

# **The 2004-2005 Minnesota Budget A Fiscal Policy Review**

**State Government**



**Minnesota State Senate  
Office of Fiscal Policy Analysis  
G-9 State Capitol - Saint Paul, Minnesota**

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## State Government

### Overview

The Senate State Government Budget Division has jurisdiction over the judicial branch, constitutional offices, the legislative branch and a number of executive branch agencies, boards and commissions. The Senate budget division structure differs from the House structure, resulting in a conference committee jurisdiction that does not directly match up to the Senate jurisdiction. Agency appropriations for the 2004-05 biennium can be found in 2003 Laws of Minnesota, 1<sup>st</sup> Special Session, Chapter 1 and Chapter 2.

Direct Appropriations totaled almost \$1.305 billion for the FY 2004-05 biennium. Table 1 details the individual funds from which appropriations are made from. Table 2 shows the sources of funding for the Senate State Government Division.

<b>Table 1</b>			
<b>State Government Budget</b>			
<b>Total Direct Appropriations by Fund</b>			
<i>(000s of dollars)</i>			
<b>Fund</b>	<b>FY 2004-05 Base</b>	<b>FY 2004-05 Appropriation</b>	<b>Percent Change from Base</b>
General	1,295,846	1,204,488	-7.1%
State Government Special Revenue	52,700	56,660	7.5%
Special Revenue	10,536	15,050	42.8%
Health Care Access	4,056	3,564	-12.1%
Environmental	698	1,054	*
Solid Waste	1,368	*	*
Remediation		968	*
Highway User Tax	4,474	4,194	-6.3%
Workers Compensation	17,893	16,085	-10.1%
Trunk Highway	722	722	0.0%
Petroleum Tank Cleanup	2,168	2,168	0.0%
<b>total</b>	<b>1,390,461</b>	<b>1,304,953</b>	<b>-6.1%</b>

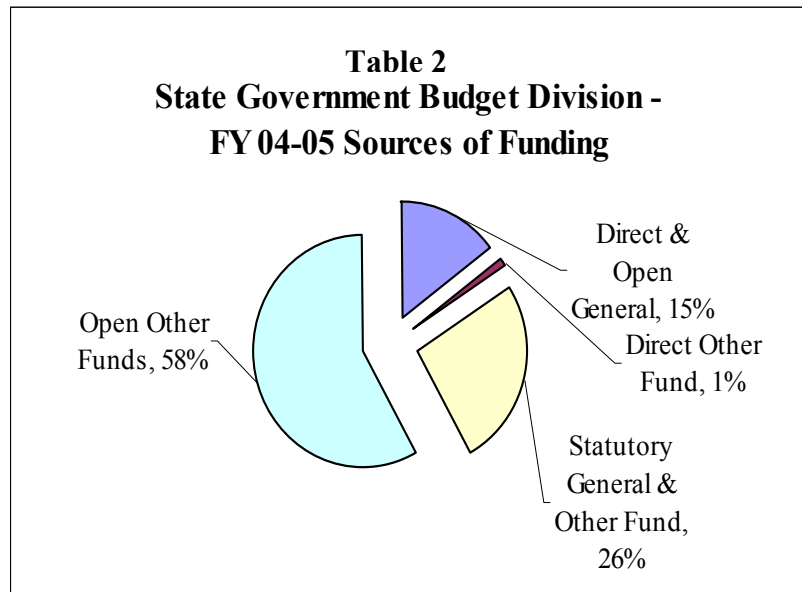
\* PCA Fund Consolidation see Environment & Agriculture Budget Section

Direct Other Fund includes such funds as Special Revenue, Workers Compensation, Petroleum Tank Release Cleanup, Environmental, Remediation, Highway User Tax and State Government Special Revenue. These funds are mainly appropriated to the Attorney General, Department of Revenue, Department of Administration, Department of Commerce and Office of Administrative Hearings.

Statutory General and Other Funds includes Federal, State Government Special Revenue, Gift, State Employee Insurance, Agency, Internal Service and Administrative Hearing funds.

Open Appropriation funds other than general fund include the Lottery Cash Flow, Pension, Investment Board and Petroleum Tank Release Cleanup funds.

Each section will mainly focus on the direct appropriations from the General Fund made in the 2003 session. Percentages of cuts are taken against the agency base level of funding tracked for the FY 2004-05 biennium in the February 2003 forecast. The Legislature made a number of specific and across the board cuts in the 2002 session that included one time cuts for the FY 2002-03 biennium and cuts that were permanent and reduced the amount tracked for the FY 2004-05 base. The cuts of the 2002 session and the one-time FY 2003 unallotment by the Governor in January 2003 will not for the most part be discussed.



First Special Session, Chapter 1 contained provisions that affect all state agencies, most significantly was the \$17.581 million general reduction to be allocated among state agencies and constitutional offices. This is discussed in greater detail later in this document.

### Judicial Branch

A total of nearly \$464 million was appropriated to the Supreme Court, Court of Appeals and District Courts for the FY 2004-05 biennium. This represents an overall reduction of 2.8%. In the Governor's budget, a reduction of 15% was recommended. Table 3 shows the appropriation to each of the different courts.

**Table 3  
State Government Budget  
Total Direct General Fund Appropriations to the Judicial Branch  
(000s of dollars)**

<b>Court</b>	<b>FY 2004-05 Base</b>	<b>FY 2004-05 Appropriation</b>	<b>Percent Change from Base</b>
Supreme Court	77,248	75,918	-1.7%
Court of Appeals	16,279	15,951	-2.0%
District Courts	383,859	371,920	-3.1%
<b>total</b>	<b>477,386</b>	<b>463,789</b>	<b>-2.8%</b>

In order to minimize the level of cuts, the Legislature did increase a number of court related fees as shown in Table 4. These fees are deposited in the General Fund as non-dedicated receipts.

<b>Table 4</b>					
<b>State Government Budget</b>					
<b>Court Fee Increases</b>					
<b>Last Increase</b>	<b>Stat. Reference</b>		<b>Current \$ Fee</b>	<b>New Fee</b>	<b>FY 04-05 Revenue</b>
<i>See below</i>	<i>See below</i>	Court Administration Fees	<i>See below</i>		15,238
2002 - \$13	357.021, subd. 2(1)	Civil Filing Fee	\$135	\$235	22,265
2002 - \$10	357.022	Conciliation Ct Filing Fee	\$25/\$35	\$50	1,469
1995	357.08	Appellate Filing Fee	\$250	\$500	726
Newly created fee		Motion Fee to be applied in civil & family cases	\$0	\$55	3,603
					<b>43,301</b>
<b><i>Court Administration Fees</i></b>					
1986	357.021, subd. 2(3)	Subpoenas	Increase from \$3 to \$12		
1990	357.021, subd. 2(5)	Judgment Transcripts	Increase from \$7.50 to \$30		
1990	357.021, subd. 2(10)	Deposit of wills	Increase from \$5 to \$20		
1990	357.021, subd. 2(4)	Executions	Increase from \$10 to \$40		
1990	357.021, subd. 2(9)	Trust Reports	Increase from \$10 to \$40 per report.		
1993	357.021, subd. 2(11)	Record notarial fees	Increase from \$20 (state), \$5 (county) to \$80/\$20		
<b>NOTE: all fees deposited in General Fund as non-dedicated receipts</b>					

The funding and management of the district courts is in the process of moving from the counties to the state. This change began in 1989 with a phased transfer of certain functions and pilot project in the 8<sup>th</sup> Judicial District. This shift continued throughout the 1990's. In 2000, the 5<sup>th</sup>, 7<sup>th</sup> and 9<sup>th</sup> Judicial Districts' funding was taken over by the state. The 2001 Omnibus Tax bill set forth the schedule for the remaining six judicial districts to become the responsibility of the state. Districts 2 and 4 are taken over in 2003, Districts 1 and 3 in 2004 and Districts 6 and 10 in 2005. The state takeover has resulted in large spending increases for the state. The net impact on the state budget is lessened due to county fine revenue being shifted to the state and county Homestead and Agricultural Credit Aid (HACA) payments being reduced.

The legal professional regulatory boards established by the Supreme Court receive no general fund dollars but rather operate on dedicated fees generated by each board. The boards are: Continuing Legal Education, Lawyers Professional Responsibility, Legal Certification, Client Security and Law Examiners.

### **Constitutional Offices**

The Offices of the Governor, Attorney General, State Auditor and Secretary of State were each cut approximately 15 percent across the board to be implemented at the discretion of each office. Table 5 shows the appropriation to each office.

**Table 5**  
**State Government Budget**  
**Total Direct General Fund Appropriations to Constitutional Offices**  
*(000s of dollars)*

<b>Office</b>	<b>FY 2004-05 Base</b>	<b>FY 2004-05 Appropriation</b>	<b>General Reduction*</b>	<b>FY 2004-05 Available</b>	<b>Percent Change from Base</b>
Governor	8,436	7,172	-67	7,105	-15.8%
Attorney General	53,328	45,118	-422	44,696	-16.2%
State Auditor	19,544	16,612	-155	16,457	-15.8%
Secretary of State	14,052	11,944	-112	11,832	-15.8%
<b>total</b>	<b>95,360</b>	<b>80,846</b>	<b>-756</b>	<b>80,090</b>	<b>-16.0%</b>

\*Allocation of \$17.581 million general reduction to state agencies/constitutional offices in Chapter 1

In addition to a direct general fund appropriation, the Office of the Attorney General receives payment from partner agencies, which are agencies that have contracts providing for certain legal services from the Attorney General's office. The amount estimated to be collected in the FY 2004-05 biennium is \$14 million. \$210,000 was shifted from a direct general fund appropriation to fee-based for two agencies (Gambling Control Board and Racing Commission) that will be transitioned to fee-based operations.

A change in employment of additional legal counsel was made in MS 8.06 that allows the Governor to employ legal counsel other than the Attorney General if in the Governor's opinion the public interest requires such action if the Attorney General is in any way interested adversely to the state. Previously, this statute provided for employment of additional legal counsel with the approval of the Attorney General, Governor and the Chief Justice.

The Office of the Secretary of State requested an increase in fees that are charged and the dedication of the proceeds to special revenue revolving account. The legislature did not include this request in the final bill.

The Help America Vote Act (HAVA) account was established in separate legislation (Laws of 2003, First Special Session, Chapter 7). This account allows the state to receive federal funds authorized under Public Law 107-252. The act appropriated \$6.5 million in federal funds to the Secretary of State to carry out the requirements of HAVA. No general fund dollars were appropriated as matching funds; it is anticipated that up to \$1.75 million in previously expended state and local funds will meet the initial match requirements of the federal program.

The duty of undertaking best practices review for local government services was transferred from the Legislative Auditor to the State Auditor effective July 1, 2004. The office received no additional appropriation for this duty but is allowed under MS 477A.014 Subd. 4 is able to count the cost of this work towards the existing limit of \$217,000 it may bill the Commissioner of Revenue for, that is subtracted from the total amount available for local government aid payments.

A number of changes were made in statute that impact the State Auditor’s audit division’s auditing of counties such as expansion of private certified public accountants to conduct audits.

The duties of the State Treasurer, an office which was abolished by constitutional amendment effective January 2003, were transferred to the Department of Finance. The statutory changes making this change are found in Laws of 2003, Chapter 112.

**Legislature**

A total of \$116.4 million was appropriated to the Legislature for its operations, representing a 10.2 percent decrease from the base. Table 6 shows the breakout.

<b>Table 6</b>			
<b>State Government Budget</b>			
<b>Total Direct General Fund Appropriations to the Legislature</b>			
<i>(000s of dollars)</i>			
	<b>FY 2004-05 Base</b>	<b>FY 2004-05 Appropriation</b>	<b>Percent Change from Base</b>
House of Representatives	56,816	51,986	-8.5%
Senate	42,460	38,638	-9.0%
Legislative Coordinating Commission	29,480	25,056	-15.0%
Legislative Television - transfer in	846	720	-14.9%
<b>total</b>	<b>129,602</b>	<b>116,400</b>	<b>-10.2%</b>

The largest reduction in funding was to the Legislative Coordinating Commission (LCC) with an overall 15 percent reduction. Included in this reduction was the elimination of the Geographic Information Systems (GIS) office. This office provided technical support for the 2000 redistricting efforts. Savings from this cut totaled \$618,000. The remaining reduction was allocated across the LCC offices, which include the Legislative Auditor, the Revisor of Statutes, the Legislative Reference Library, and various other smaller commissions.

The base level funding of \$720,000 for televised transmission of legislative activities was transferred from the Department of Administration to the LCC.

**Executive Branch State Agencies**

Table 7 shows the appropriations and reductions from the base to executive branch state agencies under the jurisdiction of the Senate State Government Budget Division.

**Table 7**  
**State Government Budget**  
**Total Direct General Fund Appropriations to Executive Branch Agencies**  
*(000s of dollars)*

<b>Agency</b>	<b>FY 2004-05 Base</b>	<b>FY 2004-05 Appropriation</b>	<b>General Reduction*</b>	<b>FY 2004-05 Available</b>	<b>Percent Change from Base</b>
Administration <sup>1</sup>	41,968	38,718			-7.7%
MN Planning	8,856	6,628			-25.2%
Admin/Planning <sup>2</sup>	50,824	45,346	-333	45,013	-11.4%
Commerce	52,874	47,587	-383	47,204	-10.7%
Employee Relations	14,402	12,376	-95	12,281	-14.7%
Finance	35,802	30,432	-282	30,150	-15.8%
Military Affairs	24,944	24,558	-72	24,486	-1.8%
Public Safety	156,129	138,486	-909	137,577	-11.9%
Revenue	181,366	182,870	-1,458	181,412	0.0%
Veterans Affairs	8,848	8,326	-43	8,283	-6.4%
<b>total</b>	<b>525,189</b>	<b>489,981</b>	<b>-3,575</b>	<b>486,406</b>	<b>-7.2%</b>

\*Allocation of \$17.581 million general reduction to state agencies/constitutional offices in Chapter 1

<sup>1</sup> excludes Public Broadcasting grants

<sup>2</sup> MN Planning transferred to Administration, Reorganization Order No. 188

Tables 8 and 9 provides information on transfers to the general fund and fee increases.

<sup>1</sup> Operating budget reduced \$4.584 million, 60% to General fund, 40% to Env & NR Trust Fund

**Table 8**  
**State Government Budget**  
**General Fund Transfers - Gain/(Loss)**  
*(000s of dollars)*

<b>Agency</b>	<b>Item</b>	<b>FY 2004-05</b>
Administration	Facilities Repair & Replacement Fund	10,700
	Sale of State Land	5,505
Commerce	Building Contractors Recovery Fund	2,500
	Revenue Offset Loss Due to Agency Cuts	-1,486
	Sale of Unclaimed Property	9,000
	Liquified Petroleum Gas Account	500
Employee Relations	SEGIP Insurance Trust Fund Reserve	23,000
Human Rights	Loss of Federal Revenue	-200
Investment Bd	Loss of Service Billings Due to Cut	-434
Lawful Gambling Control Bd	Repay Transition Appropriation	202
State Lottery <sup>1</sup>	Five Percent Operating Budget Transfer	2,750
Peace Officers Standards Bd	Peace Officers Training Account	1,380
Public Safety	Criminal Justice Special Projects Account	4,340
Racing Commission	Repay Transition Appropriation	104
Revenue	New Compliance Initiatives	59,838
<b>total</b>		<b>117,699</b>

**Table 9**  
**State Government Budget**  
**Fee Increases**  
*(000s of dollars)*

<b>Agency</b>	<b>Fee Name</b>	<b>Fund</b>	<b>FY 2004-05 New Revenue</b>
Administration	911 Fee	Special Revenue	10,068
	G/HVAC Surety Bond Filing Fee	Special Revenue	37
Amateur Sports Commission	Recover Operating Costs	General	450
Campaign Finance Board	Lobbyist Fees	General	420
Commerce	Weights & Measures Fees	General	506
Lawful Gambling Control Bd <sup>1</sup>	License & Regulatory Fees	General	-1,677
		Special Revenue	5,802
Human Rights	Certificate of Compliance Fee	Special Revenue	60
Public Safety	Criminal History Data Internet	General	1,663
	Criminal Justice Data Network Fee	General	158
		Special Revenue	316
	Fire Protection Certification Exam	Special Revenue	12
	Fire Safety Inspections-Schools	Special Revenue	1,144
	Fire Safety Inspections-Hotel/Motel	Special Revenue	1,040
	Indoor Fireworks Inspection Fee	General	8
	Retail Buyer Card Liquor License	General	186
	Personal Protection Act-Backgrd Checks	General	1,275
	Racing Commission <sup>1</sup>	Racing & Card Playing Fees	General
Special Revenue			842
Revenue	Internal Revenue Service Levy Fees	Special Revenue	64
	Paper Filing Fee	General	2,000
	Revenue Recapture Fee	General	816
		Special Revenue	334
	Board of Assessors Fees	General	50
Tax Court	Linked Bingo Fees	General	496
	Small Claims Fee	General	15
<b>total</b>			<b>25,815</b>

<sup>1</sup>Moved to fully fee-supported, current fees deposited in special revenue fund rather than general fund

**Note:** Court Fees shown in Table 4

### Department of Administration

The Department of Administration is appropriated \$38.7 million from the general fund for operations. This represents an 7.7 percent decrease from the base. Included in this amount is \$15.8 million for in-lieu-of-rent, which was not reduced from the base. In-lieu-of-rent is a pass-through account for areas that do not enter into a lease agreement with the Plant Division of the agency. The appropriation covers ceremonial space in the Capitol Building, the Capitol grounds and memorials, the Governor's Residence, space occupied by blind vending operators, rent for the Legislature and Congressionally chartered veteran organizations. If in-lieu-of-rent is included the department's overall



operating budget reduction is 12.4 percent. (These percentages do not take into account the \$17.581 general reduction allocated to all state agencies that was contained in Chapter 1) Significant changes made in each division of the Department of Administration are discussed below.

### *Operations Management*

The general fund appropriation in this division covers costs associated with the delivery of centralized procurement services and mail. The remaining functions in this division are support services to state agencies that include purchasing programs, mail service, bookstore, vehicle leasing and sale of surplus property. These functions are operated as enterprise or internal service funds that are supported through fees charged to state agencies.

Language was included in Chapter 1 to allow the department to close PrintComm, the state's central duplicating and print shop. PrintComm operated as an internal service fund. PrintComm was first closed in 2002 due to operating losses. A court order forced the operation to be reopened when employee unions argued that state law required the department to operate a central printing and duplicating service.

MS 16C.10, Subd. 7, was amended to allow the use of reverse auctions for engineering design and computer services. Previously state agencies were only allowed to use reverse auctions for the purchase of goods. A reverse auction is very similar to E-Bay where in the state's case vendors compete in a real-time auction to determine the lowest bid. While dollar savings are anticipated, no dollar amount of savings was tracked.

### *Office of Technology*

Chapter 1 repealed the Technology Enterprise Fund (TEF), which was created by the 2001 legislature. This fund was to have sunset at the end of FY 2005. The majority of the dollars in TEF were appropriations from the general fund for specific projects that are now complete and a smaller amount of special revenue dollars for the medical boards' technology upgrades. Approximately \$17,000 in unspent general fund dollars and \$38,000 in special funds remain that will be placed in a "holding account" created by the Department of Finance to allow the legislature consideration of reauthorization in the 2004 session.

North Star, the state's web portal, has provided web services to agencies without charge since inception. The Office of Technology has received an appropriation of \$468,000 a year to cover costs. In 2001, North Star services moved to InterTech with the goals of increasing functionality, having state rather than outside management and the expanding funding options. InterTech has the ability to charge agencies for services. MS 16E.07 Subd. 6 allows for the charging of fees to governmental units for technical and transaction fees. Fees have not been charged to date, but likely will be implemented in FY 2005.

### *Intertechnologies Group (InterTech)*

All remaining general fund appropriations for the communications center (state operators) were eliminated, for a savings of \$764,000.

InterTech's remaining computer services and telecommunications management services are operated as internal service funds with state agency reimbursements. In the FY 2004 business plan approved in July of 2003, InterTech is projecting annual revenues of nearly \$79 million in FY 2004. This forecast represents a 5 percent decrease in annual revenue. Overall, rates charged to agencies are reduced by 7 percent for the same period. The FY 2005 rates and revenue projections will not be approved until June 2004. Business plans and proposed rates for each Internal Service Fund are prepared and presented to the Department of Finance for approval. This approval occurs after the presentation of the Governor's budget and conclusion of the legislative session so numbers may not exactly match those presented during the legislative session.

### *Facilities Management Bureau*

This division includes general fund appropriations for real estate management, plant management, in-lieu-of-rent and building construction.

Real Estate Management received a one-time \$500,000 increase in funding to deal with state agency relocation costs resulting from reduced and changing space requirements of state agencies due to the downsizing of budgets and reorganization of state programs.

The Building Codes and Standards activity is funded through building permit and construction permit fees. The estimated budget activity for the biennium is estimated to \$13.7 million.

Plant Management operates as an internal service fund to provide facility services to state agencies located in buildings under the custodial control of the Department of Administration. Estimated FY 2004-05 revenues for this fund are \$78.6 million. The Department of Administration is reducing lease rates charged to state agencies overall by 8.16 percent and .01 percent in FY 2005. The lease rates have been approved by the Department of Finance.

Parking and bus pass rates were increased by the department, under existing statutory authority, 25 percent effective July 30, 2003. This increase was implemented to meet increased costs due to debt service payments on the bonds associated with the parking ramp to be constructed in conjunction with the new Department of Human Services building; increased Metropass (bus) costs; reduction in parking revenue due to elimination of three surface parking lots where new buildings will be constructed and reduced state employee and agency parking contracts. Operating expenses have also been reduced. Future increases in rates will be needed to fully meet the financial obligations of the agency. The department has convened a task force to explore potential funding options with the goal of reducing upcoming parking rate increases. It is

expected that recommendations will be forwarded for consideration of the legislature during the 2004 session.

\$10.7 million was transferred to the general fund from the Facilities Repair and Replacement (FR&R) special revenue account. \$6.6 million of the amount is a permanent diversion to the general fund and \$4.1 million is a one-time transfer. After these transfers, \$2.5 million remains in the account. The FR&R account was established in 1997, and expanded in the 1999 session, to provide dollars for asset preservation projects in the Capitol complex. The account is funded through a portion of state agency lease payments attributed to depreciation and bond interest. The transfers in Chapter 1 amount to approximately 80 percent of the projected FY 2004-05 receipts. Because of these transfers, some asset preservation projects will be delayed and additional requests for funding in the capital budget may be made.

### *Management Services*

General fund appropriations cover administrative, fiscal and human resources functions of the agency in addition to the state archaeologist, data practice advisory opinions, and the state's internal management consulting group known as the Management Analysis Division (MAD). While MAD does receive a general fund appropriation, it operates primarily on fees paid by state agencies for its services. MAD's consulting rates for FY 2004 will remain the same as FY 2003.

### *911 Emergency Telecommunications Systems*

Responsibility for the 911 emergency telecommunications program is transferred from the Department of Administration to the Department of Public Safety. This transfer is to take place no later than January, 2004. The maximum level for the 911 fee is also increased seven cents (from 33 to 40 cents). Beginning in FY 2005, the additional seven cents is dedicated for debt service on bonds to finance expansion of the public safety radio system to Rochester and Saint Cloud.

Total funding for the 911 program is \$47.5 million for the biennium. Fee collections are deposited in the 911 special revenue fund and appropriated by the Legislature. Included in this amount is \$15.5 million in funding for the public safety answering points (PSAPs) and \$150,000 for a study of the feasibility of consolidating PSAPs. According to the Department of Administration's Statewide 911 Emergency Telephone Service Program Report issued in March 2003, a funding shortfall may occur by the end of FY 2005. Even with the increase in the fee, this shortfall is still likely.

### *Department of Commerce*

A number of non-petroleum inspection fee increases were approved within the Weights and Measures division to cover the cost of inspections. The fees were last increased in 1996. All revenues are deposited in the general fund and a general fund appropriation is made to cover the costs. MS 239.101 requires fees to cover the cost of inspections. With

the \$253,000 annual increase, the non-petroleum inspection fees are projected to bring in slightly more than \$1.6 million in FY 2004.

The weights and measures division received a \$527,000 appropriation for FY 2004 in the Transportation budget bill (Laws of 2003, Chapter 19, Article 1, Sec. 7 & 8). This appropriation is from the Petroleum Tank Release Cleanup Fund and will be used to continue gas station pump inspections which the Governor had recommended be privatized.

Two one-time transfers to the general fund were approved. \$2.5 million was transferred from the surplus balance of the Building Contractor's Recovery Fund. This fund was established to compensate aggrieved owners or lessees of residential property who have obtained a final judgment against a licensed building contractor on grounds of fraudulent, deceptive or dishonest practices or failure to perform. \$500,000 from the surplus in the liquefied petroleum gas account was transferred to the general fund also.

\$9 million in additional one-time revenue to the general fund is expected from the sale of previously unaccounted for unclaimed property. A financial audit released by the Legislative Auditor in March, 2003, cited unclaimed mutual fund shares and stocks in dividend reinvestments plans that had accumulated for several years but had not been reported for inclusion in the state's financial statements.

Extension of the sunset date to 2005 and changes related to the Department's Petroleum Tank Release Cleanup program were contained within the Environment, Natural Resources, Agriculture and Economic Development budget bill (Laws of 2003, Chapter 128, Articles 13 & 14.).

#### Department of Employee Relations

The Department of Employee Relations (DOER) plans to achieve general fund budget reductions through professional and support staff reductions (15.5 FTE), elimination of the Government Training Services grant, and state support for the Combined Charities campaign.

The agency plans to reduce the amount charged to the legislative, executive and judicial branches for administrative costs associated with the State Employee Insurance Program (SEGIP) and the Workers' Compensation program. The \$834,000 annual reduction in SEGIP billing will provide an administrative budget of nearly \$9.5 million for the FY 2004-05 biennium. The \$479,000 annual reduction in the administration budget for Workers Compensation will leave a budget of slightly more than \$6.5 million for the FY 2004-05 biennium.

\$23 million was transferred to the general fund from the contingency reserve in the employee insurance trust fund. This transfer is in addition to the \$11 million that was transferred in the FY 2003 unallotment process.

The contingency reserve is used to pay medical claims in excess of premiums. There is no statutorily required minimum balance in the reserve, however the transfers will leave less than two months of total anticipated claims. The current reserve was built up over 15 years and the result of investment income and general fund appropriations. Over the period, claims and revenues have been about equal. Historically, once every five years claims tend to exceed revenues by as much as ten percent. With projected claims in calendar year 2004 of \$420 million, a 10 percent deficit would require a one-year reserve of \$42 million. Before the \$23 million transfer the reserve balance was in the neighborhood of \$60 million. The federal government will require a refund based on its share of funds transferred to the general fund. Without additional language allowing a larger transfer from the reserve, this would have the effect of reducing the expected \$23 million transfer to the general fund. The Department of Finance and DOER are considering options to be considered in the 2004 session to address this issue.

DOER's oversight of the pay equity statute and reporting to the Legislature (MS 471.991-999) was retained. Proposals during the session suggested placement of this function within the State Auditor's office. However, changes in reporting dates provide that political subdivisions are not required to submit reports for 2003 and 2004, and beginning in 2005 a political subdivision must report no more frequently than once every five years.

#### Department of Finance

The Department of Finance is reducing rates charged to agencies for the use and support of the Statewide Administrative Systems, the state's accounting and payroll systems. The rate reduction of 8.8 percent, \$1.334 million, will provide the department with billing authority of \$13.706 million for the FY 2004-05 biennium.

#### Department of Military Affairs

Funding for enlistment incentives was provided at the base level of \$9.7 million, although \$500,000 in carry-forward funds from previous years' appropriations was cancelled.

#### Department of Public Safety

Seven programs within the Department of Public Safety fall within the jurisdiction of the Senate State Government Budget Division. These include: emergency management, criminal apprehension, fire marshal, alcohol & gambling enforcement, crime victim services, and law enforcement & community grants. The remaining programs are under the jurisdiction of the Transportation Budget Division.

The state match for federally funded disaster assistance was reduced by \$2.346 million leaving a balance of \$400,000 for the biennium.

The Bureau of Criminal Apprehension (BCA) budget was reduced by \$1.87 million in the areas of the criminal justice information system and police training and development activities. \$300,000 was provided one-time to allow the continued collection of DNA

samples from all convicted felons. A criminal history data internet website was established for \$1.612 million and will be supported by fees. A reallocation of funds within the BCA was required due to the rent increase of more than \$6.5 million for the new BCA building.

Cuts to the State Fire Marshall were partially offset by inspections fees and exam fees placed in a statutorily dedicated special revenue account. A task force was created to look at alternative fees and payment options related to hotel and resort fees. The task force is to report back to the Legislature with recommendations by January 2004.

The abused children's program funding was transferred (\$1.89 million for the biennium) from the Department of Education and funding was continued at the base level.

Within the Law Enforcement and Community Grants division, the gang strike force was reduced by \$3.07 million, leaving \$362,000 for the biennium, prevention grants were reduced \$1.192 million and \$83,000 from prevention grants was transferred for the peace officer death benefit account. The peace officer death benefit account falls within the portion of Public Safety under the jurisdiction of the Transportation Budget Division.

#### Department of Revenue

Compliance initiatives within the Department of Revenue were responsible for an overall increase in appropriations. However, the department's non-compliance related activities sustained a cut of slightly more than \$11.3 million, or 6.2%.

\$12.8 million is appropriated for new compliance initiatives to identify and collect tax liabilities from individuals and businesses that currently do not pay all taxes owed. It is estimated that this new initiative will result in slightly more than \$59.8 million for the biennium, netting the general fund \$47 million. As with previous initiatives, the department is to report back to the Legislature on performance.

During the 2001 and 2002 sessions, \$15.3 million was appropriated to the agency for compliance. These two initiatives are on target to realize new general fund revenues of \$59.3 million in FY 2002-03 and \$37 million in FY 2004-05.

#### Office of Strategic and Long Range Planning (MN Planning)

In addition to reductions of nearly \$2.3 million for the biennium, \$100,000 was provided for a one-time grant to the Northern Counties Land Use Board pilot project set in the 2002 session. The sunset date for the pilot project was extended from 2004 until 2005.

While dollars were appropriated directly to MN Planning in Chapter 1, Reorganization Order No. 188, issued in March 2003, transfers the functions, powers, duties and responsibilities to the Commissioner of Administration. Legislation is expected to be advanced during the 2004 session making this change statutorily.

## Department of Veterans Affairs

The \$550,000 base biennial appropriation for a contract with the Vinland Center for rehabilitation services was reduced to a one-time appropriation of \$350,000 for the biennium.

The County Veteran Service Office grant program will be impacted by a 60 percent reduction in dollars. The amount of each grant will be reduced by 30 percent and be awarded every three years instead of the current two years. State funding for the Minnesota StandDown, a homeless veterans event, was eliminated. A restructuring of the optical benefits program that allows benefits every other year instead of annually resulted in a small savings.

Unused funds from the Persian Gulf Program and a War Memorial in Park Rapids were cancelled to the general fund.

## **Boards, Councils, Commissions and Other**

Tables 8, 9 and 10 show the appropriations, percent reductions, and fee changes and transfers for boards, councils, commissions and other appropriation items under the jurisdiction of the Senate State Government Budget Division.

### Office of Administrative Hearings (OAH)

OAH does not receive a general fund appropriation but rather is appropriated dollars from the Worker's Compensation Special Fund for the workers compensation division. This division, which was received \$14.4 million for the biennium, is responsible for adjudicating claim petitions from injured workers. The appropriation represents a ten percent reduction from the base. The administrative law division of OAH operates on a statutorily dedicated revolving fund basis. Fees are collected from state agencies and local governments for administrative law judges and staff attorneys related to hearings on rulemaking and regulatory action. A ten percent cut to the administrative hearing fees were made in Chapter 1.

In order to meet the cuts in funding, language was stricken requiring a workers compensation settlement office in Detroit Lakes and mandatory retirement at age 70 for administrative law judges and compensation judges was added.

### Amateur Sports Commission (MASC)

MASC was appropriated \$1.05 million from the general fund for the biennium. Language was included with the appropriation that makes \$450,000 of this appropriation available only if offsetting fee revenues are generated and returned to the general fund as a non-dedicated receipt. MASC was instructed to develop a fee structure to recover this portion of the operating costs.

**Table 10**  
**State Government Budget**  
**Total Direct General Fund Appropriations Boards, Councils, Commissions and Other**  
*(000s of dollars)*

Agency	FY 2004-05 Base	FY 2004-05 Appropriation	General Reduction*	FY 2004-05 Available	Percent Change from Base
Accountancy Bd	1,442	1,154	-3	1,151	-20.2%
Amateur Sports Com	1,234	1,050	-5	1,045	-15.3%
Arch, Engineering Bd	1,962	1,570	-10	1,560	-20.5%
Asian-Pacific MN	608	486	-4	482	-20.7%
Barber Examiners Bd	318	254	-1	253	-20.4%
Black MN Council	704	564	-5	559	-20.6%
Campaign Finance Bd	1,364	1,424	-12	1,412	3.5%
Cap Area Arch Bd	654	524	-5	519	-20.6%
Chicano Latino Affairs	688	550	-5	545	-20.8%
Contingent Accounts <sup>1</sup>	0	1,000	0	1,000	0.0%
Disabled Am Veterans	26	26	0	26	0.0%
Human Rights	7,882	7,010	-59	6,951	-11.8%
Indian Affairs	1,204	964	-6	958	-20.4%
Investment Bd	4,816	4,334	-39	4,295	-10.8%
Judicial Standards Bd	504	504	0	504	0.0%
Lawful Gambling Control <sup>2</sup>	4,852	202	0	202	-95.8%
Military Ord Purple Heart	40	40	0	40	0.0%
Pension/Retirement					
Mpls Empl Retire (MERF)	13,264	13,264	0	13,264	0.0%
MN State Retire (MSRS)	10,895	5,245	0	5,245	-51.9%
Private Dective Bd	296	252	-2	250	-15.5%
Public Utilities Com	8,326	8,326	-68	8,258	-0.8%
Racing Commission <sup>3</sup>	834	104	0	104	-87.5%
Tax Court	1,502	1,452	-11	1,441	-4.1%
Tort Claims	322	322	0	322	0.0%
Uniform Laws Com	90	77	0	77	-14.4%
Veterans Foreign Wars	110	110	0	110	0.0%
<b>total</b>	<b>58,691</b>	<b>46,548</b>	<b>-213</b>	<b>46,335</b>	<b>-21.1%</b>

\*Allocation of \$17.581 million general reduction to state agencies/constitutional offices in Chapter 1

<sup>1</sup>2002 Legislature eliminated all funding resulting in zero base

<sup>2</sup>transition to fully fee-supported

The fees are likely to impact the three affiliated non-profit organizations that MASC oversees in addition to other entities served.. The affiliated organizations include the National Sports Center Foundation (NSCF), Star of the North State Games Foundation and the MASC Foundation. NSCF is largest of the three organizations with an annual operating budget of over \$9 million. The primary responsibility of NSCF is to operate



the state-owned National Sports Center in Blaine. The National Sports Center has shown an operating profit the last 12 years.

#### Campaign Finance and Public Disclosure Board

The Campaign Finance Board received an operating budget appropriation from the general fund of slightly over \$1.4 million. This represented an increase of \$60,000 over the FY 2004-05 base. The increase is intended to cover the Board's costs related to administering a new schedule of registration fees for lobbyists.

The proposal by the Governor to establish fees and fully offset the General Fund appropriation to the Board was substantially altered by the Legislature. New fees to be charged to lobbyists and principals were put in place. These fees sunset at the end of FY 2004 and are estimated to recover \$420,000 that will be deposited as a non-dedicated receipt in the general fund. To replace the sunset fees, the Board was instructed to develop an equitable schedule of fees to recover costs and present the recommended fee schedule to the 2004 legislature. The language required consultation with lobbyists, political committees, political funds, principal campaign committees and party units.

A portion of MS Chapter 10A was changed to amend the definition of a lobbyist to mean an individual engaged for pay or other consideration of more than \$3,000 from all sources for the purpose of attempting to influence legislative or administrative action. The new definition excludes certain individuals who volunteer personal time to work on a lobbying campaign, and individuals who provide administrative support to a lobbyist but who do not communicate with public or local officials.

#### Electricity Board

The Electricity Board collects revenues for electrical examinations, licensing and inspection charges which are deposited in a statutory dedicated special revenue account. The board receives no general fund appropriation.

#### Lawful Gambling Control Board

The Governor's proposal to transition the Lawful Gambling Control Board from a general fund appropriation to a fully-fee supported operation was approved. The Legislature modified the Governor's proposal, which included a 0.18 percent fee on gross receipts of charitable gambling operations. The modified fee schedule raises the license fees for manufacturers, distributors, and bingo halls and establishes new fees for distributor salespersons and organizations, in addition to creating a monthly regulatory fee of 0.1% of gross receipts. The fees are estimated to bring in revenue of fully cover the Board's annual budget of slightly over \$2.5 million.

A one-time general fund appropriation for FY 2004 was made for cash flow purposes as the board transitions to fee-based funding. The \$202,000 from the general fund must be reimbursed by the end of the biennium.

## Minnesota State Lottery

The lottery is not subject to the state appropriation process and operates outside the state treasury with its funding coming from lottery proceeds. State statute limits the overall operating budget of the Lottery to no more than 15 percent of gross revenues.

In a change from past practice, Chapter 1 restricts the Lottery's FY 2004-05 operating budget to a specific funding level. A spending cap not to exceed \$43.538 million per fiscal year is included in session law. The cap represents a five percent decrease from the Lottery's projected operating expenditures for the biennium. The savings are split 60 percent to the general fund (\$1.375 million per year) and 40 percent to the Minnesota environment and natural resources trust fund (\$917,000 per year).

The distribution of unclaimed prize funds was changed. Previously, 30 percent of unclaimed prize funds were returned to the prize pool, and the remaining funds were distributed 60 percent to the general fund and 40 percent to the Minnesota environment and natural resources trust fund. The distribution is now 100 percent of all unclaimed prizes at the end of the fiscal year are transferred to the general fund, resulting in an additional \$9.2 million. With this change, the Minnesota environment and natural resources trust fund loses \$4.4 million.

A report issued by the Minnesota Center for Environmental Advocacy (MCEA) during the session was critical of the Lottery's administrative expenses and low return as compared to other states. Lottery officials disputed the findings of the report. Given the attention this issue received during the 2003 session, the Legislative Auditor is conducting a program evaluation that considers the Lottery's efficiency, among other things.

## Minnesota Racing Commission

The Governor's proposal to transition the Racing Commission to a fully fee-supported operation was approved. In place of a general fund appropriation, the Commission is instructed to impose fees on the racing and card playing industries to recover the costs of the Commission's operations. Fees on all classes of racing were also raised. An annual appropriation from the racing and card playing regulation account in the special revenue fund in the amount of \$421,000 replaces the previous general fund appropriation.

A one-time general fund appropriation for FY 2004 was made for cash flow purposes as the Commission transitions to fee-based funding. The \$104,000 from the general fund must be reimbursed by the end of the biennium.

## Peace Officer Standards & Training (POST) Board

The POST Board is funded through a special revenue account from a \$25 surcharge on certain criminal and traffic offenses. A biennial appropriation of \$7.886 million was

made to the board. This is a reduction to the base of \$1.38 million which was then transferred to the general fund.

### Public Broadcasting

Overall Public Broadcasting appropriations were reduced slightly over 31 percent. Grant dollars for the biennium were appropriated as follows: public television received \$1.152 million, public radio received \$1.016 million, and Twin Cities Regional Cable Channel received \$34,000. This appropriation is made through the Department of Administration.

### Public-Local Employee Retirement

Three public retirement programs fall under the jurisdiction of the Senate State Government Budget Division and receive either direct or open general fund appropriations.

Minnesota State Retirement System (MSRS) is appropriated \$5.2 million for the FY 2004-05 biennium for benefits paid to former legislators and elected officials (those on the pre-1997 plan). The Governor's recommendation to move the Legislator's retirement plan to an annually funded program, funding only each year's expected benefit amount, instead of the full lifetime benefit, was adopted. This change resulted in a reduced appropriation of \$5.65 million over the biennium. The change, however, will increase the time that the state needs to continue funding this retirement plan. The funding source is an open appropriation so MSRS would always be able to access funds needed to pay benefits. This change does not impact benefit levels for retirees. Legislators and constitutional officers elected after July 1, 1997 are included in the MSRS unclassified plan, a defined contribution plan, and are also not affected.

The First Class Cities Teachers Retirement Association is appropriated \$37.5 million from the general fund under statutory open appropriation authority. These dollars are used to reduce the unfunded liabilities of the Minneapolis and St. Paul teacher retirement funds.

The Minneapolis Employees Retirement Fund (MERF) is appropriated \$13.3 million for the biennium to reduce the plan's unfunded liability.

### **Provisions Affecting All Agencies**

#### General Appropriation Reduction

Chapter 1 directed the Commissioner of Finance to reduce general fund appropriations to state agencies, including constitutional offices, by \$17.581 million for the biennium. The reduction to the Minnesota State colleges and Universities (MnSCU) was limited to not more than \$2.5 million. The across the board cuts are one-time and apply to only the FY 2004-05 biennium. On October 6, 2003, the Department of Finance sent out a

memorandum (see Appendix 1) detailing how these reductions were allocated by agency and program.

The 2002 legislature directed similar one-time across the board cuts, however these cuts were tied to savings to be achieved from a salary freeze and a moratorium on professional and technical contracts. The \$58 million was allocated to agencies and only impacted the FY 2003 budget.

#### Sale of State Land

Chapter 1 requires the Commissioner of Administration to sell at least \$5.505 million worth of state land by the end of the biennium. Proceeds from the sale are to be deposited in the general fund. If the total amount of sales are less than \$5.505 million, the Governor must allocate the reductions to the general fund operating budgets of executive branch agencies.

#### Carry Forward of Funds

Chapter 112 of the regular session contained a provision that allows the judicial and executive branches to carry forward funds encumbered for severance costs, unemployment compensation costs, and health, dental, and life insurance continuation costs resulting from state employee layoffs during FY 2003 until January 1, 2004. Current statutory language allows the Legislature to carry forward funds from one biennium to the next.

#### **Employee Health Insurance Costs**

The Department of Employee Relations' State Employee Group Insurance Program (SEGIP) is responsible for administering fringe benefits for employees of the executive, judicial, and legislative branches of state government. Approximately 48,000 employees are covered which translates to approximately 120,000 covered lives (employees plus dependents).

In 1989, SEGIP helped pioneer the health care delivery and financing concept of "managed competition" among competing health plans. Beginning in 2001, SEGIP's health benefits program became fully self-insured. In 2002, the current Advantage program was implemented. Advantage makes use of a three-tiered cost structure to contain costs and provide incentives while still maintaining choices, options and a large network of health care providers statewide.

The cost per employee for health insurance has more than doubled in the last six years. In 1997, the average cost to the State per employee per year was \$3,260. By 2003, the cost increased to \$7,485. The total projected cost of employee health benefits in FY 2003 is \$334.64 million. This cost is borne by individual agency budgets. If the medical plan were to remain the same as in FY 2003, the projected increase for the FY 2004-05 biennium would be \$138.3 million. With the changes in the recent contract agreement

with AFSCME and MAPE, the additional cost over FY 2003 for the next biennium is projected to be \$74 million. Changes include a 15 percent employee contribution to dependent coverage; the addition of a fourth cost level; guaranteed access at level 2; and changes in deductibles, copays, coinsurance, and out of pocket maximums.

### State Government Employment

At the end of the first quarter of FY 2004, State Government full-time equivalent (FTE) totaled 33,289. This represents a decline of 1,160 FTE or -3.4 percent for the same period in FY 2003. State Government FTE employment includes the executive and judicial branches but does not include the legislature, University of Minnesota, or Minnesota State Colleges and Universities (MnSCU). Table 11 shows the changes in employment from FY 2001.

<b>Fund</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>FY 2003-04 % Change</b>	<b>FY 2001-04 % Change</b>
General	16,184	16,266	15,321	14,389	-6.1%	-11.1%
Other	18,746	18,996	19,128	18,899	-1.2%	0.8%
<b>Total</b>	<b>34,930</b>	<b>35,262</b>	<b>34,449</b>	<b>33,288</b>	<b>-3.4%</b>	<b>-4.7%</b>

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