

Fiscal Review

Minnesota State Senate

2011 Session



A

Fiscal Review

of the

2011 Legislative Session

**Prepared by
Minnesota State Senate
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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 must be in balance at the close of each biennium. Budgetary funds reflect the operating budget for the state but do exclude some state funds not budgeted for operations, such as pension funds, trust funds, and enterprise funds.

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 or by contacting the relevant Senate fiscal staff.

Link to detailed budget tracking sheets:

<http://www.senate.mn/departments/fiscalpol/tracking/index.php?ls=#header>

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 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 departments of Administration and Management and Budget, are funded through charges to the other state agencies. In other words, 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 2012-2013) 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* compares current biennial appropriations to budgeted spending in the previous biennium (FY 2010-2011), as well as to the February 2011 Forecast “base.”

STATE BUDGET OVERVIEW AND HIGHLIGHTS

The primary focus of the 2011 legislative session was the adoption of the FY 2012-2013 biennial budget. The enactment of a balanced General Fund biennial budget was of particular focus, in light of a \$5.0 billion projected shortfall. The 2011 Regular Session concluded with fiscal legislation having passed both bodies, but on May 24, 2011, Governor Dayton vetoed nine bills that would have put in place the FY 2012-2013 biennial budget. As a result, as the start of the state fiscal year approached on July 1, 2011, only one major appropriation bill—Agriculture and Rural Economies—had been passed and signed into law.

For the second time in six years, the State of Minnesota experienced a partial government shutdown because it had not enacted appropriation laws for much of the operation of state government. Following 20 days of this partial shutdown, during a one-day Special Session, the Legislature passed, and Governor Dayton signed, the remaining nine operating budget bills to enact the FY 2012-2013 biennial budget. Additionally, during the Special Session, a Capital Investment Bill was enacted to fund \$555.1 million of capital projects, as well as a bill to appropriate the proceeds of the Legacy Amendment.

General Fund budgets were reduced in virtually all areas of state spending, as expenditure reductions made up a large share of the budget solution to address the projected deficit. Additionally, delays in state aid payments to schools, a sale of tobacco bonds, the use of reserves, and transfers from other nongeneral funds were tools used to balance revenues and expenditures within the FY 2012-2013 budget period. Each of these actions, along with the specific actions within each major finance bill, is explained in this *Fiscal Review*.

STATE BUDGET OVERVIEW

When all funding sources are taken into account, the enacted FY 2012-2013 biennial budget totaled \$62.2 billion, which is shown in Table 1. This includes the two-year budget for the General Fund and all other state funds from which operating budget appropriations are made. Total spending will be \$2.6 billion (4.4 percent) greater than in the prior biennium, but will be \$3.4 billion (5.2 percent) lower than projected in the February forecast, due to reduced spending in the General Fund. General Fund spending totals \$34.3 billion, which accounts for 53.4 percent of the state's operating budget (after netting out transfers).

Federal funds—the largest category of nongeneral fund resources—are budgeted at \$17.4 billion for FY 2012-2013. This total is \$144 higher than forecast, but is \$629 million lower than the FY 2010-2011 biennium. The reason for this drop was the inclusion in FY 2010-2011 of nearly \$2.3 billion of federal American Recovery and Reinvestment Act of 2009 (ARRA) funds, also commonly known as “Federal Stimulus” funding.

Table 1
All Funds Biennial Budget - FY 2012-2013
Comparison of Enacted FY 2012-13 Budget to FY 2010-11 and to Forecast
(dollars in millions)

	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
General Fund	30,167	39,016	34,339	4,172	(4,677)
General Fund Transfer Out	(1,370)	(1,636)	(969)	402	668
Federal Funds	18,039	17,266	17,410	(629)	144
Other Funds	12,755	11,023	11,463	(1,293)	440
Total Spending	59,591	65,668	62,243	2,652	(3,426)

Table 2 displays the state's all funds budget by major budget area. Many areas of state spending are budgeted higher in FY 2012-2013 than in the prior biennium, but many are also lower than forecast levels. This is primarily for those portions of the budget (Education, Health, and Human Services, Property Tax Aids and Credits, State Government) that rely heavily on General Fund spending, and made up a significant portion of the spending reductions that contributed to balancing the General Fund.

Table 2
All Funds Biennial Budget by Budget Area
(dollars in thousands)

Budget Area	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Early Childhood & K-12 Education	13,848,109	17,452,240	15,491,187	1,643,078	(1,961,053)
Higher Education	2,974,557	2,980,216	2,633,400	(343,820)	(346,816)
Property Tax Aids and Credits	3,018,007	3,504,046	2,857,021	(160,986)	(647,025)
Health & Human Services	23,936,514	27,753,092	26,580,145	2,643,631	(1,172,947)
Judiciary & Public Safety	2,413,283	2,195,776	2,239,691	(185,984)	31,523
Transportation	5,869,647	5,745,719	5,921,565	51,918	175,846
Environment, Energy & Commerce	2,141,045	1,602,978	1,945,405	(195,640)	342,427
Agriculture & Rural Economies	172,680	172,142	178,308	5,628	6,166
Jobs & Economic Growth	1,232,498	1,168,354	1,163,082	(69,416)	(5,272)
State Government Innovation & Vets	1,491,430	1,426,099	1,558,713	67,283	132,614
Debt Service	2,671,092	1,529,335	1,540,904	(1,130,188)	11,569
Capital Projects	22,898	45,219	45,219	22,321	0
Other**	(200,661)	93,146	87,986	288,647	(5,160)
Total for Budget Area	59,591,099	65,668,362	62,242,626	2,651,527	(3,425,736)
* As adjusted for changes made by the 2011 Legislature.					
** Other includes interfund transfers/transactions.					

Most budget areas that experienced increases from forecast spending relied on nongeneral fund resources to increase spending (e.g., Transportation, Environment, and Agriculture).

GENERAL FUND SUMMARY

General Fund spending totals \$34.3 billion, which is \$4.7 billion lower than was projected in February, and \$4.2 billion (13.8 percent) more than the prior biennium. Higher spending in Health and Human Services and Education account for the growth between the biennia. The reasons for this increase are examined in detail later in this document.

The enacted FY 2012-2013 General Fund budget anticipated revenue of \$33.7 billion during the budget period, and spent \$34.3 billion. This difference in revenues and spending within the biennium is covered by \$725 million budgeted to balance forward from the FY 2010-2011 biennium. Additionally, the General Fund budget leaves \$95 million in the state's Cash Flow Account. Table 3 summarizes the enacted General Fund budget.

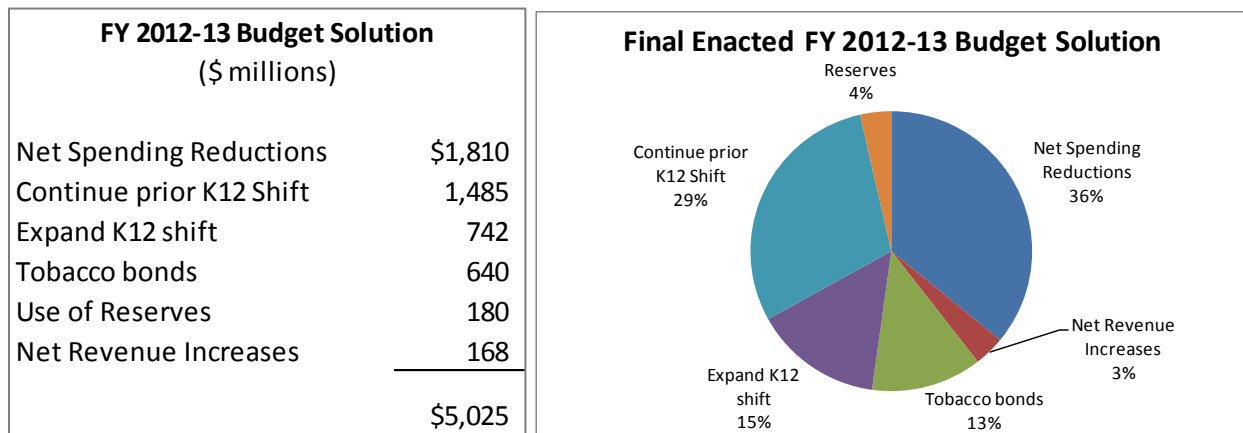
Table 3 FY 2012-2013 General Fund Budget Comparison of Enacted FY 2012-13 Budget to FY 2010-11 and to Forecast <i>(dollars in millions)</i>					
	FY 2010-11*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Balance Forward (including reserves)	447	941	725	493.96	(216)
Revenues	30,445	33,330	33,724	3,279	394
Total Resources	30,892	34,271	34,449	3,557	178
Spending	30,167	39,016	34,339	4,172	(4,677)
Budget Reserve	9	9		(9)	(9)
Cash Flow Account	266	266	95	(171)	(171)
Budgetary Balance	450	(5,020)	15		
* As adjusted for changes made by the 2011 Legislature.					

It should be noted that the change in General Fund spending from the prior biennium has some distortions that result in the unusually high growth, both in the forecast amounts and the enacted budget. The FY 2010-2011 budget included \$2.3 billion of federal ARRA funds that substituted for General Fund spending. Shifts of education finance aids that occurred in the FY 2010-2011 biennium reduced spending on a onetime basis in those years. Additionally, in the forecast figures, the education aid payment delay was scheduled to have been repaid, creating a spike in forecast spending for FY 2012-2013. The enacted budget does not repay the shift, but instead further shifted education aid payments.

Resolving the FY 2012-2013 Budget Deficit

The February 2011 budget forecast projected that the state’s General Fund faced a \$5.0 billion shortfall for the FY 2012-2013 biennium. Projected spending under laws in place at the time (a “current law” forecast) totaled \$39 billion, while expected revenue was estimated at \$34.3 billion. The focus of the 2011 legislative sessions was on resolving this projected shortfall and enacting a budget that balanced revenues and expenditures for the biennium.

The enacted budget solution contains a number of significant components that warrant some explanation, as a number of these elements are onetime adjustments and not permanent changes in the revenue available or in the spending commitments the state has made.



Net Spending Reductions: Reductions in projected spending contributed the greatest proportion of the budget solution—36 percent (\$1.8 billion). This portion of the solution does not include the education shift savings or the effect of the tobacco bonds on the General Fund (both described below), even though those actions also result in lower General Fund spending. As described in more detail later in this document, the largest dollar reductions occurred in the Health and Human Services Appropriation Bill (\$965.6 million), followed by Tax Aids and Credits (\$638 million), and Higher Education (\$351 million). Budgetary savings in these and other omnibus finance bills were offset by higher spending in Elementary and Secondary Education (\$223.4 million increase when excluding shift effects), Judiciary and Public Safety (\$24.7 million), and Jobs and Economic Development (\$2.0 million).

Continuation of Prior Education Aids “Shift:” Adjustments to the timing of state aid to school districts and charter schools has been used as a budgetary tool to address prior state deficits and had been part of the budget fix in the FY 2010-2011 biennium. During any state fiscal year, schools receive a portion of their aid for the current year and a portion of their aid from the prior year. The state’s General Fund realizes budgetary savings by reducing the portion of current year aid and delaying it into a future state fiscal year. In FY 2011, this current-year aid percentage was 70 percent, while the prior-year portion was 30 percent. However, under a provision of law in effect at the time of the budget forecast, this 70/30 payment schedule was to become 90/10 for FY 2012-2013. This boost in the current year percentage for the upcoming

biennium would have cost the state's General Fund \$1.4 billion, thus contributing to the \$5.0 billion deficit.

Approximately 29 percent of the budget solution (\$1.45 billion) came from continuing the education shift at the 70/30 level that existed at the end of the FY 2010-2011 biennium. As a result, instead of an additional cost of \$1.4 billion, General Fund spending was reduced by \$1.45 billion.

Expansion of Education Aids Shift: Beyond the continuation of the 70/30 payment schedule, the enacted budget further modified the shift mechanism to achieve an additional \$762 million of General Fund savings. The change in law resulted in a 60/40 payment schedule, and this contributed to 15 percent of the budget solution. The mechanics of the education aid shifts are examined in greater detail in the Elementary and Secondary Education Budget chapter.

Tobacco Bonds: Another significant portion of the budget solution came from the authorization for the sale of "tobacco bonds." The enacted law allows for two options to generate \$640 million of revenue from bond sales in FY 2012 and FY 2013 (13 percent of the budget solution). The first option is to securitize the annual payments from tobacco companies to the state that resulted from the 1998 litigation settlement with tobacco producers. Alternatively, the law allows for the sale of appropriation bonds if the Minnesota Supreme Court determines that such bonds are constitutional. In either case, the proceeds of the bond sale would go to the state's Debt Service Fund, thus relieving the General Fund of \$640 million of debt service costs during the biennium on existing general obligation bonds. (See Appendix A for a more detailed explanation of the tobacco bonds.)

Use of Reserves: The enacted budget utilized \$180 million of the state's \$274 million of reserves (four percent of the budget solution). Most of the General Fund reserves were held in the Cash Flow Account (\$266 million in the forecast), with \$8.7 million in the Budget Reserve. The enacted budget left \$95 million in the Cash Flow Account with a zero balance in the Budget Reserve.

Net Revenue Increases: Finally, revenue to the General Fund will be higher in FY 2012 and 2013 than projected in the February forecast as a result of laws passed during the 2011 legislative sessions. First, a bill passed during the Regular Session (Laws 2011, Chapter 8) repealed a prior law that required delays in the payment of tax refunds. The result of this was a shift in the timing of \$205.9 million of tax revenue, and effectively moved revenue from the 2010-2011 biennium to the 2012-2013 biennium. Further, additional resources for Department of Revenue compliance efforts are expected to result in \$82.3 million of new tax revenue. In total, revenue from all sources (taking into account lower carryforward from the change in the timing of refunds) in the enacted budget will be \$178.3 million higher than forecast (three percent of the budget solution).

FY 2012-2013 Revenue Changes by Type

As summarized in Table 4, enacted General Fund revenues total \$33.7 billion for FY 2012-2013, an increase of \$394.1 million compared to the February forecast. Compared to the FY 2010-2011 biennium, revenues will be \$3.3 billion higher.

Of the \$394.1 million increase relative to forecast, \$205.9 million was due to timing changes on tax refunds. Early session action repealed a previously required delay in the payment of tax refunds (Laws 2011, Chapter 8, accompanied by similar executive actions). The result was a reduction in revenues in the FY 2010-2011 biennium, and an increase in revenues in the FY 2012-2013 biennium. Higher revenues in the enacted budget also result from the inclusion of \$86.2 million of transfers from other funds. Finally, additional tax compliance efforts by the Department of Revenue in the budget period are expected to generate \$82.3 million of revenue above the forecast level.

	FY 2010-11*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fest. Base
Tax Revenue	27,884	30,904	31,193	3,309	289
Nontax Revenue	1,596	1,426	1,445	(150)	19
Dedicated Revenue	18	3	3	(15)	
Transfers In Prior Year Adjustments	882	946	1,032	150	86
	65	50	50	(15)	
Total Revenues	30,445	33,330	33,724	3,279	394
* As adjusted for changes made by the 2011 Legislature.					

FY 2012-2013 Spending Changes by Budget Area

Table 5 summarizes FY 2012-2013 spending by budget area. The budget enacted for the biennium totals \$34.3 billion of spending. As indicated above, this total is \$4.7 billion below the forecast spending level from the February base, but \$4.2 billion higher than General Fund spending in FY 2010-2011. The enacted budget has lower spending compared to forecast for all areas of General Fund spending, except for Judiciary and Public Safety, Jobs and Economic Development, and the nonshifted totals of Education spending.

Table 5
General Fund Biennial Budget by Budget Area
(dollars in thousands)

Budget Area	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Early Childhood & K-12 Education	11,429,585	15,623,595	13,638,571	2,208,986	(1,985,024)
Higher Education	2,811,554	2,916,580	2,565,517	(246,037)	(351,063)
Property Tax Aids and Credits	3,016,002	3,502,026	2,864,001	(152,001)	(638,025)
Health & Human Services	8,575,672	12,337,837	11,372,201	2,796,529	(965,636)
Judiciary & Public Safety	1,822,206	1,782,650	1,807,417	(14,789)	24,767
Transportation	167,036	180,158	125,658	(41,378)	(54,500)
Environment, Energy & Commerce	312,018	293,463	252,704	(59,314)	(40,759)
Agriculture & Rural Economies	86,727	89,396	76,601	(10,126)	(12,795)
Jobs & Economic Growth	195,430	168,246	170,270	(5,160)	2,024
State Government Innovation & Vets	887,465	912,922	905,000	17,535	(7,922)
Debt Service	829,701	1,180,575	532,400	(297,301)	(648,175)
Capital Projects	22,898	45,219	45,219	22,321	0
Other	10,817	(16,800)	(16,800)	(27,617)	0
Total for Budget Area	30,167,111	39,015,867	34,338,759	4,171,648	(4,677,108)

* As adjusted for changes made by the 2011 Legislature.

While budget reductions in the General Fund were broad-based and affected large numbers of programs and services, most of the dollar value of the reductions occurred through shifting education aid payments (\$2.2 billion), reducing Health and Human Services programs (\$965.6 million), lowering debt service costs by selling tobacco bonds (\$640 million), and reducing aids to cities and counties (\$641.6 million).

As noted previously, federal ARRA funds were spent during the FY 2010-2011 biennium in the following manner: Elementary and Secondary Education (\$500 million); Health and Human Services (\$1.6 billion); Higher Education (\$138 million); and Judiciary and Public Safety (\$38 million). This onetime infusion of federal funds distorts comparisons between the enacted FY 2012-2013 budget and the prior biennium.

Adjustments made to the FY 2011 Budget

The 2011 Legislature made a number of changes to the FY 2011 budget, to conform to federal tax law changes and release some previously delayed tax refunds, to address deficiencies in certain programs, to match federal disaster assistance funds, and to capitalize on time-sensitive budget savings opportunities. As summarized in Table 6, the FY 2011 revenue and spending changes together lowered the estimated FY 2010-2011 ending balance by \$215.8 million, from \$940.9 million to \$725.1 million.

Table 6 FY 2011 General Fund Changes 2011 Legislative Session <i>(dollars in thousands)</i>	
	<u>FY 2011</u>
Projected Budget Balance (Feb Forecast)	666,220
Revenue Change Items (Negative figures reduce budget balance)	
Chapter 8 - Federal tax conformity	(13,095)
Chapter 8 - Release tax refunds (sales & corporate)	(152,000)
Executive action - release tax refunds	(53,900)
Chapter 113 - Transfer from HCAF	4,252
Chapter 113 - Delay required land sales	(2,135)
Total FY 2011 Revenue Changes	(216,878)
Spending Change Items (positive figures reduce budget balance)	
Chapter 8 - Tax refund interest	100
Chapter 113 - DPS Disaster match	2,043
Chapter 113 - Tax Court deficiency	38
Chapter 113 - Secretary of State recount expenses	471
Chapter 113 - Dept of Revenue claims expense	1
Chapter 113 - DHS MSOP cancellation	(3,000)
Chapter 2 (spec session) - Commerce cancellation	(700)
Total FY 2011 Spending Changes	(1,047)
Net General Fund Changes	(215,831)
Revised FY 2010-2011 Balance Forward	450,389

HIGHLIGHTS BY BUDGET AREA

The following summaries highlight the changes made in each budget area relative to the budget projections in the February 2011 state budget forecast. The overall budgets and budget changes are discussed more fully in the relevant chapters.

State Tax Revenues

State tax revenues for the General Fund are projected to total \$31.2 billion, an increase of \$288.6 million from forecast level. Adjustments to the timing of refund payments and a Department of Revenue compliance initiative are the reasons for this increase. Nontax revenues and transfers from other funds result in a total of \$33.7 billion of revenue (excluding carryforward) for the General Fund during the FY 2012-2013 biennium.

Elementary and Secondary Education Budget

State appropriations from all sources for Elementary and Secondary Education total \$15.5 billion for the FY 2012-2013 biennium, of which 88 percent is from the General Fund (\$13.6 billion).

An increase to the basic per pupil funding formula in both FY 2012 and FY 2013 is more than offset by the shifting of education aid payments (described previously and in more detail in subsequent education chapter), resulting in a \$1.96 billion reduction compared to the base forecast.

Higher Education Budget

The overall operating budget for Higher Education totals \$2.6 billion for FY 2012-2013, with virtually all state appropriations (97 percent) coming from the General Fund. Compared to the February forecast base levels, this total represents a reduction of \$346.8 million.

Health and Human Services Budget

When taking all funding sources into account, appropriations for Health and Human Services total \$26.6 billion for the FY 2012-2013 biennium, of which \$11.1 billion (42 percent, after taking transfers from other funds into consideration) is from the General Fund. These totals are \$1.2 billion lower than the February forecast, but also \$2.6 billion higher than the FY 2010-2011 biennium, due to underlying growth in enrollment and costs in the programs funded through this budget. Changes compared to base levels were most significant in the General Fund (reduction of \$965.6 million), the Health Care Access Fund (reduction of \$267.2 million), and federal TANF funds (increase of \$109.0 million).

Property Tax Aids and Credits

Funding for a variety of tax aids and credits totals \$2.9 billion from all funding sources for FY 2012-2013, with virtually all but \$2.0 million of this funding from the state's General Fund. This represents a reduction of \$638.0 million from levels projected in the February forecast. Most of the reductions in this budget came through lower property tax credits to individuals as well as reductions in aids paid to local governments.

Environment, Energy, and Commerce Budget

Total funding for Environment, Energy, and Commerce equals \$1.9 billion for the FY 2012-2013 biennium, with \$252.7 million, or just 14.5 percent from the General Fund. These totals include constitutionally-dedicated Legacy Amendment appropriations. Compared to the February Forecast base, all funds are \$342.4 million higher, but this stems almost entirely because the Legacy Funds do not have base appropriations in the forecast. Excluding Legacy funds, the total is \$6.3 million above base. General Fund reductions from base totaled \$40.8 million, with nearly three-fourths of this reduction coming from appropriations to the Department of Natural Resources.

Jobs and Economic Growth Budget

The enacted budget for Jobs & Economic Growth from all funding sources is \$1.2 billion for FY 2012-2013. Nearly \$1.1 billion, or 92.0 percent of this budget comes from appropriations outside of the General Fund. Considering all funding sources, this was a reduction from the February base of \$5.3 million, though the General Fund appropriations were actually higher than base by \$2.0 million.

Judiciary and Public Safety Budget

Funding from all sources for Judiciary and Public Safety functions is \$2.2 billion for FY 2012-2013, with 81 percent of the money coming from the General Fund. This total is a reduction compared to base February forecast levels of \$118.0 million, even though General Fund appropriations increased by \$24.7 million compared to the forecast. Lower funding from federal resources (\$100.4 million) and special revenue accounts (\$49.4 million) are responsible for the All-Funds reduction.

Transportation Budget

Funding for Transportation programs totals \$5.9 billion for the FY 2012-2013 biennium. This budget is dominated by non-general fund sources, as General Fund appropriations account for only 2.1 percent of the total. Unlike many budget areas, the Transportation total for the biennium is higher than the February forecast base. The increase of \$175.8 million results from higher spending from the Trunk Highway Fund (\$214.8 million) and federal funds (\$13.8 million) that more than offset the \$54.5 million reduction in General Fund appropriations.

Agriculture and Rural Economies Budget

Total funding for Agriculture & Rural Economies is \$178.3 million for the FY 2012-2013 biennium. Of this amount, \$76.6 million is from the General Fund. Compared to the February base, the enacted budget is \$12.8 million lower for the General Fund, but is \$6.2 million higher for all funds due to \$18.7 million of appropriations from Legacy funds which had no base in the forecast.

State Government Innovation and Veterans

When taking all funding sources into account, the budget for State Government and Veterans programs totals \$1.6 billion for the FY 2012-2013 biennium. General Fund costs make up half of this total (\$781.6 million, when taking into account transfers from other funds). Due to the allocation of Legacy funding for which no base exists in the February forecast, this total is an increase of \$132.6 million. Excluding Legacy funding, the enacted budget is \$8.4 million lower than the February base.

Debt Service Budget

Total spending for debt service for the FY 2012-2013 biennium is budgeted at \$1.5 billion from all funding sources. While this total represents only a small increase from the February forecast level (\$11.6 million), the composition of funding for debt service changed significantly due to session action. General Fund transfer payments made up 77.2 percent of debt service spending in the February forecast, but only 34.6 percent in the enacted budget. This is driven by the enacted provision to securitize a portion of tobacco settlement payments to the state. The new Tobacco Settlement Bond Fund is expected to finance 41.5 percent of debt service costs in FY 2012-2013, substituting \$640 million of what would have otherwise been financed by the General Fund.

GENERAL FUND BUDGET TAILS – FY 2014-2015 BIENNIUM

Looking ahead at the impacts of the enacted budget on the next biennium shows that the state’s fiscal challenges will continue. Revenues for the FY 2014-2015 biennium are projected to total \$35.4 billion (including the carryforward of the cash flow account balance), while spending is estimated to total \$37.2 billion. The result is a structural imbalance of nearly \$1.9 billion.

Nevertheless, the structural outlook at the end of the session is significantly improved compared to the February 2011 Forecast. At that time, it appeared that spending obligations would exceed revenues in FY 2014-2015 by \$4.4 billion.

Table 7 General Fund Budget - FY 2014-2015 Planning Estimates <i>(dollars in millions)</i>			
	February Forecast	Enacted Budget	Change
Current Resources (excluding carryforward)	35,330	35,296	(34)
Total Expenditures	39,723	37,187	(2,535)
Structural Balance	(4,393)	(1,891)	

Revenue to the General Fund is projected to grow by \$1.6 billion in the FY 2014-2015 biennium, but expenditures are estimated to increase by \$2.8 billion. This compounds the \$615 million structural imbalance from the FY 2012-2013 biennium, meaning that not only is spending growing nearly twice as fast as revenue, spending grows from a base level that is higher than the revenues used to support it.

CONTINGENT FUTURE OBLIGATIONS

Some of the effects of the budget choices in the enacted FY 2012-2013 budget may reveal themselves well into the future, particularly a set of choices that have statutory provisions to undo, once economic conditions in the state improve.

For a long time, when the state has used reserves as part of budget balancing, statutory provisions have required that reserves be restored when a budget surplus next appears in a state budget forecast (Minnesota Statutes, section 16A.152, subdivision 2). The law requires a variety of contingent commitments if a state budget forecast projects a positive unrestricted General Fund balance (more commonly thought of as a “surplus” or “money on the bottom line”). The enacted FY 2012-2013 budget makes the size of these contingent commitments bigger, and in total, the law has contingent commitments that now total \$3.6 billion.

Prior to 2003, the law required that the state’s General Fund cash flow account and budget reserve be maintained at levels prescribed in law (these amounts differed over time, but have been at \$350 million, cash flow account, and \$653 million, budget reserve, since 2002). If those levels were not met, then any surplus in a budget forecast would first go to meet those commitments before money would be available to allocate to other budget priorities. In 2003, the law was expanded to require reversing any budgetary actions that had delayed education aid payments or shifted the timing of school property tax recognition. Finally, in 2008 and 2010, respectively, relatively modest additional contingencies were added for transfers back to the State Airports Fund and the fire safety account in the Special Revenue Fund.

Because these types of allocation contingencies have existed in state law for some time, they have been triggered by forecast variances in the past. During a series of forecasts in the mid-2000s, prior action that had used the budget reserve and cash flow account was reversed by positive forecast variances, and payments to school districts were returned to preshifted schedules. However, it is important to note that the size of the contingencies now in law significantly exceeds the amounts in place previously. Before beginning the “buyback” of these earlier onetime budget actions in the November 2004 Forecast, the value of the contingencies was approximately \$1.25 billion.

The table below displays the estimated value of the contingent spending based on the enacted budget and the February 2011 Forecast estimates. As time progresses, the value of the education shifts will change because additional amounts are shifted each year based on increasing property taxes and changing aid payments. This causes an increase in the amount of shift payments, which must then be paid back. Therefore, in FY 2012, the total contingent spending is estimated at \$3.6 billion, but the value of the contingent spending would rise to nearly \$3.9 billion in FY 2015. This difference is primarily due to anticipated growth in shifted money.

Contingent Commitment	FY 2012 Amount (\$ in millions)
Cash Flow Account	\$255
Budget Reserve	653
School Payment Delays	2,125
K12 Property Tax Recognition Shift	565
State Airports Fund	15
Fire Safety Account	11
Total contingent spending	\$3,624

SCRFA estimates based on February 2011 Forecast and 2011 legislative action. The amounts for both Education contingencies will change with each forecast and are estimated to increase in successive fiscal years until paid back.

In reality, the contingent spending will not likely be paid back in a single forecast, much less a single fiscal year. Essentially, these commitments represent delayed payments that must be made under current law before the forecast will actually return a surplus for other uses.

STATE TAX REVENUES

General Fund tax revenues are budgeted at \$31.2 billion for the FY 2012-2013 biennium. This amounted to \$288.6 million more than projected by the February 2011 Forecast, or \$30.9 billion. As summarized in Table 1, 2011 legislative actions increased General Fund revenues mainly as a result of increased revenue collection from corporate franchise and sales tax, as well as additional tax compliance initiatives.

Most General Fund tax revenue changes were contained in First Special Session Chapter 7. In addition, tax revenue changes enacted by the 2011 Legislature were included in three other bills:

- Chapter 8—conformed Minnesota’s tax laws to certain updates in the federal code, this act also contained the release of funds provisions;
- First Special Session Chapter 9—directed cigarette tax MERC payments to the General Fund; and
- First Special Session Chapter 10—contained tax compliance provisions, as well as the federal offset program.

Specific changes to the General Fund tax revenues are illustrated in a later table and discussed below.

Table 1 Tax Revenues General Fund Tax Revenues <i>(dollars in thousands)</i>					
Tax Type	FY 2010-11 Revenue*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Individual Income	13,782,673	16,174,700	16,127,673	2,345,000	(47,027)
Corporate Income	1,577,295	1,559,800	1,664,445	87,150	104,645
Sales	8,610,887	9,279,528	9,418,505	807,618	138,977
Motor Vehicle Sales	105,251	0	0	(105,251)	0
Statewide Property	1,529,056	1,572,240	1,572,240	43,184	0
Estate	323,349	327,700	322,600	(749)	(5,100)
Alcohol Excise	152,529	158,366	158,366	5,837	0
Cigarette and Tobacco Excise	374,502	382,000	391,226	16,724	9,226
Taconite	15,943	31,210	31,210	15,267	0
Mortgage Registry	181,716	136,500	136,500	(45,216)	0
Deed Transfer	112,677	135,000	135,000	22,323	0
Insurance Gross Earnings & Fire Marshal	555,558	580,800	582,100	26,542	1,300
Other Gross Earnings	108	100	100	(8)	0
Lawful Gambling	80,714	80,600	80,600	(114)	0
Medical Assistance Surcharges	469,704	493,943	493,943	24,239	0
Income Tax Reciprocity	66,932	58,697	58,697	(8,235)	0

Tax Type	FY 2010-11 Revenue*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Motor Vehicle Registration	1,265	1,350	1,350	85	0
Compliance Revenues	0	0	82,314	82,314	82,314
Other Tax Refunds	(56,423)	(68,360)	(68,360)	(11,937)	0
Federal Offset Program	0	0	4,300	4,300	4,300
Other	16	2	2	(14)	0
Total for Budget Area	27,883,752	30,904,176	31,192,811	3,309,059	288,635
* As adjusted for changes made by the 2011 Legislature.					

NONGENERAL FUND TAX REVENUE

The changes enacted during the Regular Session and the First Special Session of 2011 minimally increased tax revenues in funds outside of the General Fund, which are summarized in Table 2. The tax revenues totaled \$6.1 million for FY 2012-2013. The 2011 February Forecast projected just \$25,000 less than the enacted budget. The affected funds were the Highway User Tax Distribution Fund; the Transit Assistance Fund, mostly as a result of increases to sales tax on motor vehicle leases; and the Legacy Funds, as a result of modifications to the sales tax, including some federal conformity to the sales tax.

Tax Type	FY 2010-11	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Sales	527,482	580,111	580,166	52,684	55
Fuels Taxes	1,679,831	1,763,345	1,763,345	83,514	0
Motor Vehicle Sales and Registration	1,922,919	2,254,835	2,254,805	331,886	(30)
Motor Vehicle Leases	0	2,830	2,830	2,830	0
Cigarette and Tobacco	61,600	61,600	61,600	0	0
Taconite Production Tax	59,676	45,441	45,441	(14,235)	0
Mortgage Registry and Deed	527	474	474	(53)	0
MnCare Provider Taxes	980,233	1,052,300	1,052,300	72,067	0
Insurance Gross Earnings	133,581	139,700	139,700	6,119	0
Lawful Gambling	95	100	100	5	0
Solid Waste Management Tax	89,327	94,301	94,301	4,974	0
Unemployment Insurance Tax	90,591	84,741	84,741	(5,850)	0
Airflight Property / Aircraft Registration	28,164	32,875	32,875	4,711	0
Other Excise and All Other	6,791	6,412	6,412	(379)	0

Tax Type	FY 2010-11	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Other Tax Refunds	(30,698)	(16,500)	(16,500)	14,198	0
Total Tax Revenues	5,550,119	6,102,565	6,102,590	552,471	25
Total Tax Revenues by Fund					
General Fund (see Table 1)	27,883,752	30,904,176	31,192,811	3,309,059	288,635
Highway User Tax Distribution Fund	3,238,015	3,569,635	3,569,617	331,602	(18)
Transit Assistance Fund	357,560	442,015	442,003	84,443	(12)
Health Care Access Fund	1,083,116	1,175,500	1,175,500	92,384	
Special Revenue Fund	62,575	62,624	62,624	49	
Workforce Development Fund	90,591	84,741	84,741	(5,850)	
Legacy Funds	479,655	529,700	529,755	50,100	55
Other Funds	238,607	238,350	238,350	(257)	
Total Tax Revenues	33,433,871	37,006,741	37,295,401	3,861,530	288,660

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, often referred to as federal conformity. The federal conformity provisions were included in two acts, Chapter 8 and First Special Session Chapter 7. As summarized in Table 3, the federal tax conformity provisions adopted by the state decreased General Fund revenues by \$14.4 million in the first biennium.

The Legislature passed two federal conformity bills, one during Regular Session and one during the First Special Session. The first, Chapter 8, during the Regular Session, conformed Minnesota's income tax and corporate franchise tax to most federal changes enacted since March 18, 2010. These conformities affect tax year 2010 only. Some of those federal changes included:

- extending the higher education tuition deduction;
- extending the educator classroom expense deduction;
- increasing the maximum exclusion for employer-provided adoption assistance;
- extending the authority for individuals aged 70 ½ or older to transfer up to \$100,000 from an IRA or Roth IRA directly to a qualified charity;
- extending the increase in the federal adjusted gross income limit on the amount of qualified conservation easements that may be claimed as a charitable deduction; and
- extending various provisions related to depreciation and expensing.

Minnesota did not conform to the federal provision increasing section 179 expensing for tax year 2010, nor did the state conform to the extension of 50 percent bonus depreciation to tax year

2010, with increased 100 percent bonus depreciation for property placed in service after September 8, 2010.

The federal updates contained in First Special Session Chapter 7 conformed state law to the federal definitions of federal taxable income, effective through April 14, 2011. These conformities are effective for tax year 2011 and the following years. This chapter also conformed state law to a federal change retroactive to tax year 2009 allowing an income exclusion for state loan forgiveness programs for health care professionals.

The provisions in the First Special Session Chapter 7 conformed to the changes enacted in two of the 2010 Federal Health Care Acts; the Small Business Jobs Act of 2010; the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010; and the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011. The Legislature accepted all of the federal changes with the exception of the:

- increased section 179 expensing for tax year 2011;
- 50 percent bonus depreciation for tax years 2011 to 2013;
- extension of the elimination of the limitation on itemized deductions and the phase-out of personal and dependent exemptions to tax years 2011 and 2012;
- extension of marriage penalty relief in the standard deduction for married filers to tax years 2011 and 2012; and
- phase-out range for married joint filers in the working family credit. The Legislature modified this change to correspond to the expanded phase-out range in effect for the federal earned income tax credit, for tax year 2011 only.

Table 3						
General Fund Tax Revenue Changes Compared to Forecast						
<i>(dollars in thousands)</i>						
Tax Provisions	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Federal Conformity						
Chapter 8						
Individual Income Tax	6,400	(470)	5,930	(3,920)	(5,405)	(9,325)
Corporate Income Tax	12,075	560	12,635	(7,005)	(10,019)	(17,195)
Chapter 7, SS1						
Individual Income Tax	(51,245)	(1,740)	(52,985)	10,015	(4,100)	5,915
Corporate Income Tax	(3,540)	23,550	20,010	12,445	(10,320)	2,125
Federal Conformity Subtotal	(36,310)	21,900	(14,410)	11,535	(29,844)	(18,480)
Individual Income Tax						
Nonresident Entertainer Tax (Ch. 7, SS1)						
		28	28	30	31	61
Corporate Income Tax						
Release Funds (Ch. 8)						
	41,000		41,000			

Tax Provisions	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Estate Tax						
Qualified Farm and Small Business Property Exclusion (Ch. 7, SS1)	(1,000)	(4,100)	(5,100)	(4,400)	(4,600)	(9,000)
Sales & Use Tax						
Release Funds (Ch. 8)	111,000		111,000			
Misc. Changes (Ch. 7, SS1)	2,205	2,872	5,077	(20,645)	(1,445)	(22,090)
Miscellaneous Taxes						
Cigarette Tax MERC Direct Payments (Ch. 9, SS1)	4,613	4,613	9,226	4,613	4,613	9,226
Nontax Revenue						
Federal Nonadmitted Insurance Conformity (Ch. 7, SS1)	400	900	1,300	900	900	1,800
Tax Analytics and Compliance (Ch. 10, SS1)	35,700	46,614	82,314	46,614	46,614	93,228
Federal Offset Program (Ch 10, SS1)	500	3,800	4,300	3,800	3,800	7,600
K12 Shift						
Elimination of Market Value Homestead Credit		17,652	17,652	227	544	771
Shift Value of Tax Credits	(22,002)	(177)	(22,179)	(227)	(544)	(771)
Total	136,106	94,102	230,208	42,447	20,069	62,345

GENERAL FUND TAX AND NONTAX REVENUE CHANGES

In addition to the federal conformity legislation, Table 3 summarizes several income, estate, and sales tax-related provisions that were passed by the 2011 Legislature that affected the General Fund. Those provisions are discussed here. The total revenue change line in Table 3 is arrived at by summing the components; however, the corporate and sales tax refunds that were paid out by executive order, totaling \$53.9 million, are not included in Table 3. In addition, in order to arrive at the total represented in Table 1, the cost of the education aid shift must be excluded.

INDIVIDUAL INCOME TAX

First Special Session Chapter 7 repealed the nonresident entertainer tax credit and replaces it with a comparable exemption. The new law exempts nonresident entertainers from withholding if the compensation received is less than \$600. The law also exempts nonresident entertainers whose total compensation for performances in Minnesota is less than the income tax filing requirements for nonresidents.

ESTATE TAX

First Special Session Chapter 7 exempts the value of certain farm and small business property from the calculation of the Minnesota estate tax. The purpose of this exclusion was to allow for

the next generation of families to continue the operation of farms and small businesses. This change decreased the revenue to the General Fund by \$1.0 million in FY 2012 and \$4.1 million in FY 2013.

SALES AND USE TAX

The 2011 Legislature made a series of sales tax changes that affected the General Fund as well as the Legacy Funds. Those changes include complying with the Streamlined Sales and Use Tax Agreement (SUSTA) by removing “ring tones” from the definition of taxable telecommunications services. This change reduced the revenue to the General Fund by \$145,000 in FY 2012 and \$210,000 in FY 2013.

The Legislature also provided a sales tax exemption for technology equipment and electricity for large data centers. A “qualified data center” is defined as a center consisting of at least 30,000 square feet, with an initial investment of at least \$50 million in a two-year period. This change, effective for refunds beginning in FY 2014, reduced the revenue to the General Fund by \$23.6 million in FY 2014 and \$4.4 million in FY 2015 relative to the February forecast.

CIGARETTE TAX

The 2011 Legislature in First Special Session Chapter 9 decreased the amount of revenue that is annually credited to the Medical Education and Research Costs (MERC) account in the Special Revenue Fund for the Commissioner of Health. This change resulted in an increase to the General Fund of \$4.6 million in each year of the biennium.

NONTAX REVENUE

The Legislature complied with the Nonadmitted and Reinsurance Reform Act of 2010. The changes passed in First Special Session Chapter 7, and summarized in Table 3, provide that Minnesota will tax the full premiums when Minnesota is either the principal place of business of the insured, or, for an individual, the principal residence. This conforming legislation increases the General Fund by \$400,000 in FY 2012 and \$900,000 in FY 2013.

COMPLIANCE AND THE FEDERAL OFFSET PROGRAM

As summarized in Table 3, the Legislature authorized certain tax compliance initiatives, including tax analytics and business intelligence tools that raised revenue to the General Fund by \$35.7 million in FY 2012 and \$46.6 million in FY 2013. These initiatives are discussed in more detail in a later chapter of this document. (See State Government Chapter)

REPEAL OF THE CORPORATE TAX REFUND DELAY

Table 3 also includes a General Fund revenue increase resulting from the repeal of the corporate tax refund delay. The 2011 Legislature repealed a provision that was enacted in the 2010 First Special Session that directed the Commissioner of Revenue to delay paying corporate franchise

tax and sales tax refunds. The delay was part of the effort to help balance the General Fund for FY 2010-2011. The refunds were originally expected to be paid in January through March 2011. Through the Governor's 2009 unallotments and executive actions, these corporate refunds were originally delayed and expected to be paid between April and June 2011. The 2010 Legislature delayed the refunds further so that they would be paid in FY 2012 rather than FY 2011.

In repealing this provision, \$152 million in corporate franchise and sales tax refund obligations were paid in fiscal year 2011 rather than fiscal year 2012, resulting in an increase to General Fund income in FY 2012. That law became effective March 22, 2011.

EDUCATION SHIFTS

The elimination of the market value homestead credit and the interaction of other tax credits with the education aids shift had a net impact of reducing the General Fund by \$22.0 million in FY 2012 and \$17.5 million in FY 2013. The specifics of the shift calculation are discussed in a later chapter. (See Education Chapter)

Table 4 Nongeneral Fund Revenue Changes Compared to Forecast <i>(dollars in thousands)</i>						
	FY 2012	FY 2013	FY 2012- 13	FY 2014	FY 2015	FY 2014- 15
Tax Provisions						
Highway User Tax Distribution Fund						
Exemption for Emergency Response Vehicle Tax Broadened	(9)	(9)	(18)	(9)	(9)	(18)
Transit Assistance Fund						
Exemption for Emergency Response Vehicle Tax Broadened	(6)	(6)	(12)	(6)	(6)	(12)
Legacy Funds						
Misc. Sales Tax Changes	110	187	297	(1,112)	(112)	(1,224)
<u>Nontax Provisions</u>						
Health Care Access Fund						
Repeal Section 125 Health Insurance Credit	0	55	55	60	65	125
Total Nongeneral Fund Expenditures	95	227	322	(1,067)	(62)	(1,129)

NONGENERAL FUND REVENUE CHANGES

As summarized in Table 4, the nongeneral fund revenue changes affected the Highway User Tax Distribution Fund, the Transit Assistance Fund, the Legacy Funds, and the Health Care Access Fund. The Highway User Tax Distribution Fund was reduced by \$9,000 in each year of the biennium and the Transit Assistance Fund was reduced by \$6,000 in each year of the biennium. Both of these reductions resulted from the broadening of the exemption for emergency response

vehicle tax. Miscellaneous sales tax changes parallel to those discussed above resulted in an increase to the Legacy Funds of \$110,000 in FY 2012 and \$187,000 in FY 2013. In addition to these tax provisions affecting nongeneral fund revenue, the Health Care Access Fund revenue increased by \$55,000 in FY 2013 as a result of the repeal of the Section 125 Health Insurance Credit.

For questions regarding this Section or for more information on the fiscal aspects of State Tax Revenues, please contact shelby.mcquay@senate.mn.

ELEMENTARY AND SECONDARY EDUCATION

The Elementary and Secondary Education budget totals \$15.5 billion for FY 2012-2013, of which \$13.6 billion, or 88 percent, is General Fund appropriations. General Fund appropriations are \$1.9 billion lower than forecast. Elementary and secondary education constitutes the largest General Fund budget area at 39.7 percent of the General Fund. Nevertheless, while elementary and secondary education budget reductions contributed substantially to reducing the \$5.0 billion budget shortfall, these reductions were made mostly via changes to the aid payment shift. This created appropriation savings without reducing the overall funding commitment to schools. In fact, the Legislature actually increased spending commitments in this budget area including increasing the basic formula allowance by \$50 in each year of the FY 2012-2013 biennium and creating a new formula designed to improve reading performance in Minnesota's schools. The changes discussed in this chapter were enacted in Laws 2011, First Special Session Chapter 11. Table 1 summarizes \$1.9 billion in reduced spending in the FY 2012-2013 biennium.

Table 1					
All Funds Biennial Spending by Agency & Fund					
<i>(dollars in thousands)</i>					
Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted FY 2010-11	Change: Enacted - Fest. Base
Department of Education					
General Fund	11,391,587	15,585,597	13,601,899	2,210,312	(1,983,698)
Special Revenue Fund	26,329	21,387	21,447	(4,882)	60
Endowment & Permanent School Fund	45,570	45,480	45,480	(90)	
Federal Fund	2,328,955	1,753,118	1,769,401	(559,554)	16,283
Max Effort School Loan Fund	0	0	0	0	0
Gift Fund	194	94	94	(100)	
Arts & Cultural Heritage Fund**	8,500		6,000	(2,500)	6,000
Environment & Natural Resource Fund	135			(135)	
Total for Department of Education	13,801,270	17,405,676	15,444,321	1,643,051	(1,961,355)
Faribault Academies					
General Fund	23,824	23,824	23,206	(618)	(618)
Special Revenue Fund	5,545	5,958	5,958	413	
Federal Fund	676	630	628	(48)	(2)
Gift Fund	75	58	58	(17)	
Total for Faribault Academies	30,120	30,470	29,850	(270)	(620)
Center for Arts Education					
General Fund	14,174	14,174	13,466	(708)	(708)
Special Revenue Fund	1,589	1,920	1,920	331	
Federal Fund	58			(58)	
Gift Fund	33			(33)	
Arts & Cultural Heritage Fund	1,000		1,630	630	1,630
Total for Center for Arts Education	16,854	16,094	17,016	162	922

Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted FY 2010-11	Change: Enacted - Fcst. Base
Totals by Fund					
General Fund	11,429,585	15,623,595	13,638,571	2,208,986	(1,985,024)
Special Revenue Fund	33,463	29,265	29,325	(4,138)	60
Endowment & Permanent School Fund	45,570	45,480	45,480	(90)	0
Federal Fund	2,329,689	1,753,748	1,770,029	(559,660)	16,281
Max Effort School Loan Fund	0	0	0	0	0
Gift Fund	302	152	152	(150)	
Arts & Cultural Heritage Fund	9,500		7,630	(1,870)	7,630
Total for Budget Area	13,848,109	17,452,240	15,491,187	1,643,078	(1,961,053)
* As adjusted by FY 2009 unallotments and changes made by the 2009 Legislature.					

EDUCATION AIDS BUDGET ACCOUNTING CHANGES

Nearly 95 percent of the General Fund appropriations in elementary and secondary education are comprised of education aids that are passed directly to school districts, charter schools, and other education organizations. Therefore, it is difficult to avoid making reductions to the education budget without making cuts to education aids. Table 2 identifies the total changes by major component of the elementary and secondary education formulas from the General Fund; those changes are discussed in more detail below. The single largest budget savings in education, however, is associated with the aid payment shift.

Change Item	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Department of Education						
Aid Payment Shift*	(2,103,758)	(90,993)	(2,194,751)	(40,853)	(44,614)	(85,467)
Prop Tax Recognition Shift Methodology Change	(13,663)	(10)	(13,673)	(161)	(388)	(549)
Basic Formula Allowance Increase (\$50/\$50)	31,860	85,679	117,539	108,154	109,532	217,686
Small Schools Revenue		9,617	9,617	16,027	16,027	32,054
Repeal January 15 Contract Penalty	420	280	700	420	280	700
Early Graduation Achievement Program	(1,064)	9	(1,055)	(592)	(945)	(1,537)
Alternative Compensation Growth Recapture	(4,275)	(2,850)	(7,125)			
Compensatory Formula Aid		9,776	9,776	6,516		6,516
Charter School Lease Aid Grandfather Repeal		(927)	(927)	(1,039)	(1,050)	(2,089)
Charter School Startup Aid Repeal	(540)	(1,281)	(1,821)	(1,356)	(1,356)	(2,712)
Integration Aid				(33,295)	(68,640)	(101,935)
Integration Revenue Replacement Pot				40,911	68,488	109,399

Change Item	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Literacy Incentive Aid (LIA)		29,151	29,151	49,229	49,941	99,170
Magnet School Program Grants	(750)	(750)	(1,500)	(750)	(750)	(1,500)
Early Childhood Literacy Programs	2,750	2,750	5,500	2,750	2,750	5,500
Early Childhood Scholarships		4,000	4,000	2,000	2,000	4,000
Adult Basic Education	(402)	(868)	(1,270)	(1,353)	(1,867)	(3,220)
MDE General Operating Budget Reduction	(991)	(991)	(1,982)	(991)	(991)	(1,982)
Shift Reconciliation Adjustments & Other Policy*	20,063	44,060	64,123	(1,484)	2,335	851
Department of Education Total	(2,070,350)	86,652	(1,983,698)	144,133	130,752	274,885
Faribault Academies						
Nutrition Services Shifted to Contract	(309)	(309)	(618)	(309)	(309)	(618)
Faribault Academies Total	(309)	(309)	(618)	(309)	(309)	(618)
Perpich Center for Arts Education						
PCA General Operating Budget Reduction	(354)	(354)	(708)	(354)	(354)	(708)
Perpich Center for Arts Education Total	(354)	(354)	(708)	(354)	(354)	(708)
Total Spending Changes	(2,071,013)	85,989	(1,985,024)	143,470	130,089	273,559
* The total value of the shift is displayed as a single line and includes new policy initiatives (described below). The reconciliation line includes small policy initiatives as well as the value of shift changes on new "shiftable" policy changes.						

Aid Payment Shift

Minnesota school districts and charter schools operate on a fiscal year that is identical to the State of Minnesota, beginning on July 1 and ending on June 30. Districts and charters receive state aid payments from the State on a statutorily determined schedule, with 23 payment dates per year. The first payment is July 15 and each subsequent payment is approximately every two weeks thereafter. The final payment is June 20.

For any given fiscal year, the total of the formulas that are in effect is called the “entitlement.” The entitlement represents the aid that each district and charter is entitled to receive for that fiscal year. However, all of that aid is not actually appropriated or paid to districts and charters in the year in which the entitlement was generated. Instead, the entitlement from the various state formulas and grants is actually split and is appropriated over two fiscal years. The portion of the entitlement, paid in the fiscal year in which it is generated, is called the “current year aid percentage” and is established in law. A smaller portion of the entitlement is paid to schools in the fiscal year *after* it was generated. This portion of the entitlement, called the “prior year aid percentage,” becomes part of the following year’s appropriation.

For each fiscal year, the amounts appropriated and paid to schools is the sum of a percentage of the formulas in effect for the *current* fiscal year added to a percentage of the formulas in effect for the *prior* fiscal year. The sum of the current and prior year aid percentages must always equal 100 percent, and is expressed with the current year aid percentage first. Generally, the law assumes that a 90 percent current year aid percentage and a ten percent prior year aid percentage (90/10) is the “unshifted” value. (This permits final adjustments and technical corrections that

typically lag the close of a fiscal year.) When instituting an aid payment shift, the current year aid payment percentage is reduced and the prior year aid payment percentage is increased.

Under the law prior to the 2011 legislative session, the current year aid percentage for fiscal year 2011 was 70 percent and the prior year aid percentage was 30 percent. This 70/30 payment schedule was the result of shifts instituted in the prior biennium. Additionally, under law prior to the session in FY 2012, the aid payments were scheduled to return to a 90/10 split, effectively buying back the shift from the prior biennium. This created a cost of almost \$1.4 billion in the forecast for FY 2012-2013.

During the 2011 legislative session, the Legislature changed the aid payment schedule to a 60/40 shift. In so doing, the Legislature eliminated the \$1.4 billion of costs associated with returning the shift from 70/30 to 90/10, but it also generated an additional savings of nearly \$740 million by passing a ten percent higher shift. In total, the FY 2012-2013 shift at 60/40 generated \$2.2 billion in savings relative to the February 2011 Forecast. This savings was a substantial contribution to the Legislature's efforts to balance the budget in FY 2012-2013.

The aid payment shift savings, however, are only onetime savings and do not reoccur. This is because aid payment shifts are created by reducing the current year aid percentage and making a corresponding increase to the prior year aid percentage. As described above, an aid payment shift does not reduce the amount of money that schools will receive because it makes no permanent changes to state school formulas. Instead, it adjusts the timing of when schools receive their funding. Effectively, the shifts from the 2011 session move a \$2.2 billion payment to schools from the current biennium to the FY 2014-2015 biennium.

To account for the shift as well as other important policy initiatives (discussed below), this document reflects each respective value in Table 2 identically as they are displayed in legislative tracking and the Minnesota Management and Budget fund balance. This means showing the individual changes to specific line items that are shifted at a 60/40 base to ensure that they are the same. Additionally, the total value of the aid payment shift reflects the total amount shifted, including the new initiatives that were passed as part of the education act. Doing both, however, means that the savings from the aid payment shift for new initiatives is counted twice. Therefore, to preserve the consistency of the numbers for the total shift value and each new policy initiative, this document carries a reconciliation line in Table 2 that adjusts the spending upward to adjust for this double counting. This line also carries the spending changes for minor initiatives in the education act. This line is primarily technical.

Formula Allowance and Other General Education Changes

The Legislature made several changes to the general education program that created additional spending and generated savings. The general education program is a collection of formulas that constitute the majority of revenue that schools use to finance the public education system. These formulas compensate schools based on different demographic, socioeconomic, geographic, and other factors.

Basic Formula Allowance

The largest formula within general education is the basic formula. The Legislature increased the basic formula allowance in FY 2012 and FY 2013 by \$50 per pupil unit, or one percent each year. This increased spending by \$117.5 million in FY 2012-2013. Because of the 60/40 shift discussed above, the cost of the new formula allowance increases is not fully recognized in FY 2012-2013 and is instead delayed until the FY 2014-2015 biennium. In the 2014-2015 biennium, the \$50 allowance increase is projected to cost \$217.7 million. This higher cost is due to the full impact of two phases of a formula increase in both FY 2014 and 2015, as well as higher appropriations associated with the 60/40 payment shift.

Early Graduation Achievement

The education bill established a new program that changed general education appropriations. The program, titled the Early Graduation Achievement Scholarship Program, allows a student who graduates early from high school to receive a higher education scholarship of up to \$7,500. The actual scholarship value varies and is based on how early the student completes high school. An eligible student may use their scholarship at any accredited institution of higher education. In addition, a student is eligible for a cash award if, upon graduation, the student enters into service in either the active or reserve component of the United States Armed Forces.

This component of general education generates a net savings of \$1 million in FY 2012-2013. This occurs because the cost of the early graduation scholarships is less than the education savings associated with fewer students participating in the Postsecondary Enrollment Options Program and fewer high school pupil units overall.

Training and Experience Revenue

The training and experience revenue (T&E) formula was repealed during the 2011 session, effective FY 2012. In the past, the training and experience revenue provided schools with revenue based on the experience and education of their teaching faculty. However, beginning in FY 1999, the Legislature began to phase out T&E, and only generated revenue for schools based on teachers' education and experience as of the 1996-97 school year. As teachers leave a district, they are replaced with new teachers, who do not generate revenue for the district. Therefore, over time, T&E generated declining resources for schools. Finally, with less than \$160,000 projected to be generated statewide in FY 2012, the Legislature repealed the component outright. The repeal of this component generated \$319,000 of savings in FY 2012-2013.

Small Schools Revenue

The Legislature added a new small schools revenue component to the general education formula effective in FY 2013. School districts with fewer than 1,000 pupil units are eligible. Charter schools are not eligible. The revenue is equal to ten percent of the FY 2013 formula allowance, times the ratio of 1,000, minus the district's pupil units for that year, divided by 1,000. This component increases the general education appropriation by \$9.6 million in FY 2013. Because the component is shifted on the 60/40 schedule, this appropriation is depressed because only 60 percent of the entitlement is appropriated in FY 2013 and, as a new component, there is no prior year payment included in the appropriation.

Contract Penalty Deadline

The Legislature repealed the contract deadline and penalty. This law required that by January 15 of an even-numbered calendar year, a public employer and the exclusive representative of the teachers must both sign a collective bargaining agreement for the next contract period. If the January 15 deadline was not met, the Department of Education (MDE) was required to impose a penalty of \$25 for every pupil unit in the district. That penalty was automatically deducted from the districts aid payments. Based on historical trends, MDE calculated a savings to education appropriations of \$700,000 each biennium associated with the \$25 penalty. This savings was built into the forecast for each biennium. As a result, by repealing this penalty, the Legislature increased general education appropriations to schools by \$700,000 in FY 2012-2013.

Focus on Literacy

During the 2011 session, the Legislature received testimony that without the ability to read, students would have ever-increasing difficulty learning throughout their educational careers. To bolster its focus on reading, the Legislature modified the state's literacy goal, created a new funding formula, and enhanced an existing program. These resources are intended to improve reading among students at younger grades.

The Legislature enhanced the State's Literacy Goal to have each child reading at or above grade level by the end of third grade. The legislation requires schools to have a literacy plan that includes identifying students not on track to reach the goal, notifying parents, an intervention strategy, and a staff development program that incorporates the five areas of comprehensive, scientifically-based reading instruction.

Literacy Incentive Aid

Beginning in FY 2013, the Legislature appropriated \$29.1 million for a new formula called Literacy Incentive Aid (LIA). LIA was established to reward schools for their students' reading proficiency and reading growth. LIA is a program that is shifted on the 60/40 payment shift schedule. Therefore, the appropriation understates its overall value. In FY 2013, the program has an entitlement of \$48.7 million. The program will carry appropriations of \$99.1 million in the FY 2014-2015 biennium.

The LIA formula has two components, proficiency and growth, to recognize that reading performance can be measured as an absolute performance level, as well as growth over a prior year. The proficiency aid component is generated by multiplying the percentage of kids that are proficient on the reading portion of the third grade Minnesota Comprehensive Assessment, times an \$85 allowance and the school's enrollment. The growth aid is generated by multiplying the percentage of students at the school making medium or high growth on the fourth grade reading Minnesota Comprehensive Assessment, times an \$85 allowance and the school's enrollment. In order to reduce large swings, the data to determine the proficiency and growth is averaged across three test administrations.

Revenue for both components is generated at a school site and then summed up and distributed to each district. Overall, proficiency and growth components of the LIA formula act as a proxy for the entire district's performance. While the funds are generated based on literacy

performance in 3rd and 4th grades, the funds are intended to be used by the entire district and the use of the revenue is not restricted. It may be used at the discretion of the district.

Early Childhood Literacy

The Legislature increased the appropriation to support AmeriCorps members serving in the Minnesota Reading Corps Program. The Legislature appropriated \$8.2 million in FY 2012-2013, an increase of \$5.5 million over the prior biennium. This appropriation is intended to help meet the state's Literacy Goal.

Compensatory Pilot Project Formula Aid

The Legislature established a onetime funding stream in FY 2013 for school districts that have large numbers of students who generate compensatory revenue under the general education program, but where the students are not concentrated at specific school sites. (Concentration of free and reduced lunch students is a factor that drives increased levels of the ongoing compensatory revenue program.) The 20 largest school districts, based on their pupil unit count, are eligible for funding under this program. Funding is determined as \$1,400, times the number of compensatory pupil units in the district, minus the compensatory education revenue received by the district in the general education program. This program is shifted under the payment schedule, so the total appropriation in FY 2013 is \$9.8 million. In FY 2014, there will be a prior year payment of \$6.5 million.

OTHER FISCAL PROVISIONS

In addition to the aid payment shift and changes in the general education program, the Legislature made several other changes to fiscal provisions. These changes included:

- Eliminating the grandfather provision in the Charter School Lease Aid Program in FY 2013. This provision, which allowed certain charter schools to receive higher lease aid payments, was eliminated and puts all charter schools on an equal footing with respect to this formula. This change saves \$927,000 in FY 2013.
- Eliminating the charter school startup aid in FY 2013. In FY 2012, charter schools that began receiving startup aid in FY 2011 will receive their second year of funding. However, charter schools in their first year will not receive startup aid in FY 2012. In FY 2013, the program will be eliminated. This change saves \$1.8 million in FY 2012-2013.
- Repealing the Integration Revenue Program, effective in FY 2014. The repeal of the program remains a work in progress. In the 2011 session, the Legislature established an advisory task force to study and make recommendations on how the integration revenue will be spent in FY 2014 and later. The Legislature provided that the base state aid in FY 2014-2015 from the old Integration Revenue Program will be set aside

for use in the new program, which will be determined by the task force and the Legislature during the 2012 session. While the Integration Revenue Program was repealed, there is no savings from this effort because the repealed funding has been set aside for a new program to be designed in the future.

- Appropriating \$4 million in FY 2012 to the Minnesota Department of Education for grants to Early Childhood Education Scholarships. Parents of three or four-year-old children are eligible for the scholarships, if the parent or legal guardian has income equal to or less than 47 percent of the state median income in the current calendar year, or can document their child's identification through another public funding eligibility process. Parents of eligible children may use the scholarships for public or private early childhood preschool programs. The base for this program is established at \$2 million per year in FY 2014 and later.
- Reducing the Department of Education's (MDE) operating budget by five percent each year. This reduced the MDE's General Fund operating budget by \$1.9 million for FY 2012-2013. The reduction was carried forward into the base budget for the FY 2014-2015.
- Reducing the Faribault Academies' budget by 2.6 percent in FY 2012-2013. The Faribault Academies proposed converting its cafeteria and nutrition services to a contract rather than providing these services "in house." This proposal coincided with the retirement of several Faribault Academy employees so the savings can be taken without staff layoffs. This proposal saves \$618,000.
- Reducing the Perpich Center for Arts Education budget by five percent each year. This reduced the Perpich Center's budget by \$708,000 for FY 2012-2013. The reduction was carried forward into the base budget for the FY 2014-2015.
- Repealing the ability of the Commissioner of Management and Budget to temporarily withhold state aid payments to school districts within a fiscal year to improve the state's cash flow. There is no budget savings associated with its repeal.

For questions regarding this Section or for more information on the fiscal aspects of Elementary and Secondary Education, please contact eric.nauman@senate.mn.

HIGHER EDUCATION

First Special Session Chapter 5, the Omnibus Higher Education Budget Act, appropriated \$2.6 billion to support higher education for the FY 2012-2013 biennium, a \$351.1 million (12.0 percent) reduction from the FY 2012-2013 forecast base. The amount appropriated was an 8.8 percent reduction from the FY 2010-2011 funding level. Funding for the University of Minnesota was reduced by \$193.6 million (15.1 percent), and funding for the Minnesota State Colleges and Universities (MnSCU) was reduced by \$169.9 million (13.5 percent), from the forecast base. Funding for the Office of Higher Education was increased by 3.4 percent from the forecast base. Funding for the Mayo Medical Foundation remained at the base level. Changes from FY 2010-2011 are summarized in Table 1.

The Legislature appropriated \$220.4 million for assorted capital improvement projects at University of Minnesota and MnSCU campuses. Of the total amount, \$88.8 million was appropriated to the University of Minnesota, and \$131.6 million to MnSCU. Of the appropriation to MnSCU, \$34 million is user-financed.

Table 1					
Higher Education					
All Funds Biennial Spending by Agency & Fund					
<i>(dollars in thousands)</i>					
Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fest. Base
Office of Higher Education**					
General Fund	372,232	368,874	381,396	9,164	12,522
Federal Fund	12,261	13,350	13,350	1,089	
Special Revenue Fund	1,732	1,286	1,286	(446)	
Transfer Out	(274)			274	
Total for Office of Higher Education	385,951	383,510	396,032	10,081	12,522
Minnesota State Colleges and Universities (MnSCU)					
General Fund	1,219,663	1,260,702	1,090,731	(128,932)	(169,971)
Environment and Natural Resources Fund	23		120	97	120
Total for Minnesota State Colleges and Universities	1,219,686	1,260,702	1,090,851	(128,835)	(169,851)
University of Minnesota					
General Fund	1,217,008	1,284,302	1,090,688	(126,320)	(193,614)
Clean Water Fund	1,055			(1,055)	
Environment and Natural Resources Fund	9,576		4,127	(5,449)	4,127
Federal Fund (ARRA)	89,323			(89,323)	
Health Care Access Fund	4,314	4,314	4,314		
Parks and Trail Fund	400			(400)	
Special Revenue Fund	44,593	44,686	44,686	93	
Total for University of Minnesota	1,366,269	1,333,302	1,143,815	(222,454)	(189,487)

Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Mayo Medical Foundation					
General Fund	2,651	2,702	2,702	51	
Total Mayo Medical Foundation	2,651	2,702	2,702	51	
Totals by Fund					
General Fund	2,811,554	2,916,580	2,565,517	(246,037)	(351,063)
Transfer Out	(274)			274	
Clean Water Fund	1,055			(1,055)	
Environment and Natural Resources Fund	9,599		4,247	(5,352)	4,247
Federal Fund	101,584	13,350	13,350	(88,234)	
Health Care Access Fund	4,314	4,314	4,314		
Parks and Trail Fund	400			(400)	
Special Revenue Fund	46,325	45,972	45,972	(353)	
Total for Higher Education	2,974,557	2,980,216	2,633,400	(341,157)	(346,816)
* As adjusted by FY 2011 changes made by the 2011 Legislature.					
** General fund spending for FY 2010-11 excludes \$2.663 million for the Minnesota GI Bill Program carried in the State Government Innovation and Veterans Bill.					

A detailed analysis of General Fund changes compared to the forecast is presented in Table 2.

Change Item	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Office of Higher Education*						
Agency Administration	(131)	(132)	(263)	(132)	(132)	(264)
State Grant Program	10,486	10,487	20,973	10,487	10,487	20,974
<i>Other Financial Aid Programs</i>						
Achieve Scholarships	(2,350)	(2,350)	(4,700)	(2,350)	(2,350)	(4,700)
American Indian Scholarship	(150)	(150)	(300)	(150)	(150)	(300)
Child Care Grants	0	0	0	0	0	0
Interstate Tuition Reciprocity	0	0	0	0	0	0
Public Safety Officer's Survivor Program	0	0	0	0	0	0
State Work Study	(442)	(442)	(884)	(442)	(442)	(884)
<i>Student Academic Support Programs</i>						
Get Ready Outreach	(4)	(4)	(8)	(4)	(4)	(8)
Intervention for College Attendance Program	(75)	(75)	(150)	(75)	(75)	(150)
Midwest Higher Education Compact	0	0	0	0	0	0
Minnesota College Savings Program	(350)	(700)	(1,050)	(700)	(700)	(1,400)

Change Item	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Minnesota Minority Education Partnership	(3)	(3)	(6)	(3)	(3)	(6)
MINITEX Library Services	(406)	(406)	(812)	(406)	(406)	(812)
MnLINK Gateway	(20)	(20)	(40)	(20)	(20)	(40)
Student and Parent Information	(3)	(3)	(6)	(3)	(3)	(6)
United Family Practice	(116)	(116)	(232)	(116)	(116)	(232)
Office of Higher Education Total	6,436	6,086	12,522	6,086	6,086	12,172
Minnesota State Colleges and Universities (MnSCU)						
Operations and Maintenance	(72,625)	(72,626)	(145,251)	(72,626)	(72,626)	(145,252)
Central Office	(11,675)	(11,675)	(23,350)	(11,675)	(11,675)	(23,350)
Learning Network	(685)	(685)	(1,370)	(685)	(685)	(1,370)
MnSCU Total	(84,985)	(84,986)	(169,971)	(84,986)	(84,986)	(169,972)
University of Minnesota						
Operations and Maintenance	(94,489)	(94,489)	(188,978)	(94,489)	(94,489)	(188,978)
Agriculture and Extension	(2,688)	(2,688)	(5,376)	(2,688)	(2,688)	(5,376)
Health Sciences Special	249	249	498	249	249	498
Institute of Technology	(71)	(71)	(142)	(71)	(71)	(142)
System Special	(317)	(317)	(634)	(317)	(317)	(634)
U-Mayo Partnership	509	509	1,018	509	509	1,018
University of Minnesota Total	(96,807)	(96,807)	(193,614)	(96,807)	(96,807)	(193,614)
Mayo Medical Foundation	0	0	0	0	0	0
Mayo Medical School	0	0	0	0	0	0
Mayo Family Residency	0	0	0	0	0	0
Mayo Total	0	0	0	0	0	0
Net Changes	(175,356)	(175,707)	(351,063)	(175,707)	(175,707)	(351,414)
* General fund spending for FY 2010-11 excludes \$2.663 million for the Minnesota GI Bill Program carried in the State Government Innovation and Veterans Bill.						

OFFICE OF HIGHER EDUCATION

Chapter 5 appropriated \$381.4 million to the Office of Higher Education, including \$309.2 million for the State Grant Program, which provides need-based financial aid to Minnesota resident undergraduate students. Funding level changes for each program are depicted in Table 2.

State Grant Program

Funding for the State Grant Program was increased by \$20.9 million for the 2012-2013 biennium. For FY 2012-2013, the tuition and fee maximum for students in four-year programs and two-year programs, and living and miscellaneous expense allowance (LME), remained at the FY 2010-2011 formula amounts.

Other Financial Aid and Academic Support Programs

Funding for the Achieve Scholarship Program, which has both a need and merit component, was eliminated to provide money to fund an anticipated shortfall in the State Grant Program.

Funding for Child Care Grants, Interstate Tuition Reciprocity, the Public Safety Officer's Survivor Program, and the Midwest Higher Education Compact were at the FY 2012-2013 forecast levels. Funding for all other financial aid and student academic support programs were reduced in amounts ranging from two to 25 percent. Beginning in fiscal year 2013, matching grants for income-eligible families participating in the Minnesota College Savings Program will no longer be available to program participants.

MINNESOTA STATE COLLEGES AND UNIVERSITIES (MnSCU)

The Legislature appropriated \$1.1 billion to the Minnesota State Colleges and Universities for the 2012-2013 biennium. Allocation of the appropriation was as follows:

- \$508.2 million each year for operations and maintenance;
- \$33.1 million each year for the Central Office; and
- \$4.1 million each year for the Learning Network of Minnesota.

The FY 2012-2013 appropriation is a \$169.9 million (13.5 percent) reduction from the FY 2012-2013 forecasted base, and \$128.9 million (10.6 percent) reduction from FY 2010-2011 spending.

One percent of MnSCU's FY 2013 appropriation is set aside, and will be released, when MnSCU has met three of five performance goals set for the system. Goals included:

- (1) increasing the number of graduates, or degrees, diplomas, and certificates conferred;
- (2) increasing the number of students of color enrolled at MnSCU institutions;
- (3) increasing the number of students taking online or blended courses, or the number of online and blended sections;
- (4) increasing student persistence and completion rates; and
- (5) decreasing energy consumption.

Under the provisions of the bill, the tuition rate increase for resident undergraduates at MnSCU two-year institutions must not exceed four percent for the fiscal year ending June 30, 2013.

UNIVERSITY OF MINNESOTA

The Legislature appropriated \$1.1 billion to the University of Minnesota for the 2012-2013 biennium. Allocation of the appropriation was as follows:

- \$483.9 million each year for operations and maintenance;
- \$2.2 million each year for primary care education initiatives;

- \$42.9 million each year for Agriculture and Extension Services;
- \$4.9 million each year for Health Sciences;
- \$1.1 million each year for the Institute of Technology;
- \$5.1 million each year for system specials; and
- \$7.5 million each year for the University of Minnesota/Mayo Partnership.

The FY 2012-2013 appropriation is a \$193.6 million (15.1 percent) reduction from the FY 2012-2013 forecasted base, and \$126.3 million (10.4 percent) reduction from FY 2010-2011 spending.

One percent of the University's FY 2013 appropriation is set aside, and will be released, when the University has met three of five performance goals set for the system. Goals included:

- (1) increasing the amount of student financial aid;
- (2) producing at least 13,500 total degrees systemwide in FY 2012;
- (3) increasing the four-year and six-year undergraduate graduation rate on the Twin Cities campus;
- (4) increasing total research and development expenditures; and
- (5) increasing sponsored funding from business and industry.

MAYO MEDICAL FOUNDATION

The Legislature appropriated \$2.7 million to the Mayo Medical Foundation to support the training of physicians.

RELATED POLICY PROVISIONS

Other noteworthy provisions included:

- encouraging both the University of Minnesota and MnSCU to offer students a tuition guarantee program;
- directing the Office of Higher Education to conduct a study of graduate education at for-profit institutions in the state; and
- directing MnSCU to include information about assorted transfer issues in the report it submits to the Legislature annually.

For questions regarding this Section or for more information on the fiscal aspects of Higher Education, please contact maja.weidmann@senate.mn.

HEALTH AND HUMAN SERVICES

The February 2011 Forecast projected an all funds biennial budget of \$27.8 billion for Health and Human Services (HHS) in the FY 2012-2013 biennium, with the General Fund spending estimated at \$12.3 billion.

As Table 1 illustrates, in the 2011 First Special Session, the Legislature enacted a budget bill for the FY 2012-2013 biennium that increased all funds spending by \$2.6 billion compared to the previous biennium, but reflects a \$1.2 billion reduction when compared to the February Forecast for FY 2012-2013. General Fund spending increased by \$2.8 billion compared with FY 2010-2011, but was \$965.6 million less than the February forecasted spending in FY 2012-2013.

The Health Care Access Fund (HCAF) spending was reduced by \$396.3 million from the 2010-2011 biennium, and reduced by \$267.2 million from the February 2011 Forecast. Other changes of note include a reduction of \$66.5 million from the Medical Education & Research Cost (MERC) Fund compared to FY 2010-2011, and \$66.5 million compared to the February 2011 forecast.

Table 1 Health and Human Services Biennial Spending by Agency & Fund All Funds FY 2012-13 <i>(dollars in thousands)</i>					
	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010- 11	Change: Enacted – Fcst. Base
<u>Totals by Agency</u>					
Department of Human Services	22,785,023	26,607,884	25,474,319	2,689,296	(1,133,565)
Department of Health	1,104,152	1,099,356	1,055,407	(48,745)	(43,949)
Health Related Boards	28,939	29,552	35,555	6,616	6,003
Emergency Medical Services Board	12,808	11,080	9,644	(3,164)	(1,436)
Council on Disability	1,511	1,119	1,119	(392)	
Ombudsman for MH/DD	3,310	3,310	3,310		
Ombudsperson for Families	771	791	791	20	
Total by Agency	23,936,514	27,753,092	26,580,145	2,643,631	(1,172,947)
<u>Totals by Fund</u>					
General Fund	8,575,672	12,337,837	11,372,201	2,796,529	(965,636)
General Fund Transfers Out	(334,406)	(243,725)	(227,973)	106,433	15,752
State Government Special Revenue Fund	118,259	122,783	134,120	15,861	11,337
Health Care Access Fund	1,119,488	990,317	723,141	(396,347)	(267,176)
Special Revenue Fund	1,091,271	796,185	796,225	(295,046)	40
Environment & Natural Resources Fund	594			(594)	
Federal Fund	12,732,777	13,165,160	13,274,120	541,343	108,960
Federal TANF Fund	455,008	414,180	394,840	(60,168)	(19,340)
Environmental Fund	190	114	114	(76)	

	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010- 11	Change: Enacted – Fcst. Base
Remediation Fund	504	504	504		
Clean Water Fund	3,750		6,038	2,288	6,038
Medical Educ & Research Cost Fund	172,942	169,372	106,450	(66,492)	(62,922)
Gift Fund	465	363	363	(102)	
Endowment Fund		2	2	2	
Total by Fund	23,936,514	27,753,092	26,580,145	2,643,631	(1,172,947)
See Appendix B for detail on Changes by Fund for each Agency.					

GENERAL FUND CHANGE SUMMARY

As summarized in Table 2, General Fund spending for the Department of Human Services (DHS) was reduced by just over \$1.0 billion for FY 2012-2013. Compared to the forecast base, spending on continuing care programs was reduced by \$144.6 million, economic supports by \$118.4 million, and health care programs by \$743.0 million, with relatively minor reductions in state-operated services and administrative operations.

Table 2 also shows a reduction in Department of Health General Fund spending of roughly \$28.0 million for FY 2012-2013.

	FY 2012	FY 2013	FY 2012- 2013	FY 2014	FY 2015	FY 2014- 2015
Department of Human Services						
Continuing Care Change Items	(52,134)	(92,427)	(144,561)	(146,015)	(200,098)	(346,113)
Economic Support Change Items	(48,873)	(69,507)	(118,380)	(56,925)	(56,318)	(113,243)
State-Operated Services Changes	1,512	(2,171)	(659)	1,011	(46)	965
Health Care Programs Changes	(190,560)	(552,486)	(743,046)	(560,322)	(782,311)	(1,342,633)
Administration Changes	(3,000)	(3,000)	(6,000)	(3,000)	(3,000)	(6,000)
Department of Human Services	(293,055)	(719,591)	(1,012,646)	(765,251)	(1,041,773)	(1,807,024)
Department of Health	(21,381)	(6,603)	(27,984)	(1,415)	(6,608)	(8,023)
Total HHS Spending Changes	(314,436)	(726,194)	(1,040,630)	(766,666)	(1,048,381)	(1,815,047)
See Appendix C for detail of spending change items.						

Other areas of the HHS budget with General Fund dollars did not see any change to their FY 2012-2013 General Fund budget. These areas include the Emergency Medical Services Board, the Council on Disability, the Ombudsman for Mental Health/Developmental Disabilities (MH/DD), and the Ombudsperson for Families. Detailed General Fund information can be found in Appendix C.

DEPARTMENT OF HUMAN SERVICES

As shown in Table 1, the General Fund total for all HHS programs in the February 2011 Forecast was \$12.3 billion, a \$3.8 billion increase from the FY 2010-2011 General Fund total. The Legislature enacted General Fund changes in HHS programs and funding resulting in a reduction from the February Forecast of approximately \$965.6 million for FY 2012-2013. Details of the various program changes outlined below can be found in Appendices B and C. Below is a description of major changes to programs within the Department of Human Services:

Continuing Care Program Changes

The Legislature's continuing care General Fund focus was on controlling long-term care costs. This was accomplished by limiting the number of new disability waiver enrollees (a \$48.1 million reduction in FY 2012-2013); modifying long-term care provider rates (a \$43.9 million reduction); and changing the rates for personal care assistants caring for relatives (a \$24.1 million reduction), among other changes. The only continuing care area with a significant increase was related to level of care changes in nursing facilities to comply with federal law. The overall reduction to the continuing care General Fund FY 2012-2013 budget was approximately \$144.6 million.

Economic Support Changes

General Fund reductions to economic support programs totaled \$118.4 million in the FY 2012-2013 budget. These included a variety of grant reductions, as well as the refinancing of TANF dollars. Increases in the General Fund economic support program area include adoption/relative custody assistance grants and slight modifications to the Minnesota Food Assistance Program and Electronic Benefit Transfer card changes.

Health Care Changes

The bulk of the changes to the DHS General Fund budget in FY 2012-2013 were in health care, accounting for \$743.0 million of the fund's roughly \$1.0 billion reduction, and just over half of these changes (\$387.5 million) were seen in managed care reforms.

One of these reforms is providing funds to MinnesotaCare enrollees in order to purchase private insurance. The Healthy Minnesota Contribution Program was created for MinnesotaCare enrollees without children with incomes above 200 percent of the Federal Poverty Guidelines, and provided a payment to the enrollee for the purchase of private insurance.

Other enacted changes included reducing payments to managed care plans and limiting future rate increases, as well as requiring persons with disabilities to enroll in a managed care plan with the ability to opt out of this requirement. The Commissioner of Human Services was authorized to establish a two-year competitive bidding pilot to insure nonelderly, nondisabled adults and

children currently in Medical Assistance (MA) and MinnesotaCare in the seven-county metropolitan area.

Further, the managed care reforms adopted include requiring as part of the performance targets for managed care plans and county-based purchasing plans a reduction in the plan's emergency room utilization rate of ten percent each year; a reduction in the plan's hospitalization admissions rate by five percent each year; and a reduction in the plan's admission rate for subsequent hospitalizations within 30 days of a previous hospitalization of five percent each year.

Other Programs

As previously stated, relatively minor reductions in DHS's General Fund budget were seen in state-operated services (\$659,000) and administrative operations (\$6.0 million) for FY 2012-2013.

OTHER AGENCIES

The Department of Health General Fund reduction of \$28.0 million in FY 2012-2013 was due primarily to Medical Education and Research Costs (MERC) program funding changes, and agency operating cost reductions. The MERC program compensates clinics and hospitals across Minnesota for providing clinical training for students of various health professions (including doctors, dentists, nurses, and pharmacists).

As stated above, the Emergency Medical Services Board, the Council on Disability, the Ombudsman for MH/DD, and the Ombudsperson for Families did not see any change to their FY 2012-2013 General Fund budget compared to the February 2011 Forecast.

GENERAL FUND TRANSFERS AND REVENUE CHANGES

Table 3 illustrates transfers totaling \$67.7 million into the General Fund from other funds that relate to the HHS budget area, including:

- \$46.9 million transfer from the HCAF in FY 2012-13;
- \$9.8 million MERC fund balance transfer in FY 2012; and
- MERC Direct Grants transfer of \$9.2 million in FY 2012-13.

Additionally, Table 3 shows various nontax revenue changes, including a \$30 million donation increase in FY 2012 and a loss of \$30.9 million in the Prepaid Medical Assistance Plan (PMAP) Waiver, due to a reduction in Disproportionate Share Hospital (DSH) payments for the biennium, among other changes. The net impact of nontax revenue changes is an increase of \$7.2 million in FY 2012-2013.

Table 3
Health and Human Services
General Fund Transfers & Nontax Revenue Changes
FY 2012-13 & FY 2014-15
(dollars in thousands)

	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Transfers from Other Funds/Accounts						
DHS Licensing Fee Revenue to SGSR	2,100	2,100	4,200	2,100	2,100	4,200
Transfer SSI-IAR Carryforward	(2,800)		(2,800)			
Transfer from HCAF	(13,510)	(33,410)	(46,920)	(48,000)	(48,000)	(96,000)
Transfer SOS Special Revenue Balance		(3,200)	(3,200)			
Transfer MERC Fund Balance	(9,800)		(9,800)			
MERC Direct Grants/Redirect Cigarette Tax	(4,613)	(4,613)	(9,226)	(4,613)	(4,613)	(9,226)
Total Transfers-in	(28,623)	(39,123)	(67,746)	(50,513)	(50,513)	(101,026)
Nontax Revenue Changes						
FSET Revenue Enhancement	(500)	(500)	(1,000)	(500)	(500)	(1,000)
Program Integrity Audits	(100)	(125)	(225)	(150)	(150)	(300)
PMAP Waiver Renewal-DSH Revenue Loss	12,242	18,688	30,930	7,410		7,410
Hennepin County IGT Demonstration	(2,000)	(2,000)	(4,000)	(2,000)	(2,000)	(4,000)
Spousal Contribution for LTC		(68)	(68)	(75)	(83)	(158)
Increase MSOP County Share for New Admissions	(500)	(1,516)	(2,016)	(2,534)	(3,591)	(6,125)
Donation	(30,000)		(30,000)			
MSOP Cost of Care Offset	(285)	(584)	(869)	(584)	(584)	(1,168)
Total Nontax Revenues	(21,143)	13,895	(7,248)	1,567	(6,908)	(5,341)
Total Revenue Changes	(49,766)	(25,228)	(74,994)	(48,946)	(57,421)	(106,367)

For questions regarding this Section or for more information on the fiscal aspects of Health and Human Services, please contact david.lobejko@senate.mn or dennis.albrecht@senate.mn.

AGRICULTURE AND RURAL ECONOMIES

Total appropriations for the Agriculture and Rural Economies budget area are \$178.3 million from all funds for FY 2012-2013, a 3.3 percent increase over the previous biennium. General Fund appropriations decreased by \$10.1 million compared to the previous biennium. As part of the overall budget reductions to help meet the projected General Fund budget deficit, appropriations were reduced by \$12.8 million, or 14.0 percent compared to the base budget. The Agriculture and Rural Economies Budget Bill was the only budget bill that was signed into law in the Regular Session (Chapter 14).

Table 1 Agriculture & Rural Economies All Funds Biennial Spending by Agency & Fund <i>(dollars in thousands)</i>					
Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fest. Base
Department of Agriculture					
General Fund	70,841	73,638	61,633	(9,208)	(12,005)
General Fund Transfers Out	(607)			607	
Agricultural Fund	43,062	48,638	48,879	5,817	241
Special Revenue Fund	10,308	9,994	9,994	(314)	
Remediation Fund	4,336	4,776	4,776	440	
Gift Fund	111	66	66	(45)	
<u>Federal Funds</u>	<u>16,571</u>	<u>17,098</u>	<u>17,118</u>	<u>547</u>	<u>20</u>
Subtotal for Dept of Ag:	144,622	154,210	142,466	(2,156)	(11,744)
<i>Dedicated/Constitutional Funds</i>					
Environment & Natural Resources Trust Fund			500	500	500
Outdoor Heritage Fund	2,000			(2,000)	
Arts & Cultural Heritage Fund			2,800	2,800	2,800
<u>Clean Water Fund</u>	<u>6,703</u>		<u>15,400</u>	<u>8,697</u>	<u>15,400</u>
<i>Subtotal Dedicated/Const. Funds:</i>	<u>8,703</u>		<u>18,700</u>	<u>9,997</u>	<u>18,700</u>
Total Dept. of Agriculture	153,325	154,210	161,166	7,841	6,956
Animal Health Board					
General Fund	10,320	10,192	9,682	(638)	(510)
Special Revenue Fund	1,218	90	90	(1,128)	
Federal Funds	2,251	2,084	2,084	(167)	
Total Animal Health Board	13,789	12,366	11,856	(1,933)	(510)
Agriculture Utilization Research Inst.					
General Fund	5,566	5,566	5,286	(280)	(280)

Agency	FY 2010-11 Spending*	FY 2012- 13 Forecast Base	FY 2012- 13 Enacted Budget	Change: Enacted – FY 2010- 11	Change: Enacted – Fcst. Base
Totals by Fund					
General Fund	86,727	89,396	76,601	(10,126)	(12,795)
General Fund Transfers Out	(607)			607	
Agricultural Fund	43,062	48,638	48,879	5,817	241
Special Revenue Fund	11,526	10,084	10,084	(1,442)	
Remediation Fund	4,336	4,776	4,776	440	
Gift Fund	111	66	66	(45)	
<u>Federal Funds</u>	<u>18,822</u>	<u>19,182</u>	<u>19,202</u>	<u>380</u>	<u>20</u>
Subtotal for Regular Funds:	163,977	172,142	159,608	(4,369)	(12,534)
<i>Dedicated/Constitutional Funds</i>					
Environment & Natural Resources Trust Fund			500	500	500
Outdoor Heritage Fund	2,000			(2,000)	
Clean Water Fund	6,703		15,400	8,697	15,400
<u>Arts & Cultural Heritage Fund</u>			<u>2,800</u>	<u>2,800</u>	<u>2,800</u>
<i>Subtotal Dedicated/Const. Funds:</i>	<i>8,703</i>		<i>18,700</i>	<i>9,997</i>	<i>18,700</i>
Total for Budget Area	172,680	172,142	178,308	5,628	6,166
* As adjusted by FY 2011 changes made by the 2011 Legislature.					

Department of Agriculture

The total FY 2012-2013 budget for the Department of Agriculture is \$161.2 million, which is five percent higher than the previous biennium's spending of \$153.3 million. Despite the General Fund reduction of \$12.8 million, the Department's overall budget increased when compared to the forecast base, mostly due to appropriations from the constitutionally dedicated funds, which were not part of the forecast base (Clean Water Fund and Arts and Cultural Heritage Fund).

In Chapter 14, the Legislature made a number of small General Fund budget reductions throughout the agency, totaling just over \$2.0 million for the biennium. There were \$1.7 million of new General Fund initiatives, including \$770,000 of onetime spending to increase inspections for anhydrous ammonia and for retail food.

Much of the General Fund savings came from the expiring ethanol producer payment program. The final payments totaling \$13.1 million will go out in FY 2012. Under current law, the ongoing base budget for the program of \$14.7 million per year is to be used for renewable energy grants or livestock development grants (AGRI Program). The Legislature reduced the amount available for grants in FY 2013 by \$12.4 million, but also designated \$2.6 million for the Next Generation Board for renewable energy grants. Looking ahead to FY 2014 and later, there will be \$10.2 million annually available for the AGRI Program.

Board of Animal Health

The total FY 2012-2013 budget for the Board of Animal Health is \$11.9 million, a \$1.9 million decrease from the previous biennium. However, compared to the base budget, the board's budget is reduced by \$510,000, or a 4.1 percent reduction.

Agricultural Utilization Research Institute

The total FY 2012-2013 budget for the Agricultural Utilization Research Institute (AURI) is \$5.3 million, which is a \$280,000, or five percent, reduction from the previous biennium and the base budget. AURI's entire state budget is from the General Fund.

Table 2						
Agriculture & Rural Economies						
General Fund Changes Compared to Forecast						
<i>(dollars in thousands)</i>						
Change Item	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Department of Agriculture						
Protection Services Reductions	(399)	(399)	(798)	(399)	(399)	(798)
Promotions & Marketing Reductions	(561)	(561)	(1,122)	(561)	(561)	(1,122)
Anhydrous Ammonia Inspections	280		280			
Retail Food Handler Inspections	245	245	490			
Excess Ethanol Producer Payments	(986)		(986)			
AGRI Program Grant Reductions		(12,417)	(12,417)	(4,471)	(4,471)	(8,942)
NextGen Energy Grants	2,600		2,600			
Agriculture in the Classroom	100	100	200	100	100	200
Center for Rural Policy		100	100			
<u>Administrative Reduction</u>	<u>(56)</u>	<u>(56)</u>	<u>(112)</u>	<u>(56)</u>	<u>(56)</u>	<u>(112)</u>
Subtotal Spending Changes	1,223	(12,988)	(11,765)	(5,387)	(5,387)	(10,774)
<u>Transfer Dedicated Fees out of GF</u>	<u>(120)</u>	<u>(120)</u>	<u>(240)</u>	<u>(120)</u>	<u>(120)</u>	<u>(240)</u>
Department of Agriculture Total	1,103	(13,108)	(12,005)	(5,507)	(5,507)	(11,014)
Animal Health Board						
Operations Reduction	(255)	(255)	(510)	(255)	(255)	(510)
Agriculture Utilization Research Inst.						
Operations Reduction	(140)	(140)	(280)	(140)	(140)	(280)
Total Spending Changes	708	(13,503)	(12,795)	(5,902)	(5,902)	(11,804)
Department of Agriculture						
Transfer Dedicated Fees out of GF	(120)	(120)	(240)	(120)	(120)	(240)
Total Revenue Changes	(120)	(120)	(240)	(120)	(120)	(240)
Net Changes (if different from total spending)	828	(13,383)	(12,555)	(5,782)	(5,782)	(11,564)

For questions regarding this Section or for more information on the fiscal aspects of Agriculture and Rural Economies, please contact daniel.mueller@senate.mn.

ENVIRONMENT, ENERGY, AND COMMERCE

Total appropriations for the Environment, Energy, and Natural Resources budget area are \$1.945 billion for FY 2012-2013, a 9.1 percent decrease compared to the FY 2010-2011 biennium. The decrease is due mainly to a decrease in General Fund appropriations of \$59.3 million, and decrease of funds from the federal economic stimulus package (\$113 million less than the previous biennium). As part of the overall budget reductions to help meet the projected General Fund budget shortfall, appropriations were reduced by \$40.8 million, or 13.9 percent compared to the base budget. Compared to the prior biennium, General Fund appropriations for the budget area decreased by just over 19 percent.

Table 1 Environment, Energy & Natural Resources All Funds Biennial Spending by Agency & Fund <i>(dollars in thousands)</i>					
Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fest. Base
Pollution Control Agency					
General Fund	18,319	17,016	10,138	(8,181)	(6,878)
General Fund Transfers Out	(14)			14	
State Govt. Special Revenue Fund	100	100	154	54	54
Special Revenue Fund	44,636	43,513	43,513	(1,123)	
Environmental Fund	125,129	124,026	127,260	2,131	3,234
Remediation Fund	81,409	58,188	62,346	(19,063)	4,158
Gift Fund	2,780			(2,780)	
<u>Federal Funds</u>	<u>60,223</u>	<u>53,335</u>	<u>53,335</u>	<u>(6,888)</u>	
Subtotal for PCA:	332,582	296,178	296,746	(35,836)	568
<i>Dedicated/Constitutional Funds</i>					
Environment & Natural Resources Trust Fund	811			(811)	
<u>Clean Water Fund</u>	<u>47,105</u>		<u>47,770</u>	<u>665</u>	<u>47,770</u>
Subtotal Dedicated/Const. Funds:	47,916		47,770	(146)	47,770
Total Pollution Control Agency	380,498	296,178	344,516	(35,982)	48,338
Department of Natural Resources					
General Fund	183,377	174,443	144,434	(38,943)	(30,009)
General Fund Transfers Out	(43)			43	
Natural Resources Fund	161,635	160,977	183,110	21,475	22,133
Game and Fish Fund	199,588	195,057	199,270	(318)	4,213
Special Revenue Fund	53,771	48,673	48,673	(5,098)	
Permanent School Fund	475	408	408	(67)	

Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fest. Base
Remediation Fund	1,371	962	962	(409)	
Gift Fund	3,255	3,196	3,196	(59)	
<u>Federal Funds</u>	<u>52,131</u>	<u>57,289</u>	<u>60,954</u>	<u>8,823</u>	<u>3,665</u>
Subtotal for DNR:	655,560	641,005	641,007	(14,553)	2
<i>Dedicated/Constitutional Funds</i>					
Minnesota Resources Fund	133			(133)	
Environment & Natural Resources Trust Fund	38,664		38,853	189	38,853
Outdoor Heritage Fund	126,462		70,576	(55,886)	70,576
Clean Water Fund	18,385		20,720	2,335	20,720
<u>Parks & Trails Fund</u>	<u>36,901</u>		<u>46,233</u>	<u>9,332</u>	<u>46,233</u>
<i>Subtotal Dedicated/Const. Funds:</i>	<i>220,545</i>		<i>176,382</i>	<i>(44,163)</i>	<i>176,382</i>
Total Department of Natural Resources	876,105	641,005	817,389	(58,716)	176,384
Met Council - Regional Parks					
General Fund	7,208	7,140	5,740	(1,468)	(1,400)
<u>Natural Resources Fund</u>	<u>10,440</u>	<u>10,740</u>	<u>11,340</u>	<u>900</u>	<u>600</u>
Subtotal for Metro Parks:	17,648	17,880	17,080	(568)	(800)
<i>Dedicated/Constitutional Funds</i>					
Env & Natural Resources Trust Fund	1,290		2,250	960	2,250
Clean Water Fund	800		1,000	200	1,000
<u>Parks & Trails Fund</u>	<u>27,781</u>		<u>31,904</u>	<u>4,123</u>	<u>31,904</u>
<i>Subtotal Dedicated/Const. Funds:</i>	<i>29,871</i>		<i>35,154</i>	<i>5,283</i>	<i>35,154</i>
Total Met Council - Regional Parks	47,519	17,880	52,234	4,715	34,354
Minnesota Conservation Corps					
General Fund	910	910	612	(298)	(298)
<u>Natural Resources Fund</u>	<u>980</u>	<u>980</u>	<u>980</u>		
Total MN Conservation Corps	1,890	1,890	1,592	(298)	(298)
Board of Water & Soil Resources					
General Fund	32,832	27,960	25,124	(7,708)	(2,836)
Special Revenue Fund	13,176	13,714	13,714	538	
<u>Federal Funds</u>	<u>4,946</u>	<u>1,168</u>	<u>1,168</u>	<u>(3,778)</u>	
Subtotal for BWSR:	50,954	42,842	40,006	(10,948)	(2,836)
<i>Dedicated/Constitutional Funds</i>					

Agency	FY 2010-11 Spending*	FY 2012- 13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fest. Base
Environment & Natural Resources Trust Fund	6,116		3,857	(2,259)	3,857
Outdoor Heritage Fund	15,953		15,249	(704)	15,249
<u>Clean Water Fund</u>	<u>39,322</u>		<u>55,068</u>	<u>15,746</u>	<u>55,068</u>
<i>Subtotal Dedicated/Const. Funds:</i>	<i>61,391</i>		<i>74,174</i>	<i>12,783</i>	<i>74,174</i>
Total Board of Water & Soil Resources	112,345	42,842	114,180	1,835	71,338
Minnesota Zoo					
General Fund	12,674	12,462	10,862	(1,812)	(1,600)
Natural Resources Fund	320	320	320		
Special Revenue Fund	26,626	28,248	28,814	2,188	566
<u>Gift Fund</u>	<u>4,768</u>	<u>4,512</u>	<u>4,512</u>	<u>(256)</u>	
Subtotal for MN Zoo:	44,388	45,542	44,508	120	(1,034)
<i>Dedicated/Constitutional Funds</i>					
Arts & Cultural Heritage Fund	<u>264</u>		<u>3,000</u>	<u>2,736</u>	<u>3,000</u>
<i>Subtotal Dedicated/Const. Funds:</i>	<i>264</i>		<i>3,000</i>	<i>2,736</i>	<i>3,000</i>
Total Minnesota Zoo	44,652	45,542	47,508	2,856	1,966
Legis.-Citizen Comm. on MN Resources					
Environment & Natural Resources Trust Fund	<u>1,254</u>	<u>1,254</u>	<u>949</u>	<u>(305)</u>	<u>(305)</u>
Total LCCMR	1,254	1,254	949	(305)	(305)
Department of Commerce					
General Fund	45,832	42,668	43,430	(2,402)	762
General Fund Transfers Out	(71)			71	
State Govt. Special Revenue Fund	232				
Special Revenue Fund	62,921	62,890	62,890	(31)	
Petroleum Tank Release Cleanup Fund	20,338	16,388	24,776	4,438	8,388
Workers' Compensation Special Fund	1,502	1,502	1,502		
<u>Federal Funds</u>	<u>528,766</u>	<u>418,028</u>	<u>418,028</u>	<u>(110,738)</u>	
Subtotal for Dept of Commerce:	659,520	541,476	550,626	(108,662)	9,150
<i>Dedicated/Constitutional Funds</i>					
Environment & Natural Resources Trust Fund	<u>2,270</u>			<u>2,270</u>	
<i>Subtotal Dedicated/Const. Funds:</i>	<i>2,270</i>			<i>(2,270)</i>	
Total Dept. of Commerce	661,790	541,476	550,626	(110,932)	9,150
Public Utilities Comm.					

Agency	FY 2010-11 Spending*	FY 2012- 13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fest. Base
General Fund	10,866	10,864	12,364	1,498	1,500
Special Revenue Fund	3,499	3,791	3,791	292	
Federal Funds	<u>627</u>	<u>256</u>	<u>256</u>	<u>(371)</u>	
Total Public Utilities Commission	14,992	14,911	16,411	1,419	1,500
Totals by Fund					
General Fund	312,018	293,463	252,704	(59,314)	(40,759)
General Fund Transfers Out State Govt. Special Revenue Fund	(128)			128	
	332	100	154	(178)	54
Special Revenue Fund	204,629	200,829	201,395	(3,234)	566
Environmental Fund	125,129	124,026	127,260	2,131	3,234
Remediation Fund	82,780	59,150	63,308	(19,472)	4,158
Natural Resources Fund	173,375	173,017	195,750	22,375	22,733
Game and Fish Fund	199,588	195,057	199,270	(318)	4,213
Gift Fund	10,803	7,708	7,708	(3,095)	
Permanent School Fund	475	408	408	(67)	
Petroleum Tank Release Cleanup Fund	20,338	16,388	24,776	4,438	8,388
Workers' Compensation Special Fund	1,502	1,502	1,502		
Federal Funds	<u>646,693</u>	<u>530,076</u>	<u>533,741</u>	<u>(112,952)</u>	<u>3,665</u>
Subtotal for Regular Funds:	1,777,534	1,601,724	1,607,976	(169,558)	6,252
<i>Dedicated/Constitutional Funds</i>					
Minnesota Resources Fund	133			(133)	
Environment & Natural Resources Trust Fund	50,405	1,254	45,909	(4,496)	44,655
Outdoor Heritage Fund	142,415		85,825	(56,590)	85,825
Clean Water Fund	105,612		124,558	18,946	124,558
Parks & Trails Fund	64,682		78,137	13,455	78,137
Arts & Cultural Heritage Fund	<u>264</u>		<u>3,000</u>	<u>2,736</u>	<u>3,000</u>
Subtotal Dedicated/Const. Funds:	363,511	1,254	337,429	(26,082)	336,175
Total for Budget Area	2,141,045	1,602,978	1,945,405	(195,640)	342,427
* As adjusted by FY 2011 changes made by the 2011 Legislature.					

Table 2
Environment, Energy & Natural Resources
General Fund Changes Compared to Forecast
(dollars in thousands)

Change Item	FY 2011	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Pollution Control Agency							
Clean Water Partnership Grants		(1,767)	(1,767)	(3,534)	(1,767)	(1,767)	(3,534)
Other Water Programs		(664)	(664)	(1,328)	(664)	(664)	(1,328)
Env. Health & Biomonitoring		(167)	(167)	(334)	(435)	(435)	(870)
<u>Administrative Reduction</u>		<u>(841)</u>	<u>(841)</u>	<u>(1,682)</u>	<u>(841)</u>	<u>(841)</u>	<u>(1,682)</u>
Pollution Control Agency Total							
		(3,439)	(3,439)	(6,878)	(3,707)	(3,707)	(7,414)
Department of Natural Resources							
Lands & Minerals Management		(271)	(271)	(542)	(271)	(271)	(542)
Ecological & Water Management		(2,425)	(2,425)	(4,850)	(2,425)	(2,425)	(4,850)
Forest Management		(3,257)	(3,257)	(6,514)	(3,257)	(3,257)	(6,514)
Parks & Trails		(3,150)	(3,150)	(6,300)	(3,150)	(3,150)	(6,300)
Fish & Wildlife		(63)	(63)	(126)	(63)	(63)	(126)
<u>Operations Support/Admin.</u>		<u>(641)</u>	<u>(641)</u>	<u>(1,282)</u>	<u>(641)</u>	<u>(641)</u>	<u>(1,282)</u>
Subtotal Spending Changes		(9,807)	(9,807)	(19,614)	(9,807)	(9,807)	(19,614)
Transfer Dedicated Fees out of <u>General Fund</u>		<u>(5,195)</u>	<u>(5,200)</u>	<u>(10,395)</u>	<u>(5,195)</u>	<u>(5,200)</u>	<u>(10,395)</u>
Department of Natural Resources Total							
		(15,002)	(15,007)	(30,009)	(15,002)	(15,007)	(30,009)
Met Council - Regional Parks							
Operations Reduction		(700)	(700)	(1,400)	(700)	(700)	(1,400)
Minnesota Conservation Corps							
General Fund Phase Out		(99)	(199)	(298)	(455)	(455)	(910)
Board of Water & Soil Resources							
Grant Programs		(950)	(950)	(1,900)	(950)	(950)	(1,900)
Pass thru/Other Boards		(226)	(226)	(452)	(226)	(226)	(452)
<u>Operations Support/Admin.</u>		<u>(242)</u>	<u>(242)</u>	<u>(484)</u>	<u>(242)</u>	<u>(242)</u>	<u>(484)</u>
Board of Water & Soil Resources Total							
		(1,418)	(1,418)	(2,836)	(1,418)	(1,418)	(2,836)
Minnesota Zoo							
Operations Reduction		(800)	(800)	(1,600)	(800)	(800)	(1,600)
Department of Commerce							
Operations Reduction		(520)	(520)	(1,040)	(520)	(520)	(1,040)
Additional Financial Examiners		350	350	700	350	350	700
Unclaimed Property Compliance		375	375	750	375	375	750
Energy Compliance & <u>Regulation</u>	<u>(700)</u>	<u>176</u>	<u>176</u>	<u>352</u>	<u>176</u>	<u>176</u>	<u>352</u>
Department of Commerce Total							
	(700)	381	381	762	381	381	762
Public Utilities Commission							
Energy Compliance & Regulation		750	750	1,500	750	750	1,500

Change Item	FY 2011	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Total Spending Changes	(700)	(20,327)	(20,432)	(40,759)	(20,951)	(20,956)	(41,907)
Department of Natural Resources							
Transfer Dedicated Fees out of General Fund		(5,195)	(5,200)	(10,395)	(5,195)	(5,200)	(10,395)
Department of Commerce				18,898			
Transfer from Assigned Risk Plan		13,742		13,742			
Transfer from other Special Funds		1,836	3,320	5,156			
Assessments for Additional Staff		526	526	1,052	526	526	1,052
<u>Unclaimed Property Compliance</u>		<u>1,125</u>	<u>1,875</u>	<u>3,000</u>	<u>1,219</u>	<u>1,219</u>	<u>2,438</u>
Department of Commerce Total		17,229	5,721	22,950	1,745	1,745	3,490
Public Utilities Commission							
Assessments for Additional Staff		750	750	1,500	750	750	1,500
Total Revenue Changes		12,784	1,271	14,055	(2,700)	(2,705)	(5,405)
Net Changes (if different from total spending)	(700)	(33,111)	(21,703)	(54,814)	(18,251)	(18,251)	(36,502)

Pollution Control Agency

The total FY 2012-2013 budget for the Pollution Control Agency (PCA) is \$344.5 million, which is a \$35.8 million (9.5 percent) decrease compared to the previous biennium, but is also \$48.3 million higher than the forecast base. The increase compared to the forecast base is due to appropriations from the constitutionally-dedicated Clean Water fund, which were not part of the forecasted base budget.

The 2011 Legislature continued the trend over the past couple of biennia by shifting more of the agency's operating budget from the General Fund to the Environmental Fund. The PCA's regular operating budget in the FY 2004-2005 biennium (\$297 million) was similar to the enacted operating budget for FY 2012-13 (\$296.7 million). However, the General Fund portion of the agency's budget has shrunk from 18 percent of the agency's budget, down to 3.4 percent. Currently, almost half of the agency's budget comes from the Environmental Fund, which is funded mostly by a portion of the state's solid waste tax, agency fees, and other dedicated revenues.

In 2011 First Special Session Chapter 2, the General Fund reductions compared to the base budget were \$6.9 million, resulting in a 40 percent General Fund reduction. The bulk of the General Fund reduction was to clean water-related programs.

The PCA's level of funding from the constitutionally-dedicated (Legacy) funds stayed almost the same from the previous biennium at \$47.8 million from the Clean Water Fund.

Department of Natural Resources

The total FY 2012-2013 budget for the Department of Natural Resources (DNR) is \$817.4 million, which is a 6.7 percent decrease compared to the previous biennium, but \$176.4 million over the forecast base. The increase compared to the forecast base is mostly due to appropriations from the constitutionally-dedicated funds (Outdoor Heritage Fund, Clean Water Fund, and Parks and Trails Fund), which were not part of the forecasted base budget. There were also increased appropriations from the Natural Resources Fund and the Game and Fish Fund.

In First Special Session Chapter 2, the Legislature reduced General Fund appropriations to the DNR within all program areas for a total of just over \$30 million. However, \$10.3 million of this was offset by moving some dedicated water fees and campground fees from the General Fund to the Natural Resources Fund. After adjusting for the shift of fees and expenditures from the General Fund to the Natural Resources Fund, the net reduction in General Fund appropriations was 11.2 percent, or \$19.6 million. The major General Fund reductions were to: Ecological and Water Management (\$4.9 million, a 15 percent reduction), Forestry Management (\$6.5 million, or a 9.2 percent reduction), and Parks and Trails (\$6.3 million, a 15.4 percent reduction).

Additional onetime Environment and Natural Resources Trust Fund appropriations of \$3.6 million were provided for state parks operations and improvement activities to help offset the General Fund reduction. The Legislature also appropriated \$5.6 million from the Trust Fund for efforts to control and prevent the spread of aquatic invasive species.

New spending from the Natural Resources Fund include: \$4.3 million increase from various parks and trails-related user accounts; \$5.0 million increase from the forestry management account; and \$1.3 million increase to enforcement from various dedicated accounts.

Game and Fish Fund changes include: \$2.0 million for enforcement efforts to prevent the spread of invasive species; and \$2.0 million for the mapping of native plant species in state forests.

Metropolitan Council – Regional Parks

The total budget for the Metropolitan Council – Regional Parks is \$52.2 million, which is a \$4.7 million increase over the previous biennium. The Metropolitan Council – Regional Parks' FY 2012-2013 budget is \$34.3 million over the forecast base, which is due mostly to appropriations from the constitutionally-dedicated Parks and Trails Fund, which were not part of the forecasted base budget. The Metropolitan Council – Regional Parks' General Fund reduction of \$1.5 million is a 20 percent reduction to its General Fund forecast base budget.

Minnesota Conservation Corps

The total FY 2012-2013 budget for the Minnesota Conservation Corps (MCC) is \$1.6 million, which is a \$298,000, or 15.8 percent, reduction from the forecast base. The MCC's General Fund appropriation is set to be phased out after the FY 2012-2013 biennium.

Board of Water and Soil Resources

The total FY 2012-2013 budget for the Board of Water and Soil Resources (BWSR) is \$114.1 million, which is \$71.3 million higher than forecast (and \$1.8 million higher than the FY 2010-11 biennium, 1.6 percent). Despite BWSR's General Fund reduction of \$2.8 million, the increase compared to the forecast base is due to appropriations from the constitutionally-dedicated funds (Outdoor Heritage Fund and Clean Water Fund) and from the Environment and Natural Resources Trust Fund, which were not part of the forecast base budget.

In First Special Session Chapter 2, the Legislature reduced total General Fund appropriations by \$2.8 million. Of this amount, \$1.9 million was reduced from local grant programs. The remaining amount was reduced from operations (\$484,000) and local board grants (\$452,000).

Minnesota Zoo

The total FY 2012-2013 budget for the Minnesota Zoo is \$47.5 million, which is \$2.0 million higher than forecast, and also a \$2.9 million (6.4 percent) increase from the previous biennium. While the Zoo's General Fund budget was reduced by \$1.6 million compared to the forecast base, the Zoo's appropriation from the Arts and Cultural Heritage Fund increased from \$264,000 in FY 2010-2011 to \$3.0 million in FY 2012-2013.

Public Utilities Commission

Total FY 2012-2013 appropriations for the Public Utilities Commission (PUC) increased by \$1.5 million (10.1 percent) compared to the base, and also \$1.4 million (9.5 percent) over the previous biennium. The increase is due to additional full-time employees (costing \$750,000 per year) for expediting regulatory decisions. The PUC is authorized to recover their operation costs through assessments on utility companies.

Department of Commerce

The total budget for the Department of Commerce for the FY 2012-2013 biennium is \$550.6 million, of which \$418.0 million is mostly energy-related federal funds. Total funding for Commerce increased by \$9.2 million compared to the forecast, but was also \$110.9 million lower than the prior biennium. Federal funds decreased from the previous biennium by \$110.7 million due to onetime stimulus funds in FY 2010-11. Net General Fund spending increased slightly (1.8 percent) over the base budget. However, there were reductions to agency operations of just over \$1 million for the FY 2012-2013 biennium. These were offset by increases for additional bank examiners and additional employees for energy compliance and regulation. The Legislature also appropriated an additional \$375,000 per year so that the Department of Commerce could recover an expected additional \$3 million to the General Fund for the biennium through unclaimed property compliance.

First Special Session Chapter 2 included \$18.9 million of onetime transfers and cancellations from Special Revenue Funds to the General Fund to help offset the overall budget deficit.

Transfers from Special Revenue Funds to the General Fund	
Fund/Account	Amount (in thousands)
Assigned Risk Plan	\$13,742
Energy Conservation Improvement Account	1,300
Telephone Assistance Program	1,000
Telecommunication Access Minnesota Account	1,100
Other Special Revenue Accounts	1,756
Total Transfers	18,898

For questions regarding this Section or for more information on the fiscal aspects of Environment, Energy, and Commerce, please contact daniel.mueller@senate.mn.

JOBS AND ECONOMIC GROWTH

The Jobs and Economic Growth budget for the FY 2012-2013 biennium totaled \$1.2 billion from all funds, representing a \$5.3 million decrease from the February 2011 Forecast. Table 1 summarizes the budget for Jobs and Economic Growth agencies and programs from all funds and the changes made to those budgets in 2011. The total spending reductions between the FY 2010-2011 and the FY 2012-2013 biennia in the General Fund were from onetime appropriations in fiscal years 2010-2011 for flood relief that were not carried forward into FY 2012-2013. These appropriations were in the Department of Employment and Economic Development and the Housing Finance Agency. The total reduction in the Federal funds was due to the change in spending from the federal stimulus program, and is also not carried forward into the FY 2012-2013 biennium. This reduction spending is shown in the Department of Employment and Economic Development. The changes to this budget area are contained in First Special Session, Chapter 4.

Table 1					
Jobs And Economic Growth					
All Funds Biennial Spending by Agency & Fund					
<i>(dollars in thousands)</i>					
Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Employment and Economic Development					
General Fund	96,353	75,882	83,152	(13,201)	7,270
General Fund Transfers Out	(92)			92	
Petroleum Tank Release Cleanup Fund	14,084	6,200	12,400	(1,684)	6,200
Health Care Access Fund	2			(2)	
Special Revenue Fund	61,037	55,104	55,104	(5,933)	
Workforce Development Fund	90,984	83,033	83,033	(7,951)	
Federal Fund	639,543	616,165	598,683	(40,860)	(17,482)
Remediation Fund	1,400	1,400	1,400		
Gift Fund	1,045	679	344	(701)	(335)
Total for Employment & Economic Dev	904,356	838,463	834,116	(70,240)	(4,347)
Housing Finance Agency					
General Fund	88,356	81,256	76,096	(12,260)	(5,160)
General Fund Transfers Out	(88,356)	(81,256)	(76,096)	12,260	5,160
Federal Fund			1,100	1,100	1,100
Total for Housing Finance			1,100	1,100	1,100
Board of Accountancy					
General Fund	970	960	960	(10)	
Total for Accountancy Board	970	960	960	(10)	
Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience and Interior Design					
General Fund	1,565	1,548	1,548	(17)	

Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Total for Board of Architecture, Engineering, Land Surveying	1,565	1,548	1,548	(17)	
Board of Barber Examiners					
General Fund	450	514	514	64	
Total for Board of Barber Examiners	450	514	514	64	
Combative Sports Commission					
General Fund	160			(160)	
Special Revenue Fund	128		98	(30)	98
Total for Combative Sports Commission	288		98	(190)	98
Board of Cosmetologist Examiners					
General Fund	1,737	2,092	2,092	355	
Total for Board of Cosmetologist Examiners	1,737	2,092	2,092	355	
Labor and Industry					
General Fund	1,720	1,720	1,634	(86)	(86)
State Government Special Revenue Fund	45,861	43,279	45,150	(711)	1,871
Special Revenue Fund	12,180	12,962	12,962	782	
Workforce Development Fund	2,069	2,058	2,058	(11)	
Federal Fund	10,782	10,844	10,690	(92)	(154)
Workers Compensation Special Fund	189,666	190,594	189,656	(10)	(938)
Total for Labor and Industry	262,278	261,457	262,150	(128)	693
Mediation Services					
General Fund	3,201	3,168	3,168	(33)	
Total for Mediation Services	3,201	3,168	3,168	(33)	
Workers Compensation Court of Appeals					
Workers Compensation Special Fund	3,406	3,574	3,406		(168)
Total for Workers Comp Court of Appeals	3,406	3,574	3,406		(168)
Iron Range Resources and Rehabilitation					
Iron Range Resources and Rehab Fund	41,277	49,770	49,770	8,493	
Economic Protection Trust Fund	12,587	6,594	3,446	(9,141)	(3,148)
Total for Iron Range Resources & Rehab	53,864	56,364	53,216	(648)	(3,148)
Region 3 - Occupation Tax(Open)					
General Fund	535	892	892	357	
General Fund Transfer Out	(535)	(892)	(892)	(357)	
Total for Region 3 - Occupation Tax	0	0	0	0	
MN Science and Technology Authority					
General Fund	383	214	214	(169)	
Special Revenue Fund			500	500	500
Total for MN Science & Tech Authority	383	214	714	331	500
Totals by Fund	1,232,498	1,168,354	1,163,082	(69,416)	(5,272)
General Fund	195,430	168,246	170,270	(25,160)	2,024
General Fund Transfers Out	(88,983)	(82,148)	(76,988)	11,995	5,160

Agency	FY 2010-11 Spending*	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Petroleum Tank Release Cleanup Fund	14,084	6,200	12,400	(1,684)	6,200
State Government Special Revenue Fund	45,861	43,279	45,150	(711)	1,871
Health Care Access Fund	2			(2)	
Special Revenue Fund	73,345	68,066	68,664	(4,681)	598
Iron Range Resources & Rehab Fund	41,277	49,770	49,770	8,493	
Workforce Development Fund	93,053	85,091	85,091	(7,962)	
Federal Fund	650,325	627,009	610,473	(39,852)	(16,536)
Workers Compensation Special Fund	193,072	194,168	193,062	(10)	(1,106)
Remediation Fund	1,400	1,400	1,400		
Economic Protection Trust Fund	12,587	6,594	3,446	(9,141)	(3,148)
Gift Fund	1,045	679	344	(701)	(335)
Total for Budget Area	1,232,498	1,168,354	1,163,082	(69,416)	(5,272)
* As adjusted by FY 2011 changes made by the 2011 Legislature.					

EMPLOYMENT AND ECONOMIC DEVELOPMENT

Overall General Fund appropriations to the Department of Employment and Economic Development were increased by \$7.3 million from the February Forecast for FY 2012-2013. The increase is based largely on two onetime General Fund appropriations of \$3.0 million to the Minnesota Investment Fund and \$2.0 million to the Redevelopment Fund, both in FY 2012.

To contribute to balancing the project General Fund deficit, several pass-through General Fund appropriations were reduced. These various funding changes made to programs administered by the Department are shown in Table 2. However, no cuts were made to State Services for the Blind, which received a onetime General Fund appropriation of \$300,000, or Vocational Rehabilitation Services, which received a onetime General Fund appropriation of \$4.0 million, in order to help leverage federal funding.

First Special Session Chapter 4 also directs the Department of Employment and Economic Development (DEED) to establish three competitive grant pilot programs for grants to be made for FY 2013. In FY 2012, a number of pass-through grant recipients will receive onetime appropriations and then be eligible to participate in the new competitive grant programs in FY 2013. The competitive grant programs are targeted toward business development, adult workforce training, and youth workforce training. In FY 2013, the Business Development Competitive Grant Pilot Program will receive \$1.1 million, the Adult Workforce Training Competitive Grant Pilot Program will receive \$3.6 million, and the Youth Workforce Competitive Grant Pilot Program will receive \$2.8 million. Chapter 4 also allows DEED to retain up to five percent of the grant amounts for administration and monitoring of the grant programs.

Table 2
Jobs and Economic Growth
General Fund Spending by Agency
(dollars in thousands)

Agency/Program	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Employment and Economic Development						
Business & Community Development	7,732	7,732	15,464	7,732	7,732	15,464
Business & Community Dev.	(188)	(188)	(376)	(188)	(188)	(376)
MN Investment Fund	3,000		3,000			
Redevelopment Fund	2,000		2,000			
Contaminated Grants	(250)	(250)	(500)			
Enterprise MN	250	250	500			
MN Trade Office	(79)	(79)	(158)	(79)	(79)	(158)
BioBusiness Alliance	(119)	(119)	(238)	(119)	(119)	(238)
Metro Econ Dev. Assn.	(26)	(26)	(52)	(26)	(26)	(52)
MN Inventors Congress	(13)	(13)	(26)	(13)	(13)	(26)
Women's Venture	(50)	(50)	(100)	(50)	(50)	(100)
Advocating Change Together	(15)	(15)	(30)	(15)	(15)	(30)
Spec Session Final	12,242	7,242	19,484	7,242	7,242	14,484
Net Change	4,510	(490)	4,020	(490)	(490)	(980)
Workforce Development						
Extended Employment	(160)	(160)	(320)	(160)	(160)	(320)
Independent Living	0	0	0	0	0	0
Job Skills Partnership Board	(221)	(221)	(442)	(221)	(221)	(442)
Rehab Services	2,000	2,000	4,000	2,000	2,000	4,000
State Services For Blind	150	150	300	150	150	300
Lifetrack Resources	(10)	(10)	(20)	(10)	(10)	(20)
MN Diversified, Inc.	(15)	(15)	(30)	(15)	(15)	(30)
Northern Connections	(15)	(15)	(30)	(15)	(15)	(30)
Rise, Inc.	(15)	(15)	(30)	(15)	(15)	(30)
Twin Cities RISE Job	(35)	(35)	(70)	(35)	(35)	(70)
Spec Session Final	30,815	30,815	61,630	30,815	30,815	61,630
Net Change	1,679	1,679	3,358	1,679	1,679	3,358
General Support Services						
Spec Session Final	1,019	1,019	2,038	1,019	1,019	2,038
Net Change	(54)	(54)	(108)	(54)	(54)	(108)
DEED Total - Forecast	37,941	37,941	75,882	37,941	37,941	75,882
DEED Total Changes	6,135	1,135	7,270	1,135	1,135	2,270
DEED Total - Spec Session Final	44,076	39,076	83,152	39,076	39,076	78,152
Total	6,135	1,135	7,270	1,135	1,135	2,270
Housing Finance Agency						
Spec Session Final	38,048	38,048	76,096	38,048	38,048	76,096
Net Change	(2,580)	(2,580)	(5,160)	(2,580)	(2,580)	(5,160)
Labor and Industry						
Spec Session Final	817	817	1,634	817	817	1,634
Net Change	(43)	(43)	(86)	(43)	(43)	(86)
Mediation Services	0	0	0	0	0	0
Accountancy Board	0	0	0	0	0	0

Agency/Program	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Architectural/Engineering Board	0	0	0	0	0	0
Barbers Examiners	0	0	0	0	0	0
Combative Sports Commission	0	0	0	0	0	0
Cosmetologist Examiners	0	0	0	0	0	0
Science and Technology Authority	0	0	0	0	0	0
Region 3 Occupation Tax	0	0	0	0	0	0
Total Spending Changes	3,512	(1,488)	2,024	(1,488)	(1,488)	(2,976)

OTHER AGENCIES

The FY 2012-2013 Housing Finance Agency General Fund appropriation was reduced by \$5.2 million from the forecast base. In the area of Homeless Prevention and Support Services, base level funding was retained for Rental Assistance for the Mentally Ill. Additionally, \$2.0 million in new General Fund spending was authorized for the Housing Trust Fund.

The Department of Labor and Industry General Fund appropriation for the Labor Standards Division was reduced by \$86,000 for FY 2012-2013.

General Fund appropriations remained at the base level for several agencies in this budget area, including the following, which are depicted in Table 2:

- Bureau of Mediation Services;
- Board of Accountancy;
- Board of Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience and Interior Design;
- Board of Barber Examiners;
- Board of Cosmetologist Examiners;
- Bureau of Mediation Services;
- Workers' Compensation Court of Appeals;
- Region 3 – Occupation Tax; and
- Science and Technology Authority.

The Combative Sports Commission was authorized to increase license and event fees, which will allow the commission to function without a General Fund appropriation.

Onetime transfers to the General Fund for FY 2012-2013 include \$12.5 million from the Unemployment Insurance Contingent Fund and \$1.8 million from the unemployment insurance state administration account deposits. In FY 2012, a onetime transfer of \$1.6 will be made from

the unexpended balance of the unemployment insurance state administration account to the General Fund. Transfers and revenue changes to the General Fund are shown in Table 3.

Table 3 General Fund Revenue Changes FY 2012-12 & FY 2014-15 <i>(dollars in thousands)</i>						
Employment and Economic Development Transfers from Unemployment Insurance Program						
	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Penalties	6,450	6,450	12,900			
Administration	1,575		1,575			
Administration Deposits	900	900	1,800			
Total Revenue Changes	8,925	7,350	16,275			

For questions regarding this Section or for more information on the fiscal aspects of Jobs and Commerce, please contact carlon.doyle.fontaine@senate.mn or david.jensen@senate.mn.

JUDICIARY AND PUBLIC SAFETY

The FY 2012-2013 budget for judiciary and public safety appropriations total \$2.240 billion, most of which is appropriated from the General Fund. First Special Session Chapter 1, the Public Safety and Judiciary Finance Bill, appropriated \$1.807 billion from the General Fund for the judiciary and the state departments, agencies, and boards under the jurisdiction of the Judiciary and Public Safety Committee. In addition, First Special Session Chapter 7, article 10, section 2, appropriated \$9 million from the General Fund for disaster relief. As shown in the table below, General Fund appropriations are \$24.8 million, or 1.4 percent over the FY 2012-13 forecast base, and \$14.8 million, or 0.8 percent under FY 2010-11 spending. Onetime transfers from other funds into the General Fund accounted for an additional \$8 million of revenue to the General Fund.

With the exceptions of the Departments of Public Safety and Corrections, nongeneral fund appropriations are modest. Major expenditures outside the General Fund in the Department of Public Safety include \$137.3 million from the State Government Special Revenue Fund for Emergency Communication Networks and \$132.8 million in federal funds for the Bureau of Criminal Apprehension, the Office of Justice Programs, and disaster relief. At the Department of Corrections, internal revenue streams such as telephone, canteen, bed rental, and prison industry receipts flow through the Special Revenue Fund and are used to offset facility costs. Federal funding is available for certain activities, such as adult basic education and the state criminal alien assistance program.

Table 1 All Funds Biennial Spending by Agency and Fund Judiciary and Public Safety Budget <i>(dollars in thousands)</i>					
Agency	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted- FY2010-11	Change: Enacted - Base
Supreme Court					
General Fund	85,675	84,360	83,249	(2,426)	(1,111)
Special Revenue Fund	6,743	5,069	5,069	(1,674)	
Federal Fund	13,345	11,908	11,908	(1,437)	
Gift Fund	161			(161)	
Total Supreme Court	105,924	101,337	100,226	(5,698)	(1,111)
Court of Appeals					
General Fund	20,246	20,136	20,334	88	198
Federal Fund	17			(17)	
Total Court of Appeals	20,263	20,136	20,334	71	198
District Courts					
General Fund	482,585	464,400	470,339	(12,246)	5,939
General Fund Transfer Out	(2,959)			2,959	

Agency	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted- FY2010-11	Change: Enacted - Base
Special Revenue Fund	1,213	1,470	1,470	257	
Federal Fund	4,879	4,356	4,356	(523)	
Gift Fund	109	143	143	34	
Total District Courts	485,827	470,369	476,308	(9,519)	5,939
Guardian Ad Litem Board					
General Fund	12,367	24,734	24,134	11,767	(600)
Special Revenue Fund	1,614	2,315	2,315	701	
Total Guardian Ad Litem Board	13,981	27,049	26,449	12,468	(600)
Tax Court					
General Fund	1,637	1,580	1,650	13	70
Uniform Laws Commission					
General Fund	100	98	98	(2)	
Board on Judicial Standards					
General Fund	935	884	1,202	267	318
Legal Profession Boards					
Special Revenue	11,391	13,375	13,375	1,984	
Public Defense Board					
General Fund	130,163	129,452	131,952	1,789	2,500
Special Revenue	2,673	408	3,800	1,127	3,392
Federal Fund	346			(346)	
Gift Fund	185			(185)	
Total Public Defense Board	133,367	129,860	135,752	2,385	5,892
Public Safety					
General Fund*	187,005	156,530	162,370	(24,635)	5,840
General Fund Transfer Out	(448)			448	
State Government Special Revenue Fund	80,361	130,657	137,487	57,126	6,830
Special Revenue Fund	45,189	54,088	54,457	9,268	369
Trunk Highway Fund	3,882	3,882	3,882		
Federal Fund	329,968	132,803	132,810	(197,158)	7
Environmental Fund	138	138	138		
Gift Fund	66	40	40	(26)	
Total Public Safety	646,161	642,010	491,184	(154,977)	13,046
Peace Officers Standards and Training					
Special Revenue Fund	8,944	8,794	8,344	(600)	(450)
Private Detective Board					
General Fund	241	240	240	(1)	
Human Rights Department					
General Fund	6,728	6,682	6,342	(386)	(340)
Special Revenue Fund	808	658	658	(150)	
Federal Fund	3	6	6	3	
Total Human Rights	7,539	7,346	7,006	(533)	(340)
Corrections					
General Fund**	893,345	892,382	913,335	19,990	20,953
General Fund Transfer Out	(61)			61	
Special Revenue Fund	36,550	36,053	36,053	(497)	
Federal Fund	45,947	6,951	6,951	(38,996)	
Gift Fund	12	12	12		
Total Corrections	975,793	935,398	956,351	(19,442)	20,953

Agency	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted- FY2010-11	Change: Enacted - Base
Sentencing Guidelines					
General Fund	1,179	1,172	1,172	(7)	
Gift Fund	1			(1)	
Total Sentencing Guidelines	1,180	1,172	1,172	(8)	
Totals by Fund					
General Fund	1,822,206	1,782,650	1,816,417	(5,789)	33,767
General Fund Transfer Out	(3,468)			3,468	
State Govt. Special Revenue Fund	80,361	130,657	137,487	57,126	6,830
Special Revenue Fund	115,125	122,230	125,541	10,416	3,311
Trunk Highway Fund	3,882	3,882	3,882		
Federal Fund	394,505	156,024	156,031	(238,474)	7
Environmental Fund	138	138	138		
Gift Fund	534	195	195	(339)	
Totals All Funds	2,413,283	2,195,776	2,239,691	(173,592)	43,915
* Includes \$9 million appropriated in First Special Session Chapter 7, Article 10, Section 5, Disaster Relief.					
** Includes \$60,000 appropriated in Chapter 113, the State Claims Bill.					

Supreme Court

The Legislature appropriated \$61.2 million from the General Fund to the Supreme Court for operations, and an additional \$22 million for Civil Legal Services, which provides legal representation in civil matters to low-income people who could not otherwise afford an attorney. The Supreme Court operations appropriations represent a \$489,000, or 0.8 percent, increase over base funding. The Legislature cut the base Civil Legal Services appropriation by \$1.6 million, a reduction of 6.7 percent.

Court of Appeals

The Legislature appropriated \$20.3 million from the General Fund to the Court of Appeals, an increase of \$198,000, or one percent of the court's base budget.

District Courts

The Legislature appropriated \$470.4 million from the General Fund to the District Courts, an increase of \$5.9 million, or 1.3 percent of the courts' base budgets.

Guardian Ad Litem Board

The Legislature appropriated \$24.1 million from the General Fund to the Guardian Ad Litem Board, a reduction of \$600,000, or 2.4 percent of the board's base budget.

Tax Court

The Legislature appropriated \$1.65 million to the Tax Court, an increase of \$70,000, or 4.4 percent over the court's base budget.

Board on Judicial Standards

The Legislature appropriated \$1.2 million from the General Fund to the Board of Judicial Standards. This amount included an increase of \$28,000 to the board's base budget, and a onetime FY 2012 appropriation of \$290,000 to fund FY 2011 contractual obligations.

Board of Public Defense

The Legislature appropriated \$132 million from the General Fund to the Board of Public Defense, an increase of \$2.5 million, or 1.9 percent of the board's base budget. In addition to the legislative appropriation, the Supreme Court extended a \$75 attorney registration fee increase dedicated to the Board of Public Defense for the FY 2012-13 biennium. This fee extension allows the board to retain approximately \$1.9 million annually. Although the fee was part of the FY 2010-11 budget, the extension was not included in the board's FY 2012-13 base budget.

Department of Public Safety

Six programs administered by the Department of Public Safety (DPS) are funded by the judiciary and public safety budget, and the remaining programs are funded by the transportation budget (see Transportation section for more information). The Legislature appropriated \$153.4 million from the General Fund for the public safety programs under the jurisdiction of the Judiciary Committee, a reduction of approximately \$3.2 million, or two percent of the department's base budget. However, the Legislature appropriated an additional \$9.0 million to DPS for onetime disaster relief reimbursement for the 2011 spring floods and summer tornados.

DPS -Division of Homeland Security and Emergency Management

The Legislature appropriated \$3.7 million from the General Fund the Office of Homeland Security and Emergency Management. This funds the division at its FY 2012-13 base budget. In addition, the Legislature appropriated \$9 million from the General Fund for disaster relief in First Special Session Chapter 7, section 5. The Legislature also appropriated \$1.2 million from the Fire Safety Account in the Special Revenue Fund for hazardous material and chemical assessment team grants.

DPS - State Fire Marshal

The Legislature appropriated approximately \$20 million from the Fire Safety Account in the Special Revenue Fund for fire-related activities and General Fund transfers. This appropriation includes \$8.6 million for Fire Marshal operations and \$2.9 million for fire service training grants. The remaining \$8.5 million was transferred to the General Fund, which includes a onetime transfer of \$3.7 million. The Fire Safety Account collects revenue from a 0.65 percent surcharge on premiums for homeowner's insurance policies and commercial fire policies.

DPS - Gambling and Alcohol Enforcement

The Legislature appropriated \$3.2 million from the General Fund to the Gambling and Alcohol Enforcement Division. This funds the division at its FY 2012-13 base budget level.

DPS - Office of Justice Programs

The Legislature appropriated \$65.9 million from General Fund to the Office of Justice Programs, a reduction of approximately \$2.7 million, or 3.9 percent of its base budget.

DPS - Emergency Communications Networks

The Legislature appropriated \$137.3 million from the State Government Special Revenue Fund to operate and expand the state's emergency communication networks, an increase of \$6.8 million, or 5.2 percent over the networks' base budget. The appropriation is supported by 911 service fees assessed on all telephone lines. The appropriation funds public safety answering points; medical resource communication centers; debt service and operating costs for the Allied Radio Matrix for Emergency Response System (ARMER); and Metropolitan Council debt service.

Bureau of Criminal Apprehension (BCA)

The Legislature appropriated \$80.6 million from the General Fund to the BCA, a reduction of \$500,000, or 0.6 percent of the bureau's base budget.

Peace Officers Standards and Training (POST) Board

The Legislature appropriated \$7.5 million from the Special Revenue Fund to the POST Board, a reduction of \$450,000, or 5.9 percent of its base budget. Under Minnesota law, this reduction from the Special Revenue Fund transfers into the General Fund.

Department of Human Rights

The Legislature appropriated \$6.342 million from the General Fund to the Department of Human Rights, a reduction of \$340,000, or five percent of its base budget.

Department of Corrections

The Legislature appropriated \$913.3 million from the General Fund to the Department of Corrections (DOC), an increase of \$20.9 million over the department's FY 2012-13 base budget, or 2.4 percent of its base budget. In addition, the Legislature transferred \$800,000 from the DOC Special Revenue Account and \$1.2 million from the MINNCOR (prison industry) Revolving Fund to the General Fund.

DOC – Institutions

The Legislature increased the Institutions Division appropriation by \$25.6 million. This base increase offset a \$26.9 million deficiency created by the use of onetime federal American Recovery and Reinvestment Act (ARRA) funds for the FY 2010-2011 biennium.

DOC – Community Services

The Legislature reduced appropriations for the Community Services Division by \$4.038 million, a 1.9 percent reduction. Of this amount, \$3.156 million was cut from offender supervision grants to the counties, with the state field services and administration absorbing the remaining \$882,000.

DOC – Operations Support

The Legislature reduced appropriations for the Operations Support Division by \$670,000, or a 1.6 percent reduction from the division's base budget.

Sentencing Guidelines Commission

The Legislature appropriated \$1.172 million from the General Fund to the Sentencing Guidelines Commission. This funds the commission at its FY 2012-13 base budget level.

Table 2 Public Safety Budget Minnesota Laws 2011, First Special Session, Chapter 1 General Fund Changes Compared to Forecast <i>(dollars in thousands)</i>						
Agency Change Item — Appropriations	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Supreme Court						
Increase	94	395	489	395	395	790
Civil Legal Services						
Reduction	(800)	(800)	(1,600)	(800)	(800)	(1,600)
Court of Appeals						
Increase	38	160	198	160	160	320
District Courts						
Increase	1,373	4,690	6,063	4,690	4,690	9,380
Procedural Efficiencies	(62)	(62)	(124)	(62)	(62)	(124)
Total District Courts	1,311	4,628	5,939	4,628	4,628	9,256
Guardian Ad Litem Board						
Reduction	(300)	(300)	(600)	(300)	(300)	(600)
Tax Court						
Increase	35	35	70	35	35	70
Board on Judicial Standards						
Increase	14	14	28	14	14	28
2011 Contractual Obligations	290		290			
Total Board on Judicial Standards	304	14	318	14	14	28
Board of Public Defense						
Increase	1,250	1,250	2,500	1,250	1,250	2,500
Department of Public Safety						
HSEM Disaster Relief (88 Ch 7, art 10, sec. 5)	9,000		9,000			
BCA Reduction	(250)	(250)	(500)	(250)	(250)	(500)
Office of Justice Programs Reduction	(1,330)	(1,330)	(2,660)	(1,330)	(1,330)	(2,660)
Total Department of Public Safety	7,420	(1,580)	5,840	(1,580)	(1,580)	(3,160)
Human Rights						
Reduction	(170)	(170)	(340)	(170)	(170)	(340)
Department of Corrections						
Corrections - Institutions						
Restore Tail from Federal ARRA Funding	13,473	13,474	26,947	13,474	13,474	26,948
Maintain MCF-Faribault Chemical Dep. Beds	450	900	1,350	900	900	1,800
Institutions Reduction	(400)	(400)	(800)	(400)	(400)	(800)
Institutions Efficiencies	(913)	(913)	(1,826)	(913)	(913)	(1,826)
Inmate Health Care Co-Pay Increase	(35)	(35)	(70)	(35)	(35)	(70)
Corrections - Community Services						
Reduction	(316)	(316)	(632)	(316)	(316)	(632)

Agency Change Item — Appropriations	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
CCC Subsidy and C/W Reduction	(1,277)	(1,277)	(2,554)	(1,277)	(1,277)	(2,554)
CPO Reimbursement and C/W Reduction	(163)	(163)	(326)	(163)	(163)	(326)
DOC Field Services Operations Reduction	(125)	(125)	(250)	(125)	(125)	(250)
DFO Enhanced Sex Offender Programming	(138)	(138)	(276)	(138)	(138)	(276)
Corrections Operational Services Reduction	(335)	(335)	(670)	(335)	(335)	(670)
Corrections Claims Bill (Chapter 113)	60		60			
Total Department of Corrections	10,281	10,672	20,953	10,672	10,672	21,344
Total Public Safety Appropriations	19,463	14,304	33,767	14,304	14,304	28,608
Agency Change Item -- GF Transfers						
Peace Officers Standards and Training						
Reduction - Transfer In to General Fund	(225)	(225)	(450)	(225)	(225)	(450)
Fire Marshal						
Fire Safety Acct Transfer in to General Fund	(1,859)	(1,860)	(3,719)			
Corrections						
MINCORR Revolving Fund Transfer in to GF	(600)	(600)	(1,200)			
DOC Special Revenue Transfer in to GF	(400)	(400)	(800)			
Total Corrections Transfers into GF	(1,000)	(1,000)	(2,000)			
Trial Courts						
In forma pauperis Payments to GF	(916)	(916)	(1,832)	(916)	(916)	(1,832)
Total Public Safety Transfers in to GF	(4,000)	(4,001)	(8,001)	(1,141)	(1,141)	(2,282)
Grand Total Public Safety Budget	15,463	10,303	25,766	13,163	13,163	26,326

For questions regarding this Section or for more information on the fiscal aspects of Judiciary and Public Safety, please contact chris.turner@senate.mn.

TRANSPORTATION

The 2011 Legislature authorized \$5.9 billion for transportation-related spending for the FY 2012-2013 biennium in First Special Session Chapter 3, the Omnibus Transportation Finance Bill. The total appropriations reflect an increase of \$51.9 million, or 0.9 percent, over FY 2010-2011 biennial spending, and an increase of \$175.8 million, or three percent, over the February 2011 forecast base. The majority of funding for transportation programs comes from dedicated funding sources, with only 2.1 percent from the General Fund.

As shown in Table 1, of the \$5.9 billion in total appropriations for FY 2012-2013, \$5.0 billion is appropriated to the Minnesota Department of Transportation (MnDOT); \$474.6 million to the Metropolitan Council for metro-area transit operations, including bus transit and rail transit; and \$457.3 million to the Department of Public Safety (DPS) for the State Patrol, Driver and Vehicle Services, and other transportation-related programs. *See the Public Safety Budget chapter for discussion of DPS Criminal Justice program funding.*

Table 1 Transportation Biennial Spending by Agency and Fund - All Funds FY 2012-2013 <i>(dollars in thousands)</i>					
Agency	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Dept of Transportation:					
General Fund	30,648	34,472	31,674	1,026	(2,798)
Trunk Highway Fund*	2,662,550	2,477,380	2,692,185	29,635	214,805
State Airports Fund	42,906	40,332	42,107	(799)	1,775
County State-Aid Highway Fund	1,003,487	1,146,545	1,146,545	143,058	
Municipal State-Aid Street Fund	277,102	306,602	306,602	29,500	
Special Revenue Fund	83,346	60,104	60,104	(23,242)	
State Govt. Special Revenue Fund	12,974			(12,974)	
Highway User Tax Distribution Fund	216	388	388	172	
Transit Assistance Fund	41,429	45,475	45,473	4,044	(2)
Federal Fund	642,921	611,772	623,019	(19,902)	11,247
Federal Fund - ARRA	194,588	41,526	41,526	(153,062)	
Total for Dept. of Transportation	4,992,167	4,764,596	4,989,623	(2,544)	225,027
Metropolitan Council Transit:					
General Fund	119,674	129,778	78,076	(41,598)	(51,702)
Transit Assistance Fund	316,779	396,540	396,530	79,751	(10)
Total for Met Council Transit	436,453	526,318	474,606	38,153	(51,712)
Dept of Public Safety:					
General Fund	16,714	15,908	15,908	(806)	
General Fund (TFR OUT)	(2,372)	(1,584)	(1,584)	788	
Trunk Highway Fund	175,741	175,632	175,632	(109)	
Highway User Tax Distribution Fund	17,369	22,244	22,244	4,875	
Special Revenue Fund	141,427	138,429	138,429	(2,998)	
State Govt. Special Revenue Fund	3,030	2,812	2,812	(218)	

Agency	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Gift Fund	217	122	122	(95)	
Environmental Fund	138	138	138		
Federal Fund	88,763	101,104	103,635	14,872	2,531
Total for Dept of Public Safety	441,027	454,805	457,336	16,309	2,531
TOTAL TRANSPORTATION SPENDING	5,869,647	5,745,719	5,921,565	51,918	175,846
TOTALS BY FUND:					
General Fund	167,036	180,158	125,658	(41,378)	(54,500)
General Fund (TFR OUT)	(2,372)	(1,584)	(1,584)	788	
Trunk Highway Fund*	2,838,291	2,653,012	2,867,817	29,526	214,805
State Airports Fund	42,906	40,332	42,107	(799)	1,775
County State-Aid Highway Fund	1,003,487	1,146,545	1,146,545	143,058	
Municipal State-Aid Street Fund	277,102	306,602	306,602	29,500	
Special Revenue Fund	224,773	198,533	198,533	(26,240)	
Highway User Tax Distribution Fund	17,585	22,632	22,632	5,047	
Federal Fund	926,272	754,402	768,180	(158,092)	13,778
Transit Assistance Fund	358,208	442,015	442,003	83,795	(12)
State Govt. Special Revenue Fund	16,004	2,812	2,812	(13,192)	
Gift Fund	217	122	122	(95)	
Environmental Fund	138	138	138		
TOTAL FOR TRANSPORTATION:	5,869,647	5,745,719	5,921,565	51,918	175,846
* Does not include transfers to the Debt Service Fund: \$115,767 in FY 2010-2011 and \$282,250 in FY 2012-2013.					

As summarized in Table 2, General Fund appropriations totaled \$125.7 million for the FY 2012-2013 biennium, a decrease of \$41.4 million, or 24.8 percent, from the FY 2010-2011 biennium, and a decrease of \$54.5 million, or 30.3 percent, from the February 2011 Forecast base. This decrease is largely due to a reduction in General Fund appropriations in FY 2012-2013 for Metropolitan Transit operations.

Agency	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010- 11	Change: Enacted - Fcst. Base
Dept of Transportation (DOT)					
Multimodal	30,532	34,358	31,560	1,028	(2,798)
State Roads	6	6	6		
Agency Management	110	108	108	(2)	
Dept. of Transportation Total	30,648	34,472	31,674	1,026	(2,798)

Agency	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010- 11	Change: Enacted - Fcst. Base
Metropolitan Council					
Met Council Transit	109,326	119,430	78,076	(31,250)	(41,354)
Met Council Rail*	10,348	10,348	0	(10,348)	(10,348)
Metropolitan Council Total	119,674	129,778	78,076	(41,598)	(51,702)
Department of Public Safety					
Admin and Related Services	8,035	8,034	8,034	(1)	
State Patrol	6,307	6,290	6,290	(17)	
Trunk Highway Fund (TFR OUT)	2,372	1,584	1,584	(788)	
Dept. of Public Safety Total	16,714	15,908	15,908	(806)	
TOTAL SPENDING	167,036	180,158	125,658	(41,378)	(54,500)
* In previous appropriations bills, bus and rail operations were funded from the General Fund in separate line items. 2011 First Special Session Chapter 3 instead made one appropriation from the General Fund to Metropolitan Council for all transit operations, including rail.					

MINNESOTA DEPARTMENT OF TRANSPORTATION (MnDOT)

MnDOT received \$5.0 billion in total appropriations for the FY 2010-2011 biennium, a decrease of \$2.5 million, or 0.1 percent, from FY 2010-2011 biennial spending, but an increase of \$225 million, or 4.7 percent, over the February 2011 Forecast base. The increase from base spending is due to additional appropriations from the Trunk Highway Fund in the State Roads program.

Of MnDOT's total appropriations, 54 percent (\$2.7 billion) is from the Trunk Highway Fund, which receives revenue from the motor fuels tax, vehicle registration tax, and motor vehicle sales tax. The Trunk Highway Fund also receives federal highway aid for road construction. For the FY 2012-2013 biennium, the federal highway aid is estimated to be \$856.1 million, or approximately 32 percent of MnDOT's total Trunk Highway Fund appropriation.

State Roads

Of the \$2.7 billion of total Trunk Highway Fund spending by MnDOT in FY 2012-2013, approximately \$1.5 billion, or 55 percent, is appropriated for state road construction, engineering, and design. This is an increase of \$221 million, or 17.5 percent, from the FY 2010-2011 biennium.

The total Trunk Highway Fund appropriation increase for state roads in FY 2012-13 includes \$127 million for the Better Roads for a Better Minnesota program, a four-year program designed to significantly improve state highway pavement condition.

The Legislature also authorized the transfer of up to \$20 million from the Trunk Highway Fund to the newly created trunk highway economic development account, intended to fund the construction and improvement of trunk highways that will promote economic development, increase employment, and relieve traffic congestion.

Local Roads

The FY 2012-2013 MnDOT budget includes appropriations of \$1.1 billion for county state-aid roads and \$306.6 million for municipal state-aid roads, which reflect increases of 14.3 percent and 10.7 percent, respectively, over FY 2010-2011 biennial appropriations. MnDOT's Office of State Aid apportions these funds to all 87 counties, and to cities with a population of 5,000 or greater, according to statutory distribution formulas.

Greater Minnesota Transit

The Legislature appropriated \$75.5 million in state funds to MnDOT for assistance to locally run transit services outside of the seven-county metropolitan area. This is an increase of \$5.1 million, or 7.3 percent, over spending in FY 2010-2011. The majority of these funds, 60.2 percent, are statutorily appropriated from the Transit Assistance Fund, which receives a portion of the motor vehicle sales tax (MVST) to pay for both Greater Minnesota and metropolitan transit operations. The remainder of state funding for transit comes from the General Fund.

Aeronautics

First Special Session Chapter 3 made a onetime appropriation over base from the State Airports Fund of \$1.775 million in FY 2013 for airport development and assistance grants. However, the total State Airports Fund appropriation to MnDOT reflects a decrease of \$799,000, or 1.9 percent, from FY 2010-2011 spending.

METROPOLITAN COUNCIL – TRANSIT

The Metropolitan Council will receive \$474.6 million in total appropriations for the FY 2012-2013 biennium for metropolitan transit operations. This is an increase of \$38.2 million, or 8.7 percent, over 2010-2011 spending, but a decrease of \$51.7 million, or 9.8 percent, from the February 2011 Forecast base. This is a onetime biennial reduction to the Metropolitan Council, so the \$51.7 million will be restored in the agency's 2014-2015 base budget. The FY 2012-2013 General Fund appropriation shows a decrease of \$41.6 million, or 34.8 percent, from the FY 2010-2011 biennium, as part of overall deficit reduction measures.

The General Fund appropriation to the Metropolitan Council is for operation of the metropolitan area bus system and for operating costs of the Hiawatha Light Rail Transit Line and the Northstar Commuter Rail Line. In addition, the Metropolitan Council will receive an increase of \$79.8 million, or 25.2 percent, in dedicated MVST revenues over FY 2010-2011.

DEPARTMENT OF PUBLIC SAFETY

The Department of Public Safety will receive \$457.3 million in total appropriations for the FY 2012-2013 biennium for transportation-related activities. The appropriation is an increase of \$16.3 million, or 3.7 percent, over the previous biennium, and an increase of \$2.5 million, or 0.6 percent, over the February 2011 Forecast base. The increase from base spending is due to receipts of new federal program funds.

Technology Surcharge Extension

In First Special Session Chapter 3, the Legislature approved an extension through FY 2016 of the Driver and Vehicle Services (DVS) technology surcharge, which was statutorily due to expire at the end of FY 2012.

The \$1.75 surcharge was first collected in FY 2009 on all driver's license and motor vehicles title and registration transactions, and all revenues are deposited in the driver and vehicle services technology account in the Special Revenue Fund, for design and implementation of DVS's new computer system, the Minnesota Licensing and Registration System (MNLARS).

The Legislature authorized the extension of the fee, but reduced the fee to \$1.00. This four-year extension is projected to generate an additional \$30.6 million in revenue for the project. In addition, the Legislature authorized a transfer of \$7.1 million to the driver and vehicle services technology account in FY 2013 from the driver services operating account and vehicles services operating account, in order to meet projected costs of the new system.

Table 3 Transportation General Fund Spending Changes FY 2012-13 <i>(dollars in thousands)</i>						
	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
February 2011 Forecast - Spending	90,079	90,079	180,158	90,079	90,079	180,158
<u>Change Items</u>						
Department of Transportation						
MN Council on Transportation Access appropriation	81	81	162	81		81
Greater MN Transit grants reduction	(1,350)	(1,350)	(2,700)			
Freight operating reduction	(49)	(49)	(98)	(49)	(49)	(98)
MnDOT Total Change Items	(1,318)	(1,318)	(2,636)	32	(49)	(17)
Metropolitan Council						
Metro Transit operating reduction	(25,851)	(25,851)	(51,702)			
MN Council on Transportation Access appropriation	(81)	(81)	(162)	(81)		(81)
Met Council Total Change Items	(25,932)	(25,932)	(51,864)	(81)		(81)
Total Spending Changes	(27,250)	(27,250)	(54,500)	(49)	(49)	(98)
Total General Fund Spending	62,829	62,829	125,658	90,030	90,030	180,060

For questions regarding this Section or for more information on the fiscal aspects of Transportation, please contact krista.boyd@senate.mn.

STATE GOVERNMENT FINANCE

The State Government Omnibus Finance Act (Laws 2011, First Special Session Chapter 10) contained direct and open General Fund appropriations for the Legislature, constitutional officers, and administrative state agencies totaling \$905.0 million for FY 2012-2013. Funding from all sources totaled \$1.6 billion. This total includes \$141.0 million in appropriations from the constitutionally dedicated Legacy Funds. Table 1 summarizes the State Government Innovation and Veterans budget across all funds.

Table 1					
State Government Budget					
All Funds Biennial Spending by Agency & Fund					
<i>(dollars in thousands)</i>					
Agency/Fund	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Legislature					
General Fund	137,349	132,510	125,884	(11,465)	(6,626)
General Fund Transfer Out	(7)			7	
Health Care Access Fund	356	356	256	(100)	(100)
Special Revenue Fund	211	300	300	89	
Federal Fund	7			(7)	
Outdoor Heritage Fund	1,305		1,130	(175)	1,130
Arts & Cultural Heritage Fund	20		8	(12)	8
Clean Water Fund	25		13	(12)	13
Parks & Trails Fund	15		7	(8)	7
Gift Fund	4			(4)	
Total for Legislature	139,285	133,166	127,598	(11,687)	(5,568)
Governor's Office					
General Fund	6,807	6,726	6,390	(417)	(336)
Special Revenue Fund	1,352	1,340	1,440	88	100
Total for Governor's Office	8,159	8,066	7,730	(429)	(336)
State Auditor					
General Fund	18,531	18,204	17,294	(1,237)	(910)
Special Revenue Fund	85	88	88	3	
Total for State Auditor	18,616	18,292	17,382	(1,234)	(910)
Attorney General					
General Fund	47,225	44,408	42,188	(5,037)	(2,220)
General Fund Transfer Out	(14)			14	
State Government Special Revenue Fund	4,355	3,768	3,768	(587)	
Special Revenue Fund	8,841	12,782	12,782	3,941	
Federal Fund	2,359	2,574	2,574	215	

Agency/Fund	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Environmental Fund	145	290	290	145	
Remediation Fund	384	500	500	116	
Total for Attorney General	63,295	64,322	62,102	(1,193)	(2,220)
Secretary of State					
General Fund	11,937	11,318	10,948	(989)	(370)
General Fund Transfer Out	(62)			62	
Special Revenue Fund	14,157	5,961	5,961	(8,196)	
Federal Fund	83			(83)	
Gift Fund	57			(57)	
Total Secretary of State	26,172	17,279	16,909	(9,263)	(370)
Campaign Finance & Public Disclosure Board					
General Fund	1,459	1,450	1,378	(81)	(72)
Special Revenue Fund	5,366	2,705	2,705	(2,661)	
Total Campaign Finance & Public Disclosure Board	6,825	4,155	4,083	(2,742)	(72)
Campaign Financing Checkoff Subsidy					
General Fund	3,552	3,520	3,520	(32)	
General Fund Transfer Out	(3,552)	(3,520)	(3,520)	32	
Investment Board					
General Fund	295	292	278	(17)	(14)
Special Revenue Fund	6,237	6,254	6,254	17	
Total Investment Board	6,532	6,546	6,532		(14)
Administrative Hearings					
General Fund	663	664	638	(25)	(26)
Workers Compensation Special Fund	14,500	14,500	14,500		
Total Administrative Hearings	15,163	15,164	15,138	(25)	(26)
Non-CFS Statutory Funds - Administrative Hearings					
<i>Administrative Hearings</i>	4,631	4,530	4,530	(101)	
Office of Enterprise Technology (OET)					
General Fund	10,971	10,908	10,362	(609)	(546)
General Fund Transfer Out	(20)			20	
Special Revenue Fund	14,311	11,937	11,937	(2,374)	
Federal Fund	290	510	510	220	
Total Office of Enterprise Technology	25,552	23,355	22,809	(2,743)	(546)
Non-CFS Statutory Funds - Office of Enterprise Technology					
<i>Internal Service Funds / Enterprise Funds</i>	170,130	189,042	189,042	18,912	
Administration Dept					

Agency/Fund	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
General Fund	42,507	41,119	39,903	(2,604)	(1,216)
General Fund Transfer Out	(504)			504	
Special Revenue Fund	84,875	86,443	86,443	1,568	
Arts & Cultural Heritage Fund	2,653		17,325	14,672	17,325
Clean Water Fund	70		70		70
Federal Fund	6,626	7,365	7,365	739	
Gift Fund	69			(69)	
Total for Administration Dept	136,296	134,927	151,106	14,810	16,179
Non-CFS Statutory Funds - Administration Dept					
<i>Internal Service Funds / Enterprise Funds</i>	196,070	206,860	206,860	10,790	
Capitol Area Architect & Planning Board					
General Fund	690	684	650	(40)	(34)
Special Revenue Fund	16	12	12	(4)	
Total for Capitol Area Architect & Planning Board	706	696	662	(44)	(34)
MN Management & Budget (MMB)					
General Fund	45,609	56,215	54,451	8,842	(1,764)
General Fund Transfer Out (MAPS Replacement/SWIFT)	(5,912)	(17,937)	(17,937)	(12,025)	
Special Revenue Fund	14,032	23,798	23,798	9,766	
Total for MMB	53,729	62,076	60,312	6,583	(1,764)
MMB Nonoperating					
General Fund	8,521	8,732	7,006	(1,515)	(1,726)
General Fund Transfer Out	(8,557)	(8,732)	(8,732)	(175)	
Special Revenue Fund	417			(417)	
Federal Fund	18,767	18,616	18,616	(151)	
Total for MMB Nonoperating	19,148	18,616	16,890	(2,258)	(1,726)
Indirect Costs					
General Fund	(27,169)	(42,350)	(42,350)	(15,181)	
Non-CFS Statutory Funds - MMB					
<i>State Employees Insurance Fund</i>	1,415,173	1,662,888	1,662,888	247,715	
<i>Management Analysis</i>	4,748	5,302	5,302	554	
Total Non-CFS for MMB	1,419,921	1,668,190	1,668,190	248,269	
Revenue Dept					
General Fund	259,792	273,098	282,449	22,657	9,351
General Fund Transfer Out (Integrated Tax System)	(1,458)	(4,502)	(4,502)	(3,044)	
Health Care Access Fund	3,510	3,498	3,498	(12)	
Special Revenue Fund	14,189	7,192	7,192	(6,997)	
State Airports Fund	1	2	2	1	

Agency/Fund	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Highway Users Tax Distribution Fund	4,396	4,366	4,366	(30)	
Environmental Fund	606	606	606		
Total for Revenue Dept	281,036	284,260	293,611	12,575	9,351
Amateur Sports Commission					
General Fund	527	522	496	(31)	(26)
Special Revenue Fund	218	130	130	(88)	
Gift Fund	17			(17)	
Total for Amateur Sports	762	652	626	(136)	(26)
Black Minnesotans Council					
General Fund	618	614	584	(34)	(30)
Special Revenue Fund	843	150	150	(693)	
Gift Fund	39	39	39		
Total for Black Minnesotans Council	1,500	803	773	(727)	(30)
Chicano Latino Affairs Council					
General Fund	581	578	550	(31)	(28)
Special Revenue Fund	36			(36)	
Total for Chicano Latino Affairs Council	617	578	550	(67)	(28)
Asian-Pacific Council					
General Fund	537	534	508	(29)	(26)
Special Revenue Fund	83	18	18	(65)	
Gift Fund	21	26	26	5	
Total for Asian-Pacific Council	641	578	552	(89)	(26)
Indian Affairs Council					
General Fund	977	972	924	(53)	(48)
Special Revenue Fund	120			(120)	
Arts & Cultural Heritage Fund	1,900		1,750	(150)	1,750
Federal Fund	207	120	120	(87)	
Total for Indian Affairs Council	3,204	1,092	2,794	(410)	1,702
Gambling Control Board					
Special Revenue Fund	5,504	5,880	5,480	(24)	(400)
Non-CFS Statutory Funds - Gambling Control Board					
<i>Lottery Prize Fund</i>	450		450		450
Racing Commission					
Special Revenue Fund	3,704	4,050	4,050	346	
Science Museum					
General Fund	2,374	2,374	2,136	(238)	(238)
Environmental & Natural Resources Fund	339			(339)	
Total for Science Museum	2,713	2,374	2,136	(577)	(238)

Agency/Fund	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Public Facilities Authority					
General Fund	213	172		(213)	(172)
General Fund Transfer Out	(45)			45	
Special Revenue Fund	234	108	108	(126)	
Clean Water Fund	18,960		47,161	28,201	47,161
Total for Public Facilities Authority	19,362	280	47,269	27,907	46,989
Explore Minnesota Tourism					
General Fund	20,950	18,376	17,458	(3,492)	(918)
Special Revenue Fund	3,362	2,628	2,628	(734)	
Federal Fund	56			(56)	
Total for Explore Minnesota Tourism	24,368	21,004	20,086	(4,282)	(918)
Historical Society					
General Fund	45,590	55,195	51,923	6,333	(3,272)
Special Revenue Fund	2,003	1,912	1,912	(91)	
Federal Fund	398	796	796	398	
Arts & Cultural Heritage Fund	21,159		24,941	3,782	24,941
Total for Historical Society	69,150	57,903	79,572	10,422	21,669
Public Broadcasting					
General Fund	3,881	3,864	3,586	(295)	(278)
Arts & Cultural Heritage Fund	11,484			(11,484)	
Total for Public Broadcasting	15,365	3,864	3,586	(11,779)	(278)
Humanities Center					
General Fund	500	500	474	(26)	(26)
Arts & Cultural Heritage Fund	2,100		3,150	1,050	3,150
Total for Humanities Center	2,600	500	3,624	1,024	3,124
Arts Board					
General Fund	16,705	16,680	15,012	(1,693)	(1,668)
Special Revenue Fund	4	8	8	4	
Federal Fund	2,197	1,786	1,786	(411)	
Arts & Cultural Heritage Fund	43,300		45,481	2,181	45,481
Gift Fund	80	80	80		
Total for Arts Board	62,286	18,554	62,367	81	43,813
Military Affairs Dept					
General Fund	44,064	39,002	42,002	(2,062)	3,000
General Fund Transfer Out	(14)			14	
Special Revenue Fund	3,112	5,066	5,066	1,954	
Federal Fund	159,627	208,230	208,230	48,603	
Total for Military Affairs Dept	206,789	252,298	255,298	48,509	3,000
Veterans Affairs Dept					
General Fund	117,007	116,158	118,948	1,941	2,790

Agency/Fund	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
General Fund Transfer Out	(85,956)	(87,832)	(88,732)	(2,776)	(900)
Special Revenue Fund	155,942	160,691	161,591	5,649	900
Federal Fund	48,047	24,748	24,748	(23,299)	
Gift Fund	1,155	1,271	1,271	116	
Total for Veterans Affairs Dept	236,195	215,036	217,826	(18,369)	2,790
Contingent Accounts					
General Fund	338	500	500	162	
State Government Special Revenue Fund	400	800	800	400	
Trunk Highway Fund	200			(200)	
Highway Users Tax Distribution Fund	125			(125)	
State Airports Fund	50			(50)	
Workers Compensation Special Fund	100	200	200	100	
Total for Contingent Accounts	1,213	1,500	1,500	287	
Tort Claims					
General Fund	322	322	322		
Trunk Highway Fund	911	1,200	1,200	289	
Total for Tort Claims	1,233	1,522	1,522	289	
MN State Retirement System					
General Fund	5,625	6,307	5,834	209	(473)
Local Pension Aids					
General Fund	55,254	82,754	82,754	27,500	
Consolidated Fund Statement					
General Fund	884,802	912,922	905,000	20,198	(7,922)
General Fund Transfer Out	(106,101)	(122,523)	(123,423)	(17,322)	(900)
Health Care Access Fund	3,866	3,854	3,754	(112)	(100)
Special Revenue Fund	339,254	339,453	339,953	699	500
Federal Fund	238,664	264,745	264,745	26,081	
Outdoor Heritage Fund	1,305		1,130	(175)	1,130
Arts & Cultural Heritage Fund	82,616		92,655	10,039	92,655
Clean Water Fund	19,055		47,244	28,189	47,244
Parks & Trails Fund	15		7	(8)	7
Environmental & Natural Resources Fund	339			(339)	
Gift Fund	1,442	1,416	1,416	(26)	
State Government Special Revenue Fund	4,755	4,568	4,568	(187)	
Environmental Fund	751	896	896	145	
Remediation Fund	384	500	500	116	
Trunk Highway Fund	1,111	1,200	1,200	89	
Highway Users Tax Distribution Fund	4,521	4,366	4,366	(155)	

Agency/Fund	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fcst. Base
Workers Compensation Special Fund	14,600	14,700	14,700	100	
State Airports Fund	51	2	2	(49)	
TOTAL CFS STATE GOVERNMENT	1,491,430	1,426,099	1,558,713	67,283	132,614
<i>Non-Consolidated Fund Statement*</i>					
<i>Administrative Hearings</i>	4,631	4,530	4,530	(101)	
<i>Internal Service Funds / Enterprise Funds</i>	366,200	395,902	395,902	29,702	
<i>State Employee Insurance</i>	1,415,173	1,662,888	1,662,888	247,715	
<i>Management Analysis</i>	4,748	5,302	5,302	554	
<i>Lottery Prize Fund</i>	450		450		450
TOTAL Non-CFS STATE GOVERNMENT	1,791,202	2,068,622	2,069,072	277,870	450
TOTAL (CFS and Non-CFS) STATE GOVERNMENT	3,282,632	3,494,721	3,627,785	345,153	133,064
*Note: With the exception of the Lottery Prize Fund, represents charges for services provided by one agency to another that are paid from the operating budget of the agency receiving the service.					

Table 2 details General Fund changes for State Government and Veterans agencies. In many cases, operating budget appropriations were reduced by three to ten percent compared to forecast levels for FY 2012-2013 as part of the solution to resolving a projected General Fund shortfall. These reductions, when combined with the increased funding for additional tax compliance activities, a tuition reimbursement increase for the Department of Military Affairs, and increased funding for the Department of Veterans Affairs, resulted in a net General Fund decrease of \$7.9 million in spending. \$50.4 million of new revenue is anticipated from new tax compliance and federal tax offset activities at the Department of Revenue.

Change Item	FY 2011	FY 2012	FY 2013	FY 2012- 13	FY 2014	FY 2015	FY 2014- 15
Legislature							
Senate							
5% Operating Budget Reduction		(1,091)	(1,091)	(2,182)	(1,091)	(1,091)	(2,182)
House of Representatives							
5% Operating Budget Reduction		(1,467)	(1,467)	(2,934)	(1,467)	(1,467)	(2,934)
Legislative Coordinating Commission							
5% Operating Budget Reduction		(755)	(755)	(1,510)	(755)	(755)	(1,510)
Constitutional Offices							
Governor's Office							

Change Item	FY 2011	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
5% Operating Budget Reduction State Auditor		(168)	(168)	(336)	(168)	(168)	(336)
5% Operating Budget Reduction Attorney General		(455)	(455)	(910)	(455)	(455)	(910)
5% Operating Budget Reduction Secretary of State		(1,110)	(1,110)	(2,220)	(1,110)	(1,110)	(2,220)
FY 11 Deficiencies: legal fees & recount	471						
3% Operating Budget Reduction		(185)	(185)	(370)	(185)	(185)	(370)
State Agencies, Boards & Commissions							
Campaign Finance Board							
5% Operating Budget Reduction		(36)	(36)	(72)	(36)	(36)	(72)
Investment Board							
5% Operating Budget Reduction		(7)	(7)	(14)	(7)	(7)	(14)
Administrative Hearings							
4% Operating Budget Reduction		(13)	(13)	(26)	(13)	(13)	(26)
Office of Enterprise Technology (OET)							
5% Operating Budget Reduction		(273)	(273)	(546)	(273)	(273)	(546)
Administration Department							
3% Operating Budget Reduction		(608)	(608)	(1,216)	(608)	(608)	(1,216)
Public Broadcasting							
7% Grant Reduction		(139)	(139)	(278)	(139)	(139)	(278)
Capitol Area Arch & Planning Board (CAAP)							
5% Operating Budget Reduction		(17)	(17)	(34)	(17)	(17)	(34)
Minnesota Mgmt & Budget (MMB)							
Pay for Performance Staff		75	75	150	75	75	150
5% Operating Budget Reduction		(957)	(957)	(1,914)	(957)	(957)	(1,914)
MMB Total		(882)	(882)	(1,764)	(882)	(882)	(1,764)
MMB Nonoperating							
SEGIS Dependent Health Care Audits			(1,726)	(1,726)	(1,726)	(1,726)	(3,452)
Revenue Department							
Additional Tax Compliance		5,251	8,468	13,719	8,468	8,468	16,936
5% Compliance Support Reduction		(2,184)	(2,184)	(4,368)	(2,184)	(2,184)	(4,368)
Revenue Department Total		3,067	6,284	9,351	6,284	6,284	12,568
MN Amateur Sports Commission							
5% Operating Budget Reduction		(13)	(13)	(26)	(13)	(13)	(26)
Black Minnesotans Council							
5% Operating Budget Reduction		(15)	(15)	(30)	(15)	(15)	(30)
Chicano Latino Affairs Council							
5% Operating Budget Reduction		(14)	(14)	(28)	(14)	(14)	(28)
Asian-Pacific Minnesotans Council							
5% Operating Budget Reduction		(13)	(13)	(26)	(13)	(13)	(26)
Minnesota Indian Affairs Council							
5% Operating Budget Reduction		(24)	(24)	(48)	(24)	(24)	(48)
Explore Minnesota Tourism							

Change Item	FY 2011	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
5% Operating Budget Reduction		(459)	(459)	(918)	(459)	(459)	(918)
Minnesota Historical Society (MHS)							
7% Operating Budget Reduction		(1,606)	(1,606)	(3,212)	(1,606)	(1,606)	(3,212)
10% Fiscal Agent Grants Reduction		(36)	(24)	(60)	(36)	(24)	(60)
MHS Total		(1,642)	(1,630)	(3,272)	(1,642)	(1,630)	(3,272)
Minnesota Arts Board							
10% Operating Budget Reduction		(834)	(834)	(1,668)	(834)	(834)	(1,668)
Humanities Center							
5% Budget Reduction		(13)	(13)	(26)	(13)	(13)	(26)
Public Facilities Authority (PFA)							
General Fund Budget Elimination		(86)	(86)	(172)	(86)	(86)	(172)
Science Museum of Minnesota							
10% Budget Reduction		(119)	(119)	(238)	(119)	(119)	(238)
MN State Retirement System (MSRS)							
Onetime Use of Fund Balance			(473)	(473)			
Military Affairs Department							
Tuition Reimbursement Increase		3,000		3,000			
Veterans Affairs Department							
21-Bed Specialty Care/Alzheimer's Unit			738	738	842	842	1,684
Adult Day Care Operational Funding			162	162	232	232	464
Higher Education Veterans Program		945	945	1,890	945	945	1,890
Veterans Affairs Total		945	1,845	2,790	2,019	2,019	4,038
Total Spending Changes	471	(3,426)	(4,496)	(7,922)	(3,861)	(3,849)	(7,710)
State Auditor							
Audit Practice Revenue Loss		(321)	(321)	(642)	(321)	(321)	(642)
Administration Department							
Fund Balances Transferred		126		126			
Revenue Department							
Additional Tax Compliance		35,700	46,614	82,314	46,614	46,614	93,228
Federal Offset Program		500	3,800	4,300	3,800	3,800	7,600
Revenue Department Total		36,200	50,414	86,614	50,414	50,414	100,828
Total Revenue Changes		36,005	50,093	86,098	50,093	50,093	100,186
Net Changes	471	(39,431)	(54,589)	(94,020)	(53,954)	(53,942)	(107,896)

LEGISLATURE

The Legislature appropriated \$127.6 million for its own operations, with \$122.9 million (96.3 percent) coming from the General Fund. The General Fund total included \$41.5 million for the Senate; \$55.7 million for the House of Representatives; and \$28.7 million for the joint legislative offices under the direction of the Legislative Coordinating Commission (LCC). Overall, these appropriations reflect a \$6.6 million cut to the forecasted General Fund amounts for FY 2012-2013.

CONSTITUTIONAL OFFICES

Governor

The Governor's office received an appropriation of \$7.7 million from all funds for FY 2012-2013. The General Fund appropriation of \$6.4 million was reduced by five percent from the forecast amount. As in the past, the Governor's office plans to use funds obtained from interagency agreements to support functions of the office in Washington, D.C. and for certain personnel costs in the Governor's office. Chapter 10, article 1, section 3, limits the total amount of funding received from other agencies under interagency agreements to \$720,000 for FY 2012-2013. This section also requires notice to the Legislature regarding these agreements.

State Auditor

The State Auditor's office was appropriated \$17.4 million from all funds for the biennium, with a reduction of five percent (\$910,000) from the forecast amount for its \$17.3 million from the General Fund. The reduction in the appropriation for the State Auditor is expected to result in \$642,000 of revenue loss to the General Fund resulting from a reduction in local government audits performed by the State Auditor. Chapter 10, article 1, section 4, also requires the State Auditor to provide reports to the Legislature regarding counties' satisfaction with the timeliness, quality, and cost of audits performed by the State Auditor.

Attorney General's Office

Total funding for FY 2012-2013 for the Attorney General's office was \$62.1 million, \$42.2 million of which is a direct appropriation from the General Fund. The General Fund appropriation is \$2.2 million, or five percent less than the forecast for FY 2012-2013.

Secretary of State

Chapter 10 provided \$16.9 million for the Secretary of State for FY 2012-2013. General Fund direct appropriations totaled \$10.9 million. This amount represents a \$370,000 reduction from the forecast for 2012-2013, or a three-percent reduction.

STATE AGENCIES

Office of Enterprise Technology

The FY 2012-2013 total appropriations for the Office of Enterprise Technology (OET) are \$22.8 million. The direct General Fund portion of the budget is \$10.4 million for FY 2012-2013. The OET is also supported by the Enterprise Technology Revolving Fund, which receives state agency reimbursements for services provided to the state and local government agencies. The OET assesses charge-backs to agencies for computing services; telecommunication services; enterprise application development; establishing information technology standards; and the OET's internal security, planning, and management operations. The estimated spending from the Enterprise Technology Revolving Fund for FY 2012-2013 is \$189.0 million.

Chapter 10, article 4, provides for OET, in cooperation with state agencies, to plan and manage development and improvement of information systems for those agencies, and requires OET to review and approve agency requests for grant funding that have an information and technology

component. This article also provides that all state executive branch employees with primary duties that include information technology responsibilities are OET employees.

Department of Administration

The Department of Administration appropriations total \$151.1 million for FY 2012-2013, including \$39.9 million from the General Fund. The General Fund appropriation is \$1.2 million, or three percent less than the forecast base. The Department of Administration also acts as the fiscal agent for \$17.3 million (included in the total) appropriated from the constitutionally dedicated Legacy Funds (Laws 2011, First Special Session Chapter 6). These dollars are for activities such as public broadcasting, zoos, and museums. The section on constitutionally dedicated funds provides further detail on these appropriations.

Over 80 percent of Department of Administration functions are funded from nongeneral fund appropriations, consisting primarily of internal service and enterprise funds. Internal service funds are established with deposits of fees charged primarily to state agencies for support services, such as insurance, fleet management, consulting, sale of office supplies, mail services, and the leasing of facilities under the custodial control of the Department of Administration. Enterprise funds are generated through fees charged to governmental entities, citizens, and businesses through the state bookstore, surplus property sales, and cooperative purchasing of products and services. Other funding is from fees for geospatial information services, and parking. Internal service and enterprise funds are expected to total \$206.9 million for the Department of Administration for the biennium. The funds are in addition to the \$151.1 million in appropriations to the department.

Chapter 10 requires the Department of Administration to issue request for proposals to find cost savings through efficiencies in state building management, state vehicle fleet management, and the use of strategic sourcing methods for the acquisition of goods and services for the state.

Minnesota Management and Budget

The FY 2012-2013 operating budget for the Department of Management and Budget totals \$60.3 million, \$54.5 million of which was appropriated directly from the General Fund. The General Fund was reduced \$1.8 million from the base level.

Chapter 10 contains an appropriation of \$75,000 each year for additional staffing required to implement additional duties assigned to Management and Budget related to a new pilot program called the “Pay-for Performance Program.” This initiative authorizes Management and Budget to issue appropriation bonds to pay third-party providers for the delivery of certain services based on the outcomes of the services for the people served. Before payment can be made to a service provider, the commissioner must determine that the provider has met specified criteria for return on investment.

Minnesota Management and Budget is required to reduce General Fund budget appropriations to state agencies by \$1.7 million by June 30, 2013, due to savings from the verification of dependent eligibility for state employee group insurance coverage.

The Legislature also passed separate legislation in Laws 2011, chapter 24 (otherwise known as the State Agency Value Initiative Program (SAVI)) to provide Management and Budget with the authority to allow state agencies to retain up to 50 percent of operating budget funds that are saved as a result of unanticipated innovation or efficiencies.

Department of Revenue

The Department of Revenue budget totals \$293.6 million for FY 2012-2013, including direct General Fund appropriations of \$282.4 million, which is an increase of \$9.4 million from the amount forecast. The direct appropriation includes a \$13.7 million increase for new tax compliance initiatives, which was offset by a cut of \$4.4 million, or five percent, to the operating budget for the Department of Revenue. The new efforts at tax compliance include the use of tax analytics and business intelligence tools, and are expected to yield \$46.6 million in new revenues in FY 2012-2013, resulting in a net General Fund gain of \$32.9 million. Further, changes in law included in Chapter 10 are expected to yield an additional \$4.3 million in new revenue from the Federal tax offset program in FY 2012-2013.

Office of Administrative Hearings

The Office of Administrative Hearings (OAH) has an overall budget of \$19.7 million for FY 2012-2013, funded mainly by the Workers' Compensation Special Fund and revolving fund revenues. \$14.5 million for FY 2012-2013 is from the Workers' Compensation Special Fund, and \$4.5 million is from the Administrative Hearings Fund, funded by charges to other state agencies and local governments for administrative law hearings. The direct General Fund appropriation for the OAH was reduced by four percent, from \$664,000 to \$638,000.

Racing Commission

For the FY 2012-2013 biennium, \$4.0 million was budgeted from direct and statutory appropriations for the Racing Commission's administrative and regulatory expenses, and the breeder's fund, which provides support to the horse industry. The revenue for these appropriations is derived from racetrack, card club, occupational license fees, and reimbursements.

Amateur Sports Commission

Chapter 10 includes \$626,000 for the Amateur Sports Commission, with \$496,000 from the General Fund in FY 2012-2013. The General Fund total represents a five percent reduction in the commission's operating budget.

Explore Minnesota Tourism

The State Government Omnibus Finance Act reduced the operating budget for the Explore Minnesota Tourism division of the Department of Employment and Economic Development by five percent from the FY 2012-2013 forecast amount. Explore Minnesota Tourism received a \$17.5 million direct General Fund appropriation for FY 2012-2013, or \$918,000 less than the forecast amount. Total funding for Explore Minnesota Tourism was \$20.1 million for the biennium.

Minnesota Historical Society

Chapter 10 appropriated \$79.6 million to the Minnesota Historical Society for FY 2012-2013, of which \$51.9 million came from the General Fund. The General Fund amount was a reduction of \$3.3 million from the forecast amount, or approximately 6.4 percent. The Historical Society received a \$24.9 million appropriation for FY 2012-2013 from the Arts and Cultural Heritage Fund in Laws 2011, First Special Session Chapter 6, for grants to local, county, regional and other historical or cultural organizations through a competitive process, and for programs and partnerships with other organizations to protect and enhance access to history and cultural heritage.

Councils

Chapter 10 reduced the FY 2012-2013 direct General Fund appropriations for operating budgets for each of the four minority councils established in state law by five percent from the forecast amount. The Council on Black Minnesotans received a \$584,000 General Fund appropriation for FY 2012-2013; the Council on Affairs of the Chicano/Latino People, \$550,000; the Council on Asian-Pacific Minnesotans, \$508,000; and the Indian Affairs Council, \$924,000. The Indian Affairs Council also received a \$1.8 million appropriation from the Arts and Cultural Heritage Fund for language preservation and educational programs.

Department of Military Affairs

The total FY 2012-2013 budget for the Department of Military Affairs is \$255.3 million, most of which comes from federal funds (\$208.2 million). The department expects an increase of \$48.6 million in federal funds compared to the amount spent in the previous biennium. The Legislature increased General Fund appropriations to the department by \$3 million to cover expenses from its tuition reimbursement enlistment incentive program.

Department of Veterans Affairs

The total FY 2012-2013 budget for the Department of Veterans Affairs is \$217.8 million, which is an increase of \$2.8 million from the forecast amount. \$1.9 million of this increase was a direct General Fund appropriation to extend the operation of the higher education veterans assistance program. Chapter 10 also contains \$900,000 in direct General Fund appropriations in FY 2013 to the department for programming and operational changes at the Fergus Falls and Minneapolis veterans' homes.

Extensions of Budget Authority

Chapter 10 also extended budget authority for FY 2012-2013 to the following agencies and programs:

- An estimated \$88.6 million for various **Public Retirement Funds** programs, including open appropriations estimated to be: (1) \$953,000 for constitutional officer plans; (2) \$4.8 million for legislators' retirement plan; (3) \$45.5 million for the Minneapolis Employees Retirement Fund to reduce unfunded liabilities; and (4) \$36.6 million to reduce the unfunded liabilities of the Minneapolis and St. Paul Teachers' Retirement Funds.

- \$58 million for **State Lottery** operations. Total lottery sales for FY 2012-2013 are estimated to be \$1.07 billion. Over 25 percent, or \$271.2 million, will be paid to the General Fund, Environment and Natural Resources Fund, Game and Fish Fund, and the Natural Resources Fund.
- \$1.4 million of direct General Fund appropriations for the **Campaign Finance and Public Disclosure Board**, a reduction of five percent, or \$72,000, from the forecast amount for FY 2012-2013.
- \$5.5 million from the lawful gambling regulation account in the Special Revenue Fund to the **Gambling Control Board**.
- \$2.1 million from the General Fund to the **Science Museum**, which is a ten-percent reduction from the forecast amount.
- \$15.0 million from the General Fund to the **Minnesota Arts Board**, which is a ten-percent reduction from the forecast amount.
- \$474,000 for the **Humanities Center**, which is a five-percent reduction from the forecast amount.
- \$650,000 from the General Fund for the **Capitol Area Architectural and Planning Board**, which is a reduction of five percent, or \$34,000, from the FY 2012-2013 forecast.
- \$278,000 from the General Fund for the operations of the **State Board of Investment**. This amount provides for the board's operating costs related to the investment of General Fund treasurer's cash. The remainder of the board's \$6.5 million budget for FY 2012-2013 comes from statutorily appropriated fees assessed against the assets of the funds the board invests.
- \$322,000 for **Tort Claims** to cover tort claims made against the state.
- \$1.5 million for Contingent Accounts, including \$500,000 from the General Fund, \$800,000 from the State Government Special Revenue Fund, and \$200,000 from Workers' Compensation Special Revenue Fund to support eligible and unexpected spending needs from those funds.

PENSIONS

The Omnibus Pension Act (Laws 2011, First Special Session Chapter 8) contained the pension legislation enacted by the 2011 Legislature. Chapter 8 contains numerous technical provisions and several sections of significance to particular individuals.

Major items included in Chapter 8 include the voluntary merger of the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association with the Public Employees Police and Fire Retirement Plan. The merger was made contingent upon approval of the

governing boards for each of the affected plans, the membership of the Minneapolis Firefighters and Police Plans, and the City of Minneapolis.

Other major changes in Chapter 8 include postretirement benefit adjustments to the St. Paul Teachers Retirement Fund that reduce the amounts of postretirement benefit increases until improved funding ratios have been achieved. In addition, the actuarial assumptions for the major statewide retirement plans were changed based on recent actuarial studies.

For questions regarding this Section or for more information on the fiscal aspects of State Government Finance, please contact kevin.lundeen@senate.mn.

TAX AIDS AND CREDITS

State General Fund spending for tax aids and credits will total \$2.857 billion for the 2012-2013 biennium, a net decrease of \$647.0 million from the February Forecast base. As summarized in Table 1, legislative action in 2011 resulted in an estimated decrease of \$642 million in property tax aids and credits paid to local governments, including school districts. Property tax refunds for homeowners were increased by \$29.8 million and the renters' property tax refund was reduced by \$26.3 million. Payments to forest land owners under the Sustainable Forestry Incentive Act (SFIA) were reduced by \$24.5 million.

Table 1					
Tax Aid and Credit Spending by Fund--All Funds, FY 2012-13					
<i>(dollars in thousands)</i>					
Fund/Program	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Fest. Base
<u>General Fund</u>					
Property Tax Refunds	945,240	1,074,643	1,053,678	108,438	(20,965)
City Aid	907,917	1,054,202	850,585	(57,332)	(203,617)
County Program Aid	359,818	394,914	322,212	(37,606)	(72,702)
Market Value Homestead Credit	389,657	530,299	165,044	(224,613)	(365,255)
Other Tax Aids and Credits	413,370	447,968	463,482	50,112	15,514
General Fund Total	3,016,002	3,502,026	2,855,001	(161,001)	(647,025)
<u>Special Revenue Fund</u>					
Aid to Local Government	983	1,220	1,220	237	
<u>Health Care Access Fund</u>					
Tax Refund Interest (Open)	1,022	800	800	(222)	
Total - All Funds	3,018,007	3,504,046	2,857,021	(160,986)	(647,025)

The General Fund property tax aid and credit changes enacted in 2011 were contained in:

- First Special Session Chapter 7, the Omnibus Tax Bill;
- Chapter 13, the Green Acres Policy Bill; and
- Chapter 112, the Omnibus Tax Policy Bill, which contained relatively minor tax aid and refunds spending changes.

Table 2						
Tax Aids and Credits Spending Changes						
<i>(dollars in thousands)</i>						
Change Items	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
<u>Property Tax Refunds</u>						
Homeowners		29,800	29,800	31,800	34,100	65,900
Renters		(26,300)	(26,300)	(26,600)	(26,800)	(53,400)
Forest Land Credits	(11,800)	(12,700)	(24,500)	(13,700)	(14,800)	(28,500)
<u>Local Aids</u>						
Local Government Aid	(101,755)	(101,862)	(203,617)	(100,663)	(100,663)	(201,326)
County Program Aid	(36,354)	(36,348)	(72,702)	(32,000)	(32,000)	(64,000)
Market Value Homestead Credit - County	(56,091)		(56,091)			
Market Value Homestead Credit - City	(47,964)		(47,964)			
Market Value Homestead Credit - Conversion to Exclusion		(261,200)	(261,200)	(264,923)	(273,723)	(538,646)
Agricultural Market Value Credit - City	(135)	42	(93)	39	32	71
Agricultural Market Value Credit - Town		92	92	85	70	155
PILT Inflation Adjustment Elimination		(170)	(170)	(310)	(480)	(790)
Wetlands Reimbursement Repealed		(13)	(13)	(13)	(13)	(26)
<u>Other Property Tax / Refund Changes</u>						
Political Contribution Refund	(5,400)	(6,400)	(11,800)			
Disabled Veterans Exclusion Extension		(100)	(100)	(170)	(260)	(430)
Disaster Relief Homestead Abatement	160	(160)				
Payment Shift Tax Credits (Ch.1, SS1)	(22,002)	17,475	(4,527)			
Tax Refund Delay Interest (Ch.8, SS1)	(900)		(900)			
Green Acres - PTR Homeowners (Ch 13)		35	35	35	35	70
PTR Interactions		15,740	15,740	11,160	11,390	22,550
Income Tax Interactions		16,150	16,150	11,730	11,980	23,710
Appropriations (see Table 3 for detail) *	306	329	635			
<u>Transfers</u>						
Science and Technology Fund	500		500			
Total Spending Changes	(281,435)	(365,590)	(647,025)	(383,530)	(391,132)	(774,662)

LOCAL AID AND CREDIT REDUCTIONS

As summarized in Table 2, the Omnibus Tax Bill reduced Local Government Aid (LGA), County Program Aid (CPA), and market value homestead credits to local governments by a total of \$642 million in FY 2012-2013. For aids payable in 2011 and 2012, LGA and CPA payments are equal to the lesser of the aid certified for 2011 or the actual aid paid in 2010.

State reimbursements for the market value homestead credit in 2011 were also limited to no more than the amount paid in 2010. Beginning with taxes payable in 2012, the market value homestead tax benefit is converted from a state-paid credit to an exclusion from a homestead's market value. The market value exclusion reduces a homestead's tax capacity by the same amount as the tax credit that it replaces.

Also beginning in FY 2014 (pay 2013), the annual appropriation for local government aid to cities is permanently reduced by \$100.6 million, from \$527 million to \$426.4 million. County program aid is permanently reduced by \$32 million, from 197.7 million to \$165.7 million annually.

CHANGES TO PROGRAMS

Homeowner's Property Tax Refund

The homeowner's property tax refund program provides tax relief to homeowners when their property tax exceeds a specified percentage of their income. In First Special Session Chapter 7, the maximum refund amounts and the percentage of income thresholds for homeowners were reduced, resulting in increased refunds at most income levels. An estimated 364,600 homeowners will receive an average increase of \$75, from an average refund of \$743 to \$818. Approximately 140,900 senior/disabled homeowners will receive an average increase of \$77 from an average refund of \$753 to \$830.

Renter's Property Tax Refund

The renter's property tax refund program, often called the "renters' credit," is a state-paid refund that provides tax relief to renters whose rent and "implicit property taxes" are high relative to their incomes. "Rent constituting property taxes" is assumed to equal 19 percent of rent paid.

In First Special Session Chapter 7, the portion of the rent used to calculate the refund is permanently reduced from 19 percent of rent paid to 17 percent, generating a savings of \$26.3 million to the General Fund in FY 2012-2013 (see Table 2). This change affects 297,000 renters who file for a property tax refund and it will reduce the average refund by \$87, a 13.5 percent reduction (from an average of \$643 to \$556). This change will impact 81,900 senior/disabled filers, and will reduce the average refund by \$84, from an average of \$683 to \$599.

Sustainable Forestry Initiative Act (SFIA) Payments

The SFIA allows annual payments to be made to enrolled owners of forested land as an incentive to practice long-term sustainable forest management. The payment rate in 2008 was \$8.61 per acre. First Special Session Chapter 7 caps SFIA payments at \$7 per acre for each acre enrolled, and \$100,000 per enrollee beginning in 2011 (FY 2012). The General Fund appropriation is reduced by \$24.5 million in FY 2012-2013.

Political Contribution Refund

First Special Session Chapter 7 extends the suspension of Minnesota's Political Contribution Refund Program, which allows individuals who contribute to a Minnesota political party or to candidates for State office or the Minnesota Legislature to apply for a refund of their contributions. The refunds are eliminated for any political contribution made between July 1, 2011, and June 30, 2013. This results in a savings of \$11.8 million in FY 2012-2013, and will affect approximately 90,000 refunds annually.

OTHER APPROPRIATIONS

- First Special Session Chapter 7 contained other appropriations totaling \$635,000 in FY 2012-2013, as summarized in Table 3, including:
- Tax Incidence Study: Directs the Commissioner of Revenue to include information on the distribution of federal taxes borne by Minnesota residents. \$15,000 is appropriated to the Department of Revenue (DOR) in FY 2012 and \$15,000 in FY 2013.
- Income Tax Reciprocity: Directs the Commissioner of Revenue to negotiate with the Wisconsin Secretary of Revenue to enter into an income tax reciprocity agreement with Wisconsin beginning in 2012. \$291,000 is appropriated to the Department of Revenue in FY 2012 and \$314,000 in FY 2013 for a reciprocity benchmark study.

OTHER FUNDS SPENDING CHANGES

Budget Reserve Account

First Special Session Chapter 7 directs the Commissioner of Management and Budget to cancel \$8.66 million from the budget reserve account to the General Fund retroactive to July 1, 2011.

Cash Flow Account

First Special Session Chapter 7 directs the Commissioner of Management and Budget to cancel \$171 million from the cash flow account to the General Fund retroactive to July 1, 2011.

Change Items	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
<u>Appropriations *</u>						
DOR - Income Reciprocity Benchmark Study (SS1, Ch. 7)	291	314	605			
DOR - Tax Incidence Study (SS1, Ch. 7)	15	15	30			
Appropriations Subtotal	306	329	635			

For questions regarding this Section or for more information on the fiscal aspects of Tax Aids and Credits, please contact jack.paulson@senate.mn.

CAPITAL INVESTMENT

First Special Session Chapter 12, the 2011 Capital Investment Bill, authorized \$555.1 million of funding for capital improvements. Of this amount, \$478.3 million are general obligation bonds to be paid from the General Fund, and another \$33.9 million are general obligation bonds financed by user fees from revenues from the Minnesota State Colleges and Universities. The local bridge replacement program received \$33 million in funding, and the local road improvement program received \$10 million in funding to be paid from the state's Trunk Highway Fund. These new authorizations were offset by cancellations of earlier appropriations of \$23.7 million, for a net increase of \$531.4 million. The odd-year legislative session is considered the smaller dollar amount for a bonding bill, and for the 2011 bill there were no vetoes by the Governor.

State Government Debt Service Costs

Minnesota's Management and Budget is the state agency primarily responsible for borrowing money to finance capital projects and managing debt. The Commissioner of Management and Budget can issue general obligation bonds, general obligation trunk highway bonds, and certain types of revenue bonds. Most bond issuances are general obligation bonds paid for by General Fund appropriations.

As shown in Table 1, the February 2011 forecast for the debt service to be paid from the General Fund was \$1.181 billion for the biennium. After the approval of these new capital improvement authorizations, the General Fund spending for debt service is decreased by \$648.2 million to \$532.4 for the biennium. The net decrease is due to the offset from using the tobacco bond sale proceeds, which reduces the General Fund debt service costs by \$640 million.

First Special Session Chapter 7, the 2011 Tax Bill, authorized the sale of tobacco bonds, or securitization bonds. The proceeds of the bond sales will be deposited into the debt service fund, reducing the payment of debt service from the General Fund by \$400 million in fiscal year 2012 and \$240 million in fiscal year 2013. The biennial General Fund savings of \$640 million from the Debt Service Fund was then utilized in other budget expenditure areas. (See the Appendix A for more information on Tobacco Bonds.)

Other state government entities that can issue bonds are the Agricultural and Economic Development Authority, Higher Education Facilities Authority Revenue Bonds, Housing Finance Authority Revenue Bonds, Iron Range Resources and Rehabilitation Agency, the Office of Higher Education, Public Facilities Authority Revenue Bonds, State Armory Building Commission, and the State Colleges and Universities Revenue Bonds. Table 1 shows the proposed transfer in by fund to the Debt Service Fund for interest expense and principal to pay off the bonds that have been issued.

Table 1 Capital Investment Biennial Budget Balance - Debt Service Fund <i>(dollars in thousands)</i>					
Transfer in by Fund Base	FY 2010-11 Spending	FY 2012-13 Forecast Base	FY 2012-13 Enacted Budget	Change Enacted FY 2010-11	Change Enacted - Fcst. Base
Agricultural Fund	59	31	31	(28)	
Building Fund	274	58	58	(216)	
Game & Fish Fund					
General Fund	827,922	1,180,575	532,400	(295,522)	(648,175)
Tobacco Settlement Bond Fund			640,000	640,000	640,000
Maximum Effort School Loan	5,037	5,000	33,458	28,421	28,458
Natural Resources Fund	18	16	16	(2)	
Rural Farm Administration	23,058	14,951	14,951	(8,107)	
Special Revenue Fund	464	386	386	(78)	
Trunk Highway Fund	115,767	268,123	282,250	166,483	14,127
Investment Receipts	1,777,677	106,356	106,356	(1,671,321)	
Balance Forward In	643,401	525,268	724,364	(80,963)	199,096
Total Transfers In:	3,393,677	2,100,764	2,334,270	(1,059,407)	233,506
Spending	2,669,313	1,529,335	1,540,904	(1,128,409)	11,569
Budgetary Balance	724,364	571,429	793,366	(69,002)	221,937

Summary of Authorized Projects

Table 2 summarizes the approved capital improvement projects by agency. Significant capital investments authorized, and detailed in Table 2, include:

- \$60 million for the higher education systems for asset preservation and replacement projects on the University of Minnesota and Minnesota State Colleges and Universities campuses. Another \$152.9 million was authorized for a variety of building projects statewide for the campuses in the two systems. Also, \$12.5 million was approved for the Central Corridor Light Rail Transit Laboratory Mitigation construction work on the Minneapolis campus of the University of Minnesota.
- \$33 million was made available to repair and replace deficient local bridges.
- \$10 million is for the local road improvement program.
- \$8 million to develop the Lake Vermilion State Park.
- \$16 million is to renovate the Coon Rapids Dam.
- \$20 million to acquire easements in the RIM program.
- \$20 million for various transit improvement projects.

- \$15.5 million to improve road access to the Mall of America.
- \$50 million for flood hazard mitigation projects in counties, municipalities, and watershed districts.
- \$20 million for the state’s wastewater infrastructure funding program.
- \$56.8 million for asset preservation in various state agencies.
- \$22 million was cancelled from the Minnesota Planetarium authorization.

Language in Chapter 12 extended for two more years Minnesota Management and Budget’s authority to either negotiate the sale of bonds, or use the more traditional competitive bidding process.

Table 2 Capital Investment Appropriations 2011 <i>(dollars in thousands)</i>		
AGENCY AND PROJECT	Fund	Chapter 12
ADMINISTRATION		
Asset Preservation		8,150
Statewide Repairs and Replacements(CAPRA)		<u>2,830</u>
Administration Total	Bond	10,980
BOARD OF WATER AND SOIL RESOURCES (BWSR)		
Minnesota River Basin Area II Floodwater Retention		1,000
RIM Conservation Reserve – Acquire Easements		20,000
Grass Lake Wetland Basin Restoration		<u>1,614</u>
BWSR Total	Bond	22,614
CORRECTIONS		
Department-wide Asset Preservation		<u>19,000</u>
Corrections Total	Bond	19,000
EMPLOYMENT AND ECONOMIC DEVELOPMENT		
Greater Minnesota Business Development Program		4,000
Innovative Business/Public Infrastructure Grants		5,000
Landau Lane Corridor		15,450
Hennepin County Minnesota African American Museum and Cultural		<u>1,000</u>
Employment and Economic Development Total	Bond	25,450
HISTORICAL SOCIETY		
Historic Sites Asset Preservation		<u>1,900</u>
Historical Society Total	Bond	1,900
HUMAN SERVICES		
System-Wide Asset Preservation		4,700
Early Childhood Learning Facilities		1,900

AGENCY AND PROJECT	Fund	Chapter 12
MSOP – Shantz Bldg Renovation – St. Peter		7,000
Remembering With Dignity – Unmarked Graves		<u>300</u>
Human Services Total	Bond	13,900
METROPOLITAN COUNCIL		
Transit Capital Improvement Program		20,000
Metropolitan Regional Parks and Trails		<u>5,000</u>
Metropolitan Council Total	Bond	29,500
MILITARY AFFAIRS		
Asset Preservation		3,775
Camp Ripley State Education Complex Addition Design		<u>1,830</u>
Military Affairs Total	Bond	11,900
MINNESOTA STATE COLLEGES AND UNIVERSITIES		
Higher Education Asset Preservation and Replacement (HEAPR)		30,000
Anoka Ramsey CC – Fine Arts Building Renovation		5,357
Hennepin Tech. College – Learning Services and Student Services Renovation		10,566
Metro State Science Building		3,444
Mn State University – Moorhead Livingston Library and Info Tech Renovation		14,901
Normandale CC – Academic Partnership Center Student Services		21,984
NHED Mesabi CTC – Iron Range Engineering Program Facilities		3,000
St. Cloud State University – Integrated Science and Engineering Lab Facility		42,234
Minnesota State Colleges and Universities Total	Bond	131,586
MINNESOTA STATE ACADEMIES		
Asset Preservation		<u>2,160</u>
Minnesota State Academies Total	Bond	2,160
NATURAL RESOURCES		
Statewide Asset Preservation		17,000
Flood Hazard Mitigation		50,000
Groundwater Monitoring and Observation Wells		600
Coon Rapids Dam Renovation – Three Rivers Park District		16,000
Roads and Bridges		4,800
Lake Vermilion State Park Development		8,000
State Trail Acquisition and Development		5,800
Lake Superior Campground Expansion		<u>1,250</u>
Natural Resources Total	Bond	103,450
POLLUTION CONTROL AGENCY		
Capital Assistance Program - Perham Resource Recovery Facility		550
Closed Landfill Bonding		<u>7,000</u>
Pollution Control Agency Total	Bond	7,550
PUBLIC FACILITIES AUTHORITY		
Wastewater Infrastructure Funding Program		<u>20,000</u>
Public Facilities Authority Total	Bond	20,000
PUBLIC SAFETY		
Hennepin County Regional 911 Emergency Communications Center		4,700
Maplewood East Metro Safety Training Center – Acquire Land, Design, Construct		3,000
Scott County Regional Safety Center – Design, Construct, Equip		<u>1,000</u>

AGENCY AND PROJECT	Fund	Chapter 12
Public Safety Total	Bond	8,700
TRANSPORTATION		
Local Bridge Replacement	TF	33,000
Greater Minnesota Transit Assistance		2,500
Railroad Grade Warning Devices Replacement		3,000
Port Development Assistance		3,000
Local Road Improvement Fund Grants	TF	10,000
Airport Infrastructure Program		3,700
Rail Service Improvement – Meleod County RRA Switching Yard		<u>700</u>
Transportation Total		55,900
UNIVERSITY OF MINNESOTA		
Higher Education Asset Preservation and Replacement (HEAPR)		30,000
Physics and Nanotechnology		51,333
Central Corridor LRT Laboratory		
Mitigations		<u>12,500</u>
University of Minnesota Total	Bond	88,833
VETERANS AFFAIRS		
Asset Preservation		<u>2,300</u>
Veterans Affairs Total	Bond	2,300
ZOOLOGICAL GARDENS		
Asset Preservation and Exhibit Renewal		<u>4,000</u>
Zoological Gardens Total	Bond	4,000
MANAGEMENT AND BUDGET		
Bond Sale Expense	Bond	<u>553</u>
Cancellations	Bond	(23,700)
SUMMARY, CHAPTER 12, 1st Special Session		
Total Projects Authorized		555,140
General Obligation Bonds – New Authorizations		501,978
General Obligation Bonds - Cancellations		-23,700
General Obligation Bonds - User Financed		33,862
State Transportation Fund Bonds		<u>43,000</u>
CHAPTER 12 TOTAL - NET		531,440

For questions regarding this Section or for more information on the fiscal aspects of Capital Investment, please contact david.jensen@senate.mn.

LEGACY AMENDMENT DEDICATED FUNDS

First Special Session Chapter 6 contained the appropriations from the constitutionally dedicated funds, otherwise known as the “Legacy” Funds. The Legacy Funds were created by passage of a constitutional amendment in 2008, which raised the sales tax by three-eighths of one percent starting in FY 2010. The Legislature appropriated money from the Outdoor Heritage Fund based on recommendations from the Lessard Outdoor Heritage Council, which is a council of citizens and legislators that was created to oversee the Outdoor Heritage Fund. The council made spending recommendations for FY 2012 only and will have additional recommendations for the 2012 Legislature for the remaining FY 2013 appropriations. The Legislature made appropriations for both FY 2012 and FY 2013 from the other three dedicated funds—Arts and Cultural Heritage Fund, Clean Water Fund, and Parks and Trails Fund. Table 1 displays the appropriations made from the Legacy Funds by the 2011 Legislature.

In addition to the above funds, the Minnesota Environment and Natural Resources Trust Fund was established in the Minnesota Constitution in 1988 and is funded from 40 percent of the net proceeds of the Minnesota Lottery. The Legislature appropriates up to 5.5 percent of the market value of the fund each year, or \$25.3 million in each FY 2012 and FY 2013. The Legislative-Citizen Commission on Minnesota Resources makes annual recommendations to the Legislature on project-specific appropriations from the fund. Table 2 shows the appropriations made from the Environment and Natural Resources Trust Fund.

Table 1		
Constitutional Dedicated Appropriations: by Fund, by Agency		
<i>(dollars in thousands)</i>		
Fund, Agency	FY 2010-11 Biennium	FY 2012-13 Biennium
Outdoor Heritage Fund*		
Department of Natural Resources		
Prairie Acquisition & Restoration	32,306	30,422
Forests for the Future/Easements	41,603	14,371
Wetlands Acquisition & Restoration	21,488	2,827
Fish, Game & Wildlife Habitat	31,466	22,914
<u>Administration; Other</u>	<u>350</u>	<u>42</u>
Total for Department of Natural Resources	127,213	70,576
Board of Water & Soil Resources		
Prairie Acquisition & Restoration		2,249
<u>Wetlands Acquisition & Restoration</u>	<u>15,953</u>	<u>13,000</u>
Total for Board of Water & Soil Resources	15,953	15,249
Department of Agriculture		
Forest Protection/Invasive Species	2,000	
Legislative Coordinating Commission		
Administration, Web Site	1,305	1,130
Total Outdoor Heritage Fund	146,471	86,955

Fund, Agency	FY 2010-11 Biennium	FY 2012-13 Biennium
Clean Water Fund		
Pollution Control Agency		
Nonpoint Source Protection & Preservation	3,450	3,500
Point Source Protection	4,669	1,600
Assessment, Monitoring & TMDL Development	35,092	36,100
Ground & Drinking Water Protection	2,250	3,820
Education & Public Engagement	250	450
<u>Research & Tool Development</u>	<u>1,395</u>	<u>2,300</u>
Total for Pollution Control Agency	47,106	47,770
Department of Natural Resources		
Nonpoint Source Protection & Preservation	1,000	260
Assessment, Monitoring & TMDL Development	5,800	9,410
Ground & Drinking Water Protection	5,125	4,900
<u>Research & Tool Development</u>	<u>6,600</u>	<u>6,150</u>
Total for Department of Natural Resources	18,525	20,720
Metropolitan Council		
Water Supply Planning	800	1,000
Board of Water & Soil Resources		
Nonpoint Source Protection & Preservation	37,024	52,468
<u>Wellhead Protection Areas</u>	<u>2,300</u>	<u>2,600</u>
Total for Board of Water & Soil Resources	39,324	55,068
Department of Agriculture		
AgBMP Loan Program	4,500	9,000
Assessment, Monitoring & TMDL Development	1,070	2,450
Ground & Drinking Water Protection	1,125	2,400
<u>Research & Tool Development</u>	<u>2,265</u>	<u>1,550</u>
Total for Department of Agriculture	8,960	15,400
Public Facilities Authority		
Wastewater and Point Source Grants & Loans	32,700	33,420
Department of Health		
Ground & Drinking Water Protection	3,750	6,038
University of Minnesota		
Research & Tool Development	1,055	
Legislative Coordinating Commission		
Public Information Web Site	25	13
Total Clean Water Fund	152,245	179,429
Parks & Trails Fund		
Department of Natural Resources		
State Parks, Recreation Areas, and Trails	27,781	28,865
Regional Parks and Trails Grants	7,770	17,292
Solar Project Grants	1,100	
<u>Parks Framework & Inventory</u>	<u>250</u>	<u>76</u>
Total for Department of Natural Resources	36,901	46,233
Metropolitan Council - Regional Parks		
Metro Parks and Trails Grants	27,781	31,904

Fund, Agency	FY 2010-11 Biennium	FY 2012-13 Biennium
University of Minnesota		
Parks Framework & Inventory	400	
Legislative Coordinating Commission		
Public Information Web Site	15	7
Total Parks and Trails Fund	65,097	78,144
Arts & Cultural Heritage Fund		
Arts Board		
Arts & Arts Access Initiatives	33,550	35,153
Arts Education Collaborations	6,490	6,552
Arts in Cultural Heritage	2,160	2,146
Fiscal Oversight & Accountability	1,100	1,630
Total for Arts Board	43,300	45,481
Historical Society		
Statewide History Programs & Projects	7,750	9,600
Statewide Historic & Cultural Grants	6,750	10,500
Assistance to Local Historical Societies	5,000	4,000
Exhibit on Regional, Local & Cultural Diversity	2,500	-
Total for Historical Society	22,000	24,100
Department of Administration: Fiscal Agent		
Public Television	6,300	7,400
Minnesota Public Radio & AMPERS	5,300	5,300
Como Zoo	300	400
Lake Superior Zoo	300	200
Minnesota Children's Museum	500	1,000
Duluth Children's Museum	500	
MN Film and TV Board		1,000
MN Veterans' Camps		475
State Capitol Preservation Commission		550
Science Museum of Minnesota	900	1,000
Total for Dept. of Administration	14,100	17,325
Minnesota Zoo		
Programmatic Development	300	3,000
Minnesota Center for the Humanities		
Program Development	600	650
Council on Asian Pacific Minnesotans	250	
Council on Black Minnesotans	250	
Indian Affairs Council	250	
Chicano/Latino Affairs Council	250	
Councils of Color Grants		1,000
Children Museums Grants		1,000
Civics Education	500	500
Total for MN Center for the Humanities	2,100	3,150
Perpich Center for Arts Education		
Arts, Arts Education, and Arts Access	1,000	1,700

Fund, Agency	FY 2010-11 Biennium	FY 2012-13 Biennium
Department of Education		
Minnesota Regional Library Systems	8,500	6,000
Department of Agriculture		
County Ag Societies/County Fair Grants		2,800
Indian Affairs Council		
Dakota and Ojibwe Language Preservation	1,400	1,250
Dakota and Ojibwe Immersion Programs	500	500
Total for Indian Affairs Council	1,900	1,750
Legislative Coordinating Commission		
Public Information Web Site	20	8
Total Arts and Cultural Heritage Fund	93,220	105,314
Summary by Fund		
Outdoor Heritage Fund*	146,471	86,955
Clean Water Fund	152,245	179,429
Parks & Trails Fund	65,097	78,144
Arts & Cultural Heritage Fund	93,220	105,314
Constitutional Dedicated Funds, Grand Total:	457,033	449,842
<u>Notes:</u>		
*Legislature only appropriated money for the first year for the Outdoor Heritage Funds; other funds were appropriated for two fiscal years.		

Table 2	
Appropriations from the Environment & Natural Resources Trust Fund	
<i>(dollars in thousands)</i>	
Category/Project	FY 2012-13 Biennium
Natural Resources Data & Information (17 Projects)	9,775
Land, Habitat, and Recreation (37 Projects)	27,634
Water Resources (6 Projects)	1,557
Aquatic and Terrestrial Invasive Species (3 Projects)	870
Renewable Energy and Air Quality (1 Project)	150
Environmental Education (3 Projects)	811
Emerging Issues (5 Projects)	8,735
Administration	1,124
Total Appropriations from Trust Fund	50,656
Land & Water Conservation Account (LAWCON) Appropriation	750

For questions regarding this Section or for more information on the fiscal aspects of Legacy Amendment Dedicated Funds, please contact daniel.mueller@senate.mn.

APPENDIX A TOBACCO BONDS

As part of the solution to the forecast General Fund budget deficit, the Governor and Legislature enacted a provision of law to sell bonds tied to the State's ongoing settlement payments from the 1998 tobacco litigation settlement (*State of Minnesota and BCBSM vs. Phillip Morris, et al.*). This provision was included in Laws 2011, First Special Session Chapter 7, and is expected to provide General Fund expenditure savings of \$640 million for the FY 2012-2013 biennium.

The law sets up a structure for the Commissioner of Management and Budget (MMB) to sell tobacco bonds that net to the \$640 million amount. The total amount of the bonds sold will ultimately be higher than this amount because the structure also capitalizes the interest costs in FY 2012-2013 and may need additional financial resources for the cost of issuance, a potential debt service reserve or underwriter's discount.

Two Possible Approaches

The law allows MMB to either (1) securitize the ongoing tobacco settlement payments that were part of the 1998 settlement of a lawsuit brought by the State of Minnesota and Blue Cross Blue Shield against tobacco manufacturers; or (2) sell appropriation bonds.

- (a) Securitized tobacco settlement payments: a separate authority would be created to sell the bonds, and the State would transfer or sell to the authority the State's rights to the tobacco settlement payments. The settlement payments would be used to pay principle and interest on bonds, and any amount of the settlement payments not needed for bondholders would be deposited in the General Fund.

The total cost of debt service payments for a securitized tobacco bond over the 20 years is estimated to be \$1.2 billion.

- (b) Appropriation bonds: appropriation bonds would be sold by the State and would require annual appropriations to pay debt service in the future on bond proceeds received in FY 2012-2013. The constitutionality of appropriation bonds has been questioned by the Attorney General, so the bill allows the Commissioner of MMB to file a complaint with the Minnesota Supreme Court for an expedited determination of the legality of appropriation bonds.

The total cost for a payment stream of 20 years for an appropriation bond is estimated to be \$980 million.

Use of Proceeds

According to bond counsel, in order to sell tax-exempt bonds, the proceeds of either type of bond would need to be used to offset the cost of the State's existing debt service obligations for bonds sold to finance previously approved capital projects. Because it will take some time to test the legality of appropriation bonds, the commissioner will sell securitized tobacco bonds in FY

2012. If MMB asks the Supreme Court to determine whether appropriation bonds are constitutional, it is possible that the 2012 securitization bonds could be refunded by an appropriation bond if the Supreme Court validates the appropriation bonds. The second bond sale in FY 2013 then could either be another securitized tobacco bond or an appropriation bond.

Financial Information

Based on the February Forecast, the ongoing settlement payments from the tobacco litigation were budgeted to be \$319.7 million in FY 2012-2013 and \$303.0 million in FY 2014-2015. Generally, the settlement payments have declined over time—and are expected to continue to decline—due to the gradual reduction in tobacco consumption in the United States.

The bonds sold under this law will not provide revenue to the State's General Fund. The bond proceeds will go to the State's Debt Service Fund and therefore reduce the need for budgeted General Fund debt service transfer payments by \$640 million during FY 2012-2013 (an expenditure reduction, not a revenue). The enacted budget included a net reduction of \$400 million in FY 2012 and \$240 million in FY 2013.

- The 2011 February Forecast projected General Fund debt service costs for FY 2012-2013 on General-Fund backed general obligation bonds at \$1.2 billion;
- The cost of debt service on the bonds will be capitalized in FY 2012-2013 (no payments first two years);
- The cost of debt service on securitized bonds in FY 2014-2015 is estimated to be \$189 million (this will be a loss of revenue, because this portion of the tobacco settlements will no longer be available to the State's budget);
- The actual credit rating, interest rate cost, and cost over the term of the bond will ultimately be determined by market conditions at the time of the bond sale; and
- The State's full faith and credit is not pledged to either type of bond authorized in Chapter 7.

For questions regarding this Appendix or for more information on the fiscal aspects of Tobacco Bonds, please contact brent.gustafson@senate.mn.

APPENDIX B

Health and Human Services—Appendix B					
Biennial Spending by Agency & Fund					
All Funds FY 2012-13					
<i>(dollars in thousands)</i>					
Agency/Fund	FY 2010-11 Spending	FY 2012-13 Budget (02/11 Forecast)	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted – Fcst. Base
Totals by Agency					
Department of Human Services	22,785,023	26,607,884	25,474,319	2,689,296	(1,133,565)
General Fund	8,433,970	12,135,276	11,178,598	2,744,628	(956,678)
General Fund Transfers Out	(328,720)	(203,725)	(187,973)	140,747	15,752
State Government Special Revenue Fund	1,130	1,130	7,130	6,000	6,000
Health Care Access Fund	1,043,075	964,948	683,718	(359,357)	(281,230)
Special Revenue Fund	958,770	661,289	661,329	(297,441)	40
Federal Fund	12,244,232	12,658,183	12,760,034	515,802	101,851
Federal TANF Fund	432,450	390,714	371,414	(61,036)	(19,300)
Gift Fund	116	67	67	(49)	
Endowment Fund		2	2	2	
Department of Health	1,104,152	1,099,356	1,055,407	(48,745)	(43,949)
General Fund	130,949	152,189	143,231	12,282	(8,958)
General Fund Transfers Out	(5,686)			5,686	
Environment & Natural Resources Fund	594			(594)	
State Government Special Revenue Fund					770
Health Care Access Fund	87,674	91,093	91,863	4,189	
Special Revenue Fund	76,413	25,369	39,423	(36,990)	14,054
Special Revenue Fund	126,434	130,535	130,535	4,101	
Federal Fund	487,498	506,422	513,531	26,033	7,109
Federal TANF Fund	22,558	23,466	23,426	868	(40)
Environmental Fund	190	114	114	(76)	
Remediation Fund	504	504	504		
Clean Water Fund	3,750		6,038	2,288	6,038
Medical Education Endowment Fund	172,942	169,372	106,450	(66,492)	(62,922)
Gift Fund	332	292	292	(40)	
Health-Related Boards	28,939	29,552	35,555	6,616	6,003
State Government Special Revenue Fund	28,029	29,124	35,127	7,098	6,003
Special Revenue Fund	523	428	428	(95)	
Federal Fund	387			(387)	
Emergency Medical Services Board	12,808	11,080	9,644	(3,164)	(1,436)
General Fund	5,865	5,484	5,484	(381)	
State Government Special Revenue Fund	1,426	1,436		(1,426)	(1,436)
Special Revenue Fund	5,035	3,672	3,672	(1,363)	
Federal Fund	465	484	484	19	
Gift Fund	17	4	4	(13)	

Agency/Fund	FY 2010-11 Spending	FY 2012-13 Budget (02/11 Forecast)	FY 2012-13 Enacted Budget	Change: Enacted - FY 2010-11	Change: Enacted - Base
Council on Disability	1,511	1,119	1,119	(392)	
General Fund	1,048	1,048	1,048		
Special Revenue Fund	268			(268)	
Federal Fund	195	71	71	(124)	
Ombudsman for MH/DD	3,310	3,310	3,310		
General Fund	3,310	3,310	3,310		
Special Revenue Fund					
Ombudsperson for Families	771	791	791	20	
General Fund	530	530	530		
Special Revenue Fund	241	261	261	20	
Total by Agency	23,936,514	27,753,092	26,580,145	2,643,631	(1,172,947)
Other HHS Budget Activity					
Statutory Transfer to HCAF		40,000	26,703	26,703	(13,297)
General Fund Transfer Out		(40,000)	(40,000)	(40,000)	
Totals by Fund					
General Fund	8,575,672	12,337,837	11,372,201	2,796,529	(965,636)
General Fund Transfers Out	(334,406)	(243,725)	(227,973)	106,433	15,752
State Government Special Revenue Fund					11,337
Health Care Access Fund	1,119,488	990,317	723,141	(396,347)	(267,176)
Special Revenue Fund	1,091,271	796,185	796,225	(295,046)	40
Environment & Natural Resources Fund	594			(594)	
Federal Fund	12,732,777	13,165,160	13,274,120	541,343	108,960
Federal TANF Fund	455,008	414,180	394,840	(60,168)	(19,340)
Environmental Fund	190	114	114	(76)	
Remediation Fund	504	504	504		
Clean Water Fund	3,750		6,038	2,288	6,038
Medical Education Endowment Fund	172,942	169,372	106,450	(66,492)	(62,922)
Gift Fund	465	363	363	(102)	
Endowment Fund		2	2	2	
Total by Fund	23,936,514	27,753,092	26,580,145	2,643,631	(1,172,947)

For questions regarding this Appendix or for more information on the fiscal aspects of Health and Human Services, please contact dennis.albrecht@senate.mn.

APPENDIX C

Health and Human Services—Appendix C						
General Fund Spending Changes (Detail)						
FY 2012-13 and FY 2014-15						
<i>(dollars in thousands)</i>						
	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Department of Human Services						
Continuing Care Change Items	(52,134)	(92,427)	(144,561)	(146,015)	(200,098)	(346,113)
1-Year Suspension 1% DD Waiver						
Acuity	(4,481)	(4,481)	(8,962)	(4,481)	(4,481)	(8,962)
Aging Grant Reduction	(3,600)	(3,600)	(7,200)			
Elderly Waiver and AC Program						
Changes	(7,490)	(8,506)	(15,996)	(8,662)	(8,592)	(17,254)
Reduce Certain Congregate Living Rates	(4,987)	(7,723)	(12,710)	(7,886)	(7,886)	(15,772)
State Quality Improvement & Licensing System	165	165	330	165	165	330
Disability Waiver Enrollment Limits	(13,430)	(34,694)	(48,124)	(46,994)	(59,812)	(106,806)
Separate EW and Nursing Home Rates	(238)	(1,001)	(1,239)	(3,580)	(9,688)	(13,268)
Corporate Foster Care Low Needs Reduction	(61)	(1,226)	(1,287)	(1,657)	(2,517)	(4,174)
Refinance HIV/AIDS State Rebate Account	(2,425)		(2,425)	2,425		2,425
Reduce LTC Provider Rates and Grants	(20,507)	(23,436)	(43,943)	(16,559)	(17,800)	(34,359)
Suspend Property Rate Adjustment	(304)	(741)	(1,045)	(874)	(853)	(1,727)
Modify Non-Rate Payments	(1,526)	(1,828)	(3,354)	(1,829)	(1,862)	(3,691)
Assessment & Reassessment Changes	165	165	330	165	165	330
PCA Relative Caretaker Rate Reduction	(9,193)	(14,921)	(24,114)	(15,897)	(17,393)	(33,290)
LTC Options Counseling-Housing w/Services	(731)	(3,074)	(3,805)	(3,012)	(3,011)	(6,023)
Nursing Facility Operating Rate Change	95	141	236	141	141	282
NF Operating Rate Change for Low Rate Fac.	486	713	1,199	624	527	1,151
Repeal Nursing Facility Rebasing				(61,000)	(72,000)	(133,000)
Spousal Contribution Requirement for LTC		(68)	(68)	(75)	(83)	(158)
PCA Services Modifications	302	(397)	(95)	(174)	60	(114)
Federal Compliance NF Level of Care	15,626	12,085	27,711	23,145	4,822	27,967
Economic Support Change Items	(48,873)	(69,507)	(118,380)	(56,925)	(56,318)	(113,243)
Adoption & Relative Custody Assistance	2,822	3,380	6,202	3,380	3,380	6,760
Streamline County Administration	151	29	180	29	29	58
Adult Foster Care Licensing Changes	34		34			
Licensing Fees for Background Studies	(650)	(650)	(1,300)	(650)	(650)	(1,300)
Restructure Licensing Fees	(585)	(585)	(1,170)	(585)	(585)	(1,170)
Minnesota Food Assistance Program	333	408	741	408	408	816
Reduce County CCSA Grants	(11,000)	(11,000)	(22,000)	(11,000)	(11,000)	(22,000)
General Assistance Eligibility Changes	(472)	(2,837)	(3,309)	(2,845)	(2,836)	(5,681)
EBT Card Changes	99	33	132	33	33	66
MFIP Vehicle Exclusion to \$10,000	(209)	(841)	(1,050)	(949)	(938)	(1,887)
Combine & Restructure EGA & EMSA	(2,290)	(2,260)	(4,550)	(2,260)	(2,260)	(4,520)

	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Eliminate Child Support Incentive Grants	(3,355)	(3,355)	(6,710)	(3,355)	(3,355)	(6,710)
Eliminate FAIM Grants	(492)		(492)	(492)		(492)
Reduce Adult Mental Health Grants	(6,769)	(6,769)	(13,538)	(6,769)	(6,769)	(13,538)
Child Care Assistance Rate Reduction	(2,472)	(4,165)	(6,637)	(4,151)	(4,126)	(8,277)
Child Care Assistance Program Changes	(907)	(5,922)	(6,829)	(8,215)	(8,178)	(16,393)
Non Licensed Child Care Rate Reduction	(2,706)	(3,797)	(6,503)	(3,736)	(3,703)	(7,439)
BSF Child Care Underspending	(5,000)		(5,000)			
Grant Eliminations and Reductions	(1,700)	(1,660)	(3,360)	(205)	(205)	(410)
Child Support Cost Recovery Fee	(519)	(1,100)	(1,619)	(1,100)	(1,100)	(2,200)
Liquidate SSI IAR Carryforward	(2,800)		(2,800)			
Match Support Services (FSET) Expenditure	(500)	(500)	(1,000)	(500)	(500)	(1,000)
TANF Refinancing	(10,020)	(28,020)	(38,040)	(14,020)	(14,020)	(28,040)
White Earth Human Services Project	134	104	238	57	57	114
State Operated Services Changes	1,512	(2,171)	(659)	1,011	(46)	965
Reduce Mental Health Services	(549)	(2,713)	(3,262)	(2,713)	(2,713)	(5,426)
Eliminate Obsolete Special Revenue Account		(3,200)	(3,200)			
Mental Health Housing				1,000	1,000	2,000
MSOP Increase Co Share for New Admissions	(500)	(1,516)	(2,016)	(2,534)	(3,591)	(6,125)
MSOP Caseload Funding Increase	2,561	5,258	7,819	5,258	5,258	10,516
Health Care Programs Changes	(190,560)	(552,486)	(743,046)	(560,322)	(782,311)	(1,342,633)
Coverage for Dental Therapists	31	89	120	89	89	178
MA Electronic Health Record Incentives	319	86	405	82	72	154
Increase MA-EPD Premium and Cost Share		72	72	(1,216)	(2,656)	(3,872)
Federal Compliance-Program Integrity Audits	34	(5)	29	(30)	(30)	(60)
Leverage Federal Systems Funding	900	1,600	2,500	1,600	1,600	3,200
Managed Care Reforms	(76,374)	(156,663)	(233,037)	(202,055)	(208,290)	(410,345)
Managed Care Contracting Reform		(107,429)	(107,429)	107,429	(107,429)	
PMAW Waiver Renewal	12,242	18,688	30,930	7,410		7,410
Managed Care 5% Targeted Rate Reduction	(4,020)	(16,695)	(20,715)	(27,524)	(32,382)	(59,906)
FFS 10% Rate Reduction w/Admissions Target	(17,441)	(22,554)	(39,995)	(34,182)	(36,080)	(70,262)
Hennepin County IGT Demo	(2,000)	(2,000)	(4,000)	(2,000)	(2,000)	(4,000)
Evidenced Based Childbirth Program	(569)	(1,697)	(2,266)	(1,919)	(2,213)	(4,132)
Modify Third Party Liability Process	(70)	(70)	(140)	(70)	(70)	(140)
Rehab Service & Prior Authorization Changes	(52)	(1,018)	(1,070)	(1,029)	(1,029)	(2,058)
Modify Communication Device Pricing	(124)	(191)	(315)	(245)	(314)	(559)
Modify Payment of Medicare Crossover Claims	(9,996)	(29,732)	(39,728)	(32,195)	(34,951)	(67,146)
Require Disabled to Enroll in Managed Care	(2,818)	(23,507)	(26,325)	(39,308)	(1,603)	(40,911)
Modify Pharmacy Reimbursement Methodology	(529)	(641)	(1,170)	(718)	(763)	(1,481)

	FY 2012	FY 2013	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Rural Pharmacy Payment Modification	109	128	237	147	164	311
Medication Therapy Management Expansion	(47)	(60)	(107)	(60)	(60)	(120)
Critical Access Dental Eligibility Changes	(1,831)	(3,080)	(4,911)	(3,372)	(3,508)	(6,880)
Suspend Manage Care Incentive Payments	(645)	(645)	(1,290)			
Reduce FFS Basic Care Rates	(7,567)	(11,106)	(18,673)			
Reduce Transportation Rates	(1,473)	(2,411)	(3,884)	(2,567)	(2,598)	(5,165)
Maintain Child and Teen Checkup Rates	(130)	(265)	(395)	(406)	(552)	(958)
Delay Hospital Rebasing; Repeal in 2014-15		(97,830)	(97,830)	(217,656)	(230,424)	(448,080)
Modify Emergency MA Coverage	(3,391)	(11,245)	(14,636)	(12,370)	(13,607)	(25,977)
MA and MNCare Cost Sharing Changes	(1,234)	(2,284)	(3,518)	(2,431)	(2,646)	(5,077)
Adjust Statutory Transfers from HCAF	(13,510)	(33,410)	(46,920)	(48,000)	(48,000)	(96,000)
Reduce PMAP MERC Funding	(12,808)	(12,808)	(25,616)	(6,404)	(6,404)	(12,808)
Transfer Legal Non Citizens to MNCare	(10,176)	(27,445)	(37,621)	(33,922)	(39,646)	(73,568)
In-Reach Coordination	(6)	(7)	(13)	(7)	(7)	(14)
Coordination of Children with High-Cost Mental Conditions	17		17			
Donation	(30,000)		(30,000)			
Tighten CD Placement Criteria	(3,881)	(5,155)	(9,036)	(4,967)	(4,981)	(9,948)
Increase County Share of CD Treatment Costs	(3,520)	(3,196)	(6,716)	(2,426)	(1,993)	(4,419)
Administration Changes	(3,000)	(3,000)	(6,000)	(3,000)	(3,000)	(6,000)
Operating Budget Reduction	(3,000)	(3,000)	(6,000)	(3,000)	(3,000)	(6,000)
Total Department of Human Services	(293,055)	(719,591)	(1,012,646)	(765,251)	(1,041,773)	(1,807,024)
Department of Health						
Fetal Alcohol Spectrum Disorder Grants	340	340	680	340	340	680
Alzheimer's Data	82	39	121	34	34	68
Transfer from MERC Fund	(9,800)		(9,800)			
Grant Reductions, Eliminations, & Delays	(5,700)	(507)	(6,207)	4,686	(507)	4,179
MERC Direct Grants	(4,613)	(4,613)	(9,226)	(4,613)	(4,613)	(9,226)
White Earth Urban Clinic Needs Assessment	100		100			
CALS Program	31	31	62	31	31	62
Reduction of Administrative Reports						
Study	82	10	92	10	10	20
Operating Budget Reduction	(1,903)	(1,903)	(3,806)	(1,903)	(1,903)	(3,806)
Total Department of Health	(21,381)	(6,603)	(27,984)	(1,415)	(6,608)	(8,023)
Total General Fund Spending Changes	(314,436)	(726,194)	(1,040,630)	(766,666)	(1,048,381)	(1,815,047)

For questions regarding this Appendix or for more information on the fiscal aspects of Health and Human Services, please contact dennis.albrecht@senate.mn.