**Summary of the Fiscal Actions of the 2005 Legislature**

# Minnesota's General Fund Budget for the FY 2006-07 Biennium

**Money Matters 05.03**
**October 2005**


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**Fiscal Analysis Department**
Minnesota House of Representatives

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# The Overall Budget Picture

The February 2005 forecast projected that general fund expenditures would exceed revenues by $466 million for the FY 2006-07 biennium. That forecast projected revenues of $29.71 billion and spending of $30.18 billion for the biennium. Spending in the forecast is based on spending levels that would carry forward with laws that were in effect at the time of the forecast.

After the final bills of the enacted budget were adopted by the Legislature and signed by the Governor in mid-July, the general fund budget is balanced with both revenues and expenditures of $30.6 billion for the FY 2006-07 biennium.

The general fund revenues of $30.6 billion are an increase of $1.8 billion or 6.1 percent over revenues in the FY 2004-05 biennium. The revenue level of $30.6 billion is $875 million higher than the FY 2006-07 revenue in the February forecast.

The general fund spending of $30.6 billion is an increase of $2.4 billion or 8.4 percent over the spending in FY 2004-05. The spending of $30.6 billion is $397 million higher than spending projected in the February 2005 forecast.

Spending in FY 2006-07 increases at a greater amount and rate than revenue compared to the FY 2004-05 biennium because a substantial amount of revenue raised in FY 2004-05 was not spent, rather it was used to rebuild budget reserves.

Table 1 summarizes the general fund resources available and spending amounts for the FY 2004-05, FY 2006-07 as enacted, and projections for FY 2008-09. The rows labeled "base" show the revenue and expenditure amounts from the February 2005 forecast, the rows labeled "changes" show changes from the base level in the enacted budget.

*Table 1*

**General Fund Biennial Summary: Fiscal Years 2004-2009**
**Enacted Budget, Change from Feb. Forecast Base**

| | FY 2004-05 | FY 2006-07 | Percent Change | FY 2008-09 | Percent Change |
|---|---|---|---|---|---|
| **Balance Forward** | **$265** | **$0** | | **$12** | |
| Revenues - Base | $28,829 | $29,711 | | $32,093 | |
| Revenues - Changes | | $875 | | $811 | |
| Current Revenues | $28,829 | $30,586 | **6.1%** | $32,904 | **7.6%** |
| **Total Resources Available** | **$29,094** | **$30,586** | | **$32,916** | |
| Expenditures & Transfers - Base | $28,195 | $30,177 | | $31,389 | |
| Expenditures - Changes | | $397 | | $876 | |
| **Total Expenditures** | **$28,195** | **$30,574** | **8.4%** | **$32,265** | **5.5%** |
| Balance Before Reserve Changes | $899 | $12 | | $651 | |
| Change in Reserves | $899 | | | | |
| **Balance After Reserves** | **$0** | **$12** | | **$651** | |

Table 2 illustrates a fiscal year by fiscal year comparison of revenues and expenditures for FY 2004-07 using the same format as in Table 1. Revenues in FY 2006 are $703 million or 4.9 percent more than in FY 2005. Revenues in FY 2007 are $520 million or 3.5 percent greater than in FY 2006.

Spending in FY 2006 is $425 million or 2.9 percent greater than in FY 2005. Spending in FY 2007 is $534 million or 3.6 percent greater than in FY 2006.

*Table 2*

**General Fund Summary By Fiscal Years 2004-2007**
**Enacted Budget, Change from Feb. Forecast Base**

| | FY 2004 | FY 2005 | Percent Change | FY 2006 | Percent Change | FY 2007 | Percent Change |
|---|---|---|---|---|---|---|---|
| **Balance Forward** | **$265** | **$865** | | **$0** | | **$13** | |
| Revenues - Base | $14,499 | $14,330 | | $14,586 | | $15,125 | |
| Revenues - Changes | | | | $447 | | $428 | |
| Current Revenues | $14,499 | $14,330 | **-1.2%** | $15,033 | **4.9%** | $15,553 | **3.5%** |
| **Total Resources Available** | **$14,765** | **$15,195** | | **$15,033** | | **$15,566** | |
| Expenditures & Transfers - Base | $13,600 | $14,595 | | $14,950 | | $15,227 | |
| Expenditures - Changes | | | | $70 | | $327 | |
| **Total Expenditures** | **$13,600** | **$14,595** | **7.3%** | **$15,020** | **2.9%** | **$15,554** | **3.6%** |
| Balance Before Reserve Changes | $1,165 | $599 | | $13 | | $12 | |
| Change in Reserves | $300 | $599 | | | | | |
| **Balance After Reserves** | **$865** | **$0** | | **$13** | | **$12** | |

## General Fund Revenues Increased by $875 Million

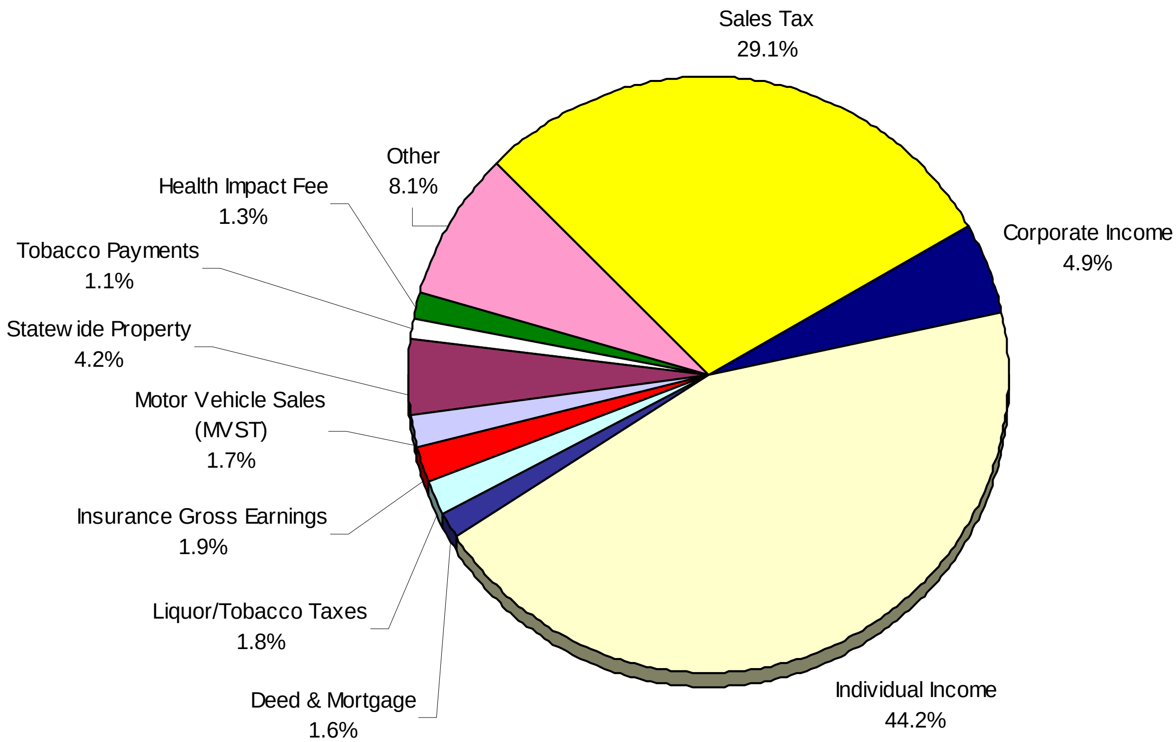
General fund revenues for FY 2006-07 are $875 million higher than projected in the February 2005 forecast. These revenues include tax changes, fee changes and transfers into the general fund from other funds.

Table 3 (next page) shows the sources of total general fund revenue for the FY 2006-07 biennium. Revenues from the individual income tax and the state sales tax make up more than 73 percent of the total general fund revenue. The graph on the following page also illustrates the major sources of general fund revenue.

*Table 3*
**General Fund Revenues**
**Fiscal Years 2006 & 2007**
**Based on February 2005 Forecast and 2005 Session Changes**
*Dollars in Millions*

| **Revenue Type** | **Total Dollars** | **% of Total** |
|---|---|---|
| Individual Income | $13,515.6 | 44.2% |
| Corporate income | $1,505.2 | 4.9% |
| Sales Tax | $8,904.9 | 29.1% |
| Motor Vehicle Sales Tax (MVST) | $531.0 | 1.7% |
| Statewide Property Tax | $1,291.2 | 4.2% |
| Estate Tax | $176.0 | 0.6% |
| Liquor, Wine & Beer | $135.4 | 0.4% |
| Cigarette & Tobacco Products Tax | $420.2 | 1.4% |
| Mortgage Registry Tax | $236.9 | 0.8% |
| Deed Transfer Tax | $239.1 | 0.8% |
| Insurance Gross Earnings & Fire Marshal | $591.4 | 1.9% |
| Lawful Gambling Taxes | $119.5 | 0.4% |
| Medical Assistance Surcharges | $404.8 | 1.3% |
| Income Tax Reciprocity | $110.7 | 0.4% |
| Compliance Revenue | $90.7 | 0.3% |
| Investment Income | $30.0 | 0.1% |
| Lottery Revenue | $101.2 | 0.3% |
| Tobacco Settlements | $340.1 | 1.1% |
| Fees - Departmental Earnings | $522.1 | 1.7% |
| Fines & Surcharges | $186.7 | 0.6% |
| DHS RTC Collections | $109.1 | 0.4% |
| Other | $152.6 | 0.5% |
| Dedicated Revenues | $74.1 | 0.2% |
| Transfers In | $326.3 | 1.1% |
| Transfer In - Health Impact Fee | $401.2 | 1.3% |
| Prior Year Adjustments | $70.0 | 0.2% |
| **Total** | **$30,586.1** | **100.0%** |

**Where General Fund Resources Come From**
**FY 2006-07 General Fund Revenues = $30.6 Billion**
**End of 2005 Session**




The single largest item in the general fund revenue changes is the $.75 per pack of cigarettes health impact fee, generating $401 million for the biennium. This revenue will come into the health impact fund and then be transferred to the general fund. Revenue increases are discussed in the detailed summaries organized by fiscal committee. Table 4 shows the changes in general fund revenue by committee.

The information in Table 4 is for the general fund only and includes all revenue sources. Revenue from some fees is deposited in funds other than the general fund (for example, revenue from most agriculture related fees is deposited in the agriculture fund). A list of the increases in fees for all funds is included in Appendix 1. Appendix 1 shows information for each of the four years of FY 2006-07 and FY 2008-09. The final column shows the fund that is affected by the fee change. The FY 2006-07 biennial change in fees is $557 million; $457 million of that is general fund and another $100 million is in other funds.

*Table 4*
**General Fund Revenue Changes - By Committee**
*Dollars in thousands*

| | FY 2006-07 | FY 2008-09 |
|---|---|---|
| Education | $0 | $0 |
| Higher Education | $0 | $0 |
| Taxes | $278,584 | $280,374 |
| Tax Relief Account | $20,000 | $0 |
| Health | -$7,555 | -$18,786 |
| Health Impact Fee | $401,184 | $406,612 |
| Jobs & Economic Opportunity | $39,344 | $890 |
| Environment | -$27,674 | -$31,929 |
| Agriculture | $18 | $18 |
| Public Safety | $39,509 | $40,292 |
| Transportation | $18,320 | $19,116 |
| State Government | $113,151 | $114,102 |

## FY 2006 and 2006 Expenditures Are $397 Million Higher than in the Forecast

Total FY 2006-07 general fund expenditures are $30.574 billion, $397 million higher than the expenditure level projected in the February 2005 forecast. Table 5 shows expenditures in the enacted budget by House committee for FY 2006-07 and compares those to expenditures for FY 2004-05 and to FY 2006-07 base level expenditures as projected by the February 2005 forecast.

Of the major budget areas, the largest percentage increase in spending over the FY 2004-05 biennium is in the debt service needed to support principal and interest payments on general obligation bonds. The increase in debt service is 32.5 percent or $191.4 million. A part of the reason for the large increase in debt service spending is that no bonding bill was enacted in the 2004 legislative session. Instead, a major bonding bill was enacted in the 2005 session and the debt service projections assume another major bonding bill will be enacted in the 2006 session. No bonding bill in the 2004 session resulted in debt service for FY 2004-05 being lower than it would have been had a major bill passed that year.

General fund spending in the transportation area increased 29.3 percent over spending in that area for FY 2004-05. In dollar terms, the increase is not so large at $46.5 million. This increase is primarily to support transit programs.

The budget area with the third largest percentage increase over FY 2004-05 is health with an increase of 15.6 percent or $999.1 million. However, this increase is 2.9 percent less than what had been projected in the February forecast.

Spending in the agriculture and environment area for FY 2006-07 is 7.7 percent lower than in FY 2004-05. While this represents a decrease in general fund spending, much of this reduction in spending is an increase in spending in other funds. Revenue that had been going to the general fund revenue is also being moved to the other funds.

*Table 5*

**General Fund Expenditures - By Committee FY 2006-07**

*(all dollars in thousands)*

| | FY 2004-05 | Base FY 2006-07 | Enacted Budget FY 2006-07 | % Change Enacted FY 2006-07 vs. FY 2004-05 | % Change Enacted Budget vs. Base FY 2006-07 |
|---|---|---|---|---|---|
| Education | $12,044,897 | $12,012,842 | $12,578,800 | 4.4% | 4.7% |
| Higher Education | $2,541,702 | $2,752,758 | $2,761,000 | 8.6% | 0.3% |
| Taxes and Tax Aids | $2,806,775 | $2,961,484 | $2,983,536 | 6.3% | 0.7% |
| Health | $6,399,778 | $7,623,256 | $7,398,912 | 15.6% | -2.9% |
| Jobs & Economic Development | $1,195,906 | $1,329,087 | $1,171,610 | -2.0% | -11.8% |
| Agriculture & Environment | $405,176 | $416,193 | $374,178 | -7.7% | -10.1% |
| Public Safety | $1,449,676 | $1,586,889 | $1,685,232 | 16.2% | 6.2% |
| Transportation | $158,721 | $162,735 | $205,187 | 29.3% | 26.1% |
| State Government | $584,802 | $561,426 | $581,151 | -0.6% | 3.5% |
| Debt Service | $589,052 | $716,562 | $780,536 | 32.5% | 8.9% |
| Dedicated Expenditures | $74,171 | $74,065 | $74,065 | -0.1% | 0.0% |
| Other | -$55,509 | -$20,000 | -$20,000 | | |
| **Total** | **$28,195,147** | **$30,177,297** | **$30,574,207** | **8.4%** | **1.3%** |

Graph 2 on the next page is a pie chart showing general fund expenditures for FY 2006-07 by committee.

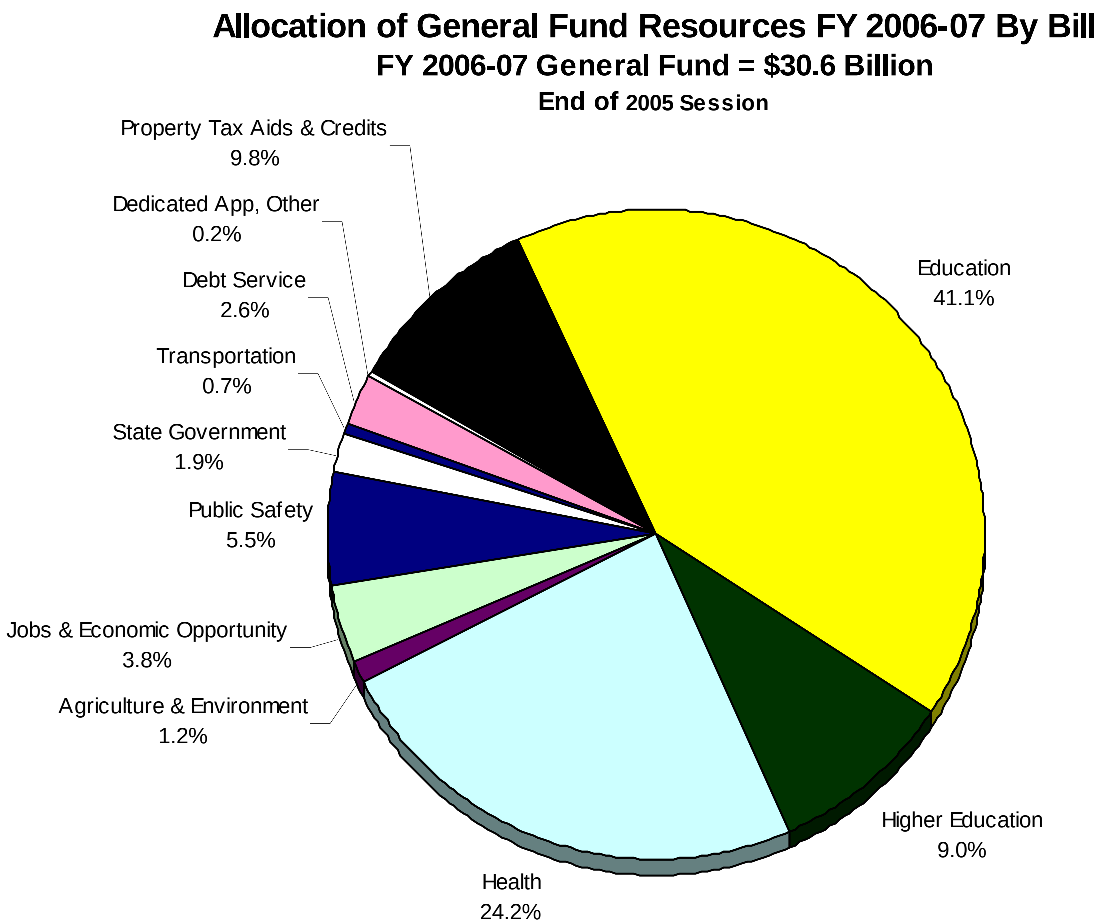



Table 6 on the following page shows the new base level general fund expenditures for FY 2008-09 with the enacted budget and compares those to the base level from the February 2005 forecast. These base levels do not include any overall allowance for inflation other than amounts that might be built into the projections under current law.

*Table 6*
**General Fund Expenditures - By Committee FY 2008-09**
*(all dollars in thousands)*

| | Base FY 2008-09 | Enacted Budget FY 2008-09 | Percentage Change Enacted Budget vs. Base FY 2008-09 |
|---|---|---|---|
| Education | $11,875,042 | $12,863,119 | 8.3% |
| Higher Education | $2,650,984 | $2,791,000 | 5.3% |
| Taxes and Tax Aids | $3,019,648 | $3,123,193 | 3.4% |
| Health | $8,874,084 | $8,309,343 | -6.4% |
| Jobs & Economic Opportunity | $1,389,843 | $1,312,413 | -5.6% |
| Agriculture & Environment | $417,028 | $372,832 | -10.6% |
| Public Safety | $1,630,421 | $1,722,251 | 5.6% |
| Transportation | $178,990 | $221,442 | 23.7% |
| State Government | $560,513 | $586,195 | 4.6% |
| Debt Service | $739,187 | $909,687 | 23.1% |
| Dedicated Expenditures | $74,065 | $74,065 | 0.0% |
| Other | -$20,000 | -$20,000 | 0.0% |
| **Total** | **$31,389,805** | **$32,265,540** | **2.8%** |

## No Change in Reserves

The budget reserve is maintained at $653 million and the cash flow account remains at $350 million. Although a deficiency bill enacted in January 2005 had spending from the budget reserve, the reserve was restored to $653 million when the February 2005 forecast was released. A spreadsheet with more information on the 2005 Deficiency Bill, (HF 57, 2005 Laws, Chapter 2,) is available at http://www.house.leg.state.mn.us/fiscal/files/05 deficiency.pdf.

Under current law, any positive balance at the end of the FY 2005 biennium is transferred to the tax relief account. The assumption is that there will be a balance in this account after such a transfer occurs and $20 million of that balance is transferred to the general fund in FY 2006. Any balance in the tax relief account remains in that account until future legislative action allocates that balance.

Any positive general fund balances projected in forecasts in November or February are to be used to reduce two education shifts (balances first are allocated to bring the cash flow account to $350 million and the budget reserve to $653 million but both of those accounts are at the target amounts). Most state aid formula entitlements to school districts are current paid 84.3 percent in the current fiscal year and 15.7 percent in the following fiscal year. The goal in statute is to return this payment schedule to 90 percent in the current year and 10 percent in the following year. Returning this payment schedule to 90 percent/10 percent would cost about $370 million.

A second education shift has school districts recognizing property tax revenue paid by tax payers in May in the fiscal year that ends on that June 30. Eliminating this shift would allow school districts to recognize most of those property tax payments in the next fiscal year beginning on July 1. Eliminating this shift would cost about $460 million.

*For more information, contact Bill Marx, Chief Fiscal Analyst, 651-296-7176 or bill.marx@house.mn*

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# The Enacted Budget in Detail

The following sections provide details on the major expenditure and revenue bills passed by the 2005 Legislature. The sections are organized according to the jurisdictions of the House of Representatives' fiscal committees.

Detailed tracking sheets for each of the major finance bills are posted on the House Fiscal Analysis Department's website at www.house.leg.state.mn.us/fiscal/tracking.htm.

The text of the final appropriations and revenue bills is available through the Revisor of Statute's website (www.leg.state.mn.us/leg/statutes.asp), under the pull-down menu entitled "Minnesota Session Laws." The following table shows the appropriate Chapter Number for each appropriation or revenue bill. A Chapter number beginning with "SS" indicates that the bill was passed in the 2005 First Special Session.

**2005 Major Revenue and Expenditure Bills - Chapter Numbers**

Numbers under House and Senate columns are the House File and Senate File numbers.

| **2005 Major Finance Bills** | **House** | **Senate** | **Final Bill** | **Chapter** |
|---|---|---|---|---|
| Education | HF 872 | SF 2267 | SS HF 141 | SS 5 |
| Environment | HF 902 | SF 2276 | SS SF 69 | SS 1 |
| Agriculture | HF 1420 | SF 2276 | SS SF 69 | SS 1 |
| Jobs/Economic Development | HF 1976 | SF 2276 | SS SF 69 | SS 1 |
| Health & Human Services | HF 1422 | SF 2278 | SS HF 139 | SS 4 |
| Higher Education | HF 1385 | SF 2265 | HF 1385 | 107 |
| Public Safety | HF 1 | SF 2273 | HF 1385 | 136 |
| Taxes | HF 785 | SF 2206 | SS HF 138 | SS 3 |
| Transportation | HF 2461 | SF 1980 | SS HF 140 | SS 6 |
| State Government | HF 1481 | SF 2266 | HF 1481 | 156 |
| Capital Investment | HF 3 | SF 1 | HF 3 | 20 |
| | | | | |
| **Other Bills with Fiscal Impact** | | | | |
| FY 2005 Deficiencies | HF 57 | SF 350 | HF 57 | 2 |
| Claims | HF 2371 | SF 2160 | SF 2160 | 128 |
| Positive Abortion Alternatives | HF 952 | SF 917 | SF 917 | 124 |
| Child Support & Custody | HF 1321 | SF 630 | SF 630 | 164 |
| Help America Vote Act Amendments | HF 874 | SF 290 | HF 874 | 162 |
| Drycleaner Fees | HF 1470 | SF 1424 | HF 1470 | 157 |
| Tax Changes | HF 2228 | SF 1675 | HF 2228 | 151 |
| Forecast Changes - DHS & Education | HF 2448 | No companion | HF 2448 | 155 |

# Agriculture, Environment and Natural Resources Finance

The Agriculture, Environment and Natural Resource budget provides funding for the management, protection and enhancement of the natural resources of the state. Agencies funded include the Pollution Control Agency, the Department of Natural Resources, the Minnesota Conservation Corps, the Metropolitan Council Parks, the Office of Environmental Assistance, the Board of Soil and Water Resources, the MN Zoo, the Agriculture Department, the Animal Health Board, the Agriculture Utilization Research Institute, and the Science Museum of Minnesota. The final general fund appropriation was $374.2 million dollars for FY 2006-07.

**Agriculture, Environment and Natural Resources Finance**
**Total General Fund Spending**
*(all dollars in thousands)*

| Agency / Program | February Forecast Spending FY 04-05 | February Forecast FY 06-07 Base | Appropriations 1st SS Chapter 1 FY 2006-07 | % Change FY 06-07 vs. FY 04-05 | % Change FY 06-07 Enacted vs. Base | Tails 1st SS Chapter 1 FY 06-07 |
|---|---|---|---|---|---|---|
| Pollution Control Agency | 29,643 | 29,430 | 22,717 | -23% | -23% | 22,728 |
| Office of Environmental Assistance | 23,439 | 23,520 | 0 | -100% | -100% | 0 |
| Zoological Garden | 12,782 | 13,114 | 12,878 | 1% | -2% | 12,878 |
| Natural Resources, Dept | 174,643 | 165,276 | 150,112 | -14% | -9% | 148,862 |
| Natural Resources, Dept(OPENS) | 60,563 | 64,840 | 62,548 | 3% | -4% | 66,094 |
| Water & Soil Resources Bd | 30,944 | 30,862 | 30,671 | -1% | -1% | 30,462 |
| Metropolitan Council Parks | 6,501 | 6,600 | 6,600 | 2% | 0% | 6,600 |
| Minnesota Conservation Corps | 700 | 700 | 700 | 0% | 0% | 700 |
| Science Museum of Minnesota | 1,500 | 1,500 | 1,500 | 0% | 0% | 1,500 |
| Agriculture, Dept of | 81,496 | 71,545 | 76,732 | -6% | 7% | 73,886 |
| Animal Health Board | 5,522 | 5,606 | 6,520 | 18% | 16% | 5,922 |
| Agriculture Utilization Research Instit. | 3,174 | 3,200 | 3,200 | 1% | 0% | 3,200 |
| **Total Expenditures:** | **430,907** | **416,193** | **374,178** | **-13%** | **-10%** | **372,832** |
| General Fund Revenue Change: | | | (27,656) | | | |
| **Net General Fund:** | | | **401,834** | | | |
| * Items have been adjusted for comparison purposes. | | | | | | |

## Pollution Control Agency (PCA)

The Governor recommended that the PCA and the Office of Environmental Assistance be merged into a one agency. The final action of the legislature implemented this recommendation, although it did not change the agency name as recommended by the governor. The appropriated budget totals $268.0 million, of which $22.7 million is general fund dollars for this newly combined agency. Changes to the agency base budget include the following:

- Changing the allocation of the solid waste management tax receipts deposit, sending seventy percent of the receipts to the Environmental Fund. Currently 50 percent of the receipts are deposited in the Environmental Fund and 50 percent are deposited in the General Fund. This will result in an increase of revenue to the Environmental Fund of $24.6 million, and a corresponding decrease to the General Fund.
- An increase in each year of $8.9 million of Environmental Fund appropriations to the Water program for the water protection activities.
- An annual decrease in Remediation Fund appropriations to the Land programs of $8.9 million. This decrease will result in Superfund and closed landfill program sites cleanup being postponed.
- A general fund decrease of $5.9 million from Water programs and $800 thousands from Administrative Support.
- An increase in both revenue through increased fee levels, and the appropriation for Air program activities of $532,000 in FY 2006 and $839,000 in FY 2007.

## Office of Environmental Assistance (OEA)

The Governor’s recommendation that the OEA be merged, along with the PCA into a new agency was included in the final legislation. In addition to the merger the final bill makes the following changes:

- The activities of the OEA are to be funded through fees and taxes rather than general fund where possible. This is accomplished through an annual reduction of $ll.76 million of general fund appropriations and an increase of $11.76 million of appropriations from the Environmental Fund.
- All other revenues and appropriations currently in the OEA base would be transferred to the newly proposed agency.

## Minnesota Zoological Garden (MZG)

The enacted legislation appropriates a total of $34.0 million to the zoo for the bienium, of which $13.1 is from the General Fund.

- The legislation includes an appropriation of $135,000 per year to the Zoo from the Natural Resources Fund, lottery in lieu dollars.

- In the 2005 capital investment bill the Zoo was relieved of the responsibility for debt service on the Discovery Bay exhibit. This action allows the Zoo access annually to the approximately $1 million dollars previously allocated for the debt service.

## Minnesota Conservation Corps

The enacted legislation appropriates $1.68 million for the Corps. $700,000 of this amount is General Fund dollars. This is the base level budget.

## Department of Natural Resources(DNR)

The legislation appropriates a total Department of Natural Resources budget of $614.2 million, of which $212.66 million is General Fund dollars. This is a recommended direct General Fund decrease of 9 percent from the agency forecasted base. Some of the changes included in the legislation to the agency include the following.

General Fund Changes:

- A reduction of $6.3 million from agency direct appropriation base budget amounts. This reduction is made from general cuts throughout the agency. The reductions were proposed by the Governor to be made without loss of current activity due to increased efficiency and program accountability.
- A reduction of $2.3 million in the appropriation to the Forestry division. This saving will be achieved due to the expiration in debt service payments on previously purchased airplanes.
- The legislation increases the fee on permits required for the use of water by once through cooling systems, industry and agriculture. The increased fees would result in new revenue of $213,000 and per year.
- A surcharge is imposed in the amount of $20 dollars per million gallons of water used by local units of government to supply summer water demands.
- $400,000 was appropriated for silvicultural research to improve the quantity and quality of timber fiber.
- $250,000 for a grant to the University of Minnesota to complete a 5,000 foot core sampling bore hole at the Tower-Soudan mine complex.
- $100,000 was appropriated for a grant to the Duluth Port authority to study the problem of freshwater corrosion on harbor facilities.
- The legislation appropriates $300,000 for a grant for construction of the Mesabi station along the Mesabi Trial.
- The roadside habit program was appropriated $200,000.

Other funds changes included:

- An increase of $250,000 per year from the Heritage Enhancement account to the Forestry division for the DNR's ecological classification system. This increase is funded through increased estimates of revenue to the account.
- An increase of $75,000 per year from the Heritage Enhancement account to the division of Fish and Wildlife to manage the gray wolf population in Minnesota.
- An increase in the appropriation from the Lottery-in-Lieu of Sales Tax funds of $2.8 million to the Trails and Waterways division. These funds would be used to increase maintenance on trials and waterways.
- An increase of $858,000 from the Lottery-in-Lieu of Sales Tax funds to the division of Parks for increased expenditures on camping and other services.
- An increase of $2.5 million to the Fish and Wildlife division from the Game and Fish Fund to cover the increased costs of the current activities.
- A net increase in appropriations from the Off-Highway Vehicle accounts to the Trails and Waterways division including $75,000 for a gas tax study, $500,000 for increased OHV grant in aid payments, $200,000 to extend the OHV damage account, and $50,000 for a study of usage on the North Shore Trail.
- The Governor proposed and the legislation approved that a total of $21.9 million from the General Fund, the Natural Resources Fund, and the Game and Fish Fund be transferred within the agency from the Administrative Support division to the other divisions. These funds are used for certain administrative service and would be redirected to operations divisions, who would then be billed for the services.
- An increase of $1.5 million each year for the snowmobile grant in aid program. This funding is raised through a new requirement of a trail sticker on snowmobiles that are operated on the trail system. The sticker will cost $15 per year or $30 for three years.
- An increase of $3.5 million to be used for water access site development. This funding is from an increase in the cost of boat licenses imposed in the final legislation.
- An increase in each year of $925,000 from the Heritage Enhancement Account for additional funding of the prairie wetland restoration and monitoring.
- An increase of $650,000 in each year from the Water Recreation Account for increased public water access facility management.
- An increase of $204,000 from the Water Recreation Account for invasive species and aquatic plant management activities.
- An additional $696,000 per year from the Water Recreation Account to the division of Fish and Wildlife.
- An increase from the Natural Resources Fund of $200,000 for the non-game wildlife program.
- An increase from the Game and Fish Fund of $128,000 to increase technical assistance for stream restoration projects.

- An increase from the Game and Fish Fund of $170,000 for expansion of the Comprehensive Lake Management program.
- The bill allows that critical habitat match (CHM) license plates be made available for recreational vehicles. This is expected to increase revenue and proposes a corresponding appropriation of $105,000 for the RIM Fund to acquire and improve critical habitat.
- An increase of $150,000 from the Game and Fish Fund to the license center to fund the vendor transaction costs for free licenses issued.
- An increase from the Game and Fish Fund of $200,000 to increase management of the Upper Red lake fishery.
- An increase of $400,000 from the Game and Fish Fund to expand the Shoreland Habitat Management program.
- The bill created a new special management species (fish) application and tagging authority be initiated that would allow for revenues to be collected and appropriations be made for special species management. The first species proposed to be tagged is the lake sturgeon. A five dollar tag would be required to be purchased by anglers. The appropriation increase would be $53,000.
- A new appropriation from the Game and Fish Fund of $625,000 for establishing an electronic statewide registration of the deer harvest.
- The creation of an electronic burning permit system is proposed. Permits would be issued over the internet for a five dollar fee. The fee revenue and increased appropriation would be $160,000.
- The legislation makes changes to the allowable uses of revenue to the forest nursery account. This is expected to result in increased revenue of $250,000 per year. The increased revenue is appropriated to the DNR for forestry education and technical assistance programs.
- The Governor recommended and the legislation allows for the certified forest management costs on Trust Fund lands to be returned to the forest management Investment Account rather than to the General Fund. These costs are $3.5 million per year.
- An increased appropriation of $50,000 per year from the School Trust Fund to the Minerals division to complete an aggregate inventory on School Trust Lands.
- The Governor recommends an annual decrease of $1.5 million in the appropriation from the general fund to the Minerals division and a corresponding increase of $1.5 million in appropriations from the funds for the lands managed.
- An appropriation of $420,000 per year to fund minerals program enhancements.
- A new appropriation of $300,000 to identify ways to increase income generation from improved management of Trust lands.

- A $20,000 increase in an appropriation to cover the costs of granting road easements across state lands. This is paid for by a new application fee of $2,000 for each request for an easement.
- The governor recommended and the legislation allows that the DNR commissioner be given the authority to waive or reduce state park entrance fees in order to vary the fee based on marketing conditions.
- A one time appropriation of $50,000 for a study of the amount of gasoline used by all terrain vehicles. This information is used to determine the amount of gas tax funding transferred to the Natural Resources Fund.
- The cost of cross country ski passes is proposed to be increased from $3 to $5 dollars a day, or $10 to $15 for an annual pass. Increased revenue of $140,000 a year would be appropriated to the DNR for increased maintenance and grooming of ski trails.
- A recommendation to shift fishing pier maintenance current funding of $154,000 a year from the Natural Resources to the Game and Fish Fund.
- An increase of $502,000 from the Game and Fish Fund for increase spending on water access sites. This is proposed due to increased funding from the Wallop-Breaux funds received from the federal government.

## Board of Soil and Water Resources (BWSR)

The enacted legislation appropriates a total BWSR budget of $31.79 million, of that amount $30.9 million is from the General Fund. Included in the recommendation are:

- A reduction of $200,000 per year from the agency administrative operations.
- An increase of $100,000 for a beaver damage control grant program.
- $109,000 for a study of drainage system buffers.

## Science Museum of Minnesota

The enacted legislation appropriates $1.5 million to the Science Museum. This is the base funding level.

## Legislative Commission on Minnesota Resources (LCMR)

The bill as enacted appropriates $18.8 million for projects recommended by the LCMR. The legislation also includes provisions that require a study of the operations and possible changes to the process to be used in making future appropriations from the lottery sales revenue deposited to the Environmental Trust Fund.

## Department of Agriculture (MDA)

The enacted legislation approves a total Department of Agriculture Budget of $139.9 million, of which $76.7 million is General Fund Dollars. Of this $76.7 million, $34 million is for the Ethanol Producer Payments program. Changes made to the base budget of the MDA include:

- An increase of $4.249 million dollars from the General Fund for the increase lease costs related to the relocation of the agency to a new building.
- The bill implements increases to six agronomy programs fee structures. The affected fees are pesticide, fertilizer inspection, manure lab certification, feed free sale certificates, feed tonnage fee exemptions and commercial fee late fees. These changes will result in increased revenues and expenditures of $886,000 in the Agriculture Fund.
- An increase in nursery and phytosanitary fees resulting in $152,000 per year of new revenue and expenditures from the Agriculture Fund.
- An increase in the fees charged to apiarists resulting in new revenue of $9,000 a year to the General Fund.
- An increase of $35,000 per year in the appropriation from the Remediation Fund for the Agricultural Voluntary Investigation and Cleanup program costs.
- An increase of $50,000 per year in the appropriation from Agricultural Chemical Response and Reimbursement Account for program administrative costs.
- An increase in the fees charged in the grain buyer and storage program. The increase would result in increased revenue and appropriations of $55,000 per year from the Agricultural Fund.
- The Governor recommended and the bill approved the establishment of a new application fee for the Agricultural Best Management Practices Program. The fee will be $50. The new fee results in $20,000 of new revenue and appropriations from the Agriculture Fund.
- An increase of $100,000 is appropriated in each year for technical assistance to local governments in siting livestock operations.
- A one time appropriation of $220,000 for contracts with the University of Minnesota for livestock operation odor control research.
- An increase of $150,000 in each year from the Agricultural Fund to be used for increased monitoring of agriculture pesticides in waters.
- A General Fund appropriation of $500,000 for the E85 pump grant program in increase the availability of obtaining E85 fuel.
- $200,000 for ethanol efficiency grants.
- $65,000 in each year is appropriated for a grant to the Northern Minnesota Forage-Turf Seed Advisory Committee for research on improved production of seeds.
- The Second Harvest Heartland food bank system is appropriated $150,000 for purchase of milk products to be distributed.

- $17,000 in the first year and $18,000 in the second year is for a grant to the Minnesota Horticulture Society.

## Animal Health Board

The enacted legislation appropriates to the Animal Health Board a budget of $8.22 million, of which $6.52 million is General Fund money. This recommendation is a general fund increase of $914,000 from base level funding. An increase of $314,000 is to cover the increased lease cost associated with the relocation to a new building. The additional $600,000 is for a grant to the University of Minnesota to be used for operation costs at the veterinary diagnostic laboratory.

## Agriculture Utilization Research Institute

The legislation appropriates a total AURI budget of $3.2 million dollars, all of which is General Fund money. This is equal to the General Fund base budget.

*For additional information on Agriculture, Environmental and Natural Resources Finance issues, contact Jim Reinholdz at 651.296.4281 or email: jim.reinholdz@house.mn.*

# Capital Investment

Laws of Minnesota 2005, Chapter 20 contains nearly $945 million in capital investment projects across the state. While odd-year sessions generally have a smaller "emergency" capital investment bill, the legislature failed to pass a bonding bill in the 2004 session and the backlog of capital needs pushed the bill total near $1 billion. The finance package will require that nearly $886 million in capital projects are financed through the state general fund over the next twenty years. An additional $59 million in projects are user financed with debt service falling to the higher education institutions or school districts. In order to pay additional debt service costs created by the bill, an additional $63 million from the general fund was set aside for the fiscal 2006-07 biennium.

Educational needs were the legislature's top priority in the bill, with over $347 million in education related projects. Environment, Natural Resource and Agriculture projects were the next priority, receiving $280 million in projects including $23 million for CREP related easements to improve water quality along the Minnesota river. Economic Development related projects totaled over $185 million which included $22 million for the Minnesota Planetarium and $21 million for a bioscience research facility to be jointly run by the University of Minnesota and the Mayo Clinic in Rochester.

Transportation needs received over $110 million and included partial state funding for the Northstar Commuter Rail line at $37.5 million, as well as transit funding for the Cedar Avenue Busway and $5 million to begin work on the Central Corridor between downtown Minneapolis and St. Paul. The area of Public Safety and Criminal Justice was granted nearly $100 million in the bill and had the legislation's largest project, $85 million for an expansion of the correctional facility in Faribault. State government infrastructure and Human Services projects made up the balance of the bill.

The state will go to market with $350 million in bonds near the end of September to raise cash for projects approved by the legislature. At the close of the sale the state will have over $3.6 billion in outstanding general obligation debt from all previous capital investment bills. While at the last sale state sold bonds at a rate of 3.55%, interest rates have increased and the Department of Finance estimates that the bonds will sell at a rate closer to 4% on a twenty year bond. The state's bond rating is expected to be unchanged from the previous sale, "AAA" rated by Fitch and Standard and Poor, and "Aa+" from Moody's Investor Services.

The Department of Finance is also estimating a maximum capacity for a capital investment bill of $785 million for the 2006 session. Debt service has been set aside for a $400 million bill. A larger bill would require additional general fund money in the current biennium. Maximum debt capacity could change slightly with the results of the November forecast.

A summary of the capital budget bill can be found on the House Fiscal Analysis website at http://www.house.leg.state.mn.us/fiscal/files/bond05.pdf

*If you have further questions on Capital Investment issues, please contact John Walz at 296-8236 or e-mail at john.walz@house.mn.*

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# Education Finance

For the FY 2006-07 biennium, the Legislature adopted $12.6 billion in general fund state aid for K-12 education and early childhood and family education programs. This compares with the February forecast of current law FY 2006-07 education spending of $12.0 billion, for a total increase of $566.0 million, or 4.7 percent over current law. The FY 2006-07 budget includes $95.1 million in new property tax recognition shift savings. If those shift savings were not included, the budget increase would be $661.1 million or 5.5 percent over current law. For the FY 2008-09 biennium, the adopted budget include total state appropriations of $12.9 billion, an increase of $989.6 million from the February forecast appropriations, or 8.3 percent.

School district property tax levies in the adopted budget would increase from current law for each year from FY 2007 to FY 2009. Property taxes for FY 2006 (the pay 2005 property taxes already being levied) increased under current law by $90.5 million from FY 2005, or 7.1 percent, to $1.4 billion. Levies for FY 2007 (payable in 2006) in the adopted budget are estimated to increase by $310.9 million, or 22.6 percent, from FY 2006, to $1.7 billion. Compared to current law, the adopted budget would increase property taxes for FY 2007 by $139.1 million, or 9.0 percent, for FY 2008 by $174.3 million, or 10.3 percent, and for FY 2009 by $146.2 million, or 7.9 percent.

The adopted budget includes a total increase of $800.2 million over the base for the FY 2006-07 biennium in state aid and local property tax increases. The $800.2 million includes the $566.0 million in new state aid for the biennium, an additional $139.1 million in new property taxes and $95 million in new property tax recognition shift. In total, this amounts to a $216.4 million increase in FY 2006, or 2.9 percent over the base, and $583.8 million in FY 2007, or 7.7 percent over the base.

**Education Finance**
**Total General Fund Spending**
(dollars in thousands)

| | February Forecast Spending in FY 2004-05 | Base Funding FY 06-07 | Appropriations Chapter 5, 1SS FY 06-07 | Percentage Change FY 06-07 vs. FY 04-05 | Percentage Change FY 06-07 vs. Base | Tails Chapter 5, 1SS FY 2008-09 |
|---|---|---|---|---|---|---|
| Education Aids | 11,960,102 | 11,933,070 | **12,498,778** | 4.50% | 4.74% | **12,783,727** |
| Department of Education | 46,671 | 45,994 | **44,844** | -3.91% | -2.50% | **45,694** |
| MN State Academies | 20,861 | 20,932 | **21,932** | 5.13% | 4.78% | **21,932** |
| Center for Arts Education | 13,855 | 12,846 | **13,246** | -4.40% | 3.11% | **13,246** |
| **Totals** | **12,041,489** | **12,012,842** | **12,578,800** | 4.46% | 4.71% | **12,864,599** |
| **General Fund Revenues** | | | **0** | | | |
| **Net General Fund** | | | **12,578,800** | | | |

The following summarizes the major initiatives in the adopted budget, with the cost expressed as a biennial total, from the general fund unless otherwise noted:

## General Education Program

- $470.5 million to increase the basic formula amount by 4.0 percent per year. In FY 2006, the formula is increased from $4,601 to $4,783. In FY 2007, the formula is increased to $4,974. In addition, $48.9 million is appropriated to fund increases in formulas such as compensatory revenue and sparsity revenue which are linked directly to the basic formula amount.

- $85.9 million in aid and $6.3 million in local levy for the QComp Alternative Compensation program (replacing the current $7.4 million appropriation, which is eliminated). This appropriation will provide funding for alternative compensation programs in school districts on a first come, first served basis. The funding will be sufficient to provide funding for approximately half of the state's students. The formula for the revenue is $260 per pupil, with the full amount coming in state aid for FY 2006. In FY 2007 and later, the revenue will be $190 per student in state aid and $70 per student in an equalized levy. QComp revenue will be provided to districts which provide multiple career paths for teachers, instructionally-based accountability, professional compensation, a new 21st century pay schedule for teachers, ongoing applied professional growth and alignment of state staff development plan and set aside funding with their performance pay plans.

- $22.3 million in aid and $36.0 million in levy for additional equity revenue funding. Of this amount, $5.6 million in aid is to provide equity revenue to districts that have referendum revenue below 10 percent of the state average, $6.0 million is to increase current law equity revenue for school districts in the metro region by 25 percent, and $46.7 million for a supplement of $46 per pupil in equity revenue for districts below the 95th percentile in referendum revenue, and $23 per pupil in equity revenue for districts above the 95th percentile in referendum revenue.

- $11.0 million for a new gifted and talented revenue of $4 per pupil in FY 2006 and $9 per pupil in FY 2007. Revenue must be reserved and spent only on identifying gifted and talented students, providing education programs to gifted and talented students and providing staff development for teachers of gifted and talented students.

- $232,000 in state aid and $160,000 in local levy for FY 2006 for transition revenue to fund 4 percent of the amount districts received for pre-Kindergarten programs prior to FY 2004.

- $4.0 million in savings in FY 2007 from converting Shared Time aid to a reimbursement program. The savings are one-time savings that come as the funding budgeted for FY 2006 is allocated as FY 2007 expenditures.

- $3.3 million to change the online learning program from a limited appropriation program to part of the general education program. As a result of this change, all students who participate in online learning programs will be funded, as opposed to current law, which limited the number of students funded to the appropriation available, and included a priority for choosing which students to fund.

- $1.4 million in state aid and $32.0 million in additional levy in FY 2007 from increasing the cap on most school district operating referendums from 18.6 percent of the basic formula amount to 26 percent of the basic formula amount, and for those districts with referendum amounts in 1994 greater than the current cap by $200. With the current formula for FY 2005 of $4,601, the referendum cap is $866. The increased basic formula amount and referendum cap increase for FY 2007 combine to increase the cap for most districts to $1,374 per pupil unit. Districts which qualify for sparsity revenue are not subject to a referendum cap.

- $7.4 million in aid cost and $2.1 million in levy savings from increasing the amount of equalization on voter-approved school district operating referendums. Currently, only the first $500 per pupil of referendum levy is equalized. Under the new law, the first $600 per pupil will be equalized in FY 2007 and the first $700 per pupil will be equalized in FY 2008.

- $210,000 from the general fund to replace Permanent School Fund allocations to general education program aid due to changes in how the Department of Natural Resources funds minerals management.

- $24.3 million in levy in FY 2009 due to the continuation of transition revenue, which was set to expire in FY 2009.

- $95.1 million in savings to the state general fund from additional property tax revenue recognition shift savings from the Governor's recommendation of higher school district property taxes. School districts are required to recognize 48.6 percent of most of their operating levies in the fiscal year in which the levy is certified. To make this early recognition of property tax levies revenue-neutral to districts, their general education aid is reduced by an equivalent amount, resulting in one-time savings to the state general fund.

## Other General Education Programs

- $896,000 in state aid savings and $327,000 in new levy from changing the way that abatement aid is calculated. Currently, abatement aid is calculated using preceding year levy information. The new law requires that abatement aid be calculated using the information for levies for the third preceding year.

- $100,000 for a new property tax levy for districts which form joint education administrative districts. The joint education administrative districts would provide administrative functions for multiple districts, while individual districts would retain control of individual school sites. Levy revenue would be used for approved retirement and severance incentives, and other start-up costs related to the joint district.

- $2.2 million in new property tax levies for districts that have busses manufactured by the Carpenter bus company in their fleet. Districts that have those busses, which have been determined to have potentially defective welds, will be allowed to levy up to $30,000 per bus to mitigate the replacement cost of those busses.

- $11.5 million in local property taxes to allow districts to levy for 100 percent of their unemployment, judgment and building lease costs.

- $4.2 million for a pilot program that provides additional revenue to five districts and allows them to allocate their compensatory revenue based on student performance rather than on the count of free and reduced-price lunch students. The five districts are Anoka-Hennepin, Osseo, Rochester, Robbinsdale and South Washington.

## Education Excellence

- $11.5 million to create a new "Get Ready, Get Credit" program, and to enhance existing Advanced Placement and International Baccalaureate (AP/IB) funding. The appropriation will allow the following: public schools can participate in the ACT Educational Planning and Assessment System for career planning, assessment, instructional support and evaluation; public school high school students can earn college credit for mastery of college level courses taken in high school, and; teachers will receive a stipend based on the number of students passing AP/IB tests.

- $2.4 million in one-time funding to develop an interactive computer-based science test for students in grades 5 and 8, and students in high school after completion of biology class.

## Special Education

- $23.0 million to increase the statewide cap on Special Education Excess Cost aid.

## Facilities and Technology

- $5.3 million in equalization aid and $42.5 million in local levy for the FY 2008-09 biennium to allow districts to levy for deferred maintenance costs. Districts will be eligible to levy for up to $60 per pupil using a sliding scale based on the ratio of the district's average building age to 35 years

- $7.5 million for school district telecommunications costs. Districts will be eligible for reimbursement of 90 percent of their telecommunications costs that are not reimbursed under the federal E-rate program, and that exceed a fixed threshold. For FY 2006 the threshold is $15 per pupil. For FY 2007 and later, the threshold is $18 per pupil.

- $692,000 in savings and $3.1 million in local levy reduction in FY 2007 from the reduction in the maximum effort school loan tax rate. The methodology for adjusting the maximum effort tax rate due to the 2001 tax classification rate changes did not account for the unique mix of property tax types in school districts with maximum effort school loans. The tax rate reduction will more accurately reflect the mix of property types in those districts. In addition to the savings to the general fund and the reduction in local property taxes, the maximum effort school loan fund will see reduced payments from those districts of $793,000, which will ultimately increase general fund costs by that amount to replace those lost payments.

### Nutrition Programs

- $2.5 million to increase the state school lunch reimbursement rate from 8 cents to 10 cents per lunch.

- $2.5 million to increase the state kindergarten milk reimbursement rate from 9 cents to 14 cents per half pint of milk.

### Libraries

- $1.0 million for the Electronic Library of Minnesota statewide database licensing program to replace federal funds which it has been determined do not qualify to be expended for this purpose.

### Early Childhood and Family Support

- $5.2 million to increase ECFE funding from $96 per child under the age of 5 to $104 per child.

- $1.3 million in additional funding for Early Childhood Health and Development Screening. The additional funding will be used to increase reimbursement for screenings for three year olds, helping to ensure early screening.

- $4.0 million to increase Head Start funding.

- $1.0 million to fund the Minnesota Early Learning Foundation to improve early childhood parent education and kindergarten readiness, in cooperation with a private non-profit organization.

### Self-Sufficiency and Lifelong Learning

- $252,000 in additional funding for Adult Basic Education due to the reallocation of capped funding. Currently, eight districts have their funding capped under the Adult Basic formula. Capped funds are cancelled back to the general fund. Instead of allowing the funding to cancel, the remaining funding will be reallocated to other programs, some of which have waiting lists for services.

- $2.0 million for intensive English Instruction for new adult refugees. This appropriation, available for the current biennium only, would allow Adult Basic Education providers to add English a second language instruction to accommodate the large number of refugees entering Minnesota.

## Prevention

- $648,000 in aid and $169,000 in local levy to increase the Community Education formula by 19 cents, from $5.23 to $5.42 per capita, beginning in FY 2007.

## Minnesota Department of Education

- $2.6 million in savings from a cut to the agency's operating budget. This reduction amounts to approximately 5.7 percent of the agency's biennial base budget of $46 million.

- $1.9 million to develop and implement a value-added index assessment model for public schools. $300,000 in FY 2006 is for the Department of Education to develop the model; $1.6 million is for implementation of the model in FY 2007.

## Minnesota State Academies for the Deaf and Blind

- $1.0 million in additional funding for the State Academies in order to preserve the current level of special education services provided to their students. Preliminary indications from fiscal monitoring of the relationship between the State Academies and the Faribault public schools may result in reduction of special education funding for the Faribault public schools.

## Perpich Center for Arts Education

- $400,000 increase in the agency's base budget.

*For further information on Education Finance related issues contact Greg Crowe at 296-7165 or greg.crowe@house.mn*

# Health Finance

The FY 2006-07 Health and Human Services budget act (Laws 2005, Special Session Chapter 4) appropriates a total of just under $7.4 billion in general fund moneys for programs administered in agencies overseen by the Health Committee. This amount reflects an increase of $999.14 million, or 15.6 percent above the FY 2004-05 spending of $6.4 billion as projected in the February 2005 forecast. It also represents a decrease of $225 million or –2.9 percent below base budget projected spending of $7.6 billion for FY 2006-07.

A closer look at this $7.4 billion general fund budget reveals more than 70 major policy changes, the majority of which impact programs in the Department of Human Services and create cost savings. A select handful of these policy decisions, however, increase spending, including:

(1) A 2.26 percent long-term care provider rate increase (+$76.1 million),

(2) Medical Assistance/Alternative Care lien recovery buyback provisions (+$24.2 million),

(3) State Operated Services' sex offender referrals, civil commitment services and adult mental health transition services (+$27.7 million),

(4) Reducing the county share of payment for Intermediate Care Facilities-MR (+$10.1 million), and

(5) Eliminating co-payments for Medical Assistance and General Assistance Medical Care clients (+$8.9 million).

Conversely, notable funding reductions include:

(1) A reduction to inpatient hospital rates (-$58 million) with related adjustments to hospital disproportionate share (+22.3 million) and an intergovernmental transfer (IGT) buyback (-$22.5 million),

(2) Capping caseload growth for certain Home and Community Based Waivers (-$52.7 million), (3) the transformation of nursing facility funding and the suspension of automatic cost-of-living adjustment (COLA) increases (-$27.6 million),

(3) Federal Medicare program changes (-$21.4 million),

(4) Changes in alternative care eligibility and services (-$18.2 million), and

(5) Prescription drug purchasing and efficiencies (-$15.3 million).

For the FY 2008-09 biennium (the tails), general fund spending is projected to reach $8.3 billion, reflecting an increase of $910.4 million (or 12.3 percent) above FY 2006-07 appropriation levels of $7.4 billion.

The chart below shows general fund spending by agency for FY 2004-05, base level for FY 2006-07, appropriations for FY 2006-07 and projected base for FY 2008-09.

**Health Finance**
**Total General Fund Spending**
*(dollars in thousands)*

| | February Forecast Spending in FY 04-05 | Base Funding FY 06-07 | FY 2006-07 SS Chapter 4 Enacted | % Change FY 06-07 vs. February FY 04-05 | % Change FY 2006-07 vs. Base | Tails SS Chapter 4 FY 08-09 |
|---|---|---|---|---|---|---|
| Human Services (a) | 6,205,446 | 7,422,644 | **7,193,870** | 15.9% | -3.1% | **8,105,745** |
| Health | 122,943 | 129,376 | **133,806** | 8.8% | 3.4% | **133,362** |
| Veterans Homes | 59,841 | 60,060 | **60,060** | 0.4% | 0.0% | **60,060** |
| Disability Council | 1,112 | 1,000 | **1,000** | -10.1% | 0.0% | **0** |
| Mental Health Ombudsperson | 2,901 | 2,924 | **2,924** | 0.8% | 0.0% | **2,924** |
| Families Ombudsperson | 491 | 490 | **490** | -0.2% | 0.0% | **490** |
| Emergency Medical Services Bd | 7,044 | 6,762 | **6,762** | -4.0% | 0.0% | **6,762** |
| **Total Expenditures** | **6,399,778** | **7,623,256** | **7,398,912** | 15.6% | -2.9% | **8,309,343** |
| New Revenues | | | (7,555) | | | |
| **Net General Fund** | | | **7,406,467** | | | |

*(a) Part of the DHS budget is in the Jobs and Economic Opportunity Committee*

*(b) The chart also includes appropriations in Chapter 124 (Positive Alternatives) and Chapter 164 (Child Support).*

From the Health Care Access fund, the FY 2006-07 budget act appropriates a total of \$764.6 million, an increase of \$157.1 million or 25.9 percent above FY 2004-05 spending levels of \$607.5 million. This funding increase is mostly attributable to three policy changes:

(1) General Assistance Medical Care eligibility changes that shift about one-third of GAMC (general fund-supported) clients to MinnesotaCare in the Health Care Access fund (+\$61.2 million in spending plus a transfer of HCAF premium tax transfer revenue (-\$6 million) for a net impact of +\$55.2 million),

(2) Repeal of the \$5,000 cap on certain MinnesotaCare benefits (+\$40.5 million), and

(3) The impacts of implementing HealthMatch (the new client-to-program computer matching system) in late FY 2007.

While the bulk of moneys from the federal Temporary Assistance for Needy Families (TANF) block grant is overseen by the Jobs and Economic Opportunity Committee, the FY 2006-07 budget act appropriates $12 million to the Minnesota Department of Health. This amount is the same funding level as provided in the February 2005 forecast.

All funds spending for Health Policy & Finance, which include direct and statutory appropriations, totals $17.5 billion for the FY 2006-07 biennium. The table below shows the total recommended spending for all funds.

**Health Policy and Finance**
**FY 2006-09 All Funds Summary**
*(dollars in thousands)*

| | February-05 Forecast FY 2004-05 | Base Funding FY 2006-07 | SS Chapter 4 FY 2006-07 | Percent change FY 06-07 vs FY 2004-05 | Percent change FY 06-07 vs Base Funding |
|---|---|---|---|---|---|
| General Fund | $6,399,778 | $7,623,256 | $7,406,467 | 15.7% | -2.8% |
| State Government Special Revenue | $63,211 | $65,558 | $102,276 | 61.8% | 56.0% |
| Health Care Access Fund | $600,745 | $620,491 | $764,663 | 27.3% | 23.2% |
| Special Revenue Fund | $748,107 | $450,774 | $450,774 | -39.7% | 0.0% |
| Federal Funds | $7,850,274 | $8,526,941 | $8,375,097 | 6.7% | -1.8% |
| TANF | $12,000 | $12,000 | $12,000 | 0.0% | 0.0% |
| MERC | $158,038 | $173,210 | $173,210 | 9.6% | 0.0% |
| All Other | $211,889 | $214,476 | $214,476 | 1.2% | 0.0% |
| **HEALTH FINANCE TOTAL** | **$16,044,042** | **$17,686,706** | **$17,498,963** | **9.1%** | **-1.1%** |

*Note: Beginning in FY 2006, revenues from the Health Impact Fee will be collected and transferred directly to the General Fund. Thus, any new spending for Health Committee programs supported by this revenue source is reflected in General Fund appropriations.*

## Significant Initiatives

The FY 2006-07 budget contains a total of 53 change items with fiscal impacts for the Department of Human Services and 22 change items with fiscal impacts for the Department of Health and a variety of change items with fiscal impacts for the health-related boards. Many of these policy changes are complex in nature, involving multiple actions linked to several budget activities, and sometimes multiple funding sources. The following summary outlines the net fiscal impact of significant policy changes by agency. Changes are compared to the base level budget for FY 2006-07 as presented in the February 2005 forecast. Further detail is available in spreadsheet form on the House Fiscal website.

| ***Department of Human Services*** | ***FY 2006*** | ***FY 2007*** |
|---|---|---|

*Agency Management*

1. Facilities Consolidation Lease Costs

| | FY 2006 | FY 2007 |
|---|---|---|
| • General Fund | $3.3 million | $3.4 million |
| • HCAF | $0.8 million | $0.9 million |

These changes would pay the increased rent costs as the department consolidates its operations into two buildings, one of them a new facility with lease-purchase costs.

2. Licensing/Background Study Requirements

| | FY 2006 | FY 2007 |
|---|---|---|
| • General Fund | $0.3 million | $0.3 million |

These moneys will pay for 15 new staff positions for licensing oversight of residential services for children as well as restructuring and adjusting a number of licensing fees.

3. Administrative Fair Hearings Requirements

| | FY 2006 | FY 2007 |
|---|---|---|
| • General Fund | $0.6 million | $0.5 million |

This change item adds eight referees and three clerical staff to enable the human services appeals function to meet federal and state requirements for fair hearings for applicants for recipients for human service benefits.

*Health Care*

4. Medicare Modernization Act Changes

| | FY 2006 | FY 2007 |
|---|---|---|
| • General Fund | ($7.2 million) | ($14.2 million) |

These provisions include several program and administrative changes in the medical assistance and prescription drug program associated with the new prescription drug benefit under Medicare Part D.

5. Prescription Drug Grant Reduction

| | FY 2006 | FY 2007 |
|---|---|---|
| • General Fund | ($2.5 million) | ($ 3.0 million) |

This change item eliminates base-level funding for a prescription drug grant program that was never implemented.

6. Pharmaceutical Purchasing

| | FY 2006 | FY 2007 |
|---|---|---|
| • General Fund | ($3.9 million) | ($ 3.3 million) |

These provisions for cost-effective purchasing include 1) contracting for specialty pharmaceuticals at lower rates, 2) requiring persons with hemophilia to obtain blood-factor products though certain federally qualified hemophilia treatment centers, 3) aligning payment rates for administering drugs with Medicare rates, 4) reducing pharmacy payment rates for certain prescription medications to average wholesale price minus 12 percent (instead of the current 11.5 percent), and 5) requiring prior authorization for new drugs.

7. Inpatient Hospital Rate Reduction (not GAMC)
    - General Fund ($17.6 million) ($31.8 million)
    - HCAF ($ 2.1 million) ($ 6.5 million)

This change item reduces by five percent most fee-for-service payment rates for inpatient hospital services for patients covered by Medical Assistance or MinnesotaCare.

8. Rural Hospital Diagnosis-Related Groups (DRGs)
    - General Fund $ 2.0 million $ 3.0 million

This provision increases funding for diagnosis-related-group payment adjustments to hospitals outside of the seven-county metro area. Full reimbursement of actual expenses incurred by rural hospitals for these services has been lacking since FY 2002.

9. Repeal MinnesotaCare Limited Benefit Cap
    - HCAF $11.0 million $29.5 million

This provision removes the $5,000 maximum benefit cap on services covered by MinnesotaCare that was implemented in FY 2004.

10. MinnesotaCare Eligibility Reforms
    - HCAF ($ 1.2 million) ($ 5.2 million)

This item makes changes in eligibility for MinnesotaCare for 1) college students who are full-time and who have access to health insurance at their place of higher learning, 2) adults who are self-employed in a non-farming occupation, 3) and adults (and their families) who have access to employer-sponsored insurance plans. This section also includes more prompt changes in premiums when a change in income is reported.

11. MinnesotaCare Premium Increase
    - HCAF -0- ($ 2.5 million)

This provision implements an eight percent premium increase for all adults and for children with incomes greater than 150 percent of the federal poverty level (FPL). For children with incomes equal to or less than 150 percent FPL, the increase in premium is one dollar per month (from the current $4 to $5 per month).

12. MinnesotaCare Co-payments
    - HCAF ($ 0.7 million) ($ 1.7 million)

This provision implements a $3 co-pay for non-preventive care doctor office visits and a $6 co-pay for non-emergency treatment in an emergency room.

13. Repeal $500 Dental Cap MA, GAMC & MinnesotaCare
    - General Fund $ 0.8 million $ 1.4 million
    - HCAF -minimal- -minimal-

This provision removes the $500 maximum benefit cap on dental services covered by Medical Assistance, General Assistance Medical Care and MinnesotaCare that was implemented in FY 2004.

14. Eliminate Co-pays for MA & GAMC
- General Fund $ 2.6 million $ 6.3 million

This provision removes the $3 co-pay for doctor office visits and the $6 co-pay for certain emergency room visits which were implemented in FY 2004. It also changes the maximum monthly co-pays for pharmacy from $20 to $12.

15. Management of Health Care Costs
- General Fund $ 0.0 million ($ 5.3 million)
- HCAF $ 2.7 million $ 1.9 million

This policy change item has eight subcomponents including: better addressing fraud and abuse, increased used of web-based payments, improving the health care enrollment process, complying with federal program integrity requirements, recovering uncompensated transfers of income and assets, making trusts subject to asset recovery provisions, implementing intensive medical care management, and improving cost-effectiveness of coverage.

16. Prior Authorization of Certain Services
- General Fund ($ 1.0 million)($ 2.5 million)
- HCAF ($ 0.3 million)($ 0.4 million)

Beginning in FY 2006, certain services to patients covered by medical assistance, general assistance medical care and MinnesotaCare will require prior authorization before treatment. These services include bariatric surgery, chiropractic visits, caesarean section, hysterectomy, orthodontics, spinal fusion, tympanostomies and PET, CT, MRI and nuclear cardiology tests.

17. Improper Use of Emergency Room
- General Fund ($ 1.1 million)($2.0 million)
- HCAF ($ 0.1 million)($0.1 million)

This provision distinguishes reimbursement rates based on the category of care that is needed, e.g. emergent care, urgent care, not immediate care. It prohibits payment at the emergent care rate for non-emergent care rendered in an emergency room. Savings estimates are based on assumptions that 20% of needed care is non-emergency, that 60% of non-emergency care is urgent, and urgent care costs are 60% of the cost of an emergency room visit.

18. Eliminate MinnesotaCare Outreach Grants
- HCAF ($ 0.75 million)($ 0.75 million)

This provision eliminates base-level funding (established in 1997) for grants to public and private organizations to inform uninsured people about the MinnesotaCare program.

19. General Assistance Medical Care (GAMC)-MinnesotaCare Reform
- General Fund $ 1.1 million ($75.1 million)
- HCAF $ 0.0 million $67.8 million

The budget act significantly revises the General Assistance Medical Care program by changing eligibility to include 1) General Assistance and Group Residential Housing recipients, 2) recipients with a pending disability determination for SSI or SSDI, or 3) homeless persons. All other applicants eligible for GAMC would be temporarily served by

GAMC (approximately two months) and then transferred to MinnesotaCare (approximately four months) regardless of certain MinnesotaCare eligibility requirements. No premium fees would be imposed for the six-month period. Implementation of this new program will be January 1, 2007. When fully implemented in FY 2008, approximately 18,000 of GAMC's 30,000 average annual enrollment will be shifted to MinnesotaCare.

20. HealthMatch 17-Month Delay

- General Fund ($ 6.8 million) ($100.5 million)
- HCAF $ 6.4 million $ 96.3 million

The budget act anticipates the implementation of HealthMatch, DHS's new computer-based system that matches clients to programs, to occur in December 2006. The February 2005 forecast assumed a starting date of July 2005.

21. Intergovernmental Transfer Buyback

- General Fund ($ 6.9 million) ($ 15.7 million)

This provision eliminates a $24 million general revenue fund transfer to Hennepin County and the University of Minnesota (for hospital use) in order to expand state disproportionate share payments (DSH) to meet federal DSH allotment levels. Hospital payments made under Minnesota's GAMC program can be recognized as DSH payments, which are eligible for non-Medicaid federal matching dollars, once approved by the Centers for Medicare and Medicaid Services (CMS). These matching funds will then be made available to hospitals to fund uncompensated care costs.

22. Hospital Disproportionate Share Adjustment

- General Fund $ 7.0 million $12.9 million
- HCAF $ 0.8 million $ 1.6 million

This change item increases Minnesota's disproportionate share payments (DSH) to hospitals to meet federal DSH allotment levels. This increased spending will be eligible for non-Medicaid federal matching dollars, once approved by the Centers for Medicare and Medicaid Services (CMS).

23. MA Lien Recoveries

- General Fund $ 7.3 million $4.0 million

The budget act revises provisions created during the 2003 legislative session to recover medical assistance payments from life estate assets. The act modifies language so that the recovery of such medical assistance expenses would be sought in cases where the life estate was created after August 1, 2003.

*Continuing Care*

24. Alternative Care Liens – Eliminate

- General Fund $4.9 million $8.1 million

The budget act eliminates provisions created during the 2003 legislative session to recover alternative care payments from life estate assets. Instead, the Alternative Care program will now operate using the standards of the Elderly Waiver program.

25. Alternative Care Eligibility – 135 Days

- General Fund ($4.2 million) ($6.7 million)

This provision changes the term of eligibility for Alternative Care services (which are provided prior to the admission to a nursing facility under the Medical Assistance program) from 180 days to 135 days.

26. Alternative Care Service Limits

- General Fund ($1.9 million) ($5.5 million)

This provision deletes adult foster care, assisted living and residential care services from the array of eligible services for the Alternative Care program. This program change anticipates additional cost impacts to existing Medical Assistance programs.

27. Long-Term Care Provider Rate Increase

- General Fund $20.3 million $55.8 million

The budget act appropriates funding for a rate increase to nursing facilities, beginning October 1, 2005, equal to 2.2553 percent of the total operating payment, and beginning October 1, 2006, an additional rate increase equal to 1.2553 percent of the total operating payment. Seventy-five percent of the money resulting from the rate adjustment must be used to increase wages and benefits and pay associated costs for all employees, except management fees, the administrator, and central office staff. In addition, these funds cannot be used for increases implemented prior to the effective date of the rate increase.

28. Home Care Service Reimbursement Rates

- General Fund $ 0.5 million $ 0.8 million

This provision raises the fee-for-service rates paid for various home care services (skilled nursing, physical therapy, occupational therapy and speech therapy, and home health aide visits) by five percent, effective October 1, 2005.

29. Nursing Facility Rate Reform

- General Fund ($ 6.5 million) ($13.0 million)

This provision eliminates funding for the automatic cost-of-living increases for the portion of nursing facilities (approximately 80 percent) that use the state's automatic payment system. Other changes for nursing facility funding can be found in change items entitled Long-Term Care Provider Rate Increase and Nursing Facility Transformation.

30. Nursing Facility Transformation

- General Fund ($ 1.1 million) ($ 7.0 million)

The budget act directs the commissioner of Human Services to establish by October 1, 2007, a value-based nursing facility reimbursement system which will provide facility-specific, prospective rates for nursing facilities participating in the medical assistance program. The rates shall be determined using an annual statistical and cost report filed by each nursing facility. These cost savings represent a net fiscal impact of reduced spending in long-term-care facilities grants and increased spending for group residential housing, alternative care and elderly waiver grants.

31. Extend Nursing Facility Moratorium Exceptions
    - General Fund ($ 0.4 million) ($ 0.7 million)

This provision changes the timeline from 18 months to 36 months for any proposed exception to the nursing home licensure and certification moratorium if the proposal was approved between July 1, 2001, and June 30, 2003.

32. ICF-MR County Share Reduced from 20 Percent to 5 Percent
    - General Fund $ 5.2 million $ 5.0 million

This provision modifies the cost sharing responsibilities of counties for medical assistance payments for large (greater than 7 beds) Intermediate Care Facilities for Mentally Retarded (ICF-MR). Current law requires the state to pay 80 percent of the nonfederal share, including the cost of day training and habilitation services, and counties to pay 20 percent of these costs. The act changes this cost sharing to 95 percent for the state and 5 percent for counties.

33. Cap Growth in HCB Waivers
    - General Fund ($13.8 million) ($38.9 million)

This funding reduction results from limiting the growth in three home and community based (HCB) waiver programs: community alternatives for disabled individuals (CADI), traumatic brain injury (TBI), and mental retardation and related conditions (MR/RC).

34. Reform Use of PCA Services
    - General Fund ($ 1.5 million) ($ 4.5 million)

The budget act makes numerous changes to the law governing services provided by personal care assistants (PCA) and payment for those services. More specifically, new language requires a PCA to, among other things, 1) follow the service plan based on the current physician's statement of need, 2) maintain daily written records detailing the actual services provided to the recipient, and 3) record the amount of time spent providing the services. Also, the act specifies that personal care assistant services provided without a physician's statement of need are ineligible for payment. The act also contains an audit provision.

*Chemical and Mental Health Services*

35. State Operated Services Forensic Services
    - General Fund $4.6 million $5.8 million

This appropriation addresses the increased number of referrals and commitments to the Minnesota Sex Offender Program (MSOP) and the Minnesota Security Hospital. This change is in addition to the $13.4 million included in the Deficiency Bill (2005 Laws, Chapter 2) enacted in February 2005.

36. State Operated Services Adult Mental Health Coverage
    - General Fund $ 17.3 million -0-

This appropriation is to cover the one-time costs of mental health restructuring and regional treatment center downsizing in state operated services (SOS). An appropriation was previously made for this purpose in FY 2004 but not all used in the FY 2004-05 biennium due to slower than anticipated implementation of the changes. That amount canceled on June 30, 2005 is re-appropriated in FY 2006.

37. Improve Mental Health Coverage
    - General Fund $ 0.2 million $3.2 million

    This increased funding is intended to improve mental health services for people enrolled in Medical Assistance (MA), MinnesotaCare (MNCare) and General Assistance Medical Care (GAMC) by providing more access to appropriate and effective care.

38. Methamphetamine Treatment - Willmar
    - General Fund $ 0.3 million $ 0.3 million

    The appropriation is to address increased chemical dependency treatment needs of women with children and adolescents who are or may be abusing methamphetamine, including supports for successful treatment.

***Department of Health*** ***FY 2006*** ***FY 2007***

*Administrative Support Service*

1. Adverse Health Event Reporting
    - State Gov't Special Revenue $0.3 million $0.3 million

    The adverse health event reporting requirement was enacted in 2003 requiring hospitals and surgical centers to report on 27 different types of incidents. Funding was from non-state sources. This provision establishes ongoing funding and an increase in hospital and surgical center fees to fund the program.

2. Operations Support (Facilities Leasing Costs)
    - General Revenue $0.7 million $2.6 million

    This funding covers the increased costs of agency rent in its new facilities. Approximately $2.2 million of the increased rent costs are offset by funding reductions or reallocations within the agency.

*Community & Family Health Promotions*

3. Grant Reductions
    - General Fund ($1.5 million) ($1.5 million)

    This reduction eliminates funding for the dental loan repayment program ($560,000) and the suicide prevention program ($983,000).

4. Positive Alternatives Program
    - General Fund $50,000 $2.45 million

    This provision, found in 2005 Session Law, Chapter 124, will provide grants to organizations that provide direct care to pregnant women and their unborn children through counseling and support services.

5. State Trauma System
    - General Fund Spending $0.4 million $0.4 million
    - General Fund Revenue ($0.4 million) ($0.4 million)

    Funded with an increase in hospital license fees, this provision will establish a statewide trauma system to assure that injured persons are promptly transported and treated at facilities appropriate to the severity of their injury.

*Health Protection*

6. Drinking Water Protection Fee
    - State Gov't Special Revenue $ 0.4 million $ 0.6 million
    - State Gov't Special Rev Fund Revenue $0.0 million $1.4 million

    Funded by an increase in the drinking water service connection fee, this appropriation will increase funding for the drinking water protection program.

7. Food Manager's Certification Program
    - State Gov't Special Revenue $ 62,000 $ 62,000

    Funded with a fee increase for food manager certification, this appropriation will allow the program to operate at a full service level.

8. Food, Beverage and Lodging Program
    - State Gov't Special Revenue $ 1.6 million $ 1.6 million
    - State Gov't Special Rev Fund Revenue $ 1.3 million $ 1.3 million

    Funded with a fee increase for food, beverage, and lodging establishments, these moneys will help to reform and modernize the food, beverage and lodging inspection program for approximately 7,800 restaurants, bars, hotels, motels, resorts and lodging establishments.

9. Lab Certification Program
    - State Gov't Special Revenue $ 0.2 million $ 0.2 million
    - State Gov't Special Rev Fund Revenue $ 0.2 million $ 0.2 million

    Funded with a fee increase, these moneys will fully fund the environmental laboratory certification program.

10. Methamphetamine Lab Remediation
    - General Fund $ 50,000 $ 50,000

    This appropriation will enable the Department of Health to provide technical assistance to local units of government in a program to remediate former methamphetamine lab sites.

11. Plumbing
    - State Gov't Special Revenue $ 0.25 million $ 0.25 million
    - State Gov't Special Rev Fund Revenue ($5,000) ($5,000)

    This additional appropriation will allow the plumbing inspection program to meet the demand for plan review service and associated inspections. Also included is a fee reduction due to a modification in the plumbing plan review schedule.

12. Well Management Program

| | | |
|---|---|---|
| • State Gov't Special Revenue | $ 0.4 million | $ 0.6 million |
| • State Gov't Special Rev Fund Revenue | -0- | $ 0.55 million |

Funded with a variety of increases in well management fees, these moneys will help meet the increased need in the well management program.

*Policy, Quality and Compliance*

13. Complementary and Alternative Practice

| | | |
|---|---|---|
| • General Fund | ($ 65,000) | ($ 65,000) |

This provision discontinues the Office of Complementary and Alternative Practice in the Department of Health.

14. Vital Records Program

| | | |
|---|---|---|
| • State Gov't Special Revenue | $ 1.1 million | $ 1.0 million |
| • State Gov't Special Rev Fund Revenue | $ 1.4 million | $ 1.4 million |

Funded with a surcharge for records, registrations and copies of these items, this appropriation will pay for upgrades to the electronic record system and for administrative costs of the electronic system of vital statistics. The revenue surcharge provision will sunset at the end of FY 2009.

15. Family Planning Grants for Greater Minnesota Clinics

| | | |
|---|---|---|
| • General Fund | $ 0.5 million | $ 0.5 million |

This appropriation will pay for family planning grants.

## Veterans Home Board

No Changes

## Emergency Medical Services Board

No Changes

| ***Health-Related Boards*** | ***Fund*** | ***FY 2006*** | ***FY 2007*** |
|---|---|---|---|
| Board of Chiropractic Examiners | SGSR | $ 30,000 | $ 30,000 |
| Board of Dentistry | SGSR | $180,000 | $ 30,000 |
| Board of Marriage & Family Therapy | SGSR | $ 9,000 | $ 13,000 |
| Board of Medical Practices | SGSR | $325,000 | $ 365,000 |
| Board of Nursing | SGSR | $722,000 | $1,275,000 |
| Board of Nursing Home Administrators | SGSR | $ 59,000 | $ 62,000 |
| Board of Pharmacy | SGSR | $337,000 | $ 292,000 |
| Board of Physical Therapy | SGSR | $ 4,000 | $ 10,000 |
| Board of Podiatry | SGSR | $ 4,000 | $ 8,000 |
| Board of Veterinary Medicine | SGSR | $ 8,000 | $ 8,000 |
| Board of Social Work | SGSR | $105,000 | $ 100,000 |

Most of the increases for these Health-Related Boards are for operations cost increases. The budget act also provides new appropriations to five boards for specific uses and language changes for fee reductions that impact two boards, as given below:

- $150,000 of the Board of Dentistry's FY 2006 increase is for an oral health care system pilot project.
- $200,000 each year of the Board of Medical Practices increase is for forgiveness of physician loans under health profession education loan forgiveness program.
- $392,000 in FY 2006 and $864,000 in FY 2007 of the Board of Nursing increases are for the long term care and home and community based care employee scholarship program.
- $125,000 in FY 2006 and $200,000 in FY 2007 of the Board of Nursing increases are for forgiveness of nurse loans under health profession education loan forgiveness program.
- $200,000 each year of the Board of Pharmacy increases are for the rural pharmacy planning and transition grant program.
- $25,000 each year of the Board of Pharmacy increase is for the cancer drug repository program.
- $105,000 in FY 2006 and $100,000 in FY 2007 of the Board of Social Work's increase is for administrative management related to providing mental health services.
- The Board of Dietetics and Nutrition Practice is allowed to lower fees by up to $36,000 per year for fiscal years 2006-20009.
- Revenue from the Board of Social Work fees is lowered by $113,000 in FY 2006 and $226,000 in FY 2007 in 2005 laws, Chapter 147. This fee reduction is in effect until June 30, 2009.

### *Council on Disability*
No Changes

### *Ombudsman for Mental Health & Retardation*
No Changes

*For additional information on Health Finance issues, contact Katherine Schill at 651.296.5384 or email: katherine.schill@house.mn.*

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# Higher Education

The Higher Education Finance Act (Laws of MN 2005, Chapter 107) authorizes General Fund appropriations of $2,761,000,000 for Fiscal Years 2006-07. This is an increase of $201.9 million (8.4 percent) from FY 2004-05 appropriations and $8.2 million (.3 percent) from the adjusted base. Projected "tails" for Chapter 107 are $2.791 billion for the FY 2008-09 biennium.

**Higher Education Finance**
**Total General Fund**
*(dollars in thousands)*

| | February Forecast Spending in FY 2004-05 | Base Funding FY 06-07 | Chapter 107 FY 06-07 Appropriations | Percentage Change FY 06-07 vs. FY 04-05 | Percentage Change FY 06-07 vs. Base | Tails Chapter 107 FY 08-09 |
|---|---|---|---|---|---|---|
| HESO | 352,953 | 349,904 | **349,310** | -1.03% | -0.17% | 354,362 |
| Mayo | 2,723 | 2,782 | **2,782** | 2.17% | 0.00% | 2,782 |
| MnSCU | 1,106,075 | 1,226,188 | **1,202,888** | 8.75% | -1.90% | 1,204,388 |
| U of M | 1,097,351 | 1,173,884 | **1,205,770** | 9.88% | 2.72% | 1,229,158 |
| Dept. of Health | 0 | 0 | **250** | NA | NA | 310 |
| **Totals** | **2,559,102** | **2,752,758** | **2,761,000** | **7.89%** | **0.30%** | **2,791,000** |

## Higher Education Services Office (HESO)

Chapter 107 includes total FY 2006-07 General Fund appropriations for HESO of $349.3 million. This is a decrease of $3.1 million (-1.03 percent) from FY 2004-05 appropriations and $594,000 (-.17 percent) from the adjusted base. Specific General Fund appropriations for HESO programs include:

- State Grants – Chapter 107 appropriates $281 million for the FY 2006-07 biennium. While the funding remains constant relative to the FY2004-05 biennium, a surplus in the base due to changes in federal funding and a variance in demand from the agency's FY 2004-05 projections allow a variety of program eligibility changes. The deadline for applying for aid was extended to 30 days from the start of each term from the previous 14 day limit. The tuition maximum for 4-year programs (public and private) is increased 5 percent each year to $9,477 for FY 2006 and $9,998 in FY 2007. The tuition maximum for 2-year programs (public and private) is decreased 5% in FY 2006 to $6,567 and an additional 2% in FY 2007 to $6,436. The Living and Miscellaneous Expense allowance (LME) portion of the formula increased to $5,350 for each year of the biennium and the

State Grant Statute was changed to apply any projected surplus State Grant funds in the second year of the biennium to additional LME increases.

- Work Study – Chapter 107 appropriates $24.9 million for the FY 2006-07 biennium. This is no change from the adjusted base.

- Child Care – Chapter 107 appropriates $9.9 million for the FY 2006-07 biennium. This represents an increase of $382,000. In addition, the maximum grant amount was increased by $100 to $2,300.

- Interstate Tuition Reciprocity – Chapter 107 appropriates $2 million for the FY 2006-07 biennium, a reduction of $5.2 million from the adjusted base. Because the cost of these agreements has dropped dramatically in recent years, the agency projects that the base can be reduced with no impact on the program. Chapter 107 also requires HESO to explore renegotiation of reciprocal agreements with North Dakota and Wisconsin with a goal of reducing the tuition disparities paid by students attending in Minnesota.

- Learning Network of Minnesota – Chapter 107 appropriates $9.3 million for the biennium. This represents a reduction of $1 million (-9.7 percent). The Act anticipates that users of the system will make up for the difference in usage levels, bandwidth changes or reductions in support levels to campuses.

- College planning – Chapter 107 appropriates $992,000 for the Intervention for College Attendance Program (ICAP). This is an increase of $482,000 from the base funding level.

- State Grant Re-write – Chapter 107 includes a one-time appropriation of $310,000 for FY2006 to convert the State Grant Program computer language from the current COBOL program to a modern computer language.

- Mn College Savings Program – Chapter 107 appropriates $2.24 million for administration and matching grants in the FY2006-07 biennium. This is no change from adjusted base.

- MINITEX and MnLINK – Chapter 107 appropriates $9.6 million for FY 2006-07 for the MINITEX and MnLINK library systems. This is no change from adjusted base.

- Accountability Measurement System – Chapter 107 appropriates $400,000 for the development of a statewide higher education accountability measurement system. This system is meant to collect and analyze data on higher education performance and accountability to assist the state and higher education systems in setting performance goals and standards. This program has a recurring base of $300,000 in future biennia.

- Rochester planning – Chapter 107 appropriates funding of $3.2 million to establish an independent, publicly incorporated postsecondary education institution in Rochester. This is a one-time appropriation.

- United Family Practice Residency – Chapter 107 appropriates $720,000 to fund medical residencies at United Family Hospital.
- Post Secondary Service Learning - Chapter 107 appropriates $230,000 for this program, an increase of $30 thousand.

- Midwest Higher Education Compact (MHEC) – Chapter 107 appropriates an additional $15,000 for the FY 2006-07 biennium for increased dues for Minnesota's membership in MHEC.

In addition, Chapter 107 authorizes increasing the fee for registration of Private Career Schools and a new fee for schools with multiple locations. This is anticipated to raise $26,000 for the biennium and is part of HESO's attempts to align private school registration fees with the cost of the program as required by statute.

Chapter 107 also eliminates the name Higher Education Services Office and replaces it with the Minnesota Office of Higher Education.

### Minnesota State Colleges and Universities

Chapter 107 includes total FY 2006-07 General Fund appropriations for the Minnesota State Colleges and Universities of $1.203 billion. This is an increase of $96.8 million (8.8 percent) from FY 2004-05 appropriations and a decrease of $23.3 million (-1.9 percent) from the adjusted base. Chapter 107 specifies appropriations of:

- $10 million for Centers of Excellence. This initiative would create centers of excellence at selected campuses.

- $12 million for competitive salaries. This initiative would attempt to introduce incentive/performance pay into the MnSCU salary structure.

The balance of MnSCU appropriations in Chapter 107 is not subject to additional restrictions beyond current statute.

### University of Minnesota

Chapter 107 includes total FY 2006-07 General Fund appropriations for the University of Minnesota of $1.206 billion. This is an increase of $108.4 million (9.9 percent) from FY 2004-05 appropriations and $31.9 million (2.7 percent) from the adjusted base.

- $13 million to address Competitive Salaries. This funding is to assist the University in recruitment and retention of top researchers and educators.

The balance of U of M appropriations in Chapter 107 is not subject to additional restrictions beyond current statute.

In addition, the Economic Development bill included a $15 million appropriation to the Department of Employment and Economic Development (DEED) for a Genomics Research partnership between the University of Minnesota and Mayo. Also, the tax bill included statutory changes in appropriations of cigarette taxes to the University of Minnesota. Figures for both of these changes are included in the respective summary sections.

## Mayo Foundation

Chapter 107 appropriates $2.782 million to the Mayo Foundation for FY 2006-07 for medical school and residency programs. This is no change from the adjusted base. Legislation passed in the 2005 special session also funded a Governor's initiative for a biomedical research partnership between the University of Minnesota and Mayo. See the Economic Development summary for further details.

## Health Department

Chapter 107 appropriates $250 to the Minnesota Department of Health for a nursing loan forgiveness program. This provision was subsequently repealed in the Human Services bill. See that section for changes to health education loan forgiveness programs.

*If you have any further questions on higher education related issues, please contact Doug Berg at 296-5346 or doug.berg@house.mn.*

# Jobs & Economic Opportunity Policy & Finance

The 2005 Legislature enacted FY 2006-07 General Fund appropriations totaling over $1.171 billion for 16 state departments, agencies, and boards under the budget jurisdiction of the Jobs and Economic Opportunity Policy & Finance Committee. These appropriations are contained in *2005 Laws, First Special Session*, Chapters 1 and 4.

The enacted budget is $157.477 million (11.8 percent reduction) below base funding levels for the 16 state departments, agencies, and boards. The Legislature also approved several items that will result in an estimated $39.344 million gain in new revenues for the General Fund.

The net effect in the General Fund (relative to base) of the 2005 session spending and revenue decisions is a $196.821 million reduction in Jobs and Economic Opportunity accounts.

**Jobs & Economic Opportunity Finance**
**Total General Fund Spending**
*(Dollars in thousands)*

| | FY 04-05 Spending February Forecast | FY 06-07 Base Funding February Forecast | FY 06-07 SS Chapters 1 & 4 Enacted | % Change FY 06-07 Enacted vs. FY 04-05 | % Change FY 06-07 Enacted vs. Base | Tails FY 08-09 SS Chapters 1 & 4 |
|---|---|---|---|---|---|---|
| ***SS Chapter 1*** | | | | | | |
| Employment & Economic Development | 110,934 | 91,972 | 90,781 | -18.2% | -1.3% | 74,896 |
| Explore Minnesota Tourism | 8,909 | 17,252 | 18,402 | 106.6% | 6.7% | 19,402 |
| Housing Finance Agency | 69,954 | 71,540 | 70,470 | 0.7% | -1.5% | 78,876 |
| Commerce | 56,845 | 56,036 | 40,292 | -29.1% | -28.1% | 40,292 |
| Board of Accountancy | 1,211 | 1,154 | 974 | -19.6% | -15.6% | 974 |
| Board of Architecture, Eng., et.al. | 1,854 | 1,570 | 1,570 | -15.3% | 0.0% | 1,570 |
| Board of Barbers & Cosmetologists | 825 | 1,398 | 1,398 | 69.5% | 0.0% | 1,398 |
| Labor & Industry | 5,705 | 4,988 | 5,744 | 0.7% | 15.2% | 5,744 |
| Mediation Services | 3,659 | 3,546 | 3,546 | -3.1% | 0.0% | 3,346 |
| Public Utilities Commission | 8,429 | 8,326 | 8,326 | -1.2% | 0.0% | 8,326 |
| Historical Society | 44,687 | 44,687 | 46,450 | 3.9% | 3.9% | 46,250 |
| Region 3 - Occupation Tax | 936 | 936 | 936 | 0.0% | 0.0% | 936 |
| Arts Boards | 17,177 | 17,186 | 17,186 | 0.1% | 0.0% | 17,186 |
| Board of Electricity | N/A | | | | | |
| Iron Range Resources | N/A | | | | | |
| Workers Comp Court of Appeals | N/A | | | | | |

| **Jobs & Economic Opportunity Finance**<br>**Total General Fund Spending (Continued)**<br>*(Dollars in thousands)* | | | | | | |
|---|---|---|---|---|---|---|
| | **FY 04-05 Spending February Forecast** | **FY 06-07 Base Funding February Forecast** | **FY 06-07 SS Chapters 1 & 4 Enacted** | **% Change FY 06-07 Enacted vs. FY 04-05** | **% Change FY 06-07 Enacted vs. Base** | **Tails FY 08-09 SS Chapters 1 & 4** |
| ***SS Chapter 4*** | | | | | | |
| DHS: Children & Econ. Assist. | 926,507 | 1,008,496 | 865,535 | -6.6% | -14.2% | 1,013,217 |
| **Total Appropriations** | **1,257,632** | **1,329,087** | **1,171,610** | **-6.8%** | **-11.8%** | **1,312,413** |
| **New Revenues** | | | **-39,344** | | | **-890** |
| **Net General Fund** | **1,257,632** | **1,329,087** | **1,132,266** | | | **1,311,523** |

Notes:

(1) The FY 2004-05 numbers for DEED include one-time funding items and the FY 2004 appropriation for Tourism. These factors overstate the percentage change numbers in Column 4.

(2) Board of Barber & Cosmetologist Examiners' 2006-07 numbers reflect the merger of barber and cosmetologist licensing and regulation.

(3) The Board of Electricity, Iron Range Resources, and Workers Compensation Court of Appeals do not receive GF appropriations.

(4) The DHS FY 04-05 number has been corrected to reflect accounting changes between the 2004-05 and 2006-07 bienniums.

## Department of Employment & Economic Development

The Department's enacted General Fund appropriation is $90.781 million for the FY 2006-07 biennium. The 2005 Legislature approved FY 2006-07 biennial General Fund appropriations of $93.420 million. The Governor vetoed five individual appropriations totaling $2.639 million.

| **Department of Employment and Economic Development**<br>**2006-07 General Fund Appropriations**<br>*(dollars in thousands)* | | | |
|---|---|---|---|
| **Program** | **Current Base** | **Legislative Changes** | **Enacted Appropriation** |
| Business & Community Development | $ 4,442 | $ -110 | $ 4,332 |
| UM/Mayo Biotech & Genomic Partnership | | 15,000 | 15,000 |
| Minnesota Investment Fund | 2,406 | -2,406 | 0 |
| Riverbend Center for Entrepreneurial Facil. | | 35 | 35 |
| Federal Contract Procurement Assistance | | 200 | 200 |
| Minnesota Inventor's Congress | | 120 | 120 |
| Metro Economic Development Assn | 200 | 110 | 310 |
| Get Broadband Grant | | 250 | 250 |
| Children's Discovery Museum | | 100 | 100 |
| La Crèche Early Childhood (from base) | | 15 | 15 |
| Twin Cities Rise | 500 | 110 | 610 |
| Trade Development | 3,838 | -548 | 3,290 |
| Youthbuild | 1,514 | -1,514 | 0 |

| **Department of Employment and Economic Development**<br>**2006-07 General Fund Appropriations**<br>*(dollars in thousands)* | | | |
|---|---|---|---|
| **Program** | **Current Base** | **Legislative Changes** | **Enacted Appropriation** |
| Youth Intervention (Transferred to DPS) | 2,904 | -2,904 | 0 |
| Mortgage Credit Certificate Aid | 500 | -500 | 0 |
| Administration | 7,442 | -888 | 6,554 |
| Meth Lab Cleanup Revolving Fund | | 500 | 500 |
| **Vetoed Appropriations:** | | | |
| Cold-Hardy Vineyard Research | | ~~125~~ | 0 |
| NW Reg. Curfew Center Grant | | ~~10~~ | 0 |
| Twin-City Community Voice Mail | | ~~17~~ | 0 |
| MN Youth Program | 8,380 | ~~-2,238~~ | 0 |
| Learn to Earn | 366 | ~~0~~ | 0 |

The Legislature also made several appropriations from the Workforce Development Fund, including youth programs that previously were paid for exclusively from the General Fund. The Workforce Development Fund appropriations are shown in the following table.

| **Department of Employment and Economic Development**<br>**2006-07 Workforce Development Fund Appropriations**<br>*(dollars in thousands)* | | | |
|---|---|---|---|
| **Program** | **Current Base** | **Legislative Changes** | **Enacted Appropriation** |
| Center for the Deaf and Hard of Hearing | $ 50 | $ 300 | $ 350 |
| Extended Employment | 13,840 | 1,000 | 14,380 |
| Mental Illness Support Employment | | 600 | 600 |
| OIC's Nurse Training | | 1,000 | 1,000 |
| Lifetrack Resources | | 500 | 500 |
| Jobs Skills – Boys and Girls Alliance | | 2,000 | 2,000 |
| Minnesota Youth Program | | 6,000 | 6,000 |
| Youthbuild | | 1,514 | 1,514 |
| **Vetoed:** OIC's Indian Businesspersons | | ~~1,000~~ | 0 |

The Legislature increased the Workforce Enhancement Fee that funds the Workforce Development Fund. The fee will be 0.1 percent for two years, and then be at an ongoing rate of 0.085 percent. Under prior law, the Workforce Enhancement Fee was scheduled to go back to 0.07 percent on January 1, 2006.

Other major Legislative actions regarding DEED's approved FY 2006-07 budget are:

- **Continuing the Displaced Homemakers Program.** The program will be funded with a portion of marriage license fees and marriage dissolution fees.

- **Changing the repayment formula for the Minnesota Investment Fund**. The change will have 20% payment of repayments, up to $100,000, retained by local units of government and Indian tribal governments. Under current law, the local retention is the first $100,000 of repayments. The impact will be $350,000 per year in addition repayments going to the MIF special revenue account revolving loan fund.
- **Creating a special revenue revolving fund account** capitalized by the proceeds from the Department's sales of promotional and marketing materials.
- **Establishing an Incumbent Worker Training Program**. Funding for this new program is contingent on first satisfying the program needs of the Dislocated Workers Program.

## Explore Minnesota Tourism

The 2005 Legislature appropriated $18.402 million for Explore Minnesota Tourism from the General Fund in the 2006-07 biennium. This net increase from base of $1.15 million, contains two major components.

- $1 million is appropriated for a new initiative, the Public/Private Enhancement Fund. The Fund is designed to build stronger public/private partnerships in tourism promotion by matching contributions from private sector partners with state General Fund dollars. The Fund will begin in FY 2007, and the state match is capped at $1 million per year.
- $150,000 increase in funding for the Minnesota Film Board. With this increase, the Board's annual funding will be $250,000.

The Legislature also approved one-time grants of $50,000 for the Mississippi River Parkway Commission, and $60,000 for the Winona Great River Shakespeare Festival. These grants are from Tourism's base funding.

## Minnesota Housing Finance Agency

The Legislature approved a $70.47 million General Fund appropriation for the Minnesota Housing Finance Agency during the FY 2006-07 biennium. This is a decrease of $1.07 million from the MHFA's current law base. The table below shows the Legislature's enacted budget changes by housing programs and activities.

**Minnesota Housing Finance Agency**
**2006-07 General Fund Appropriations**
(dollars in thousands)

| Program | Current Base | Legislative Changes | Enacted Appropriation |
|---|---|---|---|
| Housing Trust Fund | $ 8,610 | $4,000 | $ 12,610 |
| Housing Rehabilitation Program | 7,944 | -2,636 | 5,308 |
| Home Ownership Assistance | 1,770 | -1,770 | 0 |
| Affordable Rental Investment Fund | 18,546 | -554 | 17,992 |
| Capacity Building Grants | 610 | -110 | 500 |

Increased funding for the Housing Trust Fund is for the supportive housing component of the Governor's initiative to end homelessness.

Funding reductions for the Housing Rehabilitation Program and the Home Ownership Assistance Program are one-time only in the FY 2006-07 biennium. Funding for these programs is restored in the 2008-09 biennium. The other programs' reductions are on going.

## Department of Commerce.

The Legislature appropriated $40.292 million for the Department's FY 2006-07 General Fund operations. The recommendation is $15.744 million less than the Department's current law base.

**Department of Commerce: 2006-07 General Fund Appropriations**
*(dollars in thousands)*

| Division/Program | Current Base | Legislative Changes | Enacted Appropriation |
|---|---|---|---|
| Financial Examinations | $11,988 | | $11,988 |
| Administrative Services | 10,836 | | 10,836 |
| Market Assurance | 9,824 | 20 | 9,884 |
| Energy & Telecommunications | 8,698 | -1,074 | 7,624 |
| Weights & Measures | 5,014 | -5,014 | 0 |
| Renewable Energy Incentive Payments | 9,676 | -9,676 | 0 |

The enacted General Fund reductions for the Department of Commerce are:

- A $20,000 net increase for the Market Assurance Division. The increase is the result of $220,000 appropriation to fund a new initiative to regulate service contracts and contract providers. This appropriation is offset by a $200,000 reduction from having the Division's administrative costs relative to the Contractor Recovery Fund be paid by that fund instead of the General Fund.
- A $1.074 million reduction for the Energy and Telecommunications Division. Of this amount, $824,000 will be restored with an appropriation from the Special Revenue Fund.
- A $5.014 million reduction in the General Fund appropriation for the Weights and Measurements Division. The division will now be funded with an appropriation from the Special Revenue Fund. There is no reduction in the division's funding, only a change in how the division is funded. Fee revenues will also be deposited in the Special Revenue Fund instead of the General Fund.
- A $9.676 million reduction in the General Fund appropriation for Renewable Energy Incentive Payments. The incentive payments will be made from the Renewable Development Fund rather than the General Fund. The significance is that the program payments will continue, but the funding source for the payments will change. The Legislature also approved a one-time $4 million transfer from the Metropolitan Landfill Contingency Action Trust account to the Renewable Development Fund. The purpose of this transfer is to partially offset the impact on Renewable Development Fund from the change in how Renewable Energy Incentive Payments are paid for.

The Legislature also approved three initiatives that will yield an estimated $33.504 million in additional General Fund revenues in the FY 2006-07 biennium.

- $32 million in estimated revenue will be generated under the Legislature approval of the Governor's recommendation to shorten the required retention time for holding unclaimed securities before they can be sold. Under prior law, the required retention time was three years. The enacted change shortens the retention time to one year.
- $36,000 will be raised from establishing a one-time $1,500 fee for a certificate of authority to sell insurance in Minnesota. Insurance companies currently doing busy in the state would not be impacted.
- $1.468 million will be raised from adjusting current fees and implementing new fees for several of the Department's insurance-related licensing activities.

### Board of Accountancy

The Legislature approved the Governor's recommendation that the Board receive General Fund appropriations totaling $974,000 in the FY 2006-07 biennium. This represents an $180,000 reduction. The reduction incorporates the Governor's initiative that the Accountancy Board's administrative functions be combined with the Board of Architecture, Engineering, *et al.*

### Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geosciences, and Interior Design

The Board's FY 2006-07 General Fund appropriation will be $1.57 million under the Legislature's enacted budget. The change that will have the Board assume the administrative functions of the Board of Accountancy is discussed above.

### Board of Barber & Cosmetologist Examiners

The Legislature approved a $1.398 million General Fund appropriation for the Board in FY 2006-07. The enacted budget reflects action of the 2004 Legislature that merged the barbers' and cosmetologists' licensing and regulation functions.

### Department of Labor & Industry

The Legislature approved a Department General Fund appropriation of $5.744 million in FY 2006-07 biennium. This represents a $756,000 increase from base. The increase will allow the Department to improve its code enforcement and inspections activities relating to boilers, pressure vessels and high-pressure piping systems.

To finance these activities the Legislature adopted increases in license, permit, penalty, and inspection fees amounting to $1.61 million. One major approved fee change makes permanent the $5 temporary surcharge on boiler licenses and inspections that was enacted by the 2003 Legislature.

### Bureau of Mediation Services

The Bureau's General Fund appropriation in FY 2006-07 is $3.546 million. The enacted budget is at the Bureau's current law base. Beginning with the FY 2008-09 budget, the Bureau's Labor-Management Cooperation Grants program is eliminated.

### Public Utilities Commission

The Legislature approved the current law base General Fund funding of $8.326 million for the Commission in the FY 2006-07 biennium. The Commission recovers nearly all of its funding through fees and assessments.

### Historical Society

The Legislature approved FY 2006-07 General Fund appropriations for the Historical Society totaling $46.45 million, a $1.763 million increase from the Society's current law base. The table on the next page depicts the Society's program-specific funding under the enacted budget.

Three initiatives account for the $1.62 Million increase in the Society's Education and Outreach Program: 1) $100,000 (onetime) for the Sesquicentennial Commission, 2) $120,000 to offset the revenue loss from the prohibition from charging fees for tours of the State Capitol, and 3) $1.4 million to reopen seven historic sites that have closed and/or were scheduled for closure.

| **Minnesota Historical Society<br>2006-07 General Fund Appropriations**<br>(dollars in thousands) | | | |
|---|---|---|---|
| **Program** | **Current Base** | **Legislative Changes** | **Enacted Appropriation** |
| Education & Outreach | $24,762 | $1,620 | $26,382 |
| Preservation & Access | 19,544 | | 19,544 |
| FarmAmerica | 213 | 43 | 256 |
| MN International Center | 85 | | 85 |
| MN Military Museum | 67 | | 67 |
| MN Air National Guard | 16 | | 16 |
| Perham Veterans Museum (onetime) | | 100 | 100 |

### Arts Board

The Board will receive a General Fund appropriation of $17.186 million for the FY 2006-07 biennium under the budget approved by the Legislature.

| **Minnesota Arts Board<br>2006-07 General Fund Appropriations**<br>(dollars in thousands) | | | |
|---|---|---|---|
| **Program** | **Current Base** | **Legislative Changes** | **Enacted Appropriation** |
| Operation & Services | $ 808 | | $ 808 |
| Grant Programs | 11,534 | | 11,534 |
| Regional Arts Councils | 4,844 | | 4,844 |

## Workers' Compensation Court of Appeals

This Court receives no General Fund appropriation. The Court will receive $3.236 million from the Workers Compensation Special Fund in the FY 2006-07 biennium under the budget approved by the Legislature.

## Board of Electricity

The Board receives no General Fund appropriation. The Legislature approved $22.092 million from the Special Revenue Fund for the Board's operations in FY 2006-07. This is a statutory appropriation and includes no reductions from the Board's base funding.

The Legislature also approved a one-time $4 million transfer from the Board of Electricity's Special Revenue Account to the General Fund. This transfer was recommended by the Governor.

## Iron Range Resources

The Legislature approved that $63.286 million be appropriated for the agency from the Iron Range Resources and Rehabilitation Fund, the Giants Ridge Golf and Ski Resort, and the Northeast Minnesota Economic Protection Fund in FY 2006-07. These are all statutory appropriations.

The Legislature also approved the current law General Fund open appropriation of $936,000 for pass-through grants to Koochiching and Carlton Counties for economic and environmental projects.

## Minnesota Conservation Corps

The Legislature approved a onetime $1.2 million per year appropriation from the Workforce Development Fund to the Minnesota Conservation Corps for a Jobs Skills and Training Program in the FY 2006-07 biennium. This appropriation was vetoed by the Governor.

## Department of Human Services

The Children & Economic Assistance Grants & Management Divisions within the Department of Human Services are under the jurisdiction of the Jobs & Economic Opportunity Finance Committee for the first time in the 2005 Legislative Session. The Legislature approved a General Fund budget for the divisions totaling $865.535 million for the 2006-07 biennium. This is a 14.2 percent reduction from the division's base General Funding level of $1.008 billion. The dollar reduction is $142.961 million.

Details are provided in the table on the next page.

| **Department of Human Services 2006-07 General Fund Appropriations<br>Children & Economic Assistance Grants & Management Division**<br>(dollars in thousands) | | | |
|---|---|---|---|
| **Program** | **Current Base** | **Legislative Changes** | **Enacted Appropriation** |
| MFI P- DWP Grants | $ 67,542 | | $ 67,542 |
| Supportive Services Grants | 17,412 | | 17,412 |
| MFIP Child Care Assistance Grants | 173,000 | -84,411 | 88,589 |
| BSF Child Care Assistance Grants | 60,524 | -24,451 | 36,073 |
| Child Care Development Grants | 3,080 | | 3,080 |
| Child Support Enforcement Grants | 6,510 | | 6,510 |
| Children's Services Grants | 85,891 | 1,944 | 87,835 |
| Children & Community Services | 186,976 | -49,986 | 136,990 |
| General Assistance Grants | 61,980 | | 61,980 |
| MN Supplemental Aid Grants | 61,116 | | 61,116 |
| Group Residential Housing Grants | 174,698 | 7,324 | 182,022 |
| Other Child & Econ. Asst. Grants | 25,183 | 7,706 | 32,889 |
| Children & Economic Assistance Admin. | 15,142 | 528 | 15,670 |
| Children & Economic Assistance Operations | 69,442 | 50 | 69,492 |
| Administrative Offset: Federal Reimbursement | | -1,665 | -1,665 |

The reader is advised that only looking at the General Fund impact of the 2005 Legislature's actions has the effect of overstating the actual dollar effects on some programs. This is especially true of the Legislature's total funding for the Minnesota Family Investment Program (*MFIP*) and Basic Sliding Fee (*BSF*) Child Care Assistance Grants.

- The table number for MFIP Child Care Assistance Grants overstates the true dollar effect of the 2005 Legislature's appropriations. The actual fiscal impact is a $47.192 million reduction, not the $84,411 million shown in the table. The reason for the smaller number is that the Legislature appropriated $37.219 million in TANF monies for MFIP Child Care Assistance Grants. This refinancing offsets a significant portion of the General Fund reductions.
- The table number for BSF Child Care Assistance Grants also overstates the true dollar effect of the 2005 Legislature's appropriations. The actual impact is $11.712 million reduction, and not the $24.451 million shown in the table. The reason for the lower number is the Legislature appropriated unexpended federal child care and development monies for BSF Child Care Assistance Grants. This has the effect of offsetting a significant portion of the General Fund reductions.

The table's MFIP and BSF Child Care Assistance Grants numbers also incorporate several significant changes: 1) the Governor's supplemental budget recommendation to adjust the child care center rates in some counties by establishing a maximum payment rate at the higher of the current rate or the highest rate reported for that county in the 2002 rate survey; 2) a new absent day policy that will limit reimbursement to 25 days for which a child is absent, excluding holidays, in a fiscal year; 3) a child care rate reimbursement increase of 1.75% each year in the

FY 2006-07 biennium; and 4) a new co-pay schedule that partially restores the changes made by the 2003 Legislature.

The other major General Fund funding actions by the 2005 Legislature for the programs within Children & Economic Assistance Grants & Management Division (in biennium dollar amounts) are:

- $2.419 million in new funding for the Governor's proposed American Indian Child Welfare Project. The project will begin in FY 2007, and enable up to two tribes to provide child welfare services to American Indian children on their reservations.
- $975,000 in reduced funding for Adoption Assistance. The reduction is reflection of forecasted lower caseloads. Funding is restored in FY 2008-09.
- $1.856 million in reduced funding for Relative Custody Assistance, reflecting expected lower caseloads. Funding is restored in FY 2008-09.
- $2.17 million in new funding for the Governor's proposed initiative to "Prevent Homelessness for Young Adults Transitioning from Long-term Foster Care."
- $50 million in reduced funding for the Projects of Regional Significance within the Children and Community Services Act program. This reduction is permanent and the Projects of Regional Significance program is repealed
- $10 million in new funding for the Governor's proposed initiative to "Address Homelessness with Supportive Housing Service Grants."
- $4.715 million to fund a $12 increase in the personal need allowance within the Group Residential Housing program.
- $1.798 million to fund a reimbursement rate increase for Teen Challenge.
- Cost of Living rate increases were also provided to Children Mental Health grants, Community Social Services grants, and Group Residential Home providers.

The Legislature also appropriated TANF funds to finance two additional initiatives:

- $3.334 million to cap at $125 the MFIP cash grant reduction for households wherein one or more persons receive SSI.
- $500,000 for a one-time funding increase for Transitional Housing Grants.

*For additional information on Jobs & Economic Development issues, contact Ron Soderberg at 296-4162 or ron.soderberg@house.mn*

# Public Safety Policy and Finance

With the passage of Chapter 136 (Laws 2005), the 2005 Legislature approved FY 2006-07 general fund appropriations totaling $1.685 billion for state departments, agencies, boards and the judiciary under the budget jurisdiction of the Public Safety Policy and Finance Committee. The appropriated amount is $97.852 million above the FY 2006-07 base funding level, a 6.17 percent increase. The following appropriations relate to the general fund unless otherwise noted.

**Public Safety Policy and Finance**
**Total General Fund Spending**
*(dollars in thousands)*

| | February Forecast Spending in FY 04-05 | Base Funding FY 06-07 | Appropriations FY 2006-07 | Percentage Change FY 06-07 vs. FY 04-05 | Percentage Change FY 06-07 vs. Base | Tails Chapter 136 FY 2008-09 |
|---|---|---|---|---|---|---|
| **Chapter 136** | | | | | | |
| Supreme Court | 74,890 | 72,168 | **84,367** | 12.65% | 16.90% | **84,342** |
| Court of Appeals | 15,837 | 15,878 | **16,378** | 3.42% | 3.15% | **16,378** |
| Trial Courts | 371,941 | 440,412 | **462,425** | 24.33% | 5.00% | **462,772** |
| Tax Court | 1,441 | 1,452 | **1,452** | 0.76% | 0.00% | **1,452** |
| Uniform Laws Commission | 79 | 78 | **96** | 21.52% | 23.08% | **90** |
| Judicial Standards Bd. | 738 | 504 | **554** | -24.93% | 9.92% | **504** |
| Public Defense Board | 107,526 | 107,864 | **122,504** | 13.93% | 13.57% | **123,602** |
| Public Safety | 141,299 | 141,470 | **162,913** | 15.30% | 15.16% | **160,128** |
| Private Detective Bd. | 270 | 252 | **252** | -6.67% | 0.00% | **252** |
| Human Rights | 6,871 | 6,980 | **6,980** | 1.59% | 0.00% | **6,980** |
| Corrections | 727,785 | 798,959 | **825,893** | 13.48% | 3.37% | **865,091** |
| Sentencing Guidelines | 993 | 872 | **926** | -6.75% | 6.19% | **926** |
| Bd. Of Veterinary Medicine | | | **7** | | | **0** |
| **Chapter 164** | | | | | | |
| Supreme Court | | | **440** | | | |
| **Chapter 128** | | | | | | |
| Corrections Dept. | | | **45** | | | |
| **Totals** | **1,449,670** | **1,586,889** | **1,685,232** | 16.25% | 6.20% | **1,722,517** |
| General Fund Revenues | | | **37,831** | | | |
| **Net General Fund** | | | **1,647,401** | | | |

## Supreme Court

The Legislature approved a biennial appropriation of $84.367 million, an increase of $12.199 million from the FY 2006-07 base.

- $10 million increase in funding for civil legal services.
- A 1.5 percent increase effective July 1, 2005 and on July 1, 2006 for judges.
- A $12 increase in the surcharge on criminal and traffic fines (this will increase the state surcharge from $60 to $72). This will result in a revenue increase to the general fund of $13.68 million for the FY 2006-07 biennium.

## Court of Appeals

The Legislature approved a biennial appropriation of $16.378 million, an increase of $500,000 from the FY 2006-07 base.

## District Courts

The Legislature approved a biennial appropriation of $462.425 million, an increase of $22.013 million from the FY 2006-07 base.

## Tax Court

The Legislature approved a biennial appropriation of $1.452 million.

## Board of Judicial Standards

The Legislature approved a biennial appropriation of $554,000, an increase of $50,000 from the FY 2006-07 base. The Legislature approved a one time $50,000 request to pay for unanticipated hearing costs.

## Public Safety

The Judiciary Finance Policy and Finance Committee is responsible for six programs (other programs in the agency are the responsibility of the Transportation Finance Committee). The Legislature approved a biennial appropriation of $162.913 million for the Public Safety programs in the Judiciary Finance area, an increase of $21.443 million from the FY 2006-07 base. The changes include the following:

A $5.113 million reduction. This reduction is for the following:

- Savings of $618,000 for the merger of the emergency management center with the BCA communications center.
- $3 million reduction from the CriMNet technical base adjustment.
- $1 million reduction from suspense file funding.
- $495,000 for an agency wide reduction.

*Bureau of Criminal Apprehension (BCA)*

- $3.851 million increase to replace the Automated Fingerprint System (AFIS). The Department is anticipating an additional $5 million in federal funds for this.
- $1.710 million increase for collection and processing of DNA samples. This also provides funding to expand DNA testing for predatory felony arrestees.
- $577,000 increase for the criminal justice information audit trail.
- $135,000 increase for the ongoing costs of Livescan. The agency also plans on replacing 119 livescans in FY 2007 with federal funds.
- $2 million increase for methamphetamine enforcement. This will add ten BCA agents.
- $1.71 million increase for changes to the predatory offender law. This additional funding will be used to upgrade the Predatory Offender system and to increase the monitoring and tracking of registered sex offenders who become noncompliant with the law.
- $118,000 for expenses related to certain DWI changes.
- $150,000 in revenue for continuing the $5 fee to access public criminal history data over the internet.

*Fire Marshal*

- $800,000 increase in funding.

*Law Enforcement & Community Grants*

- $4.748 million increase for the gang and drug task force. During the 2003 session the gang strike force was reduced by $1.5 million, and this appropriation restores the reduction and combines the gang task force with the drug task force.
- $2.904 million is for the transfer of the Youth Intervention Program grants from the Department of Employment and Economic Development to the Department of Public Safety. This program provides prevention and early intervention services for at-risk youth.
- $2.54 million increase in the crime victim assistance grants.
- $800,000 increase in funding for battered women’s shelters and safe houses.
- $1.5 million funding for financial crimes task force grants.
- $100,000 for a study and assessment on human trafficking.
- $400,000 for a homelessness pilot project.
- $1.5 million for methamphetamine treatment grants to counties.

*911 Emergency Services/ARMER*

- Increasing the 911 fee by 25 cents per month. This is the fee charged to each customer for their phone lines. The revenue increases will go to pay off prior year obligations to telephone utility companies and to pay for the state’s cost in building the statewide trunked public safety radio system. This will result in a $33.056 million increase in revenue for the biennium. The current monthly charge is 40 cents.

*Administration*

- $1.347 million increase in public safety officer health insurance.

### Private Detectives Board

The Legislature approved a biennial appropriation of $252,000.

### POST Board

The Legislature approved a biennial appropriation of $8.168 million, an increase of $282,000 from the FY 2006-07 base. The funding for the POST Board is from the special revenue account. Two new additions to the non DWI reinstatement fee were also approved. This is estimated to generate $1.595 million which will be dedicated to a special account to increase training reimbursement funding for law enforcement officers in local governments.

### Public Defense Board

The Legislature approved a biennial appropriation of $122.504 million, an increase of $14.64 million from the FY 2006-07 base.

### Department of Corrections

The Legislature approved a biennial appropriation of $825.893 million, a increase of $26.934 million from the FY 2006-07 base. The changes include the following:

- $700,000 agency wide reduction.
- 
- $6.171 million for the increased costs of health services.
- $6.2 million for sex offender treatment.
- $6.992 million for sex offender enforcement for those offenders under correctional jurisdiction. This will include money for global positioning satellite (GPS), more intensive supervised release agents, housing, civil commitment review, revocation hearings and more aggressive tracking.
- $2.7 million for sentencing changes. This covers the additional prison bed impact of the bill.
- $4 million for increased probation officer reimbursement.
- $1.2 million for intensive supervision and aftercare services for controlled substances offenders.

The Legislature also included forecast adjustments for the Department totaling $71.2 million.

### Sentencing Guidelines

The Legislature approved a biennial appropriation of $926,000, a increase of $54,000 from the FY 2006-07 base.

## Human Rights Department

The Legislature approved a biennial appropriation of $6.98 million,

## Uniform Laws Commission

The Legislature approved a biennial appropriation of $96,000, an increase of $18,000 from the FY 2006-07 base.

**Fees**

The following table addresses the increase in fees and surcharges that are in the bill.

**Public Safety – Fee/Surcharge Increase**

| Fee/Surcharge | Current Fee/Surcharge Vs. New Fee/ Surcharge | FY04-05 ($ in thousands) | Fund |
|---|---|---|---|
| Surcharge Increase on Fines | $60 to $72 | 13,680 | General |
| Surcharge Increase on Parking Fines | $3 to $4 | 1,100 | General |
| Real Estate Recording Fee Increase | Increase is from $4.50 to $10.50 | 19,180 | General |
| Civil Filing Fee | $235 to $240 | 1,139 | General |
| Liquor Wholesale/Manufacturer License Fee Increase | Various | 1,514 | General |
| Ramsey County $1 Surcharge Increase | From $72 to $73 in Ramsey County Only | 202 | Special |
| Non DWI Reinstatement Fee (goes to POST BD for training) | New Fee at $20 | 1,595 | Special |
| 911 Fee Increase | 40 cents per month to 65 cents per month | 34,130 | Special |
| **Totals** | | **36,613** | **General** |
| | | 35,927 | Special |
| | | **72,540** | **All Funds** |

*For additional information on public safety finance issues, contact Gary Karger at 296-4181 or gary.karger@house.mn.*

# State Government Finance

The State Government Omnibus Act (2005 Laws of Minnesota, Chapter 156) authorizes net general fund spending of $468 million for the FY 2006-07 biennium. Direct and open general fund appropriations total $581.2 million, an increase of 3.5 percent from the forecasted base for the biennium. These appropriations are offset by $113.2 million in new general fund revenues, primarily from new compliance initiatives in the Department of Revenue.

**State Government Finance**
**Total General Fund Spending**
*(all dollars in thousands)*

| Agency / Program | February Forecast FY 04-05 | FY 06-07 Base | FY 06-07 Chapter 156 Enacted | % Change FY 06-07 vs. FY 04-05 | % Change Enacted. vs. Base FY 06-07 | FY 08-09 Chapter 156 Tails |
|---|---|---|---|---|---|---|
| Legislature | 117,088 | 116,096 | 116,058 | -0.9% | 0.0% | 123,828 |
| Legislative Carryforward | 13,503 | 0 | (2,500) | | | 0 |
| Governor's Office | 7,269 | 7,172 | 7,168 | -1.4% | -0.1% | 7,168 |
| State Auditor | 16,727 | 16,612 | 16,546 | -1.1% | -0.4% | 16,546 |
| Attorney General | 53,311 | 45,693 | 45,514 | -14.6% | -0.4% | 45,538 |
| Secretary of State | 12,193 | 11,980 | 11,982 | -1.7% | 0.0% | 11,957 |
| Campaign Finance Bd | 1,461 | 1,424 | 1,388 | -5.0% | -2.5% | 1,388 |
| Public Subsidy | 4,272 | 3,860 | 3,610 | -15.5% | -6.5% | 2,310 |
| Investment Board | 4,402 | 4,334 | 4,334 | -1.5% | 0.0% | 4,334 |
| Administrative Hearings | 0 | 0 | 524 | | | 524 |
| Dept. of Administration* | 49,918 | 44,566 | 42,513 | -14.8% | -4.6% | 35,946 |
| Office of Enterprise Technology* | | | 3,606 | | | 3,606 |
| Public Broadcasting | 3,806 | 3,806 | 3,710 | -2.5% | -2.5% | 3,710 |
| CAAP Board | 595 | 602 | 617 | 3.7% | 2.5% | 540 |
| Dept. of Finance | 30,816 | 30,432 | 29,616 | -3.9% | -2.7% | 29,616 |
| Dept. of Employee Relations | 12,095 | 12,376 | 11,223 | -7.2% | -9.3% | 11,112 |
| Dept. of Revenue | 182,872 | 187,166 | 199,002 | 8.8% | 6.3% | 202,800 |
| Dept. of Military Affairs | 26,934 | 25,261 | 35,168 | 30.6% | 39.2% | 35,108 |
| Dept. of Veterans Affairs | 8,718 | 8,074 | 8,504 | -2.5% | 5.3% | 8,250 |
| Veterans Service Orgs.** | 176 | 176 | 0 | -100.0% | -100.0% | 0 |
| MN Amateur Sports Cmsn. | 674 | 1,050 | 506 | -24.9% | -51.8% | 412 |
| Target Center Appropriation | 1,500 | 1,500 | 1,500 | 0.0% | 0.0% | 1,500 |
| Council on Black Minnesotans | 586 | 564 | 556 | -5.1% | -1.4% | 556 |
| Cncl. on Chicano-Latino Affairs | 612 | 550 | 542 | -11.4% | -1.5% | 542 |
| Council on Asian-Pacific Affairs | 492 | 486 | 479 | -2.6% | -1.4% | 480 |

**State Government Finance**
**Total General Fund Spending (Continued)**
*(all dollars in thousands)*

| Agency / Program | FY 04-05 Actual | FY 06-07 Base | FY 06-07 Chapter 156 Enacted | % Change FY 06-07 vs. FY 04-05 | % Change Enacted. vs. Base FY 06-07 | FY 08-09 Chapter 156 Tails |
|---|---|---|---|---|---|---|
| Council on Indian Affairs | 1,016 | 964 | 950 | -6.5% | -1.5% | 950 |
| Contingent Accounts | 1,000 | 1,000 | 500 | -50.0% | -50.0% | 500 |
| Tort Claims | 322 | 322 | 322 | 0.0% | 0.0% | 322 |
| MN State Retirement | 2,116 | 2,381 | 2,381 | 12.5% | 0.0% | 2,524 |
| Local Pension Aids | 51,244 | 53,664 | 53,664 | 4.7% | 0.0% | 53,664 |
| Misc. Open General Fund | -20,916 | (20,685) | (18,832) | -10.0% | -9.0% | (19,536) |
| **Total Expenditures:** | **584,802** | **561,426** | **581,151** | **-0.6%** | **3.5%** | **586,195** |
| New Revenues: | | | **113,151** | | | **114,102** |
| **Net General Fund Spending:** | | | **468,000** | | | **472,093** |

*Notes:*

**Office of Enterprise Technology functions and funding transferred from Dept. of Administration*

***Veterans Service organizations funding transferred to Dept. of Veterans Affairs*

# Constitutional Offices

## Attorney General's Office (AGO)

The Attorney General’s Office (AGO) received $45.5 million in direct appropriations from the General Fund, a decrease of $179,000, or 0.4 percent, from base level funding.

In addition to the direct General Fund appropriation for the AGO, the office also receives funding through partner agreements with state agencies. Total budgeted general fund expenditures for partner agencies are $16.6 million for the biennium. Non-general fund expenditures for partner agreements are planned at $1.65 million.

*Other Funds*

$3.6 million is appropriated from the State Government Special Revenue Fund for services provided to health related licensing boards. Chapter 156 also appropriates $290,000 from the Environmental Trust Fund and $968,000 from the Remediation Fund for duties related to environmental crimes and for responsibilities associated with insurance claims settlements and recovery associated with landfills in the landfill cleanup program.

## Governor's Office

The Governor received $7.2 million for the biennium to fund his own office, a decrease of $4,000, or 0.1 percent, from the FY 2006-07 base level funding.

The Governor's Office also plans to collect $522,000 in special revenue funds from 11 executive branch agencies, to fund the Washington DC office. This funding arrangement was established in FY 2003, after the general fund support for the DC office was abolished.

## Secretary of State

The Secretary of State received $11.9 million for the biennium, a net increase of $2,000 over the FY 2006-07 base. This amount includes 2 change items:

- $48,000 cut to the office's administrative operating budget.
- $50,000 one-time funding for the Electronic Real Estate Recording Task Force.

## State Auditor

The State Auditor's office received $16.5 million, a cut of $66,000 or 0.4 percent, from FY 2006-07 base funding. The Auditor's request for additional funding to restore the office's audit practice staffing levels was not approved.

## Legislature

The Legislature approved a total of $116 million for its own operations, which is equivalent to base level funding. This funding level includes:

- $51.97 million for the House of Representatives
- $38.6 million for the Senate
- $25.5 million for the joint legislative offices under the direction of the Legislative Coordinating Commission.

Chapter 156 includes a one-time cancellation of $1.25 million each from the House and Senate's carry-forward[1] balances, for a total of $2.5 million.

The Legislature also approved the one-time transfer to the general fund of $1.76 million in unspent funds from the Electronic Real Estate Task Force, which expired on June 30, 2004.

[1] MN Statute 16A.281 permits the legislature to carry-forward balances between bienniums for three specific purposes: Session and public outreach activities, severance costs, and one-time investments that "enhance efficiency and improve effectiveness."

# *State Agencies*

## Department of Administration

Chapter 156 appropriates $42.5 million from the General Fund to the Department of Administration. This is a decrease of $1.2 million, or 10.6 percent, from the 2006-07 base.

### *State Facilities Services (previously known as Facilities Management)*

Chapter 156 appropriates $27.3 million, an increase of $5.2 million, for this program.
Specific funding levels include:

- $15.8 million for the In-Lieu-of-Rent activity, which funds space costs for the Legislature, Governor's residence, Veterans Services organizations, and ceremonial spaces in the Capitol , as well as the Capitol mall.
- $5. 1 million in one-time funds for agency relocation costs. However, the Health & Human Services omnibus finance bill[2] transferred $4.67 million of this amount from Administration to the Department of Human Services.

*Transfers to General Fund*

Chapter 156 includes transfers to the General Fund from two special revenue accounts in the State Facilities Management program.

- $ 2 million from the balance in the Building Codes Account. The Building Codes and Standards activity was transferred to the Department of Labor and Industry in April 2005 by a Governor's Executive Order.
- $3.9 million from the Facilities Repair and Replacement Account.

### *State and Community Services*

Chapter 156 includes General Fund appropriations of $5.9 million for this function. Specific funding changes include:

- Land Management Information Center (LMIC) was funded at $1.5 million, a 32 percent cut to this program. LMIC will continue its fee-for-service activities, with estimated expenditures of $1.3 million for the biennium.
- Local Planning Assistance: All general fund support for this activity is eliminated, for a savings of $626,000 for the biennium.

Chapter 156 also recognizes the transfer of the Municipal Boundaries function to the Office of Administrative hearings. This transfer has already occurred under the Governor's reorganization authority.

[2] Laws 2005, First Special Session, Chapter 4

***Administrative / Management Services***

Chapter 156 includes total General Fund spending of $9.2 million, a reduction of $236,000, or 3.0 percent, from base. This amount includes one-time funding of $150,000 to match a federal grant for Assistive Technology.

## Office of Administrative Hearings (OAH)

This agency is mainly supported by the Workers' Compensation Special Fund and revolving fund revenues. The Legislature approved direct appropriations of $14.8 million for the biennium from the Workers Compensation Fund. This is a $312,000, or 2.2 percent increase over the base. The increased funding will be used to upgrade the office’s information technology. The OAH expects this increase to have a minimal impact on its hourly rates.

Chapter 156 also includes an increase in OAH’s fees charged to agencies and local governments for rule hearings and contested case proceedings. The revenues from this fee increase will be used to build up the reserves in the office’s revolving fund, as a hedge against expected cost increases and to prevent operating losses.

Municipal Boundaries transfer: Through his reorganization authority, the Governor has transferred this General Fund activity to OAH from the Department of Administration. This activity’s approved budget is $524,000 for the biennium, a reduction of a decrease of $72,000 or 12 percent.

## Amateur Sports Commission (MASC)

The Legislature approved a total of $506,000 for the MASC’s operating budget, a decrease of $544,000, or 51.8 percent, from forecast base. Part of this reduction ($450,000) is actually recognition of a cut that the commission had already taken in the previous budget. The MASC was given part of its FY 2004-05 budget contingent on its raising fees to offset the appropriation, but the commission requested that this funding arrangement not be continued in the FY 2006-07 budget.

Chapter 156 also modified language originally included in the bonding bill (Laws 2005, Chapter 20) which allows the MASC to lease certain land at the National Sports Center in Blaine to private entities. These long term (30 year) leases can be for any use, as long as the use provides some benefit to amateur sports. The provision had originally allowed the MASC to keep all revenues from any such leases, but Chapter 156 imposes a limit of $300,000 per fiscal year on the amount retained by the commission. The MASC must also report any proposed leases to the Legislature 30 days before they are finalized, and must annually report on all revenues received from any leases.

## Capitol Area Architectural Planning Board (CAAPB)

Chapter 156 includes a direct appropriation of $539,000 for the CAAPB, which is an increase of $15,000 or 2.9 percent.

## Campaign Finance and Public Disclosure Board

The Legislature approved a General Fund operating budget of $1.39 million, a decrease of $36,000, or 2.5 percent, from the forecast FY 2006-07 base

*Public Subsidy Program: Reduction in Funding*

The Legislature reduced the statutory appropriation for the Public Subsidy program by $250,000, leaving a base of $1.25 million. The program is also funded by an open general fund appropriation (equivalent to the amount designated by the income tax check-off). Total estimated funding for the biennium is now $3.61 million.

The Legislature did not approve the Governor's proposal to fund the program directly from the taxpayer's tax liability, by either increasing their tax owed, or reducing their refund.

## Contingent Accounts

The Legislature appropriated $500,000 for the General Fund portion of the contingent accounts. The contingent accounts are appropriations made to provide supplemental funding to state agencies in emergencies or for unexpected deficiencies.

In addition to the General Fund appropriation, an additional $800,000 from the State Government Special Revenue Fund, and $200,000 from the Workers Compensation Special Fund was appropriated.

## Councils

The Legislature approved reduced funding for the 4 minority councils.

**Council on Black Minnesotans -** $556,000 for the biennium, a 1.4 percent cut

**Chicano Latino Affairs Council -** $542,000 for the biennium, a 1.5 percent reduction

**Council on Asian-Pacific Minnesotans -** $479,000 for the biennium, a 1.4 percent cut

**Minnesota Indian Affairs Council -** $950,000 for the biennium, a 1.5 percent cut

## Department of Employee Relations (DOER)

Chapter 156 appropriates $11.2 million, a decrease of $1.2 million, or 9.3 percent, from base. The Department is considering several options to manage this reduction:

- Reduction to the Health & Safety Access program.
- Staff restructuring in the Human Resources Management program
- Moving to online filing of local government pay equity and state agency affirmative action reports
- Reallocation of shared technology costs to non-general fund activities that are using a larger portion of these resources

## Office of Enterprise Technology (OET)

The Office of Enterprise Technology is created as a separate, cabinet level agency in Chapter 156. The new OET is comprised of two functions transferred from the Department of Administration: The Office of Technology, which is responsible for the oversight of technology policy and spending in the state, and the Intertechnologies group, which provides computer and telecommunications services to state agencies. An executive branch steering group has been established to advise on the organizational structure of the new Office of Enterprise Technology.

*Office of Technology*
The general fund portion of OET is the Office of Technology. Chapter 156 includes funding of $3.6 million, a reduction of 27 percent from the base funding.

*Intertechnologies Internal Service Fund*
The non-general fund portions of OET include the Intertechnologies Group or *InterTech* internal service fund. Intertech's services are funded through state agency reimbursements to internal service funds. Estimated expenditures for the Intertechnologies fund for FY 2006-07 biennium are $73.1 million for computing services, and $80.7 million for telecommunication services.

## Department of Finance

Chapter 156 appropriates a total of $29.6 million for the biennium, a reduction of $816,000, or 2.7 percent, from current law.

In addition, the Legislature authorized the transfer to the General Fund of up to $3 million from the Statewide Administrative Systems account managed by the Department of Finance.

## State Board of Investment (SBI)

The SBI received $4.3 for its operations, which is base level funding. The Legislature did not approve the Governor's proposal to have the SBI charge each retirement plan directly for its share of the Board's operations.

## Lawful Gambling Control Board

The 2003 Legislature changed the funding for the Lawful Gambling Control Board from the General Fund to the Special Revenue fund. The Board's activities are now funded from a percentage (.1%) of gross receipts on charitable gambling, and license/permit fees for manufacturers and distributors. Base funding for the Board is $5.1 million.

The Legislature approved a $548,000, or 10 percent increase in the Board's funding, bringing the Board's total funding to $5.6 million for the biennium. The new funding will be used for increased compliance staffing, and technology investments.

## Minnesota Racing Commission

The Racing Commission was also moved to the Special Revenue fund in the 2003 session. Its activities are now directly funded through racetrack, racing, and occupational license fees, as well as reimbursements from Canterbury for the cost of stewards, veterinarians, and laboratory services.

The Legislature approved a total operating budget for the commission of $1.5 million for the biennium. This includes base level funding of $842,000, and an additional $667,000 from a new interim license fee for the new harness racing track in Anoka county. The commission will face increased costs related to this track (and in fact, is already accruing some staff costs related to the public hearings and legal/regulatory work for this proposed track).

## Lottery

The Legislature approved total operating expenses for the Lottery of $54.2 million for the biennium, with net proceeds estimated at $134.7 million. Total state proceeds are projected to be $216.4 million for the biennium, with $120 million in estimated General Fund revenues. These total revenues include the net proceeds, in-lieu-of-sales tax, and unclaimed prizes.

The Legislature also approved a transfer of the $2.2 million of the remaining balances in the Unclaimed Lottery prize account to the General Fund. This transfer is an outcome of the February 2004 Legislative Auditor's report on state lottery operations. That report recommended that the Legislature prohibit the Lottery from spending unclaimed prize money on any additional lottery games. The auditor found that Lottery's use of unclaimed prize money has not been productive in increasing lottery profits.

## The Department of Military Affairs

The Legislature approved funding of $35.2 million for the biennium, an increase of $10.6 million, or 43 percent over the base. The new spending comes in two initiatives:

- $7.7 million to fully fund the tuition reimbursement program. The Department already has the authority to reimburse tuition for National Guard members up to 100 percent of the amount of undergraduate tuition at the University of Minnesota. However, previous funding levels for this program provided only enough resources for the Department to reimburse at the 80 percent level.
- $3 million for a new mid-career re-enlistment program. This program will provide reenlistment bonuses of $1,000 per year, for up to 5 years, or $5,000 per individual.

In addition, an estimated $1.2 million is made available for grants to assist members of the National Guard Reserves, and their dependents experiencing financial difficulties. Revenues to support the grants would come from a new "Support Our Troops" license plate.

*Note: The Legislature also approved an income tax exemption for National Guard members for their state active duty pay. This initiative is discussed in the Tax section.*

## Public Broadcasting

Chapter 156 appropriates a total of $3.7 million for Public Radio and Public Television, a 2.5 percent overall reduction.

*Public Radio*: The total funding level of $954,000 is allocated to the Association of Minnesota Public Educational Radio Stations (AMPERS) and Minnesota Public Radio (MPR). Specific funding levels are:

- $574,000 for AMPERS community service grants, which is an 8.3 percent cut. This reflects a transfer of $52,000 from the AMPERS funding to MPR because the WCAL station was purchased by MPR.
- $380,000 for MPR equipment grants, a 2.6 percent reduction. This is the net impact of the WCAL transfer and a $62,000 cut.

*Public Television*: $796,000 for equipment grants, and $1.9 million for matching grants, for a total of $2.7 million. This is a 1.2 percent reduction to Public TV's funding.

*Twin Cities Regional Cable*: $34,000 was appropriated for a grant to Metro Cable Channel 6.

## Public-Local Employees Retirement

Three public retirement programs under the State Government Finance committee's jurisdiction received either direct or open General Fund appropriations. The funds include:

- MN State Retirement System - $2.4 million for benefits paid to former legislators and elected officials.
- First Class City Teachers State Aid - a $37.5 million open appropriation to reduce the unfunded liabilities of the Minneapolis and St. Paul teachers retirement funds.
- The Minneapolis Employees Retirement Fund (MERF) - $16.1 million to reduce the plan's unfunded liability.

## Department of Revenue

The Legislature approved $199 million for the biennium, an increase of $11.8 million, or 6.1 percent, over current spending. Changes include:

*New compliance initiatives:* Chapter 156 includes a total of $17.8 million in new funding for new tax compliance initiatives. This funding includes $13.3 million for the Governor's Non-Filer initiative, to fund additional FTE to identify and collect taxes from both individuals and corporations that owe the state taxes but do not file returns, or underreport their state tax liability. This compliance initiative will include a special emphasis on businesses using Foreign Operating Corporation status inappropriately[3]. The Legislature added an additional $4.5 million to expand

[3] The 2001, 2002 and 2003 Legislatures all funded expanded tax compliance initiatives within the Department of Revenue.. A report on the expanded tax compliance initiatives authorized by the 2003 Legislature can be found at: www.taxes.state.mn.us/legal_policy/other_supporting_content/mndor_etcreport_jan2005.pdf

this new compliance initiative. The combined new funding is expected to bring in a total of $90.7 million in new revenues over the FY 2006-07 biennium, with a net gain to the general fund of $72.9 million.

| **Department of Revenue: New Tax Compliance Initiatives**<br>*($ in thousands)* | | | |
|---|---|---|---|
| | **Governor's Initiative** | **Legislature's Additional Funding** | **Total** |
| Appropriations | 13,296 | 4,540 | 17,836 |
| Expected Revenue Gain | 68,000 | 22,700) | 90,700 |
| **Net Impact to General Fund** | **-54,704** | **-18,160** | **-72,864** |

*Operating reductions:* The department's approved funding level also includes operating reductions of $6 million to the department's activities that do not have a direct impact on state revenue collections:

- $ 2 million savings in rents and leases. This includes a one-time rent reduction due to a surplus of funds in the Plant Management account for the Stassen building, and ongoing savings from the reduction of space needed for records storage.
- $4 million savings in computer hardware and systems. This will be achieved by delaying the planned purchases of both hardware and software systems.

## Tort Claims

Chapter 156 includes appropriations of $322,000 from the General Fund.

## The Department of Veterans Affairs

The Legislature appropriated $8.5 million from the General Fund, an increase of $430,000 or 5.3 percent, from current law.

This increase is due to the transfer of the state funding for three separate veterans services organizations into the Department of Veteran's Affairs. The organizations are the Military Order of the Purple Heart, Disabled American Veterans, and Veterans of Foreign Wars.

The Department will continue to provide funding and support, including free office space, to these organizations. Language included in Chapter 156 also requires that the base level funding for these organizations be provided before any additional funds can be used for other priorities. In addition, these organizations are eligible for funding from the Support Our Troops license plate revenues.

*Support Our Troops Grants:* $1.2 million is appropriated from the expected revenues from sales of special "Support Our Troops" license plates authorized in Chapter 156. This represents one-half of the expected revenues; the other one-half is appropriated to the Department of Military affairs. Chapter 156 allows the Department of Veterans affairs to use these funds for three purposes:

1) for veterans services provided by the VFW, MOPH, DAV, and the Vietnam Veterans of America;

2) for grants for veterans services to the Vinland Center[4] and Minnesota Assistance Council for Veterans, and

3) for an outreach and assistance initiative for underserved veterans.

Chapter 156 also includes a $442,000 appropriation from the Special Revenue fund to the Department of Public Safety to cover the costs of issuing the Support Our Troops license plates.

## General Fund Revenue Changes in Chapter 156

The State Government Finance omnibus bill includes changes that will account for $113.2 million in new General Fund revenues over the biennium. The majority of this amount is due to the new compliance initiatives in the Department of Revenue. However, several other smaller changes, cancellations and transfers also contribute to this total.

**Chapter 156: Non-Tax Revenue Changes**
*($ in thousands)*

| Agency | Revenue Item | Biennial Amount |
|---|---|---|
| Legislature | Cancel Unspent Electronic Real Estate Recording Task Force Fee | 1,764 |
| Revenue | Enhanced Tax Compliance | 68,000 |
| | Additional Tax Compliance | 22,700 |
| Lottery | Cancel Accumulated Unclaimed Prize Funds | 2,187 |
| Administration | DHS relocation costs - Federal Reimbursement | 1,870 |
| | Facilities Repair & Replacement Account: 1-time transfer | 3,900 |
| | Building Codes Account: 1-time transfer | 2,000 |
| | Sale of Surplus State lands | 6,440 |
| | Sale of State Lands: Administrative Costs Recovery | 290 |
| | Drive to Excellence savings captured | 1,000 |
| Finance | Statewide Admin Systems Account Transfer | 3,000 |
| | **Total General Fund Revenue Changes:** | **113,151** |

*For more information on State Government Finance issues, contact Helen Roberts, 651-296-4117 or Helen.Roberts@house.mn.*

[4] Vinland Center also received separate appropriations of $150,000 in the Jobs & Economic Opportunity bill and $125,000 in the Tax bill..

# Transportation

The budget for state transportation needs passed by the legislature was not vastly different from the one proposed by the governor in January. The Laws of Minnesota 2005, First Special Session Chapter 6, contains $3.9 billion in appropriations from all funds for the fiscal 2006-07 biennium. This represents a roughly $100 million increase in spending from the previous biennium from all sources. While transportation spending represents just a small part of the state's general fund spending, the table below details the impact of the bill on the state's general fund.

**Transportation: Total General Fund Spending**
*(dollars in thousands)*

| | February Forecast Spending in FY 04-05 | Base Funding FY 06-07 | 1ss Ch. 6 Enacted FY 06-07 | Percentage Change FY 06-07 vs. FY 04-05 | Percentage Change FY 06-07 vs. Base | Tails 1ss Ch.6 FY 08-09 |
|---|---|---|---|---|---|---|
| Dept. of Transportation | 32,403 | 32,442 | **38,442** | 18.64% | 18.49% | **53,442** |
| Metropolitan Council | 112,066 | 116,256 | **156,256** | 39.43% | 34.41% | **157,506** |
| Dept. of Public Safety | 14,252 | 14,037 | **10,489** | -26.40% | -25.28% | **10,494** |
| **Totals** | **158,721** | **162,735** | **205,187** | 29.28% | 26.09% | **221,442** |
| General Fund Revenues | | | 18,320 | | | |
| **Net General Fund** | | | **186,867** | | | |

Fiscal highlights include:

## Department of Transportation

- A reduction of $163 million from the trunk highway fund for road construction spending. This is due primarily to the lack of federal re-authorization of the transportation funding bill. The lack of federal funds flowing to the state has caused the department to push out to future years some projects scheduled for "advance construction". These advance construction projects were funded in the Governor's transportation package passed in 2003.
- $8 million from the trunk highway fund for small building projects like truck stations and salt sheds throughout the state.
- $8.6 million annual addition to maintenance and operations
- $875,000 per year for electronic communications needs. The dollars are to be used in conjunction with the state's 800mhz public safety radio network.
- The cancellation of $1.9 million from the state airports fund for airport construction grants in fiscal year 2005. The cancellation will fill a shortfall in the fund and push the Alexandria long range radar project into next biennium.

- $3 million from the general fund annual addition to Greater Minnesota Transit for maintaining service levels statewide.

### Department of Public Safety

- Elimination of the bicycle registration program. Collections for bicycle registrations had fallen below expenditures for the program in recent years and the recommendation will terminate the activity.
- Fee increases for Motor Vehicle Transfer from $4 to $10 and Driver License Record fee from $2.50 to $5 will result in $8.5 million annually in revenue to the general fund.
- Converting Driver and Vehicle Services to a funding system based on fees collected by the department and paid from the newly created Driver and Vehicle Services Operating Accounts in the special revenue fund. The Legislature also approved a myriad of fee increases that would raise the Driver Services annual budget by $7.5 million annually.

### Metropolitan Council Transit

- The legislative agreement provides an additional $20 million per year from the general fund to the Metropolitan Council for operations over what the governor had recommended. The dollars will help to retain current service levels which were slated for cuts due to inflationary pressures and eroding funding from falling MVST revenues.

### Implications

The reduction in state road construction spending will delay some projects due to the delay in passage of a federal transportation act. The impact of the reduction in the program will be greatest in the first year, where the program is reduced by $133 million. The recent passage of a new federal transportation act will add dollars to transportation in the future, but the dollars did not arrive in time to counteract this downward adjustment.

The increase in funding for Operations and Maintenance will address concerns over snow plowing, as well as add dollars for pavement striping, pothole repair and other needs. The legislature also did not approve the MNDot's request for over $9 million to repair granite panels on the exterior of the department's St. Paul headquarters, or $16.6 million for a new regional headquarters building in Mankato.

Also passed by the legislature, but in a separate transportation bill, was a provision for a constitutional amendment that would phase in the dedication 100% of motor vehicle sales tax (MVST) to transportation purposes. The amendment, part of HF 2461 which passed both bodies of the legislature but was vetoed by the governor, will go before voters in November 2006 and could begin flowing more dollars from the general fund to transportation as early as fiscal 2008. Currently, close to 54% of MVST collections are dedicated statutorily to highways and transit, the remainder is deposited into the general fund and used for other purposes such as education and other public services. The amendment, if passed, would send what currently flows to the general fund towards additional transit service and highway construction. A similar proposal was made by the governor and included the issuance of additional trunk highway bonds to accelerate highway construction. While the amendment to go before the voters is similar, it includes no additional issuance of debt for construction. All other provisions of HF 2461, including motor vehicle license tab increases and a ten cent addition to the gas tax rate were nullified by governor's veto.

The legislation does provide an additional $23 million per year for transit in the metro area and greater Minnesota. Much of the money will cover declining revenues in MVST which are dedicated to funding transit operations. Revenue growth has dropped sharply since the February 2004 forecast and that has had an impact not only on the general fund but funding for highways and transit as well.

MVST was used as a source of funds to replace local property tax for funding transit. While the new source of funding has in many years outpaced growth in property tax revenues, it is subject to greater volatility. In FY 2005 MVST is projected to take in slightly less than in FY 2004, and then resume slow growth for the next few years. This has had an impact on Metro Transit which now depends on MVST revenues for over one third of its operating budget. The November 2004 forecast projected a $20 million drop in revenues to the Metropolitan Council for the 2006-2007 biennium from what had been forecast just nine months earlier. The Metropolitan Council will receive an additional $40 million in general fund dollars to make up for MVST losses and to ease inflationary pressures on service delivery.

*If you have any further questions on transportation related issues, please contact John Walz at 296-8236 or john.walz@house.mn.*

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# Taxes & Local Aids and Credits

## *Changes in General Fund Tax Revenues*

In addition to the omnibus tax act (Chapter 3, special session), the legislature enacted several other tax-related bills in 2005 whose impact is summarized in this section:

- Chapter 151 (regular session) conformed Minnesota sales tax law with the multistate Streamlined Sales Tax Agreement
- Chapter 1 (regular session) conformed Minnesota law to federal law regarding charitable contributions to tsunami relief
- Chapter 4 (special session), the omnibus health and human services act) imposed new cigarette and tobacco health impact fees, which have a significant though indirect impact on excise and sales tax collections

In the absence of the health impact fees, the new laws increased general fund revenue by $299 million in FY 2006-07 and $280 million in FY 2008-09. Net general fund revenue from the health impact fees (netting out the lost in tax revenue due to reduced tobacco consumption) will add an additional $401 million in FY 2006-07 and $406 million in FY 2008-09.

Much of the tax revenue increase for FY 2006-07 comes from extending two special sales tax rates beyond their December 31, 2005 expiration dates – the 9% special sales tax rate on alcoholic beverages ($84 million) and the 12.7 percent special sales tax rate on rental cars ($19 million). Accelerating sales tax payments on leased cars will raise revenues by $39 million. Reversing the effects of four court cases raises another $29 million. Large increases also come from several compliance initiatives – $57 million from tax shelter compliance and $41 million in added sales tax compliance resulting from Minnesota's membership in the streamlined sales tax agreement (SSTA).[1] A one-time transfer from the Tax Relief Account adds $20 million.

Significant tax reductions include a sales tax exemption for nonprescription drugs ($16 million in FY 2006-07). The insurance premiums tax rate for life insurance is reduced from 2 percent to 1.5 percent (phased in over four years), reducing revenue by $4.5 million in FY 2006-07 and $13.7 million in FY 2008-09. The 8-year phase-in of 100 percent sales apportionment for corporate taxes has little impact in FY 2006-07, but will reduce revenues by $27 million in FY 2008-09.

Table 1 on the next page summarizes the impact of the enacted changes in general fund revenues.

[1] Increased audit funding included in the state government finance act is expected to raise an additional $112 million in FY 2006-07. This revenue change is described (and tracked) in the state government finance portion of this document.

Table 1
**Changes in General Fund Tax Revenues**
*(Dollars in thousands[2])*

| | Effec. Date | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|---|
| **Individual Income Tax** | | | | | | | |
| Require quarterly withholding for nonres. partnerships & S-corps | 1/1/06 | $13,200 | $850 | **$14,050** | $950 | $1,000 | **$1,950** |
| Require withholding on payments to certain self-employed construction subcontractors | Payments after 8/1/05 | 1,800 | 1,800 | **3,600** | 1,800 | 1,800 | **3,600** |
| AMT – allow full deduction for charitable contributions | 1/1/06 | 0 | (3,300) | **(3,300)** | (3,800) | (4,300) | **(8,100)** |
| K-12 Credit – repeal family cap & need to allocate costs | 1/1/05 | (695) | (730) | **(1,425)** | (770) | (805) | **(1,575)** |
| Military pay – subtract active duty pay for service out of state | 1/1/05 | (960) | (970) | **(1,930)** | (980) | (990) | **(1,970)** |
| Exempt national guard & reserves active duty pay (in-state) | 1/1/05 | (42) | (42) | **(84)** | (42) | (42) | **(84)** |
| Organ donation – subtract expenses (up to $10,000) | 1/1/05 | (104) | (109) | **(211)** | (115) | (120) | **(235)** |
| **Corporate Franchise Tax** | | | | | | | |
| Phase in 100% sales apportionment over 8 years (2007-2014) | 1/1/07 | $0 | $(2,300) | **$(2,300)** | $(9,800) | $(17,200) | **$(27,000)** |
| Limit applicability of Foreign Operating Corp. (FOC) rules | 1/1/05 | 1,800 | 1,300 | **3,100** | 900 | 500 | **1,400** |
| International Trade Zone (part) | | 0 | 0 | **0** | (50) | (740) | **(790)** |
| **Federal Conformity** | | | | | | | |
| Individual income tax[3] [Also $(45) in FY 2005] | various | $(5,420) | $2,370 | **$(3,050)** | $4,285 | $1,850 | **$6,135** |
| Corporate franchise tax | various | 4,165 | 6,400 | **10,565** | 11,565 | 11,415 | **22,980** |
| **Total** | | **$(1,245)** | **$8,770** | **$7,515** | **$15,850** | **$13,265** | **29,115** |
| **Inpact of Increased Property Tax Deductions** | | | | | | | |
| Individual income tax | 1/1/06 | $0 | $(5,400) | **$(5,400)** | $(7,100) | $(7,100) | **$(14,200)** |
| Corporate franchise tax | 1/1/06 | 0 | (1,100) | **(1,100)** | (1,400) | (1,400) | **(2,800)** |
| **Total** | | **$0** | **$(6,500)** | **$(6,500)** | **$(8,500)** | **$(8,500)** | **$(17,000)** |
| **Tax Shelter Compliance** | | | | | | | |
| Individual income tax | 7/14/05 | $29,750 | 920 | **$30,670** | $920 | $2,320 | **$3,240** |
| Corporate franchise tax | 7/14/05 | 25,350 | 780 | **26,130** | 780 | 1,980 | **2,760** |
| **Total** | | **$55,100** | **$1,700** | **$56,800** | **$1,700** | **$4,300** | **$6,000** |
| **Total Change in Revenue** | | | | | | | |
| **Individual income tax** | | **$37,529** | **$(4,611)** | **$32,918** | **($4,852)** | **$(6,387)** | **$(11,239)** |
| **Corporate franchise tax** | | **$31,315** | **$5,080** | **$36,395** | **$1,995** | **$(5,445)** | **$(3,450)** |

***Table 1 is continued on following two pages.***

[2] Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

[3] Includes $40 in FY 2006 and ($45) in FY 2005 as a result of Tsunami Relief Act (Chap 1, regular session). Note that these amounts **were** included in the February 2005 forecast.

Table 1 (continued)

**Changes in General Fund Tax Revenues**

*(Dollars in thousands[2])*

| | Effec. Date | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|---|
| **Sales & Use Taxes** | | | | | | | |
| Alcoholic beverages -- 2.5% gross receipts tax when sales tax falls by 2.5% | 1/1/06 | $23,650 | $60,300 | **$83,950** | $62,000 | $63,100 | **$125,100** |
| Rental cars -- continue special 12.7% tax rate beyond expiration date | 1/1/06 | 4,790 | 13,800 | **18,590** | 14,500 | 15,200 | **29,700** |
| Leased vehicles -- up-front payment of tax | 10/1/05 | 18,921 | 19,749 | **38,670** | 5,558 | 666 | **6,224** |
| Define industrial production to exclude gas pipelines | 8/1/05 | 9,110 | 11,720 | **20,830** | 11,080 | 10,350 | **21,430** |
| Reverse Sprint case (tax telecomm wire, fiber, poles, & conduit) | 8/1/05 | 1,500 | 1,560 | **3,060** | 1,620 | 1,690 | **3,310** |
| Require state venders to collect MN sales/use tax on all Minnesota sales | 1/1/06 | 680 | 2,730 | **3,410** | 4,300 | 4,410 | **8,710** |
| Exempt inputs for public safety radio | 5/1/05 | (1,540) | (1,510) | **(3,050)** | (1,720) | (30) | **(1,750)** |
| Exempt ready-to-eat meat and seafood [repeal 12/31/05 expiration date] | 1/1/06 | (325) | (795) | **(1,120)** | (815) | (840) | **(1,655)** |
| Exempt artistic event admissions at MNSCU | 8/1/05 | (55) | (69) | **(124)** | (70) | (72) | **(142)** |
| Exempt certain solar energy systems | 8/1/05 | (40) | (50) | **(90)** | (40) | (25) | **(65)** |
| Exempt Catholic Charities food service | 1/1/98 | (58) | (8) | **(66)** | (8) | (8) | **(16)** |
| Exemptions for construction materials (several) | various | (1,309) | (1,425) | **(2,734)** | (826) | (68) | **(894)** |
| International Trade Zone (sales tax exemption) | 7/1/08 | 0 | 0 | **0** | (1,750) | (300) | **(2,050)** |
| JOBZ – special exemptions | various | (250) | 0 | **(250)** | 0 | 0 | **0** |
| Exempt cigarettes from sales tax[4] | 8/1/05 | (54,837) | (66,541) | **(121,378)** | (67,228) | (67,664) | **(134,892)** |
| **Streamlined Sales Tax Agreement (SSTA)** | | | | | | | |
| Exempt nonprescription drugs | 7/1/05 | (7,320) | (8,250) | **(15,570)** | (8,520) | (8,780) | **(17,300)** |
| Modify exemption for medical equipment | 7/1/05 | 7,590 | 8,670 | **16,260** | 9,040 | 9,490 | **18,530** |
| Added revenue from increased compliance | Assumed 1/1/06 | 9,530 | 31,100 | **40,630** | 46,140 | 64,270 | **110,410** |
| **Total SSTA** | | **9,800** | **31,520** | **41,320** | **46,660** | **64,980** | **111,640** |
| **Total Sales & Use Tax[5]** | | **$10,037** | **$70,981** | **$81,018** | **$73,261** | **$91,389** | **$164,650** |

***Table 1 is continued on following page***

[4] Revenue from the new replacement tax – collected from wholesalers – is included under "other taxes."

[5] Note that this total does not include the change in sales tax on tobacco products due to the Health Impact Fee. Those amounts are shown below as part of the Health Impact Fee totals.

Table 1 (continued)

**Changes in General Fund Tax Revenues**

*(Dollars in thousands[2])*

| | Effec. Date | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|---|
| **Other Taxes** | | | | | | | |
| **Insurance premiums tax** | | | | | | | |
| Reduce life insurance rate to 1.5% | phased in by 2009 | (1,000) | (3,500) | **(4,500)** | (5,800) | (7,900) | **(13,700)** |
| Tax stop-loss policies | 1/1/06 | 1,400 | 3,700 | **5,100** | 4,500 | 5,400 | **9,900** |
| Reverse CUNA decision | 1/1/06 | 90 | 240 | **330** | 250 | 250 | **500** |
| **Provisions in Chapter 151, regular session** | | | | | | | |
| State-wide property tax – Great River School | Pay 2005 taxes | (15) | 0 | **(15)** | 0 | 0 | **0** |
| Liquor – allow quarterly or annual payment | 1/1/06 | (25) | 0 | **(25)** | 0 | 0 | **0** |
| Fur tax – base tax on actual qtrly revenue | 1/1/06 | (25) | 0 | **(25)** | 0 | 0 | **0** |
| **Cigarette excise tax** | | | | | | | |
| Increase dedication to AHC & MERC | 8/1/05 | (1,848) | (2,452) | **(4,300)** | (3,014) | (3,565) | **(6,579)** |
| Replace sales tax with new whole-sale tax (at $0.20/pack)[6] | 8/1/05 | 62,487 | 69,241 | **131,728** | 69,928 | 70,364 | **140,292** |
| **Total Other Taxes (with no Health Impact Fee)** | | $60,645 | $66,708 | **$127,353** | $65,327 | $63,994 | **$129,321** |
| **Transfer from Tax Relief Account** | When FY 2005 accounts close | $20,000 | $0 | **$20,000** | $0 | $0 | **$0** |
| **Total Revenue (with no Health Impact Fee)** | | $159,945 | $138,679 | **$298,624** | $136,268 | $144,106 | **$280,374** |
| **Health Impact Fees [Chapter 4, special session]** | | | | | | | |
| Cigarette & tobacco fees | 8/1/05 | 209,285 | 223,303 | **432,588** | 220,790 | 218,287 | **439,077** |
| Reduced excise taxes due to lower sales | 8/1/05 | (20,786) | (23,958) | **(44,744)** | (23,039) | (22,257) | **(45,296)** |
| Increase in new wholesale level sales tax on cigarettes (to $0.255/pack)[7] | 8/1/05 | 6,471 | 5,929 | **12,400** | 5,893 | 5,846 | **11,739** |
| Increased sales tax on other tobacco products | 8/1/05 | 419 | 521 | **940** | 537 | 555 | **1,092** |
| **Total Health Impact Fee** | | **$195,389** | **$205,795** | **$401,184** | **$204,181** | **$202,431** | **$406,612** |
| **Total Taxes plus Health Impact Fees** | | **$355,334** | **$344,474** | **$699,808** | **$340,449** | **$346,537** | **$686,986** |

[6] Revenue loss from exempting cigarettes from sales tax is shown under sales tax on the previous page.

[7] Without the health impact fee, the new wholesale-level sales tax rate for the first year would have been $0.20/pack. With the higher price for cigarettes, the first-year tax rate was increased to $0.255/pack. The 25.5-cents-per-pack rate was included in the Omnibus Tax Act, rather than the Health & Human Services Act. Nevertheless, the higher rate (25.5 cents rather than 20 cents) reflects higher cigarette prices due to the Health Impact Fee.

# Tax Revenues

## Individual Income Tax

**Require quarterly withholding for nonresident partners and S-corporation shareholders:** Under prior law, tax payment was delayed until after the calendar year ended, on the following March 15th (S-corporation shareholders) or April 15 (partners). All other taxpayers – including partners and S-corporation shareholders who are Minnesota residents – are required to pay tax as income is earned, either through withholding or quarterly estimated payments. The fiscal impact of primarily one-time money as half a year's tax is shifted forward into FY 2006. Later years see a much smaller gain due to the annual growth in these tax payments. About 60 percent of the shift is from S-corporation shareholders, 40 percent from partnerships.

**Modify withholding for out-of-state construction contractors**: Prior law required 8 percent withholding on all contracts exceeding $100,000. The new law requires 8 percent withholding on payments exceeding a cumulative $50,000 in a calendar year. This addresses a serious compliance problem; payments to nonresident contractors are often unreported and escape tax. Although the income is generally reported to the Internal Revenue Service (IRS) on form 1099, state access to that federal data for audit purposes is delayed and incomplete. The estimated revenue for this provision ($1.8 million per year) reflects the assumed increase in compliance.[8]

**Alternative Minimum Tax (AMT) – Allow full deduction for charitable contributions:** Prior law limited charitable deductions to amounts above one percent of the taxpayer's income. The floor on this deduction was enacted (at 1.3 percent of income) in the 2002 special session, following a 2002 Minnesota Supreme Court decision (*Chapman vs. Commissioner of Revenue*). Before that court decision, charitable contributions were deductible for AMT only if given to Minnesota charities. No deduction was allowed for contributions to non-Minnesota charities. The court ruled this an unconstitutional limit on interstate commerce and disallowed *all* charitable deductions. The 1.3 percent of income floor enacted in 2002 was roughly revenue neutral compared to the law before *Chapman*. It was reduced to one percent in 2003.

Full deductibility is effective for the 2006 tax year. It will reduce tax liability for 90 percent of the 45,000 taxpayers expected to pay AMT that year, including 4,500 who will no longer be subject to the AMT. Half of the beneficiaries will have incomes below $125,000, and they will receive about 35 percent of the benefits.

**K-12 Credit – Repeal family cap and cost allocation requirement:** Prior law limited the credit to $1000 per child and $2000 per family, and eligible expenditures had to be allocated to a particular child. The maximum credit was reduced for those with incomes over $33,500 – by $1 per $4 of added income for families with one eligible child and by $1 per $2 of added income for those with two or more eligible children. No one with income over $37,500 could qualify for the credit.

[8] The enacted language differed substantially from what was included in the separate House and Senate bills, and no official revenue estimate was provided for the new language. As a result, the increase of $1.8 million per year may significantly overestimate what the new language will actually raise.

The new law repeals the $2,000 family cap, so the maximum credit will be $1,000 times the number of eligible children. Although phaseout rates and threshold remain unchanged, the maximum income for credit eligibility rises to $39,500 for a family with 3 eligible children, $41,500 for a family with 4 eligible children, etc.

Credit amounts for some families with more than one eligible child will also rise because costs will no longer need to be allocated by child. This means there is no longer a per-child maximum. A taxpayer spending $4,000 on one child and nothing on either of two other eligible children could qualify for the maximum $3,000 credit.[9]

**Exempt out-of-state active duty military pay**: Prior law defined those on active duty *outside* Minnesota (National Guard, reserves, or other military personnel) as nonresidents for tax purposes. This effectively exempted their income from tax, but in some cases it deprived them of the full value of deductions, exemptions, and credits, which must be apportioned based on the resident share of income. For example, some no longer qualified for the Working Family Credit. Moreover, the nonresident treatment of this income was confusing. The new law defines these military personnel to be Minnesota residents, but provides a subtraction for all out-of-state active duty pay.[10] About 6,000 taxpayers will be affected by the change (though not all will see a change in tax liability).

**Organ donation expenses:** Under the new law, living organ donors can subtract up to $10,000 in unreimbursed travel and lodging expenses or lost wages (net of sick pay). There are about 850 qualifying Minnesota donors each year (including 400 bone marrow donations), and most will benefit from this provision.

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[9] The credit equals 75 percent of eligible expenditures, so $4,000 of expenditures could generate a $3,000 credit (assuming income does not exceed $33,500).

[10] Filing requirements were also modified so this income did not count as income in defining the filing threshold. Note that federal law already required a Minnesota subtraction for active duty pay to *nonresidents* serving in Minnesota.

[13] The prior law apportionment formula (75 percent sales) will continue for the taconite industry' occupation tax.

## Corporate Franchise Tax

**Phase-in 100% sales apportionment over eight years:** Multi-state corporations pay tax based on the portion of their total income that is apportioned to Minnesota. Under prior law, Minnesota's share of a corporation's income was calculated as a weighted average of the share of that corporation's total sales that are located in Minnesota (75 percent), the share of its total property that is located in Minnesota (12.5 percent), and the share of its total payroll that is paid in Minnesota (12.5 percent). The new law will increase the sales factor from 75 percent to 100 percent, over eight years, as shown in Table 2.[13]

**Table 2. Phase-in of 100 Percent Sales Apportionment**

| Tax year | Apportionment Factors (percent) | | |
|---|---|---|---|
| | Sales | Property | Payroll |
| 2007 | 78% | 11.0% | 11.0% |
| 2008 | 81% | 9.5% | 9.5% |
| 2009 | 84% | 8.0% | 8.0% |
| 2010 | 87% | 6.5% | 6.5% |
| 2011 | 90% | 5.0% | 5.0% |
| 2012 | 93% | 3.5% | 3.5% |
| 2013 | 96% | 2.0% | 2.0% |
| 2014 | 100% | -- | -- |

The change will reduce a corporation's tax liability if the Minnesota share of its production (property and payroll) exceeds the Minnesota share of its sales. Conversely, the change will increase a corporation's tax liability if the Minnesota share of its sales exceeds the Minnesota share of its production. Corporations with all their sales, property, and payroll in Minnesota will see no change in their tax liability.

The change is intended to increase Minnesota's competitiveness by reducing tax burdens on companies that sell in national and international markets, such as manufacturing. With 100 percent sales apportionment, a corporation that increases (or decreases) production in Minnesota will see no change in its tax burden unless it simultaneously increases its sales in Minnesota. In moving to single sales apportionment, Minnesota is following a national trend. Seven states (including Iowa, Illinois, Missouri, and Nebraska) now use single sales apportionment, and both Wisconsin and Oregon will use join the list in 2008. Michigan weights sales at 90 percent.

When fully phased in, this law change will reduce corporate tax revenues by about $50 million per year.

**Winners and Losers from 100 percent Sales Apportionment:** A detailed analysis in 2004 provided information about who wins and who loses under 100 percent sales apportionment. At that time, it was estimated to reduce taxes for 4500 corporations while increasing taxes for 6,500 corporations. Had 100% sales apportionment been in effect in 2004, the 4,500 gainers would have paid $85 million less tax. The 5,500 losers would have paid $42 million more. Some of the individual tax changes would have been large: 130 corporations would have seen tax cuts exceeding $100,000 (an average of $500,000 each), while 80 corporations would have seen tax increases exceeding $100,000 (an average of $200,000 each.)

Those with large tax cuts will include manufacturing firms whose production facilities are concentrated in Minnesota but who sell in national markets. Those with large tax increases will include manufacturing firms with significant sales in Minnesota but negligible production facilities here. Single sales apportionment increases the incentive to locate production facilities in Minnesota (if the corporations already have nexus in the state).

Every year about 50,000 corporations file tax returns. The 2004 analysis showed 39,000 of them would be unaffected by the move to single sales apportionment. These include many who have all their payroll, property and sales in Minnesota, plus some others with zero taxable income.

**Limit applicability of Foreign Operating Corporation rules:** Minnesota law defines a category of corporations – foreign operating corporations (FOCs) – that qualify for special tax treatment. Generally, these corporations are domestic (US) companies with less than 20 percent of their property and payroll in the US. The special tax treatment (a foreign royalties subtraction and a dividends received deduction) can exempt 80 percent of their income from Minnesota tax. These tax rules were enacted in the late 1980s, when Minnesota first required related corporations to file a combined tax return as a “unitary business.” It was argued that the FOC provisions were needed to offset the resulting heavy taxation of income from foreign operations.

The law change aims to ensure that an FOC’s foreign operations have economic substance and are not just a guise that shifts domestic profits into a nontaxable shell or form. The law change requires an FOC to have at least $2 million in foreign property *and* $1 million in foreign payroll.[14]

This *de minimus* threshold, effective for the 2005 tax year, will raise an estimated $3.1 million in the 2006-07 biennium. The estimated gain declines in future years, though, falling to $1.4 million in the 2008-09 biennium.[15]

[14] The enacted language does not allow contract employment to count toward the *de minimus* for foreign payroll. However, a corporation with more than $1 million in foreign contract employment (and no payroll) is exempt from a second requirement that the average of the foreign shares of payroll and property exceed 80 percent. (Instead, only the foreign property share would be required to exceed 80 percent.)

[15] The decline in estimated revenue in later years reflects the Revenue Department’s belief that corporations will be successful in adapting their corporate structures over time to satisfy the new rules.

***Hutchinson Technology vs. Commissioner of Revenue (2005)***: This Supreme Court ruling in June 2005 (shortly before the end of the 2005 legislative session) greatly expanded the number of corporations that qualify as FOCs. At that time, the court decision was estimated to reduce Minnesota revenues by $250-$300 million in FY 2006-07 and by $150-$200 million in FY 2008-09. Two-thirds of this estimated loss is retroactive, in the form of tax refunds paid on amended returns for past tax years. About one-third is prospective, in the form of lower tax liability in future years.

Table 1 understates the true revenue impact the FOC provision enacted in 2005, because that revenue estimate was based on the law prior to the *Hutchinson* decision. Following standard practice, the revenue estimate uses the February 2005 forecast as the baseline. That forecast predated the *Hutchinson* decision, and no official adjustment was made to the forecast following the court decision. Nevertheless, the enacted law change will significantly reduce the estimated *prospective* cost of the *Hutchinson* decision. Much of that cost came from extending FOC benefits to “passive investment companies” (PICs). These companies, incorporated in Delaware and Nevada, generally have zero property and zero payroll. Although the *Hutchinson* decision would allow these companies to qualify as FOCs, few if any would be able to satisfy the *de minimus* property and payroll requirements of the new law. As a result, the new law will reduce the estimated prospective revenue loss by roughly $75 million in each biennium.

*This $75 million per biennium revenue increase, not shown on Table 1, increases the importance of the enacted provision far beyond the small revenue gain shown on that table ($3.1 million in FY 2006-07 and $1.7 million in FY 2008-09).*

## **Federal Conformity** (individual income tax and corporate franchise tax)

The omnibus tax act conforms Minnesota law to most of the federal tax law changes enacted since the end of the 2003 legislative session. Minnesota tax calculations (for both individual and corporate tax) start with federal taxable income (FTI). As a result, any federal law that changes the definition of FTI requires that Minnesota either conform to the federal change or add a line on the Minnesota return to add back (or subtract) the difference. Federal conformity is not automatic; failure to do anything (as in the 2004 legislative session) means Minnesota has not conformed. Legislative inaction in 2004 complicated tax filing for about 75,000 Minnesota taxpayers. When they filed their 2004 tax return, they had to complete a special new tax form (Form M1NC), adding back income deducted federally as a result of federal tax law changes enacted in 2003 and 2004. The affected taxpayers included 25,000 with Health Savings Accounts, 50,000 with a teacher expense deduction, and 1,500 military personnel.

Table 3 shows the major federal law changes to which Minnesota conformed (or, in one case, partially conformed). Further comments on some of the law changes:

> *Military Family Relief Act of 2003*: Most of the fiscal impact is from allowing members of the National Guard and reserves a deduction for unreimbursed travel expenses when travel exceeded 100 miles and required an overnight stay (effective retroactive to tax year 2003).
>
> *Health Savings Accounts*: The federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 allows a subtraction for contributions to these tax-preferred

accounts by taxpayers who purchase high-deductible medical health care plans. These plans must include an annual deductible of at least $1,000 ($2,000 for family coverage) and maximum out-of-pocket expense of at least $5,000 ($10,000 for family coverage).

The annual tax deduction is capped at $2,250 for single coverage ($4,500 for family coverage) plus $500 for individuals 55 or older. The 55-and-over differential grows by $100 per year to $1,000 in 2009. Amounts left in accounts at the end of each year can be carried over to the next year. All earnings on amounts contributed are tax-exempt, and distributions are tax-exempt if used for medical expenses. The Minnesota law change is effective retroactively to the 2004 tax year.

*Increased expensing for small businesses*: The American Jobs Creation Act of 2004 extended the higher limit on expensing under IRS Code section 179 ($100,000 rather than $25,000) for two additional tax years (2006 and 2007). It also increased the phase-out threshold. Fully conforming to this federal provision would have cost $50.6 million in FY 2006-07. Instead, Minnesota will require taxpayers to add back 80 percent of the increased amount of federal expensing, but allow a subtraction of one-fifth of that add-back in each of the following five years. This "partial conformity" greatly reduces the up-front cost to the state, while eliminating the much greater complexity that would result from not conforming at all. (This is the same method Minnesota used to partially conform to federal bonus depreciation in 2001 and 2002.)[17]

*Tsunami Relief Act of 2005*: For tax year 2004 only, contributions for tsunami relief are deductible if contributed in January 2005. Increased deductions on 2004 tax returns were largely offset by reduced deductions on 2005 tax returns. *Minnesota conformed to this provision in Chapter 1 (regular session); it was included in the February 2005 forecast.*

[17] For a more complete explanation and discussion of this method of "partial conformity" and its impact on taxpayers, see the analysis of the 2002 bonus depreciation provision in Summary of the Fiscal Actions of the 2002 Legislature (http://www.house.leg.state.mn.us/fiscal/files/02budsum.pdf ), pages 67-70.

Table 3
**Conform to Federal Tax Changes**
*(Dollars in thousands[1])*

| | FY 2006 | FY 2007 | 2006-07 Biennium | FY 2008 | FY 2009 | 2008-09 Biennium |
|---|---|---|---|---|---|---|
| **1. Military Family Relief Act of 2003** | | | | | | |
| All Provisions (*indiv.*) | $(680)* | $(330) | **$(1,010)** | $(340) | $(350) | **$(690)** |
| **2. Medicare Prescription Drug, Improvement, and Modernization Act of 2003** | | | | | | |
| Health Savings Accounts (*indiv.)* | $(5,200)* | $(3,000) | **$(8,200)** | $(3,300) | $(3,700) | **$(7,000)** |
| **3. Working Families Tax Relief Act of 2004** | | | | | | |
| Deduct up to $250 for teacher expenses (*indiv.*) | $(2,400)* | $0 | $(2,400) | $0 | $0 | $0 |
| Deduction for clean-fuel vehicles | | | | | | |
| *Individual tax* | *(260)** | *50* | *(210)* | *30* | *25* | *55* |
| *Corporate tax* | *(220)** | *40* | *(180)* | *25* | *20* | *45* |
| **Total** | (480)* | 90 | (390) | 55 | 45 | 100 |
| Enhanced deduction for computer donations (*corp.*) | (830)* | 0 | (830) | 0 | 0 | 0 |
| Other provisions (*indiv.*) | (270)* | (160) | (350) | (170) | (175) | (345) |
| **4. American Jobs Creation Act of 2004** | | | | | | |
| Increased expensing: Add back 80% in first yr, sub-tract same amount over next 5 yrs (Partial Conformity) | | | | | | |
| *Individual tax* | *(100)* | *1,300* | *1,200* | *3,400* | *1,750* | *5,150* |
| *Corporate tax* | *(25)* | *300* | *275* | *800* | *425* | *1,225* |
| **Total** | (125) | 1,600 | 1,475 | 4,200 | 2,175 | 6,375 |
| Other provisions | | | | | | |
| Individual tax | 3,465 | 4,525 | 7,990 | 4,680 | 4,320 | 9,000 |
| Corporate tax | 5,240 | 6,060 | 11,300 | 10,740 | 10,970 | 21,710 |
| **5. Tsunami Relief Act of 2005** **[**Also ($45) in FY05] *(indiv.)* | 40 | 0 | 40 | 0 | 0 | 0 |
| **6. Public Law 109-7 of 2005:** | | | | | | |
| Exempt disaster mitigation grants *(indiv.)* | (15) | (15) | (30) | (15) | (15) | (30) |
| **TOTAL UPDATE** | **$(1,295)** | **$8,770** | **$7,515** | **$15,830** | **$13,265** | **$29,115** |

*These items include retroactive provisions affecting tax year 2004 or earlier tax years.
[1] Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

**Minnesota did *NOT* to conform to three federal changes:**

- *Increased standard deduction for married couples to twice that for single filers*: Federal law increased this standard deduction to twice that for single filers, eliminating the marriage penalty. The decision not to conform to this change was driven by cost. Conformity would have cost $65.2 million in FY 2006-07 and $22.4 million in FY 2008-09.

  Because Minnesota did not conform, married filers who do not itemize deductions will be required to add back the difference between the federal and Minnesota standard deduction ($1,300 in tax year 2005, declining to zero in tax year 2009 and after). This will affect roughly 450,000 taxpayers.

- *Deduction for federal payments to employers who provide drug coverage to their retirees:* Enacted as part of the Medicare Act of 2003, these payments provide an incentive for employers to maintain this coverage. Exempting these payments from Minnesota law would have cost $9.7 million in FY 2006-07 and $15.2 million in FY 2008-09.

- *Deduction for U.S. production activities:* This provision relates to reform of international taxation. Conforming would cost $35 million in FY 2006-07 and $51 million in FY 2008-09.

## Impact of Increased Property Tax Deductions

Legislative actions by the 2005 legislature were estimated to increase total statewide property taxes by $128 million in 2006, $168 million in 2007, and $170 million in 2008.[18] These increases will reduce revenue from both the individual income tax (higher itemized deductions) and the corporate franchise tax (higher business costs). The revenue impact of property tax changes varies by type of property. Each $100 of increased tax is assumed to reduce tax revenue by $5.60 if paid by homeowners, by $2.15 if paid by cabin owners, and by $3.00 if it falls on commercial property. The average impact, given the estimated distribution of levy impact from this year's actions, was $5.00 per $100 of increased property tax (about $4.20 in individual income tax and $0.80 in corporate franchise tax).

## Tax Shelter Compliance Initiative

Following the lead of several other states, most notably Illinois and California, the new law includes provisions to increase compliance by taxpayers who have used legally-questionable tax shelters (as listed by the Internal Revenue Service). Under the Voluntary Compliance Initiative (VCI), taxpayers who have used those listed tax shelters in tax years through 2004 can amend their returns, pay the full tax, waive their rights of appeal, and avoid all penalties or criminal liability. Alternatively, they can pay the full tax but retain the right of appeal. If they win on appeal, the state will refund the VCI payment, with interest. If they lose, they will be subject to a

[18] For details on the source of these numbers, see the section titled "State Impact of Property Tax Changes" below. Although much of the increase in property tax levies is due to changes in other acts (such as the K-12 act), the income tax offset is tracked by the tax committee.

20 percent penalty. Taxpayers who choose not to participate in VCI will face substantially increased penalties if they are discovered later as part of the audit process.

The revenue estimate is based on the experience of Illinois, adjusted for differences in population, average tax collections per capita, tax share of high-income taxpayers (who are more likely to use the listed tax shelters), and differences in the number of years and types of tax shelters included.[19] The Department of Revenue assumes that 20 percent of participants will file appeals, and that the state will lose in half of those cases. In a "conscious choice to be conservative," given the uncertainty of the estimates, the resulting totals were scaled down by 25 percent. The estimated revenue gain of $55.1 million in FY 2006 is almost entirely one-time money, with only a slight net increase ($1.7 million) in FY 2007. Based on the Illinois experience, 54 percent of the added revenue is assumed to come from corporate tax and 46 percent from individual income tax.

## Sales and Use Taxes

**Enact 2.5% gross receipts tax effective when the sales tax rate for alcohol falls by 2.5%:** The current special 9 percent sales tax rate for alcoholic beverages will expire at the end of December 2005. The expiration date was enacted in 2001 to meet requirements of the Streamlined Sales Tax Agreement (SSTA).[22] At that time, the Department of Revenue was instructed to determine how that revenue could best be replaced with an alternative tax on alcohol. The new 2.5 percent gross receipts tax (at the retail level) will replace the revenue lost when the expiring extra 2.5 percent sales tax expires.[23]

[19] The multipliers used to scale to Minnesota: 0.40 for population, 1.47 for tax collections per capita, 0.85 for high-income taxpayer adjustment, and 1.05 for breadth of program.

[22] SSTA is a multi-state effort to simplify state and local sales taxes. The complexity of the current system means states cannot require sellers to collect tax unless they have a physical presence in the state. As a result, Minnesota was expected to lose an estimated $585 million in sales tax revenue on internet and mail order sales in FY 2006-07. The simplification included a requirement for that all taxable items be taxed at a single state tax rate. For a more complete discussion of the Sales Tax Simplification Project, see *Summary of the Fiscal Actions of the 2001 Legislature* (http://www.house.leg.state.mn.us/fiscal/files/wrap01/01legact.pdf ), pages 47-48.

[23] Although this tax is not technically part of the general sales tax, its collections will be included in future sales tax totals reported by the Finance Department. For this reason, it is listed here under the sales tax heading. Although it will replace an expiring tax dollar-for-dollar, the February 2005 forecast showed the loss in revenue from that expiration. For this reason, the tracking shows this as a tax increase from the February forecast baseline.

**Continue special 12.7 percent tax rate on rental cars beyond expiration date:** The current special sales tax rate for rental cars was scheduled to fall from 12.7 percent to the standard sales tax rate of 6.5 percent on January 1, 2006. The 2001 tax omnibus bill placed a sunset date on this special sales tax rate because the Streamlined Sales Tax Agreement (SSTA) requires that all taxable items be taxed at the same state rate. At that time, the Department of Revenue was instructed to determine how the revenue could best be replaced with an alternative form of tax on rental cars. The SSTA rules have since been clarified, and rental car taxes are not covered under the agreement.[24]

**Require up-front payment of sales tax on car and small truck leases:** Under prior law, a consumer who leased an automobile paid sales tax on each lease payment. The new law requires that the entire tax be paid up-front at the time the lease is signed. Although total tax liability will not change, the tax will be paid earlier.[25] The law is effective October 1, 2005. Tax refunds will be provided when leases are terminated early.

Rental vehicles moved into Minnesota after the start of the lease will pay a prorated tax, with a credit for any tax paid to another state. The up-front tax does not apply to vehicles weighing over 10,000 pounds (mostly heavy trucks) nor to short-term rentals of less than 29 days.

This tax shift will raise revenue by $39 million in FY 2006-07 (split almost evenly across the two fiscal years.) There is also a small revenue increase in future years ($6 million total in FY 2008-09) due to the annual growth in lease payments.

**Auto leases in neighboring states:** Iowa, North Dakota, and South Dakota require sales tax on car leases to be paid up front, either by the lessor or the lessee.

**Define industrial production to exclude natural gas pipelines:** Under current law, certain types of companies are eligible for a refund of sales tax paid on purchases of capital equipment.[28] In 2002, the Minnesota Supreme Court ruled (in *Great Lakes Gas Transmission vs. Commissioner of Revenue*) that pipeline companies met that definition. The court also ruled that the natural gas used by pipeline companies to power their compressors is exempt from sales tax because it is "used in industrial production of tangible personal property to be sold ultimately at retail." The new law overrules the court decision by specifically excluding pipeline transportation from the definition of industrial production. Both capital equipment and fuel purchases will become taxable, effective August 1, 2005. About 80 percent of the forecast

[24] Although it will replace an expiring tax dollar-for-dollar, the February 2005 forecast showed the loss in revenue from that expiration. For this reason, the tracking shows this as a tax increase from the February forecast baseline.

[25] The lease price excludes title and registration fees and insurance, which are currently excluded from tax when paid upfront at the beginning of the lease. It also excludes interest paid on the tax if the tax is capitalized into the lease payments.

[28] M.S. 297A.68 limits eligibility to capital equipment used "primarily for manufacturing, fabricating, mining, or refining tangible personal property."

revenue gain is from the tax on fuel; 20 percent is from tax on capital equipment. The law change does not affect the court-ordered refunds for tax paid on past purchases.

**Define capital equipment to exclude certain telecommunications equipment:** This reverses the effect of part of a 2002 Minnesota Supreme Court decision (*Sprint Spectrum LP, et al vs. Commissioner of Revenue*). In that case, the court ruled that wire, cable, fiber, poles, and conduit purchases by telecommunications companies qualify for capital equipment refunds.[29] This prospective law change does not affect the one-time $65 million refund payment by the state in 2005.

**Require state vendors to collect sales or use tax on all Minnesota sales:** Under federal law, out-of-state companies with no physical presence ("nexus") in Minnesota cannot be required to pay use tax on the sales they make to Minnesotans. Those companies include some who make sales to the State of Minnesota. Effective in 2006, the law will now require state vendors (and their affiliates) to register to pay sales or use tax on all taxable sales in Minnesota. Failure to register may result in canceled contracts or disqualification from future contracts.[30] Improved compliance is forecast to raise $3.4 million in FY 2006-07 and $8.7 million in FY 2008-09.

**Exempt inputs for certain public safety radio systems:** Prior law exempted inputs used to construct, operate, maintain or improve the backbone public safety radio communications system in seven Twin Cities metro counties, but that exemption was scheduled to expire on August 1, 2005. The new law repeals the expiration date, and it expands the qualifying areas to include all nine Twin Cities metro counties, the 11 counties in the southeastern state patrol district, and four of the 12 counties in the central state patrol district (Benton, Sherburne, Stearns, and Wright). The exemption in the newly qualifying areas is retroactive to May 1, 2005.

**Exempt ready-to-eat meat and seafood:** The new law repeals the December 31, 2005 expiration date for the exemption, originally enacted in 2002. The expiration date was enacted at that time because the exemption for "ready-to-eat meat and seafood sold in an unheated state by weight or volume" was understood to be in conflict with the Streamlined Sales Tax Agreement (SSTA).[31] Minnesota has since been informed that this exemption will not cause the state to be ruled out of compliance with that agreement.

**Exempt artistic events admissions at MNSCU and private colleges:** The new law extends the prior law tax treatment for artistic events at the University of Minnesota to those at Minnesota State Colleges and Universities (MNSCU) and private nonprofit colleges and universities. Qualifying events must be in a facility owned by the educational institution, and the entire proceeds must be used for increase arts opportunities for Minnesotans.

[29] The enacted change does not reverse the court's ruling that electricity and other inputs used in telecommunications were exempt as inputs "consumed in industrial production." These inputs will remain tax exempt.

[30] This provision will not apply to state colleges and universities, courts, or any agency in the judicial branch of government. It can be waived in an emergency or if the seller is the single source of the product or service.

[31] The definition of prepared foods in that agreement includes any food (1) sold in a heated state, (2) sold with eating utensils, or (3) two or more food ingredients mixed by the seller for sale as one item. The only exceptions allowed were for bakery products and raw foods requiring cooking by the consumer. Minnesota taxes prepared foods (defined to exclude these items). Without this exemption, items such as deli meats and meat sticks would be taxable as prepared foods if sold at a meat market where they were made.

**Exempt certain solar energy systems:** This includes solar electrical systems (both grid and off-grid systems) and solar thermal systems (using heated water). About 50 eligible systems (about 100 kilowatts total) are expected to be sold in FY 2006, with an average equipment cost of about $7,500 per kilowatt.[32]

**Exempt Catholic Charities food service**: Meals and drinks served exclusively to children (under age 15) in a child care or early childhood education program will be exempt if purchased by a nonprofit child care facility and prepared on site. The exclusion applies only if the program primarily serves families with incomes at or below 250 percent of the federal poverty guidelines. Although written in general terms, the exemption is assumed to apply to only one program, and it is effective retroactively to sales made since 1998.

**Exemptions for construction materials** include the following:

- **General exemption for waste-to-energy plants using biomass or mixed municipal waste as fuel,** effective August 1, 2005. This is a permanent exemption, with no expiration date. Three projects are expected to benefit, located in:
  - Olmstead County ($745,000 in FY 2006-07 and $881,000 in FY 2008-09)
  - Red Wing ($70,000 in FY 2006-07 and $13,000 in FY 2008-09)
  - Minneapolis ($260,000, all in FY 2006-07).
- **Laurentian Energy Authority biomass facility in Virginia.** Tax benefit will be provided as a refund for purchases after January 1, 2005. There is no expiration date. Total benefits are estimated at $434,000, all in FY 2006-07.
- **Turkey litter energy facility in Benson**. This exemption was first provided in the 2001 tax act (expiring 12/31/03). The 2003 tax act extended it to 12/31/05, due to construction delays. The new law extends the exemption for an additional two years. The tax benefit is estimated at $900,000, all in FY 2006-07.
- **Crown Hydro energy facility in Minneapolis.** This exemption was first provided in the 2001 tax act (expiring 12/31/03). The 2003 tax at extended it to 12/31/04, due to construction delays. The new law extends the exemption for an additional two years. The tax benefit is estimated at $165,000, all in FY 2006-07.
- **Chatfield wastewater treatment facility,** effective through 12/31/07. The tax benefit is estimated at $160,000, all in FY 2006-07.

**International Trade Zone**: The tax act provides for the designation a new international economic development zone within 60 miles (or 90 minutes drive time) from the Minneapolis-St. Paul International Airport. The goal is to stimulate development of a regional distribution center, increasing the airport's capacity for international air freight. One contiguous zone of between 500 and 1000 acres will be designated. The new zone will last for 12 years and zone businesses will be granted most of the tax breaks provided within Job Opportunity Building Zones (JOBZ).

The exemptions from state and local taxes are described in the box on the next page.

[32] The sales tax exemptions for other energy-efficient products (water heaters, furnaces, and residential lighting) all expired on August 1, 2005.

*Over 70 percent of the state fiscal cost through 2009 is due to sales tax exemptions.* The remainder is expected to be corporate tax.[33]

There is no fiscal impact in the 2006-07 biennium. Although the sales tax exemption for building materials is effective for purchases made after designation of the zone, the exemption for purchases prior to July 1, 2007 will be administered as a refund, and no refunds can be paid until after that date. This shifts the cost to the 2008-09 biennium.

**International Economic Development Zone**

**Eligible Businesses**: Either (a) an owner or operator of a regional distribution center or (b) a freight forwarder, operating within the zone.

*Recapture provision*: A business ceasing business operations in the zone must repay any tax reductions received in the 2 years immediately prior to cessation.

**Tax Benefits:** Eligible businesses will generally be exempt from the following taxes for up to twelve years:

- Local property tax on all real property and improvements (though land and preexisting improvements will still be taxed)
- State property tax on all real property and improvements (effective 2008)
- State and local sales and use taxes on goods and services purchased for use within the zone (effective 7/1/07)
- State and local sales and use taxes on construction materials for business improvements within the zone (whether purchased by the business or a contractor, effective at the time the zone is designated)
- Corporate franchise tax (effective 2007)
- Income tax on business income (effective 2007)

Both corporate franchise tax and income tax exemptions are limited to the sum of 20 percent of the sum of zone payroll and adjusted basis of zone property at the time the zone property is first used in the business.

**Payroll Credit:** Businesses will also qualify for a 7 percent tax credit on each dollar of total payroll in excess of $30,000 times the number of full-time equivalent employees. (Pay over $70,000 is subtracted from total payroll for this calculation.) The credit is refundable, and dollar amounts are indexed for inflation.

**Exempt cigarettes from sales tax:** Although they will be exempt from the sales tax, cigarettes will become subject to a new tax at the wholesale level at a per-pack rate set at 6.5 percent of the average price per pack. The reduction in sales tax collections due to this change ($121 million in

[33] There is no state cost from the exemption from the state-wide property tax, because the levy amount is fixed. Any reduction in tax will be shifted to other businesses in the state.

[37] Other options were possible, including: tax all durable medical equipment (DME), exempt all DME, exempt DME only if purchased by prescription, or limit exemption to purchases under Medicare or Medicaid.

FY 2006-07 and $135 million in FY 2008-09) is offset by slightly higher revenue from the new replacement tax, as explained further in the discussion of that tax in the next section.

**Streamlined sales tax:** A package of several tax changes brought Minnesota into conformity with the Streamlined Sales Tax Agreement (SSTA). As a result, Minnesota has been approved as a full member of the agreement, which will go into effect in October 2005. The agreement significantly simplifies the administrative costs of paying state and local sales taxes, particularly for companies with sales in many states. Companies that have not been remitting tax but now agree to register and start collecting tax to all member states will be granted amnesty for failure to pay in past years. The Department of Revenue estimates that membership in the agreement will increase **voluntary compliance** by $41 million in FY 2006-07 and $110 million in FY 2008-09.

To conform to the agreement, Minnesota needed to modify its definitions several definitions:

- **Durable medical equipment**: This is a broad category that includes all reusable medical and surgical equipment. Items purchased by nonprofit medical facilities were exempt under prior law, and will remain exempt under the new law. Of the remainder (sales totaling about $500 million per year), about 20 percent is for home use and 80 percent is used in for-profit medical facilities. Prior law exempted about 55 percent of home use purchases and 45 percent of purchases by for-profit medical facilities, depending on the specific item. SSTA does not allow exemptions that are differentiated in this way, because the definitions varied across states. Instead, the new law exempts all purchases for home use and taxes all purchases by for-profit medical facilities. The change raises net revenue by $16.4 million in FY 2006-07 and $18.6 million in FY 2008-09.[37]
- **Mobility enhancing equipment**: Under prior law Minnesota exempted almost all such equipment. Exceptions included lift chairs and portable wheelchair ramps. The new law will exempt all mobility enhancing equipment. Revenue will fall by $50,000 per year.
- **Nonprescription drugs**: Prior law taxed all nonprescription drugs except analgesics, insulin, and medical oxygen. Separate exemptions for nonprescription insulin and medical oxygen are allowed under SSTA, but the special exemption for analgesics was not. To conform, Minnesota needed to either tax nonprescription analgesics (a revenue gain of roughly $4 million per year) or exempt all nonprescription over-the-counter drugs (a revenue loss of roughly $8 million per year). The new law exempts all nonprescription drugs.

Taken together, these three changes to the tax base are roughly revenue neutral. Exempting nonprescription drugs offsets the net tax increase on medical equipment, but the changes will bring the increased compliance that comes with full membership in the SSTA.

*[The SSTA provisions were enacted in Chapter 151, Regular Session.]*

## Other Taxes

**Reduce premiums tax rate on life insurance from two percent to 1.5 percent:** The new law will phase the existing 2 percent tax rate down by 1/8 percent each year (starting in 2006) until it reaches 1.5 percent in 2009. This will make life insurance companies headquartered in Minnesota more competitive in the national market. Because the U.S. Supreme Court ruled long ago that insurance is not commerce, most states have enacted retaliatory tax provisions (which would otherwise have been ruled unconstitutional under the commerce clause). As a result, a Minnesota company selling life insurance in another state is taxed at the higher of that state's rate or the Minnesota rate. As the insurance market has become more competitive, many states have lowered their tax rates to help their home state companies compete in the national market. Not only will the tax change reduce the tax rate on sales in Minnesota. For Minnesota companies, a lower Minnesota tax rate will also reduce the tax they pay on sales in other states with tax rates below Minnesota's current two percent rate.

**Subject stop-loss policies to insurance premiums tax**:[38] Stop-loss policies allow employers who self-insure to limit their risk by capping their maximum losses. In 2003, the Minnesota Supreme Court ruled (in *Blue Cross Blue Shield of Minnesota vs. Commissioner of Revenue*) that stop-loss policies were not subject to the insurance premiums tax. The law change returns to the treatment prior to that court ruling. The true self-insurance component of self-insured plans will remain exempt (as required by federal ERISA rules), but the new law will make the tax treatment of self-insured plans somewhat more equal to the tax treatment of employee health coverage provided by insurers.

**Reverse CUNA court case**: In 2002 the Minnesota Supreme Court ruled (*CUNA Mutual Insurance vs. Commissioner of Revenue)* that a special 1.26 percent tax rate – rather than the typical 2 percent rate – applied to casualty insurance sold by a company that sold both life and casualty insurance (but not property insurance).[39] The new law clarifies that the lower tax rate only applies if the company that sell *both* property and casualty insurance.

**Great River Charter School Property Tax Exemption:** *Chapter 151* exempts the Greater River Charter School in St. Paul from the property tax for taxes payable in 2005 due to the timing of the purchase of the property. This results in a one-time revenue loss to the state of $15,000 in FY 2006 due to the abatement of the state general tax on business property. This property will be exempt in taxes payable in 2006 and after under *MS 272.02, subdivision 5*.

**Allow quarterly or annual liquor tax payments if tax liability is below $500 per month**: This *Chapter 151* provision will simplify tax filing for roughly 100 taxpayers. Although tax liability remains unchanged, the delay in payments relative to current law causes a one-time revenue loss.

**Base fur tax liability on actual quarterly sales**: Under prior law, this 6.5 percent gross receipts tax on fur clothing was paid in equal quarterly payments based on the larger of 90 percent of current year sales or 100% of last year's sales. This *Chapter 151* provision will simplify tax calculation for the 25 furriers who pay the tax. Although total liability will remain unchanged, the delay in payments relative to current law results in a one-time revenue loss.

**Increase cigarette tax dedications to the Academic Health Center (AHC) and Medical Education and Research Cost (MERC) special revenue funds:** When the tobacco endowment

[38] In addition to the change in general fund revenue shown in Table 1 above, this proposal would raise Health Care Access Fund revenue, as shown in Table 3 below.

[39] Only companies with assets between $5 million and $1.6 billion can qualify for the 1.26 percent rate. Those with less than $5 million in assets qualify for a 1 percent rate.

fund was eliminated in 2003, the revenue lost by these two funds was replaced by providing them each a share of cigarette tax revenues. AHC received 6.5 cents per pack and MERC received 2.5 cents per pack. The remaining 39 cents per pack remained in the general fund.

At the time the dedication rates were set, they were expected to provide a total of $61.6 million to these two funds in FY 2006-07 (based on the February 2003 forecast). This equaled what they had expected to receive from the tobacco endowment. The February 2005 forecast showed a decrease of $4.3 million, however, reflecting a greater-than-expected decline in cigarette sales. The new law replaces all of that lost revenue in FY 2006-07, and it modifies the dedication from one based on cigarette sales (cents per pack) to a flat $30.8 million per year. This will protect future funding from falling as cigarette sales decline. (Instead, the impact of lower sales will fall entirely on the general fund.)

**Replace sales tax on cigarettes with a per-pack tax levied at wholesale**: Under prior law, cigarettes were subject to sales tax at the retail level. The new law exempts cigarettes from sales tax but replaces that tax with a new wholesale-level tax levied on a per-pack basis. The rate per pack will be recalculated each year and set (each August 1st) at a rate equal to 6.5 percent of the weighted average retail price. Although the tax per pack will be the same as under the old sales tax,[40] the new tax will raise more revenue for two reasons:

- The new tax will be paid earlier – at the time the wholesaler receives the product rather than at the time of the retail sale. This speedup in the timing of the tax will yield $5.4 million in one-time revenue in FY 2006.[41]
- Collecting the tax at the distributor level is also expected to increase compliance, because tax will be collected from 75 distributors rather than thousands of retail outlets. Based on estimates of noncompliance under current law, this is estimated to increase tax collections by $2.25 million in FY 2006 and $2.7 million in each later year.[42]

This law change is similar to replacing the sales tax on cigarettes by a 20 cent per pack increase in the excise tax. The new tax will be collected following the same rules as the existing 48 cent-per-pack cigarette excise tax, and it is codified in the same section of law. Unlike the existing excise tax, though, the new 20 cent-per-pack tax rate will be adjusted each year for inflation in the price of cigarettes.

Two states (Oklahoma and Colorado) exempt cigarettes from their sales tax and levy only an excise tax.

[40] This is assumed in the revenue estimates. Actual administration of the tax may base the tax on the average price in the previous year. If so, the new tax will raise slightly less than the sales tax would have raised.

[41] This includes revenue from a one-time tax on cigarette retail stocks on the effective date (August 1, 2005). It ignores the interaction with the new Health Impact Fee, which is discussed below. The new fee will raise cigarette prices, so the new wholesale-level tax rate will be set at $0.255 per pack rather than $0.20 per pack.

[42] This is the net increase, above what is lost due to the sales tax exemption. It again ignores the interaction with the new Health Impact Fee, as noted in the previous footnote.

## Non-Tax Revenues

**Transfer from Property Tax Relief Account:** *MS 16A.1522, subdivision 4,* requires any positive unrestricted general fund balance at the close of a biennium must be transferred to the property tax relief account. In FY 2006, a one-time transfer of up to $20 million is made from the property tax relief account to the general fund. The transfer to the general fund is intended, but not specified in law, to partially offset the increased funding in Local Government Aid (LGA) in FY 2006-07 only.

## Health Impact Fees on Cigarettes and Other Tobacco Products

The Omnibus Health and Human Services Act (Chapter 4, Special Session) included the following health impact fees:

- 75 cents per pack of cigarettes
- 35 percent of the wholesale price of other tobacco products (cigars, snuff, and chewing tobacco)

Although revenue from these fees (along with the related floor stock taxes) will be deposited in the newly-created Health Impact Fund, that revenue will all be transferred to the general fund if the Commissioner of Health certifies (on April 30th) that the general fund costs related to tobacco exceed health impact fee revenues. The Department of Finance assumes this will occur.[43]

Total tobacco fee revenue is estimated at $433 million in FY 2006-07 and $439 million in FY 2008-09. The net increase in revenue is lower than this, however, because the health impact fees will reduce the consumption of taxable tobacco by an estimated 14 percent, thus reducing tax revenue.[44] Sales tax revenue will rise (along with revenue from the new wholesale-level sales tax on cigarettes), but the fall in excise tax revenue will be much larger. Net revenue from the tobacco fee (after netting out this reduction in tax revenue) is estimated at $401 million in FY 2006-07 and $407 million in FY 2008-09.

Detailed revenue impact by biennium is shown in Table 4 on the following page.

[43] If health impact fee revenue exceeds the tobacco-related general fund costs, the excess would be transferred to the Health Care Access Fund.

[44] The average cigarette price is expected to rise by 25 percent. Each 10 percent change in price is expected to reduce taxable sales by 5.5 percent, yielding an estimated 14 percent reduction in taxable sales. This reduction reflects both reduced smoking and the avoidance of tax by buying cigarettes out of state or over the internet.

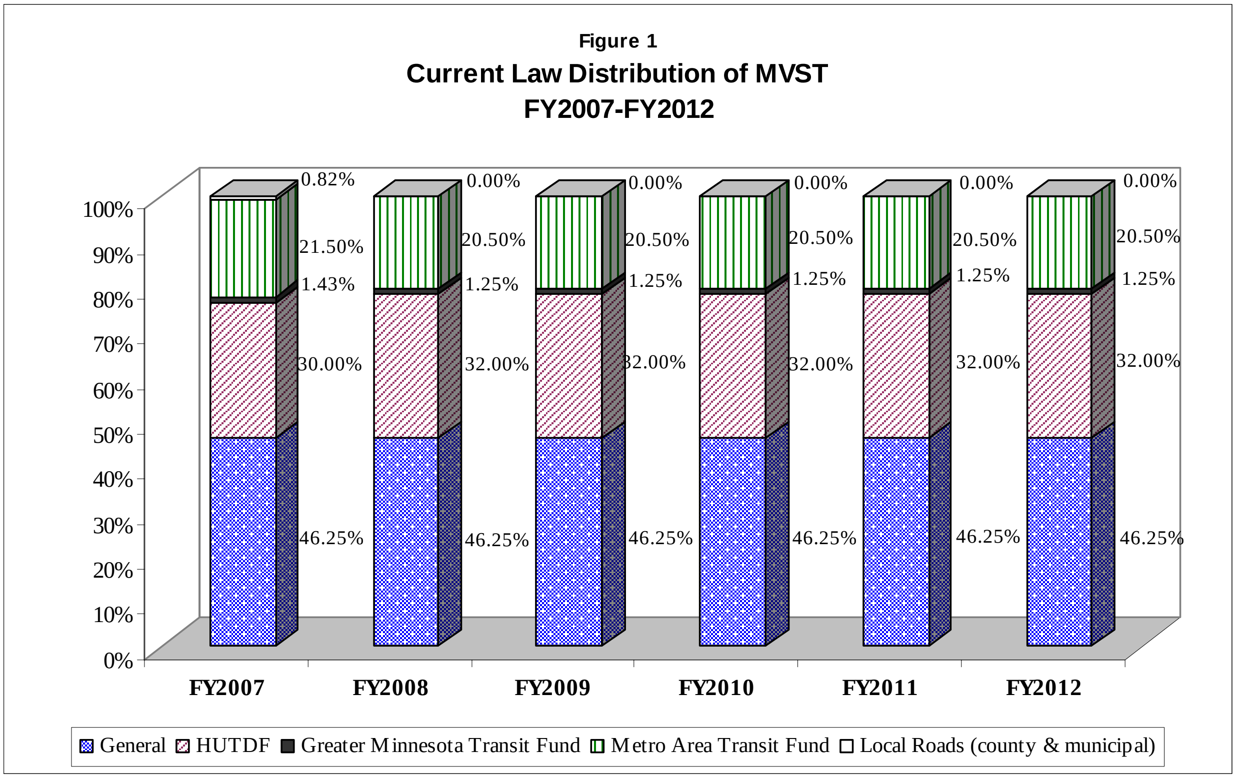
Table 4.
**Detailed Revenue Impact of Health Impact Fees**

| | (Dollars in $1000s) | |
|---|---|---|
| | **FY 2006-07** | **FY 2008-09** |
| Cigarette fee (75 cents per pack) | $376,315 | $398,325 |
| Floor stock tax on cigarettes | 20,250 | - |
| Other tobacco products (OTP) fee (35%) | 35,108 | 40,752 |
| Floor stock tax on OTP | 915 | - |
| **Total health impact fees** | **$432,588** | **$439,077** |
| | | |
| Change in cigarette excise tax | (38,905) | (38,509) |
| Change in OTP excise tax | (5,839) | (6,777) |
| **Total change in excise taxes** | **$(44,744)** | **$(45,296)** |
| | | |
| Change in new cigarette wholesale-level sales tax (rate up from 20 cents to 25.5 cents[1]) | 12,400 | 11,739 |
| Change in sales tax on OTP | 940 | 1,092 |
| **Total change in sales taxes** | **$13,340** | **$12,831** |
| | | |
| **Net impact of Health Impact Fees** | **401,184** | **406,612** |

[1] The new cigarette wholesale-level sales tax rate would have been 20 cents per pack in the absence of the health care impact fee. Because the fee raises the average price of cigarettes, it also raised the new tax rate (set at 6.5 percent of the average price per pack)

**Dedication of Motor Vehicle Sales Tax Revenues:** Under current law, revenues from the motor vehicle sales tax (MVST) are allocated to the following funds: general fund (46.25%), highway user tax distribution fund (30%), greater Minnesota transit fund (1.43%), metro area transit fund (21.5%), and local roads (0.82%).[45] Figure 1 shows the current distribution of the motor vehicle sales tax which is scheduled to change slightly beginning in fiscal year 2008. The current *total* estimated revenues for the motor vehicles sales tax is $1.15 billion for FY 2006-07 and $1.22 billion for FY 2008-09.

[45] The 0.82% for local roads is the combination of the county state aid highway fund (0.65%) and the municipal state aid street fund (0.17 %.)




*Chapter 88, 2005 regular session,* a transportation bill the legislature passed separately from the enacted transportation omnibus bill[46], includes a constitutional amendment for the dedication of 100 percent of the motor vehicle sales tax to highways and transit[47]. If the constitutional amendment passes in the next general election, it will reallocate the general fund portion of the motor vehicle sales tax revenues to the other funds currently receiving a portion of the revenues. The constitutional amendment does not specify a year or a schedule for the reallocation of the revenues; this will need to be passed in subsequent legislation.

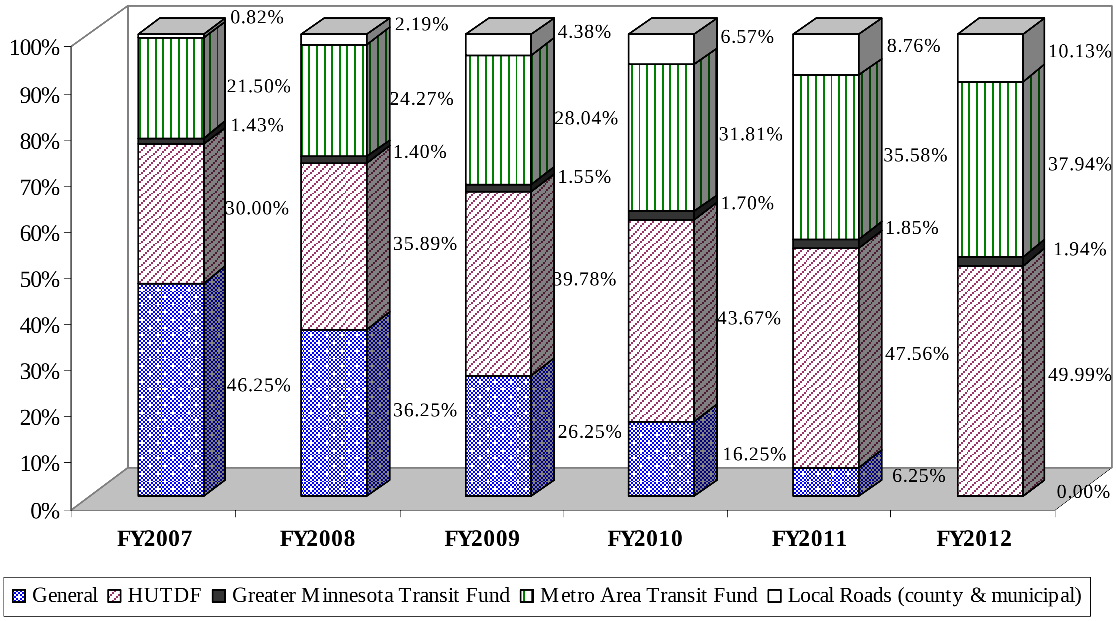
The Governor's original recommendation for the reallocation of the revenues would phase-in over five years beginning in fiscal year 2008. The general fund portion of the tax would decrease as follows: 36.25% in FY 2008, 26.25% in FY 2009, 16.25% in FY 2010, 6.25% in FY 2011, and 0% in FY 2012. This would decrease general fund revenues by $62.7 million beginning in FY 2008 and $128.8 million in FY 2009. Figure 2 shows the five-year phase-in of the redistribution of the motor vehicle sales tax under the Governor's proposal.[48]

[46] HF 2461 (Chapter 88, 2005 regular session) is an omnibus transportation bill the legislature passed separately that was vetoed by the Governor.

[47] See the Transportation Finance section of this report.

[48] For the purposes of showing the five years of the motor vehicle sales tax in Figure 1 and 2, it was assumed that the motor vehicle sales tax revenue would increase by 2.7 percent annually in FY2010 through FY2012.

**Figure 2**
**Governor's Recommendation for the Distribution of MVST**
**FY2007-FY2012**




*The fiscal impact of this provision is not included in the totals shown in Table 1 above.* It is being tracked in the Transportation Finance committee's section of this Money Matters. See www.house.leg.state.mn.us/fiscal/files/Gov05Op/tran.pdf.

## *Changes in General Fund Expenditures*

Property tax, local aids and other provisions enacted in **Chapter 3, 2005 1st Special Session, Chapters 151-152, 2005 Regular Session** will increase general fund expenditures in the Property Tax Aids and Credits budget by an estimated $22.7 million for FY 2006-07. Table 5 shows total expenditures will increase to $2.983 billion in FY 2006-07, an increase of approximately one-percent from the February forecast base and 6.3 percent from FY 2004-05. The major expenditure change items in FY 2006-07 include:

- **$48 million** permanent increase in Local Government Aid;
- **$35.3 million** temporary reduction in the homestead market value credit to cities;
- **$6.1 million** estimated increase in state paid homeowner property tax refunds due to property tax and levy changes;
- **$1.5 million** appropriation to the western border city enterprise zones for tax reductions;
- **$1 million** permanent increase to the Department of Revenue's base budget for the administration of certain tax provisions;
- **$750,000** appropriation for cargo grants for qualified businesses in an international economic development zone; and
- **$500,000** one-time appropriation for disaster relief grants for Otter Tail County.

*Table 5*
**General Fund Expenditure: Taxes & Local Aids**
*(dollars in thousands)*

| | February Forecast Spending in FY 04-05 | Base FY 2006-07 | Appropriations Chapter 151, 152 and SS Chapter 3 FY 2006-07 | % Change FY 06-07 vs. FY 04-05 | % Change FY 06-07 vs. Base | Tails Chapter 151, 152 and SS Chapter 3 FY 2008-09 |
|---|---|---|---|---|---|---|
| **Property Tax Refunds** | 596,489 | 670,033 | **676,145** | 13.35% | 0.91% | **747,777** |
| **Political Contribution Refund** | 10,648 | 11,000 | **11,000** | 3.31% | 0.00% | **9,900** |
| **Tax Refund Interest** | 35,174 | 30,000 | **30,000** | -14.71% | 0.00% | **30,000** |
| **Local Aids** | **1,265,143** | **1,331,959** | **1,380,064** | 9.08% | 3.61% | **1,421,384** |
| Local Government Aid (LGA) | 902,455 | 873,276 | **921,381** | 2.10% | 5.51% | **969,116** |
| County Program Aid (CPA) | 302,982 | 409,572 | **409,771** | 35.25% | 0.05% | **409,838** |

*Table 5 continued*
**General Fund Expenditure: Taxes & Local Aids**
*(dollars in thousands)*

| | February Forecast Spending in FY 04-05 | Base FY 2006-07 | Appropriations Chapter 151, 152 and SS Chapter 3 FY 2006-07 | % Change FY 06-07 vs. FY 04-05 | % Change FY 06-07 vs. Base | Tails Chapter 151, 152 and SS Chapter 3 FY 2008-09 |
|---|---|---|---|---|---|---|
| Other County Aids | 18,163 | 8,389 | **8,190** | -54.91% | -2.37% | **1,626** |
| Disparity Reduction Aid | 38,349 | 39,352 | **39,352** | 2.62% | 0.00% | **39,434** |
| Other Local Aids | 3,194 | 1,370 | **1,370** | -57.11% | 0.00% | **1,370** |
| **Property Tax Credits** | **648,192** | **658,687** | **622,934** | -3.90% | -5.43% | **623,511** |
| Homestead Market Value Credit | 588,490 | 599,285 | **563,513** | -4.24% | -5.97% | **562,705** |
| Agricultural Market Value Credit | 47,736 | 47,457 | **47,457** | -0.58% | 0.00% | **47,428** |
| Border City Disparity Credit | 10,388 | 10,604 | **10,604** | 2.08% | 0.00% | **11,680** |
| Other Credits | 1,578 | 1,341 | **1,360** | -13.81% | 1.42% | **1,698** |
| **Taconite Tax Relief Area Aids&Credits** | 21,969 | 27,628 | **27,628** | 25.76% | 0.00% | **27,728** |
| **Local Pensions Aids** | 203,420 | 231,492 | **231,492** | 13.80% | 0.00% | **261,182** |
| **Other Expenditures** | **25,731** | **16** | **4,273** | -83.39% | 26606.25% | **1,445** |
| PILT Payments - DOT | 14 | 16 | **16** | 14.29% | 0.00% | **18** |
| PILT Payments - DNR (in DNR budget) | 25,717 | - | **42** | -99.84% | -- | **87** |
| Taxpayer Assistance Grants | | - | **250** | -- | -- | **250** |
| DOR Administration | | - | **1,090** | -- | -- | **1,090** |
| Border City Enterprise Zones | | - | **1,500** | -- | -- | **0** |
| Disaster Grants - Otter Tail | | - | **500** | -- | -- | **0** |
| Vinland Center | | - | **125** | | -- | **0** |
| Cargo Grants - Int'l Trade Zone | | - | **750** | -- | -- | **0** |
| **Totals** | **2,806,766** | **2,960,815** | **2,983,536** | 6.30% | 0.77% | **3,122,927** |

## Local Aids and Credits

**Local Government Aid**: *Chapter 3* permanently increases funding for Local Government Aid (LGA) paid to cities by **$48 million** beginning in FY 2007[49], aids payable in calendar year 2006. This increases the total annual appropriation for LGA to $485 million beginning in FY 2007, resulting in a 5.5 percent increase in FY 2006-07 from the February forecast base and a two-percent increase from FY 2004-05. The two portions of the $48million increase include: $44 million distributed under the current law formula and a $4 million aid base increase for small cities distributed as follows:

- **$44 million under current law**: The current law distribution of the LGA formula includes caps on increases and decreases of the total amount of LGA a city can receive. These caps were put in place when the LGA appropriation was significantly reduced in aids payable in 2003 and 2004 to create stability in the amount of aid a city received from year to year. Increasing the appropriation under the current law formula results in the two largest cities in the state, Minneapolis and Saint Paul, receiving $24 million of the total $48 million increase in LGA because their caps on increases in aid are higher relative to other cities. In future years, the increased funding will shift from Minneapolis and Saint Paul to other cities that had caps on their increases and did not receive the full amount of the increase in aid;

- **$4 million aid base increase for small cities**: Cities with a population under 5,000 are eligible to receive an aid base increase equal to $6 multiplied by their population. When a city's population exceeds 5,000, they are no longer eligible for the small city aid base. This provision is meant to address requests by smaller cities for an LGA aid base increase for highway and road projects. When a city's population exceeds 5,000, they begin to receive Municipal Street Aid (MSA)[50]. Cities with a population under 5,000 do not receive any state money for highway and road projects.

Other major changes to LGA include:

- **The taconite aid offset is eliminated for certain cities in the Taconite Tax Relief Area (TTRA)** that are impacted by taconite mines and plants. The offset was enacted in the 2003 Omnibus Tax Act and was scheduled to be phased in over five years beginning in aids payable in 2005. Eliminating the offset of taconite aid will increase the total amount of LGA the impacted cities can receive because it decreases their "ability to raise revenue" in the LGA formula. The offset is eliminated for the following cities: Babbit, Eveleth, Hibbing, Keewatin, Mountain Iron, Silver Bay and Virginia. This change redistributes approximately $150,000 in LGA from other cities to the impacted cities for aids payable in 2006 and will increase in future years relative to the old law phase-in schedule of the offset.

- **Formula phase-in for small cities:** Under current law, when a city's population exceeds 2,500, it moves from the small city need formula to the large city need formula

[49] The $48 million permanent increase in LGA comes out of the general fund. For FY2007 only, $20 million is transferred from the property tax relief account to the general fund to cover part of the increase in LGA (see explanation under *Changes Non-Tax Revenue* above.)

[50] Municipal Street Aid (MSA) is appropriated in the Transportation Finance budget.

which can significantly change the amount of aid they receive. The new law phases small cities onto the large city formula over a five-year period when its population exceeds the 2,500 threshold. In the fifth year the city will be 100 percent on the large city formula. This provision was enacted to prevent large swings in the amount of aid a small city receives as their population increases and they move onto the large city formula. This provision redistributes about $100,000 to the small cities phasing onto the large city formula from other cities beginning in aids payable in 2006.

- **Payment to the City of White Bear Lake:** *Chapter 152* makes a one-time payment of $104,964 in FY 2006 to the city of White Bear Lake. The one-time payment compensates the city for a loss in LGA in aids payable in 2005 for an incorrect certification of the city's population.

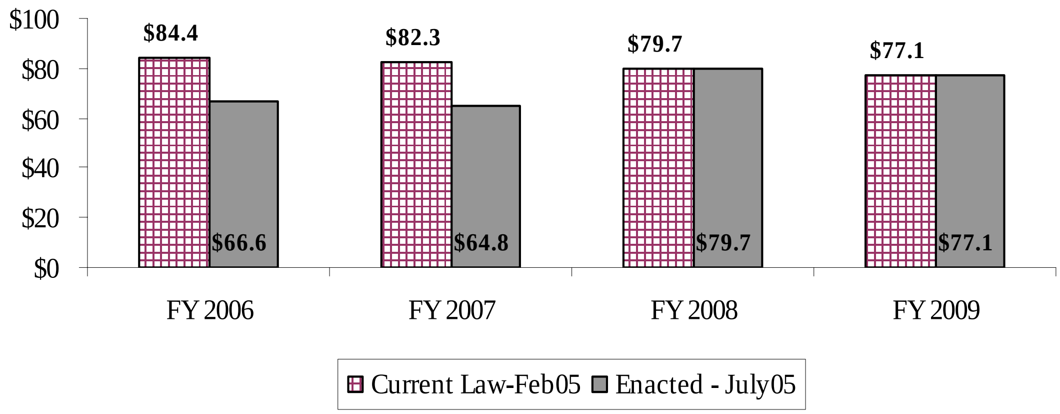
**Increase in County Program Aid for Anoka and Washington Counties:** In FY 2006 only, Anoka and Washington counties will receive a one-time increase in temporary court aid of $36,630 and $29,832, respectively. Beginning in FY 2007 (aids payable in 2006) and after, Anoka County will receive a permanent increase up to $73,259 and Washington County will receive a permanent increase up to $59,664 under the tax base equalization aid portion of County Program Aid (CPA). This permanently increases the total CPA annual appropriation by about $133,000. This change was enacted to compensate Anoka and Washington Counties for incorrectly including post-retirement insurance costs in the certification of their district court budget for the state takeover of the courts. *Chapter 151* also reduces the district court base budget by the same amount of the increase in aid to Anoka and Washington Counties.

**Repeal of JOBZ Aid:** *Chapter 3* repeals the Job Opportunity Building Zone (JOBZ) aid. This results in an expenditure savings of $215,000 in FY 2008-09. JOBZ aid is paid to cities and counties equal to one-half the amount by which the amount of tax base in a JOBZ zone exceeds three percent of the jurisdiction's tax base. This aid was eliminated due to the benefit cities and counties already receive of excluding property in a JOBZ zone in the Local Government Aid and County Program Aid formulas.

**Extend Reductions to Market Value Homestead Credit Reimbursements to Cities**: The temporary reductions in the market value homestead credit reimbursement to 103 cities are extended for reimbursements payable in calendar years 2005 and 2006 resulting in an expenditure reduction of $35.3 million in FY 2006-07. The market value homestead credit reimbursement to these cities returns to full funding in calendar year 2007, fiscal year 2008. In calendar years 2003 and 2004, these cities received temporary reductions in the market value homestead credit reimbursement totaling $39 million in FY 2004-05 as part of a larger package of reductions made to local government aids and credits.

Under the current and previous reductions, the homeowner still receives the full benefit of the credit on their property tax statement, but the city's reimbursement for the credit is reduced. The estimated budget savings from extending the reductions is slightly less than the savings achieved in FY 2004-05 because the current law forecast for the cost of the market value homestead credit program is lower in FY 2006-07. Figure 3 shows the amount of market value homestead credit reimbursement that cities were estimated to receive per the February forecast versus the reductions made in *Chapter 3*.

Figure 3
**Enacted Market Value Credit Reduction to Cities**
**(dollars in millions)**




**Change Market Value Homestead Credit Calculation for Fractional Homesteads:** *Chapter 151* changes the calculation of the market value homestead credit for fractional homesteads (i.e., property only partially homesteaded because one or more of the owners does not reside at the property). This results in an expenditure reduction to the market value homestead credit program of $0.5 million in FY 2006-07 and $1 million in FY 2008-09.

Prior to the class rate compression in the 2001 property tax reform, the benefit a fractional homestead received was the classification rate of a homestead property for the portion of the property that was homesteaded. Under current law, homestead and non-homestead properties have the same class rate; therefore the current benefit to fractional homesteads is the market value homestead credit.

The phase-out mechanism on the calculation of the market value homestead credit decreases the amount of credit a homestead property can receive as the market value increases above $76,000. The credit is calculated on the full market value of a homestead property, whereas for a fractional homestead, the credit is calculated on the fraction of the property's market value that is homesteaded. This results in fractional homesteads receiving a higher credit amount and therefore a lower net tax than a full homestead due to the phase-out mechanism. *Chapter 151* changes the calculation of the credit so that a fractional homestead's credit is calculated as if the entire property was homesteaded and then the amount of the credit is multiplied by the fraction of the property that is homesteaded. (See example calculation in table 6 on the next page.)

Table 6
**Example of Homestead vs. Fractional Homestead Current Law and Correction**

| **Property Type:** | **Homestead (Full)** | **Fractional Hmstd (50/50-NonHmstd)** ***Current Law*** | **Fractional Homestead (50/50-NonHmstd)** ***Correction*** |
|---|---|---|---|
| **A. Market Value** | $200,000 | $200,000 ($100,000 Hmstd/ $100,000 Non-Hmstd) | $200,000 ($100,000 Hmstd/ $100,000 Non-Hmstd) |
| **B. Class Rate** | 1.0 | 1.0/1.0 | 1.0/1.0 |
| **C. Net Tax Capacity** (A x B) | $2,000 | $2,000 | $2,000 |
| **D. Total Local Tax Rate** (sum of all tax rates for each jurisdiction authorized to levy on property) | 115.00 | 115.00 | 115.00 |
| **E. Gross Tax** (C x D) | $2,300 | $2,300 | $2,300 |
| **F. Market Value Credit** (0.40% of MV, max = $304; phase-out rate of 0.09% after $76,000) | **$192.40** (Calculated on homestead MV = $200K) | **$282.40** (Calculated on homestead fraction of MV = $100K) | **$96.20** (Calculated on Homestead MV =$200K, but then multiplied by 50%) |
| **G. Total Net Tax** (E – F) | **$2,107.60** | **$2,017.60** | **$2,203.80** |

**Include special assessments for the Senior Property Deferral Program**: Individuals 65 years of age or older who have a total household income of $60,000 or less and meet other qualifications can apply for the Senior Property Tax Deferral program. This program allows seniors to defer the amount of their property taxes that exceeds three percent of their household income to a later time. The state then pays the amount of the deferred tax to the county where the property is located. *Chapter 151* expands the eligibility of the program to include special assessments and other charges that appear on the property statement. The enacted change is estimated to increase program expenditures by $19,000 for FY 2006-07 and by $57,000 in FY 2008-09. The change effects 101 seniors currently enrolled in the program.

## Other Expenditure Changes

The following expenditure changes are made in Chapter 3, 2005 1st special session:

**Increase in Payment in Lieu of Tax (PILT):** The amount of PILT payments to Land Utilization Project (LUP) lands is permanently increased from $0.375 per acre to $0.75 per acre, currently $1 per acre when adjusted for inflation. The change increases PILT expenditures by $42,000 in FY 2006-07 and $87,000 in FY 2008-09[51]. The counties that will receive an increase in their PILT payments for LUP lands include: Lake of the Woods, Beltrami and Roseau.

**Border City Enterprise Zones**: $1.5 million is appropriated in FY 2006-07 for border city enterprise zone and border city development zone tax reduction programs. The appropriation is

[51] The appropriation for PILT payments to DNR lands are currently carried as part of the Department of Natural Resources budget.

divided equally between both programs but the allocations can be used between the two programs. The western border cities eligible to receive funds under both programs include: Moorhead, Breckenridge, Dilworth, East Grand Forks and Ortonville.

**Cargo Grants:** In FY 2006-07, $750,000 is appropriated to the Department of Employment and Economic Development (DEED) for grants to be distributed to qualified businesses in an international trade zone (see summary of *International Economic Development Zone* above.)

**Taxpayer Assistance Grants:** An on-going appropriation of $250,000 beginning in FY 2006-07 is made for grants to non-profits organization that assist low-income and disadvantaged taxpayers in preparing their state and federal tax returns. This appropriation becomes part of the Department of Revenue base budget.

**Appropriation to Department of Revenue Administration:** The Department of Revenue's base budget is permanently increased by $1.090 million beginning in FY 2006-07 for the administration of certain tax provisions enacted in the tax bills passed this session.

**Vinland Center:** A one-time appropriation of $125,000 in FY 2006 is made to the Department of Veterans' Affairs for Vinland Center veterans' services. The Vinland Center will also receive $150,000 in FY 2006-07 in *Chapter 1, 2005 1st special session*, the Omnibus Environment, Natural Resources, Agriculture and Economic Development Finance bill.

**Disaster Grants:** A one-time disaster grant appropriation of $500,000 in FY 2006 is made to the Department of Employment and Economic Development (DEED) for disaster relief grants for business and property owners in Otter Tail county impacted by straight-line winds the week of June 19, 2005.

## State Impact of Property Tax Changes

**Impact on Homeowner Property Tax Refunds:** Several provisions enacted in *Chapter 3, 2005 1st special session and Chapters 151-152, 2005 regular session* are estimated to increase total statewide property taxes by $128 million for taxes payable in 2006 (state fiscal year 2007) compared to 2006 current law projections[52]. The homeowner share of the increased property tax burden is approximately $96 million. The increased property tax burden on homeowners results in an estimated increase of $6.1 million in state paid regular and special homeowner property tax refund payments in FY 2006-07 and $7.5 million in FY 2008-09 due to the following changes:

- **Increase in School Levies**: *Chapter 5, 2005 1st Special Session,* the Omnibus Education Finance bill, increases the amount schools districts can levy by $139.2 million in FY 2006-07 (taxes payable in 2006) and $441.7 million in FY 2008-09 (taxes payable in 2007 and 2008) relative to current law[53]. Increased school levies will increase the property tax burden on all taxpayers including homeowners.

[52] See House Research Department Property Tax Simulation #5E2, 7/12/2005.

[53] See the Early Education and K-12 Education Finance sections of this report.

- **Increase in Local Non-School Levies**: Local governments are currently not under any levy limits and therefore can levy any amount. There are some special taxing districts levies capped in statute either by a dollar amount or a percentage of their tax base. The following local non-school are increased:
    - *Sauk River Watershed District – Chapter 152* increases the cap on the district's levy at 0.01% of the district's market value (the current cap for watershed district levies is $250,000.) If the district levied the full amount, it will increase their total levy by $280,000 beginning in taxes payable in 2007 and after.
    - *Metropolitan Council Bus Bonds – Chapter 152* authorizes $64 million in bonding for Met Council capital expenditures. The debt service on the bonds will increase the total levy amount for the Transit Taxing District by approximately $700,000 in taxes payable 2008 and $4.5 million in taxes payable 2009.

  Increased local levies will increase the property tax burden on all taxpayers including homeowners.

- **Utility Personal Property Tax Exemptions**: *Chapter 151* exempts new and expanded electric generation facilities from personal property taxes for all attached machinery in the following host cities:
    - Faribault
    - Cannon Falls
    - Shakopee
    - Benson - poultry litter biomass facility
    - Minneapolis - biomass facility (*Chapter 3, 2005 1st special session*)
    - Minneapolis (Crown Hydro) – hydroelectric facility
    - Blooming Grove Township, Waseca County
    - Mankato
    - Cambridge

  Exempting utility personal property will shift the property tax burden from utility property to other property types in the jurisdiction including homeowners.

- **Class 1c resorts (small resorts)**: *Chapter 3* changes the class rate structure and taxation of homestead resorts beginning in taxes payable 2006 and after. Class 1c resorts will have a three-tier class rate structure as follows: the first tier has a class rate of 0.55% on the first $500,000 in market value, the second tier is 1.0% on the next $1.7 million in market value, and the third tier is 1.25% on market value above $2.2 million and will be subject to the state general tax. Under current law, homestead resorts receive a class rate of 1.0% on the amount of market value within a 800 ft. by 500 ft. area (also referred to as "the box"), but not exceeding 100 feet of lakeshore. Any market value outside of "the box" is classified as 4c property which receives a class rate of 1.25% and is subject to the state general tax. A class rate reduction for homestead resort property will shift property taxes from resorts to other taxpayers including homeowners.
    - **Statewide property tax levy reapportionment**: Class 1c resorts and other seasonal recreational property will also receive the benefit of the reapportionment of the statewide property tax levy. Under current law projections for taxes payable in 2006, the shares of the statewide levy are approximately 8 percent on seasonal recreational property and 92 percent on commercial/industrial property, which changes from year to year depending on the growth in market value of both

property types. *Chapter 3* permanently fixes the shares of the levy at 5 percent on seasonal recreational property and 95 percent on commercial/industrial property. The 95/5 split of the state levy is closer to the shares of the levy when it first became effective in taxes payable in 2002. This change results in a shift in property tax burden from seasonal property to business property in taxes payable in 2006.

- **4d Classification for Low-income Apartments:** *Chapter 3* reinstates the 4d classification for low-income apartment property and reduces the class rate to 0.75% of market value. The current class rate for all apartment property is 1.25%. This classification was previously eliminated as part of the 2001 property tax reform. A class rate reduction for low-income apartment property will shift property taxes from low-income apartments to other taxpayers including homeowners.

- **Limited Market Value (LMV)**: *Chapter 3* delays the current phase-out schedule of LMV by two additional years. Under current law, LMV is scheduled to completely phase-out in assessment year 2007, taxes payable in 2008. Under the enacted change, LMV will sunset in assessment year 2009, taxes payable 2010. Delaying the sunset will shift property taxes from properties benefiting from LMV[54] to all other property types including other homeowners.
    - The impact of delaying the LMV sunset results in an expenditure savings of $110,000 beginning in FY 2007 (taxes payable in 2006) to the state paid special homeowner property tax refund program (also referred to as the “targeting” refund.)
    - LMV will also increase expenditures for the homestead market value credit program by $28,000 beginning in FY 2007.

- **Repeal the Property Tax Exemption for Biotechnology and Health Sciences Zones**: *Chapter 3* repeals the property tax exemption for improvements to real property for qualified businesses located in a biotechnology and health sciences zones. The repeal of the exemption results in a savings of $14,000 to the homeowner property tax refund program beginning in FY 2007 (taxes payable in 2006.)

- **State aid changes affecting state paid homeowner property tax refunds**: Any changes in state paid aids and credits to local governments are assumed to change the amount local governments’ levy relative to current law levy projections. *Chapter 3* increases funding for LGA paid to cities by $48 million. A portion of the increase in aid is assumed to decrease the amount cities’ will levy in taxes payable in 2006, decreasing the property tax burden on all taxpayers in the cities receiving an increase in aid. *Chapter 3* also makes reductions of $35.3 million to the market value homestead credit reimbursement for 103 cities. It is assumed the 103 cities will levy back the full amount of the reduction in their credit reimbursement which increases the amount the cities’ levy relative to current law, increasing the property tax burden on taxpayers in those cities.

[54] The property types currently eligible for LMV include: farm, residential, and non-commercial seasonal recreational.

# Non-General Fund Changes

## Health Care Access Fund

Table 7
**Changes in Health Care Access Fund Revenues**
(*Dollars in thousands*[1])

| | Effec. Date | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|---|
| Subject stop-loss policies to insurance premiums tax | 1/1/06 | $800 | $2,300 | **$3,100** | $2,700 | $3,300 | **$6,000** |
| Exempt TRICARE paymnts from provider tax | 1/1/06 | (1,730) | (1,410) | **(3,140)** | (1,500) | (1,580) | **(3,080)** |
| **TOTAL** | | **$(930)** | **$890** | **$(40)** | **$1,200** | **$1,720** | **$2,920** |

[1] Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

**Subject stop-loss policies to insurance premiums tax**: See discussion of this change in insurance taxes under other general fund taxes above.

**Exempt TRICARE payments from provider tax**: TRICARE is a federally-funded health plan for military personnel (active, reserve, and retired) and their dependents. The MinnesotaCare taxes generally exempt payments received directly from the federal government. (The change will not exempt out-of-pocket payments received from the insured.)

## Special Revenue Funds

Table 8
**Changes in Special Revenue Fund Revenues**
(*Dollars in thousands*[1])

| | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|
| Academic Health Center | $1,330 | $1,776 | **$3,106** | $2,182 | $2,580 | **$4,762** |
| Medical Education & Research Costs | 518 | 676 | **1,194** | 832 | 985 | **1,817** |
| **TOTAL** | **$1,848** | **$2,452** | **$4,300** | **$3,014** | **$3,565** | **$6,579** |

[1] Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

See description under cigarette excise tax in the general fund section above.

## Environmental Fund

Table 9
**Changes in Environmental Fund Revenues & Expenditures**
(*Dollars in thousands*[1])

| | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|
| Appropriation to Pollution Control Agency (merged) | $11,760 | $11,760 | **$23,520** | $11,760 | $11,760 | **$23,520** |
| Increase SWMT proceeds to Environmental Fund to 70% | 12,171 | 12,442 | **24,613** | 12,750 | 13,072 | **25,822** |
| **TOTAL** | **$411** | **$682** | **$1,093** | **$990** | **$1,312** | **$2,302** |

**Increase proceeds of Solid Waste Management Tax to the Environmental Fund**: *Chapter 1, 2005 1st special session*, the Omnibus Environment, Natural Resources, Agriculture and Economic Development Finance bill, merges the Office of Environmental Assistance into the current department of the Minnesota Pollution Control Agency. The percentage of the Solid Waste Management Tax (SWMT) proceeds directed to the Environmental Fund is permanently increased to fund the merged departments. *Chapter 1* increases the percentage to the greater of 70 percent or $33.8 million to the Environmental Fund and 30 percent to the general fund. Under current law, the greater of 50 percent or $22 million of the proceeds are directed to the Environmental Fund and 50 percent to the general fund.

Increasing the percentage of the SWMT proceeds directed to the Environmental Fund results in a loss to the general fund. The current appropriation to the Office of Environmental Assistance (OEA) from the general fund will move to the Environmental Fund resulting in an expenditure reduction (budget savings) to the general fund. This leaves a net loss in the general fund because the loss in revenue from the SWMT is slightly greater than the expenditure reduction from the OEA. The net impact to the general fund is shown below and is part of the Environment, Natural Resources, Agriculture Finance section of this report.

| | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|---|---|---|---|---|
| Expenditure Reduction to OEA | ($11,760) | ($11,760) | ($11,760) | ($11,760) |
| Revenue loss from increasing SWMT proceeds to Env. Fund | ($12,171) | ($12,442) | ($12,750) | ($13,072) |
| **Net Impact to General Fund** | **($411)** | **($682)** | **($990)** | **($1,312)** |

*The fiscal impact of this provision is not included in the totals shown in Table 9 above.* It is being tracked in the Agriculture, Environment and Natural Resource committee's section of this Money Matters.

## State Airports Fund

Table 10
**Changes in State Airports Fund Revenues**
(*Dollars in thousands*[1])

| | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|
| Pay refunds for air ambulance fuels tax from airports fund, not HUTDF | $(15) | $(15) | **$(30)** | $(15) | $(15) | **$(15)** |

[1] Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

**Pay refunds for air ambulances fuels taxes from the state airports fund**: These refunds were being paid from the Highway User Tax Distribution Fund.

## Highway User Tax Distribution Fund

Table 11
**Changes in HUTDF Revenues**
(*Dollars in thousands*[1])

| | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|
| Require up-front payment of sales tax on leased vehicles | $0 | $0 | **0** | $(33) | $(51) | **$(84)** |
| Pay refunds for air ambulance fuels tax from airports fund, not HUTDF | 15 | 15 | **30** | 15 | 15 | **30** |
| Total HUTDF | $15 | $15 | **$30** | $(18) | $(36) | **$(54)** |

[1] Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

**Require up-front payment of sales tax on leased vehicles:** This sales tax provision has an impact on the HUTDF because it provides for a tax refund if a lease is terminated early to either lease or buy another vehicle. When refunds are credited against a vehicle purchase, they will reduce motor vehicle sales tax revenues, a portion of which would have gone to the HUTDF.

**Pay refunds for air ambulances fuels taxes from the state airports fund**: These refunds were being paid from the Highway User Tax Distribution Fund.

## Metro Area Transit Fund

Table 12
**Changes in Metro Transit Fund Revenues & Expenditures**
(*Dollars in thousands[1]*)

| | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|
| Require up-front payment of sales tax on leased vehicles | $0 | $0 | **0** | $(24) | $(36) | **$(60)** |

[1] Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

See explanation for HUTDF.

## Greater Minnesota Transit Fund

Table 13
**Changes in Metro Transit Fund Revenues & Expenditures**
(*Dollars in thousands[1]*)

| | FY 2006 | FY 2007 | FY 06-07 Biennium | FY 2008 | FY 2009 | FY 08-09 Biennium |
|---|---|---|---|---|---|---|
| Require up-front payment of sales tax on leased vehicles | $0 | $0 | **0** | $(2) | $(2) | **$(4)** |

[1] Negative numbers represent a cost to the state and positive numbers represent a gain to the state.

See explanation for HUTDF.

***For additional information on income, corporate, sales and health care taxes, contact Paul Wilson at 651-297-8405, or paul.wilson@house.mn .***

***For additional information on property aids and credits, motor vehicle taxes and other taxes, contact Marie Zimmerman at 651-296-7171 or marie.zimmerman@house.mn .***

## Fee Changes - 2005 Regular and Special Session

*8/24/2005*

| Health Impact Fee | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Agency | **Description** | FY 2006 | FY 2007 | **FY 2006-07** | FY 2008 | FY 2009 | **FY 2008-09** | **Fund** |
| Revenue | $.75 Health Impact Fee (net impact of fee on cigarettes and tobacco products) | 195,389 | 205,795 | **401,184** | 204,182 | 202,432 | **406,614** | Gen Fund |
| **Health Impact Fee Total** | | 195,389 | 205,795 | **401,184** | 204,182 | 202,432 | **406,614** | Gen Fund |

| Higher Education Bill | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Agency | Description | FY 2006 | FY 2007 | **FY 2006-07** | FY 2008 | FY 2009 | **FY 2008-09** | Fund |
| HESO | Private Career School Fees | 11 | 15 | **26** | 15 | 15 | **30** | Spec Rev |
| **Higher Education Total** | | 11 | 15 | **26** | 15 | 15 | **30** | All Funds |

| Public Safety Bill | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Agency | Description | FY 2006 | FY 2007 | **FY 2006-07** | FY 2008 | FY 2009 | **FY 2008-09** | Fund |
| POST Board | Non DWI Reinstatement Fee | 763 | 832 | **1,595** | 832 | 832 | **1,664** | Spec Rev |
| Courts | Ramsey County $1 Surcharge | 92 | 110 | **202** | 110 | 110 | **220** | Spec Rev |
| Courts | Fine Surcharge | 5,880 | 7,800 | **13,680** | 7,800 | 7,800 | **15,600** | GF |
| Courts | Real Estate Recording Fee Increase | 9,550 | 9,630 | **19,180** | 9,408 | 9,349 | **18,757** | GF |
| Courts | Parking Ticket Surcharge | 500 | 600 | **1,100** | 600 | 600 | **1,200** | GF |
| | Liquor Wholesale/Manu Fee Increase | 757 | 757 | **1,514** | 757 | 757 | **1,514** | GF |
| Courts | Civil Court Filing Fee Increase by $5 | 545 | 594 | **1,139** | 594 | 594 | **1,188** | GF |
| Public Safety | 911 Fee Increases | 17,050 | 17,080 | **34,130** | 16,873 | 16,631 | **33,504** | SGSR |
| Public Safety | Gas Theft-License Suspension/Reinstatement | 24 | 24 | **48** | 24 | 24 | **48** | THF |
| Courts (CH 164) | Child Support Modificiation Motion Fee | 744 | 934 | **1,678** | 1,082 | 1,093 | **2,175** | GF |
| Public Safety Total | | 35,905 | 38,361 | **74,266** | 38,080 | 37,790 | **75,870** | All Funds |
| Public Safety Subtotal | | 17,976 | 20,315 | **38,291** | 20,241 | 20,193 | **40,434** | GF |
| Public Safety Subtotal | | 17,929 | 18,046 | **35,975** | 17,839 | 17,597 | **35,436** | Other Funds |

| Jobs & Economic Opportunity Bill | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Agency | Description | FY 2006 | FY 2007 | **FY 2006-07** | FY 2008 | FY 2009 | **FY 2008-09** | Fund |
| Commerce | Changes in Insurance Related License Fees | 734 | 734 | **1,468** | 734 | 734 | **1,468** | GF |
| Commerce | Insurance Certificate of Authority Fee | 18 | 18 | **36** | 18 | 18 | **36** | GF |
| Labor & Industry | Boiler Inspection License | 121 | 121 | **242** | | | **0** | GF |
| Labor & Industry | Boiler Registration Fee | 203 | 203 | **406** | | | **0** | GF |
| Labor & Industry | Boiler Inspection Fee | 374 | 374 | **748** | total of all Labor & Industry | | | GF |
| Labor & Industry | Pipefitting Inspection Fee | 50 | 50 | **100** | 708 | 708 | **1,416** | GF |
| Labor & Industry | Pipe fitter License Fee | 62 | 62 | **124** | | | **0** | GF |
| Labor & Industry | Apprenticeship Fee | -300 | -300 | **-600** | -300 | -300 | **-600** | Spec Rev |
| Labor & Industry | Workforce Enhancment Fee | 5,438 | 13,099 | **18,537** | 6843 | 7149 | **13,992** | WDF |
| DEED | Marriage License, Dissolution & Ed Fee | 643 | 848 | **1,491** | 848 | 848 | **1,696** | Spec Rev |
| Jobs & Economic Development Total | | 7,343 | 15,209 | **22,552** | 8,851 | 9,157 | **18,008** | All Funds |
| Jobs & Economic Development Subtotal | | 1,562 | 1,562 | **3,124** | 1,460 | 1,460 | **2,920** | GF |
| Jobs & Economic Development Subtotal | | 5,781 | 19,428 | **25,209** | 7,391 | 15,088 | **22,479** | Other Funds |

| Health & Human Services Bill | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Agency | Description | FY 2006 | FY 2007 | **FY 2006-07** | FY 2008 | FY 2009 | **FY 2008-09** | Fund |
| Health | Adverse Health Reporting | 335 | 335 | **670** | 335 | 335 | **670** | SGSR |
| Health | Drinking Water Service Connection Fee | 0 | 1,433 | **1,433** | 1,433 | 1,433 | **2,866** | SGSR |
| Health | Food Manager's Certification Fee | 91 | 91 | **182** | 91 | 91 | **182** | SGSR |
| Heatlh | Food, Beverage & Lodging Program Fee | 1,326 | 1,326 | **2,652** | 1,326 | 1,326 | **2,652** | SGSR |
| Health | Laboratory Certification Program Fee | 160 | 215 | **375** | 140 | 231 | **371** | SGSR |
| Heatlh | Plumbing Plan Review Fee | -5 | -5 | **-10** | -5 | -5 | **-10** | SGSR |
| Health | Well Management Program Fees | 0 | 551 | **551** | 551 | 551 | **1,102** | SGSR |
| Health | Shaking Infants Video Use Fee | 13 | 0 | **13** | 0 | 0 | **0** | SGSR |
| Health | Vital Records Program Fee | 1,420 | 1,420 | **2,840** | 1,420 | 1,420 | **2,840** | SGSR |
| Health | Hospital License Fees/State Trauma System | 382 | 352 | **734** | 352 | 352 | **704** | GF |
| DHS | Licensing Fees | 314 | 270 | **584** | 270 | 270 | **540** | GF |
| DHS | Nursing Home Surcharge | -1,793 | -2,579 | **-4,372** | -2,970 | -3,059 | **-6,029** | GF |
| DHS | Parental Fees (TEFRA) | -971 | -937 | **-1,908** | -937 | -937 | **-1,874** | GF |
| DHS | Child Care License Fee (reduction) | -217 | -217 | **-434** | -217 | -217 | **-434** | GF |
| DHS | Backrgound Study Fees | 167 | 167 | **334** | 167 | 167 | **334** | Spec Rev |
| Health Boards | Dentistry - duplicate license fee increase | 3 | 3 | **6** | 3 | 3 | **6** | SGSR |
| Health Boards | Behavioral Health - no exam fee - drug/alcohol | -23 | -23 | **-46** | -23 | -23 | **-46** | SGSR |
| Health Boards | Behavioral Health-voluntary license-drug/alcohol | 0 | 5 | **5** | 5 | 5 | **10** | SGSR |
| Health Boards | Temporary Fee Decrease-Dietetics&Nutrition | -36 | -36 | **-72** | -36 | -36 | **-72** | SGSR |
| Health Boards | Temporary Fee Decrease-Social Work(SF1204) | -113 | -226 | **-339** | -226 | -226 | **-452** | SGSR |
| Health Total | | 1,053 | 2,145 | **3,198** | 1,679 | 1,681 | **3,360** | All Funds |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Health Subtotal | | -2,285 | -3,111 | **-5,396** | -3,502 | -3,591 | **-7,093** | GF |
| Health Subtotal | | 3,338 | 5,256 | **8,594** | 5,181 | 5,272 | **10,453** | Other Funds |

**Agriculture Bill**

| Agency | Description | FY 2006 | FY 2007 | **FY 2006-07** | FY 2008 | FY 2009 | **FY 2008-09** | Fund |
|---|---|---|---|---|---|---|---|---|
| Agriculture | Apiary Registration | 9 | 9 | **18** | 9 | 9 | **18** | General |
| Agriculture | BMP Loan Application Fee | 9 | 11 | **20** | 11 | 11 | **22** | Ag |
| Agriculture | Pesticide Application Fees | 92 | 92 | **184** | 92 | 92 | **184** | Ag |
| Agriculture | Manure Lab Certification Fee | 35 | 47 | **82** | 47 | 47 | **94** | Ag |
| Agriculture | Fertilizer Inspection Fees | 300 | 300 | **600** | 300 | 300 | **600** | Ag |
| Agriculture | Nursery Stock Grower Certification | 143 | 143 | **286** | 143 | 143 | **286** | Ag |
| Agriculture | Phytosanitary Certificate | 9 | 9 | **18** | 9 | 9 | **18** | Ag |
| Agriculture | Commercial Feed License Fee | 1 | 1 | **2** | 1 | 1 | **2** | Ag |
| Agriculture | Feed Free Sale Certificates | 8 | 8 | **16** | 8 | 8 | **16** | Ag |
| Agriculture | Interstate Tonnage Exemption Application Fee | 1 | 1 | **2** | 1 | 1 | **2** | Ag |
| Agriculture | Grain Buyers and Storage Fees | 55 | 55 | **110** | 55 | 55 | **110** | Ag |
| Agriculture Total | | 662 | 676 | **1,338** | 676 | 676 | **1,352** | All Funds |
| Agriculture Subtotal | | 9 | 9 | **18** | 9 | 9 | **18** | General |
| Agriculture Subtotal | | 653 | 667 | **1,320** | 667 | 667 | **1,334** | Ag |

**Environment Bill**

| Agency | Description | FY 2006 | FY 2007 | **FY 2006-07** | FY 2008 | FY 2009 | **FY 2008-09** | Fund |
|---|---|---|---|---|---|---|---|---|
| DNR | Administrative Penalty Orders | 0 | 0 | **0** | 0 | 0 | **0** | GF |
| DNR | Surcharge on Summer Water Use | 330 | 330 | **660** | 330 | 330 | **660** | GF |
| DNR | Water Permit Fee Increases | 213 | 213 | **426** | 200 | 191 | **391** | GF |
| PCA | Air Emission Fee Increases | 532 | 839 | **1,371** | 1,147 | 1,457 | **2,604** | Env |
| PCA | Septic System Installation Fee | -8 | -8 | **-16** | -8 | -8 | **-16** | Env |
| PCA (HF 1470) | Drycleaner Fees | 395 | 395 | **790** | 395 | 395 | **790** | Rem |
| DNR | Cross Country Ski Pass | 140 | 140 | **280** | 140 | 140 | **280** | Nat Res |
| DNR | Electronic Open Burning Permits | 80 | 80 | **160** | 80 | 80 | **160** | Nat Res |
| DNR | Special Fuelwood Permits | 2 | 2 | **4** | 2 | 2 | **4** | Nat Res |
| DNR | Road Easements on State Land | 20 | 20 | **40** | 20 | 20 | **40** | Nat Res |
| DNR | Snowmobile Trail Sticker | 2,500 | 2,500 | **5,000** | 2,500 | 2,500 | **5,000** | Nat Res |
| DNR | Boat Registration Increase | 1,674 | 1,947 | **3,621** | 1,947 | 1,947 | **3,894** | Nat Res |
| DNR | Special Fuel wood Permits | 1 | 1 | **2** | 1 | 1 | **2** | Spec Rev |
| DNR | State Forest Nursery Stock Surcharge | 250 | 250 | **500** | 250 | 250 | **500** | Spec Rev |
| DNR | Fish Tagging Management Program | 25 | 28 | **53** | 31 | 35 | **66** | G&F |
| DNR | Critical Habitat Plates for RVs and Trailers | 30 | 75 | **105** | 75 | 75 | **150** | RIM (522) |
| DNR | Special Fuelwood Permits | 3 | 3 | **6** | 3 | 3 | **6** | PSF |
| Environment Total | | 6,187 | 6,815 | **13,002** | 7,113 | 7,418 | **14,531** | All Funds |
| Environment Subtotal | | 543 | 543 | **1,086** | 530 | 521 | **1,051** | General Fund |
| Environment Subtotal | | 5,644 | 6,272 | **11,916** | 6,583 | 6,897 | **13,480** | Other Funds |

**State Government Bill**

| Agency | Description | FY 2006 | FY 2007 | **FY 2006-07** | FY 2008 | FY 2009 | **FY 2008-09** | Fund |
|---|---|---|---|---|---|---|---|---|
| Admin Hearings | Administrative Hearing Fee - Technology | 23 | 12 | **35** | 18 | 18 | **36** | Admin Hear |
| Admin Hearings | Administrative Hearings - Hourly Rate Change | 163 | 163 | **326** | 163 | 163 | **326** | Admin Hear |
| State Government Total | | 186 | 175 | **361** | 181 | 181 | **362** | All Funds |
| State Government Subtotal | | 0 | 0 | **0** | 0 | 0 | **0** | General Fund |
| State Government Subtotal | | 186 | 175 | **361** | 181 | 181 | **362** | Other Funds |

**Transportation Bill**

| Agency | Description | FY 2006 | FY 2007 | **FY 2006-07** | FY 2008 | FY 2009 | **FY 2008-09** | Fund |
|---|---|---|---|---|---|---|---|---|
| Public Safety | Title Fee | 3,500 | 3,535 | **7,035** | 3,570 | 3,606 | **7,176** | Spec Rev |
| Public Safety | $15 increase for the Salvage Vehicle Fee | 197 | 199 | **396** | 201 | 203 | **404** | Spec Rev |
| Public Safety | $50 Motor Vehicle Dealer Fee | 215 | 217 | **432** | 219 | 222 | **441** | Spec Rev |
| Public Safety | $20 Expedited Service Fee | 909 | 918 | **1,827** | 927 | 936 | **1,863** | Spec Rev |
| Public Safety | $5 Increase Records Fee | 620 | 626 | **1,246** | 626 | 626 | **1,252** | Spec Rev |
| Public Safety | $20 Multiple Road Test Fee | 200 | 202 | **402** | 204 | 206 | **410** | Spec Rev |
| Public Safety | $10 Multipe Written Test Fee | 300 | 303 | **603** | 306 | 309 | **615** | Spec Rev |
| Public Safety | $1.50 Retainage Card Fee | 600 | 606 | **1,206** | 606 | 606 | **1,212** | Spec Rev |
| Public Safety | $3 Driver License Card Fee | 1,650 | 1,667 | **3,317** | 1,683 | 1,700 | **3,383** | Spec Rev |
| Public Safety | $6 Increase Motor Vehicle Transfer Fee | 7,839 | 8,550 | **16,389** | 8,550 | 8,550 | **17,100** | GF |
| Public Safety | Surcharge on Fines for Speeding 20 MPH + | 939 | 1,024 | **1,963** | 1,024 | 1,024 | **2,048** | GF |
| Public Safety | Bicycle License Program | -40 | -40 | **-80** | -40 | -40 | **-80** | Spec Rev |
| Public Safety | Support Our Troops Plate (fee portion) | 261 | 401 | **662** | 215 | 145 | **360** | Spec Rev |
| Public Safety | MV Registration Temporary Permit | -3 | -4 | **-7** | -5 | -6 | **-11** | Highway User |
| Public Safety | Deputy Registrar Fee Increase - $1.50 | 2,100 | 2,121 | **4,221** | 2,121 | 2,121 | **4,242** | Non-state |
| Public Safety | Retainage Fee Increase Deputy Registrar-$1.50 | 1,800 | 1,818 | **3,618** | 1,818 | 1,818 | **3,636** | Non-state |
| Transportation Total (State) | | 17,187 | 18,204 | **35,391** | 18,086 | 18,087 | **36,173** | All State Funds |
| Transportation Subtotal | | 8,778 | 9,574 | **18,352** | 9,574 | 9,574 | **19,148** | General Fund |
| Transportation Subtotal | | 8,409 | 8,630 | **17,039** | 8,512 | 8,513 | **17,025** | Other State Funds |
| Transportation Non-State | | 3,900 | 3,939 | **7,839** | 3,939 | 3,939 | **7,878** | Non-State Funds |

| | FY 2006 | FY 2007 | FY 2006-07 | FY 2008 | FY 2009 | FY 2008-09 | |
|---|---|---|---|---|---|---|---|
| **All Bills - General Fund Total** | **221,972** | **234,687** | **456,659** | **232,494** | **230,598** | **463,092** | **General Fund Total** |
| All Bills - Non General Fund Total | 41,951 | 58,489 | **100,440** | 46,369 | 54,230 | **100,599** | Non-General Fund Total |
| **All Bills - All Funds Total** | **263,923** | **293,176** | **557,099** | **278,863** | **284,828** | **563,691** | **All State Funds Total** |
| Non State Revenue - Fee Changes | 3,900 | 3,939 | **7,839** | 3,939 | 3,939 | **7,878** | Non-State Revenue |

House Fiscal Staff
8/24/2005