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HOUSING FINANCE AGENCY
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LABOR AND INDUSTRY DEPT
MEDIATION SERVICES BUREAU
TRADE & ECONOMIC DEVELOPMENT DEPT
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CHICANO LATINO AFFAIRS COUNCIL
ELECTRICITY BOARD
HISTORICAL SOCIETY
HUMANITIES COMMISSION
INDIAN AFFAIRS COUNCIL
MINNESOTA TECHNOLOGY INC
PUBLIC UTILITIES COMM
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Market Assurance



February 18, 2003

The 2003 Minnesota Legislature:

With this letter, we submit the Governor's recommended Department of Commerce budget for the FY 2004-05 biennium. This recommended budget includes important restructuring and outsourcing initiatives aimed at improving the department's efficiency and effectiveness. These initiatives will allow the department to meet the biennial cost reduction goals necessitated by Minnesota's current fiscal circumstances.

The Governor recommends a biennial budget of \$306,014,000 for the Department of Commerce for the FY 2004-05 biennium. Of this amount:

- ◆ \$57,203,000 is from the General Fund (including open appropriations for energy incentives);
- ◆ \$183,230,000 is from federal funds; and,
- ◆ \$65,581,000 is from all other funds.

The Governor's recommendation for the FY 2004-05 budget includes a base reduction of \$5,287,000, which equates to 10% of our current budget. A large portion of the department's general fund costs is covered through fees and assessments. Consequently, some of the proposed reductions will result in a corresponding loss of revenue. The department carefully designed this budget proposal to minimize revenue losses.

The department will continue to provide core services in the FY 2004-05 biennium. However, some of our core services will, of necessity, be restructured, refocused or outsourced. These changes are fundamental to the proposed budget. The changes are absolutely essential for the department to continue to carry out its broad statutory mission. The proposals to restructure and outsource will allow the Department of Commerce to continue to effectively serve the people of Minnesota while keeping costs within the recommended budget levels for the FY 2004-05 biennium.

Our proposed restructuring and outsourcing projects include:

- ⇒ The Financial Examinations Division will gain efficiency and reduce costs by combining the Insurance Examinations unit with the Insurance Desk Audit unit. As a result, the division will increase its reliance on other states to audit out-of-state insurance companies.
- ⇒ The Administration Division plans to outsource a portion of its licensing operation. Outsourcing will allow the department to reduce expenditures, and will provide convenient, one-stop licensing services to 20,000 first-time licensees each year.
- ⇒ The Market Assurance Division will restructure parts of its operations to focus staff efforts in areas where improved consumer protection is most needed. The restructuring will allow the division to reduce costs.
- ⇒ The Energy Division and the Telecommunications Division will be combined. Resulting efficiency improvements will allow the division to reduce its costs.
- ⇒ The Weights and Measures Division will outsource gasoline pump inspection and liquefied petroleum gas (LPG) meter inspection. Outsourcing will produce significant savings while maintaining effective consumer and business protection.

We look forward to working with the 2003 Minnesota Legislature to resolve Minnesota's fiscal problems and to improve the overall efficiency of Minnesota government. Our proposed budget contributes to that resolution. The restructuring and outsourcing initiatives included in this proposed budget will allow the Department of Commerce to continue to effectively serve Minnesota businesses and individuals.

Sincerely,

A handwritten signature in black ink that reads "Glenn Wilson". The signature is written in a cursive, flowing style.

Glenn Wilson, Commissioner

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	58,514	248,437	306,951
Legislatively Mandated Base	-433	0	-433
New Programs To Agency Base	-17	0	-17
One-Time Appropriations	-670	0	-670
Open Appr. Forecast Adj.	4,912	-66	4,846
Transfers Between Agencies	184	440	624
Adjusted Base Funding	62,490	248,811	311,301
Change Items			
Budget Reduction	-5,287	0	-5,287
Governor's Recommendations	57,203	248,811	306,014
Biennial Change, 2002-03 to 2004-05	2,984	81,211	84,195
Percent Change	6%	48%	38%

Brief Explanation Of Budget Decisions:

- 1) The direct appropriation from the General Fund to the Department of Commerce includes the following adjustments to the biennial base:

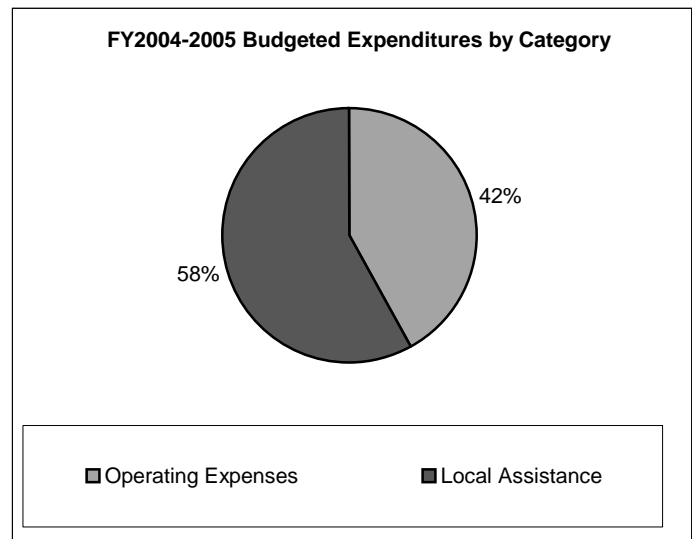
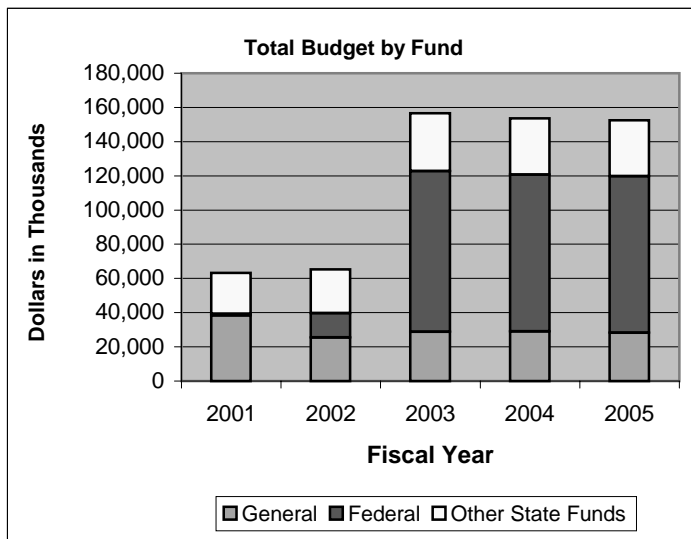
(\$50,000)	Administrative Cost Reduction (Phase 1)
(\$60,000)	Money Transmitters Reduction
\$1,000	Insurance Producers Increase
(\$316,000)	Do-Not-Call Reduction
(\$17,000)	Student Athlete Agent
\$184,000	The Cigarette pricing activity was transferred from the Department of Revenue to the Department of Commerce.
(\$670,000)	A one-time appropriation to the Department of Commerce for a School Employee Health Insurance Study will end in FY 2004.
\$440,000	The base has been adjusted to transfer the fraud section of the Investigative Services Unit from the Department of Labor and Industry to the Department of Commerce.

- 2) The Department of Commerce forecasts that an open appropriation from the General Fund to the department for wind and hydroelectric incentive payments will increase by \$4,912,000 for the FY 2004-05 biennium.

FY 2004-05 Revenues (\$000s)

	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	173,435	218,613	392,048
Change Items			
Weights and Measures Division			
W&M Fee Increase	\$506	0	\$506
Budget Reduction	-1486		-1486
FY 2004-05 Total Revenues	172,455	218,613	391,068
Biennial Change 2002-03 to 2004-05	980	22,072	23,052
Percent Change	0.57%	10.10%	5.88%

Currently, the division's non-petroleum fee income does not recover its non-petroleum costs. The fee levels have not changed since 1996. The division estimates that the proposed fee increase will generate sufficient revenue to recover the division's non-petroleum operating expenses as required by M.S. 239.101. All revenues from Weights and Measures fees are deposited in the General Fund.



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	37,684	23,505	26,448	24,157	23,430	47,587
Petroleum Tank Release Cleanup	824	815	1,333	1,084	1,084	2,168
Workers Compensation	593	578	636	835	835	1,670
Open Appropriations						
General	742	1,914	2,352	4,778	4,838	9,616
Petroleum Tank Release Cleanup	13,256	10,692	15,145	15,246	15,246	30,492
Statutory Appropriations						
State Government Special Revenue	0	101	86	0	0	0
Special Revenue	9,310	12,480	16,459	15,582	15,617	31,199
Federal	823	14,333	93,882	91,820	91,410	183,230
Gift	0	840	220	26	26	52
Total	63,232	65,258	156,561	153,528	152,486	306,014

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	47,675	51,731	64,991	63,922	63,571	127,493
Local Assistance	15,520	13,372	91,070	89,005	88,314	177,319
Other Financial Transactions	37	155	500	500	500	1,000
Transfers	0	0	0	101	101	202
Total	63,232	65,258	156,561	153,528	152,486	306,014

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Financial Examinations	6,656	7,555	10,066	9,700	9,697	19,397
Petroleum Tank Cleanup Fund	14,080	11,507	16,478	16,330	16,330	32,660
Administration	7,145	5,746	5,901	5,678	5,678	11,356
Market Assurance	21,980	6,817	8,724	8,209	7,494	15,703
Energy & Telecommunications	6,152	22,813	104,331	103,488	103,125	206,613
Tam	7,219	7,750	7,882	7,617	7,655	15,272
Weights & Measures	0	3,070	3,179	2,506	2,507	5,013
Total	63,232	65,258	156,561	153,528	152,486	306,014

<i>Dollars in Thousands</i>	Actual	Actual	Preliminary	Governor's Rec		Biennium
Revenue by Type and Fund	FY2001	FY2002	FY2003	FY2004	FY2005	2004-05
Non Dedicated						
General	34,769	87,946	84,728	84,607	85,856	170,463
Petroleum Tank Release Cleanup	1,487	829	632	632	632	1,264
Cambridge Deposit Fund	46,679	0	0	0	0	0
Subtotal Non Dedicated	82,935	88,775	85,360	85,239	86,488	171,727
Dedicated						
General	0	2	4	0	0	0
Special Revenue	12,873	14,754	18,375	16,914	17,153	34,067
Federal	791	68,706	91,477	91,820	91,410	183,230
Miscellaneous Agency	4	3	0	0	0	0
Gift	0	1,732	27	26	26	52
Subtotal Dedicated	13,668	85,197	109,883	108,760	108,589	217,349
Total Revenue	96,603	173,972	195,243	193,999	195,077	389,076
Full-Time Equivalents (FTE)	317.4	350.4	356.4	318.5	318.5	

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$2,644)	(\$2,643)	(\$2,643)	(\$2,643)
Revenues	(\$743)	(\$743)	(\$743)	(\$743)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$1,901)	(\$1,900)	(\$1,900)	(\$1,900)

Recommendation

The Governor recommends a budget for the Department of Commerce of \$24,157,000 in FY 2004 and \$23,430,000 in FY 2005. This recommendation includes expenditure reductions of \$2,644,000 in FY 2004 and \$2,643,000 in FY 2005.

Background

The Department of Commerce proposes to improve efficiency and customer service while reducing costs. The department intends to accomplish these goals by making the following changes.

1) Financial Examinations

The department proposes to combine the Insurance Examinations unit with the Insurance Desk Audit unit. The combined unit will refocus staff efforts to monitor primarily Minnesota-based insurance companies. The unit will place more reliance on other states to monitor insurance companies based in those states. Monitoring out-of-state companies will be risk-focused.

2) Administrative Management

The department proposes to outsource application processing for initial license issuance. Currently, the department retains a contractor only to administer initial license examinations. Under this proposal, a contractor will administer examinations, process initial license applications, and issue initial licenses. Outsourcing is expected to be successful because the department will contract with one vendor to provide an efficient, one-stop system for initial license issuance.

3) Market Assurance

The department proposes to restructure its Market Assurance Division to focus staff efforts in areas where consumer protection can be improved, and where the division will be most productive and effective. To accomplish this goal, the division will reinforce its investigative staff while reducing the overall staff level.

4) Energy & Telecommunications

- a) The department will gain some efficiency improvements from combining the Energy Division and the Telecommunications Division. These improvements will allow the combined division to reduce its staff.
- b) The division will turn back funds that have been statutorily appropriated from the General Fund to the Oil Burner Retrofit account. This proposed change will reduce the amount of funding available to retrofit and upgrade oil burning furnaces in low income households. There will be no corresponding loss of revenue.

5) Weights and Measures

The department proposes to outsource inspection and testing of gasoline pumps and liquefied petroleum gas (LPG) meters. This proposal does not affect other areas of commercial weighing or measuring (e.g. heavy capacity scales at grain elevators, fertilizer plants, and livestock dealers, and light capacity scales at grocery stores and other businesses). Outsourcing is expected to be a successful solution for gasoline pump and LPG meter inspections because:

- a) Compliance, with respect to gasoline pump accuracy, has historically been in the range of 96%. Modern gasoline pump equipment tends to be fairly reliable and stable. The department will be able to contract for services, and extend inspection intervals, without detrimentally affecting compliance.
- b) Compliance for LPG meters has historically been in the range of 25%. Due to the nature of the product, meters cannot maintain long term accuracy. Regular repair and adjustment is required. The department will authorize private sector repair companies to inspect and test LPG meters on the department's behalf.

Relationship to Base Budget

The Governor's recommended budget for the Department of Commerce represents a 10% reduction from the previous biennium. The department is proposing to significantly restructure several of its operations in an effort to accomplish the necessary cost reduction. These restructuring efforts are the only reasonable way to achieve the necessary cost reduction goals.

Alternatives Considered

There are no alternatives. Salary expenditures represent the bulk of the Department of Commerce budget. The department's salary expenditures are the only significant expenditure areas that can be used to provide the substantial level of change necessitated by current fiscal circumstances.

Statutory Change:**1) Financial Examinations**

The proposed restructuring will require changes to Minnesota Statutes, Sections 46.04 and 52.06, to allow the division to expand examination intervals for banks and credit unions from the current 18 months to 24 months.

2) Administrative Management

Changes to Minnesota Statutes, Chapter 45, will be required to allow the department to contract for initial license application processing services. The department intends to contract for license application processing, along with license examination services, so that initial license applicants will be able to conveniently complete the entire licensing process at one location, and with only one fee.

3) Market Assurance

The proposed restructuring will require changes to Minnesota Statutes, Chapters 61A, 62A, 70A, 79, 155A, and 325D, and changes to Minnesota Statutes, Section 79.56 3(b).

4) Energy & Telecommunications

Not Applicable.

5) Weights and Measures

The proposed efficiency improvements will require changes to Minnesota Statutes, Chapter 239, to allow the division to authorize private sector businesses to inspect and test commercial weighing and measuring equipment on behalf of the state.

COMMERCE DEPT

Program: WEIGHTS & MEASURES

Change Item: WEIGHTS & MEASURES FEE INCREASE

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	\$253	\$253	\$253	\$253
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$253	\$253	\$253	\$253

Recommendation

The Governor recommends increasing the inspection fees charged by the Weights and Measures Division. The recommended fee increases will balance the division's non-petroleum fee income against its non-petroleum operating expenses. The increased fees will increase General Fund revenues by \$253,000 per year.

Background

Currently, the division's non-petroleum fee income does not recover its non-petroleum costs. The fees have not been increased since 1996. The division estimates that the proposed fee increase will generate sufficient revenue to recover the division's non-petroleum operating expenses. The following table provides details about the estimated income to be generated by the proposed fee increase. All revenues from Weights and Measures fees are paid into the General Fund. The division is required by M.S. Section 239.101, to recover its non-petroleum operating costs by charging direct fees for inspection services.

Inspection Type	Capacity	Estimated Tests	FY 2003 Fee	FY 2003 Income	Proposed FY 2004 Fee	Estimated FY 2004 Income
Agricultural Chemical Scale	All	81	\$125	\$10,125	\$150	\$12,150
LPG Platform Scale	7-250 lbs	3	\$19	\$57	\$25	\$75
	251-1,100 lbs	866	\$30	\$25,980	\$45	\$38,970
Industrial Scale	0-250 lbs	330	\$19	\$6,270	\$25	\$8,250
	251-1,100 lbs	800	\$30	\$24,000	\$45	\$36,000
	1,101-2000 lbs	45	\$50	\$2,250	\$65	\$2,925
	2,101-4,000 lbs	113	\$75	\$8,475	\$90	\$10,170
	4,001-10,000 lbs	347	\$145	\$50,315	\$170	\$58,990
	10,001-30,000 lbs	96	\$175	\$16,800	\$195	\$18,720
	over 30,000 lbs	14	\$240	\$3,360	\$275	\$3,850
Enforcement Scale, Portable	All	341	\$100	\$34,100	\$125	\$42,625
Fertilizer Hopper Scale	up to 9,000 lbs	68	\$145	\$9,860	\$165	\$11,220
	9,001 - 30,000 lbs	319	\$175	\$55,825	\$195	\$62,205
	over 30,000 lbs	46	\$240	\$11,040	\$300	\$13,800
Grain Hopper Scale	up to 4,000 lbs	9	\$75	\$675	\$90	\$810
	4,001-10,000 lbs	228	\$145	\$33,060	\$170	\$36,760
	10,001-80,000 lbs	68	\$175	\$11,900	\$195	\$13,260
	over 80,000 lbs	82	\$240	\$19,680	\$300	\$24,600
Livestock Scale	All USDA Test	150	\$250	\$37,500	\$300	\$45,000
LPG Meter	All	949	\$135	\$128,115	\$150	\$142,350

COMMERCE DEPT

Program: WEIGHTS & MEASURES

Change Item: WEIGHTS & MEASURES FEE INCREASE

Inspection Type	Capacity	Estimated Tests	FY 2003 Fee	FY 2003 Income	Proposed FY 2004 Fee	Estimated FY 2004 Income
Metrology Laboratory	Hourly	2,275	\$125	\$284,375	\$140	\$318,500
Placing in Service Permit	All	478	\$100	\$47,800	\$110	\$52,580
Petroleum Laboratory	Hourly	35	\$100	\$3,500	\$110	\$3,850
Retail Scale (see note)	0-6 lbs	91	\$9	\$819	\$10	\$910
	7-250 lbs	3,300	\$19	\$62,700	\$25	\$82,500
	251-1,100 lbs	135	\$30	\$4,050	\$45	\$6,075
	1,101-2,000 lbs	19	\$50	\$950	\$65	\$1,235
	2,001-4,000 lbs	4	\$75	\$300	\$90	\$360
	4,001-10,000 lbs	2	\$145	\$290	\$170	\$340
Railroad Scale	single test	56	\$500	\$28,000	\$750	\$42,000
	second scale	23	\$200	\$4,600	\$300	\$6,900
Vehicle Scale	2 Section	565	\$170	\$96,050	\$200	\$113,000
	3 Section	365	\$180	\$65,700	\$220	\$80,300
	4 Section	575	\$190	\$109,250	\$230	\$132,250
	5 Section	295	\$200	\$59,000	\$240	\$70,800
	6 Section	23	\$210	\$4,830	\$250	\$5,750
Pkgd Commodity Net Weight (see note)	1-100 pkg lot	34	\$30	\$1,020	\$35	\$1,190
	101-500 pkg lot	86	\$75	\$6,450	\$85	\$7,310
	501-1,500 pkg lot	77	\$200	\$15,400	\$220	\$16,940
	over 1,500 pkg lot	77	\$300	\$23,100	\$330	\$25,410
Pkgd Commodity Reinspection (see note)	1-300 pkg lot	48	\$130	\$6,240	\$135	\$6,480
	301-1000 pkg lot	61	\$175	\$10,675	\$185	\$11,285
	1001-2,500 pkg lot	28	\$300	\$8,400	\$320	\$8,960
	over 2,500 pkg lot	11	\$400	\$4,400	\$430	\$4,730
Misc. Inspection (heavy)	hourly	342	\$75	\$25,650	\$90	\$30,780
Misc. Inspection (light)	hourly	54	\$65	<u>\$3,510</u>	\$75	<u>\$4,050</u>
FY 2003 Income (estimated)				\$1,366,446		
FY 2004 Income (proposed)						\$1,619,215
Annual Income Increase		\$252,769				

NOTE: Retail scale and package inspections limited to one every three years.

Alternatives Considered

There are no alternatives. Cost reductions will reduce income. The only way to balance the division's income against its non-petroleum costs is to increase non-petroleum inspection fees.

COMMERCE DEPT**Program: MARKET ASSURANCE****Change Item: BUILDING CONTRACTORS RECOVERY FUND**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Transfers In	\$2,500	0	0	0
Other Fund				
Expenditures	0	0	0	0
Transfers Out	(\$2,500)	0	0	0
Net Fiscal Impact	\$0	0	0	0

Recommendation

The Governor recommends a one-time transfer of \$2,500,000 from the surplus balance in the Building Contractor's Recovery Fund to the General Fund.

Background

The Building Contractor's Recovery Fund was established to compensate aggrieved owners or lessees of residential property who have obtained a final judgment against a licensed building contractor on grounds of fraudulent, deceptive, or dishonest practices, or failure of performance. Claims against the fund are limited to \$50,000 per claimant, or \$75,000 per licensee.

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Appropriated Programs
Budget Reduction



651.296.7608
tdd 651.297.2361

800.657.3749
www.mhfa.state.mn.us

February 18, 2003

The 2003 Minnesota Legislature:

Attached and submitted for your consideration are the Governor's budget recommendations for FY 2004-05 for the Minnesota Housing Finance Agency (MHFA). The Governor's budget includes \$69.470 million in General Fund appropriations to MHFA. State appropriations are less than 15% of the total MHFA budget. Bond proceeds represent the largest source of funding for MHFA activities and comprise approximately 44% of the total MHFA budget. Federal funds and agency resources make up the balance of the MHFA budget. With the Governor's budget recommendations, the agency will continue its efforts to strategically target its housing resources consistent with the agency's mission. The agency will maintain all current, ongoing program activities, although some activities will continue at a lower volume. The proposed budget is 12%, or \$9.598 million, less than the base budget for MHFA for the FY 2002-03 biennium.

We are committed to meeting Minnesotan's needs for decent safe, affordable homes and stronger communities. Resources will continue to be targeted to serving populations who are underserved by the private sector. The agency will continue to provide the critical piece of financing that assists the development of housing with rents below that achievable with amortizing, interest-bearing debt. Agency resources will be used to implement plans cooperatively developed at the local or regional level. Leveraging of private investment and local investment in housing will continue to be priorities in the use of agency resources.

The agency was guided by two principles in developing its budget reduction proposals:

1. The impact on programs that serve the most vulnerable populations should be minimized.
2. The impact on programs for which there is little or no alternative funding to accomplish the same or similar goal should be minimized.

Programs that predominantly serve the homeless, disabled persons, and the lowest income households were targeted for the lowest level reductions. Several programs routinely receive repayments and prepayments of deferred loans; consequently, these programs have been funded in the past at levels above the state appropriations. The proposed budget reductions reflect the ability of certain programs - the Homeownership Assistance Fund and the Tribal Indian program - to successfully operate in the short-term with a smaller investment of new state monies.

The agency is developing a number of strategies to best fulfill its mission with reduced resources. Some program elements may be redesigned to better target remaining resources. The agency will be seeking authority to use additional financing tools to accomplish program goals with less reliance on state appropriations. Technology applications will assist in providing services more quickly and efficiently while modestly lowering staffing needs.

Please feel to contact me at (651) 297-3125 or Tonja Orr at (651) 296-9820 if you have any questions or would like to discuss these proposals with us.

Sincerely,

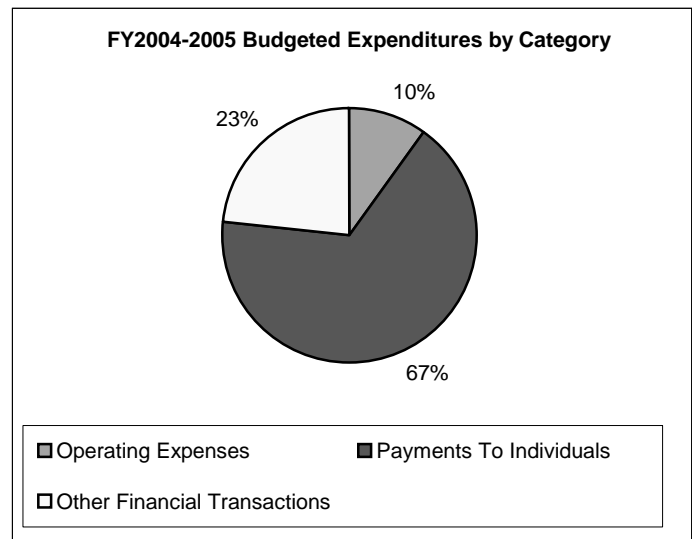
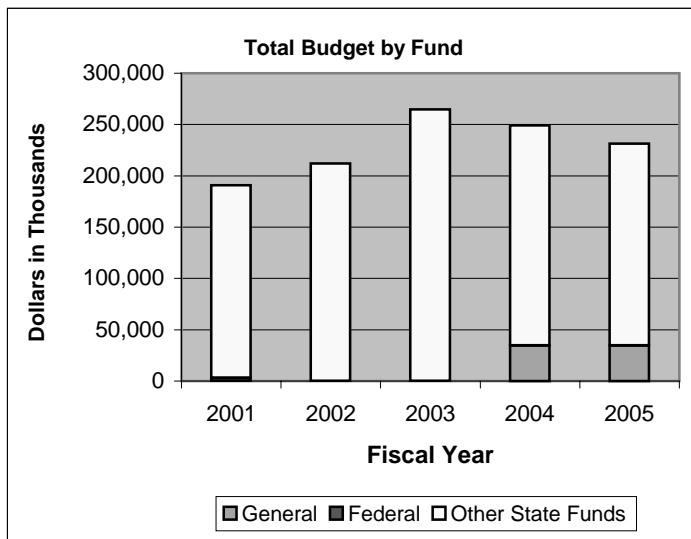
Patricia Hippe
Acting Commissioner

FY 2004-05 Expenditures (\$000s)			
	General Fund	Other Funds	Total
2003 Funding Level	104,232	411,388	515,620
Legislatively Mandated Base	-914	0	-914
One-Time Appropriations	-24,250	-250	-24,500
Adjusted Base Funding	79,068	411,138	490,206
Change Items			
Appropriated Programs			
Budget Reduction	-9,598	0	-9,598
Governor's Recommendations	69,470	411,138	480,608
Biennial Change, 2002-03 to 2004-05	69,470	-65,651	3,819
Percent Change	n.m	-14%	1%

Brief Explanation Of Budget Decisions:

Of the \$105 million new money appropriated to MHFA for the FY 2002-03 biennium, more than \$24 million was one-time only appropriations. The majority of the one-time only money was a result of surplus funds in the Temporary Assistance for Needy Families (TANF) reserve account. \$1.27 million was redirected to new or different programs from unexpended funds from earlier appropriations. \$250,000 was a one-time only appropriation of TANF funds. The FY 2002-03 base was increased initially by \$750,000 over the previous biennium, but was reduced by \$216,000 by the 2002 legislature. These reductions were taken by all appropriated programs proportionately. All appropriations made from the General Fund are transferred to the Housing Development Fund.

The change items reflect a total reduction in base appropriations of \$9,598,000 for the biennium.



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	0	0	0	34,735	34,735	69,470
Federal Tanf	3,243	125	125	0	0	0
Statutory Appropriations						
Housing Finance Agency	187,674	212,029	264,510	214,407	196,731	411,138
Total	190,917	212,154	264,635	249,142	231,466	480,608

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	17,501	19,340	22,586	23,367	24,154	47,521
Payments To Individuals	129,149	142,719	165,582	164,318	155,942	320,260
Local Assistance	567	509	500	498	330	828
Other Financial Transactions	43,700	49,586	75,967	60,959	51,040	111,999
Total	190,917	212,154	264,635	249,142	231,466	480,608

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Appropriated Programs	63,425	71,319	101,608	77,129	58,691	135,820
Non-Appropriated Programs	127,492	140,835	163,027	172,013	172,775	344,788
Total	190,917	212,154	264,635	249,142	231,466	480,608

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Dedicated						
Housing Finance Agency	131,581	143,826	169,035	176,432	176,318	352,750
Subtotal Dedicated	131,581	143,826	169,035	176,432	176,318	352,750
Total Revenue	131,581	143,826	169,035	176,432	176,318	352,750

Full-Time Equivalents (FTE)	181.1	183.8	197.0	197.0	197.0
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HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Change Item: BUDGET REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(4,799)	(4,799)	(4,799)	(4,799)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(4,799)	(4,799)	(4,799)	(4,799)

Recommendation

The Governor recommends a reduction in state general fund appropriations to the Minnesota Housing Finance Agency (MHFA) totaling \$9,598 million. The reduction would come from all five budget activity areas of the appropriated programs.

The agency pays for the costs of operation from agency earnings. No core state appropriation is used to fund agency operations. In order to reduce operating expenses, the agency intends to purchase software instead of pursuing its original plan to develop the software in-house. Savings will result from both the initial outlay and from ongoing costs of ownership. One of the software packages is expected to result in reduced staffing needs on a permanent basis. Any amounts saved in operating costs are invested, by agency policy, in housing programs.

The following table provides the detail of the proposed reductions:

	Biennial		
	Reductions	Reductions	Reductions
	<u>FY 2004</u>	<u>FY 2005</u>	<u>04 & 05</u>
Development & Redevelopment Programs			
Challenge	2,182	2,182	4,364
Urban Indian Housing	4	4	8
Subtotal	2,186	2,186	4,372
Supportive Housing Programs			
Housing Trust Fund	240	240	480
Family Homeless Prevention and Assistance	0	0	0
Bridges	34	34	68
Subtotal	274	274	548
Homeownership Loan Programs			
Rehabilitation Loans	243	243	486
Homeownership Assistance Fund	885	885	1,770
Tribal Indian Housing	550	550	1,100
Subtotal	1,678	1,678	3,356
Preservation of Federal Assisted Housing			
ARIF – Preservation	559	559	1,118
Subtotal	559	559	1,118

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Change Item: BUDGET REDUCTION

Resident & Organizational Support			
Homeownership Education, Training, and Counseling	73	73	146
Non-Profit Capacity Building Grants	29	29	58
Subtotal	102	102	204
Grand Total	4,799	4,799	9,598

Background

The agency's budget reduction recommendations were guided by two principles:

- ◆ The impact on programs that serve the most vulnerable populations should be minimized.
- ◆ The impact on programs for which there is little or no alternative funding to accomplish the same or similar goal should be minimized.

⇒ Development and Redevelopment Programs:

The goal of MHFA's Re/development programs is to fund the new construction and rehabilitation of housing, both rental and homes for ownership, needed to sustain economic growth and vitality. The agency's Re/development programs are the primary vehicles for achieving the objective of increased production by greater leveraging of capital investment in housing. The proposed reduction will adversely impact the Agency's ability to meet its goal of increasing production. The Challenge program requires that a portion of the funding be used to leverage outside funds. The proposed reduction will somewhat diminish leveraging opportunities.

The Urban Indian program serves exclusively households of color.

Approximately 418 fewer units will be produced or rehabilitated due to the proposed reduction.

⇒ Supportive Housing Programs:

Supportive Housing programs serve individuals and families with multiple barriers to obtaining and maintaining housing, including persons who are homeless or at risk of becoming homeless, and persons with mental illness, substance abuse disorders, or persons with HIV/AIDS.

The Housing Trust Fund program targets assistance to housing with rents affordable to extremely low-income households. In FY 2002, the median income of the households served by the Housing Trust Fund program was under \$6,000. Over 40% of the households served were households of color. The decrease in appropriations to this program will reduce the number of housing units produced or rehabilitated and will reduce the number of supportive housing units assisted with rental assistance or an operating cost subsidy.

The Bridges program provides rental assistance to extremely low income households with a disability. In FY 2002, the median income of the households served by the Bridges program was \$17,332. Approximately 30 fewer households will be receive rental assistance as a result of the proposed reduction.

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Change Item: BUDGET REDUCTION

⇒ Homeownership Loan Programs:

The Homeownership Loan programs combine state appropriations with bond proceeds and agency resources to provide affordable loan programs. The Homeownership Loan programs serve first-time homebuyers and very low-income homeowners, including Native Americans living on tribal lands. The median incomes of the households served under the Homeownership Assistance and the Tribal Indian Housing programs are the highest of all the state-appropriated programs. On the other hand, the median incomes of the households served under the Rehabilitation Loan program is one of the lowest median incomes among the state-appropriated programs.

All of the Homeownership Loan programs benefit from repayment and prepayments of previously made loans. These payments are returned to the respective programs for the purpose of making new loans. The interest rate environment in the last couple years has resulted in higher than projected levels of prepayments under the Homeownership Assistance program. Despite the proposed reductions, the programs can continue to operate on a temporary basis at lower levels of activity due to the receipt of repayments and prepayments.

The proposed reductions will have the following impact:

- ◆ Approximately 450 fewer households will receive downpayment and closing cost assistance under the Homeownership Assistance program;
- ◆ Approximately 16 fewer households will receive mortgage or rehabilitation assistance under the Tribal Indian Housing program; and
- ◆ Approximately 63 fewer households will receive deferred loans for rehabilitation of their homes under Rehabilitation loan program.

⇒ Preservation Programs:

In order to preserve every unit of federally assisted rental housing as is economically feasible, the MHFA provides incentive or rehabilitation loans, or both, for new or existing owners who will commit to staying in the federal assistance program for a longer term. This housing was financed originally with HUD, MHFA, or U.S.D.A Rural Development programs. Tenants of federally subsidized housing are generally the among the lowest income households served by MHFA.

As a result of the budget reductions, some units of federally assisted housing may opt out of the federal program and be permanently lost as affordable housing.

⇒ Resident and Organizational Support Programs:

The Resident and Organizational Support programs provide support for some of the organizational infrastructure necessary to effectively deliver affordable housing throughout the state. These programs fund homebuyer education and foreclosure prevention, regional planning and coordinating activities, and non-profit operating costs.

As a result of the proposed reductions, approximately 300 fewer households will receive counseling to avoid a foreclosure or training to become a homeowner. The agency will work with providers of these services to try to encourage financial institutions to help make up some of the lost state funds.

In addition, some non-profit organizations will receive less financial assistance with organizational support or training to help build capacity.

HOUSING FINANCE AGENCY

Program: APPROPRIATED PROGRAMS

Change Item: BUDGET REDUCTION

Relationship to Base Budget

⇒ Development and Redevelopment Programs:

The Challenge program represents nearly 30% of the total biennial base state appropriations to the agency. The proposed reduction is about 18.5% of the base appropriation to the Challenge program. It represents 45% of the total proposed reduction.

The appropriation to the Urban Indian program is less than one-half of 1% of the total agency base appropriation. The proposed reduction would decrease the program base by 2%.

⇒ Supportive Housing Programs:

The base appropriation to the Housing Trust Fund program is 11.5% of the total biennial base appropriation to the agency. The proposed reduction would decrease the program base by 5.2%. Receipt of approximately \$1 million is projected in the upcoming biennium from the interest earnings on the real estate brokers trust account. This is consistent with the revenues in past biennia from this source.

The base appropriation to the Bridges program is 4.23% of the total biennial base appropriation to the Agency. The proposed reduction would decrease the program base by 2%.

⇒ Homeownership Loan Programs:

The base appropriations for homeownership loan program activities are 17% of the total agency biennial base appropriations. The proposed reductions for these activities are 35% of the total proposed reductions. The proposed reductions to each program as a percentage of the program's base appropriation are as follows:

- ◆ Rehabilitation Loan program – 5.7%
- ◆ Tribal Indian Housing program - 32.86%
- ◆ Homeownership Assistance Fund program -100%

⇒ Preservation Programs:

The Affordable Rental Investment Fund-Preservation program is nearly 25% of the total base budget. The proposed reduction would decrease funding for this program by 5.6%.

⇒ Resident and Organizational Support Programs:

Funding for this budget activity is 3% of the total state appropriations to the agency. The proposed reduction will decrease funding for each of the programs by 8.5%.

Key Measures

See Key Measures for the relevant budget activity under Appropriated Programs.

Alternatives Considered

Smaller reductions were considered for redevelopment and development programs and for homeownership loan programs; however, adherence to the principles directs the proposed distribution of the reductions.

Statutory Change: Not Applicable.

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February 18, 2003

The 2003 Minnesota Legislature:

Submitted for your review is the FY 2004-05 biennial budget of the Iron Range Resources & Rehabilitation (IRRR) Agency.

As many of you are aware, the IRRR Agency is not supported by the General Fund, however it has made significant budget reductions in the current biennium as the result of declining taconite tax revenues. Based on current forecast revenues, the Agency recommends an operating and program budget of roughly \$48 million for the biennium, with additional, potential statutory expenditures of \$24 million for taconite producer tax rebates through the Taconite Economic Development Fund and the Taconite Producer Grant Program. The operating and program budget of \$48 million represents a proportional reduction of \$2,170,000 (8.6%) in each year of the biennium from budgeted FY 2003 levels.

The core mission of the IRRR Agency is to diversify the economy of the Taconite Tax Relief Area (TTRA). It does this through business recruitment and business development programs. Job creation in fields other than iron mining is a key objective, with job retention in existing businesses also a priority. While budgets have been reduced in each of the last four fiscal years, a concerted effort has resulted in the Agency maintaining adequate program (project) dollars over the same period. Further erosion of revenues is a distinct possibility given recent events in consolidation of the U.S. steel industry. In that context, Agency managers have been asked to prepare plans for additional reductions as may be required by changes in actual revenues.

Business assistance programs take the form of bank participation loans, direct loans, loan guarantees, employment incentive grants, grants to provide infrastructure, training assistance, information technology infrastructure grants, equity investments, drilling incentive grants, value-added iron and non-ferrous research and/or development funds.

Budget reduction strategy has focused on the Agency's core mission of economic diversification, job creation and job retention in the TTRA. Discussion regarding program elimination or downsizing has centered on this priority. Some programs, such as grants to communities for infrastructure, continue, but new parameters require a direct link to projects which bring new jobs to the area. All departments have been required to reduce operating budgets and seek improvements in efficiency and productivity.

As the IRRR Agency confronts its revenue challenges, its budget strategy will continue to focus on its core mission. Program changes or elimination will be done in a manner that will allow the Agency to focus on its priority of economic diversification, job retention and job creation.

If you have any questions or would like additional information, please don't hesitate to contact me.

Sincerely,

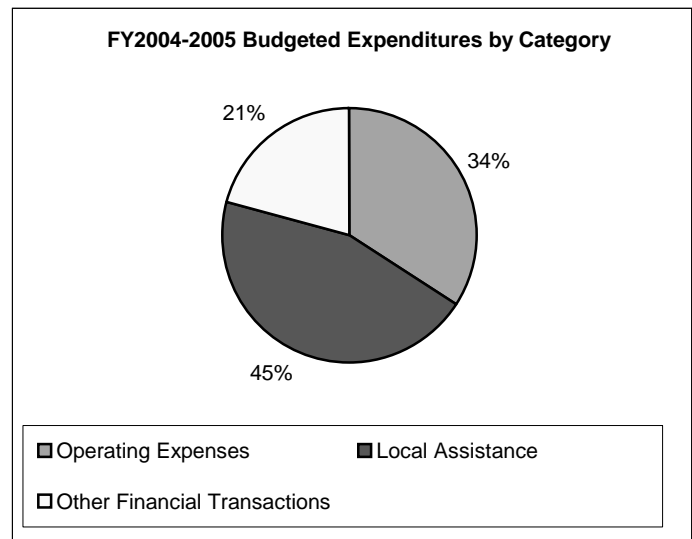
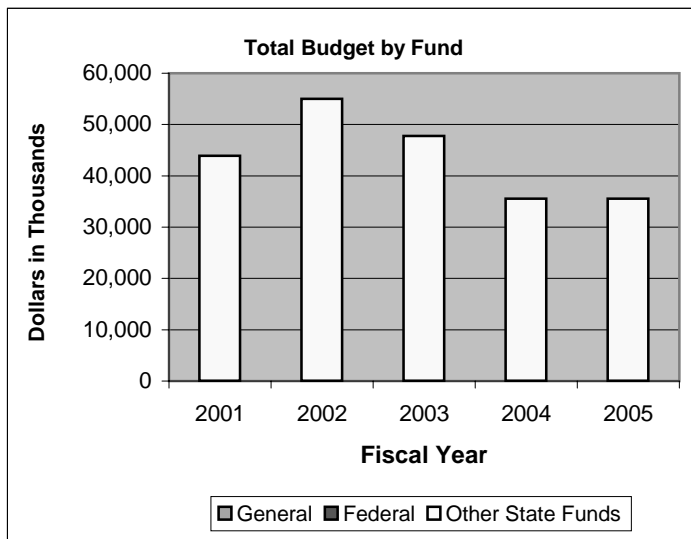


Brian Hiti
Acting Commissioner

	FY 2004-05 Expenditures (\$000s)		
	General Fund	Other Funds	Total
2003 Funding Level	0	71,120	71,120
Adjusted Base Funding	0	71,120	71,120
Governor's Recommendations	0	71,120	71,120
Biennial Change, 2002-03 to 2004-05	0	-31,680	-31,680
Percent Change	n.m	-31%	-31%

Brief Explanation Of Budget Decisions:

The difficult economic realities facing the taconite mining industry, from which the agency derives its main source of revenue, have resulted in a need to reduce expenditures. The final figures for the FY 2002–03 budget already reflect the loss of \$5 million in revenue due to the closure of LTV Steel Mining Co. Therefore, the revenue change from FY 2002-03 to FY 2004-05 does not appear to be that great; 3.4%. However, the \$1.7million further reduction in FY 2004-05 when taken together with the previous \$5 million reduction provides a more accurate picture of operational adjustments required by the agency. The agency will implement a ten percent reduction in departmental operating budgets in each fiscal period of the biennium compared to FY 2003. The Giants Ridge operating budget includes a ten percent net reduction in ski hill operations only, since a new golf course (the Quarry) will be coming online Spring 2003. Accordingly, golf operations reflect increased revenues and expenses.



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Statutory Appropriations						
Iron Range Resources & Rehab	34,916	29,086	28,706	24,083	25,583	49,666
Giants Ridge Golf & Ski Resort	0	4,436	5,993	5,754	5,754	11,508
Ne Mn Economic Protection	8,974	21,507	13,072	5,723	4,223	9,946
Total	43,890	55,029	47,771	35,560	35,560	71,120

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	14,693	13,281	14,296	12,149	12,149	24,298
Capital Outlay & Real Property	794	138	1,842	0	0	0
Payments To Individuals	500	0	0	0	0	0
Local Assistance	21,791	25,810	18,063	15,980	15,980	31,960
Other Financial Transactions	6,112	15,800	13,570	7,431	7,431	14,862
Total	43,890	55,029	47,771	35,560	35,560	71,120

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Agency Administration	2,365	12,468	3,789	2,408	2,408	4,816
Facilities	8,152	7,592	9,422	8,877	8,877	17,754
Programs	15,242	15,592	12,638	12,396	12,396	24,792
Taconite Industry Rebate Funds	8,131	10,705	11,879	11,879	11,879	23,758
Agency Roll-Over	10,000	8,672	10,043	0	0	0
Total	43,890	55,029	47,771	35,560	35,560	71,120

IRON RANGE RESOURCES & REHAB

Fiscal Report

<i>Dollars in Thousands</i>	Actual	Actual	Preliminary	Governor's Rec		Biennium
Revenue by Type and Fund	FY2001	FY2002	FY2003	FY2004	FY2005	2004-05
Non Dedicated						
General	220	218	0	0	0	0
Subtotal Non Dedicated	220	218	0	0	0	0
Dedicated						
Iron Range Resources & Rehab	27,573	14,316	25,405	26,160	26,160	52,320
Giants Ridge Golf & Ski Resort	0	3,341	3,858	5,455	5,455	10,910
Ne Mn Economic Protection	8,891	6,979	6,628	6,620	6,620	13,240
Subtotal Dedicated	36,464	24,636	35,891	38,235	38,235	76,470
Total Revenue	36,684	24,854	35,891	38,235	38,235	76,470
Full-Time Equivalents (FTE)	128.6	114.2	102.1	102.6	102.6	

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Agency Change Items

- Agency Operating Reductions
- Apprenticeship Registration Fee
- Grant Reductions

Program Change Items

- Workers Compensation Division
- Workplace Services Division
- General Support Division

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651-284-5000
TTY: 651-297-4198
1-800-DIAL-DLI

February 18, 2003

The 2003 Minnesota State Legislature:

The Department of Labor and Industry (DLI) is pleased to submit the Governor's recommendation for its FY 2004-05 biennial budget. DLI's total budget is \$211 million for the biennium. This budget reflects a \$15 million and 24% reduction in operating costs from the current biennium.

The budget request allows DLI to continue to promote safe and productive work environments for Minnesota's diverse workplaces. The agency will continue activities designed to stimulate economic growth by ensuring that (1) workplaces are free from injury and illness; (2) workers injured on the job are provided medical treatment and benefits; (3) workers have the opportunity to receive critical skills through apprenticeship training; (4) boilers and high-pressure-piping systems are properly constructed and maintained; and (5) employers and workers have a clear understanding of their rights and responsibilities in the workplace.

Two significant areas of reform are included in DLI's budget. The first reform allows the apprenticeship unit to reduce dependence on state funds and become self-sufficient by implementing a new apprenticeship registration fee. This transfers the program's costs to those organizations that receive the benefit of apprenticeship training programs. This change will also make additional funding available to support Minnesota's increasing population of dislocated workers.

The second area of reform reflects turning the agency's private sector OSHA enforcement program back to the federal government. DLI will continue a smaller OSHA program directed towards public sector employers not covered by the federal OSHA regulations. The Workplace Safety Consultation unit will continue to support both private and public sector employers to encourage safe work environments.

DLI's operating costs have been reduced due to advancements in technology, operational efficiencies, and a declining workload. The agency also proposes reductions to grants that are not deemed critical to achieving the agency's core mission — to ensure a safe and a productive workplace.

The agency has attempted to minimize the impact of its reductions to its customers and stakeholders by taking a majority of these reductions in the administrative support areas. DLI can absorb these reductions and continue to provide its core services to the people of Minnesota.

Sincerely,

Jane Volz
Commissioner

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	6,318	213,636	219,954
Open Appr. Forecast Adj.	0	9,183	9,183
Transfers Between Agencies	0	-540	-540
Adjusted Base Funding	6,318	222,279	228,597
Change Items			
Agency Operating Reductions	-1,264	-14,942	-16,206
Apprenticeship Registration Fee	0	0	0
Grant Reductions	0	-1,474	-1,474
Governor's Recommendations	5,054	205,863	210,917
Biennial Change, 2002-03 to 2004-05	-1,148	-79,969	-81,117
Percent Change	-19%	-28%	-28%

Brief Explanation Of Budget Decisions:

The Department of Labor and Industry's open appropriation in the workers' compensation fund has been increased by \$9,183,000 over the biennium to reflect projected benefit payments. This increase is primarily due to the completion of the Assigned Risk Plan (ARP) settlement project. The ARP settlement account's liquidation during FY 2003 will eliminate its interest earnings that had been dedicated to pay on-going benefits.

The base has been adjusted to transfer \$440,000 over the biennium for the fraud section of the Investigative Services Unit to transfer to the Department of Commerce pursuant to the Laws of 2002, Chapter 331, Section 16.

The base also reflects the transfer of \$100,000 over the biennium to the Office of Administrative Hearings (OAH) for postage expenses. In FY 1998, the Judicial Services unit of DLI was transferred to OAH, however DLI continued to provide mailroom services to the unit located in St. Paul. During 2001, the St. Paul office was closed and all employees were moved to the OAH Minneapolis location. DLI has continued to reimburse OAH for their postage expenses related to the former St. Paul operation. This transfer will make these funds a permanent part of the OAH base appropriation.

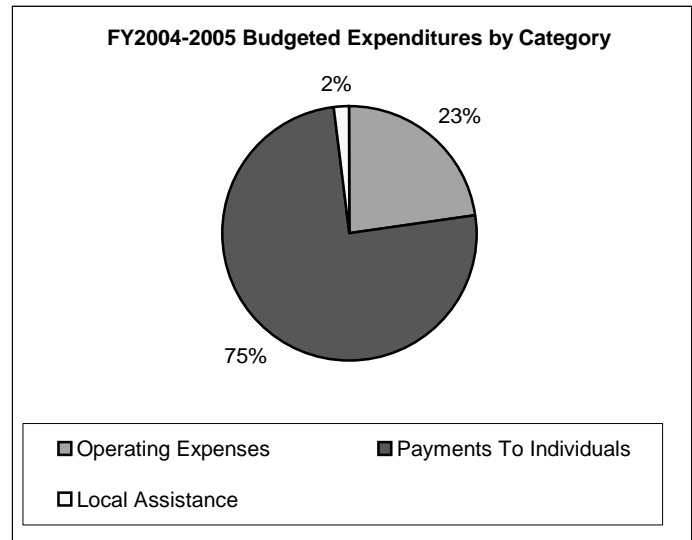
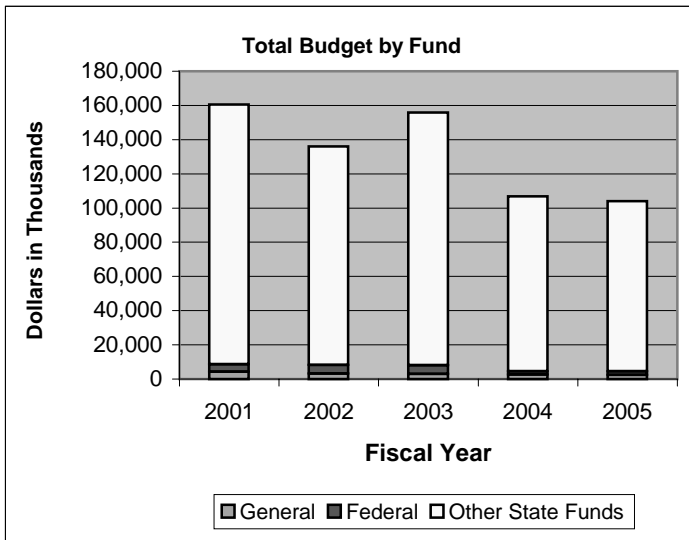
Revenue Summary:

Revenues are expected to decrease by \$10,418,000 over the biennium from returning private sector OSHA inspection and enforcement to the federal government. This results in decreased federal revenue, OSHA penalty revenue, and federal indirect cost recoveries.

Revenues are expected to increase by \$1,000,000 over the biennium with the implementation of a new Apprenticeship Registration fee.

FY 2004-05 Revenues (\$000s)

	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	4,636	44,614	249,250
Change Items			
Agency Operating Reductions	0	(10,418)	(10,418)
Apprenticeship Registration Fee	0	1,000	1,000
FY 2004-05 Total Revenues	4,636	235,196	239,832
Biennial Change 2002-03 to 2004-05	(327)	(5,602)	(5,929)
Percent Change	(7%)	(2%)	(2%)



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	4,256	3,206	2,996	2,560	2,494	5,054
Workforce Development	832	739	955	0	0	0
Workers Compensation	21,471	19,324	23,256	17,390	16,480	33,870
Open Appropriations						
Workers Compensation	90,823	72,915	74,809	80,268	78,533	158,801
Statutory Appropriations						
Special Revenue	469	583	893	1,443	1,443	2,886
Federal	4,394	4,979	5,033	1,946	1,984	3,930
Workers Compensation	38,201	34,356	47,951	3,173	3,173	6,346
Miscellaneous Agency	18	17	22	15	15	30
Total	160,464	136,119	155,915	106,795	104,122	210,917

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	31,857	29,425	33,724	24,501	23,566	48,067
Payments To Individuals	126,476	103,575	118,844	80,171	78,436	158,607
Local Assistance	2,131	3,119	3,347	2,123	2,120	4,243
Total	160,464	136,119	155,915	106,795	104,122	210,917

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Workers Compensation Division	138,379	114,627	131,529	90,484	88,749	179,233
Workplace Services Division	15,167	14,722	16,374	9,403	8,770	18,173
General Support Division	6,918	6,770	8,012	6,908	6,603	13,511
Total	160,464	136,119	155,915	106,795	104,122	210,917

LABOR AND INDUSTRY DEPT

Fiscal Report

<i>Dollars in Thousands</i>	Actual	Actual	Preliminary	Governor's Rec		Biennium
Revenue by Type and Fund	FY2001	FY2002	FY2003	FY2004	FY2005	2004-05
Non Dedicated						
General	11	2,546	2,417	2,318	2,318	4,636
Cambridge Deposit Fund	2,140	0	0	0	0	0
Workers Compensation	91,471	79,617	125,788	110,152	111,852	222,004
Subtotal Non Dedicated	93,622	82,163	128,205	112,470	114,170	226,640
Dedicated						
Special Revenue	608	627	813	1,443	1,443	2,886
Federal	4,391	4,980	5,026	1,946	1,984	3,930
Workers Compensation	347,129	13,747	10,173	3,173	3,173	6,346
Miscellaneous Agency	8	12	15	15	15	30
Subtotal Dedicated	352,136	19,366	16,027	6,577	6,615	13,192
Total Revenue	445,758	101,529	144,232	119,047	120,785	239,832
Full-Time Equivalentents (FTE)	406.9	389.5	374.8	340.6	340.1	

LABOR AND INDUSTRY DEPT

Change Item: AGENCY OPERATING REDUCTIONS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$599)	(\$665)	(\$665)	(\$665)
Revenues				
Workforce Development Fund				
Expenditures	(204)	(204)	(204)	(204)
Revenues				
Federal Fund				
Expenditures	(3,119)	(3,227)	(3,227)	(3,227)
Revenues	(3,119)	(3,227)	(3,227)	(3,227)
Special Revenue Fund				
Expenditures	(300)	(300)	(300)	(300)
Revenues	(300)	(300)	(300)	(300)
Workers' Compensation Fund				
Expenditures	(3,339)	(4,249)	(4,249)	(4,249)
Revenues	(1,736)	(1,736)	(1,736)	(1,736)
Net Fiscal Impact	(\$2,406)	(\$3,382)	(\$3,382)	(\$3,382)

Recommendation

The Governor recommends reducing the operating expenditures of the agency by \$7,561,000 in FY 2004 and \$8,645,000 in FY 2005. These reductions have been designed to minimize the impact to the agency's core services.

Background

The Department of Labor and Industry (DLI) administers laws related to employment, workplace safety and workers' compensation through the following core functions:

- ◆ provide training and outreach;
- ◆ conduct inspections, audits and investigations;
- ◆ review workers' compensation claims and oversee the provision of benefits;
- ◆ provide informal dispute resolution services;
- ◆ provide vocational rehabilitation services;
- ◆ issue penalties for violations of the law;
- ◆ issue professional licenses and certifications; and
- ◆ register apprenticeship programs.

The agency will implement reductions across all programs to achieve the above targets.

The Workers' Compensation division's expenditures from the Workers' Compensation Fund will be reduced by \$2,086,000 and 17.7 FTE over the biennium. Advancements in technology, operational efficiencies, and a declining workload will allow the agency to absorb these reductions and allow core services to continue with minimal impact to stakeholders.

The Workplace Services division's expenditures from the Workers' Compensation Fund, Federal Fund, General Fund, and Workforce Development fund will be reduced by \$12,657,000 and 86 FTE over the biennium. The most significant element of reform is returning all private sector OSHA inspection and enforcement authority to the federal government. Minnesota will retain a smaller unit to enforce OSHA regulations for public sector employers who are not covered under federal OSHA regulations. Other units of this division will have reductions primarily in the areas of administrative support and by eliminating non-essential services, while ensuring that core functions continue to be provided.

The General Support division's expenditures from the Workers' Compensation Fund, General Fund, and Special Revenue Fund will be reduced by \$1,463,000 and 12.8 FTE over the biennium. These reductions reflect a

reduced administrative activity supporting a smaller agency. The agency is exploring the further use of technology and other operational efficiencies to minimize the impact of these reductions to its customers and streamline the agency's services.

Relationship to Base Budget

This change represents a 25% reduction to the agency's operating budget.

Statutory Change: M.S. 182 (OSHA)

LABOR AND INDUSTRY DEPT

Change Item: APPRENTICESHIP REGISTRATION FEE

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
Workforce Development Fund				
Expenditures	(\$500)	(\$500)	(\$500)	(\$500)
Revenues	0	0	0	0
Special Revenue Fund				
Expenditures	500	500	500	500
Revenues	500	500	500	500
Net Fiscal Impact	(\$500)	(\$500)	(\$500)	(\$500)

Recommendation

The Governor recommends implementing a new apprenticeship registration fee to recover the cost of maintaining the Apprenticeship unit. This change will eliminate the appropriation from the Workforce Development fund of \$500,000 in FY 2004 and FY 2005 and allow the Apprenticeship unit to continue its core services.

Background

The Apprenticeship program was established to promote, develop, approve, and monitor quality registered apprenticeship training programs in Minnesota workplaces. Since 1939, registered apprenticeship has assisted both labor and industry to develop skilled workers through apprenticeship training. The primary activity of the unit is to provide support services to apprenticeship sponsors, joint apprenticeship committees, employers, and apprentices.

Through FY 1999, the unit was financed from the General Fund. Beginning in FY 2000, its funding source was changed to the Workforce Development fund. This funding change has resulted in fewer dollars available for providing financial assistance to dislocated workers.

Under this proposal, the Apprenticeship unit will become self-sufficient by implementing a new apprenticeship registration fee. Apprenticeship sponsors will pay an annual fee for each apprentice registered with the agency. The money will be deposited to a special revenue fund and appropriated to DLI to fund the operating costs of the Apprenticeship unit. DLI proposes the new registration fee to be established at \$50 per apprentice for an estimated 10,000 apprentices.

The implementation of this change item will allow the Apprenticeship unit to continue to provide its core services of approving new apprenticeship agreements and registering apprentices. It will also make additional funding available to support Minnesota's increasing population of dislocated workers.

Relationship to Base Budget

The new fee will recover 100% of the costs of the Apprenticeship unit.

Statutory Change: A new section would be added to M.S. 178 to implement the fee.

LABOR AND INDUSTRY DEPT**Change Item: GRANT REDUCTIONS**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
Workers Compensation Fund				
Expenditures	(\$533)	(\$533)	(\$533)	(\$533)
Revenues	0	0	0	0
Workforce Development Fund				
Expenditures	(204)	(204)	(204)	(204)
Revenues	0	0	0	0
Net Fiscal Impact	(\$737)	(\$737)	(\$737)	(\$737)

Recommendation

The Governor recommends eliminating the Labor Education and Advancement Program (LEAP) grants and a grant to the Vinland Employment Program, and reducing the amount of safety grants awarded in FY 2004 and FY 2005 to help resolve the state's projected budget deficit.

Background***Labor Education and Advancement Program (LEAP)***

The federal LEAP program was established in 1967 to promote equal employment in apprenticeship for women and minorities. Minnesota community-based organizations began to receive federal LEAP funds in 1969. By 1981, the federal government eliminated funding for this program. At that time, funding to the community-based organizations was replaced by the state through the General fund. Beginning in FY 2000, the funding for this program was changed to the Workforce Development fund. Grants awarded in FY 2003 include:

Minneapolis Urban League	\$ 97,645
St. Paul Urban League	\$ 66,726
Anishinabe Council of Job Developers	<u>\$ 39,629</u>
	\$204,000

Only 37% of the apprenticeship placements funded by these grants resulted in placements in registered apprenticeship programs. During FY 2002, only 64 individuals were placed in apprenticeship programs at a cost of \$3,188 per placement.

Under this proposal, the LEAP grants would be eliminated and the resources redirected to providing assistance to Minnesota's growing population of dislocated workers.

Vinland Employment Program

The Vinland Employment Program was developed in 1988 to address multiple barriers to employment. It was designed for people whose obstacles to greater independence and self-sufficiency include a self-defeating attitude, poor motivation and dysfunctional lifestyle habits, as well as physical, mental, emotional and/or cognitive work injuries or disabilities.

The Vinland program had received a \$100,000 grant from the General Fund from 1988 through 1997. Beginning in 1998, this grant was increased to \$125,000 per year and the funding was changed to the Workers' Compensation fund. This shifted the financial burden of this activity to employers and workers' compensation insurers.

The Department of Labor and Industry's (DLI's) Vocational Rehabilitation Unit (VRU) has only utilized a small portion of the services provided by Vinland under this grant. Referrals of DLI clients averaged approximately four each year. The remaining 15 clients served by Vinland under this grant are referred by other governmental and private entities.

Under this proposal, the VRU will continue to refer its clients to the Vinland Employment Program and pay for its services under a professional/technical contract from existing case services funds. The cost to VRU is estimated at \$30,000 each fiscal year. The other entities currently using the services of Vinland include the Department of

Economic Security, Hennepin County, and private insurers. These entities would now be required to pay Vinland directly for the use of their services.

Safety Grants

The Assigned Risk Safety Account was established in 1992 by M.S. 79.253. The account is funded by workers' compensation penalties assessed against insurers and employers. The funds were originally appropriated to DLI to provide grants to employers to purchase and install safety equipment designed to reduce the risk of injury to employees. Grants of up to \$10,000 are awarded to employers, which require a 100% matching contribution.

In 1997, the statute was amended to allow the use of this account to establish and promote workplace safety and health programs. Some special emphasis programs in the Workplace Safety Consultation unit have been funded from this account including Labor Management Safety Committees and Violence Prevention. During the early years of this account, revenues ranged from \$230,000 to \$1 million. These revenues have increased to more than \$2 million in recent years.

Under this proposal, DLI would reduce its direct appropriation for the Workplace Safety Consultation unit and begin to fund the unit from the dedicated receipts in this account. These funds would then be used as match to the federal OSHA Consultation grant. After adding the Workplace Safety Consultation unit to the other special emphasis programs funded from this account, there would still be more than \$1 million each year available to be awarded as safety grants.

Relationship to Base Budget

This change represents 100% of the funding of the LEAP and Vinland grants, and 24% of the safety grants.

Key Measures

This change may result in a slight decline in the participation of women and minorities in registered apprenticeship programs. However, community-based organizations are encouraged to continue to refer their clients into apprenticeship opportunities.

Statutory Change: M.S. 178.11 (LEAP)

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Budget Reduction

Eliminate Alternative Dispute Resolution

Labor Management Coop Grants

Program Change Items

BMS

BUREAU OF MEDIATION SERVICES

State of Minnesota

February 18, 2003

Members of the 2003 Legislature

Attached and submitted for your consideration are the Governor's budget recommendations for FY 2004-05 for the Bureau of Mediation Services. I'm providing an overview of this budget request below, along with a brief explanation of our expenditure plans and budget reduction strategy.

I. Total Biennial Appropriation Requested: \$3,650,000- General Fund

II. Expenditures by Program:

The entire proposed appropriation would support the statutory and core functions of the Bureau of Mediation Services. These functions include labor dispute mediation, certifying bargaining unit structures and conducting elections, and labor-management cooperation support programs.

Because the staff of the Bureau work interchangeably in all of the above program areas, a definitive breakdown of expenditures by category is not feasible. Generally, the expenditures are as follows:

- ◆ Mediation: 50%
Approximately 700 petitions for mediation per year.
- ◆ Representation: 35%
Approximately 305 representation petitions per year.
- ◆ Labor-Management Cooperation: 15%
Nine joint labor-management councils and approximately 60 joint labor-management worksite committees.

III. Budget Reductions. The proposed appropriation represents a cut of \$904,000 from the 2002-03 biennial budget, or a 20% decrease. In determining how to absorb this reduction, we focused on the following criteria:

- ◆ Need to preserve the core mission of the Bureau of Mediation Services.
- ◆ Minimize the impact on the agency's strategic plan and established performance goals for resolving labor disputes, resolving union representation issues, and fostering joint labor-management cooperation.
- ◆ Reducing expenditures in administrative overhead, purchasing, and related personnel accounts to minimum required levels.

Of the reduction, \$248,000 will be achieved by elimination of funding for a program devoted to non-labor dispute resolution. This particular program provides for a mediation alternative for disputes that occur in the workplace within the executive branch for which collective bargaining agreements and grievance procedures of the commissioner's/managerial plans are not applicable. This program has been supported by gubernatorial executive orders, but is not a statutory or core part of the Bureau's mission.

The balance of the reduction will come from salary and related accounts. Vacancies will not be filled and several currently filled positions may have to be eliminated.

Despite our best efforts, we anticipate there will be an impact on the Bureau's services as follows:

Some increase in the number of days to the first mediation meeting and the number of days to process representation petitions.

Possible suspension of the workplace mediation program

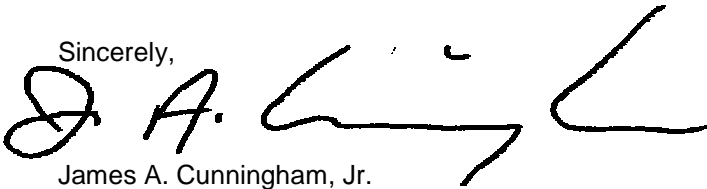
Possible reduction in number of joint labor-management councils and in worksite labor- management committees.

Possible transfer of private sector grievance mediation to the Federal Mediation and Conciliation Services.

Reduction in technical support training for clients, for example, conflict management, grievance settlement, labor-management committee effectiveness training.

I would appreciate your support and consideration of this budget request. Please feel free to contact me if you have any questions or if there is any other information that you need.

Sincerely,

A handwritten signature in black ink, appearing to read "J. A. Cunningham, Jr.", with a stylized flourish at the end.

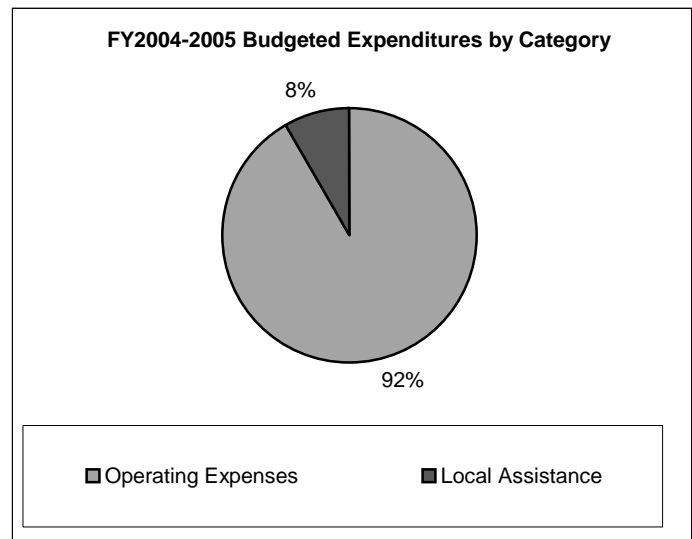
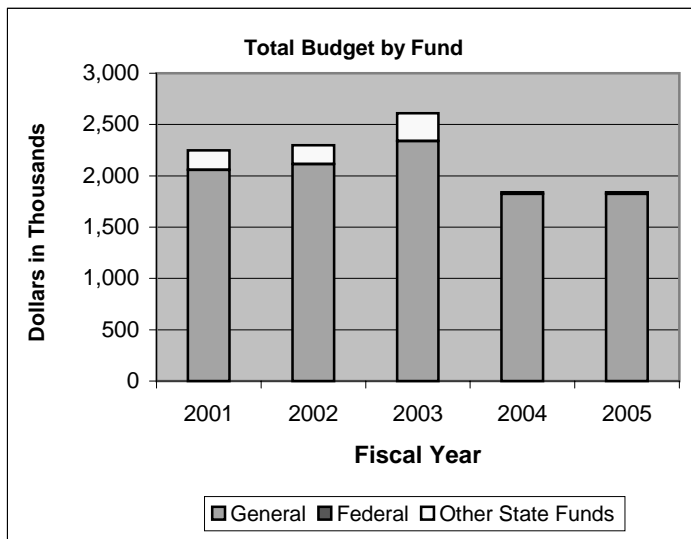
James A. Cunningham, Jr.
Commissioner

MEDIATION SERVICES BUREAU

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	4,554	32	4,586
Legislatively Mandated Base	-40	0	-40
Transfers Between Agencies	40	0	40
Adjusted Base Funding	4,554	32	4,586
Change Items			
Budget Reduction	-460	0	-460
Eliminate Alternative Dispute Resolution	-244	0	-244
Labor Management Coop Grants	-200	0	-200
Governor's Recommendations	3,650	32	3,682
Biennial Change, 2002-03 to 2004-05	-805	-421	-1,226
Percent Change	-18%	-93%	-25%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	2,057	2,115	2,340	1,825	1,825	3,650
Special Revenue	0	6	224	0	0	0
Statutory Appropriations						
Special Revenue	192	178	44	16	16	32
Gift	0	0	1	0	0	0
Total	2,249	2,299	2,609	1,841	1,841	3,682

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	2,098	2,027	2,337	1,689	1,689	3,378
Local Assistance	151	272	272	152	152	304
Total	2,249	2,299	2,609	1,841	1,841	3,682

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Mediation Services	2,249	2,299	2,609	1,841	1,841	3,682
Total	2,249	2,299	2,609	1,841	1,841	3,682

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Non Dedicated						
General	0	1	1	1	1	2
Cambridge Deposit Fund	1	0	0	0	0	0
Subtotal Non Dedicated	1	1	1	1	1	2
Dedicated						
Special Revenue	216	132	32	16	16	32
Subtotal Dedicated	216	132	32	16	16	32
Total Revenue	217	133	33	17	17	34

Full-Time Equivalents (FTE)	21.4	20.8	19.7	16.7	16.7
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MEDIATION SERVICES BUREAU

Change Item: BUDGET REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$230)	(\$230)	(\$230)	(\$230)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$230)	(\$230)	(\$230)	(\$230)

Recommendation

The Governor recommends an operational reduction of \$230,000 in FY 2004 and \$230,000 in FY 2005.

Background

The budget as recommended would continue to support the statutory and core functions of the Bureau of Mediation Services. These functions include labor dispute mediation, certifying bargaining unit structures and conducting elections, and labor-management cooperation support programs. Overall, the Governor recommends a reduction of \$904,000 for the biennium. In determining how to absorb this reduction, BMS focused on the following criteria:

- ◆ Need to preserve the core mission of the Bureau.
- ◆ Minimize the impact on the agency's strategic plan and established performance goals for resolving labor disputes, resolving union representation issues, and fostering joint labor-management cooperation.
- ◆ Reducing expenditures in administrative overhead, purchasing, and related personnel accounts to minimum required levels.

Relationship to Base Budget

This reduction is part of the overall biennial reduction of \$904,000 which represents a 20% change to the Bureau's base funding.

Alternatives Considered

None.

Statutory Change: Not Applicable.

MEDIATION SERVICES BUREAU

Change Item: ELIMINATE ALTERNATIVE DISPUTE RESOLUTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$100)	(\$100)	(\$100)	(\$100)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$100)	(\$100)	(\$100)	(\$100)

Recommendation

The Governor recommends a reduction of \$100,000 in FY 2004 and \$100,000 in FY 2005 in the Alternative Dispute Resolution program.

Background

In determining how to absorb this reduction, BMS focused on the following criteria:

- ◆ need to preserve the core mission of the Bureau:
- ◆ minimize the impact on the agency's strategic plan and established performance goals for resolving labor disputes, resolving union representation issues, and fostering joint labor-management cooperation; and
- ◆ reducing expenditures in administrative overhead, purchasing, and related personnel accounts to minimum required levels.

Relationship to Base Budget

This reduction is part of the overall biennial reduction of \$904,000 which represents a 20% change to the Bureau's base funding.

Alternatives Considered

None.

Statutory Change: Not Applicable.

MEDIATION SERVICES BUREAU

Change Item: LABOR MANAGEMENT COOP GRANTS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(122)	(122)	(122)	(122)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(122)	(122)	(122)	(122)

Recommendation

The Governor recommends a reduction of \$122,000 in FY 2004 and \$122,000 in FY 2005 in the labor management cooperation grants program.

Background

In determining how to absorb this reduction, BMS focused on the following criteria:

- ◆ Need to preserve the core mission of the Bureau.
- ◆ Minimize the impact on the agency's strategic plan and established performance goals for resolving labor disputes, resolving union representation issues, and fostering joint labor-management cooperation.
- ◆ Reducing expenditures in administrative overhead, purchasing, and related personnel accounts to minimum required levels.

Relationship to Base Budget

This reduction is part of the overall biennial reduction of \$904,000 which represents a 20% change to the Bureau's base funding.

Alternatives Considered

None.

Statutory Change: Not Applicable.

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STATE OF MINNESOTA PUBLIC UTILITIES COMMISSION

February 18, 2003

The 2003 Minnesota Legislature:

I am respectfully submitting the Governor's recommendation for the FY 2004-2005 biennial budget for the Minnesota Public Utilities Commission. The recommended budget from all funds is \$13.180 million; \$6.590 million per fiscal year. The recommended General Fund budget is \$8.326 million; \$4.163 million per fiscal year. The recommended Miscellaneous Special Revenue Fund budget is \$4.854 million; \$2.427 per fiscal year.

The primary impact of the Governor's budget recommendation is to enhance the Commission's ability to render fair and well-reasoned decisions with maximum stakeholder input and minimal delay. This is particularly important given the cornerstone industries the Commission regulates and the economic conditions facing Minnesota. Through prioritization of workload, more effective use of technology, and strategic re-assignment of staff resources, the Commission has managed record levels of filings despite a smaller staff size. The Governor's recommended budget provides direction and impetus to continue these efforts to seek and implement innovative solutions. For example, the agency has been eager to explore the potential for a multi-agency technology and knowledge sharing arrangement among smaller agencies. We believe such an arrangement would help the Commission realize some of its information technology goals while saving resources among participant agencies and, ultimately, the State. The Governor's recommendation allows forward movement on efforts such as these.

The Governor's recommendation to continue to fund the Commission at its base budget level is especially critical at this time when the essential industries the Commission regulates are facing financial challenges. These difficulties have raised public concerns about the adequacy and affordability of telephone, natural gas and electric services. The Commission has a unique role in assuring the provision of these services and fair treatment of consumers and providers alike utilities and ratepayers alike rely on the Commission to render decisions that are equitable and promote Minnesota's economic and environmental well being.

Because the Commission is an assessment-based agency, nearly all of expenditures permitted under its appropriation are recoverable.

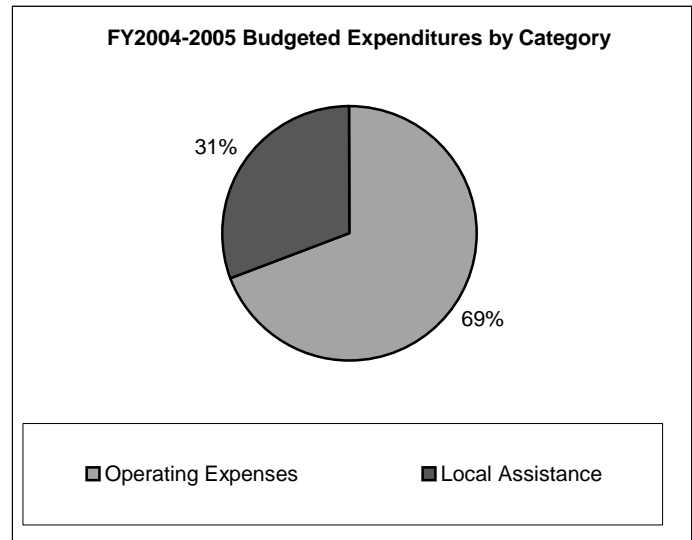
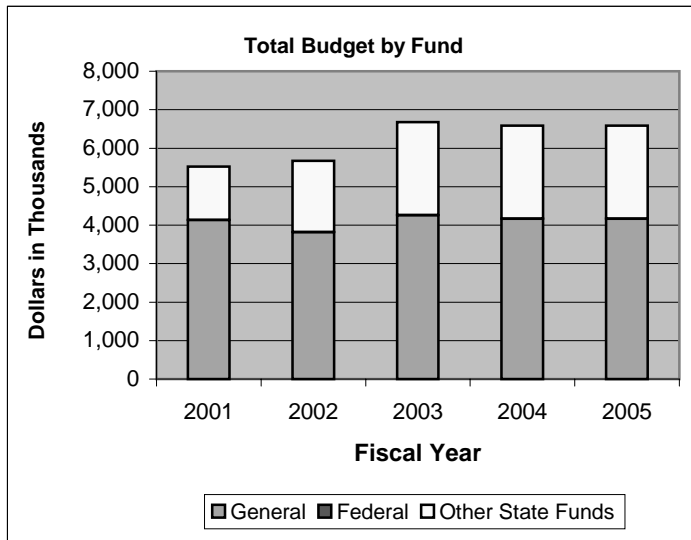
Sincerely,

A handwritten signature in black ink, appearing to read "LeRoy Koppendraye".

LeRoy Koppendraye
Chairman

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	8,326	4,854	13,180
Adjusted Base Funding	8,326	4,854	13,180
Governor's Recommendations	8,326	4,854	13,180
Biennial Change, 2002-03 to 2004-05	253	575	828
Percent Change	3%	13%	7%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	4,136	3,819	4,254	4,163	4,163	8,326
Statutory Appropriations						
Special Revenue	1,385	1,852	2,427	2,427	2,427	4,854
Total	5,521	5,671	6,681	6,590	6,590	13,180

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	4,185	4,216	4,651	4,560	4,560	9,120
Local Assistance	1,336	1,455	2,030	2,030	2,030	4,060
Total	5,521	5,671	6,681	6,590	6,590	13,180

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Public Utilities Comm	5,521	5,671	6,681	6,590	6,590	13,180
Total	5,521	5,671	6,681	6,590	6,590	13,180

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Non Dedicated						
General	0	5,212	4,134	4,464	4,476	8,940
Cambridge Deposit Fund	3,063	0	0	0	0	0
Subtotal Non Dedicated	3,063	5,212	4,134	4,464	4,476	8,940
Dedicated						
Special Revenue	2,712	2,271	2,087	2,074	2,060	4,134
Subtotal Dedicated	2,712	2,271	2,087	2,074	2,060	4,134
Total Revenue	5,775	7,483	6,221	6,538	6,536	13,074

Full-Time Equivalents (FTE)	44.8	43.8	43.8	40.6	40.6
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- Des Displaced Homemakers Program
- Des Grants Reductions
- Des Operation Reductions
- Dted Grant Reductions
- Dted Miscellaneous Reductions
- Dted Operational Reductions
- Dted Tanf Funding Reduction

Program Change Items

- Business & Community Developme
- Workforce Development
- Workforce Services
- Workforce Rehabilitation Svcs



February 18, 2003

The 2003 Minnesota Legislature:

As commissioners of the Departments of Trade and Economic Development (DTED) and Economic Security (DES), we hereby submit the Governor's recommendation for our combined budget for the FY 2004-05 biennium. The soon-to-be formed agency with a total biennial budget of \$737.7 million will be key to the economic success of Minnesota. This amount is the total dollars available from all funds with the exception of \$474 million in Public Facilities Authority bond funds. It should be noted that 68% of the total agency's budget is federal funding. The majority of that funding is used to support the state's unemployment insurance program. The Governor's recommended budget for the new agency's budget represents a \$23.3 million reduction in general fund appropriations or almost 20% of our current general fund base. The Pawlenty Administration's goal for the new agency is to support the economic success of individuals, businesses, and communities by improving opportunities for growth.

Our economy requires an integrated approach to economic development, marrying the key components of workforce availability and training with business vitality and expansion. We must recognize that to create and maintain good jobs for Minnesotans, we cannot have separate economic and workforce development strategies. By combining the missions of DTED and DES, we will match responsibility with accountability, and ensure that our workers and businesses achieve the value and service they deserve.

During the preparation of this budget proposal we focused on several key factors to guide us in setting priorities. These factors include: a continued weakness in the economy, the current historically low interest rates, the powerful benefits a skilled workforce provides and the upcoming merger of DTED and DES. It is important to note that over four-fifths of the DES budget comes from federal sources including matching dollars. In addition, the agency manages hundreds of millions of dollars each year in unemployment insurance benefit payments that do not register on the state's accounting system. Our budget recommendation reflects how we will utilize our appropriations to ensure the greatest degree of economic benefit for the state.

Spending priorities will continue to focus on workforce training, placement, and retention. Four department branches — Workforce Services, Rehabilitation Services, State Services for the Blind, and Wage Assistance — will maintain their focus on helping Minnesotans cope with job loss, train for new work, and/or stay on the career path they've chosen. In the current economic climate, our customers need the tools, resources, and services we provide to forge new futures for themselves.

Several programs are either not core to our mission or are able to leverage other funding sources. The Filmboard and the Snobate program focus on a very narrow and non-core industry sector and we are recommending the elimination of their state funding. The Center for Rural Policy has been very successful in convincing private funding sources to concentrate on rural development and thus, in our opinion, has succeeded in becoming self-sustaining. The Independent Living Services program will continue to receive federal funds that will enable it to continue its mission.

We have also reduced the general fund portion of the Contaminated Cleanup fund. The Contaminated Cleanup fund does access other funding sources and will have \$16.762 million available for projects during the FY 2004-05 biennium.

We keep Minnesotans financially afloat in the wake of mass layoffs. We provide counseling, workshops, training, and information to hundreds of thousands of job seekers and students looking for the right career path. We give employers reliable resources to find and hire skilled workers. And we help Minnesotans overcome some of the most difficult barriers — disability, poverty, and many others — to find fulfilling work on the road to self-sufficiency.

The current record low interest rates have driven our decision to eliminate the Tourism Loan program. While small resorts play an important role in our state's economy, banks in the local community can better serve the need for these loans at rates that are essentially comparable. The proposed reduction in the Minnesota Investment Fund reflects a shift in focus from broad based development to the JOBZ program that is specifically targeted at the state's most economically distressed communities. The Investment Fund will continue its statewide emphasis on quality jobs and will have \$4.406 million to fund project during the biennium.

The Job Skills Partnership program is essential as we continue to develop a workforce with the skills required to compete in a global economy. This program is an excellent example of how businesses, the state and our educational system can work together. The \$16.1 million we will invest in 2004-05 will leverage approximately \$32 million in additional private sector dollars. The Displaced Homemaker Program serves a population who may also access services through our general Dislocated Worker Program and so we are recommending discontinuation of this program.

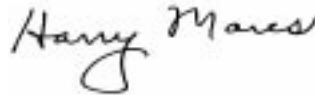
During the past year our agencies have been very diligent in their efforts to reduce spending and to create the highest level of efficiency in the organization. An example is the development of private/public partnerships in the Office of Tourism to manage several Travel Information Centers. We will continue our efforts to minimize administrative expenses without jeopardizing the effectiveness of our programs especially as we move forward with the merger.

We look forward to the upcoming merger. This will provide us with further opportunities to increase efficiencies and provide a more unified approach to workforce development. The end result will be an agency focused on growing our economic base and preparing our workforce to meet the needs of Minnesota.

Sincerely,



Matt Kramer
Commissioner
Department of Trade and Economic Development



Harry Mares
Deputy Commissioner
Department of Economic Security

FY 2004-05 Expenditures (\$000s)			
	General Fund	Other Funds	Total
2003 Funding Level	138,807	1,111,199	1,250,006
Legislatively Mandated Base	-2,020	0	-2,020
One-Time Appropriations	-7,770	-4,354	-12,124
Adjusted Base Funding	129,017	1,106,845	1,235,862
Change Items			
Des Displaced Homemakers Program	0	-2,000	-2,000
Des Grants Reductions	-8,230	0	-8,230
Des Operation Reductions	-1,534	0	-1,534
Dted Grant Reductions	-7,934	0	-7,934
Dted Miscellaneous Reductions	-361	-1,065	-1,426
Dted Operational Reductions	-1,468	0	-1,468
Dted Tanf Funding Reduction	0	-1,500	-1,500
Governor's Recommendations	109,490	1,102,280	1,211,770
Biennial Change, 2002-03 to 2004-05	26,981	425,719	452,700
Percent Change	33%	63%	60%

Brief Explanation Of Budget Decisions:

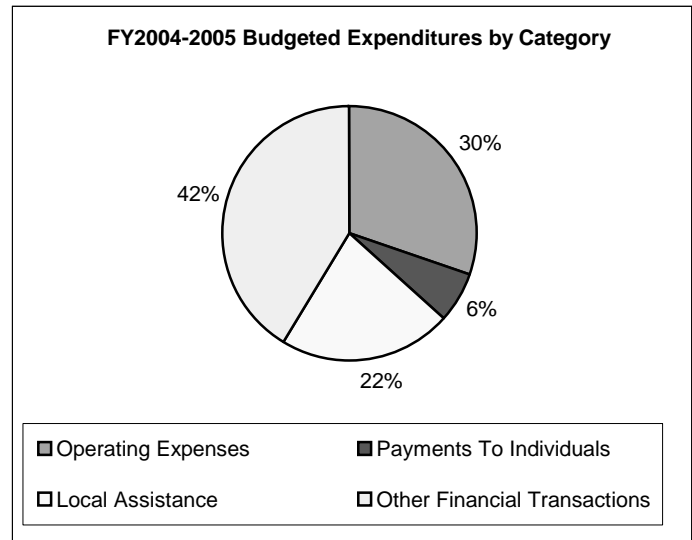
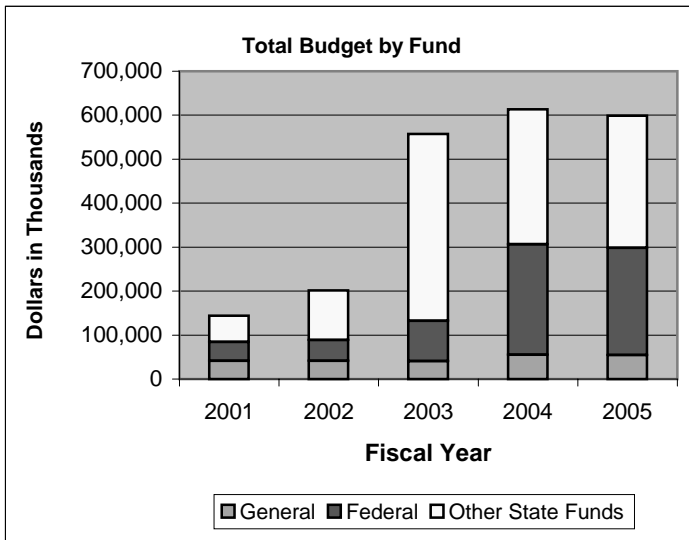
Base Adjustments:

The base adjustments reflected on the table above include adjustments for one-time appropriations, base changes as a result of the 2002 session, and fund transfers.

The one-time appropriations include funding from the Temporary Assistance to Needy Families (TANF) Fund for the Displaced Homemakers, Opportunities Industrialization Centers, and the Lifetrack Resources programs. In addition, funding from the Workforce Development Fund for the Lifetrack Resources program and the Women Venture grant; and General Fund adjustments were made for the Metro Economic Development Association (MEDA), Twin Cities Rise, ISEEK, and the Rural Policy grant programs. Finally, adjustments were made for the Petro Tank Relief and Minnesota Investment Fund programs, also in the General Fund, but from appropriations made in the 2002 special flood session.

Base reductions as a result of the 2002 session include those in the four youth programs – Youthbuild, Youth Intervention, Minnesota Youth, and Learn to Earn. In addition, operational costs in Business and Community Development, Trade Development, Tourism, and the Information and Analysis programs were reduced as well as the grant to the Minnesota Film Board. Anticipating the merger, the legislature implemented base reductions of \$200,000 in FY 2004 and a \$600,000 in FY 2005. A base increase from the 2002 session was provided for a grant to the Rural Policy and Development Center.

The last item is an adjustment for a fund transfer. The 2001 session transferred \$799,000 of Extended Employment base funding from the Workforce Development Fund to the General Fund.



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Carry Forward						
Special Revenue	0	0	0	117	0	117
Direct Appropriations						
Environment & Natural Resource	62	0	15	0	0	0
General	41,250	37,877	40,730	54,695	54,295	108,990
Petroleum Tank Release Cleanup	0	0	1,000	0	0	0
Special Revenue	190	39	100	0	0	0
Workforce Development	0	0	0	7,720	7,720	15,440
Trunk Highway	3	0	0	0	0	0
Federal Tanf	0	774	6,476	0	0	0
Environmental	700	700	700	700	700	1,400
Open Appropriations						
General	246	248	250	250	250	500
Statutory Appropriations						
Public Facilities Authority	532	620	230,228	180,411	181,251	361,662
Drinking Water Revolving Fund	0	958	78,171	39,576	39,576	79,152
General	0	3,401	3	0	0	0
Petroleum Tank Release Cleanup	6,194	6,188	6,218	6,200	6,200	12,400
Special Revenue	6,606	16,187	21,461	23,481	26,786	50,267
Workforce Development	44,940	46,078	42,455	28,755	22,372	51,127
Transportation Revolving Fund	813	41,956	44,361	18,351	14,907	33,258
Federal	42,635	46,784	85,076	46,564	42,630	89,194
Mdes Federal	0	0	0	205,009	201,311	406,320
Gift	0	5	11	1,435	508	1,943
Total	144,171	201,815	557,255	613,264	598,506	1,211,770

<i>Dollars in Thousands</i>						
Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec		Biennium 2004-05
				FY2004	FY2005	
Operating Expenses	26,050	23,879	29,891	184,106	184,073	368,179
Capital Outlay & Real Property	8	0	0	0	0	0
Payments To Individuals	0	0	0	38,859	38,879	77,738
Local Assistance	113,319	126,120	161,258	136,663	126,961	263,624
Other Financial Transactions	4,794	51,816	366,106	253,636	248,593	502,229
Total	144,171	201,815	557,255	613,264	598,506	1,211,770

Expenditures by Program

Business & Community Developmt	67,441	115,581	456,453	300,329	295,726	596,055
Mn Trade Office	3,248	2,962	2,571	2,365	2,365	4,730
Tourism	11,929	11,171	12,436	9,937	9,930	19,867
Workforce Development	55,972	67,209	80,366	53,080	43,897	96,977
Workforce Services	0	0	0	73,431	72,418	145,849
Workforce Rehabilitation Svcs	0	0	0	59,649	60,352	120,001
Workforce Svcs For The Blind	0	0	0	14,553	13,698	28,251
Workforce Wage Assistance	0	0	0	63,512	64,155	127,667
Administration	5,581	4,892	5,429	36,408	35,965	72,373
Total	144,171	201,815	557,255	613,264	598,506	1,211,770

Revenue by Type and Fund

Non Dedicated

General	2,472	2,048	1,551	1,606	1,561	3,167
Petroleum Tank Release Cleanup	108	100	75	75	75	150
Subtotal Non Dedicated	2,580	2,148	1,626	1,681	1,636	3,317

Dedicated

Public Facilities Authority	1,096	1,185	207,403	181,044	181,044	362,088
Drinking Water Revolving Fund	72	1,086	69,734	39,734	39,734	79,468
General	45	3,431	363	486	486	972
Special Revenue	8,538	6,535	5,170	14,906	14,890	29,796
Workforce Development	35,913	28,345	27,750	28,700	30,000	58,700
Transportation Revolving Fund	15,288	24,374	7,690	15,937	15,049	30,986
Federal	42,624	47,282	84,578	46,564	42,630	89,194
Mdes Federal	0	0	0	205,009	201,311	406,320
Gift	0	0	0	1,075	532	1,607
Subtotal Dedicated	103,576	112,238	402,688	533,455	525,676	1,059,131
Total Revenue	106,156	114,386	404,314	535,136	527,312	1,062,448

Full-Time Equivalents (FTE)	231.1	215.8	210.6	1,898.4	1,889.4
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TRADE & ECON DEVELOPMENT DEPT**Program: WORKFORCE SERVICES****Change Item: DES-DISPLACED HOMEMAKERS PROGRAM**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Workforce Development Fund				
Expenditures	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)
Revenues	0	0	0	0
Net Fiscal Impact	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)

Recommendation

The Governor recommends an annual reduction of \$1 million out of the Workforce Development Fund to the Displaced Homemaker program. The Governor further recommends transfer of those monies to the General Fund. This is a full cut in program funding and will result in elimination of 2.1 state-funded FTEs.

Background

The Displaced Homemaker program provides pre-employment services that empower participants to enter or re-enter the labor market after having been homemakers. Customers are women or men who have worked in the home for a minimum of two years caring for home and family but due to separation, divorce, death or disability of spouse or partner, or other loss of financial support, must support themselves and their family. Eligibility is based on income guidelines. Participants in this program will continue to be eligible for the Dislocated Worker Program.

Relationship to Base Budget

This reduction will eliminate the program.

Alternatives Considered

Due to the size and scope of the required budget cuts, no alternatives are available.

Statutory Change: The following statutes would require review and possible change or deletion: M.S. 268.96, 268.665, 268.0111, 256J.49, 256D.05, 124D.68.

TRADE & ECON DEVELOPMENT DEPT

Change Item: DES GRANTS REDUCTIONS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$4,115)	(\$4,115)	(\$4,115)	(\$4,115)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$4,115)	(\$4,115)	(\$4,115)	(\$4,115)

Recommendation

The Governor recommends an annual reduction of \$4,115,000 out of the General Fund to the agency's grants budget.

Background

The \$4,115,000 pass-through reduction breaks down as follows:

State Services for the Blind: This will reduce case services money available within the Self-Sufficiency unit by \$50,000. The unit will otherwise continue service.

Rehabilitation Services: Three programs will participate in a \$2,312,000 reduction: the Mental Illness Support Program (\$241,000), the Minnesota Center for Deaf or Hard of Hearing Minnesotans (\$197,000), and Independent Living Services (\$1,874,000). While the first two will likely continue services at reduced state spending levels, the Independent Living Services cut is an elimination of state funding (the program gets about \$1.4 million annually from the federal government).

Workforce Services: Four youth-oriented programs will be affected by a \$1,753,000 reduction – Minnesota Youth, Youth Intervention, Youthbuild, and Learn to Earn. These programs will continue at reduced service levels.

Relationship to Base Budget

The agency receives 12% (or \$29.4 million) of its base annual funding from the General Fund. More than half (\$15.1 million, or 51%) of that amount represents pass-through grants. (The remainder is operations or required matching dollars.) The proposed cut is 27% of total pass-through appropriations.

Alternatives Considered

Given the size and scope of the required budget cuts, no alternatives are available.

Statutory Change: Not Applicable.

TRADE & ECON DEVELOPMENT DEPT

Change Item: DES OPERATION REDUCTIONS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$767)	(\$767)	(\$767)	(\$767)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$767)	(\$767)	(\$767)	(\$767)

Recommendation

The Governor recommends an annual reduction of \$767,000 out of the General Fund to the agency's operational budget. This will result in elimination of 8.0 state-funded FTEs.

Background

The \$767,000 operations reduction breaks down as follows:

State Services for the Blind. With the largest portion of general fund operational dollars, this takes an appropriate share of the cut. A \$579,000 annual reduction includes 6.0 FTEs. Affected services will include the Self-Sufficiency program, web site operations, and the Homestead Tax Credit.

Rehabilitation Services. An operational reduction of \$70,000 to the Mental Illness Support Employment program and will eliminate 0.6 FTEs. The program will continue at a reduced service level.

Workforce Services: Three youth-oriented programs – Minnesota Youth, Youth Intervention, and Youthbuild will share a total operational cut of \$118,000, and a loss of 1.4 FTEs. These programs will continue at reduced service levels.

Relationship to Base Budget

The agency receives 12% (or \$29.4 million) of its base annual funding from the General Fund. About 13% (or \$4 million) of that goes to operations. (The rest represent pass-through or required matching dollars). The proposed cut is 19% of total operations.

Alternatives Considered

Due to the size and scope of the required budget cuts, no alternatives are available.

Statutory Change: The only statute requiring review for potential change is M.S. 273.13, regarding the Homestead Tax Credit.

TRADE & ECON DEVELOPMENT DEPTChange Item: **DTED GRANT REDUCTIONS**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$3,967)	(\$3,967)	(\$3,967)	(\$3,967)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$3,967)	(\$3,967)	(\$3,967)	(\$3,967)

Recommendation

The Governor recommends a reduction in the amounts of \$779,000 in FY 2004 and \$779,000 in FY 2005 of the appropriation for the Minnesota Film Board; \$150,000 in FY 2004 and \$150,000 in FY 2005 of the appropriation for the Rural Policy Grant Programs; \$1.324 million in FY 2004 and \$1.324 million in FY 2005 of the appropriation for Contaminated Site Cleanup grants; \$1.314 million in FY2004 and \$1.314 million in FY2005 of the appropriation for Minnesota Investment Fund grants; and \$400,000 in FY 2004 and \$400,000 in FY 2005 of the appropriation for Job Skills Partnership grants. These reductions will result in the layoff of 2.0 FTE during FY 2004.

Background

This reduction eliminates the funding for the grant to the Minnesota Film Board that includes the Snobate program.

It also reduces the funding for the Rural Policy Grant program. The program activity includes studies that are produced on topics concerning rural Minnesota. The Rural Policy Center does not rely solely on this money for administrative costs or program activity.

Based on Contaminated Site program history, this reduction will result in the loss of funds to be used for redevelopment of a site each year that may result in creating 219 jobs or, if the redevelopment is for housing, 90 housing units. Projected staff layoff of one FTE.

The Minnesota Investment Fund program would continue but at a reduced level. The existing base would be reduced to \$4.406 million for the biennium. Based on historical averages, this reduction would mean approximately 10 fewer business expansion financings during the biennium (about 75% of these are in greater Minnesota). Staff layoff of one FTE is possible.

With the reduction of the Job Skills Partnership appropriation, two large grants each year (or three or four smaller ones) would not be funded. A vacant position will be eliminated as a result of this reduction.

Relationship to Base Budget

The total FY2004-05 General Fund budget reduction for the department is \$12.3 million or 17.5%. This change item is a portion of that reduction.

Alternatives Considered

Due to size of the required reduction in relation to the over DTED budget, it was not possible to consider other alternatives.

Statutory Change: Not Applicable.

TRADE & ECON DEVELOPMENT DEPT**Change Item: DTED MISCELLANEOUS REDUCTIONS**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	\$(361)	\$0	\$0	\$0
Revenues	555	510	422	480
Other Fund				
Expenditures		(510)	(422)	(480)
Revenues	(555)	(510)	(422)	(480)
Net Fiscal Impact	\$(361)	(\$510)	(\$422)	\$480)

Recommendation

The Governor recommends the cancellation of the Tourism Loan Program and balance of its' funds in the amount of \$800,000; cancellation of \$700,000 of the remaining general fund appropriation for Wastewater Infrastructure grants; and \$361,000 in the Pathways general fund balance. As a result of cancellation of the Tourism Loan Program, principal and interest revenue in the amount of \$555,000 for FY2004 and \$510,000 for FY 2005 will be deposited to the general fund and will continue into future years. This cancellation will result in the layoff of 1.0 FTE during FY 2004.

Background

Cancellation of the Tourism Loan Program will result in the inability to provide loan funding to small resort operators for repair and renovation of their facilities. Based on historical averages, the loss of this funding would result in the inability to issue approximately 27 loans to resorts and non-leverage of \$1.8 million. With the current interest rates, private financing can be an acceptable alternative to this program. A layoff of one FTE will result.

Shifting of an obligation within the pool of funds available for Wastewater Infrastructure makes available a reduction of \$700,000 in general fund appropriations.

The Pathways general fund balance is from a prior year appropriation and is the result of multiple Pathways training projects that ended in 2002 with balances remaining.

Relationship to Base Budget

The total FY 2004-05 General Fund budget reduction for the department is \$12.3 million or 17.5%. This change item is a portion of that reduction.

Alternatives Considered

Due to size of the required reduction in relation to the overall DTED budget, it was not possible to consider other alternatives.

Statutory Change: M.S. 116J.617

TRADE & ECON DEVELOPMENT DEPT**Change Item: DTED OPERATIONAL REDUCTIONS**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$734)	(\$734)	(\$734)	(\$734)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$734)	(\$734)	(\$734)	(\$734)

Recommendation

The Governor recommends operational reductions in the amounts of \$734,000 in FY 2004 and \$734,000 in FY 2005. These reductions will result in the layoff of 5.5 FTE.

Background

The Minnesota Trade Office's budget will be reduced \$100,000 each year. This will result in the elimination of one position; reduced trade mission expenditures, library holdings and other operating expenses.

The Office of Tourism's budget will be reduced \$200,000 each year. This will reduce spending and staff on international marketing programs, consolidate programs, reduce travel and increase marketing in cooperation with private industry and other states. It will also reduce and replace general fund fulfillment expenses with private industry revenue generated by profits from Minnesota Explorer and Statewide Guide Ad sales.

Additionally, the Mall of America Store will be developed into a public/private partnership store. Tourism will continue to provide statewide travel information but in cooperation with state and local tourism associations.

The administrative budget will be reduced by \$280,000 each year by eliminating one vacancy and a shift in position funding.

Also included in the reduction are savings (\$154,000 each year) from subsidized parking for employees being eliminated and the re-negotiation of the Metro Square lease.

Relationship to Base Budget

The total FY 2004-05 General Fund budget reduction for the department is \$12.3 million or 17.5%. This change item is a portion of that reduction.

Alternatives Considered

Due to size of the required reduction in relation to the overall DTED budget, it was not possible to consider other alternatives.

Statutory Change: Not Applicable.

TRADE & ECON DEVELOPMENT DEPT**Change Item: DTED TANF FUNDING REDUCTION**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	(\$750)	(\$750)	(\$750)	(\$750)
Revenues	0	0	0	0
Net Fiscal Impact	(\$750)	(\$750)	(\$750)	(\$750)

Recommendation

The Governor recommends the reduction of \$750,000 in FY 2004 and \$750,000 in FY 2005 of TANF funds from the Health Care and Human Services Worker Program, currently administered by the Minnesota Job Skills Partnership.

Background

This program was created in 1999 and added to the base budget. It is being canceled to address the overall TANF shortfall. The Governor's Self-Sufficiency Task Force has accepted this recommended reduction.

The Minnesota Job Skills Partnership has the grant making authority to serve health care and human services workers. However, these grants will have to compete alongside all other job-training requests as a result of this base budget appropriation's elimination.

Relationship to Base Budget

This reduction is 100% of the TANF funds available within DTED for this program.

Alternatives Considered

Health Care and Human Services employers will compete for the same job training General Fund appropriation made to the Job Skills Partnership Board as all other employers. Qualifications under TANF funding have been limited at best for many employers and are difficult to administer from an employer perspective.

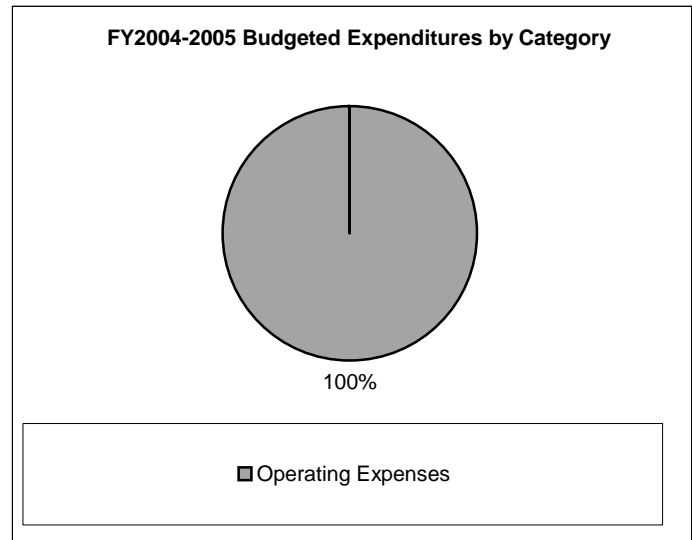
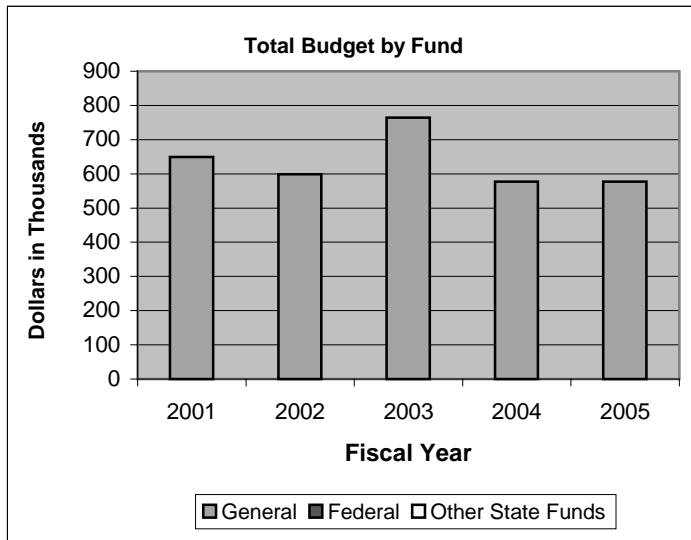
Statutory Change: Not Applicable.

ACCOUNTANCY BOARD

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	1,442	0	1,442
Adjusted Base Funding	1,442	0	1,442
Change Items			
Budget Reduction	-288	0	-288
Governor's Recommendations	1,154	0	1,154
Biennial Change, 2002-03 to 2004-05	-209	0	-209
Percent Change	-15%	n.m.	-15%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	649	599	764	577	577	1,154
Total	649	599	764	577	577	1,154
Expenditures by Category						
Operating Expenses	649	599	764	577	577	1,154
Total	649	599	764	577	577	1,154
Expenditures by Program						
Accountancy	649	599	764	577	577	1,154
Total	649	599	764	577	577	1,154
Revenue by Type and Fund						
Non Dedicated						
General	0	715	665	665	665	1,330
Cambridge Deposit Fund	701	0	0	0	0	0
Subtotal Non Dedicated	701	715	665	665	665	1,330
Total Revenue	701	715	665	665	665	1,330
Full-Time Equivalents (FTE)	4.8	4.7	5.3	5.3	5.3	

ACCOUNTANCY BOARD

Change Item: BUDGET REDUCTION

Preliminary Proposal

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$144)	(\$144)	(\$144)	(\$144)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$144)	(\$144)	(\$144)	(\$144)

Recommendation

The Governor recommends a reduction of \$144,000 in FY 2004 and \$144,000 in FY 2005 to the budget of the Board of Accountancy.

Background

The recommended reduction will be taken from the following portions of the board's operating budget.

- ◆ Staff
- ◆ Travel and subsistence
- ◆ Printing and repairs
- ◆ Employee development

The staff reduction may result in some slower turn-around times for the services delivered to the licensees and the public. No reduction in actual services will result.

Relationship to Base Budget

The recommended reduction represents 20% of the base budget.

Alternatives Considered

None.

Statutory Change: Not Applicable.

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Change Items

Agency Change Items

Architecture, Engineering Bd Reduction

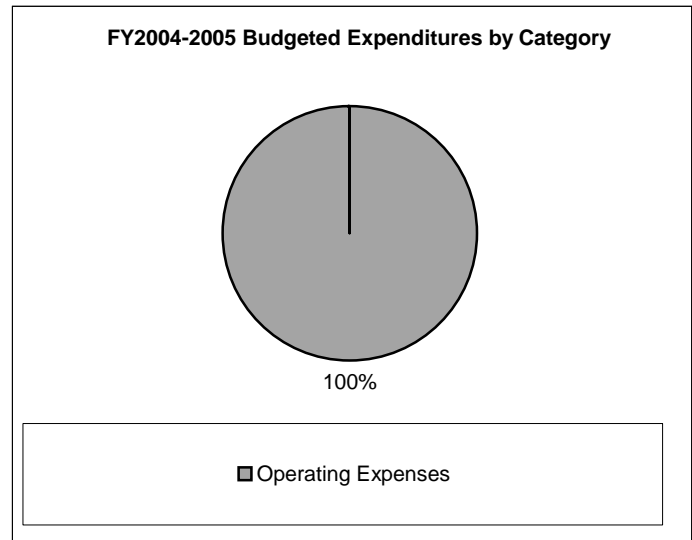
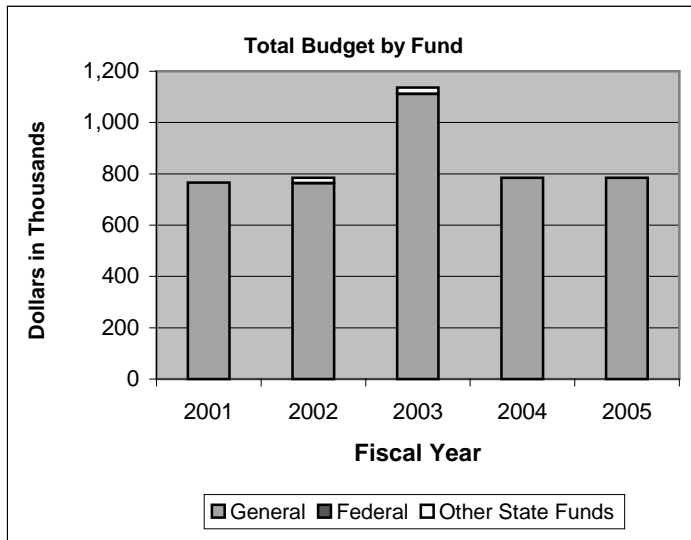
Program Change Items

ARCHITECTURE, ENGINEERING BD

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	1,962	0	1,962
Adjusted Base Funding	1,962	0	1,962
Change Items			
Budget Reduction	-392	0	-392
Governor's Recommendations	1,570	0	1,570
Biennial Change, 2002-03 to 2004-05	-305	-45	-350
Percent Change	-16%	-100%	-18%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	766	764	1,111	785	785	1,570
Special Revenue	0	20	25	0	0	0
Total	766	784	1,136	785	785	1,570
Expenditures by Category						
Operating Expenses	766	784	1,136	785	785	1,570
Total	766	784	1,136	785	785	1,570
Expenditures by Program						
Aelsla	766	784	1,136	785	785	1,570
Total	766	784	1,136	785	785	1,570
Revenue by Type and Fund						
Non Dedicated						
General	0	1,348	1,327	1,327	1,327	2,654
Cambridge Deposit Fund	780	0	0	0	0	0
Subtotal Non Dedicated	780	1,348	1,327	1,327	1,327	2,654
Total Revenue	780	1,348	1,327	1,327	1,327	2,654
Full-Time Equivalents (FTE)	8.4	9.2	11.6	11.3	11.3	

ARCHITECTURE, ENGINEERING BD

Change Item: ARCHITECTURE, ENGINEERING BD REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$196)	(\$196)	(\$196)	(\$196)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$196)	(\$196)	(\$196)	(\$196)

Recommendation

The Governor recommends a reduction of \$196,000 in FY 2004 and \$196,000 in FY 2005 from the budget of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture and Interior Design.

Background

The board will reduce the staffing roster in order to implement the recommended budget reduction. The staff reduction will result in slower turn-around times for the services delivered to the licensees and the general public. The board staff will work to ensure that the quality of services provided by the agency is not reduced.

Relationship to Base Budget

The recommended reduction represents 20% of the base budget.

Alternatives Considered

Salaries represent the bulk of the division's budget. There are no other significant expenditure areas that could be used to provide a budget reduction.

Statutory Change: Not Applicable.

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Change Items

Agency Change Items

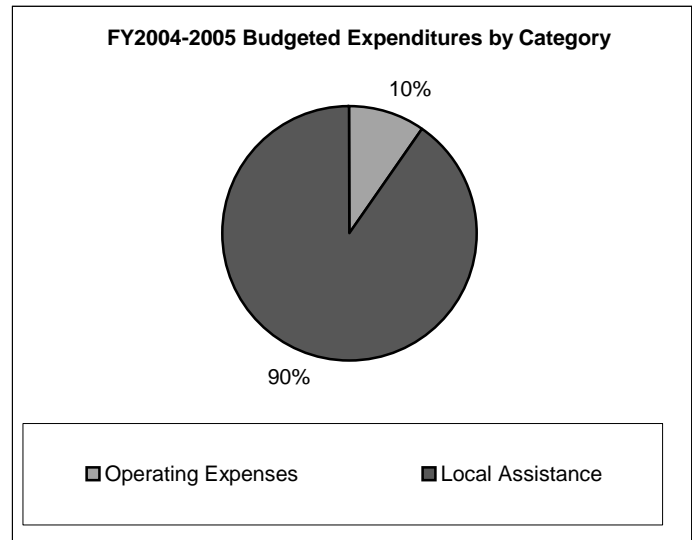
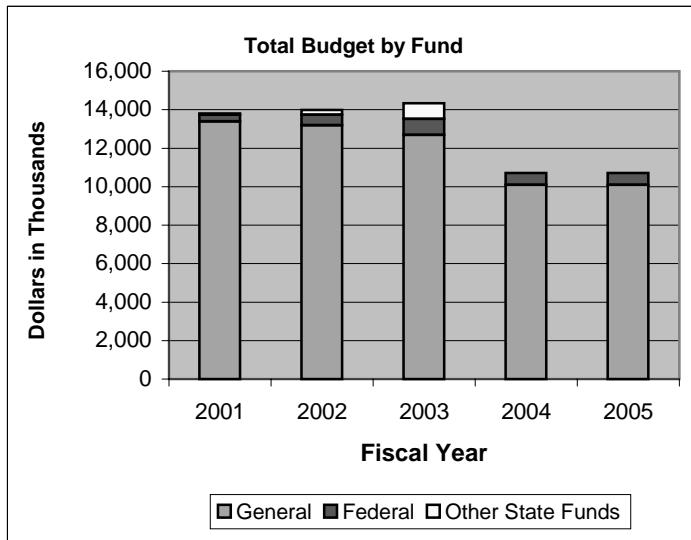
Program Change Items

ARTS BOARD

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	25,232	1,252	26,484
Adjusted Base Funding	25,232	1,252	26,484
Change Items			
Operating Budget Reduction	-5,046	0	-5,046
Governor's Recommendations	20,186	1,252	21,438
Biennial Change, 2002-03 to 2004-05	-5,698	-1,176	-6,874
Percent Change	-22%	-48%	-24%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	13,396	13,191	12,693	10,093	10,093	20,186
Statutory Appropriations						
Federal	350	543	829	626	626	1,252
Gift	66	246	810	0	0	0
Total	13,812	13,980	14,332	10,719	10,719	21,438

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	1,451	1,586	2,298	1,039	1,039	2,078
Payments To Individuals	473	524	0	0	0	0
Local Assistance	11,888	11,870	12,034	9,680	9,680	19,360
Total	13,812	13,980	14,332	10,719	10,719	21,438

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operations & Services	1,492	1,623	2,298	1,039	1,039	2,078
Grant Programs	8,785	8,822	8,640	6,892	6,892	13,784
Region Arts Fisc Agent	3,535	3,535	3,394	2,788	2,788	5,576
Total	13,812	13,980	14,332	10,719	10,719	21,438

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Dedicated						
Federal	510	586	626	626	626	1,252
Gift	461	94	410	0	0	0
Subtotal Dedicated	971	680	1,036	626	626	1,252
Total Revenue	971	680	1,036	626	626	1,252

Full-Time Equivalents (FTE)	22.4	17.1	16.7	16.7	16.7
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ARTS BOARD

Change Item: OPERATING BUDGET REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$2,523)	(\$2,523)	(\$2,523)	(\$2,523)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$2,523)	(\$2,523)	(\$2,523)	(\$2,523)

Recommendation

The Governor recommends a reduction of \$2.523 million in both FY 2004 and FY 2005 in the General Fund appropriation to the Arts Board.

Background

The Arts Board enriches the state through its support of artists and cultural institutions. While this change item reflects a significant reduction, it will allow Minnesota to remain a regional leader in its funding of the arts.

State General Fund Appropriations to Arts in the Midwest

State	Population (2000 Census)	FY 02 State Arts Spending	State Arts General Fund Spending per Capita
Minnesota	4,919,479	\$13,191,000	\$2.68
<i>Minnesota at FY 2004 Reduction Target</i>		<i>\$10,093,000</i>	<i>\$2.05</i>
Michigan	9,938,444	\$23,944,000	\$2.41
Missouri	5,595,211	\$9,969,000	\$1.78
Illinois	12,419,293	\$13,676,000	\$1.10
North Dakota	642,200	\$491,000	\$0.76
South Dakota	754,844	\$526,000	\$0.70
Iowa	2,926,324	\$1,294,000	\$0.44
Wisconsin	5,363,675	\$2,563,000	\$0.48

Notes: Table prepared by the Department of Finance (DOF). Data obtained from official state budget documents. States organize and fund these activities in different ways. As a result, some of the totals cited above may not fully represent the state's support for that activity. For example, several states fund these activities through larger state agencies, which may mask some of the associated administrative expenses.

It is anticipated that the Board will spread this reduction across its three major spending areas (administration, grants, and regional councils). Although changes in the number of FTEs employed by the Board are likely, no estimates have been incorporated into this budget proposal.

Relationship to Base Budget

This change will provide the Arts Board with a \$20,186,000 General Fund appropriation during FY04-05, which is \$5,698,000 less than what was appropriated in the last biennium.

Statutory Change: Not applicable.

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Ten Percent Reduction

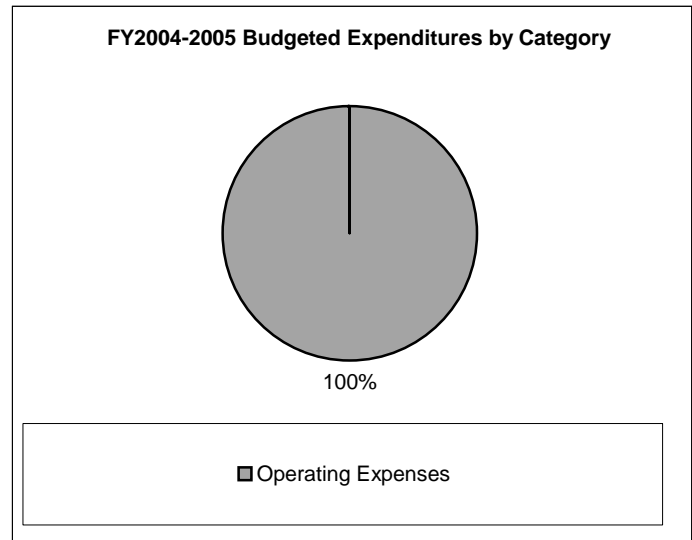
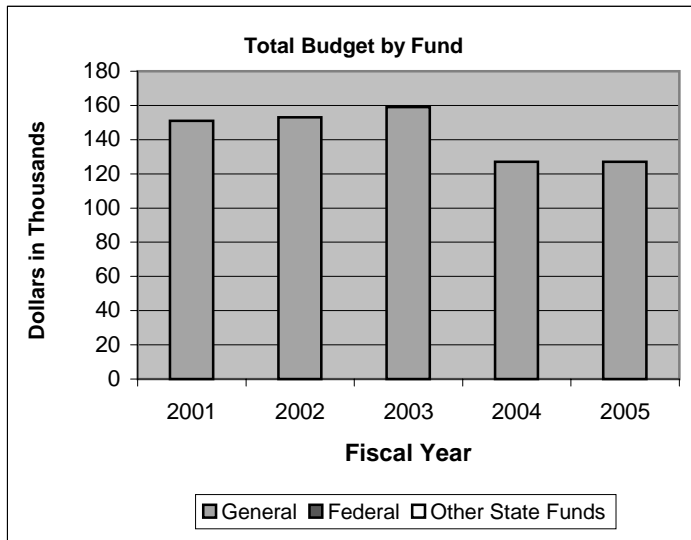
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BARBERS BOARD

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	318	0	318
Adjusted Base Funding	318	0	318
Change Items			
Budget Reduction	-64	0	-64
Governor's Recommendations	254	0	254
Biennial Change, 2002-03 to 2004-05	-58	0	-58
Percent Change	-19%	n.m.	-19%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	151	153	159	127	127	254
Total	151	153	159	127	127	254
Expenditures by Category						
Operating Expenses	151	153	159	127	127	254
Total	151	153	159	127	127	254
Expenditures by Program						
Barbers	151	153	159	127	127	254
Total	151	153	159	127	127	254
Revenue by Type and Fund						
Non Dedicated						
General	0	186	180	180	180	360
Cambridge Deposit Fund	182	0	0	0	0	0
Subtotal Non Dedicated	182	186	180	180	180	360
Total Revenue	182	186	180	180	180	360
Full-Time Equivalents (FTE)	2.0	2.0	2.0	2.0	2.0	

BARBERS BOARD

Change Item: BUDGET REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$32)	(\$32)	(\$32)	(\$32)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$32)	(\$32)	(\$32)	(\$32)

Recommendation

The Governor recommends a reduction of \$32,000 in FY 2004 and \$32,000 in FY 2005 from the budget of the Board of Barbers Examiners.

Background

The reduction will require cuts to program areas along with staff.

Relationship to Base Budget

The recommendation reduction represents 20% of the base budget.

Alternatives Considered

None.

Statutory Change: Not Applicable.

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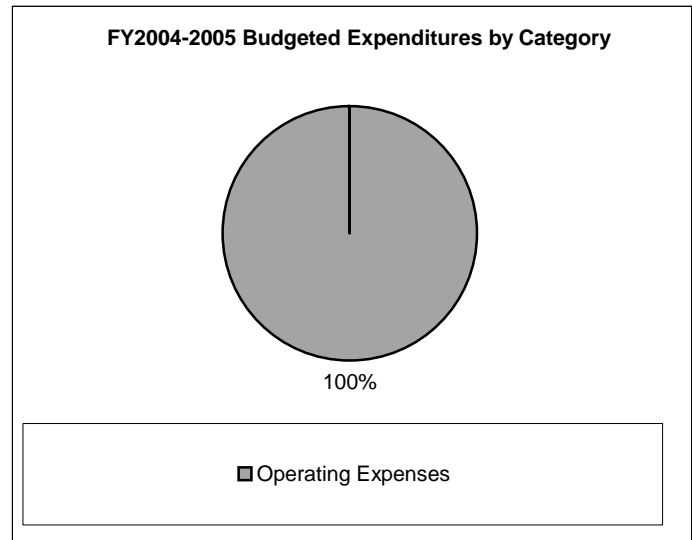
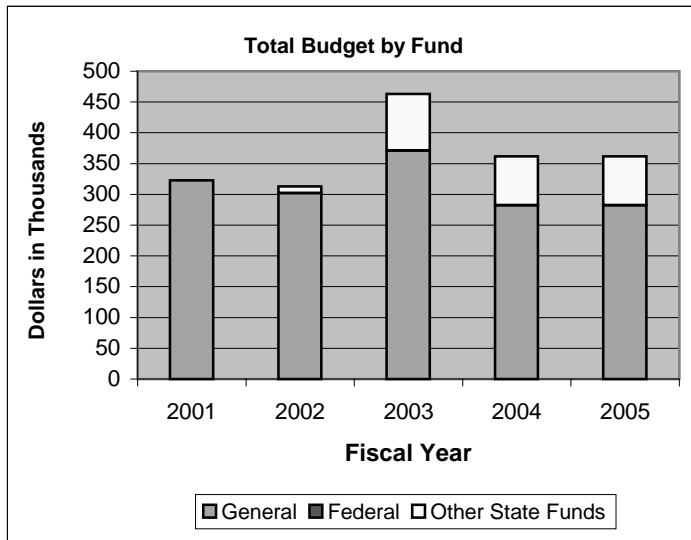
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Budget Reduction

Program Change Items

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	704	160	864
Adjusted Base Funding	704	160	864
Change Items			
Budget Reduction	-140	0	-140
Governor's Recommendations	564	160	724
Biennial Change, 2002-03 to 2004-05	-109	57	-52
Percent Change	-16%	55%	-7%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	323	302	371	282	282	564
Statutory Appropriations						
Special Revenue	0	4	85	80	80	160
Gift	0	7	7	0	0	0
Total	323	313	463	362	362	724

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	321	313	463	362	362	724
Local Assistance	2	0	0	0	0	0
Total	323	313	463	362	362	724

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Council On Black Minn	323	313	463	362	362	724
Total	323	313	463	362	362	724

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Dedicated						
Special Revenue	4	20	82	82	61	143
Gift	1	0	0	0	0	0
Subtotal Dedicated	5	20	82	82	61	143
Total Revenue	5	20	82	82	61	143

Full-Time Equivalents (FTE)	4.1	3.4	5.1	5.0	5.0
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BLACK MINNESOTANS COUNCIL

Change Item: BUDGET REDUCTION

Fiscal Impact (\$141s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$70)	(\$70)	(\$70)	(\$70)
Revenues				
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$70)	(\$70)	(\$70)	(\$70)

Recommendation

The Governor recommends a reduction to the base appropriation of \$70,000 each year. The Governor is also asking the Black Minnesotans Council to maintain its most important core functions while reducing administrative costs by merging staffing and office facilities with the Asian-Pacific, and Chicano-Latino Councils.

Background

The council should be able to consolidate administrative functions with the other councils, and reduce all their operating costs.

Relationship to Base Budget

This is a 20% reduction to the council's base.

Statutory Change: Not Applicable.

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Budget Reduction

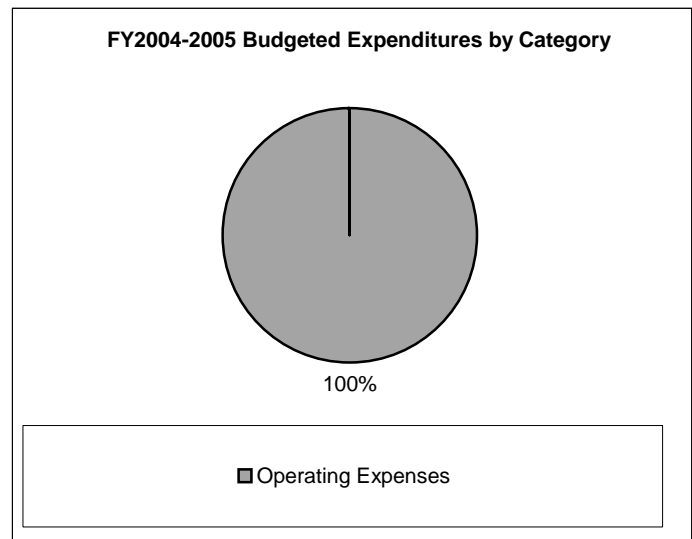
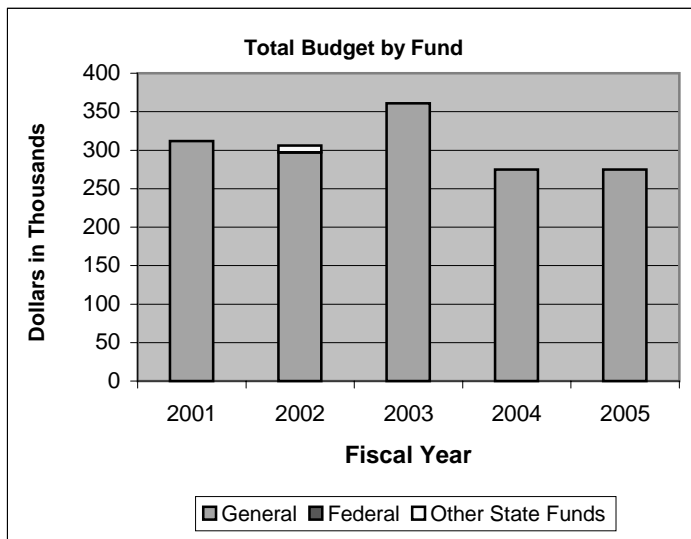
Program Change Items

CHICANO LATINO AFFAIRS COUNCIL

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	688	0	688
Adjusted Base Funding	688	0	688
Change Items			
Budget Reduction	-138	0	-138
Governor's Recommendations	550	0	550
Biennial Change, 2002-03 to 2004-05	-108	-9	-117
Percent Change	-16%	-100%	-18%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	312	297	361	275	275	550
Special Revenue	0	4	0	0	0	0
Statutory Appropriations						
Gift	0	5	0	0	0	0
Total	312	306	361	275	275	550
Expenditures by Category						
Operating Expenses	312	306	361	275	275	550
Total	312	306	361	275	275	550
Expenditures by Program						
Chicano Latino Affairs Council	312	306	361	275	275	550
Total	312	306	361	275	275	550
Revenue by Type and Fund						
Non Dedicated						
General	2	4	0	0	0	0
Subtotal Non Dedicated	2	4	0	0	0	0
Dedicated						
Special Revenue	4	0	0	0	0	0
Gift	1	1	1	1	1	2
Subtotal Dedicated	5	1	1	1	1	2
Total Revenue	7	5	1	1	1	2
Full-Time Equivalents (FTE)	4.5	4.3	4.0	4.0	4.0	

CHICANO LATINO AFFAIRS COUNCIL

Change Item: BUDGET REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$69)	(\$69)	(\$69)	(\$69)
Revenues				
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$69)	(\$69)	(\$69)	(\$69)

Recommendation

The Governor recommends a reduction to the base appropriation of \$69,000 each year. The Governor is asking the Chicano-Latino Council to maintain its most important core functions while reducing administrative costs by merging staffing and office facilities with the Asian-Pacific, and Black Minnesotans Councils.

Background

By consolidating administrative functions and sharing office space, the councils should be able to reduce their operating costs.

Relationship to Base Budget

This is a 20% reduction to the council's base.

Statutory Change: Not Applicable.

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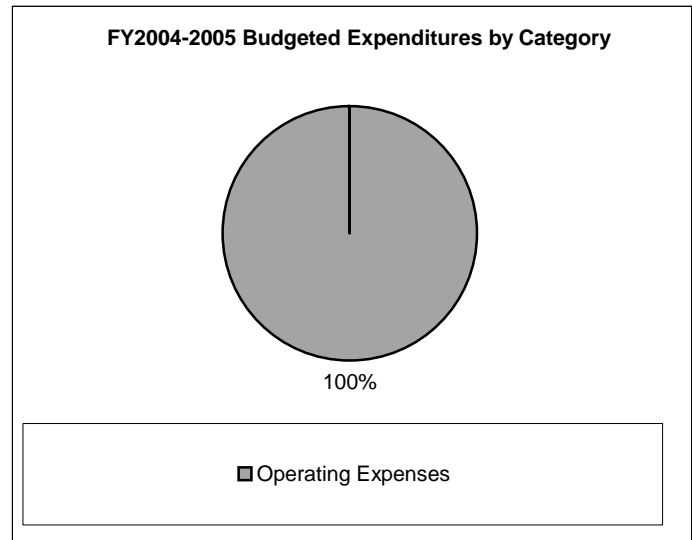
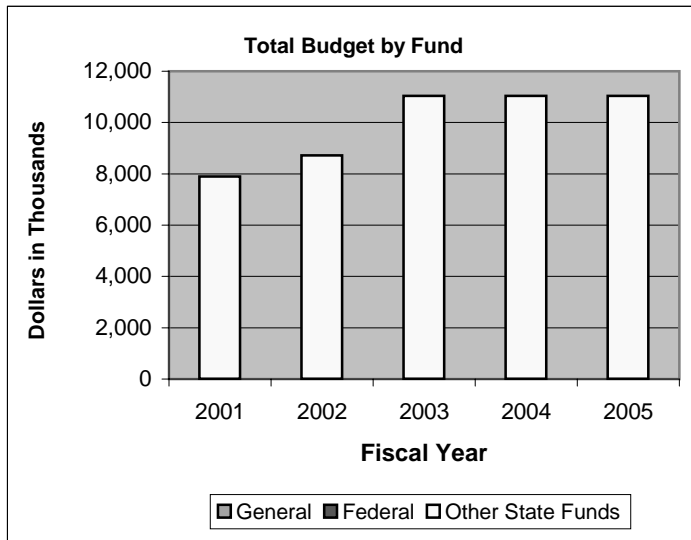
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ELECTRICITY BOARD

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	0	22,090	22,090
Adjusted Base Funding	0	22,090	22,090
Governor's Recommendations	0	22,090	22,090
Biennial Change, 2002-03 to 2004-05	0	2,328	2,328
Percent Change	n.m	12%	12%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Statutory Appropriations						
Special Revenue	7,901	8,717	11,045	11,045	11,045	22,090
Total	7,901	8,717	11,045	11,045	11,045	22,090

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	7,901	8,717	11,045	11,045	11,045	22,090
Total	7,901	8,717	11,045	11,045	11,045	22,090

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Board Of Electricity	7,901	8,717	11,045	11,045	11,045	22,090
Total	7,901	8,717	11,045	11,045	11,045	22,090

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Dedicated						
Special Revenue	8,413	9,476	11,045	11,045	11,045	22,090
Subtotal Dedicated	8,413	9,476	11,045	11,045	11,045	22,090
Total Revenue	8,413	9,476	11,045	11,045	11,045	22,090

Full-Time Equivalents (FTE)	25.4	25.7	25.7	25.7	25.7	
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Budget Reduction

Lcmr - Ft Ridgely Hist Site Trail

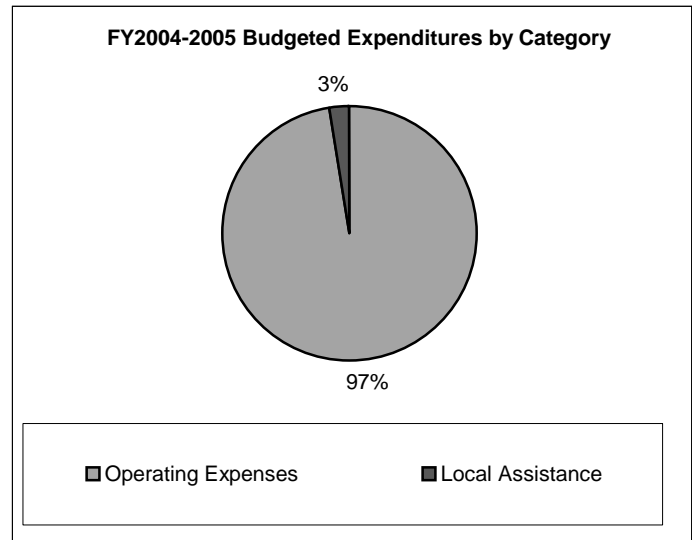
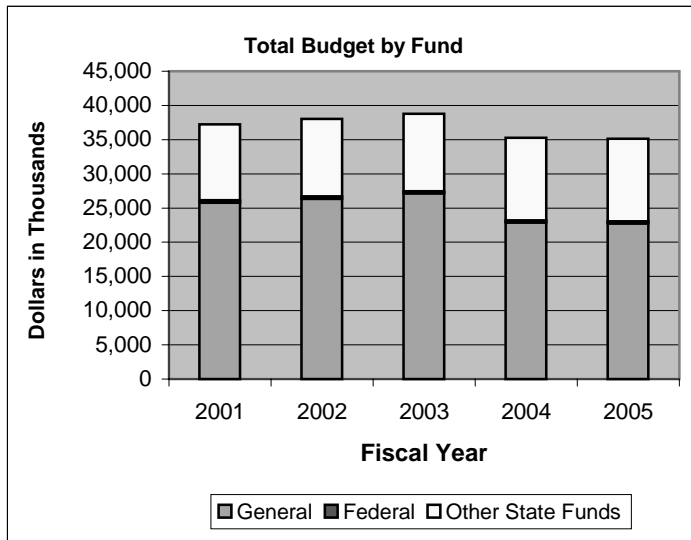
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HISTORICAL SOCIETY

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	53,990	24,576	78,566
Biennial Appropriations	148	0	148
Legislatively Mandated Base	-500	0	-500
Adjusted Base Funding	53,638	24,576	78,214
Change Items			
Budget Reduction	-8,046	0	-8,046
Lcmr - Ft Ridgely Hist Site Trail	0	246	246
Governor's Recommendations	45,592	24,822	70,414
Biennial Change, 2002-03 to 2004-05	-7,868	1,451	-6,417
Percent Change	-15%	6%	-8%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
Environment & Natural Resource	227	163	0	123	123	246
General	25,795	26,340	27,120	22,860	22,732	45,592
Minnesota Resources	60	0	90	0	0	0
Statutory Appropriations						
Special Revenue	831	864	883	883	883	1,766
Federal	290	305	303	303	303	606
Gift	10,016	10,381	10,382	11,102	11,102	22,204
Total	37,219	38,053	38,778	35,271	35,143	70,414

Expenditures by Category						
Operating Expenses	36,146	36,587	37,647	34,126	34,090	68,216
Capital Outlay & Real Property	172	321	188	157	196	353
Local Assistance	901	1,145	943	988	857	1,845
Total	37,219	38,053	38,778	35,271	35,143	70,414

Expenditures by Program						
Education & Outreach	22,465	23,542	24,112	22,215	22,215	44,430
Preservation & Access	14,406	13,965	14,318	12,708	12,708	25,416
Pass Through Appropriations	348	546	348	348	220	568
Total	37,219	38,053	38,778	35,271	35,143	70,414

HISTORICAL SOCIETY

Fiscal Report

<i>Dollars in Thousands</i>	Actual	Actual	Preliminary	Governor's Rec		Biennium
Revenue by Type and Fund	FY2001	FY2002	FY2003	FY2004	FY2005	2004-05
Non Dedicated						
General	67	44	0	0	0	0
Subtotal Non Dedicated	67	44	0	0	0	0
Dedicated						
Special Revenue	831	864	883	883	883	1,766
Federal	290	305	303	303	303	606
Gift	10,016	10,381	10,382	11,102	11,102	22,204
Subtotal Dedicated	11,137	11,550	11,568	12,288	12,288	24,576
Total Revenue	11,204	11,594	11,568	12,288	12,288	24,576
Full-Time Equivalents (FTE)	490.6	475.9	475.2	381.3	382.9	

HISTORICAL SOCIETY

Change Item: BUDGET REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(4,033)	(4,013)	(4,033)	(4,013)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(4,033)	(4,013)	(4,033)	(4,013)

Recommendation

The Governor recommends a budget of \$22,796 million in FY 2004 and \$22,796 million in FY 2005 for the Historical Society. These amounts reflect a 15% base reduction for the biennium. The Governor intends that the Historical Society should focus its appropriated funding on maintaining its highest priority services. While this recommendation does not identify specific reductions for the Historical Society, the Governor suggests they look at reducing their administrative costs as much as possible in order to minimize the impact to public programs.

Relationship to Base Budget

This change item results in a 15% reduction to the agency's base budget.

Alternatives Considered

None.

Statutory Change: Not Applicable.

HISTORICAL SOCIETY

Change Item: LCMR - FT RIDGELY HISTORIC SITE – HERITAGE TRAIL

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund -- <i>Environmental</i>				
<i>Trust Fund</i>				
Expenditures	\$123	123	0	0
Revenues	0	0	0	0
Net Fiscal Impact	123	123	0	0

Recommendation

The Governor has recommended the elimination of the dedicated funding for the Future Resources Fund. The Governor is not making specific recommendations on LCMR projects at this point, but intends to provide a statement of the administration's priorities for Environmental Trust Fund projects at a later time.

Background

The Fort Ridgely Historic Site Interpretive Trail will provide for an enhanced visitor experience at this site, which played a very important role in the US/Dakota Conflict of 1862. The project will provide for an accessible trail through the original fort site and a series of interpretive markers.

The Legislative Commission on Minnesota Resources has recommended this project, with final approval by the legislature anticipated in the 2003 Legislative Session.

Statutory Change: Not Applicable.

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Operating Budget Reduction

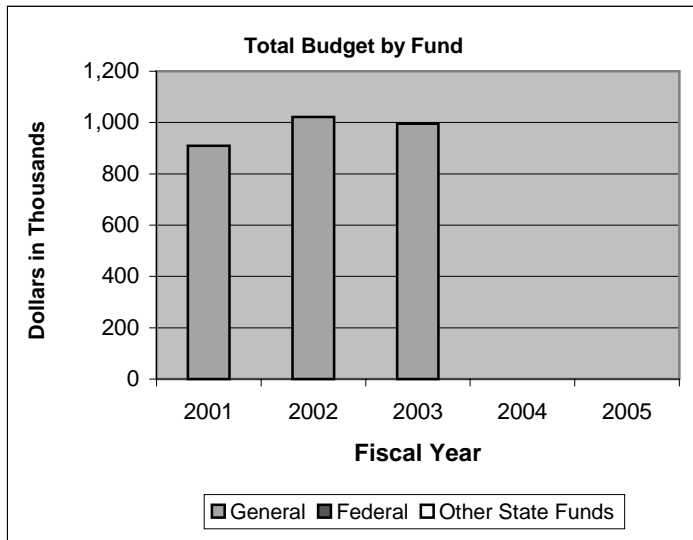
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HUMANITIES COMMISSION

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	1,990	0	1,990
Adjusted Base Funding	1,990	0	1,990
Change Items			
Operating Budget Reduction	-1,990	0	-1,990
Governor's Recommendations	0	0	0
Biennial Change, 2002-03 to 2004-05	-2,017	0	-2,017
Percent Change	-100%	n.m.	-100%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	909	1,022	995	0	0	0
Total	909	1,022	995	0	0	0
Expenditures by Category						
Local Assistance	909	1,022	995	0	0	0
Total	909	1,022	995	0	0	0
Expenditures by Program						
Humanities Commission	909	1,022	995	0	0	0
Total	909	1,022	995	0	0	0

HUMANITIES COMMISSION

Change Item: OPERATING BUDGET REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$995)	(\$995)	(\$995)	(\$995)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$995)	(\$995)	(\$995)	(\$995)

Recommendation

The Governor recommends a reduction of \$995,000 per year in the General Fund appropriation to the Humanities Commission. This recommendation will eliminate state funding for the commission.

Background

The Humanities Commission is an important cultural institution, but it has been identified as an activity outside the core mission of state government that has other possibilities for funding their operations.

The Commission is a non-profit organization with approximately 20 FTEs and a biennial operating budget of \$6,020,000. The state's General Fund appropriation represents 34% of that budget. The balance of the Commission's funding comes from corporate and private contributions (32%), National Endowment for the Humanities (20%) and earned income (14%).

Minnesota has been one of the few states in the Midwest to provide funding to its Humanities Commission. Michigan, Wisconsin, North Dakota, and South Dakota are examples of states that provide no direct funding to their Humanities organizations.

This proposal will likely impact all aspects of the Commission's activities.

Relationship to Base Budget

This change will leave the Humanities Commission with a \$4,030,000 operating budget during FY 2004-05, which is \$2,017,000 less than its budget during the last biennium.

Statutory Change: M.S. 138 and M.S. 354D.