

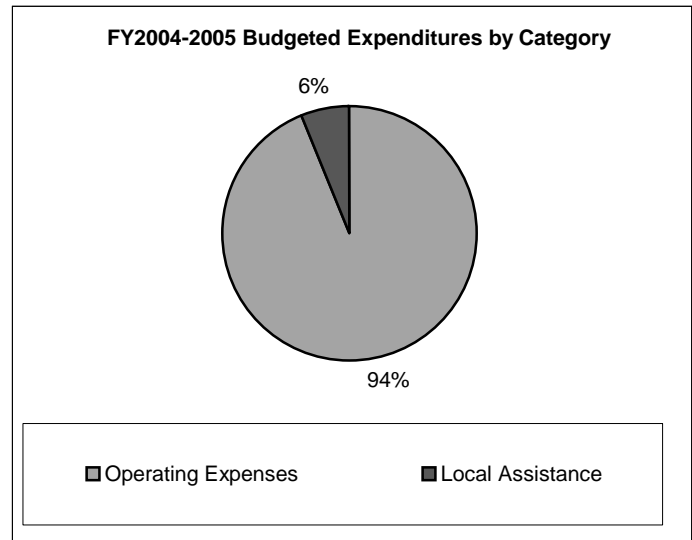
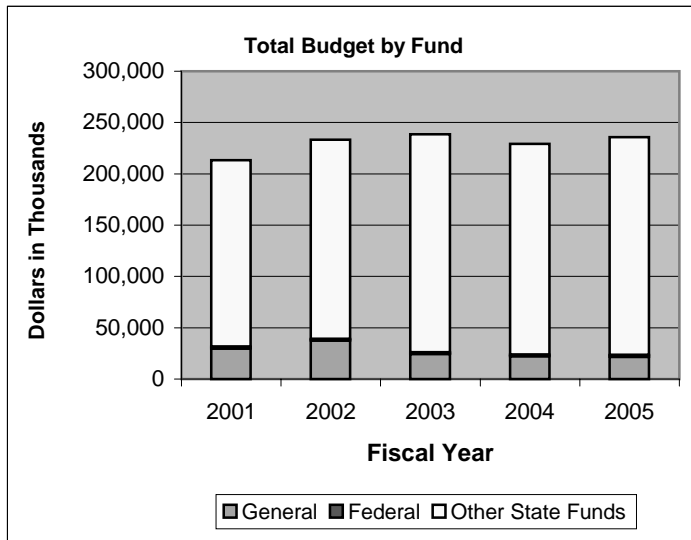
FY 2004-05 Expenditures (\$000s)

| | 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 | -1,916 | 0 | -1,916 |
| 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 1/2 FR & R Funding to Gen'l Fund | 0 | -6,600 | -6,600 |
| Transfer in CAAPB Functions | 524 | 0 | 524 |
| Governor's Recommendations | 43,544 | 421,474 | 465,018 |
| Biennial Change, 2002-03 to 2004-05 | -18,162 | 11,479 | -6,683 |
| Percent Change | -29% | 3% | -1% |

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.)



| <i>Dollars in Thousands</i> | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|----------------------------------|------------------|------------------|-----------------------|--------------------------|--------------------------|---------------------|
| Expenditures by Fund | | | | | | |
| Direct Appropriations | | | | | | |
| General | 29,621 | 37,491 | 24,215 | 22,022 | 21,522 | 43,544 |
| 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 | 8,893 | 8,793 | 17,686 |
| 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 | 229,167 | 235,851 | 465,018 |

| Expenditures by Category | | | | | | |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Operating Expenses | 198,076 | 207,198 | 222,385 | 213,442 | 217,338 | 430,780 |
| 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 | 12,906 | 15,475 | 28,381 |
| Other Financial Transactions | 2,360 | 3,792 | 3,000 | 2,185 | 2,400 | 4,585 |
| Total | 213,270 | 233,130 | 238,571 | 229,167 | 235,851 | 465,018 |

ADMINISTRATION DEPT

Fiscal Report

| <i>Dollars in Thousands</i> | | | | | | |
|--------------------------------|--------------------------|--------------------------|-------------------------------|-----------------------|----------------|-----------------------------|
| Expenditures by Program | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec | | Biennium 2004-05 |
| | | | | FY2004 | FY2005 | |
| 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 | 42,846 | 42,671 | 85,517 |
| Management Services | 8,298 | 7,666 | 7,642 | 7,578 | 7,738 | 15,316 |
| Fiscal Agent | 9,773 | 20,924 | 11,138 | 10,700 | 10,161 | 20,861 |
| Total | 213,270 | 233,130 | 238,571 | 229,167 | 235,851 | 465,018 |

Revenue by Type and Fund

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 | |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--|

ADMINISTRATION DEPT**Change Item: ADMIN GRANT BUDGET REDUCTIONS**

| Fiscal Impact (\$000s) | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|-------------------------------|----------------|----------------|----------------|----------------|
| General Fund | | | | |
| Expenditures | (\$958) | (\$958) | (\$958) | (\$958) |
| Revenues | 0 | 0 | 0 | 0 |
| Other Fund | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact | (\$958) | (\$958) | (\$958) | (\$958) |

Recommendation

The Governor recommends a General Fund appropriation of \$2.04 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.

NOTE: This recommendation incorporates a supplemental budget change. The recommended annual reduction has been increased from minus \$759,000 to minus \$958,000.

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 30% 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 30% | (\$590,000) |
| ◆ Public Radio-AMPERS | less 20% | (\$78,000) |
| ◆ Public Radio-MPR | less 50% | (\$196,000) |
| ◆ Twin City Cable | less 30% | (\$7,000) |
| ◆ Legislative Television | less 20% | (\$85,000) |

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

Preliminary Proposal

| Fiscal Impact (\$000s) | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|-------------------------------|------------------|------------------|------------------|------------------|
| General Fund | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues (Transfer In) | \$3,300 | \$3,300 | \$3,300 | \$3,300 |
| Other Fund | | | | |
| Expenditures | (3,300) | (3,300) | (3,300) | (3,300) |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact | (\$6,600) | (\$6,600) | (\$6,600) | (\$6,600) |

Recommendation

The Governor recommends a 50 percent reduction in expenditures for the Facilities Repair and Replacement (FR&R) account, with the savings being transferred to the General Fund. These funds represent building depreciation and selected bond interest collected by the Department of Administration's (Admin) Plant Management Division (PMD) through lease payments from state agencies and are currently used for asset preservation projects on the 22 buildings under the custodial control of Admin.

Background

Prior to 1997, all funds collected by Admin for depreciation and bond interest were deposited in the General Fund. In 1997, the legislature authorized Admin to use CAPRA and statewide building access (ADA) depreciation and bond interest dollars recovered through rent for asset preservation projects. In 1999, the legislature expanded these provisions to allow Admin to use depreciation dollars stemming from projects funded with general obligation bonds and collected through leases for both asset preservation and facility improvement projects effective July 1, 2001. This initiative would take half of these funds and return them to the General Fund.

The proposed change would take place in FY2004, and would be considered permanent. With the loss of these funds, Admin would look for other sources of money to preserve the 3.7 gross million square feet in the State Capitol and other buildings on the complex, and would make capital budget requests for asset preservation funding beginning in FY2004.

Relationship to Base Budget

Currently, PMD collects approximately \$6.6 million dollars annually from leases for the FR&R account.

Key Measures

The reduction of \$3.3 million would reduce the ability of PMD to maintain the buildings on the Capitol Complex and would delay some asset preservation projects on buildings under the custodial control of Admin. Projects currently supported by this account include:

- ◆ Replacement of the Administration Building and Centennial Office Building (COB) Roofs
- ◆ Mechanical upgrades in the COB
- ◆ Abatement of asbestos in the Veterans Service Building will start using FY03 funding. Additional funding in FY04 and FY05 will be required, and may be part of an asset preservation capital budget request.

Alternatives Considered

The Governor is recommending only reducing FR&R funding by one-half in order to mitigate future problems with deferred maintenance of the state's assets.

Statutory Change: 16B.24Subd. 5(e)

FY 2004-05 Expenditures (\$000s)

| | General Fund | Other Funds | Total |
|--|--------------|-------------|--------|
| 2003 Funding Level | 35,542 | 15,040 | 50,582 |
| Legislatively Mandated Base | 260 | 0 | 260 |
| 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 change of -9% is a result of the recommended operating budget reduction. Two legislatively mandated base adjustments are also reflected above. The first reduces the department's base by \$180,000 to account for savings from DOF assuming the State Treasurer's duties. The second restores a \$440,000 one-time reduction adopted in FY 03. 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 | 664,939 | 0 | 664,939 | 105,783 |
| Contingent Accounts | 5,000 | 1,750 | 6,750 | 5,000 |
| Tort Claims | 322 | 1,200 | 1,522 | (259) |

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 | (\$1,479) | (\$7,146) | (\$7,293) | (\$8,726) |
| Revenues | 0 | 0 | 0 | 0 |
| Other Fund | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact | (\$1,479) | (\$7,146) | (\$7,293) | (\$8,726) |

Recommendation

The Governor is not recommending an emergency capital budget for general obligation projects in the 2003 session. This will result in savings of \$8,625,000 in FY 2004-05 by reducing the forecasted General Fund debt service transfer from \$673,564,000 to \$664,939,000.

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.

FINANCE DEPT (NON-OPERATING)**Change Item: GENERAL FUND CONTINGENCY ACCOUNT**

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

Recommendation

The Governor recommends a \$5,000,000 appropriation in FY 2004 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.

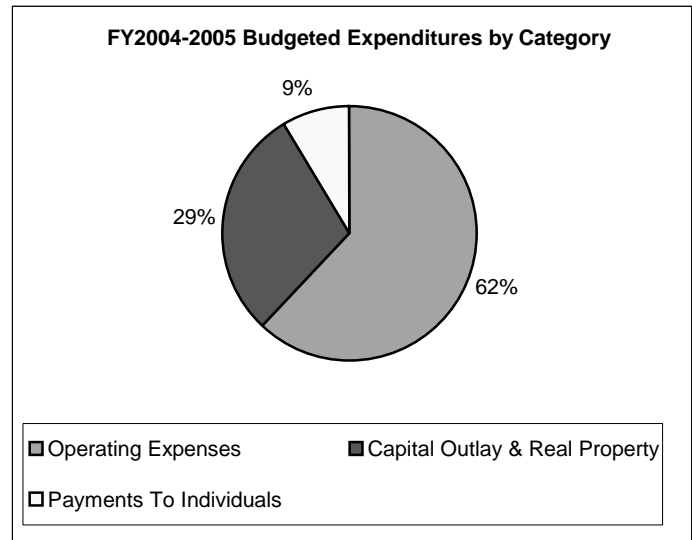
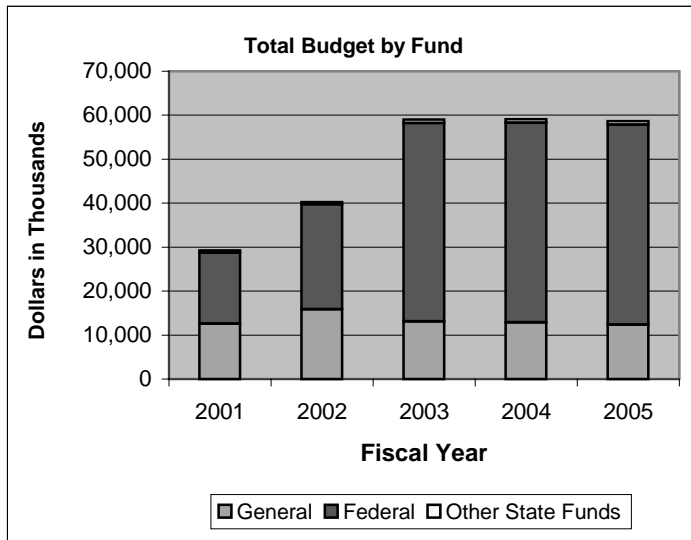
An appropriation to this contingency account will help prevent deficiency appropriations, thereby saving time and allowing for more orderly operations of government.

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.



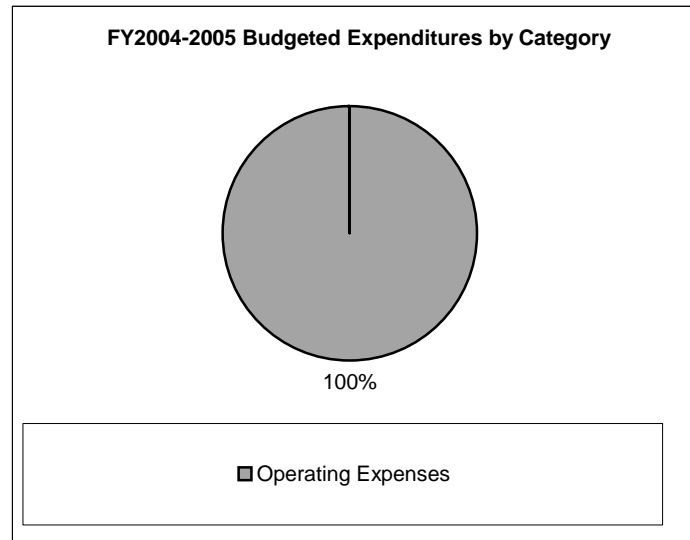
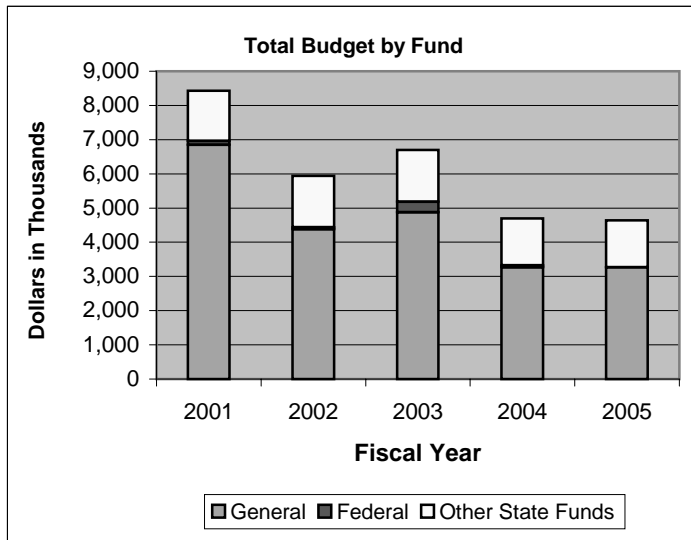
| <i>Dollars in Thousands</i> | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|------------------|------------------|-----------------------|--------------------------|--------------------------|---------------------|
| Expenditures by Fund | | | | | | |
| Carry Forward | | | | | | |
| 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 | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|------------------|------------------|-----------------------|--------------------------|--------------------------|---------------------|
| Operating Expenses | 26,658 | 35,977 | 35,907 | 36,079 | 36,145 | 72,224 |
| 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 | 565 | 565 | 1,130 |
| Total | 29,226 | 40,273 | 58,993 | 59,086 | 58,658 | 117,744 |

| Expenditures by Program | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|--------------------------------|------------------|------------------|-----------------------|--------------------------|--------------------------|---------------------|
| Maint-Training Facilities | 23,734 | 30,257 | 50,752 | 51,252 | 51,313 | 102,565 |
| General Support | 2,349 | 2,464 | 2,506 | 2,413 | 2,413 | 4,826 |
| 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 |

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 | -2,328 | 0 | -2,328 |
| Governor's Recommendations | 6,528 | 2,814 | 9,342 |
| Biennial Change, 2002-03 to 2004-05 | -2,731 | -570 | -3,301 |
| Percent Change | -29% | -17% | -26% |



| <i>Dollars in Thousands</i> | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Expenditures by Fund | | | | | | |
| Direct Appropriations | | | | | | |
| Environment & Natural Resource | 108 | 240 | 0 | 0 | 0 | 0 |
| General | 6,846 | 4,382 | 4,877 | 3,264 | 3,264 | 6,528 |
| 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 | 4,697 | 4,645 | 9,342 |

| Expenditures by Category | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Operating Expenses | 7,995 | 5,943 | 6,700 | 4,697 | 4,645 | 9,342 |
| Local Assistance | 437 | 0 | 0 | 0 | 0 | 0 |
| Total | 8,432 | 5,943 | 6,700 | 4,697 | 4,645 | 9,342 |

| Expenditures by Program | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|--------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Strategic & Long Range Plan | 8,432 | 5,943 | 6,700 | 4,697 | 4,645 | 9,342 |
| Total | 8,432 | 5,943 | 6,700 | 4,697 | 4,645 | 9,342 |

| Revenue by Type and Fund | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Non Dedicated | | | | | | |
| General | 0 | 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 | |
| State of Minnesota | | | | | | |

PLANNING, STRATEGIC & L R

Change Item: BUDGET REDUCTION

| Fiscal Impact (\$000s) | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|------------------------|-----------|-----------|-----------|-----------|
| General Fund | | | | |
| Expenditures | (\$1,164) | (\$1,164) | (\$1,164) | (\$1,164) |
| Revenues | 0 | 0 | 0 | 0 |
| Other Fund | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact | (\$1,164) | (\$1,164) | (\$1,164) | (\$1,164) |

Recommendation

The Governor recommends a General Fund appropriation of \$3.264 million for each year of the FY 2004-05 biennium, a \$1.164 million (26%) 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.

NOTE: The Governor's recommended supplemental budget includes an additional \$500,000 reduction per year incorporated in the amounts and percentages above. The impact of these additional funds would be the further elimination of 6.5 FTEs and additional consolidation of office space.

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 26 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

VETERANS AFFAIRS DEPT

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 70% 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 a three-week 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.

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FY 2004-05 Expenditures (\$000s)

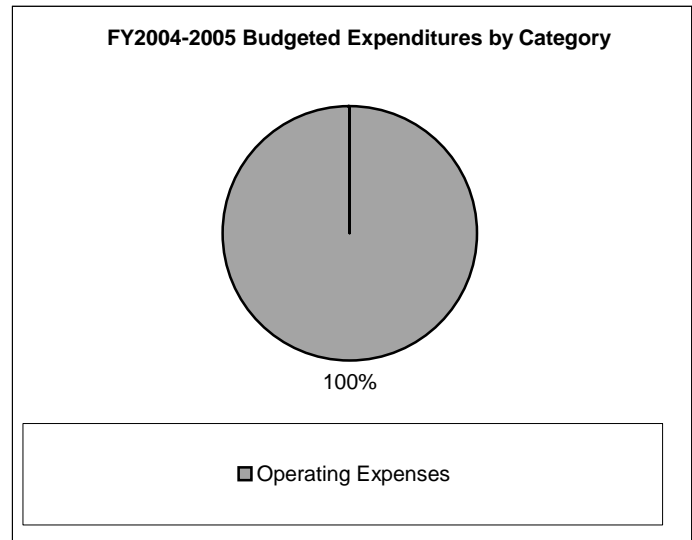
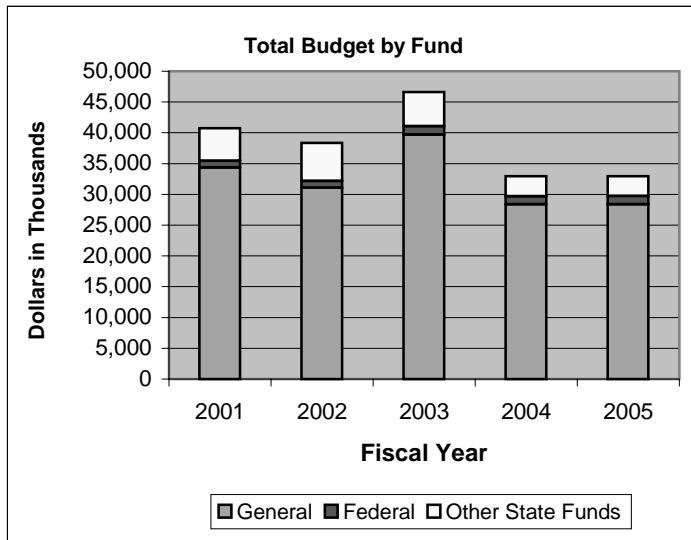
| | General Fund | Other Funds | Total |
|--|--------------|-------------|---------|
| 2003 Funding Level | 64,716 | 9,694 | 74,410 |
| Forecast Caseload/Enrollment Changes | 0 | -549 | -549 |
| Legislatively Mandated Base | 40 | 0 | 40 |
| New Programs To Agency Base | 22 | 0 | 22 |
| Adjusted Base Funding | 64,778 | 9,145 | 73,923 |
| Change Items | | | |
| Operating Budget Reduction | -8,000 | 0 | -8,000 |
| PCA Funding Consolidation | 0 | 0 | 0 |
| 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%) |



| <i>Dollars in Thousands</i> | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|----------------------------------|------------------|------------------|-----------------------|--------------------------|--------------------------|---------------------|
| Expenditures by Fund | | | | | | |
| Direct Appropriations | | | | | | |
| General | 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 |
| Remediation | 0 | 0 | 0 | 484 | 484 | 968 |
| Solid Waste | 281 | 165 | 796 | 0 | 0 | 0 |
| 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 |

ATTORNEY GENERALChange Item: **PCA FUNDING CONSOLIDATION****Preliminary Proposal**

| Fiscal Impact (\$000s) | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|-------------------------------|----------------|----------------|----------------|----------------|
| Solid Waste Fund | | | | |
| Expenditures | (484) | (484) | (484) | (484) |
| Revenues | 0 | 0 | 0 | 0 |
| Remediation Fund | | | | |
| Expenditures | 484 | 484 | 484 | 484 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact | 0 | 0 | 0 | 0 |

Recommendation

As a part of the Pollution Control Agency's (PCA) Environmental Funding Consolidation Change Item, the Governor recommends that \$484,000 in FY 2004 and \$484,000 in FY 2005 be appropriated to the Attorney General from the Remediation Fund, rather than the Solid Waste Fund.

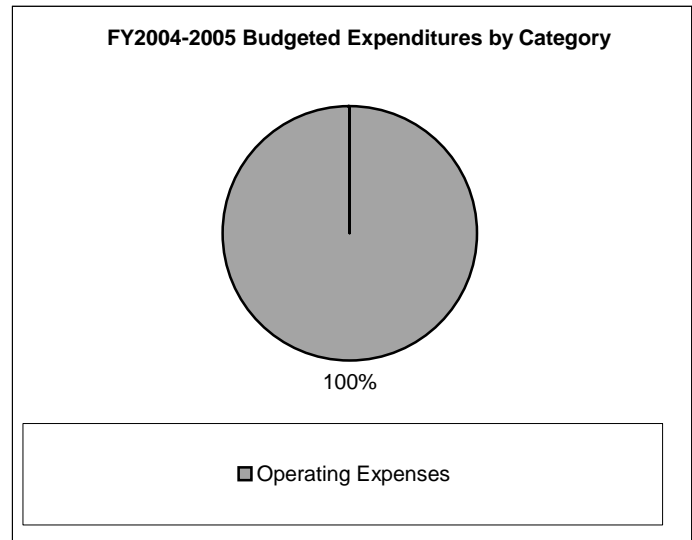
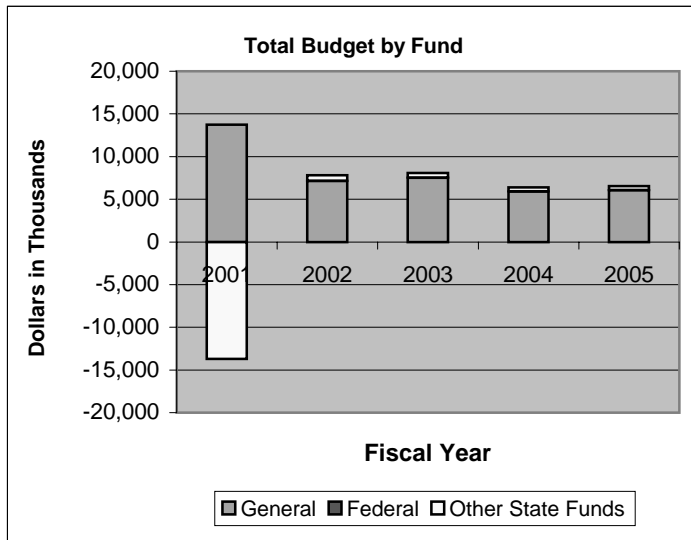
Background

In an effort to improve the ability of the legislature and affected agencies to direct money to the highest environmental priorities, the Governor recommends environmental fund simplification. Specifically, PCA will restructure the Environmental Fund by creating a new Remediation Fund and abolishing the Solid Waste and Metropolitan Landfill Contingency Action Trust Funds. For more information on this change item, please see the PCA's budget.

Relationship to Base Budget

This change item simply appropriates base level funding to the Attorney General from the Remediation Fund rather than the Solid Waste Fund. No change in the amount, use or oversight of these funds is proposed as a result of this change item.

Statutory Change: Not applicable.



| <i>Dollars in Thousands</i> | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Expenditures by Fund | | | | | | |
| Direct Appropriations | | | | | | |
| General | 13,742 | 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 | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| 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 | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|--------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| 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 | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Non Dedicated | | | | | | |
| General | 3 | 10,528 | 10,525 | 12,232 | 13,325 | 25,557 |
| Cambridge Deposit Fund | 11,149 | 0 | 0 | 0 | 0 | 0 |
| Subtotal Non Dedicated | 11,152 | 10,528 | 10,525 | 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 | 10,987 | 12,714 | 13,828 | 26,542 |

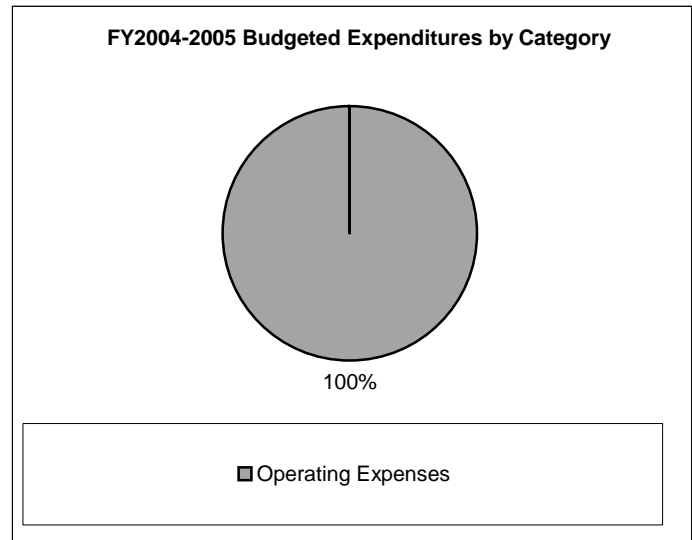
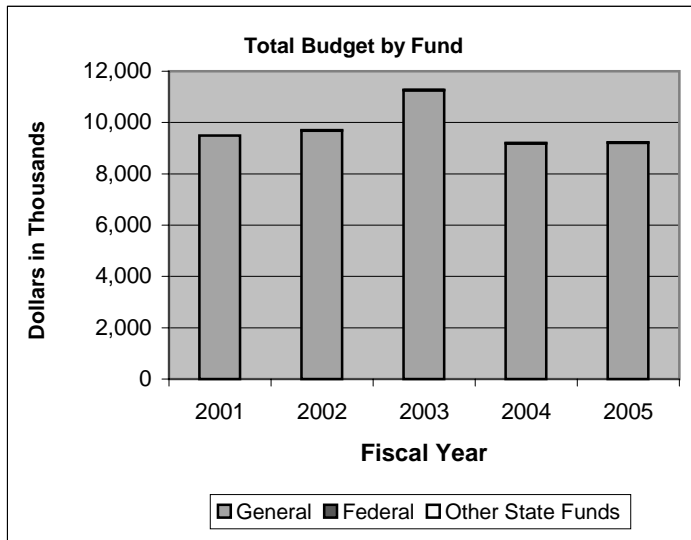
Full-Time Equivalents (FTE)

85.9 94.4 89.5 89.5

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89.5

2004-05 Biennial Budget 3/12/2003



| <i>Dollars in Thousands</i> | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|------------------------------------|------------------|------------------|-----------------------|--------------------------|--------------------------|---------------------|
| Expenditures by Fund | | | | | | |
| Direct Appropriations | | | | | | |
| General | 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 | 6,704 | 6,641 | 6,641 | 13,282 |
| Cambridge Deposit Fund | 6,469 | 0 | 0 | 0 | 0 | 0 |
| Subtotal Non Dedicated | 6,473 | 6,328 | 6,704 | 6,641 | 6,641 | 13,282 |
| Dedicated | | | | | | |
| Special Revenue | 5 | 24 | 20 | 23 | 21 | 44 |
| Subtotal Dedicated | 5 | 24 | 20 | 23 | 21 | 44 |
| Total Revenue | 6,478 | 6,352 | 6,724 | 6,664 | 6,662 | 13,326 |
| Full-Time Equivalents (FTE) | 136.0 | 135.1 | 146.4 | 146.2 | 146.0 | |

LEGISLATUREChange 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 an appropriation of \$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.

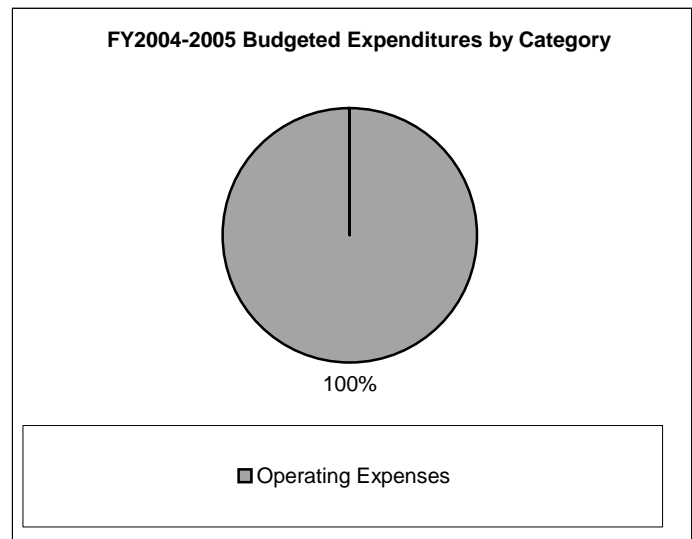
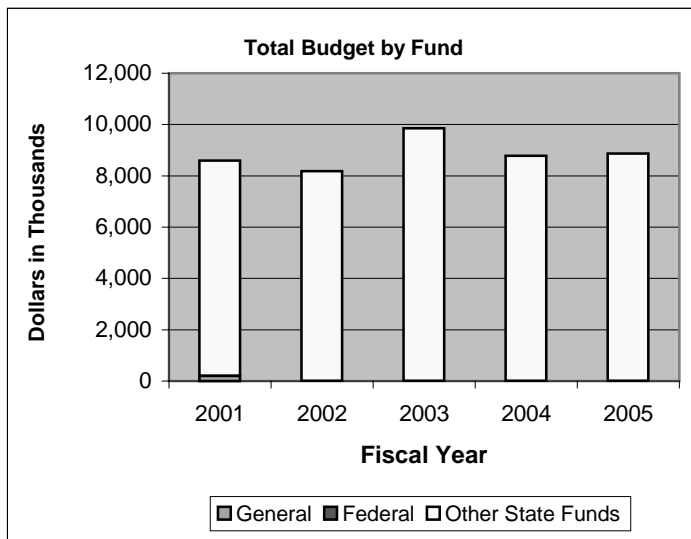
Background

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. The Governor is also recommending consolidating the HCAF into the General Fund at the end of FY 2005. In FY 2006 and beyond, the appropriations for this activity will be made from the General Fund.

Relationship to Base Budget

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

Statutory Change: Not Applicable.



| <i>Dollars in Thousands</i> | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Expenditures by Fund | | | | | | |
| Direct Appropriations | | | | | | |
| General | 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 | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| 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 | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|--------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| 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 | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| 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 | 90.3 | 88.5 | 88.5 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|

ADMINISTRATIVE HEARINGS

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 and five 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. Over the last two years, those claims appear to have reached a plateau. If an increase in benefit claims occurs as a result of a depressed state of the economy, the elimination of six workers' compensation judge positions might result in some delays in adjudicating claims. However, several workers' compensation judge vacancies have already occurred in the last few years. Rather than fill those vacancies, the office has re-engineered its work processes and has largely forestalled any resultant delays in adjudicating claims. Further re-engineering is still possible. And it is therefore estimated that the loss of workers' compensation judge positions associated with these budget reductions may result in some delays in adjudicating claims, but that those delays will not be serious.

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.

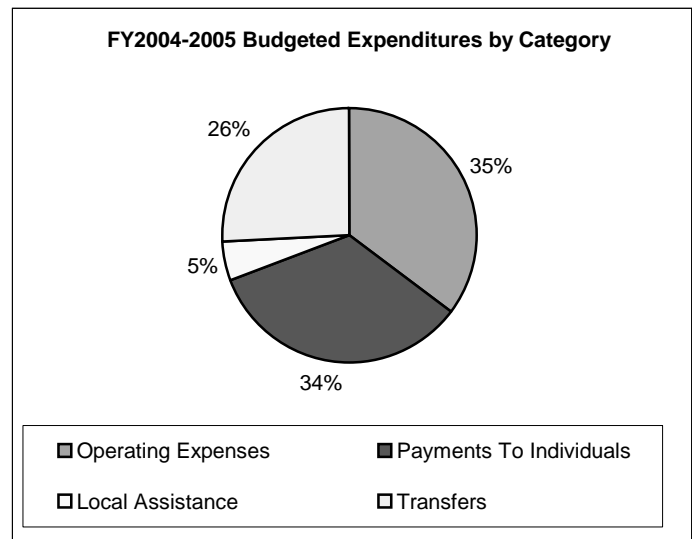
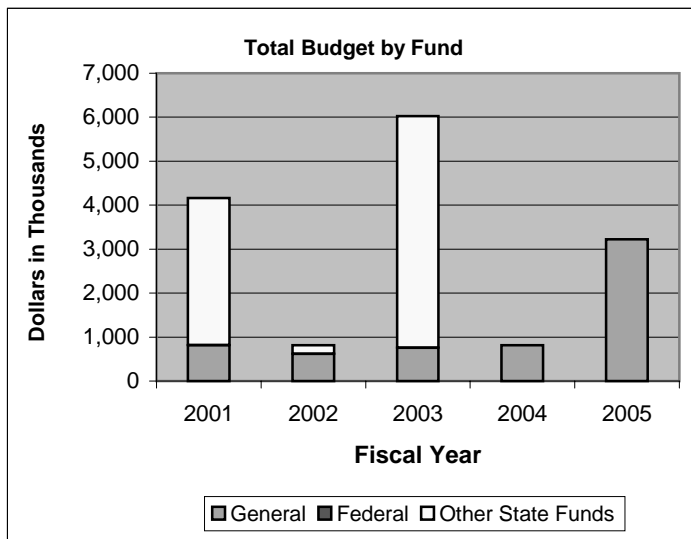
| FY 2004-05 Expenditures (\$000s) | | | |
|--|--------------|-------------|--------|
| | General Fund | Other Funds | Total |
| 2003 Funding Level | 9,830 | 0 | 9,830 |
| Biennial Appropriations | -1,500 | 0 | -1,500 |
| Legislatively Mandated Base | 0 | 0 | 0 |
| Open Appr. Forecast Adj. | -3,096 | 0 | -3,096 |
| Transfers Between Agencies | 30 | 0 | 30 |
| Adjusted Base Funding | 5,264 | 0 | 5,264 |
| Change Items | | | |
| Eliminate State Contrib To Tax Check-off | -1,200 | 0 | -1,200 |
| Fee Recovery Proposal | -26 | 0 | -26 |
| Governor's Recommendations | 4,038 | 0 | 4,038 |
| Biennial Change, 2002-03 to 2004-05 | 2,662 | -5,465 | -2,803 |
| Percent Change | 193% | -100% | -41% |

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 | 1,335 | 0 | 1,335 |
| FY 2004-05 Total Revenues | 1,429 | 1 | 1,430 |
| Biennial Change 2002-03 to 2004-05 | 1,367 | (6) | 1,276 |
| Percent Change | 2010% | (600%) | 1806% |



| <i>Dollars in Thousands</i> | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Expenditures by Fund | | | | | | |
| Direct Appropriations | | | | | | |
| General | 815 | 620 | 756 | 712 | 712 | 1,424 |
| Open Appropriations | | | | | | |
| General | 0 | 0 | 0 | 100 | 2,514 | 2,614 |
| 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 | 812 | 3,226 | 4,038 |

| Expenditures by Category | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Operating Expenses | 815 | 648 | 783 | 712 | 712 | 1,424 |
| Payments To Individuals | 3,228 | 70 | 4,571 | 0 | 1,364 | 1,364 |
| Local Assistance | 116 | 100 | 669 | 100 | 110 | 210 |
| Transfers | 0 | 0 | 0 | 0 | 1,040 | 1,040 |
| Total | 4,159 | 818 | 6,023 | 812 | 3,226 | 4,038 |

| Expenditures by Program | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|--------------------------------|---------------|---------------|--------------------|-----------------------|-----------------------|------------------|
| Campaign Finance & Public Disc | 4,159 | 818 | 6,023 | 812 | 3,226 | 4,038 |
| Total | 4,159 | 818 | 6,023 | 812 | 3,226 | 4,038 |

| 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 | 100 | 21 | 47 | 742 | 687 | 1,429 |
| Subtotal Non Dedicated | 100 | 21 | 47 | 742 | 687 | 1,429 |
| Dedicated | | | | | | |
| Special Revenue | 0 | 3 | 4 | 1 | 0 | 1 |
| Subtotal Dedicated | 0 | 3 | 4 | 1 | 0 | 1 |
| Total Revenue | 100 | 24 | 51 | 743 | 687 | 1,430 |

| | | | | | | |
|------------------------------------|------------|------------|------------|------------|------------|--|
| Full-Time Equivalents (FTE) | 8.0 | 7.9 | 9.2 | 9.2 | 9.2 | |
|------------------------------------|------------|------------|------------|------------|------------|--|

Preliminary Proposal

| Fiscal Impact (\$000s) | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|-------------------------------|----------------|----------------|----------------|----------------|
| General Fund | | | | |
| Expenditures | (100) | (1,100) | (100) | (1,100) |
| Revenues | 0 | 0 | 0 | 0 |
| Other Fund | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact | (100) | (1,100) | (100) | (1,100) |

Recommendation

The Governor recommends eliminating the state’s contribution associated with tax check-off campaign contributions under Minnesota Statutes Chapter 10A.31 and raising the limit for contributions from \$5 per person (\$10 for couples filing jointly) to \$25 per person (\$50 for couples filing jointly). Because the “no cost to tax filer” provision has acted as an incentive to contribute, it is assumed that if it were eliminated, contributions to campaigns through state tax forms would decrease by 50 percent. Therefore, the cumulative sum of payments in check-off subsidies to candidates and party units would likewise decline by half, which would result in reducing those subsidies by \$100,000 in FY2004 and \$1.1 million in FY2005.

This change item reflects only the reduced expenditure portion of the recommendation. The associated changes in revenue are discussed under the Department of Revenue budget recommendations.

Background

Current law allows taxpayers to designate that \$5 of their taxes be paid from the general fund into a political party or general fund account for subsidizing state election campaigns in Minnesota for candidates and parties who comply with specific campaign finance laws including spending limit agreements. The Governor recommends continuing to allow taxpayers to contribute to public campaign accounts on state tax returns at a higher maximum rate of \$25, but the contributions would be at the cost of the filers.

In addition, the Governor recommends maintaining the statutory appropriation of \$1.5 million to the state elections campaign fund for each general election. These funds would continue to be distributed to candidates who comply with statutory rules for disclosure and spending limits.

Also, note that the Governor is recommending continuation of the Political Contributions Refund Program at a reduced rate of refund (See “Modify Refund Program” under Department of Revenue).

Relationship to Base Budget

Current base estimates for tax check off subsidies are \$200,000 in FY2004 and \$2.2 million in FY2005.

The board would not experience any reduction in workload associated with the proposal, because it is assumed that the number of checks as well as the distribution of rules and funds would continue. Therefore, there would be no decrease in operating expenditures.

Key Measures

It is possible that fewer candidates would request public campaign subsidies if the funding is reduced. Therefore, it is possible that compliance with public disclosure and the percentage of candidates who choose to agree to the spending limits in order to receive the subsidies would decline as well.

Alternatives Considered

Another consideration would be to eliminate the campaign contribution check-off option on state tax forms and repeal the statutory appropriation of \$1.5 million to the state elections campaign fund for each general election. Under such a scenario, there would be some minor reductions in operating costs for the board. However, such

CAMPAIGN FIN & PUB DISC BD

Change Item: ELIMINATE STATE CONTRIBUTION TO TAX CHECK-OFF

an action would entirely abolish the public campaign subsidy program, which the Governor believes is valuable and should be continued.

Statutory Change: M.S. Chapter 10A.31

CAMPAIGN FIN & PUB DISC BD

Change Item: FEE RECOVERY PROPOSAL

| Fiscal Impact (\$000s) | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|------------------------|---------|---------|---------|---------|
| General Fund | | | | |
| Expenditures | \$30 | (\$56) | \$30 | (\$56) |
| Revenues | 695 | 640 | 695 | 640 |
| Other Fund | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact | (\$665) | (\$696) | (\$665) | (\$696) |

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 Estimated 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 | Upon filing | \$17,500 |
| Senate | 150 | \$500 | Upon filing | \$37,500 |
| House of Representatives | 300 | \$350 | Upon filing | \$105,000 |
| Judicial | 25 | \$250 | Upon filing | \$6,250 |
| Political Committees/Funds | 350 | 2% of expenditures | Biennial | \$180,000 |
| Political Party Units (See NOTE below) | 350 | 1.5% of expenditures | Biennial | \$270,000 |
| Public Officials | 1,300 | \$60 | Annual | \$156,000 |
| Total Fee Revenue | | | | \$1,334,750 |

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 \$86,000 (*See NOTE below*) during the biennium to offset the board's costs. Therefore, the total cost and revenue offset is estimated to be approximately \$1.42 million 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.

NOTE: It is assumed that implementation of the supplementary budget change item for the board (See "Eliminate State Contribution to Tax Check-Off") would result in a 50 percent reduction in contributions to public campaign subsidies. Therefore, there would be a 50 percent reduction in the percentage of the proceeds that are transferred to the General Fund for administrative costs. The Governor recommends amending his initial recommendation by increasing the fees to political party units from 1 percent of expenditures to 1.5 percent of expenditures in order to offset the decline in administrative revenue due to the new proposal.

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

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| Budget in Brief Report | 149 |
| Agency Fiscal Page | 150 |
| Change Items | |
| Agency Change Items | |
| Pension Uniformity: Leg & Const Officers | 151a |

FY 2004-05 Expenditures (\$000s)

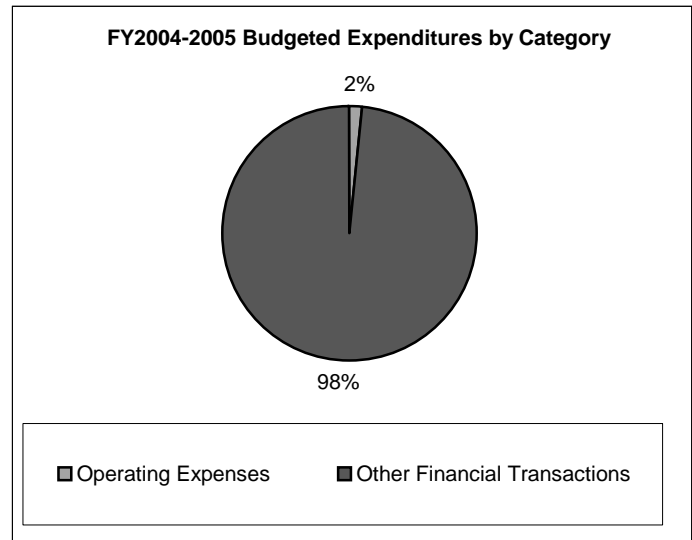
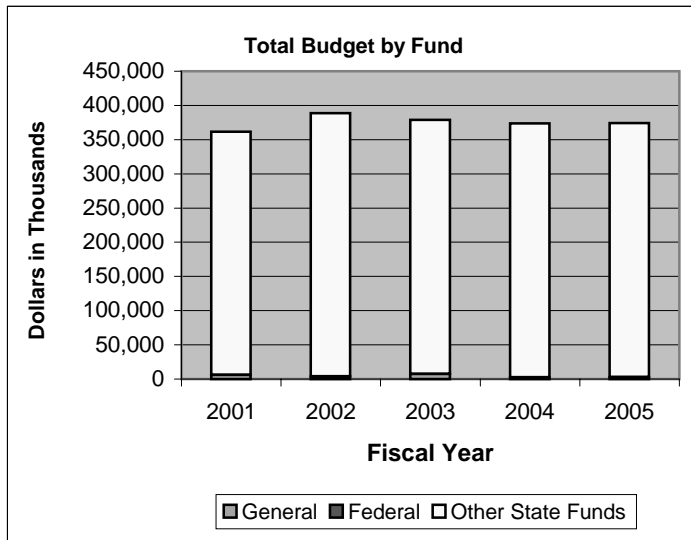
| | General Fund | Other Funds | Total |
|--|--------------|-------------|---------|
| 2003 Funding Level | 15,212 | 742,844 | 758,056 |
| February Forecast Adjustment | 312 | 0 | 312 |
| Forecast Caseload/Enrollment Changes | -4,629 | 0 | -4,629 |
| Adjusted Base Funding | 10,895 | 742,844 | 753,739 |
| Change Items | | | |
| Pension Uniformity: Leg & Const Officers | -5,650 | 0 | -5,650 |
| Governor's Recommendations | 5,245 | 742,844 | 748,089 |
| Biennial Change, 2002-03 to 2004-05 | -5,791 | -13,873 | -19,664 |
| Percent Change | -52% | -2% | -3% |

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 a savings of \$2.85 million in FY 2004 and \$2.8 million in FY 2005 by standardizing the method by which pension obligations are paid for legislators and constitutional officers elected prior to July 1, 1997.



| <i>Dollars in Thousands</i> | Actual FY2001 | Actual FY2002 | Preliminary FY2003 | Governor's Rec FY2004 | Governor's Rec FY2005 | Biennium 2004-05 |
|---------------------------------|------------------|------------------|-----------------------|--------------------------|--------------------------|---------------------|
| Expenditures by Fund | | | | | | |
| Open Appropriations | | | | | | |
| General | 5,984 | 3,560 | 7,476 | 2,518 | 2,727 | 5,245 |
| 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 | 378,838 | 373,940 | 374,149 | 748,089 |

| Expenditures by Category | | | | | | |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Operating Expenses | 4,705 | 5,716 | 5,740 | 5,800 | 5,800 | 11,600 |
| Other Financial Transactions | 356,863 | 383,199 | 373,098 | 368,140 | 368,349 | 736,489 |
| Total | 361,568 | 388,915 | 378,838 | 373,940 | 374,149 | 748,089 |

| 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 | 368 | 427 | 795 |
| Judges Plan | 12,291 | 13,247 | 13,562 | 13,562 | 13,562 | 27,124 |
| Legislators Plan | 9,920 | 7,841 | 11,779 | 6,699 | 6,849 | 13,548 |
| Health Care Savings Fund | 0 | 390 | 450 | 450 | 450 | 900 |
| Total | 361,568 | 388,915 | 378,838 | 373,940 | 374,149 | 748,089 |

MINN STATE RETIREMENT SYSTEM

Change Item: PENSION UNIFORMITY: LEG & CONST OFFICERS

Preliminary Proposal

| Fiscal Impact (\$000s) | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|------------------------|---------|---------|---------|---------|
| General Fund | | | | |
| Expenditures | (2,850) | (2,800) | (2,800) | (2,700) |
| Revenues | 0 | 0 | 0 | 0 |
| Other Fund | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact | (2,850) | (2,800) | (2,800) | (2,700) |

Recommendation

The Governor recommends a savings of \$2.85 million in FY 2004 and \$2.8 million in FY 2005 by standardizing the method by which pension obligations are paid for legislators and constitutional officers elected prior to July 1, 1997. This recommendation would provide pension payments to pre-1997 legislators on a pay-as-you-go basis, as is the current procedure for pre-1997 constitutional officers. This recommendation would not change contribution levels for active members and would not affect benefit levels for retirees.

Background

The state currently uses different methods for funding pension obligations of state legislators and constitutional officers. For legislators first elected prior to July 1, 1997, the actuarial accrued liability of all future pension obligations for each legislator is paid at the time of that member's retirement as a one-time lump sum contribution from the state General Fund to the post-retirement fund. Estimates of the cost of this plan are updated in each state economic forecast. Funding is appropriated in the state government omnibus appropriation bill.

By contrast, an actuarial accrued liability that represents future pension obligations for each pre-1997 constitutional officer is not calculated or paid at the time of that member's retirement. Instead, pension costs in that plan are funded on a pay-as-you-go basis each year. The governor's recommendation would expand the approach currently used in the pre-1997 constitutional officers plan by providing funding in the same manner for pre-1997 legislators. This would reduce costs by \$5.65 million in FY 2004-05 and \$5.5 million in FY 2006-07.

Contribution levels for all members would not be affected by this proposal and benefit levels for all current and future retirees would not be changed. (Legislators and constitutional officers first elected after July 1, 1997 are included in the unclassified plan of the Minnesota State Retirement System, a defined contribution plan, and would also not be affected by this recommendation).

Relationship to Base Budget

Based on the February 2003 forecast, the state cost for the pre-1997 legislators retirement plan is \$5 million in FY 2004 and \$5.1 million in FY 2005. The state cost for the pre-1997 constitutional officers retirement plan is \$368,000 in FY 2004 and \$427,000 in FY 2005. Total actuarial assets in MSRS retirement plans were estimated to be in excess of \$8.8 billion on July 1, 2002.

Alternatives Considered

Budget proposals in the pension area were screened to eliminate any negative impact on benefit levels for current retirees and to avoid increased contribution levels for active members in the state retirement plans.

One possible alternative to this recommendation was considered. Rather than providing state payments to pre-1997 legislators and constitutional officers on a pay-as-you-go basis, one or both retirement plans could be merged with the MSRS general employees retirement plan, or annual payments could be redirected from the General Fund to the general employees plan. This would require an amendment to M.S., Chapter 354A. Savings under this approach would equal \$10.1 million in FY 2004-05. The general employees plan had an actuarial accrued liability of 104.53% on 7/1/02. Plans are generally considered to have excess accrued liability when the funding ratio exceeds 100%.

Statutory Change: M.S., Chapter 3A.11.