

**EMBARGOED UNTIL
TUESDAY, FEBRUARY 28, 2006
AT 10:30 A.M..**

**Minnesota
Department of Finance**

February 2006

Highlights

Forecast for 2006-07 Up \$181 Million – \$88 Million Balance Remains After Completing School Shift Buyback

General fund revenues for the 2006-07 biennium are forecast to be \$31.404 billion, \$124 million (0.4 percent) more than in November. General fund spending is projected to be \$57 million less than previously forecast, leaving a projected surplus of \$181 million. Current law requires that \$93 million of the surplus be used to complete the reversal of education accounting shifts enacted in 2002 and 2003, leaving an \$88 million balance.

Major Revenues Up Just \$14 Million – Other Tax and Non-tax Resources Increase by \$110 Million

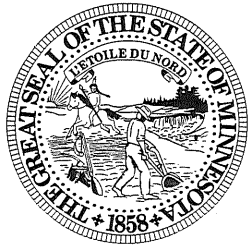
The individual income tax, sales tax and motor vehicle sales tax forecasts were reduced by a total of \$151 million (0.6 percent) from November's estimates reflecting a slightly weaker outlook for economic growth in Minnesota. That decline was offset by a \$161 million increase in projected corporate tax receipts. Other taxes increased by \$34 million from November. Non-tax revenues, including investment income and transfers, added \$76 million to the forecast.

U.S. Economic Outlook Largely Unchanged – Strong Growth in 2006, a Modest Slowing in 2007

There have been only small changes in Global Insight's baseline forecast since November. Real GDP growth rates were reduced by 0.2 percentage points in both fiscal 2006 and 2007 and the inflation outlook was raised slightly due to an increase in the forecast for energy prices. Oil prices are now expected to remain above \$60 per barrel through 2007.

FY 2008-09 Revenue Outlook Drifts Slightly Lower

Planning estimates for FY 2008-09 revenues have been reduced by \$140 million from November's projections and projected spending is \$2 million above the prior estimate. Projected balances for the next biennium remain roughly equal to the cost of inflation and the pending constitutional amendment.



Minnesota
Department of Finance

February Forecast

Budget Summary

Forecast Improves \$181 Million in Current Biennium

Minnesota's budget outlook for FY 2006-07 has improved slightly since November. The forecast balance is now \$181 million. After completing the buyback of school accounting shifts the available balance falls to \$88 million.

The revenue forecast for the current biennium is up by \$124 million. The forecast for five major taxes increased by just \$14 million. Changes in forecasts for other taxes and non-tax revenue sources accounted for the majority of change in revenue. Projected spending fell by \$57 million.

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

	<u>February Forecast</u>	<u>Change</u>
Beginning Balance	\$1,393	\$0
Revenues	31,404	124
Spending	31,296	(57)
Reserves	1,003	0
Tax Relief Account	317	0
Forecast Balance	<u>181</u>	<u>\$181</u>
<i>School Shift Buyback</i>	<u>(93)</u>	
Available Balance	\$88	

\$88 Million Balance Remains After Completing School Shift Buyback

Under current law \$93 million of the projected balance is used to complete the buyback of the remaining portion of the education accounting shifts enacted in 2002 and 2003. The \$93 million will be added to K-12 education aids spending for the biennium, reducing the recognition percentage from 10.8 percent to zero. The additional funds will be paid to school districts in FY 2006 and FY 2007, beginning with the April 2006 payments.

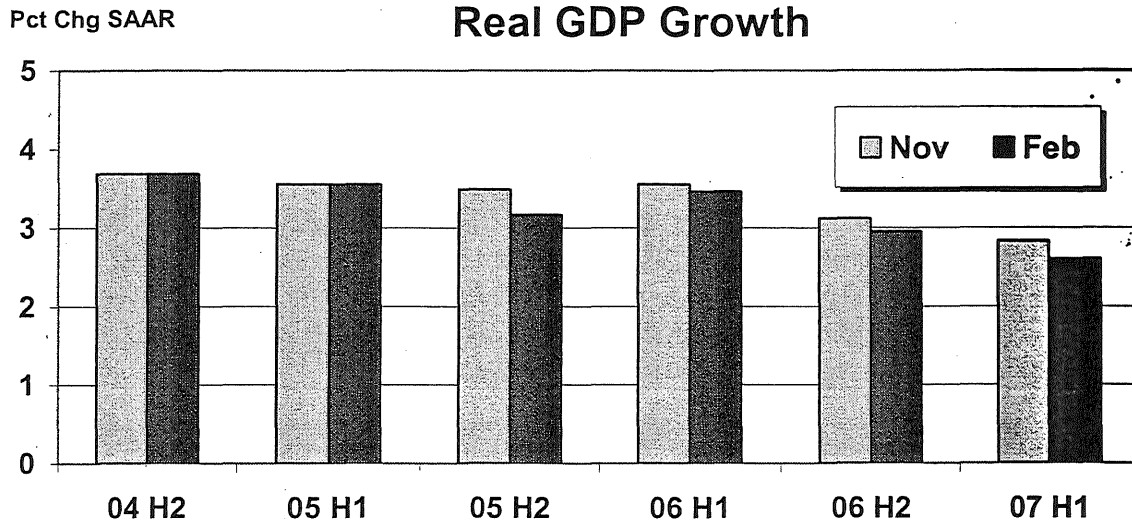
After the shift buyback, an \$88 million balance remains in the general fund. An additional \$317 million remains in the Tax Relief Account. General fund reserves remain unchanged from the November forecast with the cash flow account at \$350 million and the budget reserve at \$653 million.

U.S. Economy on Track for Another Year of Strong Growth

The official statistics show the U.S. economy stumbling slightly at the end of 2005, when the advance estimate of real GDP growth fell to 1.1 percent. But, few believe those figures indicate economic problems are near. Consumer spending finished the year stronger than anticipated, and the warm winter weather has eliminated the potential drag on household spending from higher heating costs. Business investment appears to be on track, and everyone expects a substantial increase in federal spending, reversing the two percent decline posted by the government sector in the last quarter.

Most forecasters are calling for very strong real GDP growth during the first half of 2006. The economy is then expected to cool slightly in the second half of 2006, and to slow a little further in early 2007, with the consensus forecasts calling for economic growth rates near three percent through the end of the biennium. The usual caveats regarding the absence of a major geo-political event remain in effect, and there is increasing concern that inflation might be worse than projected, forcing the Fed to push interest rates substantially higher. Some also are concerned about the possible negative impacts of an untidy ending to an apparently frothy housing market. But, absent a major geo-political shock accompanied by a dramatic surge in energy prices, an economic downturn seems unlikely.

Little Change in Forecast for Real GDP Growth



February's baseline forecast from Global Insight Inc. (GII), Minnesota's national economic consultant, is consistent with the consensus outlook. GII expects real GDP to grow at an annual rate of 3.5 percent during the first half of 2006, and at a 3.0 percent rate in the second half of this year. Their baseline forecast then calls for a further slowdown in early 2007 with real growth averaging 2.6 percent for the last 6 months of the 2006-07 biennium. GII's November baseline was slightly more optimistic with real

growth rates of 3.6 percent and 3.1 percent in the first and second halves of 2006, followed by 2.8 percent in the first half of 2007.

GII also expects inflationary pressures to moderate as energy prices stabilize. CPI growth is projected to fall to 2.5 percent in 2006 and then to 1.8 percent 2007. Core inflation (the CPI except for food and energy), is expected to turn higher, moving to 2.3 percent in 2006 and 2.4 percent in 2007.

Minnesota Economic Outlook Calls for Good, but not Outstanding Growth in 2006-07 Biennium

Job growth in Minnesota continues to be weaker than would be expected at this point in an economic expansion. In the four years since the end of the recession, payroll employment has increased by just 2.3 percent. In the four years following the end of the 1990-91 recession, employment grew by 11 percent. Since November 2001 Minnesota's economy has added 56,000 jobs or about 14,000 per year. In the 49 months following the end of the 1990-91 recession employment in Minnesota was up by 237,000 jobs or nearly 60,000 per year.

Part of the explanation is that the U.S. economy has not added jobs at its usual pace since the end of the 2001 recession. U.S. employment has grown by just 2.7 percent since the end of the recession, only slightly faster than Minnesota. But, in the last two years, employment growth in Minnesota has fallen further behind the national averages. During the second half of 2005 Minnesota payroll employment grew at an annual rate of just 0.4 percent. U.S. payroll employment, even with the disruptions from the hurricanes along the Gulf Coast, grew nearly twice as fast.

Minnesota's population is growing slightly more slowly than the national average, but differences in population growth alone are not sufficient to explain the slower job growth. Labor force participation rates have also fallen slightly, particularly among teenagers. That suggests that there has been some consolidation in the number of jobs, with the number of hours worked remaining constant, even though fewer are employed. Those explanations help explain longer term trends, but are not satisfactory explanations of the stagnant labor market observed in the last half of 2005.

Forecasts for employment growth and wage and salary growth have again been reduced slightly, reflecting more recent economic data, and the slight weakening in the Global Insight February baseline. Payroll employment is expected to increase by 39,000 jobs between fourth quarter 2005 and the end of the biennium. In November an increase of 43,000 jobs was projected. Minnesota wages are now forecast to grow slightly faster over the remainder of the biennium than they were in November, but from a lower base level for calendar 2005. Growth rates used for both employment and wages are below the national average rates in February's Global Insight baseline.

Revenue Forecast for 2006-07 Biennium Up \$124 Million

General fund resources for the current biennium are now expected to be \$31.404 billion, \$124 million (0.4 percent) more than November forecast estimates. Other taxes, non-tax revenues and transfers accounted for almost all of the net revenue gain. The five major taxes were up by \$14 million, or less than 0.1 percent.

Forecast Revenues, FY 2006-07
(\$ in millions)

	<u>November Forecast</u>	<u>February Forecast</u>	<u>\$ Change</u>	<u>% Change</u>
Individual Income	\$13,747	\$13,618	\$(129)	(0.9)
Sales	9,116	9,114	(2)	0.0
Corporate	1,681	1,842	161	9.6
Motor Vehicle Sales	524	504	(20)	(3.8)
Statewide Levy	1,290	1,294	4	0.3
Subtotal	<u>26,358</u>	<u>26,372</u>	<u>14</u>	<u>0.1</u>
Other Taxes	2,489	2,523	34	1.4
Non-Tax Revenue	1,498	1,556	58	3.9
Dedicated, Transfers	935	953	18	1.9
Total Revenues	\$31,280	\$31,404	\$124	0.4

An increase in projected corporate tax receipts more than offset declines in the individual income tax, sales tax and motor vehicle sales tax forecasts. Global Insight now expects 2006 and 2007 corporate profits to be even stronger than forecast in November. Changes in the individual income tax forecast were small. Slower than projected 2005 wage growth reduced the base level of wages carried forward to tax years 2006 and 2007. The revenue lost due to the lower wage estimate was partially offset by a slight increase in the capital gains forecast.

Other taxes, non-tax revenues, and transfers are \$110 million more than November's forecast. Increases in the estate tax and mortgage tax forecasts reflected higher than estimated year-to-date receipts. Projected investment earnings, departmental earnings, the annual tobacco settlement payments and other non-dedicated revenues also were increased, due to higher than projected year-to-date receipts.

There was no material change in the forecast for the health impact fee. It reflects the current agreement between the state and plaintiffs which allows the state to continue to collect the fee. The state has agreed not to transfer those fees or any earnings on them to the general fund before the end of the biennium while the case is under appeal.

Forecast Spending Decreased \$57 Million Before Shift Buyback

General fund spending for the biennium is forecast to be \$31.296 billion, down \$57 million (0.2 percent), from November's estimate. Buying back the remaining education aid shift, adds \$93 million to K-12 education aids, increasing total spending to \$31.389 billion, \$36 million more than November's estimate.

Forecast Spending, FY 2006-07
(\$ in millions)

	<u>November Forecast</u>	<u>February Forecast</u>	<u>\$ Change</u>	<u>% Change</u>
K-12 Education	\$13,203	\$13,281	\$(12)	(0.1)
Higher Education	2,761	2,761	0	0.0
Property Tax Aids & Credits	3,043	3,033	(10)	(0.3)
Health & Human Services	8,216	8,197	(19)	(0.2)
Debt Service	776	757	(19)	(2.4)
All Other	3,264	3,267	3	0.1
Forecast Total	31,353	31,296	(57)	(0.2)
<i>Education Shift Buyback</i>	--	93	93	--
Revised Total	\$31,353	\$31,389	\$36	0.1

The forecast was reduced in three areas. K-12 education estimates before the buyback, decrease nearly \$12 million. Projected human services costs are \$19 million lower primarily due to reductions in payments to the federal government associated with the new Medicare prescription drug benefit. Debt service estimates were lowered by \$19 million, reflecting higher premiums on bonds sold.

The \$93 million education shift buyback increases K-12 spending in 2006-07. This amount will be paid out through K-12 education aid payments, increasing forecast K-12 spending to \$13.375 billion. This revised spending total is used in comparative tables throughout the remainder of this forecast document.

Planning Estimates for FY 2008-09 Decline Slightly

Projected revenue planning estimates for FY 2008-09 are now \$140 million below November estimates, while expenditures are \$2 million higher. Changes reflect small reductions in FY 2008-09 revenues and slightly higher K-12 spending. Savings in health and human services programs and debt service that continue into the next biennium partially offset the lower revenues. Current law planning estimates for FY 2008-09 continue to show a positive balance between current law revenues and expenditures.

It is important, however, to realize the limitations of current-law planning estimates. Projected balances also are likely to be affected by budget actions in the 2006 legislative session, cost pressures from inflation, and other factors.

As required by current law, expenditure projections for the next biennium do not include any adjustment for inflation. Estimated inflation at 1.9 and 2.0 percent for FY 2008 and FY 2009 respectively would add \$303 million and \$640 million, a total of \$943 million to the current law spending projections.

Additionally, a proposed constitutional amendment on the 2006 ballot would dedicate remaining general fund motor vehicle sales tax revenues to transportation. The loss in general fund revenue associated with passage of that amendment is now estimated to be \$56 million in FY 2008 and \$116 million in FY 2009.

FY 2008-09 Planning Estimates
(\$ in millions)

	<u>FY 2008</u>	<u>FY 2009</u>
Revenues	\$16,341	\$16,974
Spending	<u>15,967</u>	<u>16,257</u>
Difference	374	717
<i>Inflation</i>	(303)	(640)
<i>Constitutional Amendment</i>	<u>(56)</u>	<u>(116)</u>
Balance	\$15	\$(39)

A complete version of this document 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.

Forecast Fundamentals

February's forecast is the second of four forecasts that will occur during the biennium. It provides revised revenue and expenditure estimates for the current biennium based on the most recent information about the national and state economic outlook, and caseload, enrollment and cost projections. That updated revenue and expenditure information is also used to revise the revenue and expenditure planning estimates for the 2008-09 biennium.

The revised revenue estimates reflect changes in the national economic outlook that have occurred since November. This forecast also incorporates additional revenue collection experience into the projections. For example, state sales tax collections now include receipts from the crucial Christmas shopping season. And, fourth quarter estimated tax payments as well as withholding receipts through January are available for further guidance about tax year 2005 liability.

Revenue estimates for the remainder of the current biennium are based on econometric forecasts of the U.S. and Minnesota economy. The revenue forecast is prepared based on a national economic forecast provided by Global Insight Inc., (GII). Minnesota's Council of Economic Advisors reviewed the GII national baseline forecast. The Council's comments are found in the "Economic Summary." The "Economic Outlook" which follows provides a more comprehensive overview of the current outlook for the U.S. and Minnesota economies.

Revenue planning estimates for FY 2008-09 come from less complete models. As in the past the economic growth assumptions used to develop the revenue planning estimates are updated to be consistent with the GII February baseline scenario for the years under consideration. The revenue planning estimates should not be interpreted as explicit forecasts, but rather as a guide to indicate whether proposed actions are likely to create financial problems outside the current biennium.

Expenditure estimates in most areas are shown at the level of the appropriations made by the 2005 legislature for FY 2006-07, plus any authorized spending carried forward from prior years. Entitlement programs—such as K-12 education, intergovernmental aids, health care, and family support are forecast based on expected changes in eligibility, enrollment and average cost.

While wage and price inflation is included in revenue estimates, it is not included in projected expenditures. The estimated inflation rate for fiscal 2008 and 2009 is now projected to be 1.9 and 2.0 percent respectively.

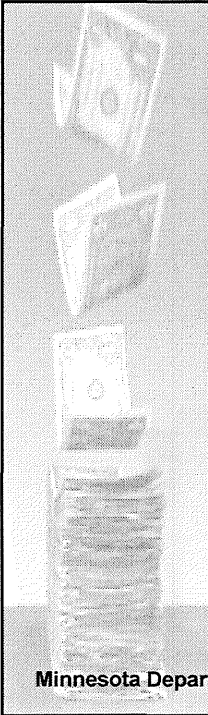
As with all budget forecasts this report reflects only current law. It does not reflect the Governor's budget recommendations, any potential legislative action, or the passage of any pending constitutional amendment dedicating state general fund revenues to specific uses. The forecast provides a current law framework for those discussions.

FY 2006-07 General Fund Forecast Change
February 2006 vs November 2005
(\$ in thousands)

	11-05 Fcst FY 2006-07	2-06 Fcst FY 2006-07	\$ Difference	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	1,393,086	1,393,086	0	0.0%
Current Resources:				
Tax Revenues	28,846,263	28,894,749	48,486	0.2%
Non-Tax Revenues	1,497,739	1,556,494	58,755	3.9%
Dedicated Revenue	124,777	117,577	(7,200)	-5.8%
Transfers In	761,076	785,620	24,544	3.2%
Prior Year Adjustments	50,000	50,000	0	0.0%
Subtotal-Current Resources	31,279,855	31,404,440	124,585	0.4%
Total Resources Available	32,672,941	32,797,526	124,585	0.4%
<u>Actual & Estimated Spending</u>				
K-12 Education	13,293,037	13,281,308	(11,729)	
K-12 Shift Buyback	0	93,486	93,486	
Subtotal K-12 Education	13,293,037	13,374,794	81,757	0.6%
Property Tax Aids & Credits	3,043,437	3,033,525	(9,912)	-0.3%
Higher Education	2,761,485	2,761,485	0	0.0%
Health & Human Services	8,216,010	8,196,802	(19,208)	-0.2%
Environment, Agriculture & Economic Dev	691,135	694,170	3,035	0.4%
Transportation	208,333	205,737	(2,596)	-1.2%
Public Safety	1,687,820	1,690,416	2,596	0.2%
State Government	602,944	609,606	6,662	1.1%
Debt Service	775,831	756,927	(18,904)	-2.4%
Estimated Cancellations	(22,500)	(22,500)	0	0.0%
Subtotal Expenditures & Transfers	31,257,532	31,300,962	43,430	0.1%
Dedicated Expenditures	95,693	88,493	(7,200)	-7.5%
Total Expenditures & Transfers	31,353,225	31,389,455	36,230	0.1%
Balance Before Reserves	1,319,716	1,408,071	88,355	
Flow Account	350,000	350,000	0	
Budget Reserve	653,000	653,000	0	
Tax Relief Account	316,716	316,716	0	
Budgetary Balance	0	88,355	88,355	

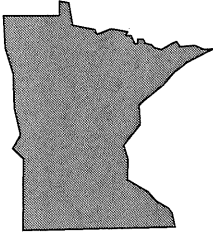
FY 2008-09 General Fund Planning Estimates Change
February 2006 vs November 2005
(\$ in thousands)

	11-05 Plng Est FY 2008-09	2-06 Plng Est FY 2008-09	\$ Difference	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	1,319,716	1,408,071	88,355	6.7%
Current Resources:				
Tax Revenues	31,218,804	31,012,570	(206,234)	-0.7%
Non-Tax Revenues	1,449,352	1,507,187	57,835	4.0%
Dedicated Revenue	124,109	116,909	(7,200)	-5.8%
Transfers In	613,249	628,764	15,515	2.5%
Prior Year Adjustments	50,000	50,000	0	0.0%
Subtotal-Current Resources	33,455,514	33,315,430	(140,084)	-0.4%
Total Resources Available	34,775,230	34,723,501	(51,729)	-0.1%
<u>Actual & Estimated Spending</u>				
K-12 Education	12,866,433	12,875,366	8,933	
K-12 Shift Buyback	0	16,555	16,555	
Subtotal K-12 Education	12,866,433	12,891,921	25,488	0.2%
Property Tax Aids & Credits	3,130,602	3,138,717	8,115	0.3%
Higher Education	2,791,000	2,791,000	0	0.0%
Health & Human Services	9,261,519	9,247,192	(14,327)	-0.2%
Environment, Agriculture & Economic Dev	673,298	679,042	5,744	0.9%
Transportation	221,442	221,442	0	0.0%
Public Safety	1,712,704	1,712,704	0	0.0%
State Government	587,452	589,760	2,308	0.4%
Debt Service	907,226	889,611	(17,615)	-1.9%
Estimated Cancellations	(20,000)	(20,000)	0	0.0%
Subtotal Expenditures & Transfers	32,131,676	32,141,389	9,713	0.0%
Dedicated Expenditures	89,309	82,109	(7,200)	-8.1%
Total Expenditures & Transfers	32,220,985	32,223,498	2,513	0.0%
Balance Before Reserves	2,554,245	2,500,003	(54,242)	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	653,000	653,000	0	
Tax Relief Account	316,716	316,716	0	
Budgetary Balance	1,234,529	1,180,287	(54,242)	



Minnesota Budget Forecast

February 2006

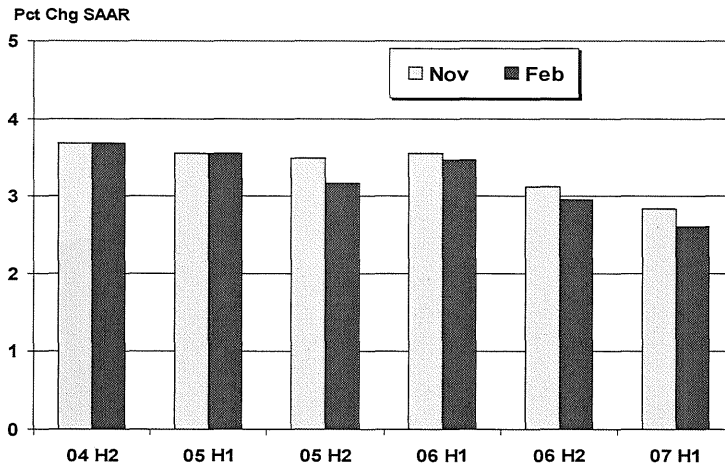


Minnesota Department of Finance February 28, 2006

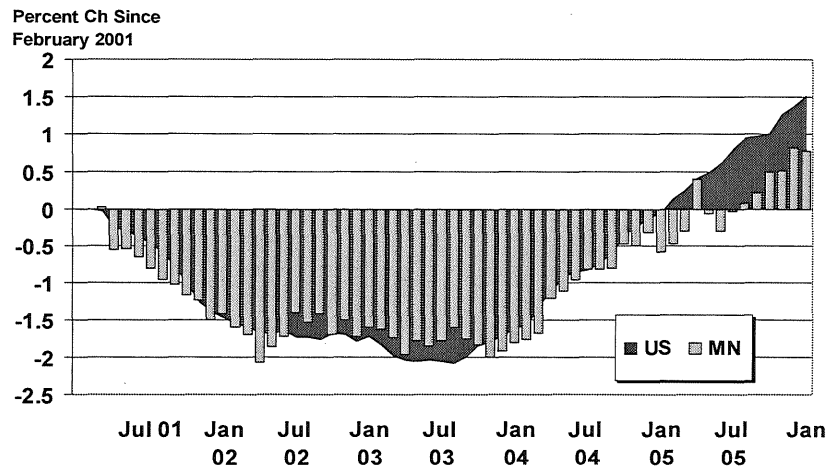
\$88 Million Available Balance -- After Completing School Shift Buyback

(\$ in millions)	<u>Feb Fcst</u>	<u>Change</u>
Beginning Balance	\$1,393	\$0
Revenues	31,404	124
Spending	31,296	(57)
Reserves	1,003	0
Tax Relief Account	<u>317</u>	<u>0</u>
Forecast Balance	\$ 181	\$ 181
<i>School Shift Buyback</i>	(93)	
<i>Available Balance</i>	\$88	

Little Change In Forecast for Real GDP Growth



Minnesota Employment Has Grown More Slowly than the U.S. Average Since 2001



Little Net Change in Major Taxes, State Revenues Up \$124 Million

(\$ in millions)	<u>Forecast</u>	<u>Change</u>	<u>Percent</u>
Income Tax	\$13,618	\$(129)	-0.9
Sales Tax	9,114	(2)	0.0
Corporate	1,842	161	9.6
Motor Vehicle	504	(20)	-3.8
Other Taxes	3,817	38	1.0
Non-tax, Other	<u>2,509</u>	<u>76</u>	<u>3.1</u>
Total Revenues	\$31,404	\$124	0.4

State Spending Down \$57 Million from November Estimates

(\$ in millions)	<u>Forecast</u>	<u>Change</u>	<u>Percent</u>
K-12 Education*	\$13,281	\$(12)	-0.1
Health & Human Svcs	8,197	(19)	-0.2
Aids and Credits	3,033	(10)	-0.3
Higher Education	2,761	0	0.0
All Other	<u>4,024</u>	<u>(16)</u>	<u>-0.4</u>
Total Spending	\$31,296	\$(57)	-0.2

* Before statutory allocation

**FY 2008-09 Budget Outlook Drifts
Slightly Lower**

(\$ in millions)	<u>FY 08</u>	<u>FY 09</u>
Revenues	\$16,341	\$16,974
Spending	<u>15,967</u>	<u>16,257</u>
<i>Difference</i>	374	717
<i>Inflation</i>	(303)	(640)
<i>Constitutional Amend.</i>	<u>(56)</u>	<u>(116)</u>
<i>Balance</i>	\$15	\$(39)

Senators Langseth; Betzold; Johnson, D.E.; Pogemiller and Reiter introduced—
S.F. No. 2466: Referred to the Committee on Finance.

1.2 A bill for an act
1.3 relating to capital improvement; modifying certain appropriations; amending
1.4 Laws 2005, chapter 20, article 1, section 23, subdivisions 11, 12.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Laws 2005, chapter 20, article 1, section 23, subdivision 11, is amended to
1.7 read:

1.8 Subd. 11. **Redevelopment Account** 15,000,000

1.9
1.10 For purposes of the redevelopment account
1.11 created in Minnesota Statutes, section
1.12 116J.571.

1.13
1.14 \$5,000,000 cumulatively is for a ~~grant~~
1.15 grants to the ~~city of Mounds View~~
1.16 counties of Ramsey and Anoka for public
1.17 ~~improvements for a commercial and~~
1.18 ~~industrial redevelopment project.~~ to the
1.19 portions of County Road J located within
1.20 each county, including predesign and design,
1.21 the acquisition of interests in land, and the
1.22 repayment of loans the proceeds of which
1.23 were used for the public improvements. The

2.1 grants to the individual counties shall be
 2.2 in amounts proportionate to the individual
 2.3 counties' costs associated with the public
 2.4 improvements. This grant is exempt from the
 2.5 requirements of Minnesota Statutes, sections
 2.6 116J.572 to 116J.575.

2.7
 2.8 \$1,000,000 is for a grant to the city of
 2.9 Willmar to pay part of the cost of acquiring
 2.10 land for the city airport and to construct,
 2.11 furnish, and equip hangars and a precision
 2.12 lighting system at the airport.

2.13
 2.14 \$600,000 is for a grant to the city of Rushford
 2.15 to acquire real property for, and to design,
 2.16 construct, and renovate, furnish, and equip a
 2.17 facility for the Institute of Nanotechnology.

2.18

2.19 Sec. 2. Laws 2005, chapter 20, article 1, section 23, subdivision 12, is amended to read:

2.20

2.21 **Subd. 12. Bioscience Development** 18,500,000

2.22

2.23 For grants to political subdivisions to
 2.24 predesign, design, acquire, construct, furnish,
 2.25 and equip publicly owned infrastructure
 2.26 required to support bioscience development
 2.27 in this state.

2.28

2.29 \$2,500,000 is for a grant to the city of
 2.30 Worthington.

2.31 \$14,000,000 cumulatively to the counties of
 2.32 Ramsey and Anoka for public improvements
 2.33 to the portion of County Road J located
 2.34 within each county. This amount may be
 2.35 used to repay loans the proceeds of which

3.1 were used for the public improvement. The
3.2 grants to the individual counties shall be
3.3 in amounts proportionate to the individual
3.4 counties' costs associated with the public
3.5 improvements.

3.6

3.7 **EFFECTIVE DATE.** This section is effective the day following final enactment.

1.1 Senator moves to amend S.F. No. 2466 as follows:

1.2 Page 2, line 31, after "cumulatively" insert "is for grants"

Senator Rosen introduced—

S.F. No. 2653: Referred to the Committee on Finance.

1 A bill for an act
1.2 relating to human services; appropriating money for pharmacy and
1.3 pharmacy-related costs.

1.4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.5 Section 1. **APPROPRIATION; PAYER OF LAST RESORT PAYMENTS FOR**
1.6 **CERTAIN DUAL ELIGIBLE PHARMACY COSTS.**

1.7 \$570,000 is appropriated from the general fund to the commissioner of human
1.8 services to cover certain pharmacy and pharmacy-related cost-sharing costs for dual
1.9 eligibles under the processes established under Executive Order No. 06-01. This funding
1.10 is available from March 9, 2006, to April 15, 2006. The commissioner shall seek federal
1.11 reimbursement for any expenditure made under this section. Any reimbursement received
1.12 for payments under this section shall be deposited into the general fund.

1.1 Senator moves to amend S.F. No. 2653 as follows:

1.2 Delete everything after the enacting clause and insert:

1.3 "Section 1. **APPROPRIATION; PAYER OF LAST RESORT PAYMENTS FOR**
1.4 **CERTAIN DUAL ELIGIBLE PHARMACY COSTS.**

1.5 The sums indicated in this section are appropriated from the general fund to the
1.6 commissioner of human services to cover certain pharmacy and pharmacy-related
1.7 cost-sharing costs for dual eligibles under the processes established under Executive
1.8 Order No. 06-01.

1.9 \$4,000,000 is available to cover costs incurred from January 1, 2006, to March
1.10 8, 2006.

1.11 \$570,000 is available to cover costs incurred from March 9, 2006, to April 15, 2006.

1.12 The commissioner shall seek reimbursement for any expenditure made under this
1.13 section. Any reimbursement received for payments under this section must be credited
1.14 to the general fund.

1.15 **EFFECTIVE DATE.** This section is effective retroactively from January 1, 2006."

David Godfrey - Fiscal Estimate on Amendment to SF 2653

From: "Hardwick, Jane W" <Jane.W.Hardwick@state.mn.us>
To: <david.godfrey@senate.mn>
Date: 3/1/2006 5:26:23 PM
Subject: Fiscal Estimate on Amendment to SF 2653
CC: "Juelich, Barb" <Barb.Juelich@state.mn.us>, "Hoffman, George" <George.Hoffman@state.mn.us>

David-

As you requested, the budget impact of SF 2653, if Amendment A-1 is adopted, would be \$570,000 for FY 2006. This is arrived at as follows:

- (1) For the dates of service January 1, 2006 to March 8, 2006:
 - a. The federal Centers for Medicare and Medicaid Services, have approved a waiver that **authorizes the Department to obtain federal Medicare funding for claims for drugs dispensed to dual eligibles during that time period.**
 - b. The estimated costs for that time period are approximately \$4 million and we expect **full federal reimbursement** for those costs.
 - c. Therefore, the cost for that time period is \$0.
- (2) For the dates of service March 9, 2006 to April 15, 2006:
 - a. We do not expect to receive any federal reimbursement --although we will seek reimbursement from **liable third parties, including Medicare and health plans.**
 - b. We project the costs during that 38-day period to average \$15,000 per day for a total of \$570,000.

Please let me know if any further information would be helpful.

Jane Wilcox Hardwick

Chief Financial Officer

Office of Management & Budget

Minnesota Department of Human Services

Phone: (651) 431-2908

E-mail: jane.w.hardwick@state.mn.us

1.1 A bill for an act
 1.2 relating to finance; providing an appropriation for emergencies; requiring reports
 1.3 and recommendations to bring the state budget into compliance with generally
 1.4 accepted governmental accounting principles; requiring disclosure of the impact
 1.5 of inflation on state expenditures; requiring consultation on expenditure data;
 1.6 requiring a report of cash flow for the general fund; providing continuing
 1.7 appropriations for the operation of state government under certain conditions;
 1.8 providing for an increase in the budget reserve to five percent of forecast net
 1.9 general fund revenue; appropriating money; amending Minnesota Statutes 2004,
 1.10 sections 9.061, subdivision 5; 16A.055, subdivision 1; 16A.103, subdivisions 1a,
 1.11 1b, 1c, 1e; 16A.11, subdivision 2, by adding a subdivision; Minnesota Statutes
 1.12 2005 Supplement, section 16A.152, subdivision 2; proposing coding for new law
 1.13 in Minnesota Statutes, chapter 16A.

1.14 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.15 Section 1. Minnesota Statutes 2004, section 9.061, subdivision 5, is amended to read:

1.16 Subd. 5. **Spending power.** Where an emergency exists the Executive Council
 1.17 may expend money as necessary therefor ~~within the limit of appropriations made to the~~
 1.18 ~~council for this purpose~~, but not to exceed \$3,000,000 in any fiscal year, and that amount
 1.19 is annually appropriated from the general fund for this purpose.

1.20 Sec. 2. Minnesota Statutes 2004, section 16A.055, subdivision 1, is amended to read:

1.21 Subdivision 1. **List.** (a) The commissioner shall:
 1.22 (1) receive and record all money paid into the state treasury and safely keep it until
 1.23 lawfully paid out;
 1.24 (2) manage the state's financial affairs;
 1.26 (3) keep the state's general account books according to generally accepted
 government accounting principles;

2.1 (4) keep expenditure and revenue accounts according to generally accepted
2.2 government accounting principles;

2.3 (5) develop, provide instructions for, prescribe, and manage a state uniform
2.4 accounting system;

2.5 (6) provide to the state the expertise to ensure that all state funds are accounted for
2.6 under generally accepted government accounting principles; and

2.7 (7) coordinate the development of, and maintain standards for, internal auditing in
2.8 state agencies and, in cooperation with the commissioner of administration, report to the
2.9 legislature and the governor by January 31 of odd-numbered years, on progress made.

2.10 (b) The commissioner shall report to the legislature by January 15 each year any
2.11 laws that require the state's general fund budget not to be reported according to generally
2.12 accepted government accounting principles.

2.13 Sec. 3. Minnesota Statutes 2004, section 16A.103, subdivision 1a, is amended to read:

2.14 Subd. 1a. **Forecast parameters.** The forecast must assume the continuation of
2.15 current laws and reasonable estimates of projected growth in the national and state
2.16 economies and affected populations. Revenue must be estimated for all sources provided
2.17 for in current law. Expenditures must be estimated for all obligations imposed by law and
2.18 those projected to occur as a result of inflation and variables outside the control of the
2.19 legislature. ~~Expenditure estimates must not include an allowance for inflation.~~

2.20 Sec. 4. Minnesota Statutes 2004, section 16A.103, subdivision 1b, is amended to read:

2.21 Subd. 1b. **Forecast variable.** In determining the rate of inflation, the application
2.22 of inflation, the amount of state bonding as it affects debt service, the calculation of
2.23 investment income, and the other variables to be included in the expenditure part of the
2.24 forecast, the commissioner must consult with the chairs and lead minority members of the
2.25 senate ~~State Government~~ Finance Committee and the house Ways and Means Committee,
2.26 and legislative fiscal staff. This consultation must occur at least three weeks before the
2.27 forecast is to be released. No later than two weeks prior to the release of the forecast,
2.28 the commissioner must inform the chairs and lead minority members of the senate
2.29 ~~State Government~~ Finance Committee and the house Ways and Means Committee, and
2.30 legislative fiscal staff of any changes in these variables from the previous forecast.

2.31 Sec. 5. Minnesota Statutes 2004, section 16A.103, subdivision 1c, is amended to read:

2.32 Subd. 1c. **Expenditure data.** State agencies must submit any revisions in
2.33 expenditure data the commissioner determines necessary for the forecast to the

3.1 commissioner at least four weeks prior to the release of the forecast. The commissioner
3.2 shall make the information submitted by state agencies and any modifications to that
3.3 information made by the commissioner ~~must be made~~ available to legislative fiscal staff,
3.4 and shall consult with legislative staff about the meaning of the information, no later than
3.5 three weeks prior to the release of the forecast.

3.6 Sec. 6. Minnesota Statutes 2004, section 16A.103, subdivision 1e, is amended to read:

3.7 Subd. 1e. **Economic information.** The commissioner must review economic
3.8 information including economic forecasts with legislative fiscal staff no later than two
3.9 weeks before the forecast is released. The commissioner must invite the chairs and lead
3.10 minority members of the senate ~~State Government~~ Finance Committee and the house
3.11 Ways and Means Committee, and legislative fiscal staff to attend any meetings held with
3.12 outside economic advisors. The commissioner must provide legislative fiscal staff with
3.13 monthly economic forecast information received from outside sources.

3.14 Sec. 7. [16A.107] CASH FLOW FORECAST.

3.15 Within two weeks after the November forecast of state revenue and expenditures
3.16 under section 16A.103, the commissioner shall deliver to the governor and the legislature
3.17 a forecast of cash flow for the general fund, showing the expected maximum and minimum
3.18 cash balance in the fund for each month of the forecast period.

3.19 Sec. 8. Minnesota Statutes 2004, section 16A.11, subdivision 2, is amended to read:

3.20 Subd. 2. **Part one: message.** Part one of the budget, the governor's message,
3.21 shall include the governor's recommendations on the financial policy of the state for the
3.22 coming biennium, describing the important features of the budget plan, embracing a
3.23 general budget summary setting forth the aggregate figures of the budget so as to show
3.24 the balanced relation between the total proposed expenditures and the total anticipated
3.25 income, with the basis and factors on which the estimates are made, the amount to be
3.26 borrowed, and other means of financing the budget for the coming biennium, compared
3.27 with the corresponding figures for at least the last two completed fiscal years and the
3.28 current year. The budget plan must include recommendations on how to bring the budget
3.29 into compliance with generally accepted governmental accounting principles. The
3.30 budget plan shall be supported by explanatory schedules or statements, classifying its
3.31 expenditures by agencies and funds, and the income by agencies, sources, funds, and the
3.32 proposed amount of new borrowing, as well as proposed new tax or revenue sources. The
3.33 budget plan shall be submitted for all special and dedicated funds, as well as the general

4.1 fund, and shall include the estimated amounts of federal aids, for whatever purpose
 4.2 provided, together with estimated expenditures from them.

4.3 Sec. 9. Minnesota Statutes 2004, section 16A.11, is amended by adding a subdivision
 4.4 to read:

4.5 Subd. 3d. Budget bills. The necessary bills to implement the governor's operating
 4.6 budget must be submitted to the legislature within two weeks after the operating budget
 4.7 was submitted. The necessary bills to implement the governor's capital budget must be
 4.8 submitted to the legislature within two weeks after the capital budget was submitted.

4.9 Sec. 10. [16A.117] CONTINUING APPROPRIATIONS.

4.10 If no biennial direct appropriations for a given state agency are enacted before
 4.11 July 1 of an odd-numbered year, amounts sufficient to continue operation of that agency
 4.12 through the fiscal year ending June 30 of the next even-numbered year at the base level
 4.13 for that next fiscal year, as determined according to section 16A.11, subdivision 3, and
 4.14 previous appropriation acts, are appropriated to the agency from the appropriate funds and
 4.15 accounts in the state treasury. The base level for an appropriation that was designated as
 4.16 onetime or was onetime in nature is zero.

4.17 Sec. 11. Minnesota Statutes 2005 Supplement, section 16A.152, subdivision 2, is
 4.18 amended to read:

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

4.24 (1) the cash flow account established in subdivision 1 until that account reaches
 4.25 \$350,000,000;

4.26 (2) the budget reserve account established in subdivision 1a until that account
 4.27 reaches ~~\$653,000,000~~ five percent of forecast net general fund revenue for the biennium;

4.28 (3) the amount necessary to increase the aid payment schedule for school district
 4.29 aids and credits payments in section 127A.45 to not more than 90 percent rounded to the
 4.30 nearest tenth of a percent without exceeding the amount available and with any remaining
 4.31 funds deposited in the budget reserve; and

4.32 (4) the amount necessary to restore all or a portion of the net aid reductions under
 4.33 section 127A.441 and to reduce the property tax revenue recognition shift under section

5.1 123B.75, subdivision 5, paragraph (c), and Laws 2003, First Special Session chapter 9,
5.2 article 5, section 34, as amended by Laws 2003, First Special Session chapter 23, section
5.3 20, by the same amount.

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

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

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

1.1 Senator moves to amend S.F. No. 2722 as follows:

1.2 Page 4, delete section 10 and insert:

1.3 "Sec. 10. [16A.117] CONTINUING APPROPRIATIONS.

1.4 If a major appropriation bill to fund a given state agency for the next biennium is not
1.5 enacted before July 1 of an odd-numbered year, amounts sufficient to continue operation
1.6 of that agency and the programs administered by that agency through the fiscal year
1.7 ending June 30 of the next even-numbered year at the base level for that next fiscal year,
1.8 as determined according to section 16A.11, subdivision 3, and previous appropriation
1.9 acts, are appropriated to the agency from the appropriate funds and accounts in the
1.10 state treasury. The base level for an appropriation that was designated as onetime or
1.11 was onetime in nature is zero."

1.1 Senator moves to amend S.F. No. 2722 as follows:

1.2 Page 1, after line 19, insert:

1.3 "EFFECTIVE DATE. This section is effective July 1, 2007."

**Senate Counsel, Research,
and Fiscal Analysis**

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Senate
State of Minnesota

S.F. No. 2722 - Budget Reform

Author: Senator Richard J. Cohen

Prepared by: Peter S. Wattson, Senate Counsel (651/296-3812) *PW*

Date: March 2, 2006

S.F. No. 2722 reforms the state budget process in a number of ways. Among other things, it:

1. Provides an annual appropriation to the Executive Council for emergencies.
2. Moves the general fund budget toward being reported in accordance with generally accepted accounting principles.
3. Reinstates inflation to the budget forecast.
4. Provides continuing appropriations to continue state services in the event of a budget deadlock.
5. Provides for a future increase in the budget reserve.

Section 1 appropriates \$3 million each year to the Executive Council to spend in an emergency.

From 1953 to 1959, the Executive Council was authorized to spend up to \$200,000 each fiscal year for emergencies. In 1959, the amount was raised to \$1.5 million, and in 1965 to \$2 million. The appropriation was stricken in 1981 by the State Government appropriations bill, which appropriated more than \$3 million each year to the general contingent account. The general contingent appropriation in the 2005 State Government bill was \$500,00 for the biennium.

S.F. No. 2722
March 2, 2006
Page 2

Section 2 requires the Commissioner of Finance to report to the Legislature by January 15 each year any laws that require the state's general fund budget not to be reported in accordance with generally accepted governmental accounting principles.

Section 3 strikes the prohibition against including an allowance for inflation in the expenditure forecast.

Inflation had normally been included in state expenditure forecasts since forecasts began in the mid-1970s. Inflation was omitted by the Commissioner of Finance from the forecast in 1991, but restored in 1992. Laws 1994, ch. 587, art. 7, § 2, required that it always be included. That continued until the budget crisis of 2002, when Laws 2002, ch. 220, art. 13, §§ 1-2, required that "[e]xpenditure estimates must not include an allowance for inflation."

Section 4 restores a reference to inflation in the budget forecast and updates references to the Senate Finance Committee.

Section 5 requires the Commissioner of Finance to consult with legislative staff about the meaning of expenditure information submitted by state agencies in connection with the budget forecast.

Section 6 updates a reference to the Senate Finance Committee.

Section 7 requires the Commissioner of Finance to deliver to the Governor and the Legislature a forecast of general fund cash flow within two weeks after each November budget forecast.

Section 8 requires the Governor to recommend, as part of the biennial budget message, how to bring the budget into compliance with generally accepted governmental accounting principles.

Section 9 requires the Governor to submit to the Legislature the necessary bills to implement the Governor's budget recommendations within two weeks after the recommendations were submitted.

Section 10 provides for continuing appropriations to keep state agencies operating for one fiscal year in the event of a budget deadlock. The continuing appropriation enacted in Laws 2005, First Sp. Sess. ch. 2, was for only two weeks, not a full fiscal year.

Section 11 increases the ceiling on the budget reserve from \$653 million to five percent of forecast net general fund revenue for the biennium, which would be about \$1.57 billion under the current forecast. This change would cause an addition to the budget reserve to be made when a future budget forecast showed a surplus for the end of the biennium.

PSW:ph

cc: Matt Massman