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The Governor's 2004-05 Biennial Budget can be viewed with additional background information at:
http://www.budget.state.mn.us/budget/operating/

Admin MINNESOTA Department of Administration

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February 18, 2003

The 2003 Minnesota Legislature:

After a thorough review and analysis of the activities of this diverse agency, I am pleased to submit the Department of Administration's (Admin) FY 2004-05 budget. The recommended biennial budget for this agency is $472 million, with the general fund portion amounting to slightly more than 9% of this total. As our agency mission indicates, we will use this funding to continue to improve the quality and productivity of Minnesota government, while absorbing an overall $20 million budget reduction.

The Department of Administration is comprised of five bureaus, 23 operating divisions, and nearly 890 employees. Responsibilities range from statewide leadership in developing electronic government services, purchasing and procurement of state goods and services, and computer/telecommunications services, to maintaining and operating state buildings and infrastructure, vehicle fleet management services, and recycling and resource management. Our customers include state agencies, constitutional offices, political subdivisions, the legislature, government employees, and citizens of the state.

During the budgeting process, each division evaluated their service and product offerings in relation to customer and employee needs and the projected budget deficit. This evaluation fits into the Admin vision to be a leader in providing high-quality products and services to customers, and an employer of choice. The resulting budget focuses the agency on the principles of:

- leadership for state government
- promoting and fostering efficiencies, and
- service first.

A few of the key initiatives we will emphasize include:

E-Government Plan – An effort is underway to develop a statement of direction and action plan for Electronic Government Services in Minnesota. The expected rewards brought by exploring and acting on process improvement and automation opportunities within every phase of service delivery in the state enterprise are demonstrable cost reductions and notable service improvements for citizens, governments, and businesses. The paper presents research, which will provide the compelling actual experiences of those who have revolutionized organizations, optimizing both cost structures and service delivery through leverage, automation, and integration. Further, the document will propose immediate action that can be taken to see immediate results. The Electronic Government Services document will be available in the March/April timeframe.

State Contracting Changes – The Office of the Legislative Auditor (OLA) and the Management Analysis Division (MAD) both provided recent feedback on statewide professional-technical contracting practices. In response to those findings, the department is implementing an action plan to include:

⇒ A focus on accountability via identification of appropriate data points, collection of performance data, analysis and feedback regarding performance to agencies along with a defined appeals process when issues arise that are not easily resolved

⇒ An emphasis on education by developing a brochure for agency heads that outline contracting requirements and their obligations in the contracting process; continuing our implementation of a contract management academy that will enhance post-award contract management, and improving Admin's internal training and monitoring tools to assure consistency.

⇒ A review of statutory changes that will clarify and enhance the contracting process.

Competitive Sourcing/Shared Services – We are developing recommendations for a suggested approach for the state in considering competitive sourcing or shared services, with the objectives of saving taxpayer dollars, increasing operating efficiencies, allowing organization to focus on core functions, and identifying improved ways to do business.

The Admin budget is derived from various funding sources, including

⇒ The general fund (legislatively appropriated – 9.1%)
⇒ Special revenue funds (fee based – 18.4%)
⇒ Federal and gift funds (.7%)
⇒ Agency funds (pass-through – 4.7%), and
⇒ Internal service/enterprise funds (fee based – 67.1%).
⇒ Virtually all areas of the agency will be impacted by the budget decisions being made either by direct budget reductions, or by changes in business sales volume.

In the general fund:

⇒ Reductions were taken in all bureaus amounting to a 15% reduction of operating expenses in the amount of $1,963,000 for each year of the biennium. Each division evaluated their core functions and will manage the reductions through various service level reductions or eliminations, staffing reductions estimated at approximately 20.8 FTE, and operating expense reductions.
⇒ Public Broadcasting Grants are reduced by $757,000 (24%),
⇒ The Minnesota State Band grant is reduced by $2,000 (100%)
⇒ These reductions amount to an overall general fund budget decrease of $2,722,000 (11.3%) per year.

The Department of Administration provides several aggregated support services for state agencies. To assist agencies in their efforts to control costs the department is proposing significant expense reductions in the InterTechnologies Group and Plant Management internal service funds.

The InterTechnologies Group Internal Service Fund:

⇒ Expenses and revenues will be reduced by $4,015,000 per year. This represents a 15% reduction of the activities operating budget, or an overall budget reduction of 5%. Core activities were examined and the focus was to maintain these activities to greatest extent possible.
⇒ The plan includes a reduction of approximately 36 FTE technical positions and a corresponding reduction in technology support services for customers. InterTech's priorities will be to maintain timely emergency response times to resolve state system problems and network outages while continuing to provide assistance to agencies attempting to control information systems operating expenses.

The Plant Management Leases Division's Internal Service Fund:

⇒ Expenses and revenue will be reduced by $3,096,000 per year. This represents a 15% deduction of the activities operating budget, or an overall budget reduction of 7%. Core activities were examined and the focus was to maintain these activities as much as possible.
⇒ The proposed reduction results in a reduction of janitorial, maintenance, trades, and groundskeeping service levels for the 3.7 million square feet in 22 facilities managed by the activity. There is an estimated reduction of 28.3 FTE included in this proposal.

Overall, these budget reductions involve an elimination of 85 positions, approximately 10% of department staff. Some service levels will decline, but we believe we can maintain our core functions at this level of funding.

The budget recommendations focus on new ways to operate during these challenging times. We welcome the opportunity to review them in more detail in the future.

Sincerely,

Brian J. Lamb
Commissioner

	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	44,632	443,236	487,868
Biennial Appropriations	2,188	0	2,188
Legislatively Mandated Base	2,642	-526	2,116
Transfers Between Agencies	-1,100	-684	-1,784
Adjusted Base Funding	48,362	442,026	490,388
Change Items			
Admin Budget Reduction Plan	-3,926	-249	-4,175
Admin Grant Budget Reductions	-1,518	0	-1,518
Intertechnologies Group - Budget Reduct	0	-8,030	-8,030
LCMR Recommendations	0	519	519
Plant Mgmt Leases - Budget Reduction	0	-6,192	-6,192
Relocation Funding	500	0	500
Transfer in CAAPB Functions	524	0	524
Governor's Recommendations	43,942	428,074	472,016
Biennial Change, 2002-03 to 2004-05	-17,764	18,079	315
Percent Change	-29%	4%	0%

Brief Explanation Of Budget Decisions:

⇒ Under current law, the base for Public Broadcasting is available in either year, and in FY 2002-03 it was spent in the first year. The $2.188 million “Biennial Appropriations” base adjustment was used to bring the FY 2004-05 funding level to the base appropriated level.

⇒ The Laws of 2001 provided $2.180 million to increase the base funding in FY 2004-05 of the Office of Technology and other agencies. A transfer of $1.080 million will be made from this appropriation to Administration’s Office of Technology to increase base funding for technology analyst positions. A transfer of $600,000 will be made from this appropriation to the Department of Revenue for operational costs related to the income tax re-engineering project. In addition, $500,000 will be transferred for Small Agency Infrastructure (SAI) projects to the Capitol Area Architectural and Planning Board, the Architecture and Engineering Board, the Campaign Finance and Public Disclosure Board, the Mediation Services Bureau, the Minnesota Racing Commission, the Sentencing Guidelines Commission, the Department of Veterans Affairs, and the Lawful Gambling Control Board, as reflected in each agency’s budget.

⇒ Legislatively mandated base funding levels for the biennium result in a net partial restoration of $462,000 to the agency’s base. The Governor recommends eliminating this restoration through the change item reductions.

(Note: General Funds in the above table include appropriations for legislative in-lieu of rent and grants for Public Broadcasting.)

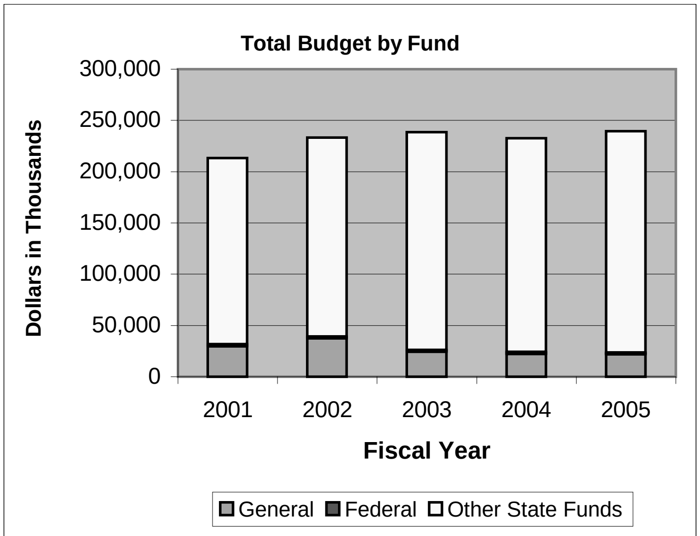
Revenue Summary:

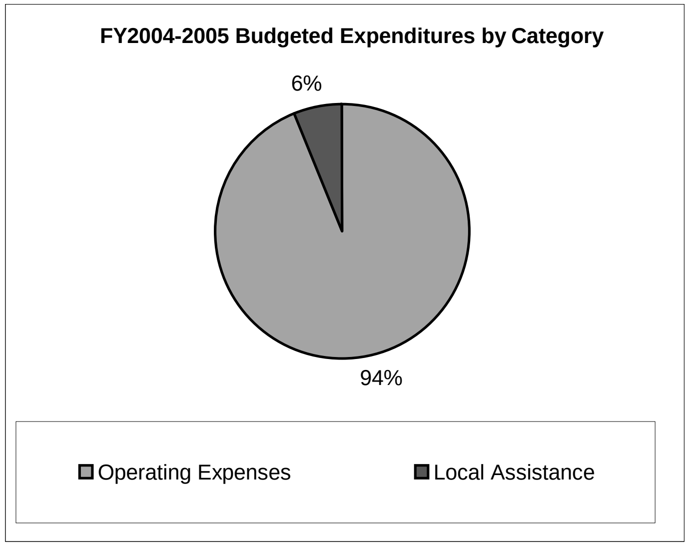
⇒ Market conditions impact the agency's revenue collections. The construction market directly affects building code revenue, and the number of telephones in use dictates 9-1-1 revenues. Parking revenues are dependent upon the number of employees and the availability of parking spaces.

⇒ Federal funding is expected to increase slightly.

⇒ The Governor recommends a reduction in expenditures in Plant Management Leases and the InterTechnologies Group, which will result in a corresponding reduction in revenue.

	FY 2004-05 Revenues ($000s)		
	General Fund	**Other Funds**	**Total**
FY 2004-05 Current Law Revenues	242	458,992	459,234
Change Items			
Intertechnologies Group – Budget Reduction	0	(8,030)	(8,030)
Facilities Mgt Div – Plant Mgmt – Budget Reduction	0	(6,192)	(6,192)
Mgmt Services – Admin Budget Reduction Plan	0	(249)	(249)
FY 2004-05 Total Revenues	242	444,521	444,763
Biennial Change 2002-03 to 2004-05	(51)	30,599	30,548
Percent Change	(17%)	7%	7%





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	29,621	37,491	24,215	22,221	21,721	43,942
Special Revenue	0	0	0	519	0	519
Statutory Appropriations						
General	44	0	0	0	0	0
State Government Special Revenue	22,343	23,076	30,192	29,281	32,881	62,162
Special Revenue	4,883	6,684	13,859	12,193	12,093	24,286
Federal	1,704	1,477	1,726	1,705	1,717	3,422
Risk Management	7,034	9,586	10,898	11,303	12,658	23,961
Miscellaneous Agency	10,435	9,917	11,100	11,100	11,103	22,203
Gift	155	131	38	77	64	141
Plant Management	24,791	26,155	25,920	25,551	25,800	51,351
Documents And Publications	2,306	1,873	1,949	1,980	2,061	4,041
Micrographics	1,295	1,336	1,284	1,359	1,380	2,739
Management Analysis	1,078	984	1,051	1,091	1,151	2,242
Central Motor Pool	13,060	14,021	12,862	13,104	13,292	26,396
State Printer	6,710	4,928	4,599	5,122	5,286	10,408
Central Stores	8,319	7,651	7,869	7,897	7,939	15,836
Materials Distribution	4,272	5,415	5,745	4,969	5,459	10,428
Intertechnologies	74,460	81,640	84,563	82,456	83,979	166,435
Central Mailing	760	765	701	738	766	1,504
Total	**213,270**	**233,130**	**238,571**	**232,666**	**239,350**	**472,016**

Expenditures by Category						
Operating Expenses	198,076	207,198	222,385	216,764	220,660	437,424
Capital Outlay & Real Property	1,756	584	638	634	638	1,272
Payments To Individuals	0	5	0	0	0	0
Local Assistance	11,078	21,551	12,548	13,083	15,652	28,735
Other Financial Transactions	2,360	3,792	3,000	2,185	2,400	4,585
Total	**213,270**	**233,130**	**238,571**	**232,666**	**239,350**	**472,016**

Dollars in Thousands Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operations Management Bureau	58,566	58,702	59,982	60,277	62,646	122,923
Office Of Technology	3,434	4,668	3,306	2,669	2,614	5,283
Intertechnologies Group	95,471	100,716	109,033	105,097	110,021	215,118
Facilities Management	37,728	40,454	47,470	46,146	45,971	92,117
Management Services	8,298	7,666	7,642	7,578	7,738	15,316
Fiscal Agent	9,773	20,924	11,138	10,899	10,360	21,259
Total	**213,270**	**233,130**	**238,571**	**232,666**	**239,350**	**472,016**

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	332	174	119	121	121	242
Subtotal Non Dedicated	332	174	119	121	121	242
Dedicated						
State Government Special Revenue	22,728	21,994	27,323	29,258	31,182	60,440
Special Revenue	4,938	5,494	4,402	4,331	4,531	8,862
Federal	1,472	1,467	1,669	1,705	1,717	3,422
Risk Management	8,532	9,037	11,049	12,064	13,369	25,433
Miscellaneous Agency	10,389	10,119	11,100	11,100	11,103	22,203
Gift	152	115	22	56	35	91
Plant Management	38,412	40,927	38,209	41,106	41,398	82,504
Documents And Publications	2,308	1,912	1,986	2,009	2,069	4,078
Micrographics	1,373	1,206	1,314	1,401	1,401	2,802
Management Analysis	1,086	1,061	1,050	1,091	1,150	2,241
Central Motor Pool	12,181	13,478	14,572	14,857	15,690	30,547
State Printer	5,846	4,472	4,981	5,130	5,284	10,414
Central Stores	8,498	7,706	7,902	7,902	7,902	15,804
Materials Distribution	4,732	5,655	5,685	5,420	5,542	10,962
Intertechnologies	76,367	73,243	83,219	80,581	82,528	163,109
Central Mailing	782	786	767	807	802	1,609
Subtotal Dedicated	199,796	198,672	215,250	218,818	225,703	444,521
Total Revenue	**200,128**	**198,846**	**215,369**	**218,939**	**225,824**	**444,763**
Full-Time Equivalents (FTE)	**912.5**	**901.5**	**927.4**	**872.4**	**866.9**	

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($1,963)	($1,963)	($1,963)	($1,963)
Revenues	0	0	0	0
Other Fund				
Expenditures	(120)	(129)	(129)	(129)
Revenues	(120)	(129)	(129)	(129)
Net Fiscal Impact	($1,963)	($1,963)	($1,963)	($1,963)

Recommendation

The Governor recommends a General Fund budget of $11.131 million each year to fund the current operations of the Department of Administration (Admin) in the FY 2004-05 biennium. The budget incorporates a reduction of $1.963 million each year, which equates to a 15 percent reduction. Each division has evaluated their core functions and will manage the changes through various service level reductions or eliminations, staffing decreases estimated at approximately 20.8 full-time equivalents, and operating expense reductions. The resulting budget would focus on new ways to operate the department's core functions.

Background

Fifteen divisions within Admin's five bureaus receive General Fund appropriations, representing less than 10% of the overall agency budget. These divisions provide a wide range of services to state agencies, and for the internal management of Admin**.**

Operations Management Bureau

- Materials Management – acquires goods and services and disposes of state surplus property using methods that ensure the best value for the taxpayers' dollars and conform to the standards of public procurement. Activities include overseeing $1.2 billion in annual state government purchasing, and reviewing over 2,500 professional/technical contracts per year.
- MailComm – provides a mailing service including metering and processing of all outgoing federal mail for agencies within the boundaries of St. Paul. This unit also provides inter-office mail services to all state agencies within St. Paul and has the responsibility for distributing the federal mail for the Capital Complex. In FY 2002, MailComm generated nearly $1 million in postage savings through its automation services.

Office of Technology

- OT – provides leadership and direction for state information and communications technology. The mission is to ensure that the state's use of information technology improves Minnesota's businesses, schools, communities, and the lives of the state's citizens. Activities include managing the North Star web portal and electronic services, and serving as steward for the statewide "Enterprise Architecture" (technology blueprint for the state).

InterTechnologies Group

- Communications Center – provides support and maintenance of the state of Minnesota's telephone directory database.

Facilities Management Bureau

- Real Estate Management – provides real estate services to state agencies that result in obtaining quality, efficient, and cost-effective property that meets the state's needs. Activities include selling state surplus property, and maintaining a total of 961 leases of state-owned and non-state owned real property.
- Plant Management-Energy Management – conducts energy efficiency improvements and retrofit projects in 40 million gross square feet of state-owned buildings.
- Plant Management/Resource Recovery – operates the State Recycling Center to prepare recyclables for market and administers the State Government Resource recovery Program providing waste reduction and recycling assistance and education. In FY 2002, 2,159 tons of material was recycled.

- Division of State Building Construction – delivers professional architectural, engineering, and construction resources designed to improve the physical facilities of Minnesota government. Activities include providing planning, design and construction services to over 20 state agencies in almost 4,000 state buildings.

Management Services Bureau

- Admin, Financial and Human Resource Management – provides internal leadership to the agency in legislative, communications, administrative, financial, and human resources. Provides specialized financial and human resources support to several Boards and Councils. In addition, statewide leadership is provided in many areas in conjunction with the diverse divisions of the agency.
- Management Analysis – is the state of Minnesota's internal management consulting organization. General Fund activities include regulatory mandates (cost benefit analysis projects), cross-agency management improvement projects (staffing, performance management, managerial training), and work on behalf of the state (contingency planning, establishing a gubernatorial transition office). This activity receives about one-third of its funding through a general fund appropriation.
- Information Policy Analysis – provides government and private sector entities with answers to questions, and consultation on data practices issues. On an annual average, this activity issues 66 advisory opinions, answers 3,600 phone inquiries from government entities, and 2,532 phone contacts from citizens.
- The Office of the State Archaeologist – manages the state's archaeological resources, including sites and data, on behalf of the citizens of Minnesota. Activities include review/license archaeological projects, evaluate/accept site data forms, and investigate burial site cases.
- The Governor's Council on Developmental Disabilities – authorized under the Federal Developmental Disabilities Assistance and Bill of Right Act works to assure that people with developmental disabilities, and their families, receive the necessary support/services to increase their independence, productivity, self-determination, integration, and inclusion in the community. A small General Fund appropriation is used as part of the state match to secure over $1 million in federal funds.

Relationship to Base Budget

This proposal represents a 15% base level reduction to the Admin general fund operating budget.

Key Measures

"Service First" to Minnesota and its citizens is the goal of Admin. This is accomplished through providing high-quality facilities, services, and infrastructure that will assist each agency in achieving its organizational and strategic goals. Reductions would occur in all areas of the agency. Budget reductions would impact service levels to both internal and external customers. In general, functions would be eliminated, or the workload of remaining staff will increase, therefore impacting response times. A reduction in funding would negatively impact the ability to satisfy customer needs on an on-going basis.

Alternatives Considered

The agency has reviewed all functions and operations and the proposed reductions were identified to have the least impact on core activities.

Statutory Change: Not Applicable

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($759)	($759)	($759)	($759)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($759)	($759)	($759)	($759)

Recommendation
The Governor recommends a General Fund appropriation of $2.44 million each year for Public Broadcasting grants. The Governor also recommends elimination of the $2,000 annual line item for the Minnesota State Band. He recommends that these entities seek efficiencies in their operations or secure additional private, non-state funding for continued operation.

Background
Public broadcasting is the grant administration program carried out for the legislature under specific appropriation language and M.S.129D.11-16. The program oversees this grant authority, disbursing funds in accordance with legislative appropriations and direction, and ensures compliance with all statutory requirements and criteria.

Public Television:
State funds are used by six recipient stations to sustain their ability to serve as a major community resource providing educational, cultural, economic development, public affairs, and children's programming to the public, governmental agencies, nonprofit organizations, business corporations, and educational facilities. State grants are made in a direct and matching basis, consistent with the criteria established in M.S. 129D.11-16. Public Television signals cover approximately 98% of the state.

Public Radio:
State funds are used to support 12 public radio (AMPERS) stations that serve Minnesota residents through radio programming that is noncommercial, cultural, informational, ethnic, and educational in nature. It is programming designed to appeal to audiences not generally served by commercial broadcasters. Operational and equipment grants are made pursuant to criteria listed in M.S. 192D.11-16. The AMPERS stations cover approximately 95% of the population, and 80% of the geography of the state. State grants provide between two, and 60% of the individual stations total annual budget.

State funds are appropriated for an equipment grant to Minnesota Public Radio (MPR), a network of 31 stations providing local, regional, national, and international news, information programming, and classical music programming to listeners throughout the state and region. These state funds represent approximately 12% of MPR's FY 2002-03 capital budget.

Twin Cities Regional Cable Channel:
State funds are used to provide grant-in-aid to Twin Cities Regional Cable Channel, Inc., a nonprofit organization operating the Metro Cable Network. These funds provide for approximately 5% of the Metro Cable Network operating budget. The network appears on Channel 6 on all metropolitan area cable systems presenting a wide range of programs about issues and activities of regional interest and significance as mandated by state statutes and designated by the Minnesota Cable Communications Board in 1985.

Legislative Television:
An additional appropriation is included in Public Broadcasting for Legislative Television. Funding is in the form of a grant for public information television transmissions of legislative activities. Senate Media Services and House Television programming raises public awareness of state issues, legislative activities, and state capitol events. Programming consists of live and taped coverage of senate and house floor sessions, select committee hearings, issue-oriented press conferences, public affairs programming, short documentaries, and civic-education

programs. For the 2002-2003 Legislative sessions, up to 3,298 hours of programming will be broadcast through two separate agreements. The legislature oversees this grant.

The Minnesota State Band:
The Minnesota State Band is a volunteer band performing events free and open to the public. The band has received state funding since its founding in 1898. The band has about 65 volunteer members and conducts about 10 public performances annually. These funds are used for travel, postage, music, equipment repair and replacement, and other operational costs of the band.

Relationship to Base Budget

This recommendation represents an overall 24% reduction in the grants to Public Broadcasting. The current FY 2004 annual base budget for these grants is $3.197 million. The annual reduction would be allocated as follows:

♦ Public Television	less 25%	($492,000)
♦ Public Radio-AMPERS	less 15%	($59,000)
♦ Public Radio-MPR	less 35%	($137,000)
♦ Twin City Cable	less 25%	($6,000)
♦ Legislative Television	less 15%	($63,000)

This proposal would eliminate state funding for the Minnesota State Band. In FY 2002-03 they were appropriated $2,000 in state funds each year.

Statutory Change: Not Applicable

Change Item: INTERTECHNOLOGIES GROUP - BUDGET 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	($4,015)	($4,015)	($4,015)	($4,015)
Revenues	($4,015)	($4,015)	($4,015)	($4,015)
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends a reduction to the InterTechnologies Group (InterTech) expenses of $4.015 million each year of FY 2004-05 biennium for the Intertechnologies internal Services Revolving Fund. The reductions would translate into decreases in some of the rates charged to state government customers. The Governor's goal is to relieve some of the fiscal pressures agencies will face with reduced operating budgets during the biennium.

Background

The purpose of InterTech is to provide data processing and telecommunications services to state agencies and public sector entities. The mission is to serve Minnesota's public sector by delivering value-added information technology services through a shared infrastructure. The budget activities affected by the reduction(s) illustrated will be in the service areas of: Computer Services, Telecommunication Services, and IT Risk Mitigation Services. Please see the InterTech Web Site at http://www.itg.state.mn.us/index.html for more information about these services.

Relationship to Base Budget

This recommendation represents a 15% reduction in controllable/variable costs for the InterTechnologies Group. Overall, these reductions would result in an approximate 5% reduction in expenditures given constant use patterns. We would look for new ways to accomplish objectives through process review and improvement. We would work with customers regarding their requirements in order to best respond to their service needs.

Key Measures

The recommended reduction would result in a loss of technical expertise (36 full-time equivalents total) and support technologies resulting in reduced services for customers. Specifically, InterTech's data processing and telecommunications services would be reduced and response times to resolve state system problems and network outages would be increased. There are 20 full-time equivalents (FTEs) related to these functions. The impact of the recommended reduction includes:

- division would need to identify alternate methods of covering 24/7 requirements and critical system needs;
- alternate production schedules for customers in areas such as print and mainframe processing (there may be delays in issuing warrants and unemployment checks if these jobs are scheduled during off-peak hours);
- some reduction in technical assistance and support for customers;
- reevaluation of scheduled maintenance and load testing requirements;
- extended replacement schedules for equipment and upgrades which may create a reliance on existing equipment and technology, and increased maintenance and repair costs;
- increase in response time to customers for inquiries or questions on service or billing; and
- longer response times for internal LAN problems.

In order to reduce expenses, InterTech identified several technology solutions that are not currently supported by customer revenue. The division would examine these over time to determine how best to support these in the future. These solutions are part of InterTech's response to the state IT community's requests to implement new services and products that support the state's overall technology direction. This portion of the recommendation includes a reduction of 16 FTEs.

Alternatives Considered

InterTech considered across the board cuts but this approach was abandoned, as it would not allow the bureau to continue its core business functions.

Statutory Change: Not Applicable

Change Item: LCMR RECOMMENDATIONS

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	519	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	519	0	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 Legislative Commission on Minnesota Resources (LCRM) has recommended funding for a Community Energy Development Program to be appropriated to the Department of Administration for transfer to the Department of Commerce to assist communities in identifying cost-effective energy projects and developing locally-owned wind energy projects through local wind resource assessment and financial assistance. The proposal would be financed with $281,000 from the Future Resources Fund and $519,000 from Oil Overcharge monies.

Change Item: PLANT MGMT LEASES - BUDGET 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	($3,096)	($3,096)	($3,096)	($3,096)
Revenues	($3,096)	($3,096)	($3,096)	($3,096)
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends a budget for Plant Management Division (PMD) of $25.551 million in FY 2004 and $25.8 million in FY 2005 from the Plant Management Internal Services Fund. These amounts correspond to a reduction in lease expenses and revenue of $3.096 million in each year of biennium, or a 7% reduction. The decrease would translate to a reduction in lease rates charged to state agencies located in PMD-managed buildings. The Governor's goal is to relieve some of the fiscal pressures agencies will face with reduced operating budgets during the biennium

Background

PMD is responsible for 3.7 million gross square feet in 22 facilities. This includes the 20 facilities under PMD's custodial control as well as the Minnesota History Center and the Retirement Systems Building. PMD provides housekeeping, engineering, refuse removal, trades, building management, grounds management, snow removal, and environmental, life, safety and security systems for buildings, grounds, monuments/memorials, cafeterias, and tunnels.

PMD would focus its work on the highest priority services, including those that relate to the health, safety and security of occupants and guests to PMD-managed buildings. PMD would reduce some services beginning in FY 2004 including:

- ♦ elimination of 24-plus full-time equivalents (FTEs) including janitorial, maintenance engineers, trades, groundskeepers, support, supervisors, and management personnel;
- ♦ reduction of lower priority building, janitorial, and grounds repairs and maintenance; and
- ♦ elimination of the cafeteria subsidy, which may result in the closure of some of the Capitol Complex cafeterias.

In addition, PMD anticipates that some agencies may reduce their lease space due to budget reductions, resulting in reduced lease revenues. Depending on where the vacant space is located and the amount of square footage that is vacant, some closures or partial closures might be considered.

Relationship to Base Budget

This proposal represents a 15% reduction in controllable/variable costs in Plant Management operations. These reductions will generate an overall 7% reduction in revenue and expenses.

Key Measures

The reduction in lease rates charged to tenants would vary by building according to each facility's specific age, financing, and maintenance requirements. Reduction of staff in the division would impact PMD's ability to respond to customer requests in a timely manner. Maintenance would be deferred and reduced, which carries the risk of impacting the internal and external conditions of the buildings and related equipment as well as visual public appeal.

Alternatives Considered

The department considered a reduction in depreciation expenses, which would reduce the Facility Repair and Replacement account. However, decreased available funds in this account would require that critical facility repairs be delayed or not completed, including the Veteran Services Building renovation, Capitol Building exhaust work, Centennial Building air handler replacement, Judicial Center exterior caulking, State Office Building elevator upgrades (freight and Revisor), and replacement of humidification boilers.

The department also considered reducing building hours and changing building temperatures. Although these actions would result in decreased utility expenses and the state would capture short-term savings, there would also be a significant impact on occupant and visitor comfort as well as long-term implications related to reduced indoor air quality. And, changes in indoor air quality can significantly impact the physical condition of a building. Reducing the hours of building operations would require that lighting, heating, ventilating, and air conditioning systems are shut down. PMD concluded such changes in operations would create significant hardships for state agencies, state employees, and the legislature.

Statutory Change: Not Applicable

Change Item: RELOCATION FUNDING

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	$500	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$500	0	0	0

Recommendation

The Governor recommends a $500,000 General Fund appropriation to the Department of Administration for state agency relocation expenses associated with reduced space needs, economizing the use of current state facilities, minimizing lease costs to meet reduced budgets, and structural reorganizations.

Background

As a result of downsizing agency budgets and the reorganization of a number of state programs, Admin anticipates that many departments and boards will be reducing and changing their space requirements and otherwise seeking to reduce their lease costs. However, in order to realize the related savings and economize the space needs of the state as a whole, many organizations will be required to move to different locations. The costs of these moves are not budgeted within agency base budgets and are generally requested centrally by the Department of Administration.

The cost of relocating usually includes the following items: furniture and equipment transportation and reinstallation; de-installation and reinstallation of telecommunications, technology and wiring; and furniture purchases and retrofits to new spaces. The cost may also include rent differential, which is the estimated difference between the cost an agency is currently paying and the rent it will be paying in a new location through the end of the biennium. It may also include the cost of lease revenue lost by Admin's Plant Management Division (PMD) during the period in which an agency has not yet moved into a PMD-managed space due to construction or retrofitting.

Relationship to Base Budget

Agency base appropriations do not include any costs for relocations. During the 2002 session, the legislature provided the Department of Administration with one-time funding of $1.5 million from the General Fund, to fund several specific relocation projects, including:

- $590,000 for moving tenants from the Veterans Services Building during asbestos abatement construction;
- $389,700 for moving the Bureau of Criminal Apprehension (BCA) to its new location on Maryland and Prosperity in St. Paul;
- $457,500 for merging locations of the Departments of Trade and Economic Development (DTED) and Economic Security; and
- $40,000 for moving the Star and Information Policy Analysis divisions to more economical spaces within Admin.

Alternatives Considered

If this recommendation is not funded, agencies would either (1) stay in and pay for unneeded and/or expensive space, thereby reducing program services to accommodate the lease costs, or (2) give up part of their current space, which would leave pockets of unleased footage. Because much of the costs to operate buildings would not decrease in proportion to the pockets of vacant space, the costs to remaining tenants would be increased.

Statutory Change: Not Applicable.

Change Item: TRANSFER IN CAAPB FUNCTIONS

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	$262	$262	$262	$262
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$262	$262	$262	$262

Recommendation
The Governor recommends transferring administration of the Capitol Area Architecture and Planning Board (CAAPB) to the Department of Administration with an appropriation of $262,000 each year. This is a reduction of $130,000 from the previous biennium.

Background
In an effort to seek efficiencies while maintaining core services, the Capitol Area Architecture and Planning Board would become a responsibility of the commissioner of Administration. The Department of Administration currently provides some support services to the board, and many of the board's authorities have functional relationships with the divisions of State Building Construction and Plant Management within Administration.

Relationship to Base Budget
The appropriation to be transferred to the Department of Administration would be 80% of the funding appropriated in FY 2002-03 (see change item under CAAPB).

Statutory Change: M.S. 15.50

Department of Employee Relations
State of Minnesota: Opening Worlds of Possibilities!

☐ Commissioner
☐ Diversity
☐ Communications
☐ Government Relations
☐ Administrative Services
☐ Labor Relations/ Total Compensation
☐ Strategic Staffing
☐ Information Systems
☐ SEMA4/WARE

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www.doer.state.mn.us

February 18, 2003

TO: The 2003 Minnesota Legislature

RE: The Department of Employee Relations Budget Reduction

I am respectfully submitting the Department of Employee Relations (DOER) FY 2004–05 budget proposal. DOER serves as the human resource agency for the administration. It supports 120 executive branch state agencies, impacting over 50,000 state employees, by providing centralized human resource services, including labor negotiations for the executive branch. In addition, DOER provides insurance benefits to state employees, retirees, and their dependents – covering over 129,000 lives statewide.

As you know, Governor Pawlenty has asked each state agency to participate in solving the FY 2004 – 2005 budget deficit. We were asked to make a reduction to our General Fund base budget as well as to the Workers' Compensation and the State Employee Group Insurance Program base budget. DOER primarily has three different funding sources:

- General Fund, which covers agency operations for all or part of Strategic Staffing, Labor Relations, Administrative Services, Information Services and SEMA4;
- Internal Service Funds, that fund the operations of the State Employees Group Insurance Program (SEGIP) for health, dental, life, short and long-term disability and the Employee Pre-tax programs administrative costs and;
- Special Revenue Fund which funds the State Workers' Compensation Program, the training portion of strategic staffing, and the Information Services Division.

We will be taking several steps to meet the budgetary goal set forth by Governor Pawlenty. We will be restructuring the department to streamline, better coordinate and partner on our internal and external services and functions. Through the restructuring and coordination efforts, we will be laying off approximately 28 staff members. However, I remain confident that we will be able to continue to focus on our mission and deliver a high level of core services to our customers. We will continue to be the State's leader in human resources management for all of state government. From labor relations to staffing to compensation & employee insurance benefits program, DOER will be at the forefront in providing streamlined and flexible human resources management policies that will guide the Administration into the future. We will be eliminating some of the positions and functions that we believe are not considered part of our core mission and redefining the deliverance of certain programs and services.

<u>Technology Focused.</u> In our worker's compensation area, we are recommending the elimination of safety consulting and ergonomic staff positions – which will result in the elimination of service to state agencies. DOER will replace these positions with web-based resources that agencies will access for safety and ergonomic information.

In addition, the SEMA4 system, which serves as the State's employment database, will soon be delivering self-service functions in the human resources, payroll and benefits area.

- Partnering and Collaboration. We will also decentralize the Office of Diversity and Equal Opportunity. We will be able to more efficiently and effectively deliver these services and programs through partnerships we are developing with groups such as Alliance for Cooperation and Collaboration in Employment and State Services (ACCESS).

- Focusing on Core Business. We are recommending DOER's oversight of pay equity requirements for local units of government be eliminated. We believe that an entity whose core mission focuses on local governments can better deliver these services. DOER will maintain its responsibility for the pay equity requirements of state agencies.

- Efficiency. Finally, we are streamlining and restructuring our internal services that support the delivery of our core mission. We will be asking our staff to accomplish much with fewer resources – including fewer staff. This means we expect that job responsibilities will be increased. We will eliminate some services we provide state agencies and expect other services to be delivered slower.

While these budget changes may present an initial challenge to the agency, we believe that a new DOER will emerge that is more proactive, strategic and focused on its core mission and better able to serve the needs of state agencies and Minnesotans. Please let me know if I can provide further information or clarification and I look forward to working with you on these proposed changes.

Sincerely,

Cal R. Ludeman

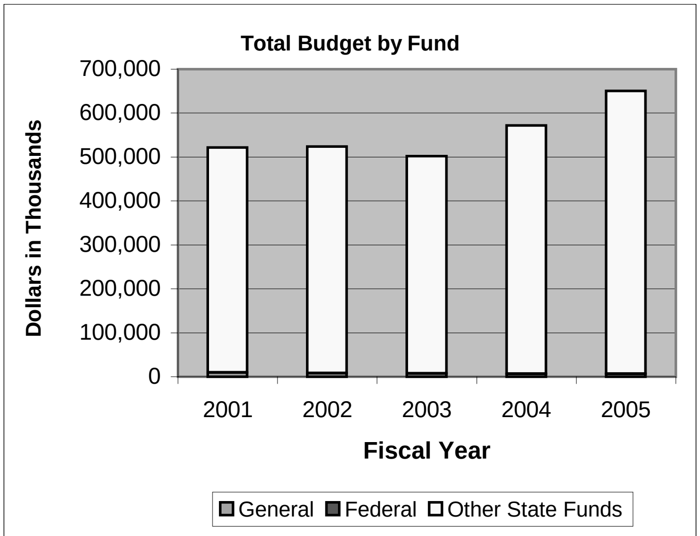
Cal R. Ludeman
Commissioner

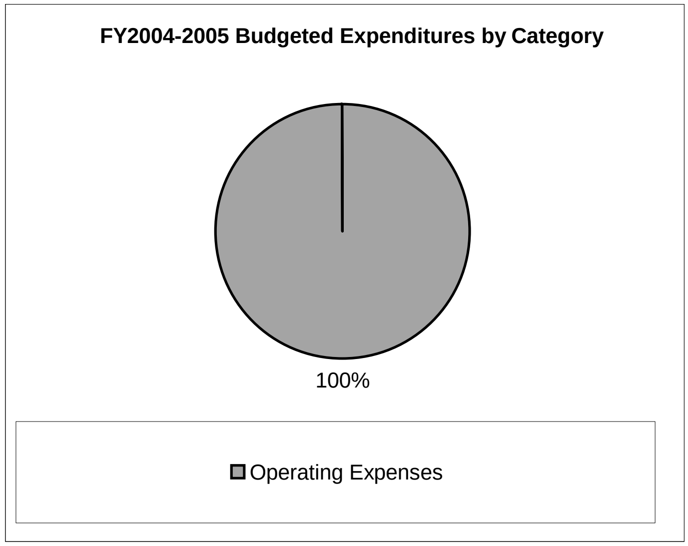
FY 2004-05 Expenditures ($000s)	General Fund	Other Funds	Total
2003 Funding Level	15,132	1,212,365	1,227,497
Adjusted Base Funding	15,132	1,212,365	1,227,497
Change Items			
Operating Budget Reduction	-2,166	0	-2,166
Reduce Statewide SEGIP Billing	0	-1,668	-1,668
Reduce Statewide Work Comp Billing	0	-958	-958
Governor's Recommendations	12,966	1,209,739	1,222,705
Biennial Change, 2002-03 to 2004-05	-2,422	199,390	196,968
Percent Change	-16%	20%	19%

Brief Description of Budget Changes:

The General Fund biennial change is primarily a result of the operating budget reduction. Increases in Other Fund revenues and expenditures are driven by increased costs associated with the State Employee Group Insurance Program (SEGIP), Workers' Compensation program, and other insurance benefits. These increases are partially mitigated by the recommendations to reduce statewide billing.

FY 2004-05 Revenues ($000s)	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	0	1,212,298	1,212,298
Change Items			
Reduce Statewide SEGIP Billing	0	(1,668)	(1,668)
Reduce Statewide Workers' Comp Billing	0	(958)	(958)
FY 2004-05 Total Revenues	0	1,209,672	1,209,672
Biennial Change 2002-03 to 2004-05	(200)	194,238	194,238
Percent Change	(100%)	19%	19%





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	8,721	7,934	6,889	6,118	6,118	12,236
Open Appropriations						
General	242	0	365	365	365	730
Statutory Appropriations						
General	155	200	0	0	0	0
Special Revenue	24,608	26,914	30,311	28,227	28,782	57,009
Private Employers Insurance	574	0	0	0	0	0
State Employees Insurance	475,435	476,322	451,632	524,518	602,741	1,127,259
Miscellaneous Agency	11,827	12,573	12,597	12,683	12,788	25,471
Total	**521,562**	**523,943**	**501,794**	**571,911**	**650,794**	**1,222,705**

Expenditures by Category						
Operating Expenses	521,539	523,926	501,791	571,908	650,791	1,222,699
Payments To Individuals	3	3	3	3	3	6
Local Assistance	20	14	0	0	0	0
Total	**521,562**	**523,943**	**501,794**	**571,911**	**650,794**	**1,222,705**

Expenditures by Program						
Human Resource Mgmt	10,468	12,662	13,148	10,212	10,255	20,467
Employee Insurance Division	511,094	511,281	488,646	561,699	640,539	1,202,238
Total	**521,562**	**523,943**	**501,794**	**571,911**	**650,794**	**1,222,705**

Dollars in Thousands Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Dedicated						
General	4,741	200	0	0	0	0
Special Revenue	25,179	26,283	29,305	26,723	26,778	53,501
Private Employers Insurance	576	0	0	0	0	0
State Employees Insurance	474,686	481,066	452,459	525,928	603,853	1,129,781
Miscellaneous Agency	11,968	13,126	13,195	13,195	13,195	26,390
Subtotal Dedicated	517,150	520,675	494,959	565,846	643,826	1,209,672
Total Revenue	**517,150**	**520,675**	**494,959**	**565,846**	**643,826**	**1,209,672**
Full-Time Equivalents (FTE)	**210.2**	**201.6**	**195.8**	**165.9**	**165.9**	

Change Item: OPERATING BUDGET REDUCTION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($1,083)	($1,083)	($1,083)	($1,083)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($1,083)	($1,083)	($1,083)	($1,083)

Recommendation

The Governor recommends a $1,083,000 annual General Fund reduction for the Department of Employee Relations (DOER). To achieve this reduction, DOER recommends restructuring its internal administrative services and reducing or eliminating certain functions and programs.

Background

DOER is the human resource agency for the executive branch and supports agencies by providing centralized services. DOER serves 120 executive branch state agencies, impacting over 50,000 state employees. While the proposed reductions in funding and personnel will noticeably impact the agency, DOER is confident that through restructuring, better coordination, partnering, and focusing on its core mission and goals, the reductions will not present an insurmountable hardship. DOER will achieve this reduction by eliminating 15.5 FTEs and reducing other administrative expenses.

If this recommendation is approved, the resulting changes will be:

⇒ Elimination of both professional and support staff will require streamlining responsibilities and consolidation of job duties. Staff reductions would occur in the following areas: Administrative Services, Communications, Human Resource Services, and Labor Relations. In addition, there would be a reduction in technology purchases and support personnel in response to the overall staff reductions. These changes will save $1,456,000 each biennium.

⇒ Decentralize the coordination of state agency activities related to affirmative action, Equal Employment Opportunity laws, the Americans with Disabilities Act, and various diversity programs. To more efficiently and effectively deliver these services and programs, DOER is developing partnerships with groups such as Alliance for Cooperation and Collaboration in Employment and State Services (ACCESS). This change will save $476,000 each biennium.

⇒ Elimination of DOER's oversight regarding Pay Equity. This statute addresses local government human resource issues, which is not considered to be a part of DOER's core mission. The elimination of this requirement will streamline and focus DOER's resources on its mission. These functions may be best performed by entities whose mission serves local units of government. This change will save $140,000 each biennium.

⇒ Eliminate the $50,000 biennial General Fund grant to Government Training Service (GTS). It is more appropriate to allow local governments to provide training for their employees through dollars directly under their control.

⇒ Eliminate the $44,000 biennial General Fund appropriation for the Combined Charities Campaign. The campaign's mission is volunteerism and encouraging state employees to donate part of their salary to a charity. As such, it seems more appropriate that employee contributions support the program rather than state dollars. It is only in recent years that state funds were appropriated to fund the campaign. Despite the appropriation, volunteers perform most of the campaign work. This change will result in the campaign reverting to its former method of administration.

Those who would be impacted by these recommendations:

⇒ The reduction of DOER staff (15.5 FTEs) will have an impact on the services that DOER provides internally and to its customers. However, through restructuring and focusing on our core mission, we are confident we will be able to provide superior service to our customers.

⇒ Groups such as ACCESS, state human resource directors, the state councils, and the Staffing Division in DOER will have a greater role in coordinating their affirmative action and equal employment opportunity work with other entities.
⇒ The elimination of the Pay Equity division would impact approximately 1,500 local government units in Minnesota – effecting about 220,000 local government employees.
⇒ Members of the Combined Charities volunteer board of directors would function without the support of an executive secretary, and volunteer coordinators would receive reduced support during the campaign.

Relationship to Base Budget

This change will provide DOER with a $12,267,000 General Fund appropriation during FY04-05, which is $2,821,000 less than what was appropriated in the last biennium.

Statutory Change: Changes in M.S. 471.991-.999 and Minnesota Rules Chapter 3920 would be necessary.

Change Item: REDUCE STATEWIDE SEGIP BILLING

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	($834)	($834)	($834)	($834)
Revenues	($834)	($834)	($834)	($834)
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends an $834,000 annual reduction in administrative costs associated with the State Employee Group Insurance Program (SEGIP). This spending reduction will result in an equal reduction in the fees paid by state agencies to provide administrative support for employee insurance benefits.

Background

SEGIP serves the executive, legislative and judicial branches of government as well as quasi-state agencies by providing health and other benefits to more than 120,000 employees, retirees and their family members.

SEGIP will reduce the amount billed to state agencies by eliminating 6.5 FTEs and reducing other administrative expenses.

If this recommendation is approved, the resulting change will be:

- reduction of both professional and support staff;
- funding for the SEMA4 system, which provides insurance enrollment and billing information for state employment, will be reduced;
- reduction in the amount of legal and actuarial services purchased, which will require the reduction of the number of complex bargaining and legislative requests referred to consultants; and
- increased use of the Internet to provide information to employees to offset reduced customer service support.

Relationship to Base Budget

This change will provide SEGIP with an administrative budget of approximately $9,455,000 during FY 2004-05, which is $1,234,000 less than its administrative budget during the last biennium.

Statutory Change: Not applicable.

Change Item: REDUCE STATEWIDE WORK COMP BILLING

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	($479)	($479)	($479)	($479)
Revenues	($479)	($479)	($479)	($479)
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends a $479,000 annual reduction in administrative costs associated with the Workers' Compensation program. This spending reduction will result in an equal reduction in the fees paid by state agencies to provide administrative support for employee Workers' Compensation benefits.

Background

Workers' Compensation provides claims administration and support services for 57,000 employees in the executive, judicial, and legislative branches of state government, as well as quasi-state agencies. Workers' Compensation also provides industrial hygiene services and helps state agencies with safety issues, ergonomics, disability management, and return to work services. These activities are designed to help contain Workers' Compensation and other costs of doing business.

Workers' Compensation will reduce the amount billed to state agencies by eliminating 7.9 FTEs and reducing other administrative expenses.

If this recommendation is approved, the resulting change will be:

- reduction of both professional and support staff;
- increased use of the Internet to provide information on workplace safety and ergonomics to offset reduced service in these areas; and
- technology changes or upgrades will only be implemented to meet legal requirements for workers' compensation activities.

Relationship to Base Budget

This change will provide Workers' Compensation with an administrative budget of approximately $6,549,000 in FY 2004-05, which is $432,000 less than its administrative budget during the last biennium.

Statutory Change: Not applicable.

State of Minnesota
Department of Finance

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February 18, 2003

To the 2003 Minnesota Legislature

The Department of Finance has completed our budget submission for the fiscal 2004-2005 biennium. The recommended General Fund appropriation is $30.432 million. Additionally, it is recommended that the statewide administrative systems billing authority be continued in the amount of $13.706 million. These figures include the effect of the transfer of the duties of the former office of state treasurer.

We will continue to provide service in high priority areas, which include accounting, budget, economic analysis, financial reporting, payroll, and treasury operations. The result of continued budget reductions will change the way we do business. Some examples include reduced document printing, reducing customization in on-going systems development, and reduced frequency of selected systems processing functions. We believe these changes can be implemented in a manner that maintains our successful work in high priority activities of the department.

Our fiscal year 2004/2005 spending plans anticipate a two-year salary freeze. Other reductions will be accomplished through business process changes including:

- heavier reliance on electronic delivery of documents and payments to reduce printing and postage costs;
- bank fee reductions as a result of a new banking contract with US Bank effective January 1, 2003; and
- other administrative changes such as reductions in rent, training, travel, communications, and centralized garnishment processing.

Additionally, we will reduce the amount Finance charges state agency users for the operation of statewide administrative systems. These systems are the computer software applications that provide the state's accounting, procurement, human resources, and payroll functions, as well as the state's information access data warehouse. The billing authority provides the resources for some of the operating costs of the statewide systems, primarily InterTech computer processing and storage costs. Most of this change will be accomplished through reductions in InterTech charges due to rate changes and processing efficiencies. By itself, reducing the Department of Finance's billing authority does not generate savings. The billing authority is a pass-through, with the Department of Finance receiving funds from user agencies and disbursing funds to resource providers. The benefits of the reductions are passed-through to agency users in reduced billing costs.

This budget represents a reduction in the General Fund appropriation of $5.370 million and a reduction in the statewide administrative systems billing authority of $1.334 million. These are reductions of 15% and 9% respectively. These reductions are in addition to the reductions resulting from the 2002 Chapter 220 and Chapter 374 reductions. Furthermore, six positions funded by a four-year appropriation in 1999 to upgrade the SEMA4 payroll and Human Resource system will end on June 30, 2003.

We look forward to working with the legislature to maintain our efforts on the essential activities required for sound financial management of the state.

Sincerely,

Dan McElroy

Dan McElroy

FY 2004-05 Expenditures ($000s)	General Fund	Other Funds	Total
2003 Funding Level	35,542	15,040	50,582
Legislatively Mandated Base	-180	0	-180
One-Time Appropriations	440	0	440
Adjusted Base Funding	35,802	15,040	50,842
Change Items			
Operating Budget Reduction	-5,370	0	-5,370
Reduce Statewide Systems Billing	0	-1,334	-1,334
Governor's Recommendations	30,432	13,706	44,138
Biennial Change, 2002-03 to 2004-05	-2,971	-6,367	-9,338
Percent Change	-9%	-32%	-17%

Brief Description of Budget Changes:

The General Fund reduction of 9%, which is a 15% reduction if the One-Time Appropriation is not included in the base, is a result of the recommended operating budget reduction. Other Fund expenditures and revenues also declined because of 1) completion of the SEMA4 upgrade, and 2) reduced statewide systems billing.

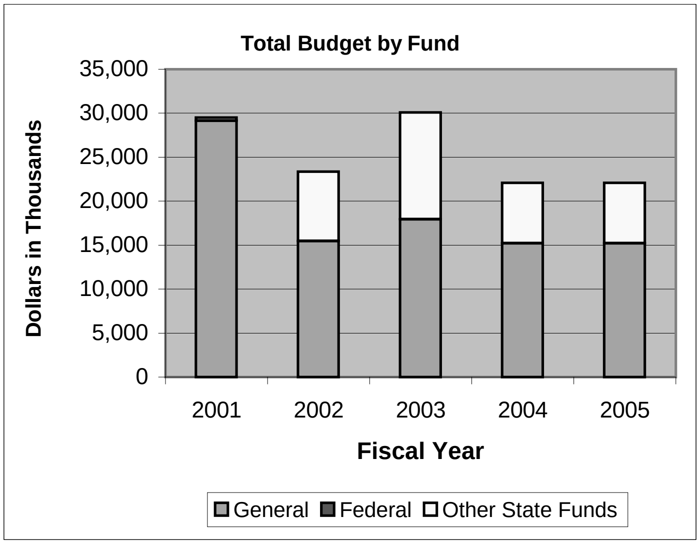
FY 2004-05 Revenues ($000s)	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues		15,040	15,040
Change Items			
Agency Level Change Item		(1,334)	(1,334)
FY 2004-05 Total Revenues	30*	13,706	13,766
Biennial Change 2002-03 to 2004-05	n.a.	(1,334)	(1,334)
Percent Change	n.a.	(9%)	(9%)

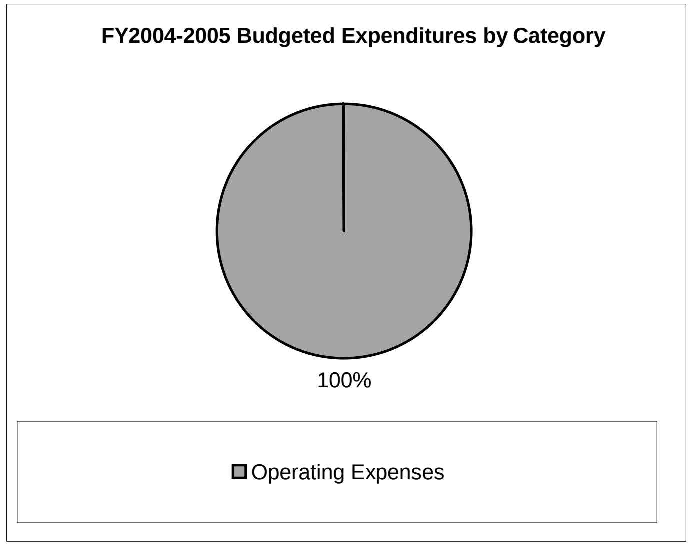
*Treasury Operations non-dedicated interest revenue from bank deposits.

Finance Non-Operating Accounts:

The Governor is also recommending several changes related to the Finance Non-Operating accounts.

FY 2004-05 Expenditures ($000s)	General Fund	Other Funds	Total	Change from FY 2002-03
Governor's Recommendations:				
G.O. Debt Service	686,777	0	686,777	105,783
Contingent Accounts	5,000	1,750	6,750	5,000
Tort Claims	322	1,200	1,522	(259)





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	21,784	15,477	17,926	15,216	15,216	30,432
Statutory Appropriations						
General	7,350	0	0	0	0	0
Special Revenue	385	7,897	12,176	6,853	6,853	13,706
Total	**29,519**	**23,374**	**30,102**	**22,069**	**22,069**	**44,138**
Expenditures by Category						
Operating Expenses	29,500	23,371	30,102	22,269	22,269	44,538
Local Assistance	19	3	0	0	0	0
Transfers	0	0	0	-200	-200	-400
Total	**29,519**	**23,374**	**30,102**	**22,069**	**22,069**	**44,138**
Expenditures by Program						
State Financial Management	8,422	7,890	7,947	8,711	8,711	17,422
Information & Mgmt Services	21,097	15,484	22,155	13,358	13,358	26,716
Total	**29,519**	**23,374**	**30,102**	**22,069**	**22,069**	**44,138**
Revenue by Type and Fund						
Non Dedicated						
General	0	0	0	30	30	60
Subtotal Non Dedicated	0	0	0	30	30	60
Dedicated						
General	7,525	0	0	0	0	0
Special Revenue	385	9,269	10,804	6,853	6,853	13,706
Subtotal Dedicated	7,910	9,269	10,804	6,853	6,853	13,706
Total Revenue	**7,910**	**9,269**	**10,804**	**6,883**	**6,883**	**13,766**
Full-Time Equivalents (FTE)	**183.5**	**175.7**	**179.0**	**158.5**	**158.5**	

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($2,685)	($2,685)	($2,685)	($2,685)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($2,685)	($2,685)	($2,685)	($2,685)

Recommendation

The Governor recommends an appropriation of $15,216,000 in FY 2004 and $15,216,000 in FY 2005 for the Department of Finance (DOF). This is a $2,685,000 annual reduction in the General Fund appropriation.

Background

This change will impact agency staff, state agencies, legislators, the general public, and other customers of statewide accounting, payroll, and financial reporting functions and systems, including biennial budget systems. This reduction anticipates a wage freeze for the FY 2004-05 biennium.

Savings would be accomplished by eliminating approximately 17 FTEs. These position reductions will be in addition to 11.7 FTEs eliminated in the FY 2002-03 biennium as a result of the Chapter 220 and Chapter 374 reductions. An additional six positions funded by a four-year appropriation in 1999 to upgrade the SEMA4 payroll and HR system will end on June 30, 2003. Further reductions in off-hour systems support, staff development and recognition, professional/technical contracts, and banking fees, all of which have been reduced in previous budget reduction measures, would account for the remainder of the reduction.

If this recommendation is approved, the resulting changes will be:

⇒ The position reductions associated with this change item include positions across the agency, which are possible through a series of business process changes and a renewed emphasis on core functions. The (staffing) reductions will include several supervisory and management positions. Additional salary savings will be accomplished through a reduction in overtime, premium time, and call-back pay for off-hour support of the statewide administrative systems.

⇒ Business processes:
- ♦ conversion of remaining employees to direct deposit saving printing, postage, and warrant stock expenses;
- ♦ expansion of vendor payments by electronic funds transfer for additional printing, postage, and stock savings;
- ♦ delivery of employee W-2 electronically; and
- ♦ restructuring of payroll garnishment and child support orders to streamline process and maximize expense recovery.

⇒ Salary and administrative management:
- ♦ reduce overtime, premium time, call-back;
- ♦ rent consolidation;
- ♦ wage freeze; and
- ♦ general reductions training, travel, and printing/communications.

⇒ Reductions in bank fee payments as a result of a new banking contract with US Bank effective January 1, 2003.

⇒ Other administrative management reductions including training, travel, rent, printing, and communications.

In addition to the recommended reduction, the department is absorbing the ongoing operating expenses for the SEMA4 payroll system. In 1999, the agency received $6.8 million for the cost of the system upgrade and the salaries of six staff to support it. That appropriation ends at the end of FY 2003. In order to ensure continued reliance, the responsibilities for the operations of the system will need to be done, though on a limited basis, by current agency staff. The initial plan was that the state would be in a position to stay current with technology and to fully benefit from our investment by implementing upgrades as they are released. The elimination of these six positions requires us to modify that plan.

Relationship to Base Budget

This change will provide DOF with $7,987,000 less than what was appropriated in the last biennium, a 15% reduction from the FY 2004-05 forecast levels.

Key Measures

Key performance measures impacted by this change item will include:

- repeat audit findings;
- percentage of vendor payments within 30 days;
- percentage of users “Satisfied” or “Very Satisfied” with the Statewide Administrative Systems; and
- percentage of scheduled time that systems (MAPS, SEMA4, IA) are available.

Statutory Change: 16A.17, 16A.131, 16D.03

Change Item: REDUCE STATEWIDE SYSTEMS BILLING

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	($667)	($667)	($667)	($667)
Revenues	(667)	(667)	(667)	(667)
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends a $667,000 annual reduction in administrative costs associated with statewide financial systems. This spending reduction will result in an equal reduction in the fees paid by state agencies to provide these services. This recommendation is possible because of reductions in InterTech computer charges and reductions in professional/technical contracts used to modify, enhance, and maintain the statewide administrative systems.

Background

Statewide administrative systems are the computer software applications that provide the state's accounting, procurement, human resources, and payroll functions, as well as the state's information access data warehouse. By itself, reducing DOF's billing authority does not generate savings. However, expected Intertech rate reductions will allow DOF to pass-through savings to all state agencies.

Expense components of statewide administrative systems are: hardware and software, InterTech-provided computer services, systems-related contractors, licenses, maintenance, and support. InterTech expenses, like utilities, must be paid as invoiced but rate decreases of approximately 10% are anticipated in FY 2004. Few other savings options exist. License expenses must be paid to operate software legally. Contractor expenses have been reduced significantly. Maintenance and support reductions could significantly increase risk of delayed vendor payments, delayed payroll, and reduced availability of the statewide MAPS, SEMA4, and data warehouse systems.

Since 1991, the state has invested over $56 million to create and upgrade a statewide administrative systems infrastructure that provides the technical foundation for state business processes. After development, ongoing maintenance costs are required to prevent computer systems from falling into disrepair and becoming obsolete. Maintenance agreements provide technical solutions when systems malfunction, and upgrades keep the state's technology investments current with constantly changing technology. Cessation of maintenance agreements would terminate ongoing relationships with vendors and require the state to purchase new systems at future market prices that would be expected to exceed the amount of the previous investment.

Relationship to Base Budget

This change will provide DOF with statewide systems billing authority of $13,706,000 in FY 2004-05, which is $1,334,000 less than its billing authority during the last biennium.

Statutory Change: Not applicable.

FINANCE DEPT (NON-OPERATING)

Change Item: DEBT SERVICE SAVINGS/NO 2003 CAPITAL BUDGET

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($1,495)	($6,700)	($7,112)	($8,505)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($1,495)	($6,700)	($7,112)	($8,505)

Recommendation

The Governor is not recommending an emergency capital budget for general obligation projects in the 2003 session. This will result in savings of $8,195,000 in FY 2004-05 by reducing the required General Fund debt service transfer from $694,972,000 to $686,777,000.

Background

The debt service account pays principal and interest on general obligation long-term debt. On December 1 of each year, the commissioner of Finance must transfer to the Debt Service Fund an amount sufficient (with balance on hand and interest income) to pay all principal and interest on bonds due in the following 19 months. The Minnesota Constitution requires the state auditor to annually levy a statewide property tax sufficient to pay debt service through this 19-month period. Historically, the legislature has made specific debt service appropriations to the commissioner of Finance in order to eliminate the need for levying the statewide property tax.

Due to the inordinate size of the state's budget problem, the Governor is not recommending an emergency capital budget in order to provide budget savings in the General Fund. Based on a rolling, 10-year average, the November Forecast projected the size of the state capital budget to be $530,000,000 in 2004 and $87,000,000 in 2005. The Governor's recommendation for debt service savings as contained herein does not change the forecast size of capital budgets in 2004 and beyond.

Relationship to Base Budget

Not applicable.

Statutory Change: Not applicable.

Change Item: GENERAL FUND CONTINGENCY ACCOUNT

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	$5,000	$5,000	$5,000	$5,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$5,000	$5,000	$5,000	$5,000

Recommendation

The Governor recommends a $5,000,000 annual appropriation in FY 2004 and FY 2005 to the General Fund contingency account.

Background

The General Fund contingency account has been entirely depleted. Required budget reductions will place continued pressure on agency budgets. As a result, the number of deficiencies is likely to increase as agencies' ability to absorb even relatively small unanticipated costs will be impaired.

An appropriation to this contingency account will help prevent deficiency appropriations, thereby saving time and allowing for more orderly operations of government.

These funds will be appropriated to agencies as needed and in accordance with the Legislative Advisory Commission (LAC) rules (M.S. 3.30).

Relationship to Base Budget

In 2001, $3 million a year in General Funds were appropriated to the General Contingent Fund. Laws 2002, Chapter 220 reduced those appropriations by $2.638 million in FY 2002 and the full $3 million in FY 2003, leaving no balance in this account.

Statutory Change: Not applicable.

Change Item: REDIRECT TAX-EXEMPT BOND PENALTIES TO GF

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	50	50	50	50
Other Fund				
Expenditures	0	0	0	0
Revenues	(50)	(50)	(50)	(50)
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends redirecting tax-exempt bond (TEB) penalty fees and related interest earnings from the Housing Trust Fund to the General Fund.

Background

Pursuant to M.S. 474A, the Department of Finance receives, reviews and allocates tax-exempt bonding authority to local bond issuers in accordance with Federal tax code. Departmental staff costs associated with this activity are paid exclusively from the General Fund.

This proposal will redirect existing penalty and interest receipts from the Housing Trust Fund to the General Fund. Thus, revenues will be received in the fund that incurs the expenditures. No increased fees, charges or penalties are proposed.

Relationship to Base Budget

The Governor's recommended change will have an immaterial impact on the overall budget for the Housing Trust Fund.

Statutory Change: M.S. 462A.21

DEPARTMENT OF MILITARY AFFAIRS

MINNESOTA ARMY AND AIR NATIONAL GUARD

OFFICE OF THE ADJUTANT GENERAL
VETERANS SERVICE BUILDING

STATE OF MINNESOTA

20 WEST 12TH STREET
ST. PAUL, MINNESOTA 55155-2098

February 18, 2003

The 2003 Minnesota Legislature

On behalf of the 12,334 members of the Minnesota Army and Air National Guard and the department's 255 state employees, I am submitting the Department of Military Affairs budget request for fiscal years 2004 and 2005. This budget of approximately $118 million reflects anticipated federal funding of about $91 million and a request for $24 million in General Fund appropriations, and $1 million in dedicated receipts.

Approximately $10 million of the federal funding is for specific facility maintenance and support services at the state's two Air National Guard bases. Another $29 million is for operating and maintaining federally supported facilities at Camp Ripley. We expect $15 million for National Guard environmental programs and telecommunications support statewide. We also expect $900 thousand in funds for operation of the STARBASE educational program supported by the National Guard. The majority of the remainder of the federal funding is for anticipated construction programs.

This budget reflects reductions from our Fiscal Year 2002-2003 budget but maintains the department's core activities that provide the state's support to the Minnesota National Guard. The core activities of the department are related to: implementation and completion of a series of cooperative agreements with the federal government; operating, maintaining, and repairing state owned facilities used by the National Guard; and the use of the enlistment incentives programs to insure the state and nation have sufficient soldiers and airmen to respond to federal and state emergencies that may arise.

The cooperative agreements require human resources support for the 192 department employees whose salaries are partially reimbursed by the federal government, purchasing and contracting services to execute the $35 to $40 million dollars in federal funds received annually for construction and repair of supported facilities, and accounting and budgeting services. This budget maintains that support.

The budget also maintains our support for tuition reimbursement for the young men and women of the Minnesota National Guard with whom we have educational cost reimbursement contracts. The one-time budget cuts for FY 2003 and FY 2004 effectively eliminate the tuition reimbursement carry-forward from FY 2003. We anticipate future shortfalls, but should be able to provide funding for the next two years absent extraordinary tuition increases at the University of Minnesota. Overhead costs to support this program remain extremely low - just over 1% of the total appropriation is used for employee compensation and administrative support.

Finally, the proposed budget at least minimally provides the resources necessary to operate and maintain the facilities used to maintain the readiness of the soldiers and airmen of the Minnesota National Guard. We expect some shortfalls that will require reprioritizing facility support, but we expect to operate and maintain our facilities at a clean, safe, and functional level.

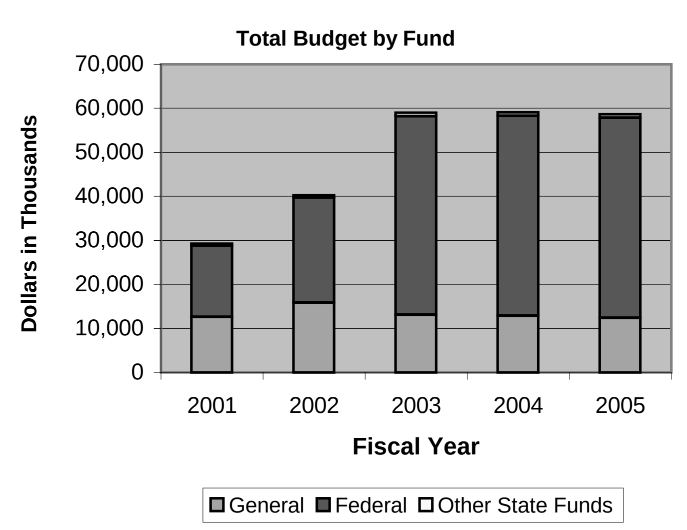
Eugene R. Andreotti
Major General, MN Air National Guard
The Adjutant General

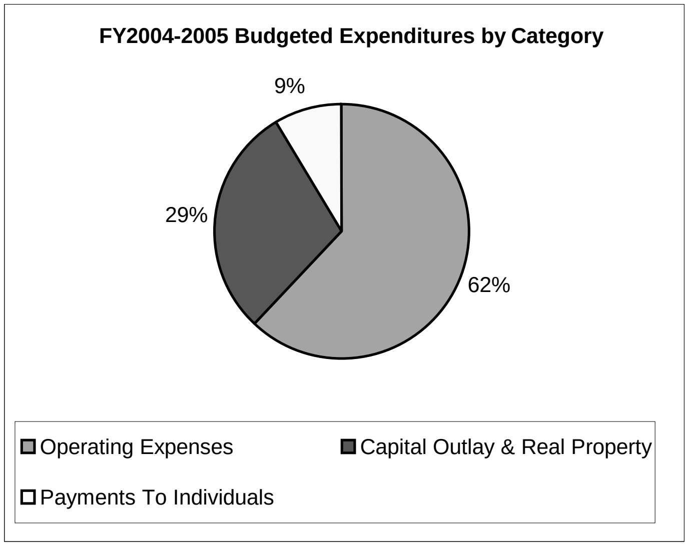
	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	24,622	92,452	117,074
Biennial Appropriations	150	0	150
Legislatively Mandated Base	1,406	0	1,406
Adjusted Base Funding	26,178	92,452	118,630
Change Items			
Budget Reductions	-886	0	-886
Governor's Recommendations	25,292	92,452	117,744
Biennial Change, 2002-03 to 2004-05	-3,655	22,133	18,478
Percent Change	-13%	31%	19%

Brief Explanation Of Budget Decisions:

The FY 2004-05 base budget for Military Affairs includes a restoration of $150,000 in the biennium for Emergency Services that were spent in the first year of the FY 2002-03 biennium as allowed by state statute, and an increase to the base funding level specified in Laws 2002, Chapter 220, Article 10, Section 17.

(Note: The table above includes estimated federal reimbursements of $245,000 in FY 2004-05 that are deposited into the General Fund and statutorily appropriated to the department under M.S. 190.32.)





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Carry Forward						
General	0	0	0	489	0	489
Direct Appropriations						
General	11,636	11,912	12,778	12,279	12,279	24,558
Open Appropriations						
General	935	3,825	210	0	0	0
Statutory Appropriations						
General	52	117	105	120	125	245
Special Revenue	491	560	796	798	798	1,596
Federal	16,112	23,859	45,104	45,400	45,456	90,856
Total	**29,226**	**40,273**	**58,993**	**59,086**	**58,658**	**117,744**
Expenditures by Category						
Operating Expenses	26,658	35,977	35,907	36,123	36,189	72,312
Capital Outlay & Real Property	119	38	17,150	17,150	17,150	34,300
Payments To Individuals	2,065	3,518	5,366	5,292	4,798	10,090
Local Assistance	384	740	570	521	521	1,042
Total	**29,226**	**40,273**	**58,993**	**59,086**	**58,658**	**117,744**
Expenditures by Program						
Maint-Training Facilities	23,734	30,257	50,752	51,273	51,334	102,607
General Support	2,349	2,464	2,506	2,392	2,392	4,784
Enlistment Incentives	2,129	3,578	5,524	5,346	4,857	10,203
Emergency Services	1,014	3,974	211	75	75	150
Total	**29,226**	**40,273**	**58,993**	**59,086**	**58,658**	**117,744**

Dollars in Thousands 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	2	2	0	0	0	0
Subtotal Non Dedicated	2	2	0	0	0	0
Dedicated						
General	252	117	105	120	125	245
Special Revenue	491	560	796	798	798	1,596
Federal	16,387	24,131	45,104	45,400	45,456	90,856
Subtotal Dedicated	17,130	24,808	46,005	46,318	46,379	92,697
Total Revenue	**17,132**	**24,810**	**46,005**	**46,318**	**46,379**	**92,697**
Full-Time Equivalents (FTE)	**291.3**	**260.0**	**246.8**	**246.8**	**246.8**	

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($693)	($193)	($193)	($193)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($693)	($193)	($193)	($193)

Recommendation

The Governor recommends a direct appropriation of $12.279 million each year from the General Fund to the Department of Military Affairs for the FY 2004-05 biennium. The funding includes a one-time reduction of $500,000 in FY 2004 and an annual base reduction of only 1.5% to ensure that the state and nation have sufficient soldiers and airmen to respond to federal and state emergencies that may arise.

Background

The Department of Military Affairs is composed of the Army National Guard, the Air National Guard, and the state agency operations. Approximately 95% of the total department budget comes from the federal government. Only 17% ($45 million) of the $263 million federal funds received go through the state's accounting system. The other 83% ($223 million) are paid directly to military members, federal employees, and a variety of vendors. This amounts to over $21,000 of federal funding for each of the 12,334 military members of the Army and Air National Guard.

The National Guard is truly a partnership between the state and federal governments. The federal government provides equipment and pays for the salaries and training of soldiers and technicians who support the units and pays for maintenance of federal equipment. The federal government also pays 75% of the construction cost of armories and 100% of the construction costs of Air National Guard facilities and Army National Guard logistical facilities (vehicle and aircraft maintenance facilities). The state's responsibility is to pay 25% of the cost of constructing armory space for housing soldiers and equipment. The state must also pay for 100% of the operational costs of these armories and maintain them in a clean, safe, and functional manner. The state must pay for 25% of the cost of operating and maintaining Army National Guard logistical facilities and Air National Guard facilities.

The state must also provide the infrastructure and personnel necessary to provide the accounting, budgeting, and human resources support for the receipt and distribution of the federal dollars. Personnel are also required in contracting, purchasing, and environmental protection areas. Of the 255 state employees in the department, only 32 are 100% state funded. Another 39 are 25% state funded - the federal government pays the other 75% of those 39 employees' compensation. If we lay off any of these employees, we only save 25% of the cost and lose the 75% federal share. The federal government pays the total cost of another 150 employees and three with varying degrees of federal reimbursement. Local government and other activities pay for thirty-one employees. This budget reduction protects those services.

With this recommendation, Military Affairs would avoid reducing those areas of the budget where the department can receive matching federal funds and where funds are needed for facility maintenance. These are primarily in the Maintenance of Training Facility appropriation. It also would avoid reducing the budget for maintenance and repair of state facilities – reducing the base budget by only 3%. The agency would expect these cuts to increase maintenance backlog slightly, and might expect changes to the functionality of its facilities.

Additionally, the Minnesota State Armory Building Commission has refinanced one of its outstanding bonds, in turn reducing the amount required for lease payments by the state. One other lease has expired, for a total savings of $152,000 for the biennium. The department recommends reducing the biennial budget for safety programs by $16,000. This would decrease the amount available to support the safety programs for state employees to $1,000 per year, and defer education for our Safety and Health Officer, but would continue to provide for some training opportunities.

Change Item: BUDGET REDUCTIONS

The agency recommends cuts of approximately 10% of the agency general support appropriation. This is primarily a $129,000 biennial reduction of military fund allowances provided to the 122 MN National Guard units, a minor ($3,000 biennial) reduction in funding for basic supplies, and an elimination ($44,000 biennial) of the land fund program for Camp Ripley. The land fund has enabled the Camp Ripley environmental managers to complete projects dealing with protecting the natural environment at Camp Ripley, including the planting of trees to replenish the natural habitat. While projects will be deferred, there would be minimal impact on department activities.

The budget reductions would maintain the state's support for tuition reimbursement for the young men and women of the Minnesota National Guard with whom we have educational cost reimbursement contracts. The one-time budget cuts for FY 2003 and FY 2004 would effectively eliminate the tuition reimbursement carry-forward from FY 2003. While the department anticipates some future shortfalls, it would be able to provide funding for the next two years absent extraordinary tuition increases at the University of Minnesota. Overhead costs to support this program remain extremely low – just over 1% of the total appropriation is used for employee compensation and administrative support.

Relationship to Base Budget

This recommendation would result in a base cut of less than 2% of the total General Fund budget for the Department of Military Affairs and includes a 10% reduction of the base budget for the agency's general support appropriation.

Statutory Change: Not Applicable

MINNESOTA PLANNING

February 18, 2003

To the 2003 Minnesota Legislature:

With this letter, I am submitting the FY 2004-2005 budget for the Office of Strategic and Long-Range Planning. The Governor's budget recommends a General Fund appropriation of $7.5 million and departmental earnings of $2.8 million for the activities of the Office. In the next couple of weeks, the Governor will also announce a proposal to reorganize Minnesota Planning that will move some activities of the agency to other organizations with which they share natural synergies. Other activities will be eliminated.

The budget submitted for the Office seeks to safeguard the Office's core activities and reduce administrative overhead, consistent with the Governor's reorganization plans. In order for these core services to continue, we have already taken steps to consolidate office space, reduce travel and printing costs and limit technology purchases in the current biennium. We have also reduced staffing by 19.5 positions, primarily support, administrative and managerial positions. For example: the Centennial Library, shared with the departments of Administration and Employee Relations, will be closed; editing and publication production services have been reduced; communications and legislative relations positions have been eliminated, as have executive aide and assistant director positions. These changes were made in order to live within a funding level that was reduced by $900,000 or 19% in FY 2002-03 and we believe that they will be sufficient to address the 15% reduction recommended for 2004-2005.

Some core services, supported by departmental earnings, will not be affected. These are energy facility siting, transmission and pipeline routing and fee-based geographic information technology services.

Sincerely,

Jack Uldrich
Acting Director

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St. Paul, MN 55155

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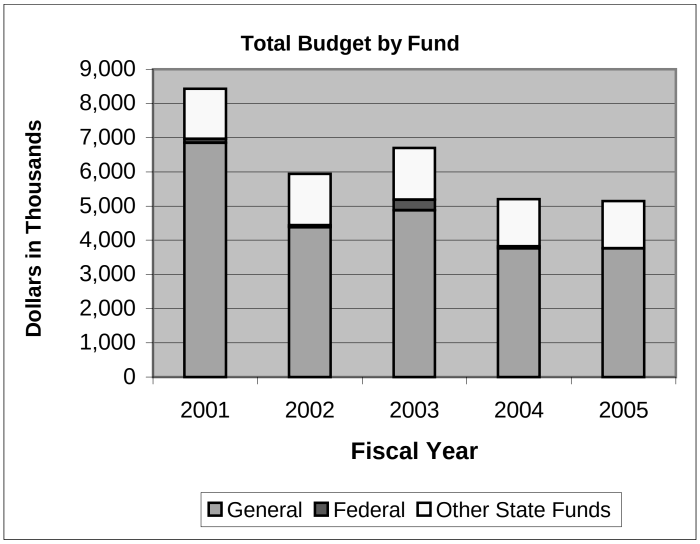
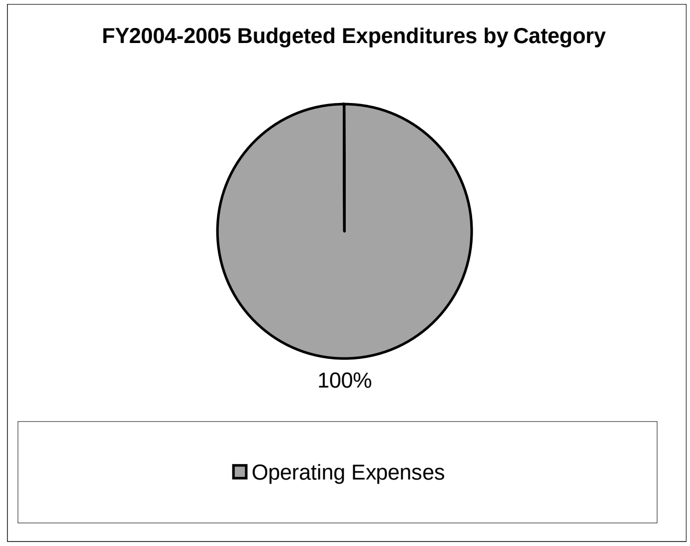
	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	8,856	2,814	11,670
Adjusted Base Funding	8,856	2,814	11,670
Change Items			
Budget Reduction	-1,328	0	-1,328
Governor's Recommendations	7,528	2,814	10,342
Biennial Change, 2002-03 to 2004-05	-1,731	-570	-2,301
Percent Change	-19%	-17%	-18%





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	 FY2005	Biennium 2004-05
Direct Appropriations						
Environment & Natural Resource	108	240	0	0	0	0
General	6,846	4,382	4,877	3,764	3,764	7,528
Minnesota Resources	70	0	0	0	0	0
Environmental	0	75	0	0	0	0
Statutory Appropriations						
Special Revenue	1,298	1,197	1,517	1,378	1,381	2,759
Federal	110	49	306	55	0	55
Total	**8,432**	**5,943**	**6,700**	**5,197**	**5,145**	**10,342**
Expenditures by Category						
Operating Expenses	7,995	5,943	6,700	5,197	5,145	10,342
Local Assistance	437	0	0	0	0	0
Total	**8,432**	**5,943**	**6,700**	**5,197**	**5,145**	**10,342**
Expenditures by Program						
Strategic & Long Range Plan	8,432	5,943	6,700	5,197	5,145	10,342
Total	**8,432**	**5,943**	**6,700**	**5,197**	**5,145**	**10,342**
Revenue by Type and Fund						
Non Dedicated						
General	0	54	60	60	60	120
Cambridge Deposit Fund	49	0	0	0	0	0
Subtotal Non Dedicated	49	54	60	60	60	120
Dedicated						
Special Revenue	1,302	1,147	930	1,378	1,381	2,759
Federal	96	11	250	55	0	55
Subtotal Dedicated	1,398	1,158	1,180	1,433	1,381	2,814
Total Revenue	**1,447**	**1,212**	**1,240**	**1,493**	**1,441**	**2,934**
Full-Time Equivalents (FTE)	**77.4**	**75.3**	**70.5**	**58.0**	**58.0**	

Change Item: BUDGET REDUCTION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($664)	($664)	($664)	($664)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($664)	($664)	($664)	($664)

Recommendation

The Governor recommends a General Fund appropriation of $3.764 million for each year of the FY 2004-05 biennium, a $664,000 (15%) annual reduction from the FY 04-05 base. In the next couple of weeks, the Governor will also announce a proposal to reorganize the department, moving some activities to other entities and eliminating others.

Background

Generally, this recommendation continues the FY 2002-03 reductions into the FY 2004-05 biennium. To address General Fund reductions of $560,000 in FY 2002, 11 positions were eliminated, office space was consolidated, and travel, supplies, and technology purchases were limited. In FY 2003, an additional 8% reduction of $338,000 meant the further elimination of 8.5 positions. The Minnesota Planning workforce was reduced from 75.5 FTE in July 2001 to 56 FTE in January 2003. Of these 13.5 are supported by departmental earnings, 42.5 by the General Fund.

The Office contains the following programs:

⇒ The *Criminal Justice Statistics Center* tracks crime, including juvenile offenses, and researches the state's justice system.

⇒ The *Critical Issues Research* Team provides analysis and reports, which equip policy-makers and all Minnesotans to respond effectively to key challenges facing the state.

⇒ The *State Demographic Center*, Minnesota's liaison with the U.S. Census Bureau, estimates, forecasts, and investigates changes in the state's population.

⇒ The *Environmental Quality Board* develops policy and reviews proposed projects that could significantly affect the environment.

⇒ The *Land Management Information Center* offers data, consultation, and coordination services that promote the effective use of geographic information and technology.

⇒ The *Local Planning Assistance Center* offers a variety of technical services and information and coordinates state agency assistance for local governments.

⇒ The *Municipal Boundary Adjustments* team reviews and adjudicates municipal boundary changes in response to requests from cities, townships, and property owners.

Relationship to Base Budget

The recommended reduction is a 15 percent reduction from the FY 04-05 base.

Key Measures

Staff reduction decisions were made to preserve core activities as much as possible, while reducing administrative overhead. Anticipated consequences of the reductions include: a significant slowdown in service delivery, a potential inability to fully address core activities, and an inability to meet timelines.

Also, see www.departmentresults.state.mn.us for target indicators.

Statutory Change: Not applicable

MINNESOTA · REVENUE

February 18, 2003

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I hereby respectfully submit for your consideration the FY 2004-05 Governor's budget proposals for the Department of Revenue, which is part of the State Government omnibus bill.

The resources we are requesting, $191.9 million over the biennium represents a 6.1% budget reduction over previous biennium resources. I am confident that the Department, even during the current fiscal crisis, can achieve its mission of "making the tax system work well for Minnesotans."

To advance this mission, the department will continue its core activities including:

- taxpayer services, including forms and instructions and telephone assistance;
- return and payment processing, including the issuing of refunds;
- auditing and tax enforcement activities; and
- tax policy, operational improvement, and fiscal analysis.

The Governor's budget recommendation will allow us to continue performing these activities to ensure that citizens have the tools needed to fulfill their tax obligations; the information they need to make informed decisions about their tax obligations; and confidence that the system is fair to all citizens.

The Department of Revenue's operational budget request includes three separate components.

Operating Budget Reduction
This budget request appropriates $186.5 million over the biennium for continued operations. This represents an $11.9 million reduction in basic operation or a 5.7% reduction in resources from the previous biennium. In planning this reduction, the department made every effort to preserve tax auditing, non-filer detection, criminal investigation and delinquent tax collection activities for all taxes. These activities are essential in order to forestall losses in the state's revenue. These revenue-producing activities make up the bulk of the agency's budget.

The department will make its operating reduction in activities that do not have a direct impact on state revenue collections. Briefly, these reductions include:

- reduction in support services of between 12 and 20%;
- reduction in administrative services of 10%, including technology development and infrastructure investments;
- reductions of 9% in tax appeals and legal counseling services;
- reductions of 8% in property tax oversight and state aid payment functions; and
- reductions of 6% in tax return recording, payment processing, electronic filing, and electronic payment support.

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Even with these challenges, the department will still focus on four principal tasks designed to improve filing and paying systems for citizens and businesses, increase revenues through expanded compliance, and deliver services at lower costs. The four tasks are:

1. Continuing to transform tax filing and paying from high-cost paper processes to cost-saving electronic transactions.
2. Creating web-based self-service systems to enable taxpayers to get the information they need to file and pay their taxes, monitor the status of their refund or payment, make corrections to their records and view their filing and payment history.
3. Continuing to improve existing tax auditing and collection efforts to generate added revenues from citizens and businesses that evade or under pay their tax.
4. Modernizing the tax system to make it easier for retailers, especially internet based and mail order companies, to collect and pay the state's sales and use tax obligations.

New Compliance Activities
Our budget proposal also requests an appropriation of $5.4 million for new tax compliance activities. This is a 2.6% increase over last biennium total resources. This investment will generate $32.4 million in additional revenues in the next biennium. These compliance activities will be similar to those funded in the past two years which have been extremely successful. It should be noted that the Legislative Auditor has just released a report that confirms the effectiveness of these expanded tax enforcement activities.

Fee-Related Activities
The department is offering three small initiatives designed to bring fees into better alignment with operational costs.

In summary, the department intends to assist in solving the current budget problem by making significant reductions in traditional non-compliance support activities and by raising significant new revenues through additional compliance activities.

Respectfully,

Daniel A Salomone

Dan Salomone
Commissioner

	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	193,044	12,924	205,968
Legislatively Mandated Base	600	0	600
One-Time Appropriations	-8,294	0	-8,294
Program/Agency Sunset	0	-90	-90
Transfers Between Agencies	-184	0	-184
Adjusted Base Funding	185,166	12,834	198,000
Change Items			
Enhanced Compliance	5,400	0	5,400
Internal Revenue Service Levy Fees	0	64	64
Operating Reduction	-11,334	-544	-11,878
Revenue Recapture Fee	0	334	334
Governor's Recommendations	179,232	12,688	191,920
Biennial Change, 2002-03 to 2004-05	-4,613	-7,931	-12,544
Percent Change	-3%	-38%	-6%

Brief Explanation Of Budget Actions:

The following is a more detailed description of the base adjustments above.

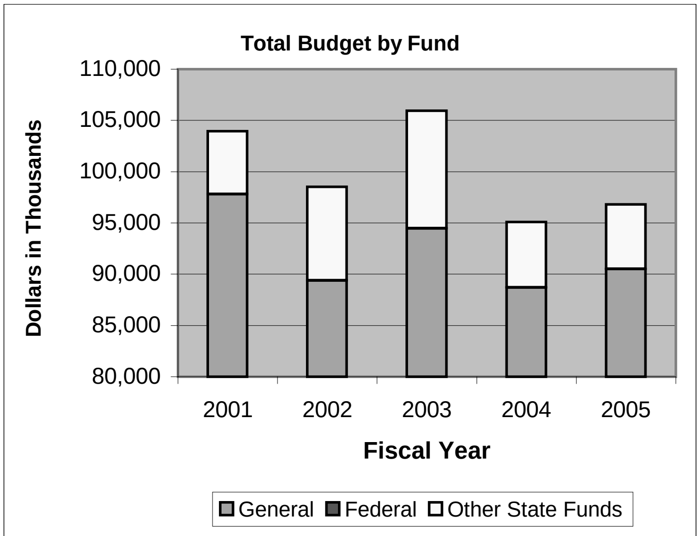
⇒ Legislatively Mandated Base: Changes represent $300 thousand in annual funding for the Income Tax Reengineering project, previously funded by a special revenue fund. For FY 2004-05, this funding has been incorporated in the department's General Fund base.

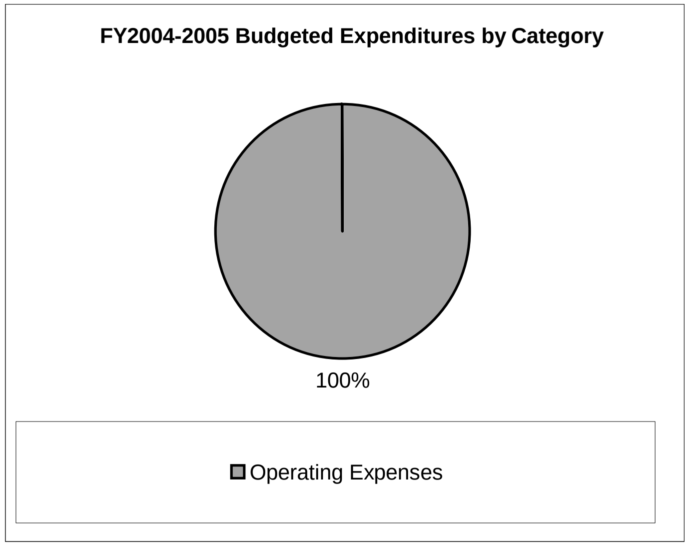
⇒ One-Time Adjustments: These include a $4.53 million reduction from FY 2003 funding for compliance activities, a reduction of $2.25 million from streamline sales tax appropriations, a reduction of $.338 million from forestland credit appropriation, and $1.126 million from penalty reform and property tax administration.

⇒ Transfers between Agencies: This is a $184 thousand reduction to reflect that the funding and duties of the Unfair Cigarette Pricing Act were permanently transferred from the Department of Revenue to the Department of Commerce.

⇒ Program Sunset: This is a $90 thousand reduction to tax administration funding in FY 2005 and is due to the expiration of the Hazardous Waste Generator Tax.

	FY 2004-05 Revenues ($000s)		
	General Fund	Other Funds	Total
Change Items			
Enhanced Compliance	$32,400		$32,400
Revenue Recapture Fee	816	$334	1,150
Internal Revenue Service Levy Fee		64	64
Board of Assessor Fees	50		50
FY 2004-05 Revenue Change	$33,266	$398	$33,664





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	96,349	87,439	92,415	86,816	88,616	175,432
Health Care Access	1,912	1,343	2,152	1,654	1,654	3,308
Special Revenue	19	3,138	3,466	0	0	0
Highway Users Tax Distribution	2,219	1,998	2,570	2,097	2,097	4,194
Environmental	193	133	260	187	103	290
Solid Waste	258	172	228	188	188	376
Open Appropriations						
General	1,470	1,941	2,050	1,900	1,900	3,800
Statutory Appropriations						
Special Revenue	1,531	2,357	2,802	2,260	2,260	4,520
Total	**103,951**	**98,521**	**105,943**	**95,102**	**96,818**	**191,920**

Expenditures by Category						
Operating Expenses	103,254	97,527	105,180	94,441	96,157	190,598
Capital Outlay & Real Property	647	896	661	661	661	1,322
Local Assistance	50	98	102	0	0	0
Total	**103,951**	**98,521**	**105,943**	**95,102**	**96,818**	**191,920**

Expenditures by Program						
Tax System Management	91,338	85,095	89,935	79,224	80,440	159,664
Accounts Receivable Mgmt	12,613	13,426	16,008	15,878	16,378	32,256
Total	**103,951**	**98,521**	**105,943**	**95,102**	**96,818**	**191,920**

Dollars in Thousands Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	 FY2005	Biennium 2004-05
Non Dedicated						
General	2,141	4,617	2,410	13,859	24,227	38,086
Subtotal Non Dedicated	2,141	4,617	2,410	13,859	24,227	38,086
Dedicated						
Special Revenue	1,690	2,330	2,067	2,260	2,260	4,520
Subtotal Dedicated	1,690	2,330	2,067	2,260	2,260	4,520
Total Revenue	**3,831**	**6,947**	**4,477**	**16,119**	**26,487**	**42,606**
Full-Time Equivalents (FTE)	**1,142.3**	**1,108.4**	**1,054.8**	**920.2**	**904.0**	

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($5,667)	($5,667)	($5,667)	($5,667)
Revenues	0	0	0	0
Other Fund				
Expenditures	(275)	(269)	(269)	(269)
Revenues	0	0	0	0
Net Fiscal Impact	($5,942)	($5,936)	($5,936)	($5,936)

Recommendation

The Governor recommends appropriations of $93.302 million in FY 2004 ($86.916 million general fund) and $93.218 million in FY 2005 ($86.916 million general fund) to continue the basic operation of the Department of Revenue. This $11.3 million reduction represents a 6% reduction in the base budget of the department. The reductions will be accomplished without reducing any state revenue collections.

Background

Prior to the current biennium, about 52% of the department's budget was pointed toward services that promote voluntary compliance by citizens and businesses. This includes return processing, payment and refund processing, customer service activities, property tax administration, research, and central administrative services. The balance of agency's budget – 48% – was earmarked for tax auditing and enforcement activities directed at entities not complying with tax laws. These non-compliance activities directly generate state revenue through assessment and collection of tax from businesses and individuals who are not in full compliance with the tax laws.

Last biennium, like other state agencies, the Department of Revenue's operating budget was reduced significantly. These operating reductions were focused on voluntary compliance and support activities rather than tax auditing, criminal investigation, and delinquent tax collection activities to avoid impacting state revenue collections. Recent reductions have included elimination of toll-free help lines; closing of some "satellite" offices; canceling planned investments in technology and upgrades to outdated computer systems; scaling back services such as taxpayer and employee information, instruction to local government officials, taxpayers, and tax practitioners, data recording, analysis, and retrieval; and legal, human resource, payroll, mail, and purchasing services; and eliminating about 78 full-time positions through June 30, 2003;

Also in the past biennium, the legislature provided additional funds to the department to initiate expanded and enhanced compliance activities. Three separate initiatives funded in the last biennium have added to our direct compliance staff and expenditures and have successfully generated about $64 million in added revenue through December 31, 2002. These revenue gains will continue permanently.

The reductions in the voluntary compliance and support activities coupled with funding increases in the direct compliance areas have changed the overall makeup of the department. Taxpayer service, tax processing and internal support activities now constitute 47% of our biennial budget, while tax auditing and enforcement activities now represent 53%.

Relationship to Base Budget

The recommended reduction represents 6% of the agencies base operating budget. As in the past biennium, the department's budget plan for 2004-05 protects tax auditing, non-filer detection, criminal investigation and delinquent tax collection activities for all taxes. Our commitment to these activities is essential in avoiding further losses in the state's revenue.

The department plans to achieve this operating reduction by reducing:

- ♦ support services between 12 and 20%; these include human resources, training, facilities management, building security, taxpayer information, tax research, and agency leadership activities;
- ♦ administrative services, including technology development, infrastructure investments and maintenance, fiscal services, purchasing and payroll activities by 10%;
- ♦ tax appeals and legal counseling services by 9%;

- property tax oversight and state aid payment functions by 8%; and
- tax return recording and payment processing and electronic filing and payment support by 6%.

To help mitigate the consequences of budget reductions for taxpayers and employees, the department will:
- postpone migration of old technology systems and cancel some technology investments;
- continue to look at alternative methods for doing business;
- move from costly phone-based service systems to online self-service systems; and
- promote salary savings options such as leave without pay, use outsourcing and temporary employees where cost-effective, and reduce positions through attrition wherever possible.

However, in spite of these mitigating measures, we expect the operating reductions will:
- delay processing of paper returns, payments and refunds;
- diminish our capacity to respond to taxpayers' questions;
- reduce our ability to upgrade computer hardware and software applications, including network, measurement systems, and information retrieval;
- delay our efforts to fully upgrade the department's website;
- require reconsidering (in consultation with Legislature and Finance) federal returns as attachments to paper-filed state tax returns;
- close additional offices; and
- reduce staff by up to 100 FTE.

This operating reduction focused on voluntary compliance activities and internal support function will continue the department's transition of being primarily focused on to the voluntary taxpayer and more focused on people and businesses that do not comply with the tax laws.

Key Measures
- processing cycle times;
- service indicators; and
- customer surveys.

Statutory Change: Not Applicable.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	$408	$408	$408	$408
Other Fund				
Expenditures	167	167	167	167
Revenues	167	167	167	167
Net Fiscal Impact [1]	($408)	($408)	($408)	($408)

Recommendation

The Governor recommends increasing the transaction fee charged by the Department of Revenue (DOR) to recapture debts owed to government agencies from state tax refunds. The Governor recommends that the fee be increased from $10 to $15. The Governor also recommends that the department retain $4 (27%) of the fee and that the balance of $11 (73%) be deposited in the General Fund. (Under the current $10 transaction fee, DOR retains $2.55 and $7.45 is deposited in the General Fund.)

Background

Beginning in 1980, state law authorized the Department of Revenue to recapture debt owed to state agencies, county governments, and certain federal agencies from state tax refunds. The department recaptures all or a portion of a taxpayer's refund for the debt owed and turns that amount over to the agency to which the debt is owed.

Under current law, tax refunds can be offset for the following debts in the following order:

- state taxes owed (no recapture fee charged);
- child support payments owed;
- crime victims restitution owed; and
- other debts owed to other government agencies.

Each agency using the recapture mechanism is charged a $10 fee for each refund check offset for debt owed to it. The current amount of the fee was set in 1992. The fee has not been increased since.

Prior to FY 2002, the entire fee was deposited in the state's General Fund and, in turn, the department received an appropriation from the legislature to perform these duties. Beginning in FY 2002, the legislature authorized the department to retain $2.55 from the $10 fee as a mechanism for paying the costs of the activity. At that time, the General Fund appropriation for the agency was reduced by $413,000 annually. However, the original forecast of the number of tax refunds that would face offset was overly optimistic (based on sales tax rebate experience).

In the absence of sales tax rebate checks, the number of offsets conducted has been relatively constant in the past three years. In addition, the department expects to perform approximately 115,000 offsets in FY 2003. At this level of activity, the $2.55 the department receives per transaction will not be sufficient to sustain this function.

The tables on the following page illustrate both the history of these revenue recapture fees and the projected collections under a fee structure.

[1] Net fiscal impact equals expenditure change minus revenue change. Positive numbers can be expenditure increases or revenue decreases. Negative numbers can be expenditure reductions or revenue increases.

Recapture Fee History

$ 000s

	Collected	Number of Offsets	Ave $ Collected	*Non-Rebate Offsets*	**Current Fee & Split** Total Fees	Retained By DOR	Returned to GF
FY 00	53,915	211,269	255.20	*126,269*	2,113	-	2,113
FY 01	40,789	209,324	194.86	*119,324*	2,093	-	2,093
FY 02	42,527	212,616	200.02	*115,452*	2,126	542	1,584
FY 03	32,312	115,000	280.97	*115,000*	1,150	293	857
					Ave	417	

Proposed Recapture System

$ 000s

					Proposed Fee and Split			**Change**		
	Collected	Number of Offsets	Ave $ Collected	*Non-Rebate Offsets*	Total Fees	Retained By DOR	Returned to GF	Total Fees	Retained By DOR	Returned to GF
FY 04	32,312	115,000	280.97	*115,000*	1,725	460	1,265	575	167	408
FY 05	32,312	115,000	280.97	*115,000*	1,725	460	1,265	575	167	408
FY 06	32,312	115,000	280.97	*115,000*	1,725	460	1,265	575	167	408
FY 07	32,312	115,000	280.97	*115,000*	1,725	460	1,265	575	167	408

Relationship to Base Budget

This change allows the department to recover all expenditures associated with revenue recapture of non-tax debt through its share of the revenue recapture fee. Operations will not change.

Statutory Change: MS 270A.07, subd. 1.

Change Item: INTERNAL REVENUE SERVICE LEVY FEES

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	$32	$32	$32	$32
Revenues	32	32	32	32
Net Fiscal Impact [1]	0	0	0	0

Recommendation

The Governor recommends the Department of Revenue (DOR) enter into an agreement with the Internal Revenue Service (IRS) that would authorize DOR to recapture a fee of up to $20.00 for every IRS levy established against a Minnesota Tax Refund. DOR currently has the authority to enter into a collection agreement with the IRS, but it needs permissive legislation to allow it to charge a recapture fee to the taxpayer and to deposit fee proceeds into the revenue recapture revolving fund.

Background

Pursuant to section 270.052, the commissioner may enter into an agreement with the IRS to identify taxpayers that have refunds due from the Department of Revenue and liabilities owing the IRS. In accordance with the procedures to be established in the agreement, the IRS may levy against the refunds to be paid by DOR. For each refund levied upon, the commissioner shall first deduct from the refund a recapture fee of up to $20, and then remit the refund or the amount of the levy, whichever is less, to the IRS.

For example, a taxpayer owes $100 to the IRS and has a $150 state refund due. Department of Revenue deducts a $20 recapture fee from the refund, sends the $100 tax liability to the IRS, and pays the remaining $30 to the taxpayer. The tax debt to the IRS is fully paid, DOR recovers the cost of the transaction, and the taxpayer receives a partial refund.

The proceeds of the fee would be deposited into the Department of Revenue's revenue recapture revolving fund under section 270A.07, subd. 1, until the costs involved in the start-up and operation of the program are recovered. Once the costs are recovered, DOR will consider revising the fee or depositing any excess amount into the General Fund as is done currently with the existing recapture fee.

Relationship to Base Budget

This change item is introduced so the Department of Revenue can recover the costs of this program. Without a means of recovering the costs, it is unlikely an agreement will be reached. The Department of Revenue currently has a parallel relationship with IRS to collect state tax debt. DOR currently sends Minnesota tax liabilities to the IRS (actually Financial Management Services of the Treasury Department) for recapture of Minnesota tax debt through federal tax refunds and the fee is $17.90, which is passed on to the taxpayer.

This program is contingent upon negotiation of a successful agreement with IRS. Agreement negotiation is in the initial stages.

Key Measures:

- number of IRS levies subject to recapture by fiscal year; and
- revenue to expense ratio.

DOR will closely monitor number of transactions, fees collected, and program expenses.

Statutory Change: M.S. 270.052

[1] Net fiscal impact equals expenditure change minus revenue change. Positive numbers can be expenditure increases or revenue decreases. Negative numbers can be expenditure reductions or revenue increases.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	$1,800	$3,600	$3,600	$3,600
Revenues	11,016	21,384	21,384	21,384
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact [1]	($9,216)	($17,784)	($17,784)	($17,784)

Recommendation

The Governor recommends a new general fund appropriation of $1.8 million in FY 2004 and $3.6 million in FY 2005 to fund additional direct compliance and collection activities designed to collect an additional $32.4 million from non-compliant entities that under pay their tax liabilities, or who do not file and pay their required taxes.

Background

If Minnesota's tax revenue system is to work well, fairness is essential. A fair tax system means that everyone pays the right amount of tax, no more, no less. To create a fairer tax system for law-abiding taxpayers, those individuals and businesses that underpay their taxes or evade their tax obligations need to be identified and brought into compliance with the state's tax laws.

Results from a study commissioned by the agency in 2002 reveal that the gap between the sales and use tax that Minnesota businesses pay and what they should pay is about $500 million today and will grow to $700 million in 2007. Although audits bring in nearly $50 million per year, this amount barely begins to close this gap. In addition, data available from the Internal Revenue Service suggests that the individual income tax gap may be even higher than the projected sales tax gap, or about $750 million per year. Also, the documented success of the Department of Revenue's recent enhanced compliance activities provides further evidence that the gap between what is actually paid and what should be paid is substantial.

In the 2002-03 biennium, the department was appropriated $10.2 million by the legislature to generate an estimated $60 million in the current biennium through stepped up tax compliance activities. The department has exceeded this goal, collecting $64 million as of December 31, 2002, with six months still remaining in the biennium. In fact on January 30, 2003, the Legislative Auditor released a report that confirms the effectiveness of these expanded tax enforcement activities.

This initiative will allow the department to intensify its efforts toward identifying those who are furthest from compliance with the tax laws.

Relationship to Base Budget

This change item will be funded by an ongoing General Fund appropriation of $1.8 million in FY 2004 and $3.6 million in FY 2005. This represents a three percent increase in the department's base funding. However, it will lead to additional General Fund tax collections well in excess of ongoing funding. Our current estimate is $32.4 million in the next biennium, continuing permanently into the future. This is a conservative estimate when compared to demonstrated results of past compliance activities.

In conjunction with the operating budget reduction in non-compliance activities, this initiative will continue to reshape the department's priorities by directing more resources toward tax compliance activities.

[1] Net fiscal impact equals expenditure change minus revenue change. Positive numbers can be expenditure increases or revenue decreases. Negative numbers can be expenditure reductions or revenue increases.

Key Measures

The department will monitor both expenditures and revenues collected under this change item, and will report the results to the legislature as part of the next biennial budget process. We fully expect to meet or exceed the performance outcome identified above.

The key performance measures the department will use include:

- Return on investment (revenues to expenditures)
- Number of new businesses and individuals brought into the tax system
- Revenue generated from the funded activities
- Cases resolved

Alternatives Considered

The department also considered a possible tax amnesty program. That proposal was rejected because the immediate revenue gains from a tax amnesty program are temporary and because it seemed contrary in philosophy to our current transition to stronger and more effective compliance activities.

Statutory Change: Not Applicable.

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	$25	$25	$25	$25
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact [1]	($25)	($25)	($25)	($25)

Recommendation

The Governor recommends increasing license, course, examination and material fees used to finance the activities and operation of the board. This will allow these fees to fully support the costs associated with operation, and will keep fees and expenses in alignment for the next four years.

Background

In FY 2002, the total revenue from board fees was $40,445 and the total expenditures were $58,202. Since FY 2000, board expenditures have increased approximately 3% each year. Without an increase in fees, the total revenue from board fees will continue to be insufficient to support board expenditures.

For FY 2004, the board proposes the following fee structure based on assumptions the number of licensed assessors in Minnesota will remain relatively stable (as it has in recent years).

	Number of Fee Charges	FY 2002 Fee Schedule	Total FY 2002 Collections	Proposed FY 04 Fee Schedule	Proposed FY 2004 Collections
Licenses:					
CMA	573	$30	$ 17,190	$55	$ 31,515
CMAS	83	40	3,320	65	$5,395
AMA	53	50	2,650	80	$4,240
SAMA	209	75	15,675	105	$21,945
Subtotal	***918***		***38,835***		***$63,095***
Courses, Examinations, Materials					
Record Retention	53	15	795	25	$1,325
Grade Form Rpt	7	25	175	35	$245
Grade Narrative	12	50	600	60	$720
Course Challenge	1	40	40	50	$50
Reinstatement Fees	0	20	0	30	$0
Official Education Trans	0	10	0	20	$0
Retests	0	20	0	30	$0
Subtotal	***72***		***$1,610***		***$2,340***
Total Fee Revenue			**$40,445**		**$65,435**

Relationship to Base Budget

In FY 2002, the board fees collected $17,757 less than the board's expenses. The following table illustrates proposed fee collections and expenditures based on 3% annual expenditure growth. The Department of Revenue (DOR) expects fees to over collect slightly until FY 2006, at which point fee structure will be reviewed again.

[1] Net fiscal impact equals expenditure change minus revenue change. Positive numbers can be expenditure increases or revenue decreases. Negative numbers can be expenditure reductions or revenue increases.

Change Item: BOARD OF ASSESSORS FEES

Assessor Fees

(in dollars)

	History		Proposed			
	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
Expenditures	58,202	59,948	61,746	63,598	65,505	67,470
Revenues	40,445	40,445	65,435	65,435	65,435	65,435
difference	***(17,555)***	***(19,503)***	***3,689***	***1,837***	***(70)***	***(2,035)***

Key Measures

The total revenue generated from Board of Assessors fees will be compared to expenditures and adjusted accordingly each biennium.

Statutory Change: M.S. 270.44

Jeffery L. Olson
Commissioner

State of Minnesota

DEPARTMENT OF VETERANS AFFAIRS
VETERANS SERVICE BUILDING
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ST. PAUL, MINNESOTA 55155-2079
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February 18, 2003

The 2003 Minnesota Legislature:

We are providing you with the Department of Veterans Affairs FY 2004-05 budget. The Department of Veterans Affairs recommended budget for FY2004-05 is $8,122,000; this includes a $1,072,000 dollar reduction to our base, which represents 13% of our budget and a transfer of $150,000 for grants to veteran's service organizations which the DVA will provide and oversee to assist with the operations of their claims offices.

The following is a breakdown of our budget reductions showing dollar amounts reduced, percentage changes, program descriptions, major program impacts, and changes in service delivery. We believe the areas identified for reductions have been carefully thought out and will provide the least amount of negative impact to our clientele while enabling the department to preserve its core/critical services.

To aid us in making these very difficult decisions, we held formal and informal focus groups throughout the past year with County Veterans Service Officers, department staff, and Congressionally Chartered Veterans Service Organizations. We also discussed necessary reductions with our contract partners.

In all of the discussions and group meetings conducted, the same simple line of reasoning was applied; prioritize the services we provide and attempt to identify reductions to program areas that would negatively affect the least number of veterans. It was both helpful and encouraging to find that all the groups we met with prioritized and identified the same program areas that we, as a department, identified for the proposed cuts.

As the majority of our budget is dedicated towards programs and services, and as our staffing numbers are small and have already been reduced by past reductions, we wanted no one area to suffer more than any other. We therefore attempted to spread our reductions as evenly across the board as possible in an attempt to maintain the integrity of our programs while still meeting our mandated mission. Unfortunately this is not always practical since some services are more critical in nature than others. This explains why some of our programs have been identified for deeper cuts, or to be discontinued, while others received only marginal reductions.

1. **MINNESOTA STANDDOWN - $30,000 reduction represents 100% of the funding DVA provides.** The Standdown is an annual event designed to address the problem of homelessness. The state dollars provided are used to support the three day Minnesota Standdown that takes place annually in Minneapolis. We will assist Minnesota Standdown in their attempts to raise this funding through lawful gambling contributions.

2. **Optical - $11,000 reduction represents 6.5% of the expenditures for this program.** The optical program provides up to $154 for individual veterans and their family members each year towards the purchase of an eye examination, frames, and lenses. This reduction will be realized by restructuring this program whereby eligible applicants will no longer receive this benefit annually, but rather every other year.

3. **Park Rapids Veterans Memorial Administration - $10,000.** The department is returning this one-time fee that was provided to DVA for the administration costs involved with several years of oversight of the Park Rapids Veterans Memorial.

4. **County Veterans Service Officers (CVSO) Operational Improvement Grants and Education - $285,000 reduction represents 60% of the expenditures for this program.** This will reduce the monetary amount of the grant which is provided to all 87 CVSO's by 30% and the frequency with which it is awarded from every two years to every three years. This reduction will also eliminate one training position used for the continued training and education of the CVSO's. We believe this reduction will have very little impact as this ongoing grant has provided the CVSO's with adequate funding over the years to establish a strong operations base that is technically proficient and up to date. As computer and office equipment costs continue to decrease we believe the reduction in monetary amounts and frequency will still enable every office to maintain and build upon the strong base they have developed over past years. The duties associated with the training position will be divided between the managers and other staff of the DVA.

5. **Vinland Center - $550,000 reduction represents 100% of the funding DVA provides for this program.** This program helps to prepare veterans with disabilities/work injuries and other vocational obstacles to secure and maintain competitive employment using a whole-person approach to rehabilitation. While Vinland's employment program has served a number of veterans, there are other similar options available through other state agencies and the United States Department of Veterans Affairs. In eliminating some services for a few, we ensure that we will be able to continue to help many.

6. **Veterans Gulf Bonus - $186,000.** The department is returning a majority of the money which was provided for the purpose of paying off the remainder of outstanding Persian Gulf War Bonuses. We have retained an appropriate amount to ensure that the remainder of bonuses can and will be paid.

While a 13% budget reduction to the Department of Veterans Affairs for FY2004-05 will certainly present some challenges, we believe that the proposed budget of $8,122,000 along with creative cost savings restructuring and changes to our service delivery will enable the department to continue to carry out its mission and long range strategic plan priorities.

Should you have any questions or need clarification please do not hesitate to call.

Sincerely,

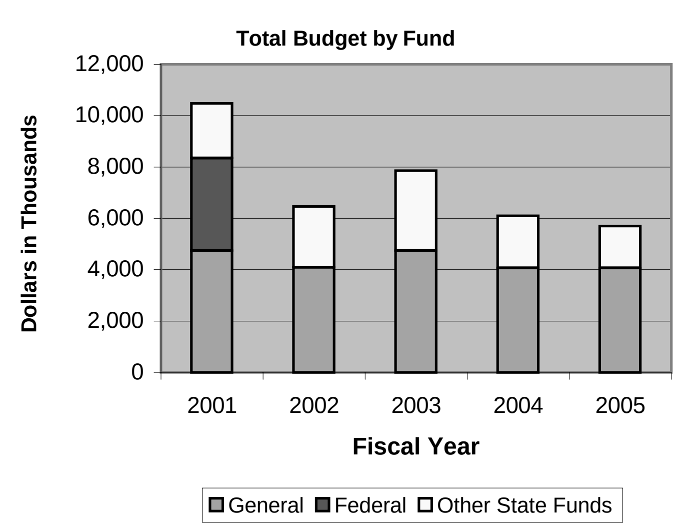
Jeffrey L. Olson

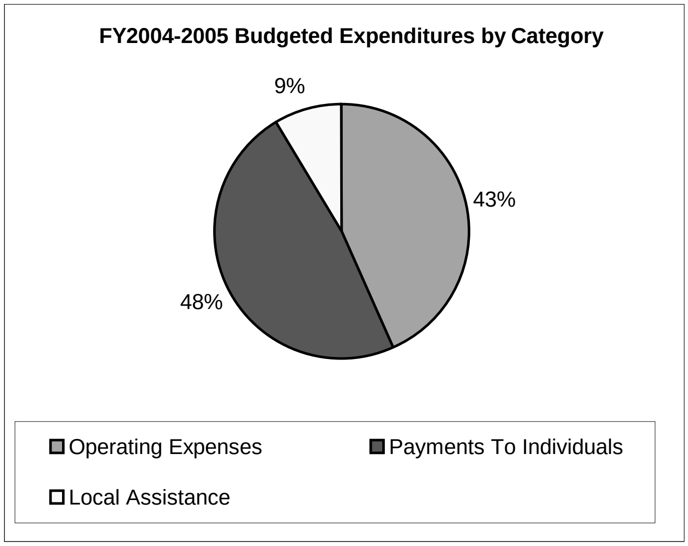
Jeffrey L. Olson, Commissioner
Minnesota Department of Veterans Affairs

	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	8,804	3,682	12,486
Legislatively Mandated Base	0	0	0
Transfers Between Agencies	240	0	240
Adjusted Base Funding	9,044	3,682	12,726
Change Items			
Grants To Veterans Organizations	150	0	150
Reduction To Operations And Grants	-1,072	0	-1,072
Governor's Recommendations	8,122	3,682	11,804
Biennial Change, 2002-03 to 2004-05	-717	-1,795	-2,512
Percent Change	-8%	-33%	-18%

Brief Explanation Of Budget Decisions:

The FY 2004-05 appropriation level includes a $240,000 biennial transfer and ongoing increase from the Office of Technology associated with Small Agency Infrastructure (SAI) project funding in the prior biennium. The transfer is spread evenly across each year of the biennium under “Legislatively Mandated Base.”





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	4,740	4,093	4,746	4,061	4,061	8,122
Special Revenue	0	10	230	0	0	0
Statutory Appropriations						
Special Revenue	0	16	70	85	85	170
Federal	3,600	0	0	0	0	0
Miscellaneous Agency	2,135	2,331	2,800	1,950	1,550	3,500
Gift	0	11	9	6	6	12
Total	**10,475**	**6,461**	**7,855**	**6,102**	**5,702**	**11,804**

Expenditures by Category						
Operating Expenses	3,142	2,233	2,942	2,565	2,565	5,130
Capital Outlay & Real Property	3,411	0	0	0	0	0
Payments To Individuals	3,105	3,317	4,089	3,025	2,626	5,651
Local Assistance	817	911	824	512	511	1,023
Total	**10,475**	**6,461**	**7,855**	**6,102**	**5,702**	**11,804**

Expenditures by Program						
Benefits	2,417	2,126	2,499	1,861	1,851	3,712
Services	2,982	3,130	3,681	2,817	2,428	5,245
Departmental Operations	4,943	1,107	1,587	1,424	1,423	2,847
Persian Gulf Bonus-Admin	16	0	0	0	0	0
Vets Gulf Bonus	117	98	88	0	0	0
Total	**10,475**	**6,461**	**7,855**	**6,102**	**5,702**	**11,804**

Dollars in Thousands Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	 FY2005	Biennium 2004-05
Non Dedicated						
General	1	36	51	36	36	72
Cambridge Deposit Fund	32	0	0	0	0	0
Subtotal Non Dedicated	33	36	51	36	36	72
Dedicated						
Special Revenue	55	47	85	85	85	170
Federal	3,600	0	0	0	0	0
Miscellaneous Agency	2,216	2,438	2,000	1,900	1,800	3,700
Gift	81	129	67	67	65	132
Subtotal Dedicated	5,952	2,614	2,152	2,052	1,950	4,002
Total Revenue	**5,985**	**2,650**	**2,203**	**2,088**	**1,986**	**4,074**
Full-Time Equivalents (FTE)	**32.7**	**32.2**	**31.9**	**31.9**	**31.9**	

Change Item: GRANTS TO VETERANS ORGANIZATIONS

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	$75	$75	$75	$75
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$75	$75	$75	$75

Recommendation

The Governor recommends a General Fund appropriation of $75,000 each year of the FY 2004-05 biennium as a transfer from the individual appropriations for the Military Order of the Purple Heart, the Veterans of Foreign Wars, and the Disabled American Veterans to the Department of Veterans Affairs to be used as grants to the veterans organizations. In addition, the Governor recommends consolidating up to $30,000 from the agency's General Fund biennial budget that is currently designated for the Vietnam Veterans Association with the reduced combined appropriations of $150,000 in FY 2004-05. These consolidated funds would continue to be used for the claim service offices of the grantees.

Background

As non-profit organizations, the Military Order of the Purple Heart of Minnesota, as well as the Department of Minnesota Veterans of Foreign Wars (VFW), the Disabled American Veterans of Minnesota, and the Vietnam Veterans Association, provide similar and complementary claims services to Minnesota veterans as those provided by the Minnesota Department of Veterans Affairs. The state also provides rent-free office space to these veterans organizations within the Veterans Services Building. Current state funding to these groups represents only 3% to 26% of their individual operating budgets.

Relationship to Base Budget

It is anticipated that consolidation of the three direct appropriations within the Department of Veterans Affairs and providing oversight of the grants to the cabinet agency may generate efficiencies, and therefore, the combined appropriations would be reduced from $176,000 in FY 2002-03 to $150,000 in FY 2004-05, a 15% reduction.

Change Item: REDUCTION TO OPERATIONS AND GRANTS

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($634)	($438)	($438)	($438)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends a General Fund appropriation of $4.061 million each year of the FY 2004-05 biennium for Department of Veterans Affairs (DVA), which reflects an ongoing reduction of $438,000 annually and one-time reductions of $196,000. The recommended budget, along with creative cost savings restructuring and changes to service delivery, will enable the department to continue to carry out its mission and long range strategic plan priorities.

Background

To aid the department in making budget decisions, the agency held both formal and informal focus groups throughout the past year with County Veterans Service Officers, department staff, and Congressionally Chartered Veterans Service Organizations. The agency also discussed necessary reductions with our contract partners. In all of the discussions and group meetings, the same line of reasoning was applied; prioritize the services the department provides and attempt to identify reductions to program areas that would negatively affect the least number of veterans. It was both helpful and encouraging to find that all the groups with whom the agency met prioritized and identified the same program areas that the department identified for the proposed cuts.

Because the majority of the budget is dedicated towards programs and services and staffing numbers are minimal, the agency sought to distribute reductions as evenly across its functions as possible while maintaining the integrity of programs and meeting its mandated mission. Programs of the greatest critical nature were preserved, and those less critical would be reduced or discontinued.

Recommended reductions include the following programs:

⇒ County Veterans Service Officers (CVSO) Operational Improvement Grants and Education **–** The recommendation seeks to enable every CVSO office to maintain and build upon the strong base it has developed under this program over past years while reducing the monetary amount of the grant and the frequency with which it is awarded. All 87 CVSOs would continue to receive the grants at 30% of the current levels every three years, rather than every two years. The recommendation would also eliminate one training position used for the continued training and education of the CVSOs. These duties would be divided between remaining staff of the DVA. The recommended $285,000 reduction represents 60% of the expenditures for this program.

⇒ Optical Benefits - The optical program currently provides up to $154 for individual veterans and their family members each year towards the purchase of an eye examination, frames, and lenses. The recommended $11,000 reduction represents 6.5% of the expenditures for this program, a savings that would be achieved by restructuring the benefit to allow eligible applicants to receive the benefits every other year, rather than annually. Seventy-two individuals who received the annual services would continue to receive them biennially.

⇒ MN Standown **–** Veterans Affairs contributes approximately 75% of the operating budget dollars for this annual, three-day event. It is designed to address the problem of homelessness by partnering with other government and non-profit agencies to provide a gateway to VA and community services that includes assessment and screening, crisis services, counseling, referral and placement. The recommended $30,000 reduction represents 100% of the funding DVA provides, that would need to be replaced by the other contributing organizations.

⇒ Vinland Center Grant **-** Employment programs provided by the Vinland Center are similar to other programs that are available through other state agencies and the United States Department of Veterans Affairs. Also, the price of $7,400 per veteran for two-weeks of treatment at the Vinland Center for up to only 74 veterans per biennium is cost-prohibitive and does not outweigh the benefits of protecting funding that serves larger numbers of veterans and their families. The recommended reduction of $550,000 for the biennium represents 100% of the funding DVA provides for this program.

⇒ Veterans Gulf War Bonus – All but very few beneficiaries of this program have already filed and received their one-time bonuses. The department would continue to ensure that any remaining claims would be paid.

⇒ Park Rapid Veterans Memorial Administration – The $10,000 recommended reduction is a one-time appropriation that the agency no longer requires.

Relationship to Base Budget

The recommended funding represents a 10% ongoing reduction from the agency's forecast biennial budget for FY 2004-05. The remaining $196,000 is a one-time reduction.

Statutory Change: Not applicable.

State of Minnesota
Department of Finance

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TTY: 1-800-627-3529

February 18, 2003

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the Governor's FY 2004-05 budget proposal for the Attorney General. The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

The Governor's general recommendations for the legislature and constitutional offices reflect both his concern with the magnitude of the projected budget shortfall and the desire to protect core government functions. As with the executive branch, the Governor suggests that these offices and institutions examine and redesign their operations to increase efficiencies while minimizing the disruption to public services as much as possible. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise share services in order to reduce costs.

For the Attorney General, the Governor's recommendation is $45.239 million in General Fund appropriations for the FY 2004-05 biennium, which reflects a 15% reduction from the agency's forecast budget. This is consistent with the recommendations for other constitutional officers and the legislature. The Governor makes no recommendation regarding the specific initiatives put forward by the Attorney General and other constitutional officers.

Sincerely,

Dan McElroy
Commissioner

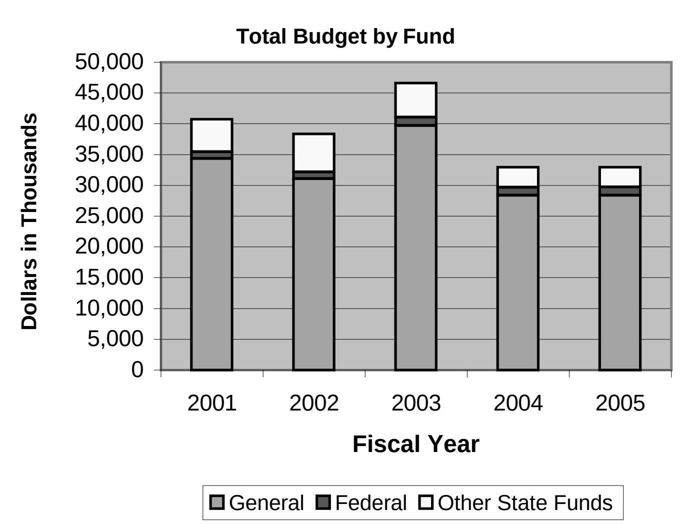
	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	64,716	9,694	74,410
Forecast Caseload/Enrollment Changes	0	-549	-549
Legislatively Mandated Base	40	0	40
New Programs To Agency Base	22	0	22
Adjusted Base Funding	64,778	9,145	73,923
Change Items			
Operating Budget Reduction	-8,000	0	-8,000
Reduce Non Partner Agency Appropriation	0	0	0
Governor's Recommendations	56,778	9,145	65,923
Biennial Change, 2002-03 to 2004-05	-14,024	-5,026	-19,050
Percent Change	-20%	-35%	-22%

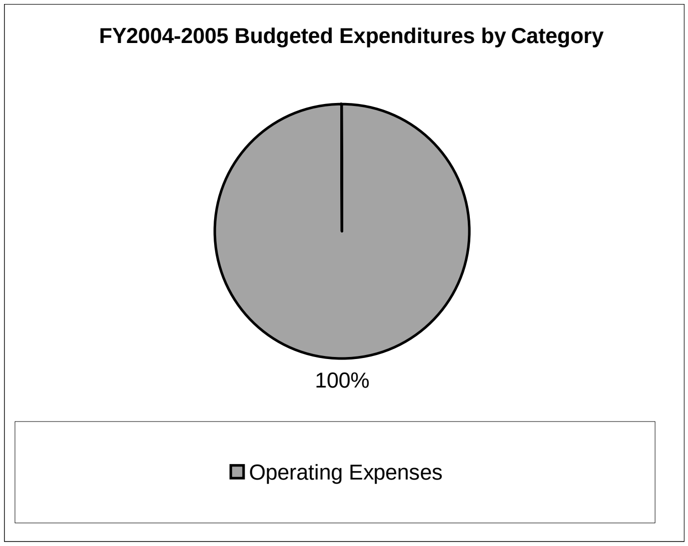
Brief Description of Budget Changes:

⇒ In addition to direct appropriations, the AGO receives funds from "partner" agencies for the cost of providing legal services.

⇒ Base adjustments include a base adjustment of $22,000 for New Programs to Agency Base in the general fund to reflect the full annual costs associated with the felony-level driving while impaired penalty appropriation and a $549,000 enrollment base decrease in the state government miscellaneous revenue fund to reflect a reduction in legal services needed by the various health related boards.

	FY 2004-05 Revenues ($000s)		
	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	20,392	4,684	25,076
Change Items			
Reduce Non-Partner Agency Appropriation	210	0	210
FY 2004-05 Total Revenues	20,602	4,684	25,286
Biennial Change 2002-03 to 2004-05	(948)	(390)	(1,338)
Percent Change	(4%)	(8%)	(5%)





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	27,275	25,006	33,269	22,559	22,559	45,118
State Government Special Revenue	2,229	2,363	2,813	1,612	1,591	3,203
Special Revenue	0	48	52	0	0	0
Environmental	61	52	235	145	145	290
Solid Waste	281	165	796	484	484	968
Statutory Appropriations						
General	7,075	6,094	6,433	5,830	5,830	11,660
Petroleum Tank Release Cleanup	126	127	101	0	0	0
Special Revenue	250	257	701	277	277	554
Federal	1,083	1,087	1,373	1,294	1,336	2,630
Miscellaneous Agency	1,947	2,684	850	750	750	1,500
Housing Finance Agency	441	467	0	0	0	0
Total	**40,768**	**38,350**	**46,623**	**32,951**	**32,972**	**65,923**

Expenditures by Category						
Operating Expenses	40,768	38,350	46,623	36,068	36,030	72,098
Transfers	0	0	0	-3,117	-3,058	-6,175
Total	**40,768**	**38,350**	**46,623**	**32,951**	**32,972**	**65,923**

Expenditures by Program						
Attorney General	40,768	38,350	46,623	32,951	32,972	65,923
Total	**40,768**	**38,350**	**46,623**	**32,951**	**32,972**	**65,923**

Dollars in Thousands 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	10,457	4,559	4,471	4,471	4,471	8,942
Cambridge Deposit Fund	327	0	0	0	0	0
Subtotal Non Dedicated	10,784	4,559	4,471	4,471	4,471	8,942
Dedicated						
General	5,857	6,245	6,275	5,830	5,830	11,660
Special Revenue	202	237	277	277	277	554
Federal	1,080	1,067	1,332	1,294	1,336	2,630
Miscellaneous Agency	1,640	2,031	130	750	750	1,500
Subtotal Dedicated	8,779	9,580	8,014	8,151	8,193	16,344
Total Revenue	**19,563**	**14,139**	**12,485**	**12,622**	**12,664**	**25,286**
Full-Time Equivalents (FTE)	**426.3**	**413.0**	**444.1**	**444.1**	**444.1**	

Change Item: OPERATING BUDGET REDUCTION

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

Recommendation
The Governor recommends a $4,000,000 reduction in FY 2004 and FY 2005 in the General Fund appropriation to the Attorney General.

Background
The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

Relationship to Base Budget
This change will provide the attorney general with $45,239,000 in General Funds during FY 2004-05, which is $12,946,000 less than what was appropriated in the last biennium.

Statutory Change: Not applicable.

Change Item: REDUCE NON-PARTNER AGENCY APPROPRIATION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Direct Expenditures	($105)	($105)	($105)	($105)
Revenues	105	105	105	105
Statutory Expenditures	105	105	105	105
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($105)	($105)	($105)	($105)

Recommendation

The Governor recommends a $105,000 annual reduction in the General Fund appropriation to the Attorney General, which will be offset by an increase in payments received from state agencies.

Background

Currently, non-partner agencies that receive a General Fund appropriation do not pay for legal services provided by the attorney general. Instead, the legislature makes a single appropriation to pay for these expenses. Since the Governor is recommending that two small agencies (Gambling Control Board and Racing Commission) no longer receive General Fund appropriations, they will be required to pay for legal services directly.

It is anticipated that this change will have no net impact on the attorney general's budget.

Relationship to Base Budget

No change.

Statutory Change: Not applicable.

STATE OF MINNESOTA

OFFICE OF THE ATTORNEY GENERAL

MIKE HATCH
ATTORNEY GENERAL

102 STATE CAPITOL
ST. PAUL, MN 55155-1002
TELEPHONE: (651) 296-6196

February 18, 2003

The 2003 Minnesota Legislature

Re: The Attorney General's Budget Request for FY 2004/2005

Dear Members:

Attached is the budget request for the Attorney General's Office (AGO) for Fiscal Years 2004 and 2005. Our Office proposes to carry out its mission to protect the interests of Minnesota's citizens by:

Agency Representation (the AGO serves as legal counsel to all state agencies)
- ♦ Enforcing state laws
- ♦ Protecting taxpayer dollars
- ♦ Protecting the public from unsafe health care and childcare providers, intoxicated drivers, sexual predators and unethical licensed professionals
- ♦ Ensuring that state agencies carry out their programs according to state law
- ♦ Reviewing state contracts, grants and bond issues to safeguard state resources

Defense of Claims (the AGO serves as defense counsel for the legislature, the State)
- ♦ Defending legislation and constitutional challenges
- ♦ Representing agencies in litigation brought against the State
- ♦ Saving the state millions of dollars by successfully defending claims against the State

Public Protection
- ♦ Enforcing the State's consumer, charities, Medicaid and antitrust laws to protect its citizens from fraud and to ensure fair business practices
- ♦ Advocating for the interests of residential and small business utility customers before the Public Utilities Commission
- ♦ Assisting county attorneys in prosecuting serious crimes and upholding criminal convictions on appeal to safeguard the public interest

The AGO returns, saves and protects taxpayer dollars. The AGO accomplishes this by an ongoing effort to provide high quality cost-effective legal services. The AGO works with state agencies to help them avoid legal problems before they occur. It has aggressively used alternative dispute resolution to prevent costly litigation.

The AGO carries out its mission by:
- ♦ Attracting highly qualified attorneys, legal assistants and support staff who provide effective/efficient legal services
- ♦ Addressing threats to the public such as telemarketing fraud, felony crime and gang violence
- ♦ Working with state agencies, county attorneys and other constituent groups to enable them to carry out their programs more effectively
- ♦ Working with agencies to educate staff about issues such as employment law, tort claims and the implementation of new statutes to reduce exposure to claims and to prevent costly litigation for the State

- Developing legislative proposals to address the concerns of Minnesota's citizens
- Regularly examining staffing levels to ensure the efficient delivery of legal services by a core group of employees. The AGO significantly reduced staff in 1999 and continues to review its complement

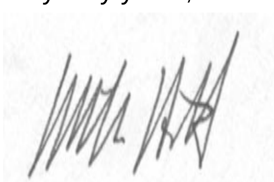
The AGO is committed to operating in a fiscally responsible manner. Ongoing fiscal challenges to the AGO include:

- Maintaining adequate funding for the Office in light of increasing demand for quality legal services
- Meeting the constantly changing demand for AGO services driven by new initiatives, amended laws, increased litigation and concerns about public safety
- Developing necessary legal expertise, recruiting and retaining highly qualified attorneys

Currently the AGO is funded by a mix of general fund appropriations and by funding agreements with "partner agencies".

As you review our budget request, I will be available to discuss any issues or questions you have.

Very truly yours,



MIKE HATCH
Attorney General

Agency Request (Submitted for Reference Only):

⇒ The Governor is required to submit the Attorney General's budget request to the Legislature. A narrative summary of the Attorney General's request is included after the transmittal letter in this document. Additional detail on the Attorney General's change item may be found on the Department of Finance's budget web site at www.budget.state.mn.us/budget/operating. The following table summarizes the Attorney General's request:

	FY 2004-05 Expenditures ($000s)		
	General Fund	**Other Funds**	**Total**
2003 Funding Level (Biennial Base)	64,716	9,694	74,410
Forecast Caseload/Enrollment Changes	0	-549	-549
Legislatively Mandated Base	40	0	40
New Programs To Agency Base	22	0	22
Adjusted Base Funding	64,778	9,145	73,923
Change Items			
Technology Maintenance and Replacement	2,253	0	2,253
FY 2004-05 Total Agency Request	67,031	9,145	76,176
Biennial Change 2002-03 to 2004-05	(3,771)	(5,026)	(8,797)
Percent Change	(5%)	(35%)	(10%)

STATE OF MINNESOTA

Office of Governor Tim Pawlenty

130 State Capitol • 75 Rev. Dr. Martin Luther King Jr. Boulevard • Saint Paul, MN 55155

February 18, 2003

The 2003 Minnesota Legislature:

Enclosed is the FY 2004-05 budget for the Office of Governor Tim Pawlenty, totaling $7,172,000 in General Funds. This budget represents a $2,143,000 (23%) reduction from the FY 2002-03 budget.

Funding for the FY 2004-05 biennium will be used to focus on providing support for Governor Pawlenty and providing information to the public and the Legislature. Along with his official duties, this includes his efforts to maintain a balanced budget, pursue a public policy agenda directed at Kids, Jobs, Public Safety, Roads and Health, and persistent communication with the people of Minnesota.

To achieve the proposed budget reduction, the Governor's Office strategy will be to:

1. Resign its membership in the National Governor's Association (NGA);
2. Reduce its staff presence in Washington D.C.; and
3. Reduce administrative and personnel costs.

These reductions will require the office to focus primarily on the state needs of Minnesotans and require state agencies to pursue their federal priority needs by working more directly with the members of the Minnesota Congressional Delegation.

If you have any questions, please feel free to call me at (651) 296-0059.

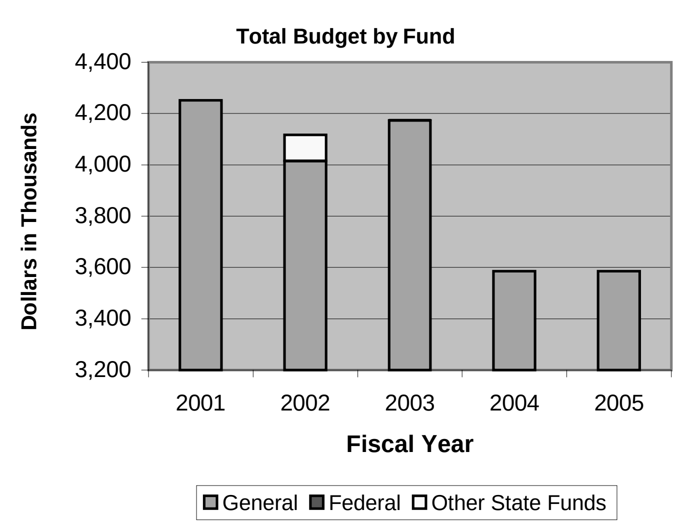
Sincerely,

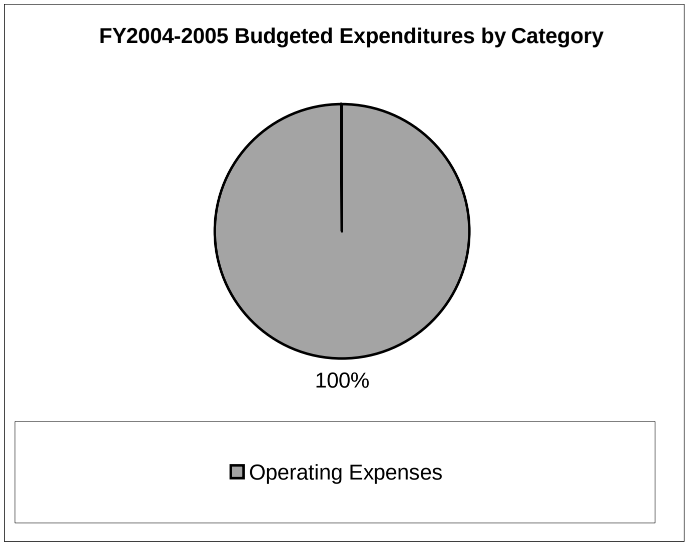
Charlie Weaver
Chief of Staff

	FY 2004-05 Expenditures ($000s)		
	General Fund	**Other Funds**	**Total**
2003 Funding Level	8,424	0	8,424
New Programs To Agency Base	12	0	12
Adjusted Base Funding	8,436	0	8,436
Change Items			
Budget Reduction	-1,264	0	-1,264
Governor's Recommendations	7,172	0	7,172
Biennial Change, 2002-03 to 2004-05	-1,016	-103	-1,119
Percent Change	-12%	-100%	-13%

Brief Explanation Of Budget Decisions:

The Governor's base budget includes an increase of $12,000 for the FY 2004-05 biennium to annualize the increase of the lieutenant governor's salary effective January 6, 2003, as mandated by Laws 2001, 1st Special Session, Chapter 10, Article1, Section 2.





Dollars in Thousands **Expenditures by Fund**	**Actual FY2001**	**Actual FY2002**	**Preliminary FY2003**	**Governor's Rec FY2004**	**Governor's Rec FY2005**	**Biennium 2004-05**
Direct Appropriations						
General	4,252	4,015	4,173	3,586	3,586	7,172
Statutory Appropriations						
Special Revenue	0	47	0	0	0	0
Gift	0	55	1	0	0	0
Total	**4,252**	**4,117**	**4,174**	**3,586**	**3,586**	**7,172**
Expenditures by Category						
Operating Expenses	4,252	4,117	4,174	3,586	3,586	7,172
Total	**4,252**	**4,117**	**4,174**	**3,586**	**3,586**	**7,172**
Expenditures by Program						
Governors Office	4,252	4,117	4,174	3,586	3,586	7,172
Total	**4,252**	**4,117**	**4,174**	**3,586**	**3,586**	**7,172**
Revenue by Type and Fund						
Dedicated						
Special Revenue	0	7	0	0	0	0
Gift	0	2	0	0	0	0
Subtotal Dedicated	0	9	0	0	0	0
Total Revenue	**0**	**9**	**0**	**0**	**0**	**0**
Full-Time Equivalents (FTE)	**51.7**	**48.3**	**45.8**	**45.8**	**45.8**	

Change Item: BUDGET REDUCTION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($632)	($632)	($632)	($632)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($632)	($632)	($632)	($632)

Recommendation

The Governor recommends a General Fund appropriation of $3.586 million each year of the FY 2004-05 biennium, a reduction of $632,000 annually.

Background

Funding for the FY 2004-05 biennium will be used to focus on providing support for Governor Pawlenty and providing information to the public and the legislature. Along with his official duties, this includes his efforts to maintain a balance budget, pursue a public policy agenda directed at kids, jobs, public safety, roads and health and persistent communication with the people of Minnesota.

To achieve the proposed budget reduction, the Governor's Office strategy will be to:

1. Resign its membership in the National Governor's Association (NGA);
2. Reduce its staff presence in Washington D.C.; and
3. Reduce administrative and personnel costs.

The recommended budget will require the Governor's Office to focus primarily on the state needs of Minnesotans and require state agencies to pursue their federal priority needs by working more directly with the members of the Minnesota Congressional Delegation.

Relationship to Base Budget

The Governor's recommendation is a 15% reduction from the agency's forecast budget and is consistent with the recommendations for other constitutional officers and the legislature.

Statutory Change: Not Applicable.

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February 18, 2003

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the Governor's FY 2004-05 budget proposal for the Secretary of State. The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

The Governor's general recommendations for the legislature and constitutional offices reflect both his concern with the magnitude of the projected budget shortfall and the desire to protect core government functions. As with the executive branch, the Governor suggests that these offices and institutions examine and redesign their operations to increase efficiencies while minimizing the disruption to public services as much as possible. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise share services in order to reduce costs.

For the Secretary of State, the Governor's recommendation is $11.944 million in General Fund appropriations for the FY 2004-05 biennium, which reflects a 15% reduction from the agency's forecast budget. This is consistent with the recommendations for other constitutional officers and the legislature. The Governor makes no recommendation regarding the specific initiatives put forward by the Secretary of State and other constitutional officers.

Sincerely,

Dan McElroy
Commissioner

	FY 2004-05 Expenditures ($000s)		
	General Fund	**Other Funds**	**Total**
2003 Funding Level	14,541	976	15,517
Biennial Appropriations	-171	0	-171
Legislatively Mandated Base	-309	0	-309
Adjusted Base Funding	14,061	976	15,037
Change Items			
Budget Reduction	-2,108	0	-2,108
Governor's Recommendations	11,953	976	12,929
Biennial Change, 2002-03 to 2004-05	-2,728	-226	-2,954
Percent Change	-19%	-19%	-19%

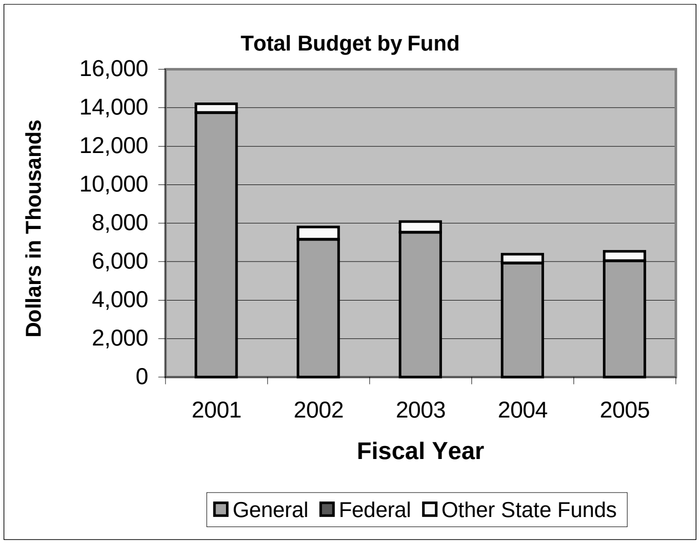
Brief Explanation Of Budget Decisions:

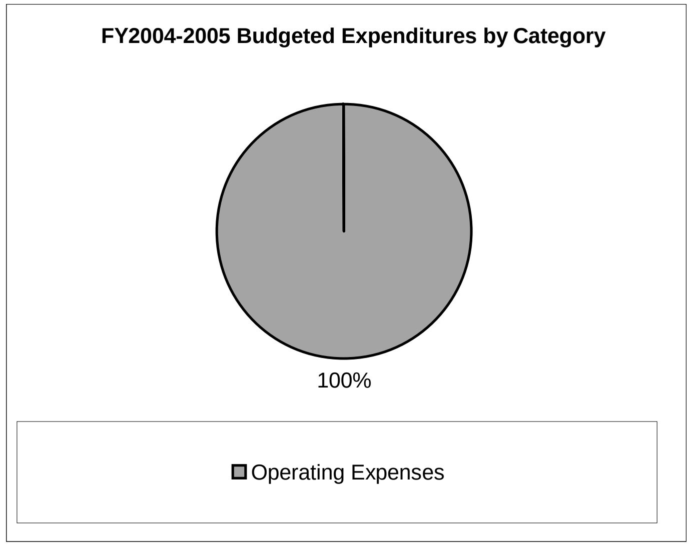
The FY 2004-05 base budget for the Office of the Secretary of State includes the following technical changes under "Biennial Appropriations:"

- increase of $1,000 for board compensation for presidential electors, which is budgeted every four years as it relates to the presidential election;
- decrease of $93,000 for printing the *Minnesota Legislative Manual*, because the document is printed every other year;
- decrease of $125,000 related to the operation of a voter information telephone line, because the line is in operation every other year;
- increase of $8,000 for the straw ballot conducted on the evening of precinct caucuses every other year; the first time is for the presidential election, and the next is for the gubernatorial election;
- increase of $20,000 for election training materials; every other year the costs are higher due to the election; and
- increase of $18,000 for producing an election judge training video, which is produced every other year.

Also, as indicated above under "Legislatively Mandated Base," the office's FY 2004-05 base budget includes technical changes for the following:

- increase of $24,000 to annualize the increase in the salary for the secretary of state as mandated by Laws 2001, 1st Special Session, Chapter 10, Article 1, Section 2; and
- decrease in expenditures of $333,000 for administration of the Uniform Commercial Code system as provided in Laws 2001, 1st Special Session, Chapter 10, Article 1, Section 7.





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	13,742	7,158	7,518	5,912	6,032	11,944
Statutory Appropriations						
General	3	1	4	4	5	9
Special Revenue	457	649	549	475	495	970
Miscellaneous Agency	0	0	4	3	3	6
Total	**14,202**	**7,808**	**8,075**	**6,394**	**6,535**	**12,929**
Expenditures by Category						
Operating Expenses	14,064	7,806	8,075	6,394	6,535	12,929
Capital Outlay & Real Property	138	0	0	0	0	0
Other Financial Transactions	0	2	0	0	0	0
Total	**14,202**	**7,808**	**8,075**	**6,394**	**6,535**	**12,929**
Expenditures by Program						
Secretary Of State	14,202	7,808	8,075	6,394	6,535	12,929
Total	**14,202**	**7,808**	**8,075**	**6,394**	**6,535**	**12,929**
Revenue by Type and Fund						
Non Dedicated						
General	3	10,528	11,197	12,232	13,325	25,557
Cambridge Deposit Fund	11,149	0	0	0	0	0
Subtotal Non Dedicated	11,152	10,528	11,197	12,232	13,325	25,557
Dedicated						
General	2	1	4	4	5	9
Special Revenue	399	474	455	475	495	970
Miscellaneous Agency	0	0	3	3	3	6
Subtotal Dedicated	401	475	462	482	503	985
Total Revenue	**11,553**	**11,003**	**11,659**	**12,714**	**13,828**	**26,542**
Full-Time Equivalents (FTE)	**85.9**	**94.4**	**89.5**	**89.5**	**89.5**	

Change Item: BUDGET REDUCTION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($1,054)	($1,054)	($1,054)	($1,054)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($1,054)	($1,054)	($1,054)	($1,054)

Recommendation

The Governor recommends a direct General Fund appropriation of $5.912 million in FY 2004 and $6.032 million in FY 2005.

Background

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his concern with the magnitude of the projected budget shortfall and the desire to protect core government functions. As with the executive branch, the Governor suggests that these offices and institutions individually redesign their operations to increase efficiencies while minimizing the disruption to public services as much as possible. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise cooperate to share services in order to reduce costs.

Relationship to Base Budget

The Governor's recommendation reflects an annual reduction of $1.054 million, which is a 15% reduction from the agency's forecast budget and is consistent with the recommendations for other constitutional officers and the legislature.

Mary Kiffmeyer

MINNESOTA SECRETARY OF STATE

February 18, 2003

Dear Legislators,

Like you, as an elected official I am acutely aware of the needs of our state in these difficult times. I recognize that a reduction in our General Fund appropriation is necessary.

Background

The secretary of state is an independently elected constitutional officer who serves the people of Minnesota by administering fair and honest elections; promoting citizen participation in government; facilitating commerce by recording business documents regarding entities and financing statements for business loans; and preserving for history the records entrusted to the office.

The Office of the Secretary of State (OSS) is a revenue-producing agency and a net contributor to the General Fund, unlike the other constitutional offices and most other agencies:

- ♦ contributing approx $11 million to the General Fund annually; and
- ♦ General Fund appropriation of only $7 million annually.

Therefore, I propose:

- ♦ **a 15% reduction to the FY 04-05 General Fund base; and**
- ♦ **a funding proposal to maintain essential services, continue contributions to the General Fund from the office at existing levels and position the state to leverage federal elections funds as required by federal law.**

Benefits of Proposal

Failure to enact the proposal would result in a reduction of $1.054 million in each fiscal year. Such a reduction affects commerce, revenue-producing operations, and elections in ways that are unacceptable and will jeopardize receipt of matching federal funds.

By enacting this proposal, the office can avoid the severe consequences of this reduction for both the public and private sector in our state.

These consequences would include degradation of services such as incorporation of businesses, recording of commercial transactions such as financing statements, delays in requests for corporate documents, as well as delays in requests for certification of status of companies, and similar delays, all of which would reduce economic growth, profits, and tax revenues.

Accuracy, integrity and uniformity of elections would also be at risk due to reduced election administration resources.

In addition, new federal legislation in the area of elections provides for federal funding to improve our elections equipment, systems, training, outreach, and other elections functions, BUT only if the state appropriates an amount equal to 5% of the total. Congress has not yet finalized the appropriation, but the maximum amount of match to be appropriated is approximately $2.5 million in this biennium. This must be appropriated to a separate fund (see HF 195/S.F. 152) as per federal law. This proposal would allow for the required match.

Proposal

In order to address the ongoing technology resource needs of OSS, fund the new Help America Vote Act (HAVA) matching requirements, and maintain services without a negative impact to the General Fund, OSS proposes that a secretary of state technology account be established in the state treasury. The account would be used to fund office-wide technology infrastructure, services, and operations.

The proposed account would be funded by future growth in General Fund revenues produced by OSS over and above $10,528,000, which was the total deposited to the General Fund during FY 2002, as well as the additional revenue generated as a result of an increase to business fees. General business entity filing fees are set by the legislature and have not been adjusted for inflation since 1989. Since that time inflation has risen a total of **45%.**

In each biennium starting after July 1, 2003, annual revenue generated by OSS in excess of the $10,528,000 amount actually turned back to the General Fund during the fiscal year ending June 30, 2002, would be deposited to the Voting Integrity and Voter Access Account (VIVA) and to the secretary of state technology fund for technology infrastructure investment and aforementioned technology costs. Revenues generated by the increase in filing fees would be deposited into this fund.

Process

75% of all General Fund revenues received would be deposited into the General Fund, 15% into the VIVA account and 10% to the OSS technology account until the FY 2002 revenue total of $10,528,000 is realized. Thereafter all revenues that would otherwise go to the General Fund would be deposited into the VIVA account to bring that account up to $1,250,000 in each of the first two years, and then to the OSS technology account. If, at the close of each fiscal year, the sums deposited into the General Fund under this proportion did not equal the revenue deposited into the General Fund during the baseline FY 2002, the difference would be transferred from the secretary of state technology account to the General Fund, so that the General Fund would be held harmless except in catastrophic economic times.

The technology fund would be dedicated to OSS and would carry forward from biennium to biennium. The secretary of state would report annually to the chairs of the finance committees of the legislature on the activities of that fund.

This proposal is driven by volume and demand for services. If demand increases in the future, as it historically has, resources to provide those services will increase and OSS will be able to respond in an efficient, market-driven manner.

This is a difficult budget period. I hope you will enact my proposed solution as an answer to the needs for these functions in government and commerce.

Sincerely,

Mary Kiffmeyer

Mary Kiffmeyer
Secretary of State

	PAGE

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Department of Finance

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February 18, 2003

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the Governor's FY 2004-05 budget proposal for the State Auditor. The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

The Governor's general recommendations for the legislature and constitutional offices reflect both his concern with the magnitude of the projected budget shortfall and the desire to protect core government functions. As with the executive branch, the Governor suggests that these offices and institutions examine and redesign their operations to increase efficiencies while minimizing the disruption to public services as much as possible. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise share services in order to reduce costs.

For the State Auditor, the Governor's recommendation is $16.612 million in General Fund appropriations for the FY 2004-05 biennium, which reflects a 15% reduction from the agency's forecast budget. This is consistent with the recommendations for other constitutional officers and the legislature. The Governor makes no recommendation regarding the specific initiatives put forward by the State Auditor and other constitutional officers.

Sincerely,

Dan McElroy

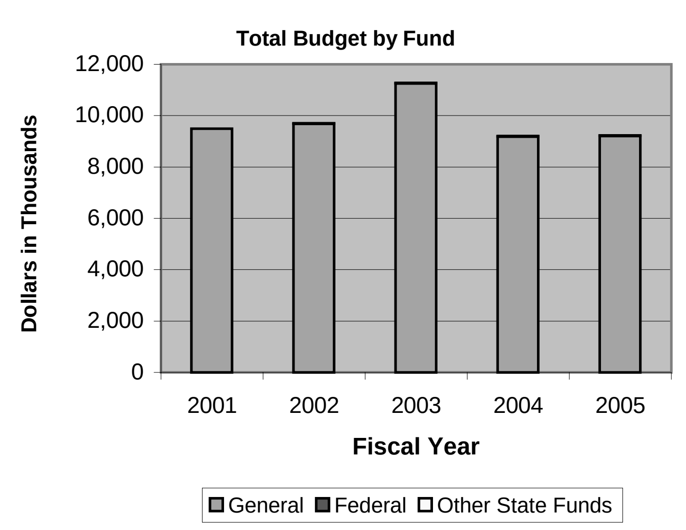
Dan McElroy
Commissioner

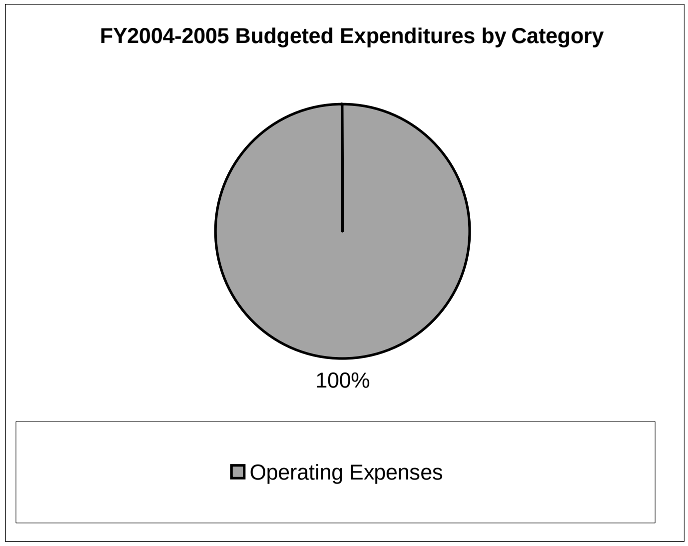
FY 2004-05 Expenditures ($000s)

	General Fund	Other Funds	Total
2003 Funding Level	21,292	44	21,336
Legislatively Mandated Base	30	0	30
Adjusted Base Funding	21,322	44	21,366
Change Items			
Budget Reduction	-2,932	0	-2,932
Governor's Recommendations	18,390	44	18,434
Biennial Change, 2002-03 to 2004-05	-2,547	0	-2,547
Percent Change	-12%	0%	-12%

Brief Explanation Of Budget Decisions:

The Office of the State Auditor budget includes a legislatively mandated base adjustment for an increase of the state auditor’s salary effective January 6, 2003. The new salary rate of the state auditor, approved in 2001, is equal to 85% of the governor’s salary.





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	8,750	8,893	10,410	8,306	8,306	16,612
Statutory Appropriations						
General	739	787	847	876	902	1,778
Special Revenue	6	22	22	23	21	44
Total	**9,495**	**9,702**	**11,279**	**9,205**	**9,229**	**18,434**
Expenditures by Category						
Operating Expenses	9,495	9,702	11,279	9,205	9,229	18,434
Total	**9,495**	**9,702**	**11,279**	**9,205**	**9,229**	**18,434**
Expenditures by Program						
State Auditor	9,495	9,702	11,279	9,205	9,229	18,434
Total	**9,495**	**9,702**	**11,279**	**9,205**	**9,229**	**18,434**
Revenue by Type and Fund						
Non Dedicated						
General	4	6,328	6,513	6,513	6,513	13,026
Cambridge Deposit Fund	6,469	0	0	0	0	0
Subtotal Non Dedicated	6,473	6,328	6,513	6,513	6,513	13,026
Dedicated						
Special Revenue	5	24	20	23	21	44
Subtotal Dedicated	5	24	20	23	21	44
Total Revenue	**6,478**	**6,352**	**6,533**	**6,536**	**6,534**	**13,070**
Full-Time Equivalents (FTE)	**136.0**	**135.1**	**146.4**	**146.2**	**146.0**	

Change Item: BUDGET REDUCTION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($1,466)	($1,466)	($1,466)	($1,466)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($1,466)	($1,466)	($1,466)	($1,466)

Recommendation

The Governor recommends a direct General Fund appropriation of $8.306 million each year of the FY 2004-05 biennium, a reduction of $1.466 million annually.

Background

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

The Governor's general recommendations for the legislature and constitutional offices reflect his concern with the magnitude of the projected budget shortfall and the desire to protect core government functions. As with the executive branch, the Governor suggests that these offices and institutions individually redesign their operations to increase efficiencies while minimizing the disruption to public services as much as possible. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise cooperate to share services in order to reduce costs.

Relationship to Base Budget

The Governor's recommendation is a 15% reduction from the agency's forecasted budget and is consistent with the recommendations for other constitutional officers and the legislature.

PATRICIA AWADA
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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stateauditor@osa.state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

February 18, 2003

2003 Minnesota Legislature:

The Office of the State Auditor (OSA) is proposing a 13% reduction in actual net General Fund costs over the 2004-5 biennium. Additionally, this proposal allows us to bring our Audit Practice division back into required structural balance. With the changes proposed, we believe we will still be able to perform our core functions as prescribed by state law.

The OSA oversees local government finances by performing audits of local government financial statements, and reviews documents, data, reports, and complaints submitted to or gathered by the office. The OSA performs approximately 275 audits per year, and collects, verifies, and analyzes financial information for 87 counties, 854 cities, 1791 towns, and 730 public pension funds. In addition, approximately 300 special investigations cases are reviewed annually.

Audit Practice

The core function of the Audit Practice division is the auditing of local governments and is required by state law. The OSA prescribes accounting systems, and audits the accounts and records of the 87 counties, all cities of the first class and their subdivisions, and various special service districts, including the Metropolitan Council. In addition, we "may" audit all other cities, school districts, towns, development authorities, and soil/water conservation districts.

Although funded through the General Fund, Minnesota statutes require the Office of the State Auditor to recover its audit practice costs through fees charged to its audit clients. Those fees are deposited back into the General Fund to meet the intent of state law essentially resulting in Audit Practice expenses having a $0 impact on the state General Fund.

In recent years, the audit fees and expenditures have not been structurally balanced. This was due in part to the fact that there were no fee increases from January 1997 – December 2000. A 4% fee increase was implemented on January 1, 2003. Also, we are proposing to increase audit fees by 12% on January 1, 2004, and 4% on January 1, 2005. Together, these increases will generate approximately $1,956,000 in additional revenue over the biennium, which will be sufficient to recover budgeted expenditures, as required by state statute.

The budget request for the Audit Practice division is $15,419,000, or 1% more than the biennial base budget.

Other Divisions

The other divisions of the OSA are Special Investigations, Government Information, Pension, and Constitutional Office. The Special Investigations, Government Information, and Pension divisions review special investigation cases, and collect, verify, and analyze financial information for counties, cities, towns, and public pension funds. The Constitutional Office oversees the management of all OSA divisions. The budget request for these divisions is $3,521,000, or 19% less than the biennial base budget. The total reduction in proposed expenditures for these divisions is $847,000.

Including the increase of $226,000 in the Audit Practice division base budget expenditures, the total reduction in proposed expenditures for the OSA is $621,000, or 3% less than the biennial base budget. To meet this reduction in the biennial base budget, it is necessary to eliminate six to seven positions through restructuring. This restructuring is currently underway and can be met by the beginning of the biennium.

Additional reductions to the proposed budget will result in the OSA conducting fewer audits. The effect of conducting fewer audits is a reduction in the amount of revenues deposited into the General Fund. The audits not performed by the OSA would have to be contracted out by the OSA to private certified public accounting firms.

Sincerely,

Patricia Awada
State Auditor

State of Minnesota
Department of Finance

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February 18, 2003

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the Governor's FY 2004-05 budget proposal for the Legislature. The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

The Governor's general recommendations for the legislature and constitutional offices reflect both his concern with the magnitude of the projected budget shortfall and the desire to protect core government functions. As with the executive branch, the Governor suggests that these offices and institutions examine and redesign their operations to increase efficiencies while minimizing the disruption to public services as much as possible. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise share services in order to reduce costs.

For the Legislature, the Governor's recommendation is $109.467 million in General Fund appropriations for the FY 2004-05 biennium, which reflects a 15 percent reduction from the agency's forecast budget. This is consistent with the recommendations for other constitutional officers and the legislature. The Governor makes no recommendation regarding the specific initiatives put forward by the Legislature and other constitutional officers.

Sincerely,

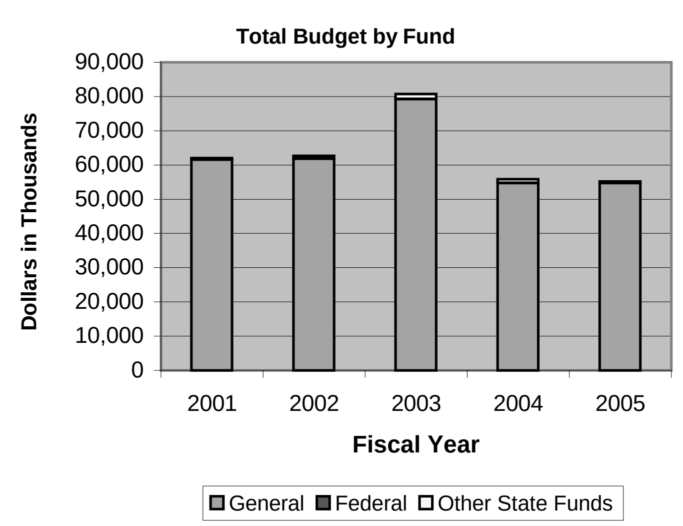
Dan McElroy

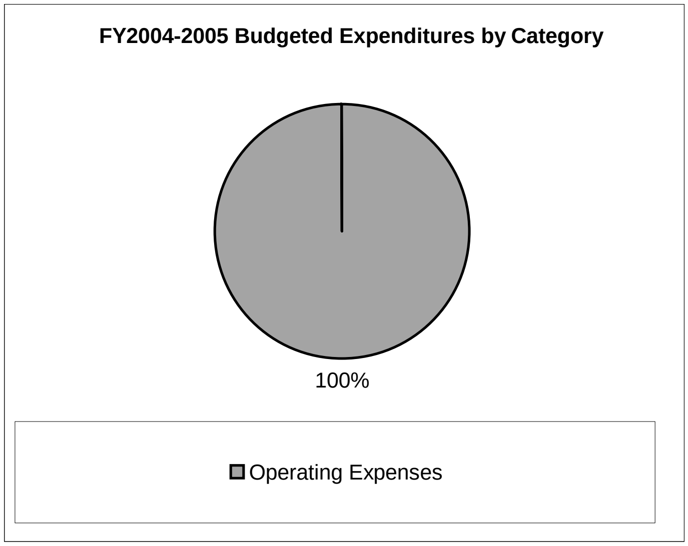
Dan McElroy
Commissioner

	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	128,785	1,616	130,401
Adjusted Base Funding	128,785	1,616	130,401
Change Items			
Operating Budget Reduction	-19,318	0	-19,318
Reduce HCAF Appropriation	0	-44	-44
Governor's Recommendations	109,467	1,572	111,039
Biennial Change, 2002-03 to 2004-05	-31,572	-798	-32,370
Percent Change	-22%	-34%	-23%

Brief Description of Budget Changes:

The legislature's base budget will be increased by $18,000 in FY 2004 and $11,000 in FY 2005 for expenses related to the LCC Electric Energy Task Force.





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Carry Forward						
General	0	0	0	18	11	29
Direct Appropriations						
General	61,544	61,811	79,228	54,719	54,719	109,438
Health Care Access	154	150	150	128	128	256
Gift	8	37	59	0	0	0
Statutory Appropriations						
Special Revenue	0	354	892	566	0	566
Federal	0	8	17	0	0	0
Miscellaneous Agency	306	327	376	375	375	750
Total	**62,012**	**62,687**	**80,722**	**55,806**	**55,233**	**111,039**
Expenditures by Category						
Operating Expenses	62,012	62,687	80,722	55,806	55,233	111,039
Total	**62,012**	**62,687**	**80,722**	**55,806**	**55,233**	**111,039**
Expenditures by Program						
House Of Representatives	27,582	28,116	32,635	24,309	24,309	48,618
Senate	20,177	20,164	25,397	18,204	18,204	36,408
Legislative Coordinating Cmsn	8,522	8,729	16,366	8,761	8,188	16,949
Legislative Audit Comm	5,731	5,678	6,324	4,532	4,532	9,064
Total	**62,012**	**62,687**	**80,722**	**55,806**	**55,233**	**111,039**

Dollars in Thousands 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	75	489	605	78	78	156
Subtotal Non Dedicated	75	489	605	78	78	156
Dedicated						
General	480	350	325	0	0	0
Special Revenue	0	45	0	0	0	0
Federal	0	8	17	0	0	0
Miscellaneous Agency	324	342	375	375	375	750
Gift	100	4	0	0	0	0
Subtotal Dedicated	904	749	717	375	375	750
Total Revenue	**979**	**1,238**	**1,322**	**453**	**453**	**906**
Full-Time Equivalents (FTE)	**75.2**	**74.6**	**74.6**	**74.6**	**74.6**	

Change Item: OPERATING BUDGET REDUCTION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($9,659)	($9,659)	($9,659)	($9,659)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($9,659)	($9,659)	($9,659)	($9,659)

Recommendation

The Governor recommends a $9,659,000 reduction in both FY 2004 and FY 2005 in the General Fund appropriation to the legislature.

Background

The Governor respects the separation of powers and the desire of officials in the judicial and legislative branches and other constitutional officers to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

The legislature's reductions were distributed proportionately based on the percentage of funds allocated to each unit in FY 2003, but the Governor expects that the Legislative Coordinating Commission (LCC) would decide how to distribute the reductions.

Relationship to Base Budget

This change will provide the Legislature with a $109,467,000 General Fund appropriation during FY 2004-05, which is $31,572,000 less than its appropriation in the last biennium.

Statutory Change: Not applicable.

Change Item: REDUCE HCAF APPROPRIATION

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	(22)	(22)	(22)	(22)
Revenues	0	0	0	0
Net Fiscal Impact	(22)	(22)	(22)	(22)

Recommendation

The Governor recommends $128,000 in FY 2004 and $128,000 in FY 2005 from the Health Care Access fund to the Legislature, a reduction of $22,000 a year from current funding.

Background

Administered by the Department of Human Services, the Health Care Access Fund (HCAF) funds MinnesotaCare and various other health-related activities. The fund has a projected operating deficit of $89.5 million in FY 2003. In order to help address this deficiency, the Governor recommends that agencies receiving appropriations from the HCAF take a 15 percent reduction in funding.

Relationship to Base Budget

This change is a 15 percent reduction from FY 2002-03.

Statutory Change: Not Applicable.

State of Minnesota
Department of Finance

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February 18, 2003

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators:

I respectfully submit for your consideration the Governor's FY 2004-05 budget proposals for the non-cabinet agencies in the state government omnibus bill. Under the Governor's recommended budget, these agencies would collectively spend $12.882 million in General Fund dollars for the FY 2004-05 biennium. The funding provided for these agencies will be used for the protection of public assets and resources, assurance of due process related to governmental rulemaking, the regulation of the gambling and racing industries, administration of campaign finance and disclosure laws, and support to small non-profit organizations that assist Minnesota veterans.

The FY 2004-05 funding recommended for these agencies represents a $6.695 million (34.2%) decrease from the FY 2002-03 biennium. The recommendations will also result in a net decrease in revenue to the General Fund of $954,000 for the biennium. The Governor encourages the agencies to work diligently to be effective stewards of taxpayer resources and focus operations and spending on their highest service priorities.

The magnitude of the projected budget shortfall and the desire to protect core government functions necessitates reducing and reorganizing some functions. Therefore, for some of the agencies in this bill, the Governor recommends that funding and/or operations be consolidated with other related operations in the state in order to ensure cooperation and shared services to reduce costs.

In addition, the Governor recommends mitigating the impact of the state's deficit by spreading the cuts broadly among agencies, and by ensuring that the industries and parties that benefit from these services assist in paying for them. Therefore, for some of the agencies in this bill, the Governor recommends that dependence upon General Fund dollars be supplanted or offset with fees and user charges, and that where appropriate, some fees billed to governmental agencies be reduced.

The pages that follow provide more detailed information on individual agency spending history and budget plans for the next biennium as well as the Governor's recommendations for state funding of pension systems and revenues from the Minnesota Lottery.

My staff, the agencies, and the Governor's Office all stand ready to provide you with additional information and assistance as necessary as you go about the difficult task of crafting a sound budget for the upcoming biennium.

Sincerely,

Dan McElroy

Dan McElroy
Commissioner

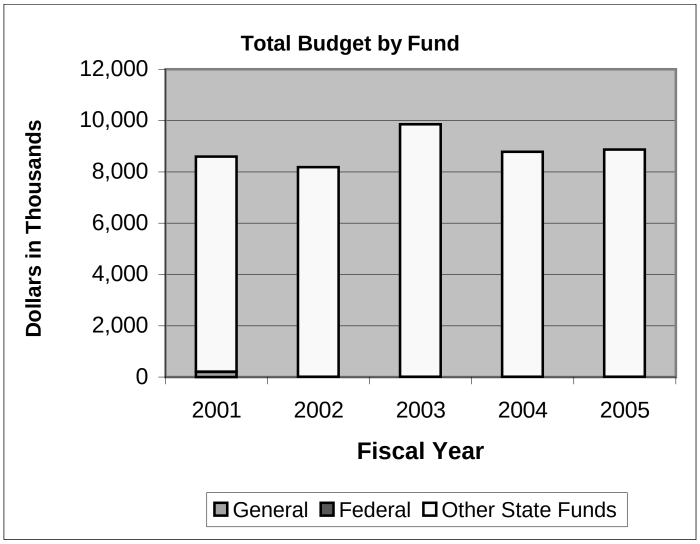
FY 2004-05 Expenditures ($000s)

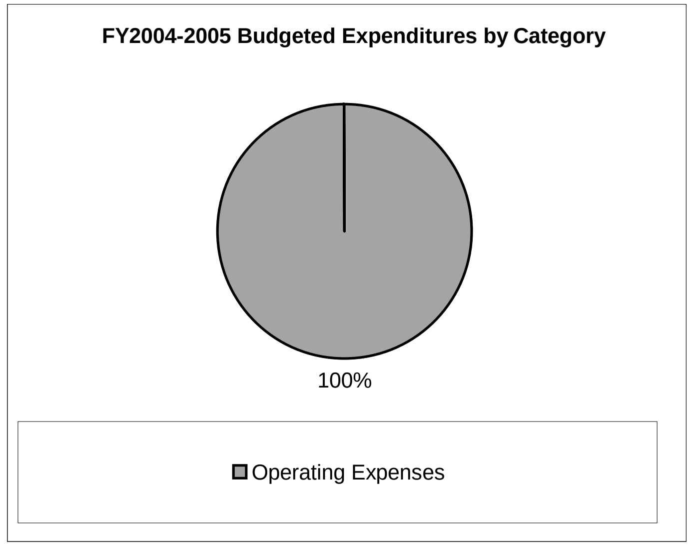
	General Fund	Other Funds	Total
2003 Funding Level	0	19,098	19,098
Legislatively Mandated Base	0	41	41
Transfers Between Agencies	0	100	100
Adjusted Base Funding	0	19,239	19,239
Change Items			
Budget & Rate Reductions	0	-1,588	-1,588
Governor's Recommendations	0	17,651	17,651
Biennial Change, 2002-03 to 2004-05	0	-385	-385
Percent Change	n.m	-2%	-2%

Brief Explanation Of Budget Decisions:

As provided in Laws 2001, First Special Session, Chapter 8, Article 5, Sec. 22, base adjustments for the Workers' Compensation Special Revenue Fund are provided in FY 2004 and FY 2005 under "Legislatively Mandated Base" to appropriately reflect judicial salary increases.

The Workers' Compensation Fund base also reflects the transfer of $100,000 for the biennium from the Department of Labor and Industry (DOLI) for postage expenses. In FY 1998, the Judicial Services unit of DOLI was transferred to the Office of Administrative Hearings (OAH). Subsequently, the OAH St. Paul office was closed and all employees were moved to the OAH Minneapolis location. DOLI has continued to reimburse OAH for their postage expenses related to the former St. Paul operation. This transfer makes these funds a permanent part of the OAH base appropriation.





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	194	0	0	0	0	0
Workers Compensation	7,063	7,086	8,309	7,186	7,249	14,435
Statutory Appropriations						
Administrative Hearings	1,336	1,096	1,535	1,593	1,611	3,204
Workers Comp Transcript	3	4	6	6	6	12
Total	**8,596**	**8,186**	**9,850**	**8,785**	**8,866**	**17,651**
Expenditures by Category						
Operating Expenses	8,596	8,180	9,850	8,785	8,866	17,651
Payments To Individuals	0	6	0	0	0	0
Total	**8,596**	**8,186**	**9,850**	**8,785**	**8,866**	**17,651**
Expenditures by Program						
Administrative Hearings	8,596	8,186	9,850	8,785	8,866	17,651
Total	**8,596**	**8,186**	**9,850**	**8,785**	**8,866**	**17,651**
Revenue by Type and Fund						
Dedicated						
Administrative Hearings	875	1,369	1,369	1,369	1,369	2,738
Workers Comp Transcript	8	8	6	6	6	12
Subtotal Dedicated	883	1,377	1,375	1,375	1,375	2,750
Total Revenue	**883**	**1,377**	**1,375**	**1,375**	**1,375**	**2,750**
Full-Time Equivalents (FTE)	**92.5**	**87.0**	**87.9**	**70.5**	**69.5**	

Change Item: BUDGET & RATE REDUCTIONS

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	($794)	($794)	($794)	($794)
Revenues	0	0	0	0
Net Fiscal Impact	($794)	($794)	($794)	($794)

Recommendation

The Governor recommends an appropriation of $14.435 million in FY 2004-05 from the Workers' Compensation Special Revenue Fund. This is a 10% reduction. Also, the Governor recommends instituting fee rates for the Administrative Law Division that are 10% below the current rates. The Governor intends that the agency should focus its funding on maintaining its highest priority services. As a tool, the Office of Administrative Hearings (OAH) should collaborate with other state agencies on ways to achieve these reductions through consolidation, co-location, or sharing of support services. The Governor intends to provide as much flexibility as possible to the agency for the implementation of these reductions.

Background

OAH's Workers' Compensation Division adjudicates claim petitions for worker's compensation benefits and related matters that are filed by injured workers. The division's activities are funded entirely by a biennial appropriation from the Workers' Compensation Special Fund. In order to make a 10% reduction of the Workers' Compensation Division budget, as well as absorb anticipated rent and compensation increases for judges, OAH would propose to eliminate all funding for employee development and out-of-state travel, eight support staff positions, and six compensation judge positions. It would also propose to close the Detroit Lakes Workers' Compensation Division office (which would require legislation).

The office's Administrative Law Division conducts hearings on state and local government agency rulemaking and regulatory action by the agencies under those rules against individuals and businesses. The division's activities are funded entirely by fees collected from the state agencies and local governments through hourly charges for administrative law judges and staff attorneys. The revenue and expenses for the division are funded through a special revenue revolving fund and dedicated to the agency by statute.

If rates for administrative hearings are reduced, the agency may have to reduce its costs per claim in order to handle claims more efficiently. These reductions might include eliminating funding for employee development and out-of-state travel, five support staff positions, three unfilled administrative law judge (ALJ) positions, one full-time temporary ALJ position, and reductions in the use of part-time, contract ALJs.

Relationship to Base Budget

The Workers' Compensation Division's special compensation fund base budget for FY 2004-05 is $16.023 million. This change item would reduce that biennial appropriation by $1.588 for those upcoming two years, a 10% reduction.

Net impact to the office's base budget for the Administrative Law Division is not known, because hearing activities may increase and related revenues could exceed the level of corresponding expenditure reductions.

Key Measures

Under current law, OAH must adjudicate all compensation claims filed with the office by injured workers. Those claims have increased by 20% during the last two fiscal years. Assuming a further increase in benefit claims due to the current state of the economy, the result of the proposed budget would be delays in adjudication of those claims. It is estimated that resolution of disputed claims would be delayed from the current 14 months after filing to about 24 to 27 months.

Alternatives Considered

The primary alternative to current practice would be legislation to alter Minnesota's workers' compensation system whereby the state court system would adjudicate all workers' compensation claims. Judicial resolution of these claims would involve a significantly greater cost to the state, and adding over 10,000 new matters into a court system would probably create greater delays than claimants would experience at OAH.

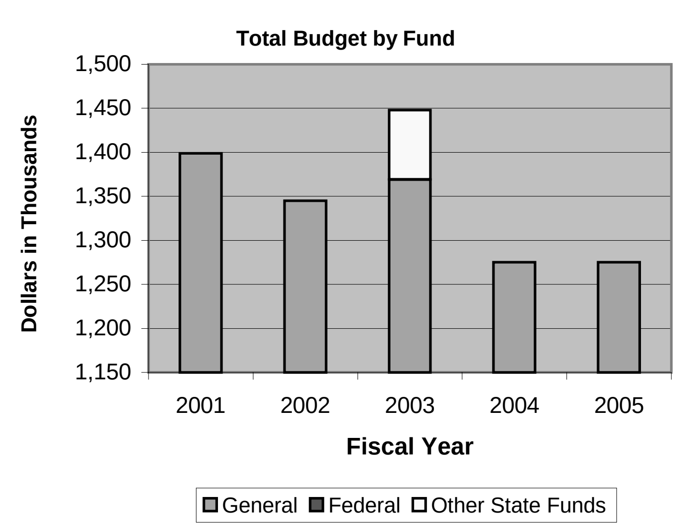
Similarly, because administrative hearings are legally and constitutionally required, legislation to have them conducted in the state court system would significantly increase costs to the state and could raise separation of powers issues.

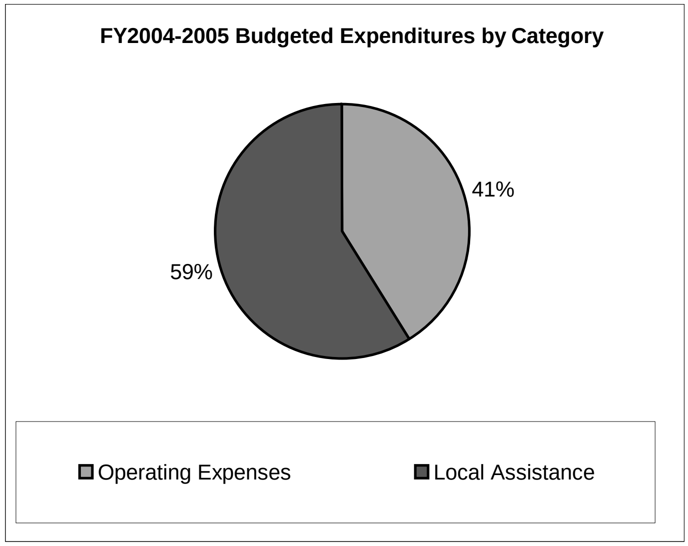
And finally, because a number of current statutes require equal treatment of ALJ and workers compensation judges with those in the state judicial system, another alternative that might be considered would be to require ALJ and workers compensation judges to retire at the age of 70 as is required of other judges in the state judiciary. A mandatory retirement age might assist in reducing costs to the office.

Statutory Change:
Rider language will be required to eliminate the Workers' Compensation Division's Detroit Lakes Office.

FY 2004-05 Expenditures ($000s)	General Fund	Other Funds	Total
2003 Funding Level	2,734	0	2,734
Adjusted Base Funding	2,734	0	2,734
Change Items			
Recover Operating Costs Through Fees	-184	0	-184
Governor's Recommendations	2,550	0	2,550
Biennial Change, 2002-03 to 2004-05	-164	-79	-243
Percent Change	-6%	-100%	-9%

FY 2004-05 Revenues ($000s)	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	0	0	0
Change Items			
Recover Operating Costs Through Fees	1,050	0	1,050
FY 2004-05 Total Revenues	1,050	0	1,050
Biennial Change 2002-03 to 2004-05	1,050	0	1,050
Percent Change	100%	0%	100%





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	649	595	619	525	525	1,050
Open Appropriations						
General	750	750	750	750	750	1,500
Statutory Appropriations						
Special Revenue	0	0	79	0	0	0
Total	**1,399**	**1,345**	**1,448**	**1,275**	**1,275**	**2,550**
Expenditures by Category						
Operating Expenses	649	595	698	525	525	1,050
Local Assistance	750	750	750	750	750	1,500
Total	**1,399**	**1,345**	**1,448**	**1,275**	**1,275**	**2,550**
Expenditures by Program						
Amateur Sports Commission	1,399	1,345	1,448	1,275	1,275	2,550
Total	**1,399**	**1,345**	**1,448**	**1,275**	**1,275**	**2,550**
Revenue by Type and Fund						
Non Dedicated						
General	0	0	0	525	525	1,050
Subtotal Non Dedicated	0	0	0	525	525	1,050
Total Revenue	**0**	**0**	**0**	**525**	**525**	**1,050**
Full-Time Equivalents (FTE)	**10.2**	**9.3**	**9.3**	**9.3**	**9.3**	

Change Item: RECOVER OPERATING COSTS THROUGH FEES

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($92)	($92)	($92)	($92)
Revenues	525	525	525	525
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($617)	($617)	($617)	($617)

Recommendation

The Governor recommends that the Amateur Sports Commission develop and implement fees sufficient to fully recover its operating costs of $525,000 per year. This level of funding is $92,000 less than the commission's November forecast base.

Background

Although the activities of the Amateur Sports Commission remain important to the state, the Governor believes that the commission has the ability to recover its operating costs.

Currently, the commission oversees three affiliated non-profit organizations. They are the National Sports Center Foundation (NSCF), Star of the North State Games Foundation, and the MASC Foundation. NSCF is the largest of these organizations with an annual operating budget of approximately $9,000,000 and 45 FTEs. The primary function of NSCF is to operate the state-owned National Sports Center (NCS) in Blaine. The NSC has operated with a net income for 12 straight years.

This proposal allows the commission to collect fees from its affiliated non-profits as well as other entities it serves. It is anticipated that the majority of these fees will come from income generated at the NSC. New fees will be subject to the approval of the commissioner of Finance and notification of the house and senate. Revenues will deposited to the General Fund as an offset to the commission's direct appropriation.

This change may require that the NSC be operated with a greater emphasis on generating income. While this may diminish access for some organizations, it will ensure that the costs associated with promoting amateur sports in Minnesota are fully recovered.

Relationship to Base Budget

This proposal for FY 2004-05 represents a $164,000 reduction from the commission's FY 2002-03 spending.

Statutory Change: M.S. 240A

FY 2004-05 Expenditures ($000s)

	General Fund	Other Funds	Total
2003 Funding Level	9,830	0	9,830
Biennial Appropriations	-1,500	0	-1,500
Legislatively Mandated Base	0	0	0
Open Appr. Forecast Adj.	-3,096	0	-3,096
Transfers Between Agencies	30	0	30
Adjusted Base Funding	5,264	0	5,264
Change Items			
Fee Recovery Proposal	-67	0	-67
Governor's Recommendations	5,197	0	5,197
Biennial Change, 2002-03 to 2004-05	3,821	-5,465	-1,644
Percent Change	278%	-100%	-24%

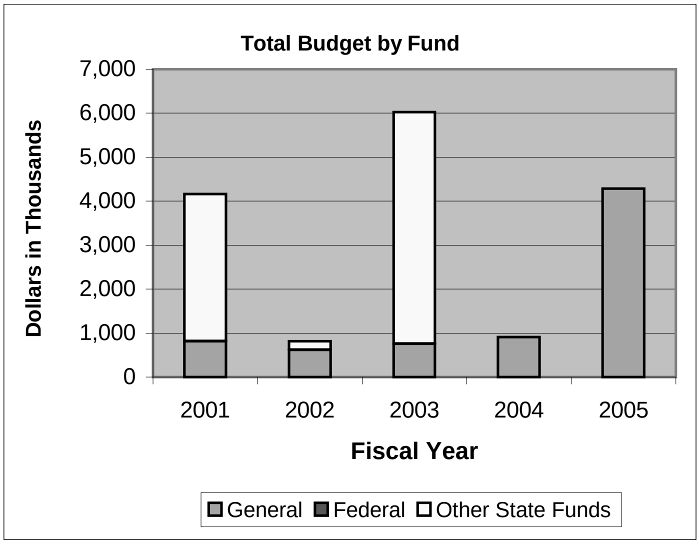
Brief Explanation Of Budget Decisions:

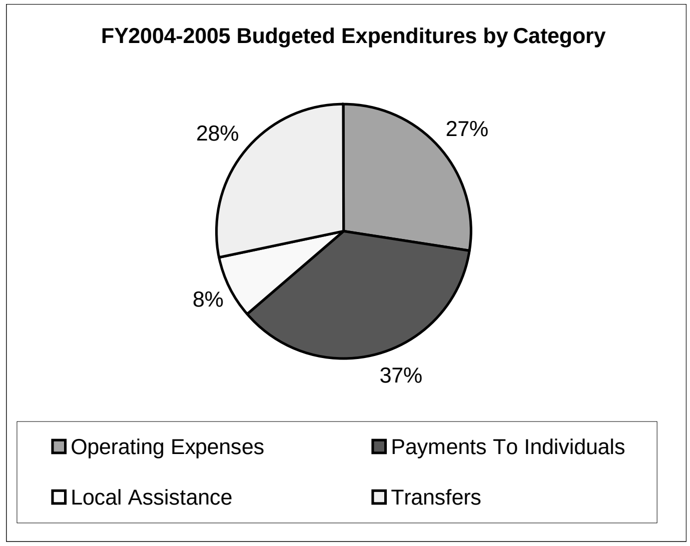
The FY 2004-05 appropriation level includes a $30,000 biennial transfer and ongoing increase from the Office of Technology associated with Small Agency Infrastructure (SAI) project funding in the prior biennium.

The base budget is reduced by $1.5 million, because the general public subsidy is appropriated every other year by statute as related to the election cycle. Similarly, tax check-off contributions and expenses are paid out on a cyclical basis related to the election cycle, which results in another adjustment down of $3.096 million to the forecasted open appropriation for these funds.

FY 2004-05 Revenues ($000s)

	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	94	1	95
Change Items			
Fee Recovery Proposal	1,256	0	1,256
FY 2004-05 Total Revenues	1,350	1	1,351
Biennial Change 2002-03 to 2004-05	1,282	(6)	1,276
Percent Change	1885%	(600%)	1701%





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	815	620	756	712	712	1,424
Open Appropriations						
General	0	0	0	200	3,573	3,773
Special Revenue	3,344	100	5,240	0	0	0
Statutory Appropriations						
Special Revenue	0	98	27	0	0	0
Total	**4,159**	**818**	**6,023**	**912**	**4,285**	**5,197**
Expenditures by Category						
Operating Expenses	815	648	783	712	712	1,424
Payments To Individuals	3,228	70	4,571	0	1,877	1,877
Local Assistance	116	100	669	200	220	420
Transfers	0	0	0	0	1,476	1,476
Total	**4,159**	**818**	**6,023**	**912**	**4,285**	**5,197**
Expenditures by Program						
Campaign Finance & Public Disc	4,159	818	6,023	912	4,285	5,197
Total	**4,159**	**818**	**6,023**	**912**	**4,285**	**5,197**
Revenue by Type and Fund						
Non Dedicated						
General	100	21	47	783	567	1,350
Subtotal Non Dedicated	100	21	47	783	567	1,350
Dedicated						
Special Revenue	0	3	4	1	0	1
Subtotal Dedicated	0	3	4	1	0	1
Total Revenue	**100**	**24**	**51**	**784**	**567**	**1,351**
Full-Time Equivalents (FTE)	**8.0**	**7.9**	**9.2**	**9.2**	**9.2**	

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	$30	($97)	$30	($97)
Revenues	736	520	736	520
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($706)	($617)	($706)	($617)

Recommendation

The Governor recommends a General Fund direct appropriation of $1.424 million for the FY 2004-05 biennium. Also, the Governor recommends establishing fees for those who file and register with the board as well as an increase to the administration set aside from political campaign tax check-off revenues in order to fully offset the operating costs for the agency.

Background

The Campaign Finance and Public Disclosure Board administers registration and public disclosure of expenditures, contributions, and investments of and to state candidates and public officials. The board also distributes public subsidies to state candidates for their election campaigns. Except for smaller incidental penalties and late fees, the agency does not currently charge any fees to the individuals and organizations that file and register with the board. Because the Governor is concerned about the magnitude of the state's budget shortfall, he hopes to ensure that some of the parties who benefit by the work of the board, assist in paying for it.

In many states that have ethics laws and boards similar to Minnesota, the administering agencies charge fees to recover their operating costs. For example, all states except three in the U.S. require lobbyists to register. Of the 47 states that register lobbyists, 37 charge registration fees. Of the 37 that charge fees, over one-third of them charge a fee of $100 or more. Wisconsin has a fee of $100 annually for political committees and party units if they spend more than $2,500 per year. Louisiana also has a $100 annual fee for political committees. Kansas has a progressive annual fee structure for political committees, based upon how much they raise, from $20 for less than $500 raised to $240 for over $2,500 raised. Also, Kansas charges candidates a fee in addition to its election filing fee.

The Governor proposes setting the following fee structure to generate the following estimated revenues:

	Approx. Number	*Fee*	*Frequency*	*Total Est. Revenue Per Bien.*
Lobbyists	1,300	$225	Biennial	$292,500
Associations represented by lobbyists	1,200	$225	Biennial	$270,000
Candidates:				
Statewide Offices	35	$1,000	Biennial	$35,000
Senate	150	$500	Biennial	$75,000
House of Representatives	300	$350	Biennial	$105,000
Judicial	25	$25	Biennial	$625
Political Committees/Funds	350	2% of expenditures	Biennial	$180,000
Political Party Units	350	1% of expenditures	Biennial	$180,000
Public Officials	1,300	$45	Annual	$117,000
Total Fee Revenue				**$1,255,125**

Fees charged to appointed public officials who are required to register with the board would be billed to the sponsoring agency or institution.

Additionally, current law provides that 3 percent of the tax check-off proceeds are transferred to the General Fund for administrative costs prior to distributing the funds to campaign recipients. The Governor proposes to increase the percentage to 10 percent, which would provide an additional estimated $172,000 during the biennium to offset the board's costs. Therefore, the total cost and revenue offset is estimated to be $1,427,125 for the FY 2004-05 biennium.

The legislature would continue to directly appropriate the agency's budget from the General Fund, and all fee revenues would be deposited as non-dedicated General Fund proceeds. The board would report costs and revenues under the departmental earnings requirements, whereby fee rates would be adjusted to appropriately cover costs through the legislative process.

Relationship to Base Budget

The Governor recommends an additional $60,000 for the FY 2004-05 biennium above the agency's biennial base budget to accommodate costs related to the new administrative requirements and increased workload of collecting fees from the many registrants.

Alternatives Considered

Other fee structures were considered for charging the same registrants. Candidates could be charged a flat rate regardless of the office for which he/she is running. Fees to political committees and party units could be tiered in ranges of expenditures, or the fees to political committees and party units could be based upon the level of funding raised by those groups instead of the amount spent by those groups.

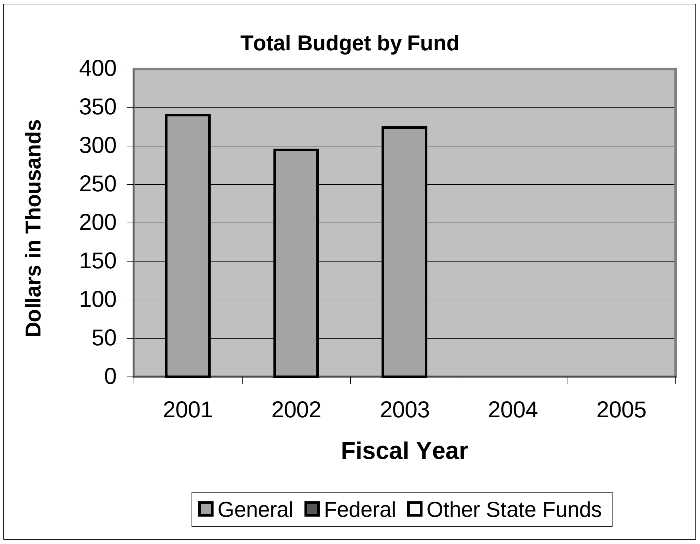
Other considerations were to charge additional fees to filers who manually file their forms rather than using the software provided at no cost by the board. The board could also charge a fee to individuals who file grievances, because such filings generate expensive investigations. The latter consideration was dismissed, because it was deemed to inappropriately discourage such filings.

Statutory Change: M.S. Chapter 10A

	General Fund	Other Funds	Total
	FY 2004-05 Expenditures ($000s)		
2003 Funding Level	614	0	614
Legislatively Mandated Base	0	0	0
Transfers Between Agencies	40	0	40
Adjusted Base Funding	654	0	654
Change Items			
Transfer To Admin & Operating Reduction	-654	0	-654
Governor's Recommendations	0	0	0
Biennial Change, 2002-03 to 2004-05	-619	0	-619
Percent Change	-100%	n.m.	-100%

Brief Explanation Of Budget Decisions:

The FY 2004-05 appropriation level includes a $40,000 biennial transfer and ongoing increase from the Office of Technology associated with Small Agency Infrastructure (SAI) project funding in the prior biennium. Per fiscal protocol, the transfer is spread evenly across each year of the biennium.



Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	340	295	324	0	0	0
Total	**340**	**295**	**324**	**0**	**0**	**0**
Expenditures by Category						
Operating Expenses	340	295	324	0	0	0
Total	**340**	**295**	**324**	**0**	**0**	**0**
Expenditures by Program						
Capitol Area Arch Planning Bd	340	295	324	0	0	0
Total	**340**	**295**	**324**	**0**	**0**	**0**
Revenue by Type and Fund						
Non Dedicated						
General	0	1	0	0	0	0
Subtotal Non Dedicated	0	1	0	0	0	0
Dedicated						
Gift	2	0	0	0	0	0
Subtotal Dedicated	2	0	0	0	0	0
Total Revenue	**2**	**1**	**0**	**0**	**0**	**0**
Full-Time Equivalents (FTE)	**4.0**	**4.0**	**4.0**	**0.0**	**0.0**	

Change Item: TRANSFER TO ADMIN & OPERATING REDUCTION

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($327)	($327)	($327)	($327)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($327)	($327)	($327)	($327)

Recommendation

The Governor recommends an appropriation of $262,000 per year for the activities of the Capitol Area Architecture and Planning Board (CAAPB). The Governor also recommends that this funding and the activities of the CAAPB be transferred to the Department of Administration in order to more efficiently administer activities that are similar.

Background

In an effort to seek efficiencies while maintaining core services, the Capitol Area Architecture and Planning Board would become the responsibility of the Department of Administration. The Department of Administration currently provides some support services to the board, and many of the board's authorities have functional relationships with the divisions of State Building Construction and Plant Management within Administration.

Relationship to Base Budget

The appropriation to be transferred to the Department of Administration (see change item under Administration) would be 80% of the funding appropriated in FY 2002-03, a reduction of $130,000.

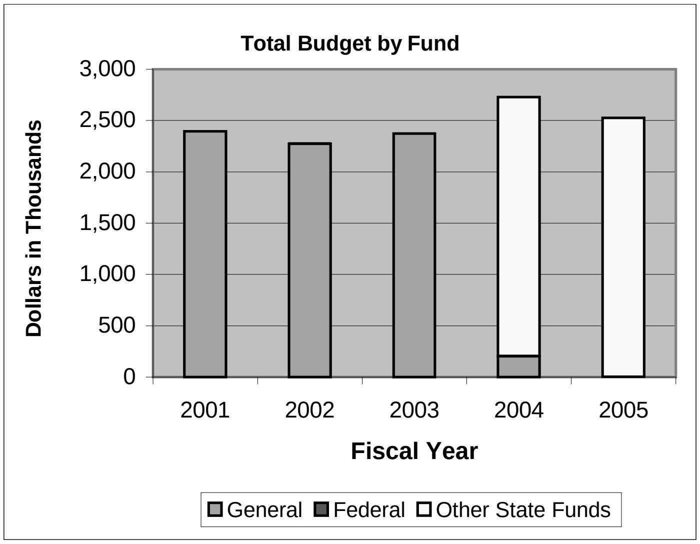
Statutory Change: M.S. 15.50

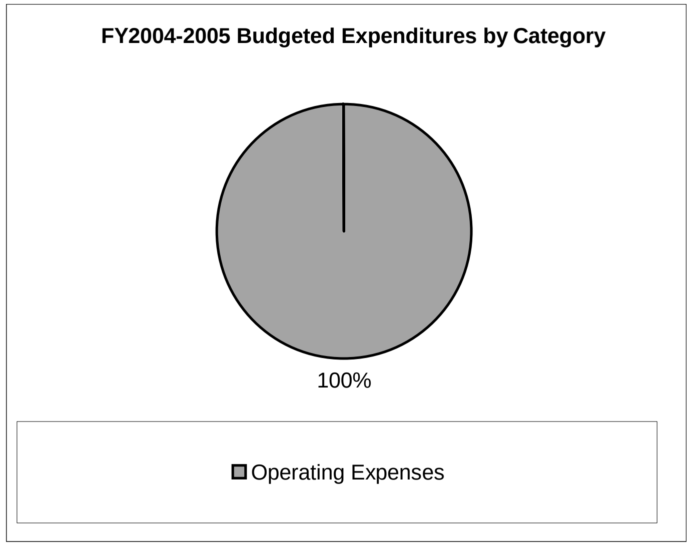
	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	4,792	0	4,792
Legislatively Mandated Base	60	0	60
Adjusted Base Funding	4,852	0	4,852
Change Items			
Recover Operating Costs Through Fees	-4,650	5,052	402
Governor's Recommendations	202	5,052	5,254
Biennial Change, 2002-03 to 2004-05	-4,442	5,046	604
Percent Change	-96%	84,100%	13%

Brief Description of Budget Changes:

The $60,000 base adjustment listed above was a Small Agency Infrastructure (SAI) grant provided for technology improvements.

	FY 2004-05 Revenues ($000s)		
	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	1,787	0	1,787
Change Items			
Recover Operating Costs Through Fees	(1,677)	5,972	4,295
FY 2004-05 Total Revenues	110	5,972	6,082
Biennial Change 2002-03 to 2004-05	(1,667)	5,966	4,299
Percent Change	(94%)	n.m.	241%





Dollars in Thousands						
Expenditures by Fund	**Actual FY2001**	**Actual FY2002**	**Preliminary FY2003**	**Governor's Rec FY2004**	**Governor's Rec FY2005**	**Biennium 2004-05**
Direct Appropriations						
General	2,394	2,272	2,372	202	0	202
Special Revenue	0	0	0	2,526	2,526	5,052
Statutory Appropriations						
Special Revenue	0	6	0	0	0	0
Total	**2,394**	**2,278**	**2,372**	**2,728**	**2,526**	**5,254**
Expenditures by Category						
Operating Expenses	2,394	2,278	2,372	2,728	2,526	5,254
Total	**2,394**	**2,278**	**2,372**	**2,728**	**2,526**	**5,254**
Expenditures by Program						
Lawful Gambling Control	2,394	2,278	2,372	2,728	2,526	5,254
Total	**2,394**	**2,278**	**2,372**	**2,728**	**2,526**	**5,254**
Revenue by Type and Fund						
Non Dedicated						
General	72	1,222	555	55	55	110
Cambridge Deposit Fund	513	0	0	0	0	0
Subtotal Non Dedicated	585	1,222	555	55	55	110
Dedicated						
Special Revenue	0	6	0	2,986	2,986	5,972
Subtotal Dedicated	0	6	0	2,986	2,986	5,972
Total Revenue	**585**	**1,228**	**555**	**3,041**	**3,041**	**6,082**
Full-Time Equivalents (FTE)	**31.7**	**32.0**	**30.4**	**30.4**	**30.4**	

GAMBLING CONTROL BOARD

Change Item: RECOVER OPERATING COSTS THROUGH FEES

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($2,224)	($2,426)	($2,426)	($2,426)
Revenues	(1,044)	(633)	(1,044)	(633)
Other Fund				
Expenditures	2,526	2,526	2,526	2,526
Revenues	2,986	2,986	2,986	2,986
Net Fiscal Impact	($1,640)	($2,253)	($1,842)	($2,253)

Recommendation

The Governor recommends creation of a special revenue account related to lawful gambling regulation. Under this proposal, Gambling Control Board will no longer receive a General Fund appropriation. Instead, it will restructure its fees to fully recover its operational costs. Fee revenue will flow to the special revenue account and the legislature will appropriate from this account to support the operations of the board. Money collected from fines and penalties will continue to be non-dedicated General Fund receipts. Regulatory fees collected from licensed non-profit organizations will be classified as lawful purpose expenditures.

Background

The lawful gambling industry in Minnesota is a $1.4 billion industry. The current fee schedule for lawful gambling does not recover the cost of regulation. Fees have not been adjusted since FY 1992. In addition, the current fee schedule charges a flat rate for site permits resulting in a disproportionate expense to some non-profit organizations.

Currently, Minnesota ranks first in dollars spent on lawful gambling, but ranks as one of the lowest for funding of regulatory oversight.

Lawful Gambling

2001 Comparison of Other States with Similar Lawful Gambling Activity

State	Gross Receipts	License, Fees & Taxes	Percent of Receipts	Regulatory Budget	Percent of Receipts	Percent of Fees
Alaska	310,882,580	2,380,311	0.77%	604,500	0.19%	25.40%
Indiana	576,138,059	4,073,450	0.71%	470,000	0.08%	11.54%
Kentucky	607,048,878	2,428,195	0.40%	3,200,000	0.53%	131.79%
Louisiana	196,495,200	942,400	0.48%	1,200,000	0.61%	127.33%
Minnesota	1,424,900,000	55,950,650	3.93%	2,244,000	0.16%	4.01%
Nebraska	259,322,841	2,683,629	1.03%	2,042,480	0.79%	76.11%
New Mexico	30,401,283	146,830	0.48%	65,000	0.21%	44.27%
New York	511,253,021	4,443,199	0.87%	2,119,000	0.41%	47.69%
North Dakota	246,516,772	12,466,303	5.06%	781,000	0.32%	6.26%
Washington	901,625,892	51,831,226	5.75%	14,795,691	1.64%	28.55%

Source: NAFTM Annual Report (2001)

Change Item: RECOVER OPERATING COSTS THROUGH FEES

This proposal will require the industry to fully fund the regulatory program that ensures the industry's integrity and allows nonprofit organizations to continue raising funds for charitable contributions. In 1990, the Attorney General recommended that 1% of gross receipts be dedicated to regulation. In 1992, the Governor's Advisory Committee on Gambling reported that "the limited resources available to the Gambling Control Board have affected the board's ability to apply its comprehensive regulatory system to all licensed organizations in a timely fashion." Their conclusion stated, "Primary emphasis must be placed on maintaining the integrity of gambling in Minnesota. Without sufficient resources to oversee the gambling industry, the integrity of, and public confidence in, gambling is severely undermined

This change item will do several things: 1) increase the license fee for manufacturers, distributors, and bingo halls; 2) replace the flat fee paid by non-profit organizations for site permits with a fee based on percentage of gross receipts (The proposed rate for the fee is 0.18%); 3) assess a license fee on distributor salespersons; and 4) charge manufacturers for game testing.

The table below provides detail on these changes.

Lawful Gambling License Category (# in parentheses)	**Current Fee (annualized)**	**Proposed Fee (annualized)**	**Projected Revenue (annualized)**
Manufacturer (8)	$5,000	$9,000	$ 72,000
Distributor (18)	3,500	6,000	108,000
Bingo Hall (12)	2,500	4,000	48,000
Organization (1,503)	0	0	0
Gambling Manager (1,503)	100	100	150,000
Class A – site (395)	200	Eliminate	0
Class B – site (2,630)	125	Eliminate	0
Class C – site (17)	100	Eliminate	0
Class D – site (13)	75	Eliminate	0
Site Permit (3,055)	n/a	.0018 of gross receipts	2,340,000
Exempt Permit (2,700)	25	50	135,000
Excluded Permit	0	0	0
Distributor Salesperson (150)	n/a	100	15,000
Game Testing (300)	n/a	100	30,000
Game Approvals (3,500)	n/a	25	87,500
TOTAL			**$2,985,500**

It is also recommended that a $202,000 General Fund appropriation be made to this new account in FY 2004 to ease the transition to fee-based funding. This is a one-time start up appropriation.

Relationship to Base Budget

The board will be authorized to collect fees sufficient to recover its operational costs. Expenditures will be limited to those authorized within the biennial appropriation.

The appropriation recommended here represents a $402,000 increase over FY 2002-03 spending. Of this increase, $200,000 represents the amount estimated to be needed for indirect costs and legal fees.

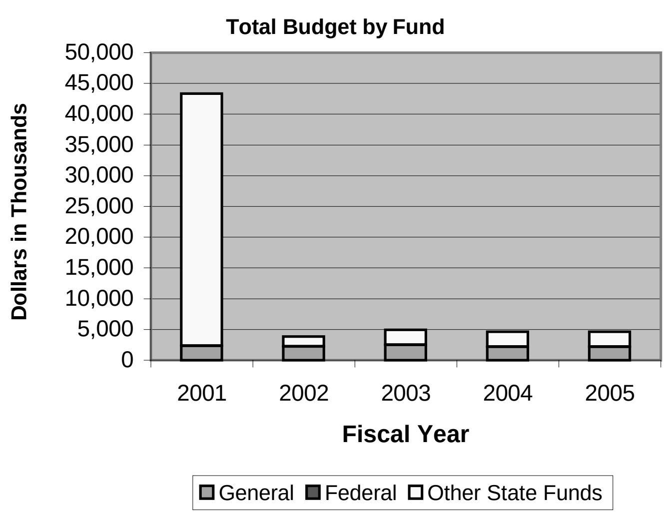
Alternatives Considered

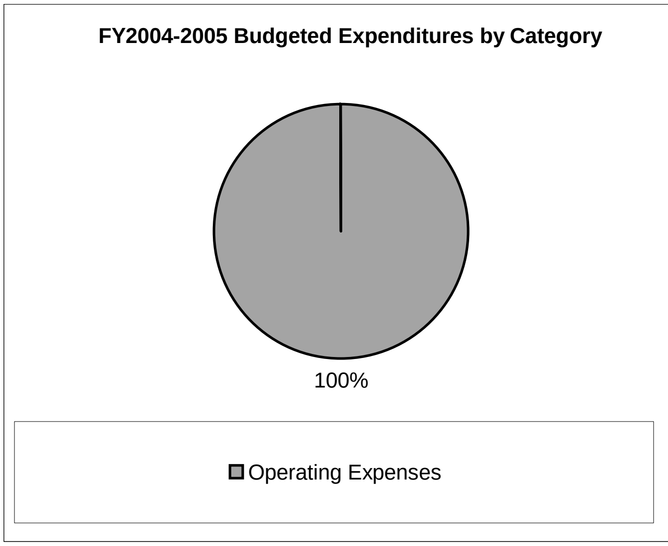
Charge an "in-lieu of sales tax" rate similar to the one used by the State Lottery.

Statutory Change: M.S. 349

	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	4,816	4,880	9,696
Adjusted Base Funding	4,816	4,880	9,696
Change Items			
Operating Budget Reduction	-482	0	-482
Governor's Recommendations	4,334	4,880	9,214
Biennial Change, 2002-03 to 2004-05	-383	807	424
Percent Change	-8%	20%	5%

	FY 2004-05 Revenues ($000s)		
	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	4,334	3,751,300	3,755,634
Change Items			
Operating Budget Reduction	(434)	0	(434)
FY 2004-05 Total Revenues	3,900	3,751,300	3,755,200
Biennial Change 2002-03 to 2004-05	(517)	(284,337)	(284,854)
Percent Change	(12%)	(7%)	(7%)





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	2,353	2,239	2,478	2,167	2,167	4,334
Open Appropriations						
Supplmntl Invest Invest Index	20	15	25	25	25	50
Supplemental Invest Suppl Bond	5	7	10	10	10	20
Supplemental Invest Invest Gic	110	114	100	100	100	200
Supplmntl Invest Moneymarket	4	5	5	5	5	10
Supplemental Investment Income	28	28	100	100	100	200
Supplemental Investment Growth	10	12	100	100	100	200
Post Retirement Investment	931	894	1,000	1,000	1,000	2,000
Invest Ext Money Managers#1	8,289	0	0	0	0	0
Invest Ext Money Managers #2	31,601	556	1,000	1,000	1,000	2,000
Supplemental Intl Equity	2	2	100	100	100	200
Total	**43,353**	**3,872**	**4,918**	**4,607**	**4,607**	**9,214**

Expenditures by Category						
Operating Expenses	43,353	3,872	4,918	4,607	4,607	9,214
Total	**43,353**	**3,872**	**4,918**	**4,607**	**4,607**	**9,214**

Expenditures by Program						
Investment Of Funds	2,353	2,239	2,478	2,167	2,167	4,334
Refunds/Retire Funds	41,000	1,633	2,440	2,440	2,440	4,880
Total	**43,353**	**3,872**	**4,918**	**4,607**	**4,607**	**9,214**

Dollars in Thousands	Actual	Actual	Preliminary	Governor's Rec		Biennium
Revenue by Type and Fund	**FY2001**	**FY2002**	**FY2003**	**FY2004**	**FY2005**	**2004-05**
Non Dedicated						
General	2,271	2,250	2,167	1,950	1,950	3,900
Closed Landfill Investment	0	1	0	0	0	0
Supplmntl Invest Invest Index	648	329	500	500	500	1,000
Supplemental Invest Suppl Bond	42	619	300	300	300	600
Supplemental Invest Invest Gic	1,159	324	750	750	750	1,500
Tobacco Medical Ed Endowment	13,133	19,107	17,000	17,000	17,000	34,000
Tobacco Use Prevent Endowment	14,034	19,922	17,000	17,000	17,000	34,000
Supplmntl Invest Moneymarket	3,113	3,266	3,000	3,000	3,000	6,000
Supplemental Investment Income	4,386	3,056	3,800	3,800	3,800	7,600
Supplemental Investment Growth	2,551	1,027	1,800	1,800	1,800	3,600
Post Retirement Investment	1,905,538	2,085,244	1,800,000	1,800,000	1,800,000	3,600,000
Invest Ext Money Managers#1	10,928	0	0	0	0	0
Invest Ext Money Managers #2	45,376	556	1,000	1,000	1,000	2,000
Supplemental Intl Equity	413	569	500	500	500	1,000
Permanent School	27,969	25,967	30,000	30,000	30,000	60,000
Subtotal Non Dedicated	2,031,561	2,162,237	1,877,817	1,877,600	1,877,600	3,755,200
Total Revenue	**2,031,561**	**2,162,237**	**1,877,817**	**1,877,600**	**1,877,600**	**3,755,200**
Full-Time Equivalents (FTE)	**23.5**	**23.2**	**23.2**	**23.2**	**23.2**	

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($241)	($241)	($241)	($241)
Revenues	(217)	(217)	(217)	(217)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($24)	($24)	($24)	($24)

Recommendation

The Governor recommends a General Fund appropriation of $2,167,000 in FY 2004 and $2,167,000 in FY 2005. These amounts reflect an 8% expenditure reduction from FY 2002-03. As a tool, the State Board of Investment (SBI) should collaborate with other state agencies on ways to achieve these reductions through consolidation, co-location, or sharing of support services. Additionally, the Governor intends to provide as much flexibility as possible to the agency for the implementation of these reductions.

Background

The SBI currently receives a direct General Fund appropriation to pay for its internal operation costs. Approximately 10% of the SBI's internal operating costs are directly related to investment services provided within the state General Fund. The remaining operating costs, approximately 90%, are allocated and billed to non-General Fund organizations that receive SBI investment services. The receipts are deposited in the General Fund as non-dedicated revenue.

Relationship to Base Budget

This represents a $482,000 (10%) reduction in the FY 2004-05 biennial base budget for SBI.

Because of SBI's non-General Fund billing practices, the General Fund appropriation reduction will also reduce General Fund receipts by $434,000. Net General Fund savings will be $48,000.

SBI has not specifically determined where the reductions will occur. It is anticipated that this reduction will require a staff reduction of three to five people. All core services of SBI will be maintained; however levels of service provided to customers will be reduced as will billings to these customers.

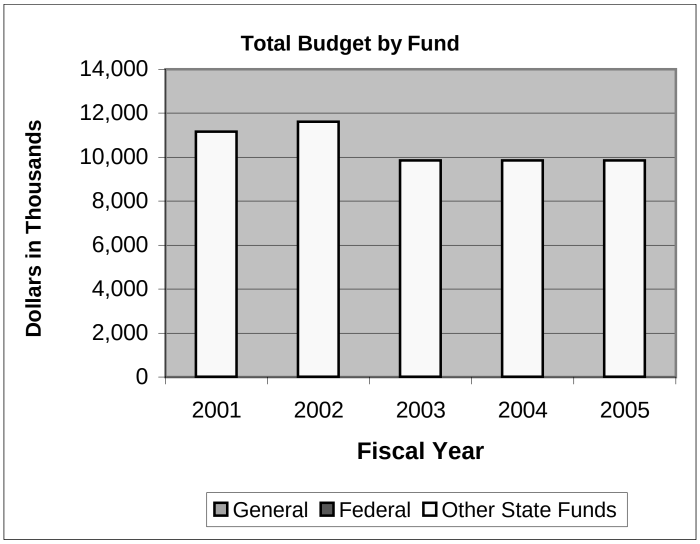
FY 2004-05 Expenditures ($000s)

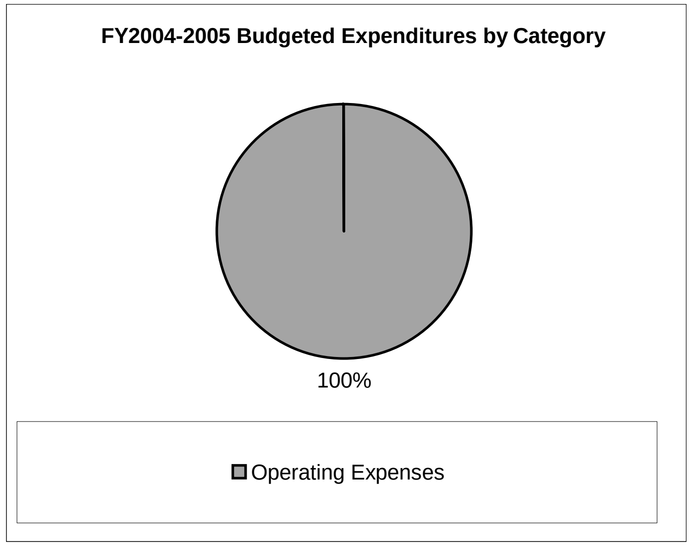
	General Fund	Other Funds	Total
2003 Funding Level	0	19,702	19,702
Adjusted Base Funding	0	19,702	19,702
Governor's Recommendations	0	19,702	19,702
Biennial Change, 2002-03 to 2004-05	0	-1,763	-1,763
Percent Change	n.m	-8%	-8%

FY 2004-05 Revenues ($000s)

	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	64,292	43,000	107,292
Change Items			
Redirect Unclaimed Prizes to General Fund	9,214	0 [1]	9,214
FY 2004-05 Total Revenues	73,506	43,000	116,506

[1] Because of special accounting treatments, the revenue change for the environmental trust fund and the future prize pool is not recognized in the Other Funds section of the Agency Fiscal Report or the table above.





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Open Appropriations						
Lottery Cash Flow	11,160	11,614	9,851	9,851	9,851	19,702
Total	**11,160**	**11,614**	**9,851**	**9,851**	**9,851**	**19,702**
Expenditures by Category						
Operating Expenses	11,160	11,614	9,851	9,851	9,851	19,702
Total	**11,160**	**11,614**	**9,851**	**9,851**	**9,851**	**19,702**
Expenditures by Program						
State Lottery	11,160	11,614	9,851	9,851	9,851	19,702
Total	**11,160**	**11,614**	**9,851**	**9,851**	**9,851**	**19,702**
Revenue by Type and Fund						
Non Dedicated						
General	3,457	34,126	32,146	36,753	36,753	73,506
Cambridge Deposit Fund	26,925	0	0	0	0	0
Lottery Cash Flow	6,247	17,894	21,500	21,500	21,500	43,000
Subtotal Non Dedicated	36,629	52,020	53,646	58,253	58,253	116,506
Total Revenue	**36,629**	**52,020**	**53,646**	**58,253**	**58,253**	**116,506**
Full-Time Equivalents (FTE)	**200.3**	**195.2**	**191.7**	**191.7**	**191.7**	

Program: STATE LOTTERY

Change Item: REDIRECT UNCLAIMED PRIZES TO GF

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	0	0	0
Revenues	$4,607	$4,607	$4,607	$4,607
Other Fund				
Expenditures	0	0	0	0
Revenues				
Mn Environmental Trust Fund	(2,224)	(2,224)	(2,224)	(2,224)
Future game prize pool	(2,383)	(2,383)	(2,383)	(2,383)
Net Fiscal Impact	$ 0	$ 0	$ 0	$ 0

Recommendation

The Governor recommends that all unclaimed lottery prizes formerly directed to the future games prize pool and the Minnesota environmental trust fund now be redirected to the general fund.

Background

Upon initiating lottery games, a specific amount of money is set aside to pay prizes claimed against that game. People have one year from the final drawing or from the final day of game sales to redeem prizes. After that date, people lose their claim on the prize money. After the one-year has elapsed, these unclaimed funds are redistributed as follows:

⇒ 30% is returned to the basic prize pool of subsequent lottery games,

⇒ 28% is transferred to the Minnesota environment and natural resources trust fund.

⇒ 42% is transferred to the general fund.

Relationship to Base Budget

This change will not affect the operating budget of the Lottery. It will simply provide additional non-dedicated revenues to the general fund.

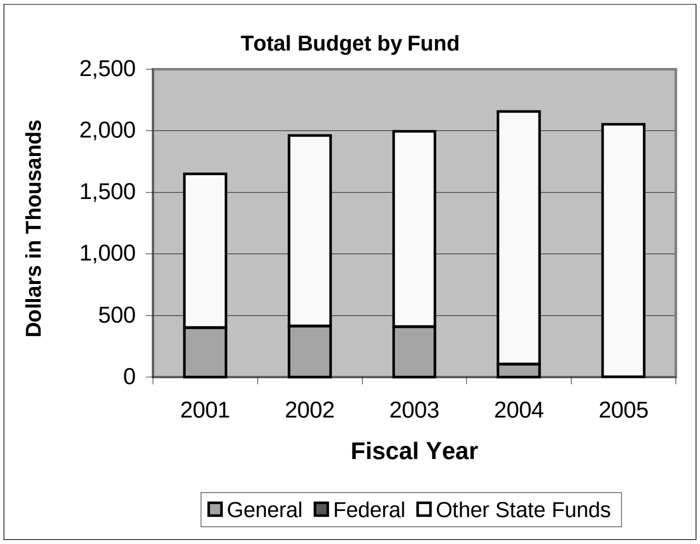
Statutory Change: MS 349A.08, Subd. 5.

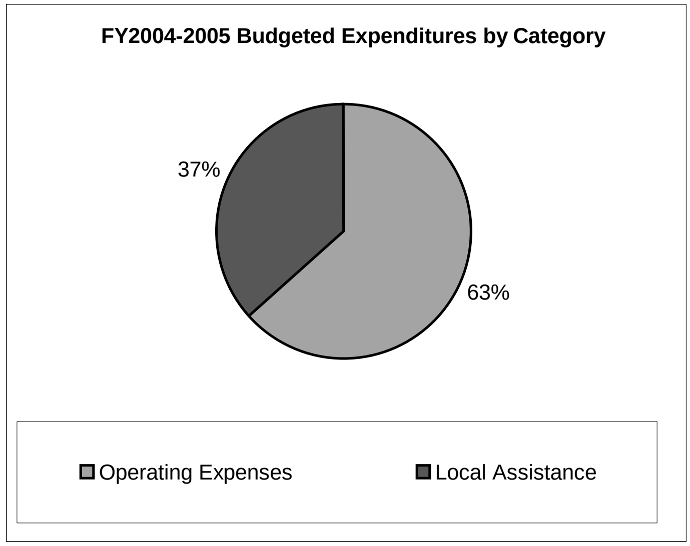
	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	810	3,152	3,962
Legislatively Mandated Base	0	0	0
Transfers Between Agencies	24	0	24
Adjusted Base Funding	834	3,152	3,986
Change Items			
Recover Operating Costs Through Fees	-730	952	222
Governor's Recommendations	104	4,104	4,208
Biennial Change, 2002-03 to 2004-05	-717	969	252
Percent Change	-87%	31%	6%

Brief Description of Budget Changes:

The $24,000 base adjustment and transfer listed above represent a Small Agency Infrastructure (SAI) grant provided for technology improvements.

	FY 2004-05 Revenues ($000s)		
	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	776	3,148	3,924
Change Items			
Recover Operating Costs Through Fees	(270)	952	682
FY 2004-05 Total Revenues	506	4,100	4,606
Biennial Change 2002-03 to 2004-05	(274)	1,049	775
Percent Change	(35%)	34%	20%





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	401	414	407	104	0	104
Special Revenue	0	0	0	476	476	952
Statutory Appropriations						
Special Revenue	382	444	487	475	475	950
Miscellaneous Agency	866	1,103	1,101	1,101	1,101	2,202
Total	**1,649**	**1,961**	**1,995**	**2,156**	**2,052**	**4,208**
Expenditures by Category						
Operating Expenses	1,078	1,171	1,223	1,384	1,280	2,664
Local Assistance	571	790	772	772	772	1,544
Total	**1,649**	**1,961**	**1,995**	**2,156**	**2,052**	**4,208**
Expenditures by Program						
Racing Commission	1,649	1,961	1,995	2,156	2,052	4,208
Total	**1,649**	**1,961**	**1,995**	**2,156**	**2,052**	**4,208**
Revenue by Type and Fund						
Non Dedicated						
General	177	392	388	253	253	506
Cambridge Deposit Fund	144	0	0	0	0	0
Subtotal Non Dedicated	321	392	388	253	253	506
Dedicated						
Special Revenue	403	429	469	945	945	1,890
Miscellaneous Agency	906	1,048	1,105	1,105	1,105	2,210
Subtotal Dedicated	1,309	1,477	1,574	2,050	2,050	4,100
Total Revenue	**1,630**	**1,869**	**1,962**	**2,303**	**2,303**	**4,606**
Full-Time Equivalents (FTE)	**6.6**	**6.6**	**6.6**	**6.6**	**6.6**	

Change Item: RECOVER OPERATING COSTS THROUGH FEES

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($313)	($417)	($417)	($417)
Revenues	(135)	(135)	(135)	(135)
Other Fund				
Expenditures	476	476	476	476
Revenues	476	476	476	476
Net Fiscal Impact	($178)	($282)	($282)	($282)

Recommendation
The Governor recommends creation of a special revenue account related to pari-mutuel horse racing. The Racing Commission will no longer receive a General Fund appropriation. Instead, it will be authorized to collect and deposit to this special revenue account fees sufficient to fully recover its operational costs. The Legislature will make appropriations from this account to support the operations of the Commission.

Background
The special revenue account proposed here would be funded through new fees as well as some existing fees that currently flow to the General Fund. New fees will be subject to the approval of the Commissioner of Finance and notification of the House and Senate. Revenues deposited to this account will then be available for the Legislature to make biennial appropriations to support the operations of the Commission.

It is also recommended that a $104,000 General Fund appropriation be transferred to this new account in FY 2004 to ease the transition to fee-based funding. This would be a one-time appropriation.

The Commission will be authorized to collect fees sufficient to recover its operational costs. Expenditures will be limited to those authorized within the biennial appropriation.

Relationship to Base Budget
The appropriation recommended here represents a $72,000 increase over FY 2002-03 spending. This is because small agencies that do not receive a General Fund appropriation must pay indirect costs and legal fees.

Statutory Change: M.S. 240

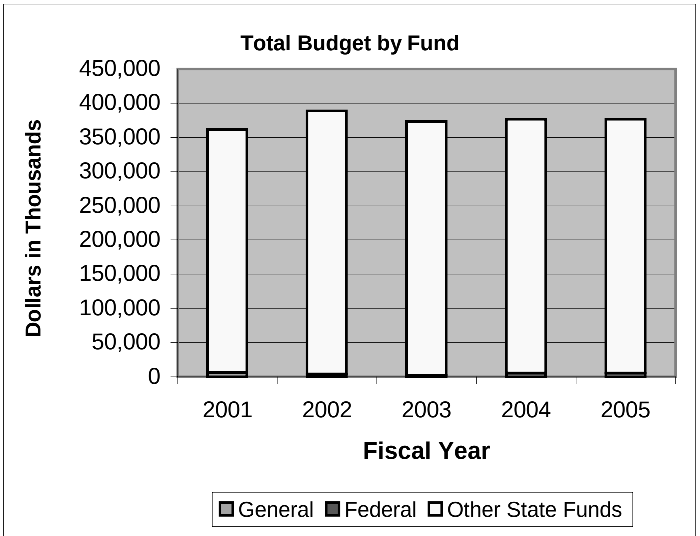
	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	15,212	742,844	758,056
Forecast Caseload/Enrollment Changes	-4,629	0	-4,629
Adjusted Base Funding	10,583	742,844	753,427
Governor's Recommendations	10,583	742,844	753,427
Biennial Change, 2002-03 to 2004-05	5,124	-13,873	-8,749
Percent Change	94%	-2%	-1%

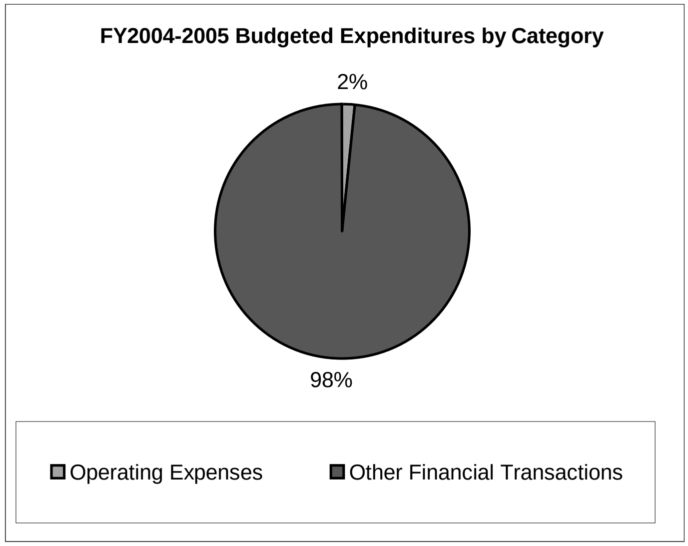
Brief Explanation of Budget Decisions

The Minnesota State Retirement System (MSRS) is funded by its 104,000 members and 31 governmental employers. There are no state General Fund appropriations for the operations and administration of this activity, which are funded by the retirement funds. Base funding has been adjusted to reflect new assumptions and unique retirement patterns of legislators due to redistricting in 2002.

Governor's Recommendation

The Governor recommends no changes to base level funding.





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Open Appropriations						
General	5,984	3,560	1,899	5,269	5,314	10,583
Correctional Employees Retire	15,822	17,996	18,373	18,373	18,373	36,746
State Employees Retirement	284,752	310,061	317,142	317,202	317,202	634,404
Highway Patrol Retirement	30,042	33,195	11,098	11,098	11,098	22,196
Unclassified Employees Retire	8,409	5,831	6,188	6,188	6,188	12,376
Postretirement Health Care Ben	0	390	450	450	450	900
Judicial Retirement	12,291	13,247	13,562	13,562	13,562	27,124
Statutory Appropriations						
Legislative Annuities	4,268	4,635	4,549	4,549	4,549	9,098
Total	**361,568**	**388,915**	**373,261**	**376,691**	**376,736**	**753,427**

Expenditures by Category						
Operating Expenses	4,705	5,716	5,740	5,800	5,800	11,600
Other Financial Transactions	356,863	383,199	367,521	370,891	370,936	741,827
Total	**361,568**	**388,915**	**373,261**	**376,691**	**376,736**	**753,427**

Expenditures by Program						
Mn State Retirement System	339,025	367,083	352,801	352,861	352,861	705,722
Elective Officers Plan	332	354	246	258	271	529
Judges Plan	12,291	13,247	13,562	13,562	13,562	27,124
Legislators Plan	9,920	7,841	6,202	9,560	9,592	19,152
Health Care Savings Fund	0	390	450	450	450	900
Total	**361,568**	**388,915**	**373,261**	**376,691**	**376,736**	**753,427**

Dollars in Thousands 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	527	458	448	448	448	896
Correctional Employees Retire	16,937	17,303	17,977	18,416	18,867	37,283
State Employees Retirement	150,387	156,028	163,721	167,811	171,932	339,743
Highway Patrol Retirement	10,542	10,569	11,129	11,401	11,680	23,081
Unclassified Employees Retire	10,890	11,353	10,909	11,174	11,446	22,620
Postretirement Health Care Ben	0	3,154	2,316	2,373	2,432	4,805
Judicial Retirement	8,495	8,901	9,514	9,738	9,968	19,706
Subtotal Non Dedicated	197,778	207,766	216,014	221,361	226,773	448,134
Total Revenue	**197,778**	**207,766**	**216,014**	**221,361**	**226,773**	**448,134**
Full-Time Equivalents (FTE)	**45.6**	**44.8**	**47.8**	**47.8**	**47.8**	

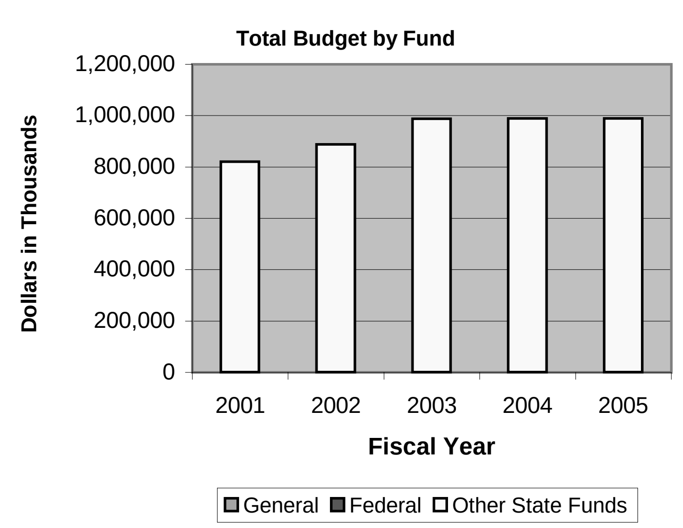
	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	0	1,977,358	1,977,358
Adjusted Base Funding	0	1,977,358	1,977,358
Governor's Recommendations	0	1,977,358	1,977,358
Biennial Change, 2002-03 to 2004-05	-70	101,275	101,205
Percent Change	-100%	5%	5%

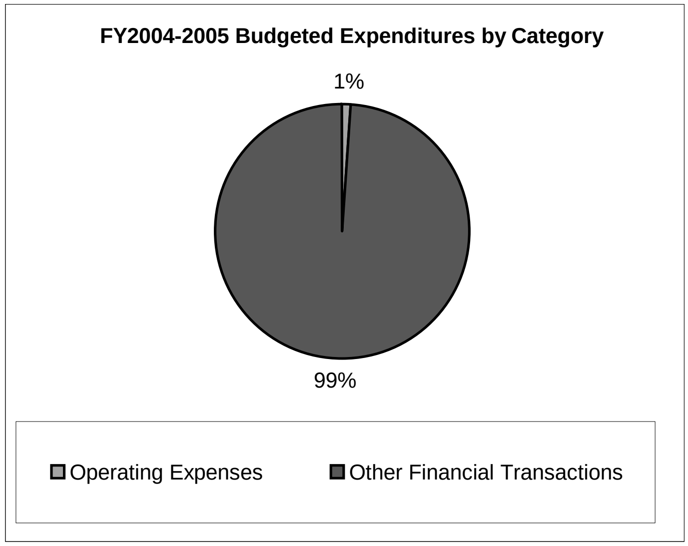
Brief Explanation Of Budget Decisions:

The Public Employees Retirement Association (PERA) is funded by its 174,000 members and 2,100 governmental employers. There are no state General Fund appropriations for this activity, nor are there any state level base adjustments.

Governor's Recommendation(s):

The Governor recommends no changes to base level funding.





Dollars in Thousands **Expenditures by Fund**	**Actual FY2001**	**Actual FY2002**	**Preliminary FY2003**	**Governor's Rec FY2004**	**Governor's Rec FY2005**	**Biennium 2004-05**
Direct Appropriations						
General	0	70	0	0	0	0
Open Appropriations						
Public Employees Retirement	623,689	671,422	757,129	757,679	757,679	1,515,358
Pera Correctional Plan	13	597	500	500	500	1,000
Police And Fire	196,738	214,947	229,000	229,000	229,000	458,000
Statutory Appropriations						
Pera Defined Contribution Plan	859	988	1,500	1,500	1,500	3,000
Total	**821,299**	**888,024**	**988,129**	**988,679**	**988,679**	**1,977,358**
Expenditures by Category						
Operating Expenses	9,583	10,166	11,035	11,035	11,035	22,070
Other Financial Transactions	811,716	877,858	977,094	977,644	977,644	1,955,288
Total	**821,299**	**888,024**	**988,129**	**988,679**	**988,679**	**1,977,358**
Expenditures by Program						
Public Empl Retiremnt Assn	821,299	888,024	988,129	988,679	988,679	1,977,358
Total	**821,299**	**888,024**	**988,129**	**988,679**	**988,679**	**1,977,358**
Revenue by Type and Fund						
Non Dedicated						
Pera Defined Contribution Plan	1,886	2,002	10,000	10,000	10,000	20,000
Public Employees Retirement	368,473	401,138	750,000	750,000	750,000	1,500,000
Pera Correctional Plan	13,381	14,825	10,000	10,000	10,000	20,000
Police And Fire	85,439	89,453	250,000	250,000	250,000	500,000
Subtotal Non Dedicated	469,179	507,418	1,020,000	1,020,000	1,020,000	2,040,000
Dedicated						
Public Employees Retirement	0	1,216	1,470	1,470	1,470	2,940
Subtotal Dedicated	0	1,216	1,470	1,470	1,470	2,940
Total Revenue	**469,179**	**508,634**	**1,021,470**	**1,021,470**	**1,021,470**	**2,042,940**

Dollars in Thousands Full-Time Equivalents (FTE)	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	 FY2005	Biennium 2004-05
	89.2	87.4	86.9	86.9	86.9	

FY 2004-05 Expenditures ($000s)

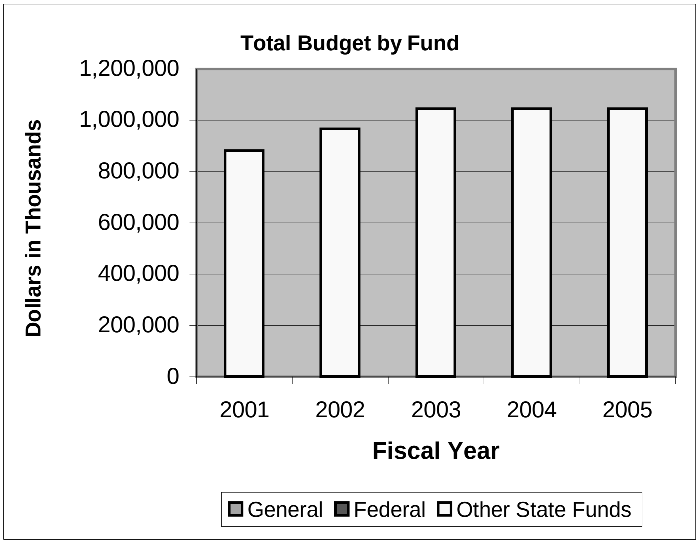
	General Fund	Other Funds	Total
2003 Funding Level	0	2,091,714	2,091,714
Adjusted Base Funding	0	2,091,714	2,091,714
Governor's Recommendations	0	2,091,714	2,091,714
Biennial Change, 2002-03 to 2004-05	0	79,072	79,072
Percent Change	n.m	4%	4%

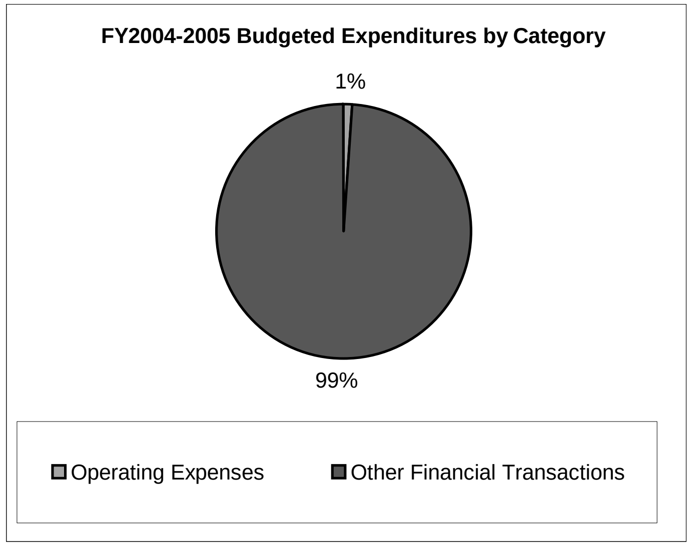
Brief Explanation Of Budget Decisions:

The Teachers Retirement Association (TRA) is funded by its 71,000 active members and 463 employers. There are no state General Fund appropriations for this activity, nor are there any state level base adjustments.

Governor's Recommendation(s):

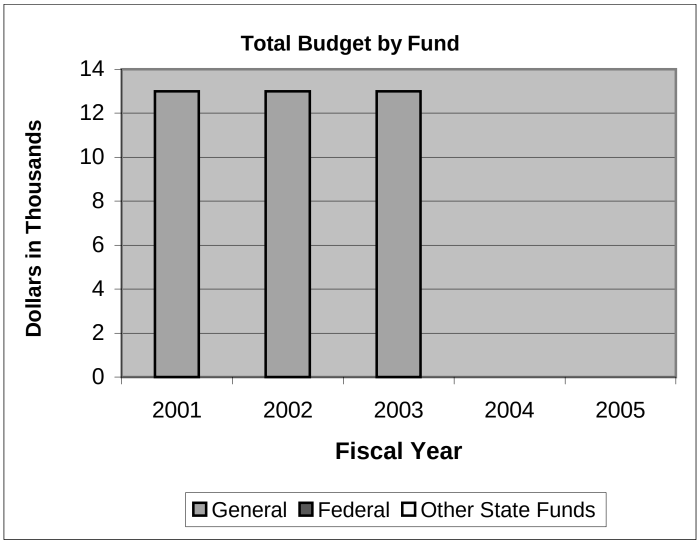
The Governor recommends no changes to base level funding.





Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Open Appropriations						
Teachers Retirement	881,958	966,905	1,045,737	1,045,857	1,045,857	2,091,714
Total	**881,958**	**966,905**	**1,045,737**	**1,045,857**	**1,045,857**	**2,091,714**
Expenditures by Category						
Operating Expenses	12,564	12,675	12,895	13,015	13,015	26,030
Local Assistance	3	2	2	2	2	4
Other Financial Transactions	869,391	954,228	1,032,840	1,032,840	1,032,840	2,065,680
Total	**881,958**	**966,905**	**1,045,737**	**1,045,857**	**1,045,857**	**2,091,714**
Expenditures by Program						
Teachers Retire Asn	881,958	966,905	1,045,737	1,045,857	1,045,857	2,091,714
Total	**881,958**	**966,905**	**1,045,737**	**1,045,857**	**1,045,857**	**2,091,714**
Revenue by Type and Fund						
Non Dedicated						
Teachers Retirement	290,406	286,303	301,605	301,605	301,605	603,210
Subtotal Non Dedicated	290,406	286,303	301,605	301,605	301,605	603,210
Total Revenue	**290,406**	**286,303**	**301,605**	**301,605**	**301,605**	**603,210**
Full-Time Equivalents (FTE)	**85.2**	**86.8**	**86.0**	**86.0**	**86.0**	

	FY 2004-05 Expenditures ($000s)		
	General Fund	**Other Funds**	**Total**
2003 Funding Level	26	0	26
Adjusted Base Funding	26	0	26
Change Items			
Transfer To Veterans Affairs	-26	0	-26
Governor's Recommendations	0	0	0
Biennial Change, 2002-03 to 2004-05	-26	0	-26
Percent Change	-100%	n.m.	-100%



Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	13	13	13	0	0	0
Total	**13**	**13**	**13**	**0**	**0**	**0**
Expenditures by Category						
Local Assistance	13	13	13	0	0	0
Total	**13**	**13**	**13**	**0**	**0**	**0**
Expenditures by Program						
Disabled American Veterans	13	13	13	0	0	0
Total	**13**	**13**	**13**	**0**	**0**	**0**

DISABLED AMERICAN VETS

Change Item: TRANSFER TO VETERANS AFFAIRS

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($13)	($13)	($13)	($13)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($13)	($13)	($13)	($13)

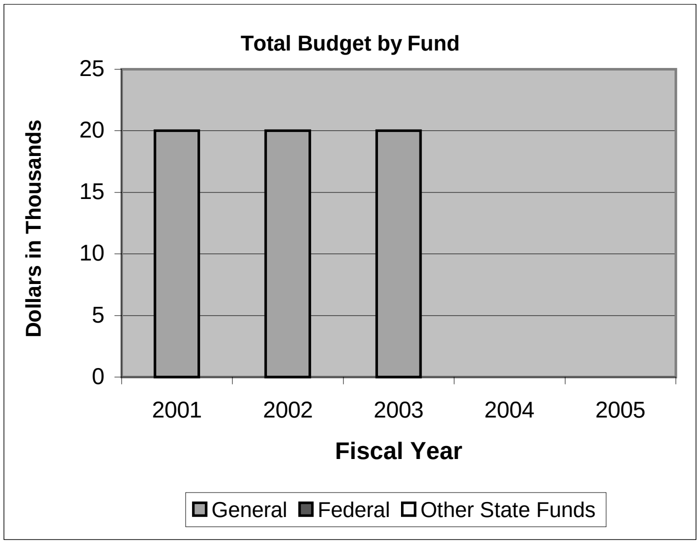
Recommendation
The Governor recommends appropriating a combined $75,000 each year of the FY 2004-05 biennium for grants to the Disabled American Veterans, Military Order of the Purple Heart, and the Veterans of Foreign Wars. Furthermore, the Governor recommends transferring the individual appropriations for these agencies and providing grant oversight authority for the funds to the Department of Veterans Affairs. In addition, the Governor recommends consolidating up to $30,000 that is currently designated for the Vietnam Veterans Association within the Veterans Affairs budget with the combined appropriations. These consolidated funds would continue to be used for the claim service offices of the grantees.

Background
As non-profit organizations, the Disabled American Veterans of Minnesota, as well as the Department of Minnesota Veterans of Foreign Wars (VFW), the Military Order of the Purple Heart of Minnesota, and the Vietnam Veterans Association, provide similar and complementary claims services to Minnesota veterans to those provided by the Minnesota Department of Veterans Affairs. The state also provides rent-free office space to these veterans organizations within the Veterans Services Building. Current state funding to the Disabled American Veterans represents only 3% of the organization's total budget.

Relationship to Base Budget
It is anticipated that consolidation of the three direct appropriations within the Department of Veterans Affairs and providing oversight of the grants to the cabinet agency may generate efficiencies, and therefore, the combined appropriations would be reduced from $176,000 in FY 2002-03 to $150,000 in FY 2004-05, a 15% reduction.

MILITARY ORDER OF PURPLE HEART

	FY 2004-05 Expenditures ($000s)		
	General Fund	**Other Funds**	**Total**
2003 Funding Level	40	0	40
Adjusted Base Funding	40	0	40
Change Items			
Transfer To Veterans Affairs	-40	0	-40
Governor's Recommendations	0	0	0
Biennial Change, 2002-03 to 2004-05	-40	0	-40
Percent Change	-100%	n.m.	-100%



Dollars in Thousands **Expenditures by Fund**	**Actual FY2001**	**Actual FY2002**	**Preliminary FY2003**	**Governor's Rec FY2004**	**Governor's Rec FY2005**	**Biennium 2004-05**
Direct Appropriations						
General	20	20	20	0	0	0
Total	**20**	**20**	**20**	**0**	**0**	**0**

Expenditures by Category						
Local Assistance	20	20	20	0	0	0
Total	**20**	**20**	**20**	**0**	**0**	**0**

Expenditures by Program						
Military Order Purple Heart	20	20	20	0	0	0
Total	**20**	**20**	**20**	**0**	**0**	**0**

MILITARY ORDER OF PURPLE HEART

Change Item: TRANSFER TO VETERANS AFFAIRS

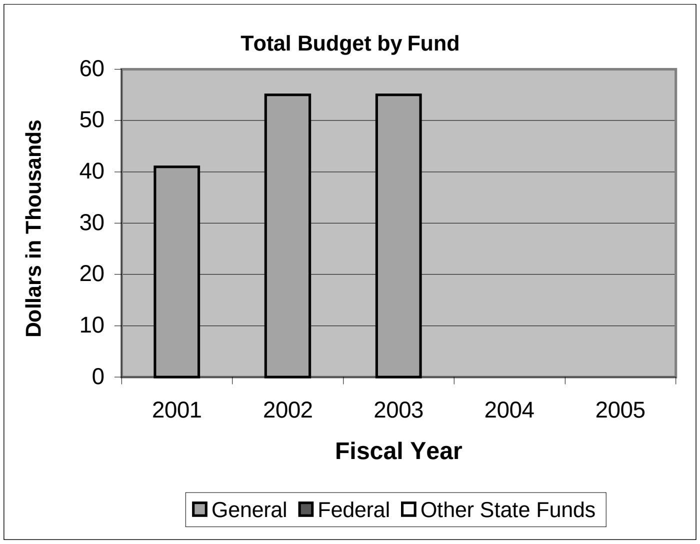
Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($20)	($20)	($20)	($20)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($20)	($20)	($20)	($20)

Recommendation
The Governor recommends appropriating a combined $75,000 each year of the FY 2004-05 biennium for grants to the Military Order of the Purple Heart, the Disabled American Veterans, and the Veterans of Foreign Wars (VFW). Furthermore, the Governor recommends transferring the individual appropriations for these agencies and providing grant oversight authority for the funds to the Department of Veterans Affairs. In addition, the Governor recommends consolidating up to $30,000 that is currently designated for the Vietnam Veterans Association within the Veterans Affairs budget with the combined appropriations. These consolidated funds would continue to be used for the claim service offices of the grantees.

Background
As non-profit organizations, the Military Order of the Purple Heart of Minnesota, as well as the Department of Minnesota Veterans of Foreign Wars (VFW), the Disabled American Veterans of Minnesota, and the Vietnam Veterans Association, provide similar and complementary claims services to Minnesota veterans to those provided by the Minnesota Department of Veterans Affairs. The state also provides rent-free office space to these veterans organizations within the Veterans Services Building. Current state funding to the Military Order of the Purple Heart represents 26% of the organization’s individual operating budget, excluding funds raised through local organizations.

Relationship to Base Budget
It is anticipated that consolidation of the three direct appropriations within the Department of Veterans Affairs and providing oversight of the grants to the cabinet agency may generate efficiencies, and therefore, the combined appropriations would be reduced from $176,000 in FY 2002-03 to $150,000 in FY 2004-05, a 15% reduction.

	FY 2004-05 Expenditures ($000s)		
	General Fund	Other Funds	Total
2003 Funding Level	110	0	110
Adjusted Base Funding	110	0	110
Change Items			
Transfer To Veterans Affairs	-110	0	-110
Governor's Recommendations	0	0	0
Biennial Change, 2002-03 to 2004-05	-110	0	-110
Percent Change	-100%	n.m.	-100%



Dollars in Thousands Expenditures by Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Direct Appropriations						
General	41	55	55	0	0	0
Total	**41**	**55**	**55**	**0**	**0**	**0**

Expenditures by Category						
Local Assistance	41	55	55	0	0	0
Total	**41**	**55**	**55**	**0**	**0**	**0**

Expenditures by Program						
Veterans Of Foreign Wars	41	55	55	0	0	0
Total	**41**	**55**	**55**	**0**	**0**	**0**

VFW

Change Item: TRANSFER TO VETERANS AFFAIRS

Fiscal Impact ($000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	($55)	($55)	($55)	($55)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($55)	($55)	($55)	($55)

Recommendation

The Governor recommends appropriating a combined $75,000 each year of the FY 2004-05 biennium for grants to the Veterans of Foreign Wars (VFW), the Military Order of the Purple Heart, and the Disabled American Veterans. Furthermore, the Governor recommends transferring the individual appropriations for these agencies and providing grant oversight authority for the funds to the Department of Veterans Affairs. In addition, the Governor recommends consolidating up to $30,000 that is currently designated for the Vietnam Veterans Association within the Veterans Affairs budget with the combined appropriations. These consolidated funds would continue to be used for the claim service offices of the grantees.

Background

As non-profit organizations, the Department of Minnesota VFW as well as the Military Order of the Purple Heart of Minnesota, the Disabled American Veterans of Minnesota, and the Vietnam Veterans Association provide similar and complementary claims services to Minnesota veterans to those provided by the Minnesota Department of Veterans Affairs. The state also provides rent-free office space to these veterans organizations within the Veterans Services Building. Current state funding to the VFW represents only 8% of its individual operating budget.

Relationship to Base Budget

It is anticipated that consolidation of the three direct appropriations within the Department of Veterans Affairs and providing oversight of the grants to the cabinet agency may generate efficiencies, and therefore, the combined appropriations would be reduced from $176,000 in FY 2002-03 to $150,000 in FY 2004-05, a 15% reduction.