<b>8,936</b>
<b>Department of Corrections</b>					
General Fund	935,212		935,212	-2,867	932,345
Federal Fund	9,425		9,425	155	9,580
Gift Fund	44		44		44
Special Revenue Fund	40,100		40,100		40,100
<b>Department of Corrections Total</b>	<b>984,781</b>		<b>984,781</b>	<b>-2,712</b>	<b>982,069</b>
<b>Sentencing Guidelines</b>					
General Fund	1,313		1,313		1,313
<b>Fund Totals</b>					
General Fund	1,136,233	0	1,136,233	-4,713	1,131,520
Federal Fund	88,657	14,642	103,299	6,748	110,047
Gift Fund	52	0	52	0	52
Special Revenue Fund	88,296	0	88,296	25	88,321
State Government Special Revenue Fund	103,828	5,400	109,228	0	109,228
<b>Total All Funds</b>	<b>1,417,066</b>	<b>20,042</b>	<b>1,437,108</b>	<b>2,060</b>	<b>1,439,168</b>

For questions or more information related to  
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## TRANSPORTATION

Total appropriations for the transportation budget area are now \$5.4 billion for FY 2008-2009, an increase of \$594.6 million, or 12.3 percent over the originally enacted biennial budget, including actions taken during the 2007 First Special Session, and \$468.4 million, or 9.4 percent more than the February 2008 budget forecast. While the transportation budget increase reflects the passage of a major transportation finance bill, the supplemental budget bill included some appropriation reductions and transfers to help balance the General Fund.

The transportation budget receives 96 percent of its funding from nongeneral funds, and the transportation finance bill increased various dedicated revenues, including the motor fuels tax, vehicle registration tax, and trunk highway bonds. In addition, \$275.2 million of the transportation budget increase since the previously enacted budget is attributable to federal emergency relief funds for reconstruction of the I-35W Bridge in Minneapolis. General Fund spending for transportation increased by a net of \$2.6 million in FY 2008-2009, including both targeted onetime appropriations and operating budget reductions made to help balance the General Fund.

### NEW TRANSPORTATION REVENUES

The 2008 Legislature passed the Omnibus Transportation Finance Bill that contained increased tax revenues and bond authorizations for transportation purposes. The Legislature overrode the Governor's veto of the bill, and enacted it as Laws 2008, Chapter 152. New biennial transportation revenues from the 2008 session are summarized in Table 1.

<b>Table 1</b> <b>New State Revenues*</b> <b>FY 2008-2009 and 2010-2011</b> <i>(dollars in thousands)</i>						
Fund/Revenue Source	FY 2008	FY 2009	FY 2008- 2009	FY 2010	FY 2011	FY 2010- 2011
Highway User Tax Distribution Fund						
Gas Tax Increase (5 cents per gallon)	10,500	121,405	131,905	151,182	150,288	301,470
Debt Service Surcharge		12,646	12,646	63,538	75,096	138,634
Vehicle Registration Tax Increase		16,953	16,953	63,892	114,139	178,031
Rental Car Fee Increase (3% to 5%)		400	400	2,100	2,300	4,400
Special Revenue Fund						
DVS Technology Surcharge		12,250	12,250	12,250	12,250	24,500
<b>NEW Revenues -Transportation</b>	10,500	163,654	174,154	292,962	354,073	647,035
* Does not include bond appropriations, revenue shifts, or local sales taxes.						

**Gasoline Excise Tax**

The Legislature increased Minnesota’s previous gasoline excise tax of 20 cents per gallon by five cents per gallon, to be phased in as follows: two cents on April 1, 2008, and an additional three cents on October 1, 2008. The taxes on ethanol, methanol, and other special fuels were increased proportionally. These tax increases are projected to raise \$10.5 million in FY 2008 and \$121.4 million in FY 2009. As required by the Minnesota Constitution, this revenue will be deposited in the Highway User Tax Distribution Fund.

**Debt Service Surcharge on Motor Fuels**

The issuance of up to \$1.8 billion of new trunk highway bonds will be financed, in part, by a surcharge on motor fuels. The surcharge will go into effect on August 1, 2008, at 0.5 cent per gallon, and will increase on July 1 of each subsequent year according to the rate schedule below. In FY 2013 and after, the surcharge will be 3.5 cents per gallon until the full retirement of the principal and interest on the bonds.

<b>Surcharge Rate Schedule</b>	
<b>Fiscal Year</b>	<b>Rate (in cents per gallon)</b>
2009	0.5
2010	2.1
2011	2.5
2012	3.0
2013 and after	3.5

All motor fuel tax proceeds, including those from this surcharge, are constitutionally dedicated to the Highway User Tax Distribution Fund, which is further distributed to the Trunk Highway Fund, County State-Aid Highway Fund, and the Municipal State-Aid Street Fund. Only the revenue distributed to the Trunk Highway Fund, estimated to be \$7.4 million in FY 2009, will be used to retire the trunk highway bond debt. The two state-aid road funds will receive an estimated \$5 million from this surcharge in FY 2009.

**Vehicle Registration Tax**

The Legislature removed the caps on the annual motor vehicle registration tax of \$189 in year two of the vehicle’s life and \$99 in years three and after, and revised the vehicle depreciation schedule used in calculating the tax. These changes will be phased in, since the law specifies that no vehicle will be assessed a higher tax than levied in any previous year for the same vehicle. The changes are effective for registrations on or after September 1, 2008, and are projected to provide \$17 million in increased tax revenues in FY 2009, to be deposited into the Highway User Tax Distribution Fund. These revenues will grow to approximately \$158 million by FY 2012 as more vehicle registrations become subject to the new schedule.

### **Rental Car Fee**

The existing fee on the short-term lease or rental of passenger vehicles was increased from three percent to five percent. The fees collected are retained by dealers to cover the cost of their motor vehicle registration taxes and any overages are remitted to the state for deposit in the Highway User Tax Distribution Fund. Based on past overage collections, the Department of Revenue estimates this fee increase will provide an additional \$400,000 in FY 2009, and at least \$2 million annually thereafter.

### **Technology Surcharge**

In FY 2009 through FY 2012, Driver and Vehicle Services and deputy registrars will assess and collect a \$1.75 technology surcharge on all driver's license and motor vehicle title and registration transactions. The surcharge is projected to generate \$12.3 million in revenue annually, which will be deposited in the newly created driver and vehicle services technology account in the Special Revenue Fund. Revenues will be used to fund a new Driver and Vehicle Services computer system.

### **Trunk Highway Bonding**

The Legislature authorized \$1.8 billion in trunk highway bonding over ten years. Of this amount, \$300 million each in FY 2009 and FY 2010 is designated to fund the newly created trunk highway bridge improvement program. This program classifies each trunk highway bridge into one of three tiers according to criteria such as average daily traffic count and sufficiency rating and requires all bridges in tiers 1 and 2 to be repaired or replaced by FY 2018.

Other construction projects to be completed in this trunk highway bonding program include: \$40 million for construction of trunk highway interchanges; \$25 million for I-35W improvements as part of the federal Urban Partnership Agreement program to relieve congestion; \$24 million for a new Minnesota Department of Transportation (MnDOT) headquarters in Mankato; \$18 million to repair the exterior of the MnDOT administration building in St. Paul; \$10.6 million for truck station facilities in Chaska, Maple Grove, and Rochester; and \$400,000 to the Metropolitan Council for I-35W park-and-ride facilities.

### **General Obligation Bonding**

The Legislature also authorized general obligation bonds to finance local road and bridge projects. \$50 million was appropriated to replace and rehabilitate deficient local bridges, and \$10 million was appropriated for safety enhancements on county state-aid highways.

### **Motor Vehicle Leasing Sales Tax**

Revenue from the existing 6.5 percent sales tax on motor vehicle leases is currently deposited in the General Fund. The Legislature dedicated this existing tax revenue, less the amount necessary to fund a new motor fuels tax credit for lower income taxpayers, to transportation funds beginning in FY 2010. The revenue shift from the General Fund to transportation funds will be phased in over three years so that by FY 2012, 50 percent of the net leasing sales tax revenue will be transferred to the County State-Aid Highway



Fund, and 50 percent to the greater Minnesota transit account in the Transit Assistance Fund.

The total estimated FY 2010 revenue from sales tax on motor vehicle leases is \$45.3 million. Due to the phase-in schedule, 16.25 percent, or \$7.4 million, will remain in the General Fund. After the estimated \$29.8 million cost of the motor fuels tax credit for lower income taxpayers, the remaining \$8.1 million will be divided equally between the two transportation funds.

The refundable motor fuels income tax credit of \$25 per household was created to mitigate the impact of the increased gasoline excise tax on lower income taxpayers, and is effective for taxable year 2009 and after.

### Nonstate Revenues

The Legislature authorized the metropolitan transportation area sales tax, allowing counties in the metropolitan area to each levy a 0.25 percent sales and use tax to fund improvements to the transit system. Instead of the 0.25 percent sales tax, a \$20 vehicle excise tax will apply to sales of motor vehicles in the participating counties.

A joint powers board made up of those counties levying the tax will have the authority to make grants to the state and to political subdivisions for transit improvements. As of July 1, 2008, five metropolitan counties are participating in the joint powers board: Anoka, Dakota, Hennepin, Ramsey, and Washington Counties. The sales and use tax and the vehicle excise tax are expected to provide \$96 million to these counties in FY 2009.

Of the initial revenue generated by the sales tax in FY 2009, at least \$30.8 million was required as a onetime allocation to the Metropolitan Council for transit operating assistance.

Agency	End of Session 2007	Feb. 08 Forecast Changes	Feb. 2008 Forecast Amounts *	Legislative Changes	Current Budget (Revised 2008)
<b>Dept of Transportation:</b>					
General Fund	55,983	0	55,983	2,483	58,466
General Fund (TR OUT)	(15,000)	0	(15,000)		(15,000)
Trunk Highway Fund **	2,191,326	90,000	2,281,326	269,748	2,551,074
State Airports Fund	52,224	0	52,224	(15,000)	37,224
County State-Aid Highway Fund	895,659	0	895,659	50,173	945,832
Municipal State-Aid Street Fund	239,667	0	239,667	13,179	252,846
Special Revenue Fund	43,756	0	43,756	925	44,681
Highway User Tax Distribution Fund	802	0	802		802
Transit Assistance Fund	16,562	(1,467)	15,095		15,095
Federal Fund	599,716	2,000	601,716	128,876	730,592

<b>Table 2 continued</b>					
<b>Agency</b>	<b>End of Session 2007</b>	<b>Feb. 08 Forecast Changes</b>	<b>Feb. 2008 Forecast Amounts *</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Dept. of Transportation Total</b>	4,080,695	90,533	4,171,228	450,384	4,621,612
<b>Metropolitan Council Transit:</b>					
General Fund	177,506	0	177,506	(136)	177,370
Transit Assistance Fund	263,686	(23,283)	240,403		240,403
<b>Met Council Transit Total</b>	441,192	(23,283)	417,909	(136)	417,773
<b>Dept. of Public Safety:</b>					
General Fund	15,913	239	16,152	(60)	16,092
General Fund (TR OUT)	(1,584)	0	(1,584)		(1,584)
Trunk Highway Fund	161,372	0	161,372	4,228	165,600
Highway User Tax Distribution Fund	17,926	0	17,926		17,926
Special Revenue Fund	116,751	0	116,751	12,250	129,001
State Govt. Special Revenue Fund	2,252	0	2,252		2,252
Gift Fund	120	0	120		120
Environmental Fund	140	(2)	138		138
Federal Fund	59,540	470	60,010	1,450	61,460
<b>Dept of Public Safety Total</b>	372,430	707	373,137	17,868	391,005
<b>University of Minnesota (CTS):</b>					
General Fund	0	0	0	300	300
<b>University of MN-CTS Total</b>	0	0	0	300	300
<b>TOTAL TRANSPORTATION SPENDING</b>	4,894,317	67,957	4,962,274	468,416	5,430,690
<b>TOTALS BY FUND:</b>					
General Fund	249,402	239	249,641	2,587	252,298
General Fund Transfers Out	(16,584)		(16,584)		(16,584)
Trunk Highway Fund	2,352,698	90,000	2,442,698	273,976	2,716,674
State Airports Fund	52,224	0	52,224	(15,000)	37,224
County State-Aid Highway Fund	895,659	0	895,659	50,173	945,832
Municipal State-Aid Street Fund	239,667	0	239,667	13,179	252,846
Special Revenue Fund	160,507	0	160,507	13,175	173,682
Highway User Tax Distribution Fund	18,728	0	18,728	0	18,728
Federal Fund	659,256	2,470	661,726	130,326	792,052
Transit Assistance Fund	280,248	(24,750)	255,498	0	255,498
State Govt. Special Revenue Fund	2,252	0	2,252	0	2,252
Gift Fund	120	0	120	0	120
Environmental Fund	140	(2)	138	0	138
<b>TOTAL FOR TRANSPORTATION:</b>	4,894,317	67,957	4,962,274	468,416	5,430,690
*Forecast amounts are from February 2008 economic forecast prior to passage of Chapter 152. All Chapter 152 changes are reflected in the "Legislative Changes" column.					
**End of Session 2007 amount includes \$61.387 million appropriated in Laws 2007, First Special Session Chapter 2, for disaster relief and I-35W Bridge Collapse costs.					

## MINNESOTA DEPARTMENT OF TRANSPORTATION

As shown in Table 2, biennial spending for MnDOT increased by \$599.2 million, or 14.9 percent from the original FY 2008-2009 budget, and \$450.4 million, or 10.8 percent more

than the February 2008 budget forecast. Much of the increase is due both to onetime receipt of federal funds for reconstruction of the I-35W Bridge and to ongoing dedicated revenues from increases in the gas tax and vehicle registration tax.

MnDOT received an additional \$221.4 million appropriation from the Trunk Highway Fund for the state road program. Of this amount, \$75.4 million was appropriated for infrastructure maintenance and investment support, and \$7.2 million for FY 2009 debt service on the new trunk highway bond authorization. Onetime federal highway grants accounted for the remainder of the appropriation, including \$132 million of federal emergency relief funds for the reconstruction of the I-35W Bridge, and \$6.9 million for improvement of other trunk highway bridges.

Local road programs also received appropriation increases due to new transportation tax revenues dedicated to state-aid road funds. County state-aid highways received an additional \$50.2 million, or an increase of 5.6 percent from the original FY 2008-2009 budget, and municipal state-aid streets received an increase of \$13.2 million, or 5.5 percent over the original appropriation.

The MnDOT budget increase included an additional \$2.5 million in onetime General Fund appropriations in FY 2009. Of this amount, \$1.7 million was appropriated to address a budget shortfall for Greater Minnesota transit programs, \$500,000 for port development assistance, and \$250,000 to study the extension of the Northstar Corridor commuter rail line between Big Lake and Rice. This General Fund increase was offset by operating budget reductions of \$34,000, including a \$32,000 base reduction of the appropriation for Greater Minnesota transit programs.

As part of the Legislature's deficit reduction program, \$15 million was transferred in FY 2008 from the State Airports Fund to the General Fund. In order to maintain the projected biennial fund balance, MnDOT's appropriation for airport development and assistance from this fund was reduced by \$15 million in FY 2009. In addition, the General Fund was also balanced, in part, by transfers of \$3.0 million in FY 2008 and \$3.0 million in FY 2009 from the rail service improvement account in the Special Revenue Fund to the General Fund. This account is used to make loans and grants to railroad users and shippers for capital improvements, and its receipts are the repayments of these loans.

## **METROPOLITAN COUNCIL – TRANSIT**

Biennial spending for metropolitan bus and light rail transit programs decreased by \$23.4 million, a 5.3 percent decrease from the original FY 2008-2009 budget, largely due to a decline in dedicated motor vehicle sales tax (MVST) revenues from previous biennial forecast estimates. In addition, as part of this year's deficit reduction program, the Legislature reduced the FY 2009 General Fund appropriation to the Metropolitan Council for metropolitan area transit operations by \$136,000, a 0.1 percent decrease from the originally enacted biennial budget.

Table 3 summarizes total FY 2008-2009 transportation-related General Fund changes from forecast.

The February 2008 economic forecast projected a decrease in FY 2008-2009 MVST revenues of \$23.3 million or 8.8 percent from originally budgeted amounts. The forecast change reduced the estimated biennial distribution to the metropolitan transit account in the Transit Assistance Fund. This shrinking distribution of MVST revenues to metropolitan transit occurred in spite of a statutory increase of metro transit's share of MVST revenue during the biennium, from 21.5 percent in FY 2007 to 24 percent in FY 2008 and 27.75 percent in FY 2009.

<p align="center"><b>Table 3</b>  <b>General Fund Changes Relative to Forecast</b>  <b>FY 2008-2009</b>  <i>(dollars in thousands)</i></p>						
<b>Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>General Fund Spending Changes</b>						
<i>Department of Transportation:</i>						
Transit Operating Appropriation	0	1,700	1,700	0	0	0
Northstar Rail Study	0	250	250	0	0	0
Port Development Assistance	0	500	500	0	0	0
MnDOT Claims payment	67	0	67	0	0	0
Transit Operating Budget Reduction	0	(32)	(32)	(32)	(32)	(64)
Freight Operating Budget Reduction	0	(2)	(2)	(2)	(2)	(4)
<i>Metropolitan Council:</i>						
Metro Transit Operating Budget Reduction	0	(136)	(136)	(136)	(136)	(272)
<i>Department of Public Safety:</i>						
Public Safety Support Operating Budget Reduction	0	(45)	(45)	(17)	(17)	(34)
Capitol Security Operating Budget reduction	0	(15)	(15)	(15)	(15)	(30)
<i>University of Minnesota:</i>						
CTS Value Capture Study	300	0	300	0	0	0
<i>Other Changes:</i>						
Lower Income Motor Fuels Tax Credit	0	0	0	29,800	30,700	60,500
<b>Total Spending Changes</b>	367	2,220	2,587	29,598	30,498	60,096
<b>General Fund Revenue Changes</b>						
State Airports Fund (Transfer Out)	15,000	0	15,000	0	0	0
Rail Service Improvement Account (Transfer Out)	3,000	3,000	6,000	0	0	0
Leasing Sales Tax to Greater MN Transit (Transfer Out)	0	0	0	0	(4,070)	(4,070)
Leasing Sales Tax to CSAH (Transfer Out)	0	0	0	0	(4,070)	(4,070)
Income Tax Offset for Tab Fee Changes	0	(400)	(400)	(1,400)	(2,400)	(3,800)
License Reinstatement Installment Payments	0	0	0	(4,525)	(4,525)	(9,050)
<b>Total Revenue Changes</b>	18,000	2,600	20,600	(5,925)	(15,065)	(20,990)
<b>NET LOSS/(GAIN) to General Fund</b>	(17,633)	(380)	(18,013)	35,523	45,563	81,086

## **DEPARTMENT OF PUBLIC SAFETY**

Overall spending in Department of Public Safety (DPS) FY 2008-2009 transportation-related programs increased by \$17.9 million, or 4.8 percent over the originally enacted biennial budget.

Of this amount, \$12.3 million is from the \$1.75 technology surcharge on Driver and Vehicle Services transactions, with revenues to fund a new computer system. An additional \$3.7 million is appropriated from the Trunk Highway Fund to the State Patrol, for the addition of 40 new troopers.

As part of the Omnibus Transportation Policy Bill, the Legislature appropriated \$575,000 from the Trunk Highway Fund to DPS to create the Office of Pupil Transportation Safety, which shall be responsible for all DPS activities relating to school bus safety.

However, the Legislature reduced ongoing General Fund appropriations for two DPS transportation-related programs by 0.5 percent from the originally enacted biennial budget amounts. The FY 2009 General Fund appropriation for public safety support was reduced by \$17,000, and the FY 2009 General Fund appropriation for Capitol Security was reduced by \$15,000. In addition, public safety support's General Fund appropriation for FY 2009 was reduced by \$28,000, eliminating a onetime appropriation for a security coordinator for the 2008 Republican National Convention in St. Paul.

## **OTHER FISCAL AND POLICY CHANGES**

### **Urban Partnership Agreement**

In August 2007, Minneapolis was one of five cities nationwide to receive a U.S. Department of Transportation grant as part of the Urban Partnership Agreement (UPA), a program to reduce traffic congestion. MnDOT and the Metropolitan Council are lead agencies for Minnesota's UPA plan, which is designed to improve traffic flow on I-35W between downtown Minneapolis and the southern suburbs.

The federal UPA grant of \$133.3 million required a \$50.2 million state funding match. Of this total, \$3.5 million was appropriated from the General Fund; \$1.0 million from the Trunk Highway Fund; \$16.7 million in general obligation bonds; and \$25.2 million in trunk highway bonds. The remaining \$4.0 million will be provided through Metropolitan Council regional bonding authority for UPA capital expenditures.

### **Transportation Policy**

The Legislature enacted two omnibus transportation policy bills during the 2008 session. Both contained minor spending impacts on nongeneral funds, including the establishment of the new position of state rail safety inspector in MnDOT's Office of Freight and Commercial Vehicle Operations. This position will be funded by common rail carrier assessments that are deposited in the state rail safety inspection account in the Special Revenue Fund. Assessment revenues are estimated at \$75,000 in FY 2009 and \$150,000 in subsequent fiscal years.

The Legislature also authorized issuance of special agricultural product permits to certain six- or seven-axle vehicles, with respective fees of \$300 and \$500. This provision will generate \$850,000 annually, to be deposited in the newly created bridge inspection and signing account in the Special Revenue Fund in FY 2008 through FY 2011, and in the Trunk Highway Fund thereafter.

The Legislature also changed registration requirements for certain commercial vehicles. Spotter trucks were exempted from registration tax requirements, resulting in an annual \$76,000 loss in revenue to the Highway User Tax Distribution Fund. This provision will expire in FY 2014. The law also set a special registration tax rate of 15 percent for concrete pumps and street-sweeping vehicles that will generate \$54,000 annually, to be deposited in the Highway User Tax Distribution Fund.

Finally, special canola hauling vehicle permits were established, with a fee of \$850 per vehicle. Revenues collected from the fees must be deposited in the Trunk Highway Fund, from which an open appropriation is made to the Commissioner of Transportation for the costs of administering the program. Annual revenues from the permits are estimated at \$43,000, with program administration costs of \$33,000 in FY 2008; \$22,000 in FY 2009; and \$5,000 annually thereafter.

For questions or more information related to this chapter, please contact [Krista.Boyd@senate.mn](mailto:Krista.Boyd@senate.mn)

## STATE GOVERNMENT

In Laws 2008, Chapter 363, article 13, the Legislature made changes in General Fund spending and revenues within the state government area that produced a net increase in spending of \$4.9 million for the 2008-2009 biennium. The changes are shown in Table 1.

<b>Table 1</b>						
<b>General Fund Changes Relative to Forecast</b>						
<i>(dollars in thousands)</i>						
<b>Change Item</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>General Fund Spending Changes</b>						
Senate 3% Operating		(710)	(710)	(469)	(469)	(938)
House 3% Operating		(952)	(952)	(630)	(630)	(1,260)
LCC 1% Operating		(159)	(159)	(159)	(159)	(318)
Pension & Retirement Commission Actuary				140	140	280
Governor 3% Operating		(113)	(113)	(76)	(76)	(152)
State Auditor 3% Operating		(42)	(42)	(42)	(42)	(84)
Attorney General 3% Operating		(749)	(749)	(749)	(749)	(1,498)
Secretary of State 3% Operating		(195)	(195)	(190)	(195)	(385)
Enterprise Technology 4% Operating		(313)	(313)	(253)	(253)	(506)
Administration 4% Operating		(469)	(469)	(469)	(469)	(938)
Eliminate Public Safety Relocation Funding		(885)	(885)			
Workers Memorial		40	40			
Hubert H. Humphrey Memorial		40	40			
Finance 4% Operating		(624)	(624)	(624)	(624)	(1,248)
Employee Relations 4% Operating		(218)	(218)	(218)	(218)	(436)
Revenue Dept. 3.1% Operating		(1,240)	(1,240)	(1,240)	(1,240)	(2,480)
Revenue Dept. Bank Data Matches		360	360	360	360	720
Revenue Dept. Tax Compliance Auditors		7,000	7,000	7,000	7,000	14,000
Teachers Retirement Assoc. State Aid				(140)	(140)	(280)
Professional/Technical Contracts		(1,875)	(1,875)	(575)	(575)	(1,150)
1-35W Bridge Survivors Compensation*		38,000	38,000			
<b>Total Spending Changes</b>		<b>36,896</b>	<b>36,896</b>	<b>1,666</b>	<b>1,661</b>	<b>3,327</b>
<b>General Fund Revenue Changes</b>						
Sec. of State Waiver of Reinstatement Fee		(1)	(1)	(1)	(1)	(2)
Admin. Facilities Repair Acct Transfer		1,000	1,000			
Revenue Bank Data Matches		10,000	10,000	10,000	10,000	20,000
Revenue Tax Compliance Audits		21,000	21,000	21,000	21,000	42,000
<b>Total Revenue Changes</b>		<b>31,999</b>	<b>31,999</b>	<b>30,999</b>	<b>30,999</b>	<b>61,998</b>
<b>Net Changes State Government</b>		<b>4,897</b>	<b>4,897</b>	<b>(29,333)</b>	<b>(29,338)</b>	<b>(58,671)</b>

\*See separate chapter of this report for more specific information on provisions related to I-35W Bridge Survivor Compensation Fund.

The changes made by the 2008 Legislature within the state government area across all funds are shown in Table 2.

<b>Table 2</b>					
<b>Biennial Spending by Agency &amp; Fund—All Funds, FY 2008-2009</b>					
<i>(dollars in thousands)</i>					
<b>Agency</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2007)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>LEGISLATURE</b>					
General Fund	145,882	5,121	151,003	(1,821)	149,182
Health Care Access Fund	356		356		356
Special Revenue Fund	0		0		0
Federal Fund	0		0		0
Gift Fund	0		0		0
<b>Total for Legislature</b>	<b>146,238</b>	<b>5,121</b>	<b>151,359</b>	<b>(1,821)</b>	<b>149,538</b>
<b>GOVERNOR'S OFFICE</b>					
General Fund	7,456		7,456	(113)	7,343
Special Revenue Fund	840		840		840
<b>Total for Governor's Office</b>	<b>8,296</b>		<b>8,296</b>	<b>(113)</b>	<b>8,183</b>
<b>STATE AUDITOR</b>					
General Fund	18,454		18,454	(42)	18,412
Special Revenue Fund	62		62		62
<b>Total for State Auditor</b>	<b>18,516</b>		<b>18,516</b>	<b>(42)</b>	<b>18,474</b>
<b>Non-Consolidated Fund Statement (CFS) Statutory Funds - State Auditor</b>					
<i>General Fund - Statutory</i>	1,260		1,260		1,260
<b>ATTORNEY GENERAL</b>					
General Fund	49,022		49,022	(749)	48,273
State Government Special Revenue Fund	3,443		3,443		3,443
Special Revenue Fund	276		276		276
Federal Fund	2,602		2,602		2,602
Environmental Fund	290		290		290
Remediation Fund	500		500		500
<b>Total for Attorney General</b>	<b>56,133</b>		<b>56,133</b>	<b>(749)</b>	<b>55,384</b>
<b>Non-CFS Statutory Funds - Attorney General</b>					
<i>General Fund</i>	16,106		16,106		16,106
<i>State Government Special Revenue Fund</i>	1,908		1,908		1,908
<b>Total Non-CFS for Attorney General</b>	<b>18,014</b>		<b>18,014</b>		<b>18,014</b>
<b>SECRETARY OF STATE</b>					
General Fund	12,672		12,672	(195)	12,477
Special Revenue Fund	8,077		8,077		8,077
<b>Total Secretary of State</b>	<b>20,749</b>		<b>20,749</b>	<b>(195)</b>	<b>20,554</b>



<b>Table 2 continued</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2007)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
<b>Agency</b>					
<b>CAMPAIGN FINANCE AND PUBLIC DISCLOSURE BOARD</b>					
General Fund	1,449		1,449		1,449
Special Revenue Fund	4,080		4,080		4,080
<b>Total Campaign Finance &amp; Public Disclosure Board</b>	<b>5,529</b>		<b>5,529</b>		<b>5,529</b>
<b>Campaign Financing Checkoff Subsidy</b>					
General Fund	4,070		4,070		4,070
General Fund Transfers Out	(4,070)		(4,070)		(4,070)
<b>Total Campaign Financing Checkoff</b>	<b>0</b>		<b>0</b>		<b>0</b>
<b>STATE BOARD OF INVESTMENT</b>					0
General Fund	302		302		302
Special Revenue Fund	4,770		4,770		4,770
<b>Total Investment Board</b>	<b>5,072</b>		<b>5,072</b>		<b>5,072</b>
<b>OFFICE OF ADMINISTRATIVE HEARINGS</b>					
General Fund	573		573		573
Special Revenue Fund	130		130		130
Workers' Compensation Special Fund	14,790		14,790		14,790
<b>Total Administrative Hearings</b>	<b>15,493</b>		<b>15,493</b>		<b>15,493</b>
<b>Non-CFS Statutory Funds - Administrative Hearings</b>					
<i>Administrative Hearings</i>	3,602		3,602		3,602
<b>OFFICE OF ENTERPRISE TECHNOLOGY</b>					
General Fund	24,274		24,274	(313)	23,961
Special Revenue Fund	1,000		1,000		1,000
Federal Fund	0		0		0
<b>Total Office of Enterprise Technology</b>	<b>25,274</b>		<b>25,274</b>	<b>(313)</b>	<b>24,961</b>
<b>Non-CFS Statutory Funds Office of Enterprise Technology</b>					
<i>Internal Service Funds</i>	172,081		172,081		172,081
<b>DEPARTMENT OF ADMINISTRATION</b>					
General Fund	43,671	3,344	47,015	(1,274)	45,741
Special Revenue Fund	19,621		19,621	(1,000)	18,621
Federal Fund	3,583		3,583	1,165	4,748
Gift Fund	10		10		10
<b>Total for Dept. of Administration</b>	<b>66,885</b>	<b>3,344</b>	<b>70,229</b>	<b>(1,109)</b>	<b>69,120</b>
<b>Non-CFS Statutory Funds Administration Dept.</b>					
<i>Internal Service Funds / Enterprise Funds</i>	198,723		198,723		198,723
<b>PUBLIC BROADCASTING</b>					

Table 2 continued	Original Budget (Enacted 2007)	Forecast Changes	Forecast Amounts (2/2007)	Legislative Changes	Current Budget (Revised 2008)
Agency					
General Fund	14,926		14,926		14,926
<b>CAPITOL AREA ARCHITECTURE AND &amp; PLANNING BOARD</b>					0
General Fund	800	124	924		924
Special Revenue Fund	16		16		16
Gift Fund	0		0		0
<b>Total for Capitol Area Architect &amp; Planning Board</b>	<b>816</b>	<b>124</b>	<b>940</b>		<b>940</b>
<b>FINANCE DEPARTMENT</b>					
General Fund	31,392		31,392	(624)	30,768
Special Revenue Fund	13,706		13,706		13,706
<b>Total for Finance Dept.</b>	<b>45,098</b>		<b>45,098</b>	<b>(624)</b>	<b>44,474</b>
<b>FINANCE NONOPERATING</b>					0
General Fund	10,254	2,344	12,598	36,125	48,723
General Fund Transfers Out	(10,254)	(1,814)	(12,068)	0	(12,068)
Federal Fund	8,410		8,410		8,410
Remediation Fund	0		0		0
<b>Total for Finance Nonoperating</b>	<b>8,410</b>	<b>530</b>	<b>8,940</b>	<b>36,125</b>	<b>45,065</b>
<b>INDIRECT COSTS</b>					
General Fund	(34,006)	(3,400)	(37,406)		(37,406)
<b>DEPARTMENT OF EMPLOYEE RELATIONS</b>					
General Fund	12,163	(1,029)	11,134	(218)	10,916
Special Revenue Fund	51,973		51,973		51,973
<b>Total Dept. of Employee Relations</b>	<b>64,136</b>	<b>(1,029)</b>	<b>63,107</b>	<b>(218)</b>	<b>62,889</b>
<b>Non-CFS Statutory Funds – Dept. of Employee Relations</b>					
<i>State Employees Insurance</i>	1,345,085		1,345,085		1,345,085
<i>Miscellaneous Agency</i>	45,986		45,986		45,986
<b>Total Non-CFS for Dept. of Employee Relations</b>	<b>1,391,071</b>		<b>1,391,071</b>		<b>1,391,071</b>
<b>DEPARTMENT OF REVENUE</b>					
General Fund	248,096		248,096	6,120	254,216
Health Care Access Fund	3,438		3,438		3,438
Special Revenue Fund	4,866		4,866		4,866
State Airports Fund	2		2		2
Highway Users Tax Distribution Fund	4,194		4,194		4,194
Environmental Fund	596	2	598		598
<b>Total for Dept. of Revenue</b>	<b>261,192</b>		<b>261,192</b>	<b>6,120</b>	<b>267,312</b>
<b>AMATEUR SPORTS COMMISSION</b>					
General Fund	2,108		2,108		2,108
Gift Fund	0		0		0
<b>Total for Amateur Sports</b>	<b>2,108</b>		<b>2,108</b>		<b>2,108</b>
<b>COUNCIL ON BLACK MINNESOTANS</b>					

Table 2 continued	Original Budget (Enacted 2007)	Forecast Changes	Forecast Amounts (2/2007)	Legislative Changes	Current Budget (Revised 2008)
Agency					
General Fund	658		658		658
Special Revenue Fund	0		0		0
<b>Total for Council on Black Minnesotans</b>	<b>658</b>		<b>658</b>		<b>658</b>
<b>CHICANO LATINO AFFAIRS COUNCIL</b>					0
General Fund	622		622		622
Gift Fund	5		5		5
<b>Total for Chicano Latino Affairs Council</b>	<b>627</b>		<b>627</b>		<b>627</b>
<b>COUNCIL ON ASIAN-PACIFIC MINNESOTANS</b>					0
General Fund	578		578		578
Special Revenue Fund	27		27		27
Gift Fund	36		36		36
<b>Total for Council on Asian-Pacific Minnesotans</b>	<b>641</b>		<b>641</b>		<b>641</b>
<b>MINNESOTA INDIAN AFFAIRS COUNCIL</b>			0		0
General Fund	1,067		1,067		1,067
Special Revenue Fund	0		0		0
Federal Fund	130		130		130
Gift Fund	4		4		4
<b>Total for MN Indian Affairs Council</b>	<b>1,201</b>		<b>1,201</b>		<b>1,201</b>
<b>GAMBLING CONTROL BOARD</b>					
Special Revenue Fund	<b>5,809</b>		<b>5,809</b>		<b>5,809</b>
<b>RACING COMMISSION</b>					
Special Revenue Fund	<b>4,070</b>		<b>4,070</b>		<b>4,070</b>
<b>CONTINGENT ACCOUNTS</b>					
General Fund	500		500		500
State Government Special Revenue Fund	800		800		800
Trunk Highway Fund	400		400		400
Highway Users Tax Distribution Fund	250		250		250
Workers' Compensation Special Fund	200		200		200
<b>Total for Contingent Accounts</b>	<b>2,150</b>		<b>2,150</b>		<b>2,150</b>
<b>TORT CLAIMS</b>					
General Fund	322		322		322
Trunk Highway Fund	1,200		1,200		1,200
<b>Total for Tort Claims</b>	<b>1,522</b>		<b>1,522</b>		<b>1,522</b>
<b>MN STATE RETIREMENT SYSTEM</b>					
General Fund	<b>3,257</b>	<b>1,852</b>	<b>5,109</b>		<b>5,109</b>
<b>LOCAL PENSION AIDS</b>					
General Fund	<b>55,534</b>		<b>55,534</b>		<b>55,534</b>

Table 2 continued	Original Budget (Enacted 2007)	Forecast Changes	Forecast Amounts (2/2007)	Legislative Changes	Current Budget (Revised 2008)
<b>Agency</b>					
<b>Totals by Fund/Consolidated Fund Statement Group</b>					
General Fund	656,096	8,356	664,452	36,896	701,348
General Fund Transfers Out	(14,324)	(1,814)	(16,138)		(16,138)
Health Care Access Fund	3,794		3,794		3,794
Special Revenue Fund	119,323		119,323	(1,000)	118,323
Federal Fund	14,725		14,725	1,165	15,890
Gift Fund	55		55		55
State Government Special Revenue Fund	4,243		4,243		4,243
Environmental Fund	886	2	888		888
Remediation Fund	500		500		500
Trunk Highway Fund	1,600		1,600		1,600
Highway Users Tax Distribution Fund	4,444		4,444		4,444
Workers' Compensation Special Fund	14,990		14,990		14,990
State Airports Fund	2		2		2
<b>TOTAL FOR STATE GOVERNMENT</b>	<b>806,334</b>	<b>6,544</b>	<b>812,878</b>	<b>37,061</b>	<b>849,939</b>
<b>Totals for Non-Consolidated Fund Spending*</b>			0		0
<i>General Fund</i>	17,366		17,366		17,366
<i>State Government Special Revenue Fund</i>	1,908		1,908		1,908
<i>Administrative Hearings</i>	3,602		3,602		3,602
<i>Internal Service Funds / Enterprise Funds</i>	370,804		370,804		370,804
<i>State Employees Insurance</i>	1,345,085		1,345,085		1,345,085
<i>Miscellaneous Agency</i>	45,986		45,986		45,986
<b>TOTAL NON-CFS STATE GOVERNMENT</b>	<b>1,784,751</b>		<b>1,784,751</b>		<b>1,784,751</b>
<b>TOTAL (CFS and NON-CFS) STATE GOVERNMENT</b>	<b>2,591,085</b>	<b>6,544</b>	<b>2,597,629</b>	<b>37,061</b>	<b>2,634,690</b>

\*In addition to the agency spending reflected in the Consolidated Fund Statement (CFS) published by the Department of Finance, some agencies' operating activities are also supported by resources not captured in the CFS, or reflected in the budgets of other agencies and then transferred to other agencies through interagency agreements. The non-CFS amounts are shown here to provide a complete picture of the operations of those agencies.

## Legislature

The Legislature reduced the General Fund appropriations for its own operations by \$1.8 million for the 2008-2009 biennium. This reduction reflected a three percent decrease in the operating budgets for the House of Representatives and the Senate, and a one percent decrease in the operating budget for the Legislative Coordinating Commission. Chapter 349, article 10, appropriated \$140,000 in FY 2010 to the Legislative Commission on Pensions and Retirement for the retention of an actuarial consulting firm to review

pension fund analyses prepared for each of the pension plans or funds under the commission's jurisdiction.

### **Constitutional Offices**

The Legislature reduced appropriations for the operating budgets of the Office of the Governor, the State Auditor, the Attorney General, and the Secretary of State by three percent for FY 2009.

### **State Agencies**

The Legislature imposed General Fund operating budget reductions of four percent for FY 2009 on several state agencies, including the Office of Enterprise Technology (a \$313,000 reduction); the Department of Administration (a \$469,000 reduction); and the newly merged Department of Finance and Employee Relations (an \$842,000 reduction).

In addition, the Legislature eliminated a previous appropriation to the Department of Administration for relocation expenses for the Department of Public Safety, resulting in a savings of \$885,000 for FY 2009. The Legislature created additional General Fund revenue for FY 2009 by transferring to the General Fund \$1 million of the balance in the facilities repair and replacement account in the Special Revenue Fund.

The Legislature reduced the General Fund appropriation for the Department of Revenue tax system management program by \$1.2 million, and made two appropriations that will increase the amount of delinquent and unpaid taxes collected. A \$7 million General Fund appropriation in FY 2009 for additional activities to identify and collect taxes owed is expected to yield \$21 million of new General Fund revenue. An additional \$360,000 General Fund appropriation was made to the Department of Revenue for a new financial institution data matching program that is expected to yield \$10 million of new General Fund revenue. This program will assist the Department of Revenue in locating assets held by tax debtors.

### **Pensions**

Chapter 349, the Omnibus Pensions Bill, contained numerous technical provisions and several provisions of significance to particular individuals. Chapter 349 also made changes to the Minnesota Post Retirement Investment Fund, including a limit on the amount of benefit increase that can be provided from that fund to individuals receiving benefits who have lost purchasing power from their benefit compared to the amount they received when their benefit first commenced. The increase can be paid only if: (1) the Post Retirement Investment Fund funding ratio is at least 90 percent; (2) the rate of return on assets in the fund is at least 8.5 percent; and (3) the inflation rate for that year is less than 2.5 percent.

Direct General Fund state aid to the teacher pension plans was reallocated in Chapter 349. Total state aid to the Teachers Retirement Association (TRA) was reduced by \$346,000, leaving TRA with \$12.954 million. This \$346,000 is to be reallocated to the Duluth Teachers Retirement Fund Association (DTRFA), restarting aid to the association after state aid ended in 2002 because DTRFA was fully funded. The amount that the St.

Paul Teachers Retirement Fund Association would receive was reduced by \$140,000 starting in FY 2010.

In addition, Chapter 349 included a requirement for dissolution of the Post Retirement Investment Fund if the funding ratio for the fund falls below 80 percent. In that event, the Post Retirement Investment Fund must be dissolved and the assets in the fund transferred back to applicable plans and merged with the active member assets for that plan.

Total General Fund spending for the 2008-2009 biennium after changes made by the 2008 Legislature is shown in Table 3.

<b>Agency</b>	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Forecast Amounts (2/2007)</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
Legislature	145,882	5,121	151,003	(1,821)	149,182
Governor's Office	7,456		7,456	(113)	7,343
State Auditor	18,454		18,454	(42)	18,412
Attorney General	49,022		49,022	(749)	48,273
Secretary of State	12,672		12,672	(195)	12,477
Campaign Finance Board	1,449		1,449		1,449
Public Subsidy - Campaign Finance	4,070		4,070		4,070
State Board of Investment	302		302		302
Office of Administrative Hearings	573		573		573
Office of Enterprise Technology	24,274		24,274	(313)	23,961
Dept. of Administration	43,671	3,344	47,015	(1,274)	45,741
Public Broadcasting	14,926		14,926		14,926
Capitol Area Architectural Board	800	124	924		924
Dept. of Finance	31,392		31,392	(624)	30,768
Dept. of Employee Relations	12,163	(1,029)	11,134	(218)	10,916
Dept. of Revenue	248,096		248,096	6,120	254,216
MN Amateur Sports Commission	608		608		608
Target Center Appropriation	1,500		1,500		1,500
Councils	2,925		2,925		2,925
Contingent Accounts	500		500		500
Tort Claims	322		322		322
MN State Retirement	3,257	1,852	5,109		5,109
Local Pension Aids	55,534		55,534		55,534
Misc. Open General Fund	(23,752)	(1,056)	(24,808)	36,125	11,317
<b>Totals for State Government</b>	<b>656,096</b>	<b>8,356</b>	<b>664,452</b>	<b>36,896</b>	<b>701,348</b>

For questions or more information related to this chapter, please contact [Tom.Bottern@senate.mn](mailto:Tom.Bottern@senate.mn) or Kevin.Lundeen@senate.mn

## TAX AIDS AND CREDITS

State General Fund spending for tax aids and credits will total \$3.153 billion for the 2008-2009 biennium, an increase of \$1.575 million over the February Forecast base.

The \$1.575 million increase reflects several modest changes in FY 2008-2009 to property tax aids and credits in Chapter 154, the Omnibus Technical Tax Act, and Chapter 366, the Omnibus Tax Act. More significantly, Chapter 366 increased property tax refunds by a net of \$31.5 million, local government aid (LGA) by \$103.3 million, and county program aid (CPA) by \$49.5 million in FY 2010-2011. In addition, levy limits were imposed for taxes payable in 2009 through 2011 on counties and cities with a population of 2,500 or more.

Table 1 summarizes General Fund tax aid and credit spending for FY 2008-2009.

<b>Table 1</b>					
<b>General Fund Spending for Tax Aids and Credits, FY 2008-2009</b>					
<i>(dollars in thousands)</i>					
	<b>Original Budget (Enacted 2007)</b>	<b>Forecast Changes</b>	<b>Feb. 2008 Forecast Amounts</b>	<b>Legislative Changes</b>	<b>Current Budget (Revised 2008)</b>
Property Tax Refunds	786,159	48,066	834,225		834,225
City Aid	969,116	(410)	968,706	600	969,306
Market Value Homestead Credit	531,814	9,135	540,949		540,949
County Program & Transition Aid	410,302	0	410,302	500	410,802
Other Tax Aids and Credits	411,951	(14,297)	397,654	0	397,654
Other Expenditures	0	0	0	475	475
<b>Total Expenditures</b>	<b>3,109,342</b>	<b>42,494</b>	<b>3,151,836</b>	<b>1,575</b>	<b>3,153,411</b>

### **Property Tax Refund**

Homeowner property tax refunds were expanded by increasing the maximum refunds by 27.5 percent for all income levels and by reducing the income threshold for eligibility for homeowners with incomes over \$72,210 from 4.0 percent to 3.5 percent. The maximum refund for taxes payable in 2009 will increase from \$1,800 to \$2,300. More homeowners will be eligible for a property tax refund because they will qualify for a refund if their property taxes exceed 3.5 percent of their household income, rather than 4.0 percent.

### **Disabled Veterans Market Value Exclusion**

Chapter 154 provided a homestead market value exclusion for honorably discharged veterans with a service-connected disability of 70 percent or higher. The exclusion has two tiers: (1) a \$150,000 market value exclusion for a veteran with a 70 percent to 100 percent service-connected disability rating, or (2) a \$300,000 market value exclusion for a veteran with a total and permanent service-connected disability rating.

<b>Table 2</b>						
<b>General Fund Changes in Tax Aids and Credits Spending Relative to Forecast</b>						
<i>(dollars in thousands)</i>						
<b>Tax Provisions</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>Property Tax Refunds</b>						
Enhanced Property Tax Refund, Threshold at 3.5%, Max. Refund Increased 27.5%	0	0	0	21,200	24,700	45,900
Exclusion for Disabled Veteran Homesteads Based on Degree of Disability (PTR impact)	0	0	0	(2,080)	(2,180)	(4,260)
PTR Impact for Various Property Tax and Levy Provisions in Ch. 154 & Ch. 366				621	712	1,333
PTR Impact of Local Aid and Levy Limit (3.9% for 3 yrs) Provisions	0	0	0	(4,292)	(7,153)	(11,445)
<b>Property Tax Refund Subtotal</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,449</b>	<b>16,079</b>	<b>31,528</b>
<b>Market Value Homestead Credit</b>						
Exclusion for Disabled Veteran Homesteads Based on Degree of Disability (MVC impact)	0	0	0	(1,460)	(1,530)	(2,990)
<b>Market Value Homestead Credit Subtotal</b>		<b>0</b>	<b>0</b>	<b>(1,460)</b>	<b>(1,530)</b>	<b>(2,990)</b>
<b>TOTAL EXPENDITURES</b>	<b>0</b>	<b>1,575</b>	<b>1,575</b>	<b>82,099</b>	<b>100,173</b>	<b>182,272</b>

### **Levy Limits**

Levy limits restrict the amount of property taxes that can be levied by local units of government. Chapter 366 imposed levy limits for taxes payable in 2009 through taxes payable in 2011 on counties and on cities with a population of 2,500 or more. The levy aid base is defined as net tax capacity levy minus special levies, plus LGA, CPA, taconite aids, and wind energy production tax payments. The levy limit base is then increased by the lesser of 3.9 percent or the percentage growth in (1) the implicit price deflator, (2) 50 percent of the increase in the number of households, and (3) one-half of the increase in tax base due to new commercial/industrial development. The resulting adjusted levy limit base, minus LGA, CPA, taconite aids, and wind energy production taxes, equals the overall levy limit.

Special levies are exemptions from levy limits. The existing special levy for public employee retirement pension contributions was expanded and five new special levies were added:

- to increase county costs resulting from federal reductions in health and human services program grants;
- for city costs related to high levels of home foreclosures;



- to Minneapolis for unreimbursed costs for traffic control and lost citation revenue related to the I-35W bridge collapse;
- for salary and benefits for sheriff, police, and fire personnel; and
- to make up for any unallotments of LGA or CPA due to a future budget crisis.

### **Local Government Aid**

The amount distributed for LGA was increased by \$42 million annually, from \$484.1 million to \$526.1 million, beginning with aids payable in 2009. Cities under 5,000 in population received an aid base increase from \$6 to \$8.50 per capita. For cities over 5,000 in population, a new aid base was added based on the number of jobs within the city reported by the Department of Employment and Economic Development. The LGA appropriations will be increased by two percent for aids payable in 2010, and an additional four percent for aids payable in 2011 and thereafter.

Beginning in 2010, the volatility in the LGA distribution is reduced by averaging the city unmet formula need in the previous year with the unmet need for the current year. The addition of taconite production tax aid to revenue raising capacity was eliminated for all cities.

For aid payable in 2009 only, the maximum LGA increase was raised from ten percent to 35 percent of a city's net levy for the previous year. A new minimum aid provision will prevent aid from decreasing by more than \$10 per capita or \$300,000 in one year.

Additional aid adjustments, within the LGA formula, were also enacted for the following cities:

- Browns Valley - \$100,000 annually;
- Crookston - \$100,000 a year for five years;
- Mendota - \$25,000 a year for ten years;
- Spring Lake Park - \$90,000 in 2009 only;
- Mahnommen - \$80,000 annually;
- Newport - \$75,000 per year from 2009 to 2014;
- Taylors Falls - \$30,000 annually; and
- Rockville - \$30,000 in 2009 only.

The onetime FY 2007 appropriation of \$600,000 for payments to Mahnommen County, city, and school district was made permanent beginning in calendar year 2008. The payments are made to compensate for the loss of tax base resulting from property placed into trust status by the Bureau of Indian Affairs.

### **County Program Aid**

The amount distributed for CPA was increased by \$22 million annually, from \$204.9 million to \$226.9 million, beginning with aids payable in 2009. The increase is split evenly between tax base equalization aid and need aid. The CPA appropriations will be increased by two percent for aids payable in 2010, and an additional four percent for aids payable in 2011 and thereafter.

An appropriation of \$500,000 in FY 2009 was made for distribution to Beltrami County to help meet the county's cost of out-of-home placement programs.

<b>Table 3</b>						
<b>General Fund Changes in Tax Aids and Credits Spending Relative to Forecast</b>						
<i>(dollars in thousands)</i>						
<b>Tax Provisions</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY2010-2011</b>
<b>Local Aids and Credits</b>						
Local Government Aid	0	0	0	42,000	42,000	84,000
LGA Adj. 2% FY11, 4% FY12	0	0	0	0	10,520	10,520
Utility Transition Aid to Local Govt. - >4% threshold	0	0	0	2,110	4,220	6,330
Early Recognition of Utility Rule Tax Base Changes (Art. 1, sec. 6, Educ. aid)	0	0	0	442	786	1,228
Permanently Increase Payments to Local Govt. in Mahnomen Co.: County, \$450k; City, \$80k; ISD No. 432, \$70k	0	600	600	600	600	1,200
Mahnomen ISD No. 432 Tax Base Adjust. (Educ. aid)	0	0	0	16	16	32
<b>Local Government Aid Subtotal</b>	<b>0</b>	<b>600</b>	<b>600</b>	<b>45,168</b>	<b>58,142</b>	<b>103,310</b>
<b>County Program Aid</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,000</b>	<b>22,000</b>	<b>44,000</b>
CPA Adj. 2% FY11, 4% FY12	0	0	0	0	4,540	4,540
County Transition Aid - Permanent	0	0	0	464	464	928
Out-of-Home Placement Aids, Beltrami County	0	500	500	0	0	0
<b>County Program Aid Subtotal</b>	<b>0</b>	<b>500</b>	<b>500</b>	<b>22,464</b>	<b>27,004</b>	<b>49,468</b>
<b>Bovine TB Modified Accredited Zone</b>						
Bovine TB Property Tax Credit	0	0	0	368	368	736
<b>Bovine Credit Subtotal</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>368</b>	<b>368</b>	<b>736</b>
<b>TOTAL EXPENDITURES</b>	<b>0</b>	<b>1,575</b>	<b>1,575</b>	<b>82,099</b>	<b>100,173</b>	<b>182,272</b>

### Utility Transition Aid

In 2007, the Department of Revenue adopted rule changes that reduced the property values of public utility property, resulting in lower property tax payments for utility properties. The rule change is phased in over three years from 2008 to 2010. A new utility transition aid compensates cities and towns for reductions in tax base resulting from the utility property valuation rule change. Only cities and towns with a tax base

loss of more than four percent of their overall tax base after full phase in are eligible for utility transition aid.

### **Bovine Tuberculosis Credit**

A new tax credit for agricultural property located in a bovine tuberculosis management zone was created. Property owners in the zone who have eradicated a cattle herd are eligible for the credit. The credit is equal to the property taxes paid on agricultural land, excluding residential structures, for taxes payable the year following eradication of the herd and will continue until a new cattle herd is placed on the land.

### **Other Appropriations**

Appropriations of \$415,000 in FY 2009 were made to the Department of Revenue for preparation of a database linking income and property values; to provide taxpayer assistance grants; to assist local assessors in valuing special-use industrial properties; and to conduct a survey and review the property tax exemption for institutions of purely public charity. These were onetime appropriations, with the exception of the appropriation to local assessors for valuing special-use industrial properties, which is \$100,000 annually and ongoing. In addition, an appropriation of \$60,000 in FY 2009 and \$10,000 annually thereafter was made to the Department of Administration to prepare township acreage data.

<b>Table 4</b>						
<b>General Fund Changes in Tax Aids and Credits Spending Relative to Forecast</b>						
<i>(dollars in thousands)</i>						
<b>Tax Provisions</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2008-2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2010-2011</b>
<b>Other Appropriations</b>						
Voss Database - Dept. of Revenue	0	200	200	0	0	0
Taxpayer Assistance Grants (PTR Participation)	0	100	100	0	0	0
DOR Survey on Assessment of Nonprofit Inst.	0	15	15	0	0	0
DOR Appropriation for Industrial Special-Use Property and Other Assessments	0	100	100	100	100	200
Administration Dept. / Land Mgt. Information Center Appropriation for Township Acreage Data	0	60	60	10	10	20
<b>Subtotal Other Appropriations</b>	0	475	475	110	110	220
<b>TOTAL EXPENDITURES</b>	0	1,575	1,575	82,099	100,173	182,272

For questions or more information related to this chapter, please contact Susan.Vonmosch@senate.mn

## CAPITAL INVESTMENT

The 2008 Legislature approved three bills that, after accommodating the Governor's partial vetoes, provide \$1.027 billion of funding for capital improvement projects. Of this total, \$883 million are general obligation bonds to be repaid from the general fund, \$56.9 million are user financed bonds to be paid by the Minnesota State Colleges and Universities, and \$25 million are revenue bonds for the new closed landfill program to be repaid from the Remediation Fund. Other funds using cash to pay for projects are the Trunk Highway Fund, \$48 million, and the General Fund, \$14 million.

The February 2008 forecast for the debt service to be paid from the General Fund was \$869 million. With the passage of these capital improvement authorizations, the debt service is increased by \$1.6 million in FY 2009, for a total of \$870.4 million to be transferred from the General Fund to the State Bond Fund to pay principal and interest on outstanding general obligation bonds.

Of the \$1.027 billion, Chapters 179 and 365 appropriate \$967 million for a wide variety of specific and general capital improvement projects. Chapter 152, the Transportation Financial Bill, which is discussed more fully in the transportation chapter, provides for additional general obligation bonds of \$60.6 million, with \$10 million for local roads, \$50 million for local bridges and \$600,000 for bond sale expense.

Significant capital investments authorized include:

- \$13.4 million for improvements and critical maintenance of the State Capitol Building;
- \$30.5 million for reinvestment in land reserves/preserves through easements, restorations, and replacements;
- \$32 million for the corrections area, with \$16 million for the continued expansion of the Faribault facilities;
- \$182.4 million for economic development purposes, with \$23.75 million for business development; \$80.6 million for convention centers/ice arenas; \$48.8 million for clean water and wastewater improvements; and \$28 million to support the steel plant in Itasca County;
- \$30 million in housing finance revenue bonds for permanent supportive housing, to be paid from the General Fund starting in FY 2010 (\$2.4 million per year). In a separate bill, the amount of revenue bonds the Housing Finance Agency may issue was increased from \$3 to \$5 billion;
- \$70 million for the Central Corridor light rail transit from St. Paul to Minneapolis. The current capital cost of this transit project is now estimated to be \$840 million,

with the Federal Transit Administration funding \$420 million (50 percent); the state providing \$280 million (33 percent); and Hennepin and Ramsey Counties funding \$140 million (17 percent). Final design is schedule to be completed in 2009, with construction completed and transit service to begin in 2014;

- \$17.5 million for repairs and improvements of parks in the metropolitan area;
- \$68.4 million to match federal dollars to improve transit in the metro area, with \$16.7 million of bonds, \$48.2 million from the Trunk Highway Fund, and \$3.5 million in cash from the General Fund;
- \$234.2 million for the state colleges and universities to fund some 30 projects, with \$177 million from general obligation bonds and \$56.9 million of user financed bonds to be paid by student fees. Of the general obligation bonds, \$55 million is for asset preservation and repair on the various campuses and universities. The amount of revenue bonds MnSCU may issue was increased from \$150 to \$200 million. Of the projects listed in Table 1, about 12 are for design purposes and will require construction funds in the future;
- \$35.9 million for flood hazard mitigation projects including dam repair and removal;
- \$43.2 million for state, regional, and local parks and recreational areas, with \$20 million for the acquisition and development of the new Vermilion State Park;
- \$16.2 million for state, regional, and local trails;
- \$12.9 million for five public safety/homeland security training facilities;
- \$105.1 million for facilities on University of Minnesota campuses, including \$35 million for asset preservation and repair. In addition, the state will reimburse the University up to \$219 million, or 75 percent, for four biomedical research facilities; and
- \$21.4 million for veterans facilities, with \$10.1 million for building demolition and construction of a new nursing home on the Minneapolis campus.

\$27.1 million of previously approved funding for five projects was cancelled, which reduced the 2008 total authorizations.

Table 1 details projects by agency, purpose, and dollar amounts in Chapters 179 and 365.

<b>Table 1 Bonding Projects 2008 Capital Investment Appropriation by Agency and Project</b>	
<b>AGENCY AND PROJECT</b>	<b>Project Amount</b>
<b>ADMINISTRATION DEPARTMENT</b>	
Property Acquisition-Capitol Complex	2,325
State Capitol Building Critical Maintenance	13,400
Capital Asset Preservation and Replacement Account (CAPRA)	3,400
<b>Administration Total *</b>	<b>19,125</b>
<b>AGRICULTURE DEPARTMENT</b>	
East Grand Forks-Agric Building Roof *	<b>20</b>
<b>BOARD OF WATER AND SOIL RESOURCES (BOWSR)</b>	
RIM and PWP Reserve Program-Easements	25,000
Local Govt. Road Wetland Replacement	4,200
Grass Lake Restoration/Improve Storm Water Runoff	800
Lake Titlow Drainage Improvements	475
<b>BOWSR Total *</b>	<b>30,475</b>
<b>CORRECTIONS DEPARTMENT</b>	
Faribault Expansion - Phase 3	16,000
Department-wide Asset Preservation	10,000
Red Wing - Vocational Building	6,000
<b>Corrections Total *</b>	<b>32,000</b>
<b>Table 1 continued</b>	
<b>AGENCY AND PROJECT</b>	<b>Project Amount</b>
<b>EDUCATION DEPARTMENT</b>	
Library Accessibility and Improvement Grants	1,500
Osseo SD #279 NW Hennepin Regional Family Service Center	2,000
<b>Education Total *</b>	<b>3,500</b>
<b>EMPLOYMENT &amp; ECONOMIC DEVELOPMENT DEPARTMENT</b>	
Redevelopment Grant Program	7,750
Bioscience Bus Develop/Infrastructure Grants	9,000
Greater MN Bus Develop/Infrastructure Grants	7,000
Duluth Entertainment and Convention Center(DECC)	38,000
Itasca Co Public Infrastructure-Support MN Steel Industries	28,000
Bemidji Regional Event Center	20,000
Crookston Arena Project/Relocation	10,000
John Rose Oval	600
Rochester Convention Center & Remodel Mayo Civic Center	3,500
St. Cloud Civic and Convention Center	2,000
St. Cloud National Hockey Center Expansion	6,500
St. Paul Gillette Children's Hospital **	300
<b>Employment &amp; Economic Development Subtotal</b>	<b>132,650</b>
<b>Public Facilities Authority Requests:</b>	
Clean/Drinking Water Revolving Loan Funds State Match	
Drinking Water Match	6,000

<b>Table 1 continued</b>	<b>Project Amount</b>
<b>AGENCY AND PROJECT</b>	
Clean Water Match	24,000
Wastewater Infrastructure Fund	15,300
Small Community Wastewater Treatment Program	1,500
Wastewater/Storm Water Treatment Grants(TMDL)	2,000
Streamline Infrastructure Financing **	100
Upper Sioux Community Water System Improvement **	750
Bayport Sewer System	150
<b>Public Facilities Authority Requests: Subtotal</b>	<b>49,800</b>
<b>Total</b>	<b>182,450</b>
<b>General Fund</b>	<b>1,150</b>
<b>Employment &amp; Economic Development Total *</b>	<b>181,300</b>
<b>HOUSING FINANCE AGENCY</b>	
Permanent Supportive Housing Loan (Debt Payment-FY 2010 & 2011)	(30,000)
Permanent Supportive Housing Loan	1,000
<b>Housing Finance Agency Total *</b>	<b>1,000</b>
<b>HUMAN SERVICES DEPARTMENT</b>	
Systemwide Asset Preservation/Safety/Security	3,000
Systemwide /Redevelopment/Reuse/Demolition	3,400
Pope Co West Central Multi County Treatment Ctr.	150
Hennepin Co Medical Center-Clinic & Health Education	820
Remembering with Dignity Gravestone Markers	135
<b>Human Services Total *</b>	<b>7,505</b>
<b>METROPOLITAN COUNCIL</b>	
Central Corridor Light Rail Transit-St. Paul to Mpls.	70,000
Metropolitan Regional Parks	10,500
Bloomington Old Cedar Avenue Bridge	2,000
Mpls. Park and Rec. Board Minnehaha Falls Repairs	2,900
Ramsey Co Tamarack Nature Center Infrastructure Improvements	745
South St. Paul North Urban Regional Trail Bridge	1,400
Urban Partnership Agreement-Local Match with USDOT:	
General Obligation Bonds	16,672
Dakota County Cedar Avenue Bus Rapid Transit	4,000
<b>Metropolitan Council Total *</b>	<b>108,217</b>
<b>MILITARY AFFAIRS</b>	
Asset Preservation	3,500
Facility Life Safety	1,000
ADA Alterations	1,500
<b>Military Affairs Total *</b>	<b>6,000</b>
<b>MINNESOTA HISTORICAL SOCIETY</b>	
Historic Fort Snelling Visitor Center/Site Revitalization	3,000
Historic Sites Asset Preservation	4,000
County and Local Historic Preservation Grants(Chatfield)	1,600
Kelley Farm Revitalization	300
Heritage Trails	294
<b>Minnesota Historical Society Total *</b>	<b>9,194</b>
<b>MINNESOTA STATE ACADEMIES</b>	
Pollard Hall Renovation	200

<b>Table 1 continued</b>	<b>Project Amount</b>
<b>AGENCY AND PROJECT</b>	
Frechette Hall Renovation	100
Asset Preservation	2,400
Mott Memorial Hall Renovation	100
<b>Minnesota State Academies Total *</b>	<b>2,800</b>
<b>MINNESOTA STATE COLLEGES AND UNIVERSITIES</b>	
Higher Education Asset Preservation and Replacement - General Obligation	55,000
MSU Mankato-Trafton Science Center Renovation	17,000
St. Cloud SU - Brown Hall Science Renovation	9,867
St. Paul College-Transportation & Tech Lab	9,000
Bemidji SU - Sattgast Science Building Addition & Renovation	5,933
Normandale CC - Classroom Renovation & Add	4,667
Inver Hills CC - Classroom Add & Renovation	8,800
Science Labs(11) Renovations	3,850
Northland CTC – E. Grand Forks - Classroom Addition & Renovation	5,200
Moorhead SU-Lommen Hall Renovation	8,733
Century College-Classroom & Student Support Space	5,267
SW SU-Science Labs and Hotel & Restaurant Labs	6,000
Alexandria TC - Law Enforcement Center	7,000
Metro SU/Mpls. CTC(Brooklyn Park) - Law Enforcement Training Center	9,267
Winona SU - Memorial Hall Addition & Renovation - General Obligation	8,400
Moorhead CTC-Trades Addition & Design Library	1,667
Anoka Ramsey CC-Classroom Building Construction	2,533
Hennepin TC-Science Labs Renovation/Design Libraries	1,600
Minneapolis CTC-Workforce Program & Infrastructure Renovation	267
Ridgewater College-Instructional Space Constr./Renovation	2,333
Minnesota West CTC-Fieldhouse Renovation/Addition	300
South Central College Faribault-Classroom Renovation/Addition	267
Owatonna College & University Center Property Acquisition	2,333
Anoka Ramsey CC & No Hennepin CC Bioscience/Health	600
Moorhead SU-Livingston Lord Library Renovation Design	267
SW SU-Science Lab Renovation Design	133
St. Cloud SU-Science & Engineering Lab Design	600
Dakota County TC-Transportation & Emerging Tech Lab Design	133
St. Cloud TC-Health Bldg Renovation Design	133
Rochester CTC-Workforce Ctr. & Secondary Tech	133
<b>Minnesota State Colleges and Universities Total</b>	<b>177,283</b>
<b>General Obligation Bonds</b>	<b>177,283</b>
<b>User Financed General Obligation Bonds</b>	<b>56,942</b>
<b>Total Projects Authorized</b>	<b>234,225</b>
<b>MINNESOTA ZOOLOGICAL GARDENS</b>	
Asset Preservation and Inflow & Infiltration \$1.546	2,500
<b>Minnesota Zoological Gardens Total *</b>	<b>2,500</b>
<b>NATURAL RESOURCES DEPARTMENT</b>	
Flood Hazard Mitigation/Impoundment Projects:	30,000
Browns Valley Flood Mitigation/Diversion **	3,900
Dam Repair/Reconstruction/Removal	2,000
Groundwater Monitoring, Observation Wells, Sealing Wells	500



<b>Table 1 continued</b>	<b>Project Amount</b>
<b>AGENCY AND PROJECT</b>	
RIM Wildlife Area Acquisition & Improvement	5,000
Forest Land and Legacy Conservation Easements	3,000
Shoreline & Aquatic Habitat Acquisition(AMA)	1,000
State Forest Land Reforestation	3,000
State Parks and Recreational Areas:	
Development and Rehabilitation	9,075
State Parks, Prairies, and Forestry Restoration	
Prairie and Savanna Reconstruction	290
Forest Restoration	255
State Park Rehab and Dev, Acquire-Green Leaf (\$2.4 m)	9,766
Big Bog State Recreation Area	1,600
Red River Recreation Area Campsites	200
Fort Snelling Upper Bluff Building Repairs	500
Native Prairie Conservation and Protection	4,000
Regional and Local Parks Grants	
Central Regional Parks/Trails	492
Ojiketa Park	500
City of Sartell	500
RIM Critical Habitat Match	3,000
SNA's Acquisition & Development	1,000
Stream Protection and Restoration	1,000
Fish Hatchery Improvements	1,500
Water Control Structures	500
Mississippi River Barrier	500
State Trail Acquisition, Rehab, Repair and Acquisition (15,320)	
State Trails Rehabilitation	3,000
Blufflands - Chester Woods	970
Casey Jones	700
Gateway Trail	750
Gitchi Gami	1,600
Great River Ridge	1,500
Heartland	1,500
Mill Towns - Land Acquisition	500
Mill Towns - Faribault	150
Minnesota Valley - Appleton to Milan	1,500
Paul Bunyan	2,000
Root River - Preston to Forestville	500
Root River - Eastern Extension	100
Stagecoach	550
Regional and Local Trails/Connections (853)	
Cambridge /Isanti Bike/Walk Trail	156
Clara City Walking Path	225
Spring Lake Trail - Mora	100
Rocori Trail	372
Water Access Acquisition & Dev & Fishing Piers	650
Lake Vermilion State Park Acquisition & Development	20,000
Drill Core Library - Hibbing	500

<b>Table 1 continued</b>	<b>Project Amount</b>
<b>AGENCY AND PROJECT</b>	
Statewide Asset Preservation	1,000
Red River Basin Digital Elevation Mapping **	600
Forest Roads & Bridges	1,000
Diseased Shade Trees	500
Minnesota River Headwaters Regional Improvements	129
Wabasha Co Lake Zumbro Dredging and Restoration	175
<b>Total</b>	<b>123,805</b>
<b>General Fund</b>	<b>4,500</b>
<b>Natural Resources Total *</b>	<b>119,305</b>
<b>PERPICH CENTER FOR ARTS EDUCATION</b>	
Asset Preservation	355
<b>Perpich Center for Arts Education Total *</b>	<b>355</b>
<b>POLLUTION CONTROL AGENCY</b>	
Closed Landfill Program - Albert Lea	2,500
Closed Landfill Program (Revenue Bonds, MN Stats, Section 116.156) ***	25,000
Mille Lacs, Washington County, Duluth WLSSD, Albert Lea	
<b>Total</b>	<b>27,500</b>
<b>Remediation Fund</b>	<b>25,000</b>
<b>Pollution Control Agency Total *</b>	<b>2,500</b>
<b>PUBLIC SAFETY DEPARTMENT</b>	
Public Safety Training Facilities:	
Anoka Sherburne Wright Public Safety & Crime Lab	3,000
Homeland Security & Emergency Mgmt-Camp Ripley	5,000
Marshall Emergency Response - Design	300
Olmsted County-SE MN Regional Training Center	3,655
Scott County Regional Public Safety Training Facility	1,000
<b>Public Safety Department Total *</b>	<b>12,955</b>
<b>TRANSPORTATION DEPARTMENT</b>	
Local Bridge Replacement (Chapter 152) TF	(50,000)
Rice Street Bridge	2,000
Urban Partnership Agreement (UPA) Match with USDOT:	
General Fund **	3,500
Trunk Highway Fund-Cash ****	48,200
Local Road Improvement (Chapter 152) TF	(10,000)
Greater MN Transit Facilities	1,000
Minnesota Valley RRA-Norwood YA to Hanley Falls	3,000
Bond Sale Expenses (Chapter 152) TF	(600)
<b>Total</b>	<b>57,700</b>
<b>General Fund</b>	<b>3,500</b>
<b>Trunk Highway Fund</b>	<b>48,200</b>
<b>Transportation Department Total *</b>	<b>6,000</b>
<b>UNIVERSITY OF MINNESOTA</b>	
Higher Education Asset Preservation and Replacement	35,000
Science Teaching Student Services - Minneapolis	48,333
Civil Engineering Addition - Duluth	10,000
Community Services Building Renovation - Morris	5,000
General Laboratory Renovation - System-wide	3,333

<b>Table 1 continued</b>	<b>Project Amount</b>
<b>AGENCY AND PROJECT</b>	
Research and Outreach Centers-Crookston	3,500
<b>University of Minnesota Total *</b>	<b>105,166</b>
<b>VETERANS AFFAIRS DEPARTMENT</b>	
Asset Preservation	4,000
Minneapolis Building 9 Demolition	1,000
Minneapolis New Nursing Building	9,100
Silver Bay Master Plan Renovation	2,700
Minneapolis Campus HVAC Upgrade	227
Kandiyohi Veterans Home Construction	3,955
Eden Prairie Veterans Memorial	100
Minneapolis All Veterans Memorial - Sheridan Park	100
Richfield All Veterans Memorial-Chuck Lindberg	100
Virginia Veterans Memorial	100
<b>Veterans Affairs Department Total *</b>	<b>21,382</b>
<b>Lewis and Clark Refinancing Bonds to GF **</b>	<b>5,282</b>
<b>FINANCE DEPARTMENT</b>	
Bond Sale Expenses	<b>998</b>
<b>Finance Department Total *</b>	<b>998</b>
<b>BOND AUTHORIZATION CANCELLATIONS</b>	
Northwest Busway	17,262
Xcel Energy Great River Woodlands Trail	485
Knife River/Larsmont Sanitary District	1,500
Lewis and Clark	5,282
University of Minnesota - Education & Technology	2,571
<b>Bond Authorization Cancellations Total</b>	<b>27,100</b>
<b>SUMMARY, CHAPTERS 179 AND 365</b>	
<b>Total Project Requests/Authorizations</b>	967,054
<b>General Fund</b>	14,432
<b>General Obligation Bonds</b>	822,480
<b>General Obligation Bonds-User Financed</b>	56,942
<b>Remediation Fund</b>	25,000
<b>Trunk Highway Fund</b>	48,200
<b>TOTALS Chapters 179 and 365</b>	<b>967,054</b>
* <b>Bond Fund</b>	
** <b>General Fund</b>	
*** <b>Remediation Fund</b>	
**** <b>Trunk Highway Fund</b>	

Table 2 shows the projects and dollar amounts in Chapter 179 paid from the General Fund.

<b>Table 2 GENERAL FUND CAPITAL PROJECTS - Chapter 179</b>		
Browns Valley Flood Mitigation/Diversion		3,900
Red River Basin Digital Elevation Mapping		600
Urban Partnership Agreement (UPA) Match with USDOT:		
Transportation Department		3,500
St. Paul Gillette Children's Hospital		300
Streamline Infrastructure Financing		100
Lewis and Clark Rural Water System, Inc.		5,282
Upper Sioux Community Water System Improvement		750
<b>Capital Projects From General Fund</b>	<b>Total</b>	<b>14,432</b>

For questions or more information related to this chapter, please contact David.Jensen@senate.mn

## I-35W BRIDGE COLLAPSE—SURVIVOR COMPENSATION FUND

On August 1, 2007, the I-35W Bridge spanning the Mississippi River in Minneapolis collapsed, falling into the Mississippi River below. At the time of the collapse, both North- and South-bound lanes of the bridge, which was undergoing repairs and resurfacing to its bridge deck, were carrying bumper-to-bumper rush hour traffic, including a school bus transporting students and adults returning to Waite House, a nonprofit family services agency in South Minneapolis. Thirteen persons died and dozens more were injured. In response, the 2008 Legislature created an emergency relief fund to provide a remedy for survivors that would avoid the uncertainty and expense of potentially complex and protracted litigation to resolve the issue of the liability for damages incurred by survivors.

As summarized in Table 1, Chapter 288 appropriated a total of \$38.0 million, including \$36.6 million to fund compensation payments to survivors and \$610,000 for a grant to Waite House to support targeted recovery services to affected children. The appropriations for victims' compensation was split into two funding pools, including \$24.0 million for uncompensated damages up to a cap of \$400,000 per claimant, and \$12.64 million to make supplemental payments for qualifying damages that exceed \$400,000. In addition, \$750,000 was appropriated to fund the administrative costs of the three Special Masters appointed to administer the program.

<b>Table 1</b>	
<b>Appropriations Summary—I-35W Survivor Compensation Fund</b>	
<i>(dollars in millions)</i>	
	<b><u>FY 2008</u></b>
Victim Compensation Payments	
Uncompensated Damages, up to \$400,000	24.0
<u>Supplemental Damages</u>	<u>12.6</u>
Total for Victim Compensation	36.6
Waite House grant	00.6
<u>Administrative Costs</u>	<u>00.8</u>
Total	38.0

### **Process and Eligibility**

The Compensation Fund will be administered by a panel of three Special Masters, who must be attorneys, appointed by the Supreme Court. The Special Masters will consider each claim submitted, make offers of settlement, and enter into settlement agreements with survivors. Compensation payments are to be promptly paid, and will be made by the Commissioner of Finance once agreements are entered into. Chapter 288 requires that each survivor be provided an opportunity to appear in person before the Special Masters panel or one of its members.

Pertinent application filing deadlines include the following:

- By October 15, 2008, a survivor must submit a claim for compensation to the Special Masters panel;
- By February 28, 2009, all claims must be processed and settlement offers issued; and
- 45 days after receiving a settlement offer, a claimant must decide whether to accept or reject the offer—a failure to respond within 45 days constitutes a rejection.

Those eligible to seek compensation are natural persons who were present on the I-35W Bridge at the time of the collapse, including the parents or legal guardian of a survivor under 18 years of age, a legally appointed representative, or a surviving spouse or next of kin. Damages that are eligible for compensation include those that are compensable under state tort law and damages for wrongful death. Damages do not include punitive damages or attorney fees or other fees incurred by the survivor in making a claim. Further, while eligibility for compensation is not subject to a determination of liability, payment amounts may be limited by caps and appropriation levels.

### **Compensation Amounts and Appropriations**

Once the Special Master panel has determined total damages, uncompensated damage amounts are to be set at total damages less any payments made to the survivor from collateral sources, any payments made to the survivor from the emergency relief fund, and any payments made or required to be made to the survivor by a third-party tortfeasor.

The \$36.6 million appropriated for compensation to survivors is allocated into two funding pools; \$24.0 million is for payment of uncompensated damages up to a cap of \$400,000 per individual. The \$400,000 limitation is consistent with the state tort liability limit that became effective January 1, 2008, but was made retroactively effective to the date of the bridge catastrophe.

In addition, \$12.6 million is appropriated for certain uncompensated damages that exceed \$400,000. Uncompensated damages eligible for supplemental payments include, in priority order, uncompensated medical expenses in excess of those paid by the first \$400,000 and then payments for loss of income, future earning capacity, or other financial support not covered by the first \$400,000. Uncompensated medical expenses may include both incurred medical expenses less offsets and the present value of premiums, deductibles, and coinsurance payments for survivors who will lose health care coverage as a result of the catastrophe.

### **Waite House Grant**

Of the \$38.0 million, \$610,000 was for a grant to Pillsbury Communities in Minneapolis to allow Waite House in Minneapolis to provide services to youth and families of youth who were on a school bus on the I-35W Bridge when the bridge collapsed. Services

funded by the grant cannot include services that could have been funded by settlement payments to survivors. The grant is to be paid in two installments—June 30, 2008, and June 30, 2009—and the grantee must report to the chairs of the Senate Finance and House Ways and Means Committee on the expenditure of the grant monies.

More specific information, including forms and instructions for survivors to apply for compensation, is available at: <http://bridgecollapseclaims.com>.

For questions or more information related to this chapter, please contact [matt.massman@senate.mn](mailto:matt.massman@senate.mn)

## PROPOSED CONSTITUTIONAL AMENDMENT SALES TAX DEDICATION

In Chapter 151, the 2008 Legislature placed a constitutional amendment on the 2008 general election ballot that, if adopted by the voters, will impose an additional sales tax of 3/8 of one percent and dedicate the proceeds for clean water, wildlife, cultural heritage, and natural areas. If adopted by the voters, the additional sales tax revenue that will be raised under the amendment is estimated to be \$273.8 million per year in fiscal year 2011.

<b>Table 1</b> <b>Proposed Constitutional Amendment</b> <b>Allocations and Estimated Revenues</b> <i>(dollars in millions)</i>		
<b>Where would the money go?</b>	<b>Allocation Percentage</b>	<b>Est. Revenue in First Full Year</b>
<b>Outdoor Heritage Fund</b>	33%	\$ 90.3
<i>To restore, protect and enhance wetlands, prairies, forests, and habitat for fish, game, and wildlife</i>		
<b>Clean Water Fund</b>	33%	\$ 90.3
<i>To protect, enhance, and restore water quality in lakes, rives, and streams and to protect groundwater from degradation</i>		
<b>Parks &amp; Trails Fund</b>	14.25%	\$ 39.0
<i>To support parks and trails of regional or statewide significance</i>		
<b>Arts &amp; Cultural Heritage Fund</b>	19.75%	\$ 54.1
<i>For arts, arts education, and arts access and to preserve Minnesota's history and cultural heritage</i>		
<b>TOTAL</b>	<b>100.0%</b>	<b>\$ 273.8</b>

As summarized in Table 1, the constitutional amendment would dedicate 33 percent of the revenues to outdoor heritage; 33 percent to clean water programs; 14.25 percent to support parks and trails; and 19.75 percent to arts and cultural heritage. In anticipation of the possible adoption of this constitutional amendment, the 2008 Legislature established four funds to receive proceeds from the increased sales tax, if approved. While the constitutional amendment would limit the purposes for which the money in each fund could be used, expenditure of the funds would still require appropriation by the Legislature.

For questions or more information related to this chapter, please contact Daniel.Mueller@senate.mn



## APPENDIX A—2007 SPECIAL SESSION FLOOD RELIEF & OTHER DISASTER ASSISTANCE

The Legislature met in the 2007 First Special Session on September 11, 2007, to enact disaster assistance legislation to assist southeastern Minnesota following the August 2007 floods. Because the 2007 *Fiscal Review* was completed prior to this session, the budget actions taken during the special session were not included. In an effort to highlight forecast changes and legislative actions occurring since 2007, however, the starting point for the 2008 *Fiscal Review* is the FY 2008-2009 biennial budget amounts, including the actions taken during the 2007 First Special Session. Appendix A attempts to bridge the difference between the FY 2008-2009 budget amounts reported in 2007 *Fiscal Review*, and the FY 2008-2009 “original budget” amounts reported in the 2008 *Fiscal Review*; the differences are attributable to the 2007 First Special Session Actions.

As summarized in Table 1, actions taken during the 2007 First Special Session increased appropriations from all funds by \$140.6 million, including \$85.4 million for flood relief and \$55.2 million of increased spending authority related to disaster assistance and replacement costs of the I-35W Bridge that collapsed into the Mississippi River in Minneapolis on August 1, 2007. In addition, a total of \$76.3 million of increased bonding authority was also authorized to support flood relief—including \$56.3 million of general obligation bonds and \$20.0 million of trunk highway bonds.

<b>Budget Area</b>	<b>Enacted Budget (2007 Fiscal Review)</b>	<b>2007 Special Session Actions</b>	<b>Other Adjustments*</b>	<b>Original Budget (2008 Fiscal Review)</b>
E-12 Education	15,169	0.6	-4.1	15,165
Higher Education	3,222	0	-8.1	3,214
Health & Human Services	21,290	0.2	0.2	21,290
Agriculture & Veterans	418	3.7	11.7	433
Environment, Energy, Natural Resources*	1,525	3.5		1,530
Economic Development	1,165	54.2		1,218
Public Safety	1,408	8.5		1,417
Judiciary	772	0		772
Transportation	4,836	58.2		4,894
State Government	806	0		806
Tax Aids & Credits	3,092	1.6		3,094
Debt Service**	1,472	10.1		1,482
Capital Projects	21	0		21
Other	99	0		99
<b>Total Spending</b>	<b>55,295</b>	<b>140.6</b>		<b>55,435</b>
General Fund Transfer Out				
Housing Finance		(18.0)		(18)
<b>Net after Transfers Out</b>	<b>55,295</b>	<b>122.6</b>		<b>55,417</b>

\*While the Fiscal Review typically aligns funding based on the jurisdiction that had primary jurisdiction over the funding during session, subsequent executive actions and agency alignments made lead to funding for certain programs being included in different budget areas in later Fiscal Reviews. For example, funding for the GI Bill was included in Higher Education in 2007 but is now included in Ag & Veterans Affairs because the program is administered by the Department of Veterans Affairs.

\*\*Special Session estimates also included \$7.0 million of estimated debt service costs not reflected in Department of Finance consolidated fund statements.

Of the \$55.2 million related to the I-35W Bridge, \$53.2 million was to increase Trunk Highway Fund spending authority to accommodate the \$55 million of increased federal funds that had been committed to Minnesota at the time of the special session; \$2.0 million was appropriated to the Department of Public Safety to cover the state and local match requirements for federal emergency management agency (FEMA) funding related to the bridge collapse.

Of the \$140.6 million of increased appropriations in Chapter 1, 2007 First Special Session, \$78.2 million was from the General Fund; \$61.4 million was from the Trunk Highway Fund (\$53.2 million of which was related to I-35W Bridge rather than flood relief); and \$1.0 million was from Petroleum Tank Release Fund. Table 2 summarizes the General Fund changes by budget areas.

<b>Budget Area</b>	<b>Enacted Budget (2007 Fiscal Review)</b>	<b>2007 Special Session Actions</b>	<b>Original Budget (2008 Fiscal Review)</b>
E-12 Education	13,784,477	-3,516	13,780,961
Higher Education	3,163,258	-8,100	3,155,158
Property Tax Aids and Credits	3,107,742	1,600	3,109,342
Health & Human Services*	9,727,277	400	9,727,677
Public Safety	1,126,574	9,500	1,136,074
Judiciary	750,400	0	750,400
Transportation	249,402	0	249,402
Environment, Energy, & Natural Resources	444,520	3,500	448,020
Ag & Veterans	168,284	15,700	183,984
Economic Development	335,866	53,250	389,116
State Government	656,096	0	656,096
Debt Service	906,254	6,891	913,145
Capital Projects	20,500	0	20,500
Other	101,034	0	101,034
<b>Total for Budget Area</b>	<b>34,541,684</b>	<b>79,225</b>	<b>34,718,447</b>

\* Health and Human Service amounts include \$32.7 million appropriated to a contingency account for purposes of reimbursing counties for loss of federal funds for targeted case management.

## **FLOOD RELIEF HIGHLIGHTS**

Following are some highlights of how the flood relief and disaster assistance—including \$86.4 million appropriated from operating budgets and \$76.3 million of increased bonding authority—was allocated:

**E-12 Education**—\$500,000 was appropriated to provide affected school districts with impact aid for the temporary loss of pupils and to cover cleanup costs (see E-12 Education Chapter for discussion of revisions made to these appropriations by the 2008 Legislature).

**Economic Development**—\$45 million was appropriated to the Department of Employment and Economic Development (DEED); \$18 million to the Housing Finance Agency; and \$250,000 to the Minnesota Historical Society for cleanup, repair, and replacement of historical structures damaged in the floods. Of the amount appropriated to DEED, \$35 million was transferred to the Minnesota Investment Fund for grants to local units of government to assist businesses and nonprofit associations effected by the flood. Of the amount appropriated to the Housing Finance Agency, \$16 million went to the Economic Development and Housing Challenge Program; \$1 million was for Capacity Building Grants; and \$1 million was for reimbursement to the Disaster Contingency Fund. In addition, \$10 million from the Bond Proceeds Fund was transferred to the Public Facilities Authority for infrastructure grants to local units of government.

**Environment, Energy, and Natural Resources**—General Fund appropriations included \$500,000 for debris removal; \$3.0 million for stream bank and land stabilization; \$4.0 million appropriated to provide state and local matching funds for federal disaster assistance; and \$2.5 million for grants to counties for debris removal. In addition, general obligation bond revenues were authorized to provide \$4.2 million to restore state park and Department of Natural Resource facilities; \$2.0 million to fund capital improvements to other lands; and \$1.0 million for flood mitigation and easements.

**Public Safety**—\$4.0 million was appropriated to provide state and local matching funds for federal disaster assistance and \$2.5 million was for grants to counties for debris removal. In addition, \$13.0 million of general obligation bond proceeds were authorized to fund matching requirements for public infrastructure improvements.

**Transportation**—\$5.0 million was appropriated from the Trunk Highway Fund for infrastructure operations and management; \$20.0 million of trunk highway bonds were authorized to fund repair and replacement of damaged state trunk highways; and \$26.0 million of general obligation bonds were authorized to fund repair and replacement of damaged local roads and bridges.