

Choices for funding MN K-12 education:

- 1. Lower the expectations that we have for school districts; reduce mandates and focus upon a more limited curriculum**
- 2. Increase education funding for schools to meet our current expectations.**
- 3. Significantly change our current delivery system**

K-12 Education Finance Overview

by Eric L. Nauman
Senate Office of Fiscal Policy Analyst
January 11, 2005

Agenda

- Constitutional Mandate
- Education Budget
- Pupil Accounting
- Aid/Levy/Revenue
- General Education & Referendum Formulas
- Reserve Revenues & Penalties
- Special Education
- Capital & Facilities Program
- Where to Get More Information
- E-12 Education Staff

Constitutional Mandate

“The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by law or otherwise as will secure a thorough and efficient system of public schools throughout the state.”

— MN State Constitution, Article 3, section 1

Education Budget

Fiscal Years 2005, 2006, 2007



November Forecast Projects

State Aid Expenditures:	K-12 Property Taxes:
\$6.070 billion in FY05	\$1.28 billion in FY05
\$5.996 billion in FY06	\$1.38 billion in FY06
\$5.973 billion in FY07	\$1.49 billion in FY07

FY 06-07 biennium = \$11.969 billion

Education Budget

K-12 Projected State Expenditures
Based on November 2004 Forecast

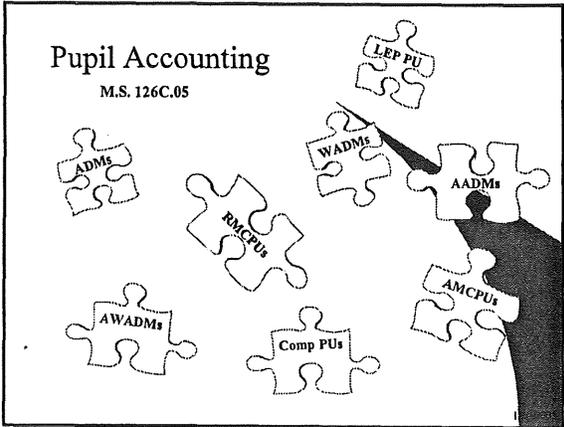
Category/Bill Article	FY 2005	FY 2006
General Education	5,070.5	5,011.1
Other General Education	44.9	46.2
Education Excellence	97.4	106.7
Special Education	645.5	632.6
Facilities & Technology	52.5	46.1
Nutrition, Library, Other	23.5	23.6
Ear, Child., Adult Educ.	82.9	80.4
Dept of Educ, Oth. Agencies	52.2	49.2
Total	6,070.3	5,995.9

Education Budget

General Ed. Programs
"Entitlements"

Based on November 2004 Forecast

GenEd Program	FY 2005	FY 2006
Basic	4,382.1	4,494.9
Extended Time	48.5	47.5
Compensatory	265.6	265.6
Limited Eng. Prof.	36.9	36.9
Sparsity	16.8	17.2
Transportation Sparsity	55.6	55.3
Training & Experience	14.2	10.6
Operating Capital	193.3	192.4
Equity	41.3	41.5
Transition	30.8	29.9
Referendum	504.3	529.8
Other	2.1	2.1
Total	5,591.7	5,590.1



Pupil Accounting
Average Daily Membership (ADM)

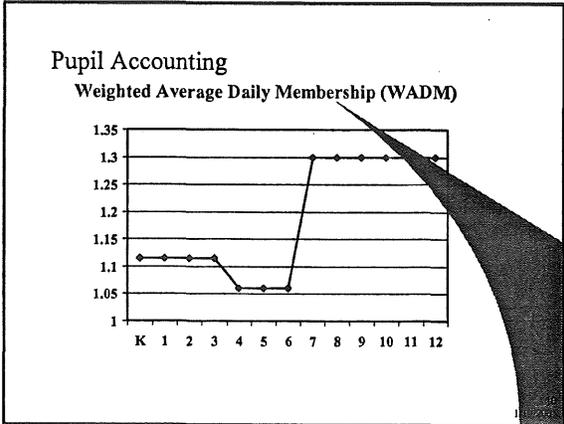
Resident ADMs
District residents enrolled in a public school

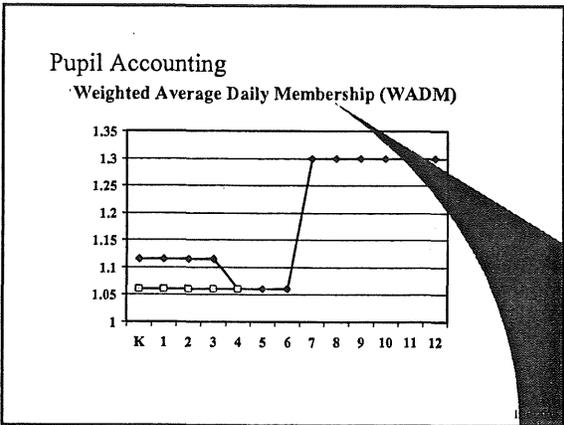
ADMs Served
Resident ADMs
PLUS Nonresidents attending a district under open enrollment
MINUS Residents attending another district or charter school under open enrollment

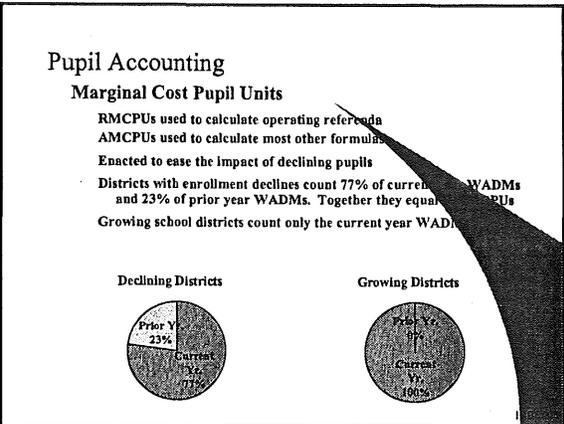
Pupil Accounting
Weighted Average Daily Membership (WADM)

WADMs are ADMs weighted by grade levels to provide different levels of revenue based on different grade levels

Grade	Weight
Pre-K and K Disabled	1.2
Regular Kindergarten	.55
Grades 1-3	1.115
Grades 4-6	1.06
Grades 7-12	1.30







Pupil Accounting

Compensation Pupil Units (Used for compensatory revenue)
Based on students eligible for free or reduced price lunch at each school building

In the formula, free lunch students count as one

Reduced lunch students count as one-half:

The greater the concentration of students eligible for free or reduced lunch at a building, the higher the number of compensation units used to compute compensatory revenue.



Pupil Accounting

LEP Pupil Units (Used for LEP Revenue)

An LEP student meets the following criteria:

1. A student whose primary language is NOT English.
2. A student whose language skills do not allow full classroom participation.
3. A student who scores below the state cutoff score on an assessment measuring emerging academic English in the prior year.
4. *NEW for 2004:* A student who is enrolled in an LEP educational program, but has NOT been in rolled in Minnesota public schools for five or more years.

10784.36
9=1
2.71372

$$\frac{\text{LEP Concentration Percentage}}{100} \times \frac{\text{LEP Pupils}}{\text{ADM}}$$

LEP Pupil Units

The lesser of:

$$1 \text{ or } \frac{\text{LEP Concentr. Percentage}}{11.5}$$

Pupil Accounting

Extended Time Pupil Units

NEW pupil calculation for 2004 to replace the Learning Year program.

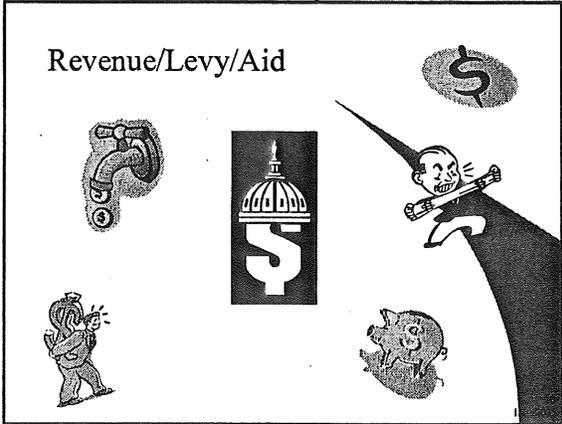
The old Learning Year program allowed districts that had students enrolled for more than a standard school year to generate additional revenue for those students.

Simple terms: Most students count as *one* ADM. The Learning Year program allowed students to count up to 1.5 ADM, generating additional revenue.



Extended Time Pupil Units: 0.2 additional ADM for any student enrolled in extended day, week or year programs.





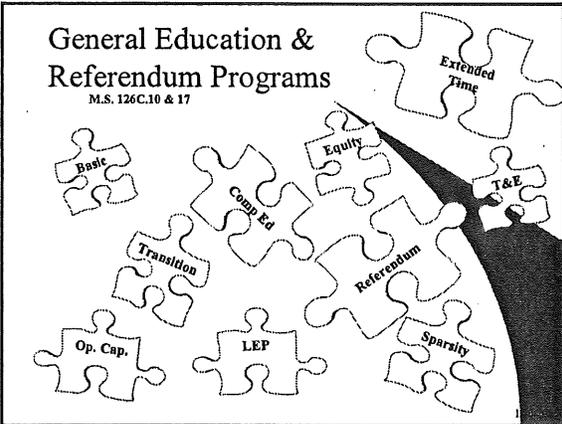
Revenue/Levy/Aid

Revenue
Funds available for school districts to spend

Levy
Revenue raised from taxation on property in a school district

Aid
Aid provided by state legislature to school districts

Rule of Thumb
 $AID = REVENUE - LEVY$



General Education Programs



Limited English Proficiency Revenue

Provides revenue to assist students whose English language ability needs improvement.

Comprised of two separate formulas: Regular and Concentration



LEP Regular Revenue: \$700 multiplied times the greater of the regular or the LEP pupil units



LEP Concentration Revenue: \$250 multiplied times the LEP Students times the LEP Pupil UNITS.



LEP Revenue: Sum of the concentration and regular LEP revenue streams. **HOWEVER**, districts only paid for five years of LEP over a student's academic career.

\$36.9 million in FY 05

General Education Programs

Sparsity Revenue

Districts with one or more sparsely populated school attendance areas receive additional funds to meet the higher costs of operating schools.

Comprised of an "Elementary" Sparsity formula and a "Secondary" Sparsity formula.

Eligibility:

To be eligible for secondary sparsity high schools within a district must have 400 ADMs or less and an Isolation Index at a certain level.

To be eligible for elementary sparsity elementary schools within a district must be located 19 more miles from the next nearest elementary school and have 20 or fewer pupils per grade.

Like compensatory, elementary and secondary sparsity are keyed to formula allowance.

\$16.8 million in FY 05.



General Education Programs

Transportation Sparsity

This formula recognizes the additional costs of transporting students in districts with fewer students per square mile

Basic transportation costs were made part of the formula allowance in 1996-97 when \$170 was "rolled in" to the allowance.

Transportation sparsity revenue is determined by the level of "sparseness" per square mile within a district. This is computed by an arithmetic calculation using a sparsity index and density index.

Sparsity Index: The greater of .2 or the number of square miles in a district divided by the number of WADMs.

Density Index: The number of square miles divided by the number of WADMs. Density index may not exceed .2 or less than .005.

Annually this formula is increased by the growth in the basic formula allowance and is reduced by 4.85% of the formula allowance. The reduction represents the percentage, in 1997, that the \$170 was of the basic formula allowance.

\$55.6 million in FY 05.



Operating Referendum

Equalization: The first \$405 per RMPCU of approved referendum revenue is equalized at \$476,000. The next \$451 (\$856-405) per RMPCU of referendum revenue is equalized at \$270,000.

An Exception: School districts that qualify for sparsity revenue qualify for equalization on all referendum revenue.

The Process (an example):



A school district with:

2,000 Resident Marginal Cost Pupils
250,000,000 Referendum Market Value

..... asks voters to approve a \$550 per pupil referendum

.....and if the voters approve, we know.....

The REVENUE will be: * = \$1,100,000

Operating Referendum

The Process (continued)

2,000	Resident Marginal Cost Pupils	Ref Market Value Per
250,000,000	Referendum Market Value	Pupil:
550	Referendum Allowance	= 125,000

The First Tier: 405 * = 810,000

The Second Tier: - = 145 * = 290,000

First Tier Levy: * (/ 476,000) = 212,710

Second Tier Levy: * (/ 270,000) = 134,259

Total Levy: + = 346,969

Total Aid: 1,100,000 - = 753,031

Levy/Aid Split Percent: 31.5% 68.5%

Contingent Shift Buy-Back

- 2002 & 2003 Legislature shifted school aid payments from 90/10 to 80/20 and adjusted the recognition of certain property tax payments
- These shifts delayed school payments by \$890 million and created one-time savings.
- 2004 forecast bill (Laws 2004, Ch. 272, Art. 3, Sect. 1) created a structure to pay these shifts back automatically.
- Shifts will be paid back when the Commissioner of Finance "determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium."
- First payback of the payment shift occurred based on the Nov. forecast where \$118 million was available to buy back the shift. That amount the
- Dollars began flowing to school districts on the December 2004 school payment

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- First payback of the payment shift occurred based on the Nov. 2004 payment where \$118 million was available to buy back the shift. Of that the Dept of Finance allocated \$115.4 million for shift buyback.
- Dollars began flowing to school districts on the December 2004 school payment - establishing an 81.9%/18.1% payment schedule.

Reserve Revenues and Penalties

- Learning and Development Revenue
- Reserved Revenue for Staff Development
- Operating Capital Revenue for Telecommunications Access
- Contract Settlement Deadline Penalty

Learning and Development Revenue
M.S. 126C.12

Requires districts to reserve part of its general education revenue to reduce or maintain a class size ratio of 17 to 1 for kindergarten through grade three

This amounts to about \$160 million reserved statewide in FY2005

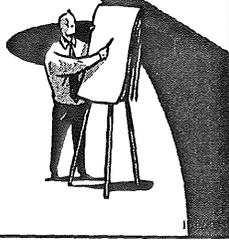


Reserved Revenue for Staff Development

M.S. 122A.61

Requires districts to reserve two percent of the basic formula amount (currently about \$92 per pupil) for staff development

Districts may opt out of this requirement if the school board and the majority of the teachers agree to do so, or if the district is in statutory operating debt



Contract Settlement Deadline Penalty

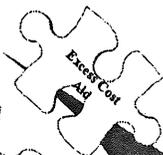
M.S. 125A.75, Subd. 3

Reduces state aid to districts by \$25 per pupil in the first year of a biennium if a district and its teachers' union fail to reach a collective bargaining agreement by January 15 of the year following the expiration of the teachers contract

This penalty was set aside for the last bargaining cycle (2001-02 & 2002-03 school years)



Special Education



Special Education Budget

Special Education Programs
Based on November 2004 Forecast

Program	FY 2005	FY 2006
Special Ed., Revenue	\$529.5	\$528.1
Excess Cost Aid	92.8	8
Cross Subsidy Aid	11.0	
Transition-Disabled Rev.	8.8	
Children w/Disability	2.8	3
Home-Based Travel	.2	.2
Other Special Education	.4	.3
Total	645.5	632.5

Special Education Revenue

M.S. 125A.75 – 125A.76

Provides state aid to districts for:

- 68% of salaries for special education teachers and other essential personnel
- 52% of contracted costs above the general education formula
- 47% of supplies and equipment, max \$47 per pupil

Formula has a two year lag adjusted for enrollment growth

State total amount of revenue is capped and is pro-rated to districts

Excess Cost Aid

M.S. 125A.79

Provides additional state aid to districts when their unreimbursed special education costs exceed 4.36% of the district's general education revenue

State total amount of revenue is also capped and pro-rated to districts

Transition-Disabled Revenue

M.S. 124D.454

Provides additional state aid to districts for career and technical programs for students with disabilities.

Formula works similar to regular special education revenue. The state total amount is also capped and may be pro-rated to districts.

Special Pupil Aid

M.S. 125A.75, Subd. 3

Districts are reimbursed for special education costs for students who do not have a resident district or their parent or guardian live outside of the state, or a resident of a state correctional facility.

Home-Based Travel Aid

M.S. 125A.75, Subd. 1

Districts are reimbursed for 50% of the travel costs of essential personnel providing home-based services to children with a disability who are under age 18.

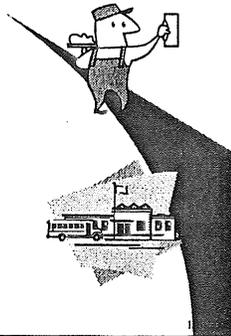


Other Special Education Programs

- Litigation Costs for Special Education
- Court-Placed Special Education Revenue
- Out of State Tuition for Special Education Students

Capital & Facility Programs

- Health & Safety Revenue
- Debt Service Revenue
- Alternative Facilities Bonding Aid
- Other Capital Levies



Capital & Facilities Budget

Capital & Facilities Programs
Based on November 2004 Forecast

Program	FY 2005	FY 2006
Health & Safety Aid	\$2.0	\$.8
Debt Service Equalization	31.2	0
Alternative Facilities Aid	19.3	
Total	52.5	0.8

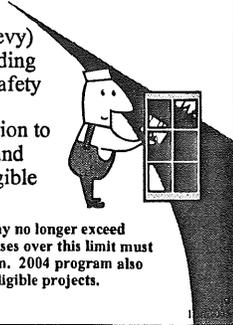
Health & Safety Revenue

M.S. 123B.57

An equalized (state aid & local levy) program for districts with building problems related to health & safety

Districts must submit an application to the Department of Education and only approved projects are eligible for revenue

New limitations in 2004: H&S projects may no longer exceed \$500,000 in overall cost per site. Expenses over this limit must utilize the Alternative Bonding Program. 2004 program also substantially limited the type of H&S-eligible projects.

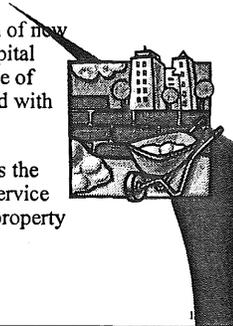


Debt Service Revenue

M.S. 123B.57

Used to finance the construction of new school buildings and other capital improvements through the sale of bonds which are mostly repaid with local levy revenue

Debt Service Equalization Aid is the state portion of district debt service revenue, and is based on the property wealth of the school district



Alternative Facilities Bonding

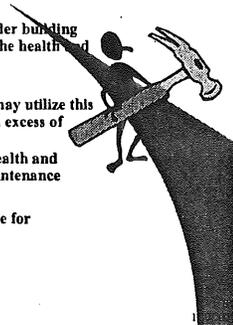
M.S. 123B.59

Certain large school districts that have older building space qualify for this "alternative" to the health and safety program.

NEW in 2004: Other non-large districts may utilize this program for H&S eligible programs in excess of \$500,000 per site.

Allows these districts to issue bonds for health and safety improvements and deferred maintenance projects without voter approval

The levy used to repay the bonds is eligible for equalization



Other Capital Levies

- Down Payment Levy
- Maximum Effort School Aid
- Disabled Access & Fire Safety Levy
- Leased Facilities Levy

E-12 Budget Reductions in 2003

Final Bill from 2003 Session

Type of Ed. Finance Reduction	FY 2004-05		FY 2006-07	
	Dollars (000s of \$)	Percent	Dollars (000s of \$)	Percent
Accounting Shifts	\$436.9	70.3%	77.0	15.8%
Conversion of State Aid to Property Taxes	\$21.7	3.5%	29.6	
Elimination of Statutory Growth Factors	\$79.8	12.8%	205.0	41.7%
<u>Programmatic Reductions</u>	<u>\$83.5</u>	<u>13.4%</u>	<u>179.4</u>	<u>36.5%</u>
Total	\$621.9	100.0%	491.6	100.0%

Where to Get More Information



Senate Office of Fiscal Policy Analysis
<http://www.senate.leg.state.mn.us/departments/fiscalpol/>

Senate Counsel & Research
<http://www.senate.leg.state.mn.us/departments/scr/>

Department of Education; Division of Program Finance
<http://education.state.mn.us>

Legislative Reference Library, K-12 Education Links to the World
<http://www.leg.state.mn.us/lrl/links/educat.asp>

Department of Finance, Budget Information
<http://www.budget.state.mn.us>

Where to Get More Information

Continued...



"Financing Education in Minnesota" is published annually by the Minnesota House of Representatives Fiscal Analyst Department

<http://www.house.leg.state.mn.us/fiscal/files/04fined.pdf>

"Minnesota School Finance: A Guide for Legislators" is published by the Minnesota House of Representatives Research Department

<http://www.house.leg.state.mn.us/hrd/pubs/mnschfin.pdf>

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E-12 FY 2004-2005 Budget
Appropriation Tracking -- SF XXX
2005 Session

Line No.	Program	November Forecast FY 2004	November Forecast FY 2005	November Forecast FY 2004-05	November Forecast FY 2006	November Forecast FY 2007	November Forecast FY 2006-07	November Forecast FY 2008	November Forecast FY 2009	November Forecast FY 2008-09
	Formula Allowance	4601	4601		4601	4601		4601	4601	
	Base Increase									
	\$ increase	0	0		0	0		0	0	
	% increase	0.0%	0.0%		0.0%	0.0%		0.0%	0.0%	
1	GENERAL EDUCATION PROGRAM									
2	General Education (includes perm. school fund)	4,729,380	5,159,541	9,888,921	5,001,089	4,971,905	9,972,994	4,909,391	4,847,461	9,756,852
3	Advance Final Payment	0	0	0	0	0	0	0	0	0
4	General Education Program Subtotal	4,729,380	5,159,541	9,888,921	5,001,089	4,971,905	9,972,994	4,909,391	4,847,461	9,756,852
5										
6	OTHER GENERAL EDUCATION PROGRAMS									
7	Tax Base Replacement Aid	7,790	8,798	16,588	8,704	8,704	17,408	8,704	8,704	17,408
8	Enrollment Options Transportation	45	55	100	55	55	110	55	55	110
9	Abatement Aid	2,436	1,469	3,905	1,356	1,401	2,757	1,377	1,425	2,802
10	Consolidation Transition Revenue	35	0	35	0	246	246	177	27	204
11	Declining Pupil Aid; ISD #2190, Yellow Medicine East	78	39	117	0	0	0	0	0	0
12	Declining Pupil Aid, ISD #241, Albert Lea	225	150	375	75	0	75	0	0	0
13	Declining Pupil Aid, ISD #2711, Mesabi East	150	100	250	50	0	50	0	0	0
15	One Room School House, ISD 690, Warroad	50	50	100	50	50	100	50	50	100
14	Declining Pupil Aid, ISD #682, Roseau	30	20	50	10	0	10	0	0	0
16	Nonpublic Pupil Aid	13,335	15,222	28,557	15,707	16,557	32,264	17,483	18,305	35,788
17	Nonpublic Pupil Transportation	19,955	21,265	41,220	21,698	22,415	44,113	23,278	24,216	47,494
18	Other General Education Programs Subtotal	44,129	47,168	91,297	47,705	49,428	97,133	51,124	52,782	103,906
19										
20	GENERAL EDUCATION	4,773,509	5,206,709	9,980,218	5,048,794	5,021,333	10,070,127	4,960,515	4,900,243	9,860,758
21										
22	EDUCATION EXCELLENCE									
23	Charter School Building Lease Aid	16,603	21,179	37,782	25,401	30,791	56,192	36,730	43,197	79,927
24	Charter School Start-Up	791	156	947	1,353	3,141	4,494	3,470	3,470	6,940
25	Charter School Integration Aid	7	0	7	0	0	0	0	0	0
26	Integration Aid	55,396	56,309	111,705	57,513	57,245	114,758	55,992	54,675	110,667
27	Magnet School and Program Grants	473	750	1,223	750	750	1,500	750	750	1,500
28	Magnet School Start-Up Aid	37	0	37	0	221	221	313	58	371
29	Interdistrict Desegregation Transportation	4,200	6,159	10,359	7,714	9,851	17,565	10,582	11,197	21,779
30	Success for the Future	2,061	2,178	4,239	2,137	2,137	4,274	2,137	2,137	4,274
31	American Indian Scholarships	1,856	1,875	3,731	1,875	1,875	3,750	1,875	1,875	3,750
32	Indian Teacher Preparation Grants	189	190	379	190	190	380	190	190	380
33	Tribal Contract Schools	1,409	1,977	3,386	2,133	2,279	4,412	2,433	2,603	5,036
34	Early Childhood Programs at Tribal Schools	68	68	136	68	68	136	68	68	136
35	Statewide Testing/Grad Standards Support	8,967	9,214	18,181	9,000	9,000	18,000	9,000	9,000	18,000
36	Best Practices Seminars	812	1,000	1,812	1,000	1,000	2,000	1,000	1,000	2,000
37	Alternative Compensation	3,700	3,700	7,400	3,700	3,700	7,400	3,700	3,700	7,400
38	Adv. Placement/Int'l Baccalaureate Prog.	462	1,094	1,556	778	778	1,556	778	778	1,556

HANDOUT # 3

E-12 FY 2004-2005 Budget
Appropriation Tracking – SF XXX
2005 Session

Line No.	Program	November Forecast FY 2004	November Forecast FY 2005	November Forecast FY 2004-05	November Forecast FY 2006	November Forecast FY 2007	November Forecast FY 2006-07	November Forecast FY 2008	November Forecast FY 2009	November Forecast FY 2008-09
39	First Grade Preparedness	7,250	7,250	14,500	7,250	7,250	14,500	7,250	7,250	14,500
40	Online Learning	662	1,250	1,912	1,250	1,250	2,500	1,250	1,250	2,500
41	Collaborative Urban Educator	528	528	1,056	528	528	1,056	528	528	1,056
42	Youthworks Program	900	900	1,800	900	900	1,800	900	900	1,800
43	MN Foundation for Student Organizations	605	640	1,245	625	625	1,250	625	625	1,250
44	Education Excellence Subtotal	106,976	116,417	223,393	124,165	133,579	257,744	139,571	145,251	284,822
45										
46	SPECIAL PROGRAMS									
47	Special Education - Regular	513,469	539,514	1,052,983	528,102	526,509	1,054,611	524,846	522,691	1,047,537
48	Cross Subsidy Aid	5,000	11,000	16,000	0	0	0	0	0	0
49	Special Education – Children with Disabilities	2,310	2,851	5,161	3,351	3,942	7,293	4,390	4,886	9,276
50	Travel for Home-Based Services	173	182	355	186	192	378	201	208	409
51	Special Education - Excess Cost	92,605	94,024	186,629	91,786	91,440	183,226	91,170	90,846	182,016
52	Litigation Costs for Special Education	201	110	311	17	17	34	17	17	34
53	Transition Programs--Students with Disabilities	8,593	8,963	17,556	8,774	8,748	17,522	8,721	8,686	17,407
54	Court Placed Special Education Revenue	39	61	100	65	70	135	72	74	146
55	Out of State Special Education Tuition	536	250	786	250	250	500	250	250	500
56	Special Programs Subtotal	622,926	656,955	1,279,881	632,531	631,168	1,263,699	629,667	627,658	1,257,325
57										
58	EDUCATION REFORM, FACILITIES AND TECHNOLOGY									
59	Health & Safety Aid	5,356	2,066	7,422	818	577	1,395	468	409	877
60	Debt Service Equalization	35,598	31,784	67,382	25,882	22,452	48,334	20,489	17,889	38,378
61	Alternative Facilities Bonding Aid	18,708	19,654	38,362	19,287	19,287	38,574	19,287	19,287	38,574
62	Facilities and Technology Subtotal	59,662	53,504	113,166	45,987	42,316	88,303	40,244	37,585	77,829
63										
64	NUTRITION PROGRAMS									
65	School Lunch and Food Storage Program	7,607	7,700	15,307	7,765	7,880	15,645	8,000	8,120	16,120
66	School Breakfast Aid	4,493	4,570	9,063	4,655	4,745	9,400	4,820	4,900	9,720
67	Fast Break to Learning	661	0	661	0	0	0	0	0	0
68	Summer Food Service Replacement Aid	150	150	300	150	150	300	150	150	300
69	Nutrition Programs Subtotal	12,911	12,420	25,331	12,570	12,775	25,345	12,970	13,170	26,140
70										
71	LIBRARIES									
72	Basic Support Grants for Libraries	8,312	8,733	17,045	8,570	8,570	17,140	8,570	8,570	17,140
75	Multicounty, Multitype Library Systems	876	920	1,796	903	903	1,806	903	903	1,806
74	Electronic Library	400	400	800	400	400	800	400	400	800
73	Regional Library Telecommunications Aid	960	1,223	2,183	1,200	1,200	2,400	1,200	1,200	2,400
76	Libraries Subtotal	10,548	11,276	21,824	11,073	11,073	22,146	11,073	11,073	22,146
77										
78	Discontinued Programs	0	0	0	0	0	0	0	0	0
79										
80	General Education Total	4,773,509	5,206,709	9,980,218	5,048,794	5,021,333	10,070,127	4,960,515	4,900,243	9,860,758
81	Categorical Totals	813,023	850,572	1,663,595	826,326	830,911	1,657,237	833,525	834,737	1,668,262
82	SUBTOTAL: EDUCATION FINANCE	5,586,532	6,057,281	11,643,813	5,875,120	5,852,244	11,727,364	5,794,040	5,734,980	11,529,020

E-12 FY 2004-2005 Budget
Appropriation Tracking -- SF XXX
2005 Session

Line No.	Program	November Forecast FY 2004	November Forecast FY 2005	November Forecast FY 2004-05	November Forecast FY 2006	November Forecast FY 2007	November Forecast FY 2006-07	November Forecast FY 2008	November Forecast FY 2009	November Forecast FY 2008-09
83										
84	FAMILY & EARLY CHILDHOOD EDUCATION									
85										
86	CHILDREN & FAMILY SUPPORT SERVICES									
87	<u>School Readiness</u>	9,536	9,394	18,930	9,057	9,088	18,145	9,095	9,095	18,190
88	<u>Early Childhood Family Education Aid</u>	19,079	13,689	32,768	12,187	12,558	24,745	12,919	13,272	26,191
89	<u>Health & Developmental Screening Aid</u>	2,581	2,712	5,293	2,661	2,661	5,322	2,661	2,661	5,322
90	Head Start Program	16,406	17,100	33,506	17,100	17,100	34,200	17,100	17,100	34,200
91	Children & Family Support Services Subtotal	47,602	42,895	90,497	41,005	41,407	82,412	41,775	42,128	83,903
92										
93	PREVENTION									
94	<u>Community Education</u>	5,351	3,178	8,529	1,958	1,250	3,208	1,133	1,146	2,279
95	<u>Adults with Disabilities Program Aid</u>	688	724	1,412	710	710	1,420	710	710	1,420
96	Hearing Impaired Adults	70	70	140	70	70	140	70	70	140
97	<u>School Age Care Aid</u>	40	28	68	15	5	20	1	0	1
98	Prevention Subtotal	6,149	4,000	10,149	2,753	2,035	4,788	1,914	1,926	3,840
99										
100	SELF-SUFFICIENCY & LIFELONG LEARNING									
101	<u>Adult Basic Education Aid</u>	33,005	36,571	69,576	36,387	36,418	72,805	36,440	36,458	72,898
102	ABE Transition Aid	1,698	424	2,122	0	0	0	0	0	0
103	Adult Graduation Aid	405	0	405	0	0	0	0	0	0
104	GED Tests	125	125	250	125	125	250	125	125	250
105	Lead Abatement	100	100	200	100	100	200	100	100	200
106	Adult Basic Education Audits	23	0	23	0	0	0	0	0	0
107	Self-Sufficiency & Lifelong Learning Subtotal	35,356	37,220	72,576	36,612	36,643	73,255	36,665	36,683	73,348
108										
109	Discontinued Programs	0	0	0	0	0	0	0	0	0
110										
111	SUBTOTAL: FAMILY AND EARLY CHILDHOOD EDUC.	89,107	84,115	173,222	80,370	80,085	160,455	80,354	80,737	161,091
112										
113	STATE AGENCY BUDGETS									
114										
115	DEPARTMENT OF EDUCATION									
116	Base Education Agency Budget	20,806	23,652	44,458	21,881	21,881	43,762	21,881	21,881	43,762
117	Salary & Benefit Base Adjustment	0	0	0	0	0	0	0	0	0
118	Board of Teaching	503	725	1,228	621	621	1,242	621	621	1,242
119	Board of Administrators	129	196	325	165	165	330	165	165	330
120	MN Children's Museum	260	260	520	260	260	520	260	260	520
121	Minnesota Academy of Science	41	41	82	41	41	82	41	41	82
122	Minnesota's Washington DC Office (Transfer Out)	29	29	58	29	29	58	29	29	58
123	General Operating Budget Reduction	0	0	0	0	0	0	0	0	0
124	Education Subtotal	21,768	24,903	46,671	22,997	22,997	45,994	22,997	22,997	45,994
125										
126	PERPICH CENTER FOR ARTS EDUCATION									
127	Base Center for Arts Education Budget	6,756	7,099	13,855	6,423	6,423	12,846	6,423	6,423	12,846
128	Salary & Benefit Base Adjustment	0	0	0	0	0	0	0	0	0

E-12 FY 2004-2005 Budget
Appropriation Tracking -- SF XXX
2005 Session

Line No.	Program	November Forecast FY 2004	November Forecast FY 2005	November Forecast FY 2004-05	November Forecast FY 2006	November Forecast FY 2007	November Forecast FY 2006-07	November Forecast FY 2008	November Forecast FY 2009	November Forecast FY 2008-09
129	General Operating Budget Reduction	0	0	0	0	0	0	0	0	0
130	Perpich Center for Arts Education Subtotal	6,756	7,099	13,855	6,423	6,423	12,846	6,423	6,423	12,846
131										
132	FARIBAULT ACADEMIES FOR THE DEAF & BLIND									
133	Academy Operations	10,131	10,730	20,861	10,466	10,466	20,932	10,466	10,466	20,932
134	Salary & Benefit Base Adjustment	0	0	0	0	0	0	0	0	0
135	General Operating Budget Reduction	0	0	0	0	0	0	0	0	0
136	Faribault Academies Subtotal	10,131	10,730	20,861	10,466	10,466	20,932	10,466	10,466	20,932
137										
138	SUBTOTAL: AGENCY OPERATIONS	38,655	42,732	81,387	39,886	39,886	79,772	39,886	39,886	79,772
139										
140	SUBTOTAL: EDUCATION FINANCE	5,586,532	6,057,281	11,643,813	5,875,120	5,852,244	11,727,364	5,794,040	5,734,980	11,529,020
141										
143										
144	TOTAL GENERAL FUND, E-12 APPROPRIATIONS	5,714,294	6,184,128	11,898,422	5,995,376	5,972,215	11,967,591	5,914,280	5,855,603	11,769,883
145										
146	Payment Shifts Not Included In Appropriations									
147	Property Tax Aids and Credits	0	4,062	4,062	0	0	0	0	0	0
148										
149	Revenue Changes									
150				0			0			0
151	SUBTOTAL: REVENUE CHANGES	0	0	0	0	0	0	0	0	0
152										
153	GENERAL FUND TOTAL	5,714,294	6,188,190	11,902,484	5,995,376	5,972,215	11,967,591	5,914,280	5,855,603	11,769,883
154										
155										
156	Payment Shifts									
157										
158	Property Tax Recognition Shifts	0	0	0	0	0	0	0	0	0
159	Payment Schedule Shifts	0	117,900	117,900	(582)	(908)	(1,490)	(915)	(985)	(1,900)
160										
161	Total Payment Shifts	0	117,900	117,900	(582)	(908)	(1,490)	(915)	(985)	(1,900)
162										
163										
164	TOTAL GENERAL FUND LESS SHIFTS	5,714,294	6,070,290	11,784,584	5,995,958	5,973,123	11,969,081	5,915,195	5,856,588	11,771,783



Minnesota

Department of Finance

November 2004

Highlights

Budget Outlook for FY 2006-07 Worsens by \$302 Million, Projected Budget Shortfall Now \$700 Million

Despite increases in forecast revenues in both the current biennium and the next, the forecast budget shortfall for FY 2006-07 has increased from \$398 million to \$700 million. Current law spending in FY 2006-07 is now expected to total \$30.177 billion, \$556 million more than end-of-session estimates. This increase is driven largely by human services increases and enrollment adjustments for post-secondary education systems. Projected revenues are \$254 million higher. The revenue and spending changes combine to increase the projected budget shortfall for FY 2006-07 to \$700 million.

\$495 Million Balance Projected for FY 2004-05

Revenues in FY 2004-05 are now expected to total \$29.042 billion, \$455 million more than end-of-session estimates. When combined with a \$34 million decrease in expenditures and a \$6 million forecast reduction in the budget reserve, an ending balance of \$495 million is forecast.

Cash Flow Account and Budget Reserve Restored to 2001 Levels

The \$495 million FY 2004-05 forecast balance does not reduce the projected 2006-07 shortfall. Under current law it must be used to restore the cash flow account to \$350 million, rebuild the state's budget reserve to \$653 million, and buy back a portion of the school aid payment shifts used to balance recent budgets.

Expenditure Growth Exceeds Revenue Growth in 2006-07 Biennium

Current law spending in FY 2006-07 increases by 7.6 percent. Health and human services spending grows by 20 percent, accounting for two-thirds of the total spending increase. Total revenues are projected to increase 2.8 percent even though tax revenues grow by 7.9 percent. Much of the difference in revenue growth is explained by the one-time transfers from other funds used to balance the current budget.

November 2004 Economic Forecast Summary

Budget Summary

\$700 Million Budget Shortfall Projected for FY 2006-07

Minnesota's budget outlook for the 2006-07 biennium has deteriorated by \$302 million. The general fund revenue forecast is up \$254 million from end-of-session estimates, but projected state expenditures are up by \$556 million from earlier projections. When the net forecast reduction of \$302 million is combined with the \$398 million shortfall projected in end-of-session budget planning estimates, Minnesota faces a \$700 million budget shortfall in the 2006-07 biennium.

FY 2006-07 General Fund Forecast

(\$ in Millions)

Revenues	\$29,477
Expenditures	<u>\$30,177</u>
Balance (Shortfall)	(\$700)

This is the first actual forecast of revenues and expenditures for the 2006-07 biennium. It establishes the specific current law context for budget development decisions for the next biennium. Since no enacted budget is currently in place, expenditure projections assume the extension of current programs, adjusted only for projected changes in caseload and enrollment. The expenditure projections do not include a general adjustment for inflation.

FY2004-05 Surplus Restores Cash Flow and Budget Reserves, Buys Down School Shift

A \$495 million surplus is now projected for the current biennium. General fund revenues are forecast to total \$29.042 billion, up \$455 million from end-of-session estimates. State spending is projected to be \$27.921 billion, down \$34 million from end-of-session estimates. When combined with a \$6 million reduction in the budget reserve caused by loss of an expected transfer from the assigned risk plan surplus, the balance projected for the current biennium totals \$495 million.

More than 80 percent of the additional FY 2004-05 revenue comes from the individual income tax. A projected increase in health and human services spending is more than offset by savings elsewhere in the budget.

FY 2004-05 Forecast
(\$ in Millions)

	<u>End of Session</u>	<u>November Forecast</u>	<u>Forecast Change</u>	<u>Statutory Allocation</u>
Beginning Balance	\$369	\$369	\$0	
Revenues	28,218	28,673	455	
Expenditures	27,955	27,921	(34)	118
Cash Flow Account	0	0	0	350
Budget Reserve	<u>631</u>	<u>625</u>	<u>(6)</u>	<u>27</u>
Balance	\$1	\$495	\$495	\$495

Under current law any forecast balance in the 2004-05 biennium must first be used to restore the state's reserve funds to their 2001 levels. Then, any remaining funds are directed to reversing school payment shifts enacted in 2002 and 2003 as part of the solutions to prior state budget shortfalls. These funds are specifically set aside in current law, they do not carry forward as an available balance to reduce any shortfall projected for the 2006-07 biennium.

The forecast \$495 million balance for FY 2004-05 is allocated as follows:

- **\$350 million** to restore the state's cash flow account
- **\$27 million** to restore the state's budget reserve to \$653 million
- **\$118 million** to reverse a portion of the school aid shifts

Disparity in Revenue and Expenditure Growth Explains FY 2006-07 Budget Problem

Revenues for FY 2006-07 are forecast to increase \$805 million, or 2.8 percent over levels in the current biennium. Current law spending is projected to increase by \$2.139 billion, or 7.6 percent. This mismatch between revenue and spending growth highlights Minnesota's budget challenge.

Biennial Comparison

(\$ in Millions)

	<u>FY 2004-05</u>	<u>FY 2006-07</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Revenues				
Taxes	25,627	27,658	2,031	7.9
Non-Tax Revenues	1,466	1,406	(60)	(4.1)
Other	<u>1,580</u>	<u>414</u>	<u>(1,166)</u>	<u>(73.8)</u>
Total Revenues	\$28,673	\$29,478	\$805	2.8
Spending				
E-12 Education	\$11,902	\$11,969	\$67	0.6
Health & Human Services	7,245	8,684	1,439	19.9
All Other	<u>8,892</u>	<u>9,524</u>	<u>632</u>	<u>7.1</u>
Total Spending	\$28,039	\$30,177	\$2,139	7.6

Tax revenues for FY 2006-07 are forecast to grow by 7.9 percent to \$27.658 billion. Nearly three quarters of that growth is in state income tax receipts, which increase by 13.5 percent.

Non-tax revenues including fees, charges, lottery and other receipts are expected to decline slightly under current law. Transfers from other funds decline by over \$1.1 billion from the current biennium, reflecting one-time transfers of over \$1 billion in revenues from the tobacco funds and other funds.

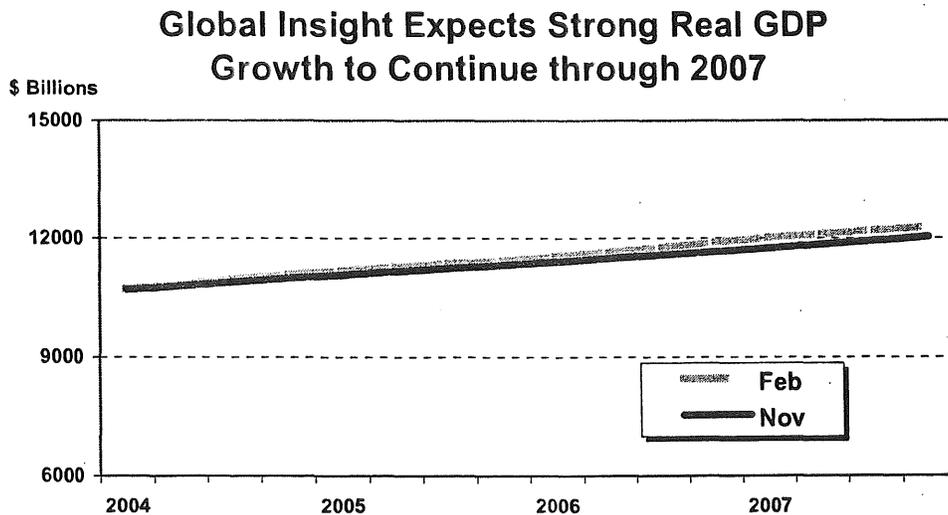
Two-thirds (\$1.4 billion) of projected spending growth in FY 2006-07 occurs in the health and human services area. Spending for the state's largest budget component, E-12 education, is almost unchanged as the per pupil unit formula remains constant and enrollments continue to decline. Spending for all other areas including higher education, local aids, and criminal justice increases by 7.1 percent.

2004 Was a Very Good Year for the U.S. Economy

Economic forecasters had been looking for 2004 to be a very good year, and to this point they have not been disappointed. Although real GDP growth is unlikely to reach the lofty levels some envisioned at the start of the year, the U.S. economy has performed well and the current consensus forecast of 4.4 percent real growth is similar to growth rates seen in the good years of the late 1990's. While higher oil prices and higher interest rates, and some concerns over global growth and international trade have signaled most forecasters to trim back expectations for 2005 and beyond, nearly all forecasters still call for the real economy to grow at annual rates in excess of 3 percent through the end of fiscal 2007. In the absence of a sizeable unexpected shock to consumer confidence, an extended period of sub-par growth appears unlikely, and a recession highly improbable.

Employment remains the chief concern. Forecasters welcomed results from October's payroll employment survey since it provided tangible evidence that the U.S. economy had regained its ability to produce the jobs needed to keep up with the natural growth of the work force.

November's baseline forecast from Global Insight Inc. (GII), Minnesota's national economic consultant, is very similar to the consensus forecast for 2005, 2006 and 2007. GII expects 2004's real GDP growth rate of 4.4 percent to be followed by real growth rates of 3.2 percent in 2005, and then 3.0 percent in 2006 and 3.1 percent in 2007. These growth rates are more than 0.5 percentage points below February's projected real growth rates of 3.8 percent, 3.6 percent, and 3.7 percent.



GII assigns a 60 percent probability to their baseline forecast. A slightly more optimistic scenario in which oil prices are lower and productivity higher is assigned a 20 percent

probability as is a more pessimistic scenario. In the pessimistic scenario higher oil prices and higher inflation cause the Federal Reserve to tighten beyond levels assumed in the baseline forecast. The economy “does not sink into recession...but merely fails to come as close to its potential as in the baseline,” growing by just 2.1 percent in 2006.

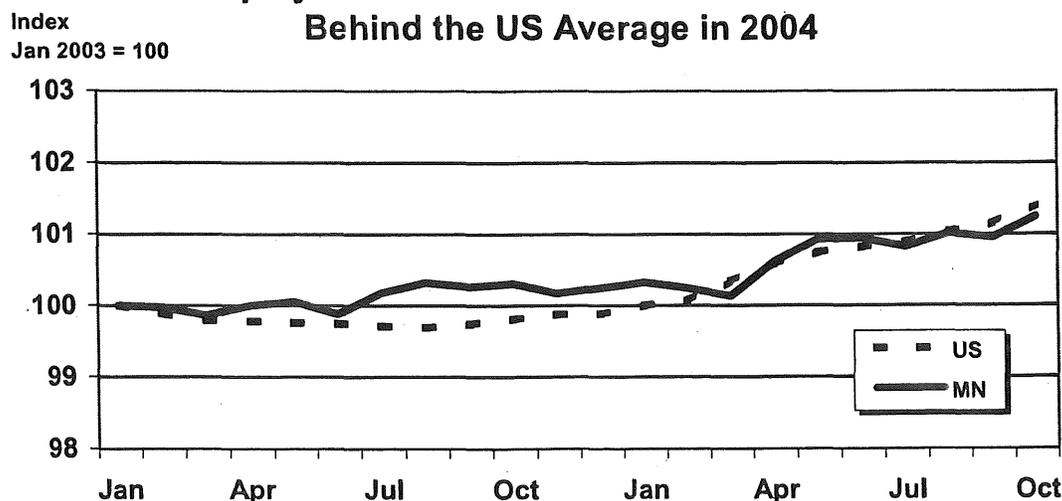
Job Growth in Minnesota Again Appears to Be Lagging Behind That in the U.S.

Minnesota’s economy appears to be performing as forecast. Unfortunately, strong employment growth in Minnesota was not in the forecast. Through the end of the third quarter of calendar 2004 wage growth and employment growth in Minnesota were identical to the forecast. U.S. employment and wages have grown faster than forecast and faster than Minnesota. Nationally, total wage and salary income is now expected to grow by 4.5 percent in calendar 2004. The current forecast for Minnesota wage growth calls for 4.1 percent growth, the same as projected in February.

Employment has grown in Minnesota during 2004. Thus far this year we have added 24,000 jobs. In calendar 2003 Minnesota payroll employment increased by only 8,600. Minnesota’s unemployment rate of 4.3 percent continues well below the national average, but through October U.S. employment grew by 1.4 percent in 2004, while Minnesota employment has grown by 0.9 percent.

Manufacturing employment in Minnesota continues to grow slowly from its August, 2003 low point. At that time state manufacturing employment was down 55,000 from its pre-recession high. In October manufacturing employment was up by 9,400 jobs from its August 2003 low, but still more than 46,000 jobs below its peak level.

Employment Growth in Minnesota Has Fallen Behind the US Average in 2004



State Revenue Outlook for Current Biennium Improves by \$455 Million

Minnesota's general fund revenues are now forecast to total \$28.673 billion, \$455 million (1.6 percent) more than end-of-session estimates. The forecast for non-dedicated revenues grew by \$406 million or 1.5 percent. More than 46 percent of the positive revenue variance occurred in fiscal 2004 when receipts were \$210 million more than forecast.

Current forecasts for the individual income tax and the corporate income tax exceed end-of-session estimates. The sales tax, the motor vehicles sales tax, and the statewide property tax are projected to fall short of earlier projections by modest amounts. The forecasts for other tax and non-tax revenues also exceed earlier projections due to higher expected receipts from the insurance gross premium tax and mortgage and deed taxes. Growth in the individual income tax was the source of more than 80 percent of the additional revenue.

2004-05 General Fund Revenues (\$ in Millions)

	<u>End of Session</u>	<u>November Forecast</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Income tax	\$11,456	\$11,819	\$362	3.2
Sales Tax	8,314	8,300	(13)	(0.2)
Corporate Income	1,386	1,393	7	0.5
Motor Vehicle	571	540	(31)	(5.5)
Statewide Property	<u>1,221</u>	<u>1,217</u>	<u>(4)</u>	<u>(0.4)</u>
Major Taxes	22,948	23,269	321	1.4
Other Non-Dedicated	<u>3,739</u>	<u>3,824</u>	<u>85</u>	<u>2.6</u>
Non-Dedicated Revenues	26,687	27,093	406	1.5
Transfers, Other	<u>1,531</u>	<u>1,580</u>	<u>49</u>	<u>3.2</u>
Total	\$28,218	\$28,673	\$455	1.6

FY 2006-07 Revenues Up \$254 Million from End-of-Session Planning Estimates

State revenues in the 2006-07 biennium are forecast to be \$29.477 billion, a \$254 million increase (0.9 percent) over end-of-session estimates. An improved outlook for the individual income tax receipts more than offsets lower forecasts for the sales tax, the corporate income tax and the motor vehicle sales tax. An increase in projected receipts from other taxes and non-tax receipts provides a further boost to projected revenues in the coming biennium. The forecast for individual income tax receipts was \$280 million more than end-of-session estimates.

FY 2006-07 Revenue Forecast
(\$ in Millions)

	<u>End-of</u> <u>Session</u>	<u>November</u> <u>Forecast</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Revenues				
Income tax	\$13,132	\$13,412	\$280	2.1
Sales Tax	8,770	8,733	(37)	(0.4)
Corporate Income	1,522	1,380	(142)	(9.4)
Motor Vehicle	594	550	(44)	(7.3)
Statewide Property	<u>1,269</u>	<u>1,289</u>	<u>20</u>	<u>1.6</u>
Major Taxes	25,287	25,364	77	1.4
Other Non-Dedicated	<u>3,582</u>	<u>3,699</u>	<u>117</u>	<u>3.3</u>
Non-Dedicated Revenues	28,869	29,063	194	0.7
Transfers, Other	<u>354</u>	<u>414</u>	<u>60</u>	<u>17.0</u>
Total	\$29,223	\$29,477	\$254	0.9

Revenues Expected to Grow 2.8 Percent in 2006-07 Biennium

Total revenues for the 2006-07 biennium are projected to grow by 2.8 percent over 2004-05 biennium receipts. Non-tax revenues decline by 4.1 percent, while other revenues and transfers fall by 74 percent from FY 2004-05 levels. Tax revenues grow by 7.9 percent.

2006-07 General Fund Revenue Growth
(\$ in Millions)

	<u>FY 2004-05</u>	<u>FY 2006-07</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Income tax	\$11,819	\$13,412	\$1,592	13.5
Sales Tax	8,300	8,733	433	5.3
Corporate Income	1,393	1,380	(14)	(1.0)
Motor Vehicle	540	550	10	1.9
Statewide Property	1,217	1,289	72	5.9
Other Taxes	<u>2,358</u>	<u>2,294</u>	<u>(63)</u>	<u>(2.7)</u>
Taxes	25,627	27,658	2,031	7.9
Non-Tax Revenues	1,466	1,406	(60)	(4.1)
Other, Transfers	<u>1,580</u>	<u>414</u>	<u>(1,166)</u>	<u>(73.8)</u>
Total Revenues	\$28,673	\$29,477	\$805	2.8

The large discrepancy between the growth rate for tax revenues and that shown for total revenues is explained by the use of one-time transfers to balance the 2004-05 budget. Transfers in FY 2004-05 included a \$1.031 billion one-time transfer of tobacco funds.

Individual income tax revenues show the most growth in the 2006-07 biennium, up \$1.592 billion (13.5 percent) from 2004-05 levels. The modest growth in net sales tax revenues is partially attributable to expiration of supplemental sales taxes on liquor and rental cars in 2006. Other tax revenues fall primarily due to lower mortgage and deed tax receipts. Higher interest rates bring the home mortgage refinancing boom to an end, leaving a projected decline of \$136 million in mortgage tax receipts.

FY 2004-05 Spending Down \$34 Million from Prior Estimates

General fund spending for the current biennium is forecast to be \$27.921 billion, down \$34 million from end-of-session estimates after adjusting for the Governor's executive actions to eliminate the \$160 million shortfall forecast in February.

A \$39 million projected increase in health and human services spending is driven largely by higher caseloads and higher average costs in health care programs. E-12 education spending increased \$25 million due primarily to slightly higher pupil unit estimates.

All other changes provide a net \$98 million reduction from previous forecasts. Debt service payments are down \$36 million reflecting savings from recent bond sales, and estimated program cancellations of \$39 million now expected in the higher education financial aid and tuition reciprocity programs account for most of the change.

FY 2004-05 Expenditure Forecast
(\$ in Millions)

	<u>End of Session</u>	<u>November Forecast</u>	<u>\$ Change</u>	<u>% Change</u>
E-12 Education	\$11,759	\$11,784	\$25	0.2
Higher Education	2,561	2,542	(19)	(0.7)
Property Tax Aids & Credits	2,778	2,808	30	1.1
Health & Human Services	7,206	7,245	39	0.5
Criminal Justice	1,440	1,437	(3)	(0.2)
Debt Service	625	589	(36)	(5.8)
All Other	<u>1,586</u>	<u>1,516</u>	<u>(70)</u>	<u>(4.4)</u>
Total Spending	<u>\$27,955</u>	<u>\$27,921</u>	<u>\$(34)</u>	<u>(0.1)</u>

The education finance spending estimates shown above are *before* the \$118 million in additional spending required to buy back a portion of the school aid payment shift. The shift buy back increases E-12 education spending in 2004-05 by \$118 million. The revised total for E-12 education, \$11.902 billion, is used in comparative tables throughout the remainder of this forecast document.

FY 2006-07 Expenditure Forecast Increases by \$556 Million

Expenditures for the 2006-07 biennium are forecast to total \$30.177 billion, \$556 million more than end-of-session planning estimates. Increased health care and human services spending accounts for \$309 million of the increase, while an enrollment adjustment in higher education largely accounts for \$205 million of the remaining increase in projected current law spending.

FY 2006-07 Expenditures Forecast
(\$ in millions)

	<u>End of Session</u>	<u>November Forecast</u>	<u>Change</u>	<u>Percent</u>
E-12 Education	\$11,934	\$11,969	\$35	0.3
Higher Education	2,548	2,753	205	8.0
Property Tax Aids & Credits	2,976	2,966	(10)	(0.3)
Health & Human Services	8,375	8,684	309	3.7
Criminal Justice	1,527	1,569	42	2.8
Debt Service	712	721	9	1.3
All Other	<u>1,465</u>	<u>1,442</u>	<u>(23)</u>	<u>(1.6)</u>
Subtotal	29,531	30,103	571	1.9
Dedicated Expenditures	<u>90</u>	<u>75</u>	<u>(15)</u>	<u>(16.7)</u>
Total Expenditures	<u>\$29,621</u>	<u>\$30,177</u>	<u>\$556</u>	<u>1.9</u>

The \$309 million increase in health and human services spending forecast for FY 2006-07 occurs primarily within programs that provide basic health care to low-income individuals and families, and is driven by both higher enrollment projections and average cost growth. Many compounding factors contribute to this increase, and much of it begins in the current year. These increases in health care programs in 2005 lead to higher growth in the next biennium.

Revised assumptions for the enrollment implications of new eligibility determination processes being undertaken by the Department of Human Services also accounts for a significant increase in the forecast. A higher percentage of enrollees are now expected to move from the separately financed MinnesotaCare program to general fund-financed Medical Assistance or General Assistance Medical Care. This results in \$53 million of the \$309 million increase. This shift creates largely offsetting savings in the health care access fund, which is now projected to have a balance of \$226 million by the end of FY 2007.

FY 2006-07 Projected Spending Grows \$2.139 Billion

Current law spending for the FY 2006-07 biennium is projected to increase by \$2.139 billion, (7.6 percent) from 2004-05 biennium spending levels.

FY 2006-07 Expenditure Growth
(\$ in Millions)

	<u>FY 2004-05</u>	<u>FY 2006-07</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
E-12 Education	\$11,902	\$11,969	\$67	0.6
Higher Education	2,542	2,753	211	8.3
Property Tax Aids & Credits	2,808	2,966	158	5.6
Health & Human Services	7,245	8,684	1,439	19.9
Criminal Justice	1,437	1,569	132	9.2
Debt Service	589	721	132	22.4
All Other	<u>1,516</u>	<u>1,515</u>	<u>(1)</u>	<u>(0.1)</u>
Total Spending	<u>\$28,039</u>	<u>\$30,177</u>	<u>\$2,139</u>	<u>7.6</u>

Health care spending for low-income families and individuals continues to be the most significant increase in of the budget. Of the \$2.1 billion total growth in state spending from FY 2004-05 to FY 2006-07, two-thirds is in public health care programs. While these programs face the same health care cost inflation as the private health care market does, the growing number of program participants further adds to spending increases. Spending in health care and human service programs is now projected to grow \$1.4 billion (20 percent) over levels expected in the 2004-05 biennium.

Declining E-12 enrollments and no change in the per pupil formula leaves E-12 education spending growth at less than one percent. Higher education spending increases 8 percent, reflecting statutory enrollment adjustments for the University of Minnesota and MnSCU. Criminal justice spending is expected to increase at just over 9 percent due to growing costs in corrections and courts caused by continuing growth in inmate populations and the completion of the state takeover of district courts. All other spending declines slightly, reflecting the projection of the remainder of the operating budget at FY 2005 funding levels.

Planning Estimates Provide Guidelines for Future Budget Outlook

This report provides the first revenue and expenditure planning estimates for the 2008-09 biennium. These planning estimates provide a necessary framework against which the potential impact of FY 2006-07 budget decisions can be judged. Projected revenues for FY 2008-09 reflect the trend of continued growth forecast for the 2006-07 biennium.

The planning estimates do not include any tax or spending decisions beyond those in current law. Current law spending estimates have been adjusted only to reflect enrollment and caseload growth in entitlement programs and areas where specific statutory formulae exist. The expenditure and revenue planning estimates make no assumptions about the Governor's proposed budget or legislative action in the 2005 session to remedy the budget shortfall forecast for FY 2006-07. The FY 2008-09 planning estimates represent a benchmark to determine if ongoing spending exceeds revenues in succeeding budget periods. Economic changes, as well as the amount and timing of budget changes, will materially affect both revenue and expenditure projections for the FY 2008-09 biennium.

Budget Planning Estimates (\$ in Millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Forecast Revenues	\$14,173	\$14,470	\$15,007	\$15,564	\$16,252
Projected Spending	<u>14,439</u>	<u>14,955</u>	<u>15,223</u>	<u>15,524</u>	<u>15,802</u>
Difference	(266)	(485)	(216)	40	450

Since a general adjustment for inflation is not included in the expenditure projections, it is important to recognize that, given historical growth trends in state spending, potential increases in state spending may be significantly greater than those shown. Projected inflation in the planning horizon is now expected to be 1.5 and 1.6 percent for FY 2006 and FY 2007, with 1.8 and 2.0 percent forecast for FY 2008 and FY 2009.

A complete version of the November 2004 forecast can be found at the Department of Finance's World Wide Web site at -- www.finance.state.mn.us. This document is available in alternate format.

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981 c 2 art 2 s 3; 1983 c 342 art 18 s
art 2 s 1; 1Sp1985 c 14 art 18 s 1, 2,
c 719 art 13 s 1; 1Sp1989 c 1 art 15
2 c 514 s 1; 1993 c 192 s 58-60, 111,
202 art 2 s 19; 1998 c 386 art 2 s 12

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Subd. 5. **Expiration.** This section expires June 30, 2006.

History: 1Sp2001 c 10 art 2 s 23; 2002 c 379 art 1 s 7,8; 1Sp2003 c 1 art 2 s 34;
1Sp2003 c 2 art 8 s 1

16A.152 BUDGET RESERVE AND CASH FLOW ACCOUNTS.

Subdivision 1. **Cash flow account established.** A cash flow account is created in the
general fund in the state treasury. Amounts in the cash flow account shall remain in the
account until drawn down and used to meet cash flow deficiencies resulting from
uneven distribution of revenue collections and required expenditures during a fiscal
year.

Subd. 1a. **Budget reserve.** A budget reserve account is created in the general fund
in the state treasury. The commissioner of finance shall transfer to the budget reserve
account on July 1 of each odd-numbered year any amounts specifically appropriated by
law to the budget reserve.

Subd. 1b. **Budget reserve increase.** On July 1, 2003, the commissioner of finance
shall transfer \$300,000,000 to the budget reserve account in the general fund. On July
1, 2004, the commissioner of finance shall transfer \$296,000,000 to the budget reserve
account in the general fund. The amounts necessary for this purpose are appropriated
from the general fund.

Subd. 2. **Additional revenues; priority.** (a) If on the basis of a forecast of general
fund revenues and expenditures, the commissioner of finance determines that there will
be a positive unrestricted budgetary general fund balance at the close of the biennium,
the commissioner of finance must allocate money to the following accounts and
purposes in priority order:

(1) the cash flow account established in subdivision 1 until that account reaches
\$350,000,000;

(2) the budget reserve account established in subdivision 1a until that account
reaches \$653,000,000;

(3) the amount necessary to increase the aid payment schedule for school district
aids and credits payments in section 127A.45 to not more than 90 percent; and

(4) the amount necessary to restore all or a portion of the net aid reductions under
section 127A.441 and to reduce the property tax revenue recognition shift under
section 123B.75, subdivision 5, paragraph (c), and Laws 2003, First Special Session
chapter 9, article 5, section 34, as amended by Laws 2003, First Special Session chapter
23, section 20, by the same amount.

(b) The amounts necessary to meet the requirements of this section are appropri-
ated from the general fund within two weeks after the forecast is released or, in the
case of transfers under paragraph (a), clauses (3) and (4), as necessary to meet the
appropriations schedules otherwise established in statute.

(c) To the extent that a positive unrestricted budgetary general fund balance is
projected, appropriations under this section must be made before any transfer is made
under section 16A.1522.

(d) The commissioner of finance shall certify the total dollar amount of the
reductions under paragraph (a), clauses (3) and (4), to the commissioner of education.
The commissioner of education shall increase the aid payment percentage and reduce
the property tax shift percentage by these amounts and apply those reductions to the
current fiscal year and thereafter.

Subd. 3. **Use.** The use of the budget reserve should be governed by principles
based on the full economic cycle rather than the budget cycle. The budget reserve may
be used when a negative budgetary balance is projected and when objective measures,
such as reduced growth in total wages, retail sales, or employment, reflect downturns in
the state's economy.

Subd. 4. **Reduction.** (a) If the commissioner determines that probable receipts for
the general fund will be less than anticipated, and that the amount available for the
remainder of the biennium will be less than needed, the commissioner shall, with the

approval of the governor, and after consulting the Legislative Advisory Commission, reduce the amount in the budget reserve account as needed to balance expenditures with revenue.

(b) An additional deficit shall, with the approval of the governor, and after consulting the legislative advisory commission, be made up by reducing unexpended allotments of any prior appropriation or transfer. Notwithstanding any other law to the contrary, the commissioner is empowered to defer or suspend prior statutorily created obligations which would prevent effecting such reductions.

(c) If the commissioner determines that probable receipts for any other fund, appropriation, or item will be less than anticipated, and that the amount available for the remainder of the term of the appropriation or for any allotment period will be less than needed, the commissioner shall notify the agency concerned and then reduce the amount allotted or to be allotted so as to prevent a deficit.

(d) In reducing allotments, the commissioner may consider other sources of revenue available to recipients of state appropriations and may apply allotment reductions based on all sources of revenue available.

(e) In like manner, the commissioner shall reduce allotments to an agency by the amount of any saving that can be made over previous spending plans through a reduction in prices or other cause.

Subd. 5. Restoration. The restoration of the budget reserve should be governed by principles based on the full economic cycle rather than the budget cycle. Restoration of the budget reserve should occur when objective measures, such as increased growth in total wages, retail sales, or employment, reflect upturns in the state's economy. The budget reserve should be restored before new or increased spending commitments are made.

Subd. 6. Notice to committees. The commissioner shall notify the committees on finance and taxes and tax laws of the senate and the committees on ways and means and taxes of the house of representatives of a reduction in an allotment under this section. The notice must be in writing and delivered within 15 days of the commissioner's act. The notice must specify:

- (1) the amount of the reduction in the allotment;
- (2) the agency and programs affected;
- (3) the amount of any payment withheld; and
- (4) any additional information the commissioner determines is appropriate.

Subd. 7. Delay; reduction. The commissioner may delay paying up to 15 percent of an appropriation to a special taxing district or a system of higher education in that entity's fiscal year for up to 60 days after the start of its next fiscal year. The delayed amount is subject to allotment reduction under subdivision 4.

History: 1973 c 492 s 23; 1978 c 793 s 47; 1981 c 1 s 2; 1Sp1981 c 5 s 1; 2Sp1981 c 1 s 3; 3Sp1981 c 1 art 1 s 1; 3Sp1981 c 2 art 2 s 3; 1983 c 342 art 18 s 1-3; 1984 c 502 art 1 s 1; 1984 c 628 art 2 s 1; 1Sp1985 c 14 art 18 s 1,2,4; 1Sp1986 c 1 art 5 s 1-3; 1987 c 268 art 18 s 1-3; 1988 c 690 art 2 s 1; 1988 c 719 art 13 s 1,2; 1989 c 329 art 1 s 1; 1Sp1989 c 1 art 15 s 1,2; 1990 c 604 art 10 s 4; 1991 c 291 art 21 s 2; 1992 c 511 art 9 s 1; 1993 c 192 s 58-63,111; 1993 c 375 art 17 s 1,2; 1994 c 632 art 5 s 1; 1994 c 647 art 1 s 1; 1995 c 264 art 6 s 1; 1Sp1995 c 3 art 14 s 1-3; 1996 c 461 s 1; 1996 c 471 art 10 s 1; 1997 c 231 art 9 s 1; 1998 c 389 art 9 s 1; 1Sp2001 c 5 art 20 s 2,3; 1Sp2001 c 10 art 2 s 2,4; 2002 c 220 art 13 s 3-5; 2002 c 377 art 12 s 1; 1Sp2003 c 21 art 11 s 2-4; 2004 c 272 art 3 s 1

16A.1521 [Repealed, 1Sp2001 c 5 art 20 s 24]

16A.1522 REBATE REQUIREMENTS.

Subdivision 1. Forecast. If, on the basis of a forecast of general fund revenues and expenditures in November of an even-numbered year or February of an odd-numbered year, the commissioner projects a positive unrestricted budgetary general fund balance at the close of the biennium that exceeds one-half of one percent of total general fund

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