Summary of the Fiscal Actions of the 2008 Legislature

Money Matters 08.07
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Fiscal Analysis Department
Minnesota House of Representatives

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Budget Changes – 2008 Session

The February 2008 general fund budget forecast projected a $934.6 million budget deficit for the FY 2008-09 biennium. Dealing with that deficit was the focus of budget deliberations during the 2008 legislative session. After the 2008 legislative session, the FY 2008-09 biennium is now projected to end with a $6 million balance.

The February 2008 budget forecast projected a deficit for the FY 2010-11 biennium of $1.086 billion. That projection includes no amount for general inflationary increases in program appropriations. The Legislature was not required to balance the FY 2010-11 budget in the 2008 session but any changes that reduced the projected FY 2010-11deficit in the 2008 session would reduce the potential budget problem facing the Legislature in the 2009 session. After the 2008 legislative session, the current projection is that the 2009 Legislature will face a $945 million deficit for the FY 2010-11 biennium.

Table 1 illustrates the general categories of changes enacted to resolve the FY 2008-09 budget problem.

2008 Session Budget Summary
(dollars in millions)

	FY 2008-09	FY 2010-11
Budget Problem	**-935**	**-1,086**
Additional Spending	-142	-355
Spending Reductions	267	351
Transfers From Other Funds	122	4
Non-Tax Revenues	53	76
Tax Revenues	140	64
Budget Reserve	500	0
Balance	**6**	**-946**

Additional spending increases of $142 million increased the size of the budget problem. Major spending increases included $43.8 million for an increase in funding for school districts, $38 million for compensation related to the I-35W bridge collapse, $16.1 million in debt service and capital bill appropriations, and $6.2 million related to managing and eliminating bovine tuberculosis.

Spending reductions totaled $267 million. The greatest reductions were in the Health and Human Services area with $177 million of reductions.

Transfers into the general fund from other funds accounted for $122 million. The largest transfer is $50 million from the health care access fund. Other transfers include $15 million from the airports fund and $14.9 million from the worker's compensation assigned risk plan.

Non-tax revenue changes contributed $53 million. Major items in this category included $21 million from increased tax compliance and $20.5 million from the repeal of a cap on the mutual fund registration fee.

New tax revenue accounted for $140 million. Of this, $109 million was from changes in taxing foreign operating corporations (FOCs).

The single largest item used to resolve the budget problem was a $500 million transfer from the $653 million budget reserve.

A number of changes made in FY 2008-09 carry forward into FY 2010-11. The budget problem of $1.086 billion projected in the February 2008 forecast was reduced by $140 million. The FY 2010-11 projected deficit is now $946 million. This amount does not build in inflationary costs in spending except for a few programs that have inflationary increases built into their funding formulas.

Budget Changes in Various Bills

General fund budget changes were enacted in 15 bills in the 2008 session. Table 2 lists those bills and the net fiscal effects of those bills on the general fund.

Bills with General Fund Impact Enacted in 2008

Dollars in thousands

	FY 2008	FY 2009	FY 08-09	FY 2010	FY 2011	FY 10-11
Chapter 152 - Transportation		3,175	3,175	35,725	45,765	81,490
Chapter 154 - Taxes	8,240	-8,240	0	-13,522	13,111	-411
Chapter 155 - Deficiencies	175		175			
Chapter 179 - Capital Expenditures	14,432	1,105	15,537	6,137	18,906	25,043
Chapter 226 - Claims		86	86			0
Chapter 232 - TANF Maintenance of Effort			tracked in HF 1812			0
Chapter 248 - Mesotheleoma Study		0	0			0
Chapter 274 - Bovine Tuberculosis	3,822	2,402	6,224	2,252	2,252	4,504
Chapter 288 - Bridge Victims Compensation	38,000	0	38,000			0
Chapter 357 - Natural Resources		8	8	-29	-29	-58
Chapter 358 - Health Care Reform		-3,657	-3,657	-8,855	-8,163	-17,018
Chapter 363 - Budget Balancing	-67,463	-792,254	-859,717	-164,999	-130,355	-295,354
Chapter 365 - Bonding 2		572	572	3,532	11,512	15,044
Chapter 366 - Taxes 2	0	-141,038	-141,038	16,037	30,105	46,142
Chapter 368 - Game & Fish, Lands		-14	-14	330	330	660
Total Changes	**-2,794**	**-937,855**	**-940,649**	**-123,392**	**-16,566**	**-139,958**

Budget Changes by Program Area

Table 3 shows the 2008 budget changes by fiscal area and bill. Spending changes are listed for each committee and revenue changes are listed for each area that has revenue changes. Each of the committee area sections of this document explains the changes in that area. (The fiscal committee areas are in the structure used for conference committee and do not necessarily line up with the House fiscal committee structure.)

2008 Session General Fund Fiscal Tracking
(dollars in thousands)

Changes from Forecast Amounts - Based on February 2008 Forecast and 2008 Session Actions.
A positive spending number is a cost, a positive revenue number is a revenue loss or cost.

	FY 2008	FY 2009	FY 08-09	FY 2010	FY 2011	FY 10-11
Education						
Spending Change - Chapter 363	-800	26,542	25,742	20,143	28,423	48,566
Education Total	**-1,216**	**26,958**	**25,742**	**20,143**	**28,423**	**48,566**
Higher Education						
Spending Change - Ch 363	-7,150	-14,501	-21,651	-16,761	-16,761	-33,522
Revenue Change - Ch 363		-118	-118			0
Spending Change - Mesotheoloma Study, Ch 248	4,900		4,900			0
Revenue Change - Mesotheoloma Study, Ch 248	-4,900		-4,900			0
Higher Education Total	**-7,150**	**-14,619**	**-21,769**	**-16,761**	**-16,761**	**-33,522**
Health & Human Services						
Spending Change - Health Care Reform, Ch 358		-3,657	-3,657	-8,855	-8,163	-17,018
Revenue Change - Health Care Reform, Ch 358			0	0	0	0
Spending Change - Ch 363	-46,789	-121,843	-168,632	-114,022	-89,337	-203,359
Revenue Change - Ch 363	2,306	-63,206	-60,900	-469	2,503	2,034
Health & Human Services Total	**-44,483**	**-188,706**	**-233,189**	**-123,346**	**-94,997**	**-218,343**
Environment & Energy						
Spending Change - Ch 357		66	66			
Revenue Change - - Ch 357		-58	-58	-29	-29	-58
Spending Change - Ch 368			0	330	330	660
Revenue Change - Ch 368		-14	-14			
Spending Change - Ch 363	-2,998	-4,164	-7,162	-1,565	-2,840	-4,405
Revenue Change - Ch 363	-1,503	-39,440	-40,943	-12,281	-12,781	-25,062
Environment & Energy Total	**-4,501**	**-43,610**	**-48,111**	**-13,545**	**-15,320**	**-28,865**
Agriculture & Veterans						
Spending Change - Ch 274	3,822	2,402	6,224	2,252	2,252	4,504
Spending Change - Ch 363	-5,350	623	-4,727	2,468	2,468	4,936
Revenue Change - Ch 363		100	100	100	100	200
Agriculture & Veterans Total	**-1,528**	**3,125**	**1,597**	**4,820**	**4,820**	**9,640**

2008 Session General Fund Fiscal Tracking

(dollars in thousands)

Changes from Forecast Amounts - Based on February 2008 Forecast and 2008 Session Actions.
A positive spending number is a cost, a positive revenue number is a revenue loss or cost.

	FY 2008	FY 2009	FY 08-09	FY 2010	FY 2011	FY 10-11
Transportation						
Spending Change - Chapter 152		2,775	2,775			0
Revenue Change - Chapter 152		400	400	35,725	45,765	81,490
Spending Change - Chapter 363		-255	-255	-202	-202	-404
Revenue Change - Chapter 363	-18,000	-3,000	-21,000			0
Transportation Total	**-18,000**	**-80**	**-18,080**	**35,523**	**45,563**	**81,086**
Public Safety						
Spending Change - Chapter 363	268	-10,490	-10,222	-10,938	-10,438	-21,376
Revenue Change - Chapter 363	-25	-3,165	-3,190	-1,570	-1,570	-3,140
Public Safety Total	**243**	**-13,655**	**-13,412**	**-12,508**	**-12,008**	**-24,516**
Economic Development						
Spending Change.- Ch 155	175		175			
Spending Change - Ch 363	-2,425	-1,096	-3,521	-582	-582	-1,164
Revenue Change - Ch 363	3	-10,138	-10,135	13		13
Economic Development Total	**-2,247**	**-11,234**	**-13,481**	**-569**	**-582**	**-1,151**
State Government						
Spending Change - Chapter 288	38,000		38,000			
Spending Change - Chapter 363		-1,104	-1,104	1,666	1,661	3,327
Revenue Change - Chapter 363		-31,999	-31,999	-30,999	-30,999	-61,998
State Government Total	**38,000**	**-33,103**	**4,897**	**-29,333**	**-29,338**	**-58,671**
Capital Bills - Debt Service						
Debt Service Change - Chapters 152 & 179		1,105	1,105	2,887	12,856	15,743
Spending Change - Chapter 179	14,432		14,432	3,250	6,050	9,300
Debt Service Change - Chapter 365		572	572	3,532	11,512	15,044
Capital Bills & Debt Service Total	**14,432**	**1,677**	**16,109**	**9,669**	**30,418**	**40,087**
Taxes						
Spending Changes - Chapter 154		600	600	-2,376	-2,120	-4,496
Revenue Changes - Chapter 154	8,240	-8,840	-600	-11,146	15,231	4,085
Spending Changes - Chapter 366		975	975	84,475	102,293	186,768
Revenue Changes - Chapter 366		-142,013	-142,013	-68,438	-72,188	-140,626
Taxes Total	**8,240**	**-149,278**	**-141,038**	**2,515**	**43,216**	**45,731**
Claims - Chapter 226	86		86			
Budget Reserve Transfer - Ch 363		-500,000	-500,000			
Total Spending Changes	**-4,245**	**-121,034**	**-125,279**	**-34,298**	**37,402**	**3,104**
Total Revenue Changes	**-13,776**	**-801,594**	**-815,370**	**-89,094**	**-53,968**	**-143,062**
Total Change	**-18,021**	**-922,628**	**-940,649**	**-123,392**	**-16,566**	**-139,958**

General Fund Budget Changes

Tables 4 and 5 illustrate general fund budget changes by fiscal year (Table 4) and by biennium (Table 5).

General Fund Summary by Fiscal Year - FY 2007-2011
Enacted Budget, Change from February Forecast Base
Dollars in Millions

	FY 2007	FY 2008	Percent Change	FY 2009	Percent Change	FY 2010	Percent Change	FY 2011	Percent Change
Revenue - Base	16,379.0	16,268.5	-0.7%	16,273.4	0.0%	16,998.4	4.5%	18,045.9	6.2%
Revenue - Change		13.8		301.6		89.1		54.0	
Total Current Revenue	**16,379.0**	**16,282.3**	**-0.6%**	**16,575.0**	**1.8%**	**17,087.5**	**3.1%**	**18,099.8**	**5.9%**
Expenditures - Base	15,947.2	17,214.4	7.9%	17,504.0	1.7%	17,847.9	2.0%	18,281.9	2.4%
Expenditures - Change		-4.1		-121.2		-34.3		37.4	
Total Current Expenditures	**15,947.2**	**17,210.3**	**7.9%**	**17,382.8**	**1.0%**	**17,813.6**	**2.5%**	**18,319.3**	**2.8%**

General Fund Summary by Biennium - FY 2006-07 - 2010-11
Enacted Budget, Change from February Forecast Base
Dollars in Millions

	FY 2006-07	FY 2008-09	Percent Change	FY 2010-11	Percent Change
Revenue - Base	32,341.4	32,541.9	0.6%	35,044.3	7.7%
Revenue - Change		315.4		143.1	
Total Current Revenue	**32,341.4**	**32,857.3**	**1.6%**	**35,187.3**	**7.1%**
Expenditures - Base	31,489.5	34,718.4	10.3%	36,129.9	4.1%
Expenditures - Change		-125.3		3.1	
Total Current Expenditures	**31,489.5**	**34,593.2**	**9.9%**	**36,133.0**	**4.5%**

Both charts show the revenue and expenditure amounts as projected in the February 2008 forecast and then show the changes in revenues and in expenditures as enacted in the 2008 session. The charts also show the percentage change in revenues and in expenditures before and after the 2008 session changes.

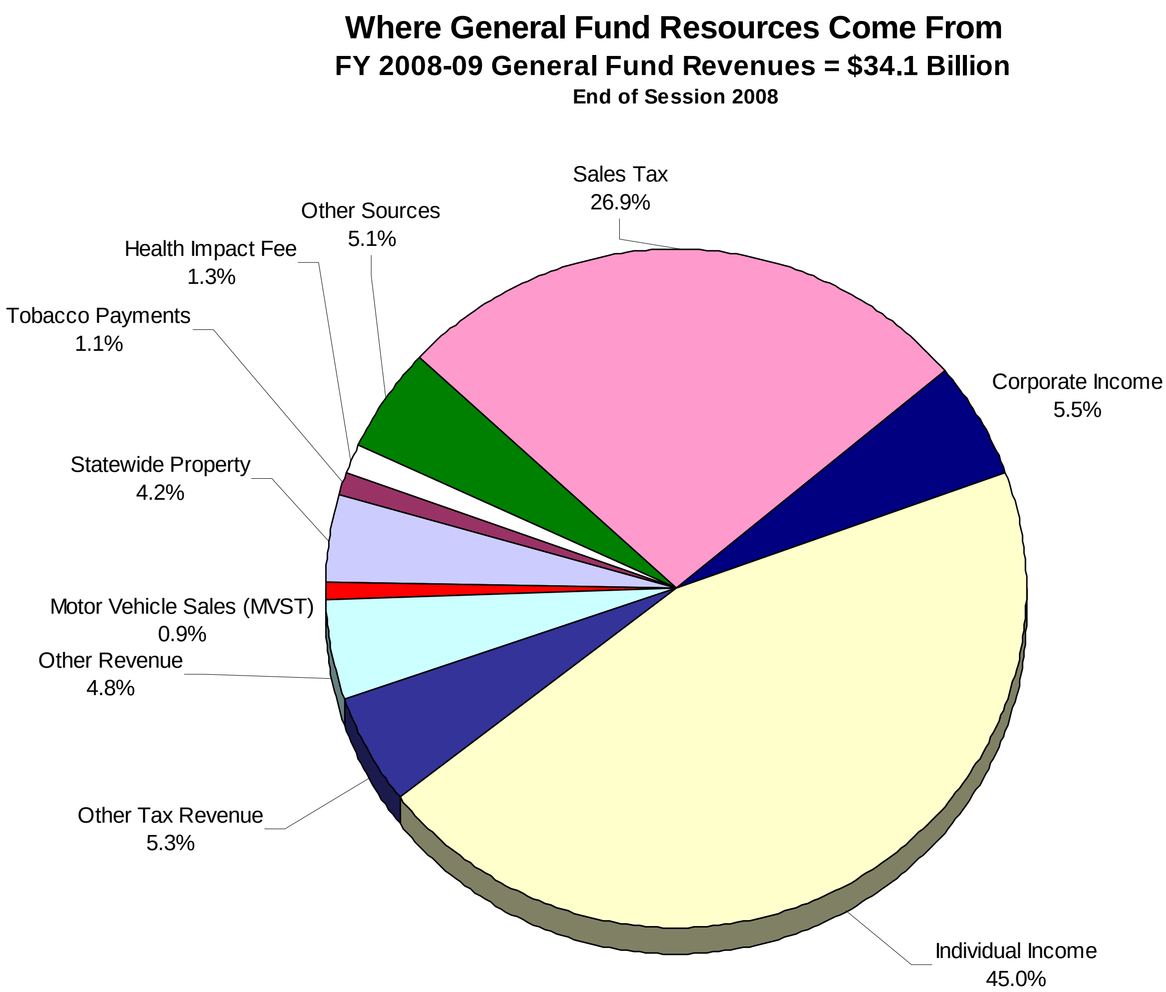
By comparing these charts one can see percentage changes differ between the annual numbers and the biennial numbers.

Revenue Changes

Revenue changes enacted in the 2008 session increase net general fund revenues by $315 million for the FY 2008-09 biennium. Revenue changes include changes in taxes, fees, fines, and transfers into the general fund (but these numbers do include not the $500 million transfer from the budget reserve).

General fund revenue for the FY 2008-09 biennium is now at $34.1 billion, up from the $33.8 million projected in the February 2008 forecast.

The pie chart below shows general fund revenue by major revenue source.

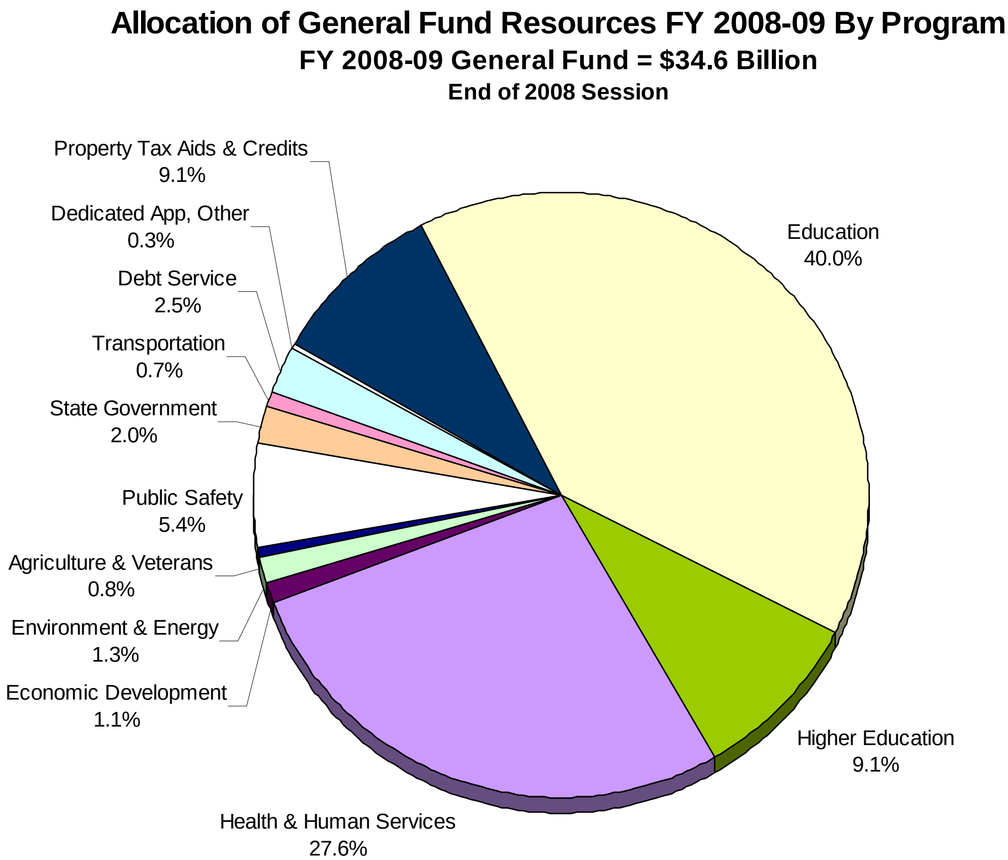


Spending Changes

General fund spending in FY 2008-09 is reduced by a net $125 million from the February 2008 forecast. This net change is the sum of decreases and increases in spending enacted in 2008 legislation.

General fund spending for the FY 2008-09 biennium is now projected to be $34.6 billion, down from the $34.7 billion projected in the February 2008 forecast.

The pie chart below shows how general fund spending breaks down by program area.



Fiscal Years 2010-11

Legislation enacted in the 2008 session reduced the deficit projected in the FY 2010-11 biennium from $1.086 billion to $945 million. Revenue and spending changes made in the 2008-09 biennium that carried forward into FY 2010 -11 affected revenues and spending in the next biennium.

General fund revenue changes for the FY 2010-11 biennium are projected to result in an increase of $144 million from the amount projected in the February 2008 forecast. The major revenue change in FY 2010-11 is an increase of $175 million due to changes in foreign operation corporation taxes. Other projected revenue changes include an increase of $42 million due to additional tax compliance, a decrease of $61 million to the general fund for a income tax credit to offset higher fuel taxes, a decrease of $30 million for income tax changes related to military pay and pensions, and an increase of $23 million due to changes in the repeal of a cap on the mutual fund registration fee.

General fund spending for the FY 2010-11 biennium is projected to decrease $3.1 million as compared to projected spending in the February 2008 forecast. FY 2010-11 spending decreases $220 million in the Health and Human Services area but increases $182 million in Property Tax Aids and Credits and $49 million in K-12 Education. Other FY 2010-11 projected spending changes include a decrease of $33 million in Higher Education, a decrease of $21 million in Public Safety, and an increase of 31 million in Debt Service.

The projected deficit of $945 million for the FY 2010-11 biennium does not include the $6 million projected balance in FY2008-09. That balance carrying forward into FY 2010-11 would reduce the projected deficit to $939 million.

The projected deficit of $945 million does not account for the cost of inflation in most spending programs. If inflation was added to all appropriations, the projected deficit for FY 2010-11 would increase by about $1 billion.

Fees, Fines and Surcharges

Fees, fines and surcharge changes totaling $34 million for FY 2008-09 were enacted in the 2008 session. Most of this amount ($22.3 million) was in the general fund.

In FY 2010-11, these changes enacted in 2008 will raise $46 million, $17.7 million of which will be in the general fund.

The two largest items are the removal of the mutual fund registration cap (already mentioned) at $20.5 million in FY 2008-09 and $22.5 million in FY 2010-11 and a $1.75 surcharge on motor vehicle fees beginning in FY 2010 that will raise $24.5 million in FY 2010-11.

Changes in Fees, Fines and Surcharges - 2008 Legislative Enactments

Dollars in thousands

	Agency	FY 08	FY 09	FY 08-09	FY 10	FY 11	FY 10-11	Fund	Act
Teacher License by Portfolio	Teaching Bd		28	28	28	28	56	Spec Rev	Ch 363
Spoken Language HC Interpreters	Health		25	25	25	25	50	SGSR	Ch 363
Naturopathic Doctor Registration	Med Ex Bd		8	8	8	8	16	SGSR	Ch 348
Pool Safety	Health		191	191	191	191	382	SGSR	Ch 328
St. Louis County Health Inspection	Health		468	468	468	468	936	SGSR	Ch 363
Pollution Prevention Fee	PCA	43	43	86	43	43	86	Env	Ch 357
Toxic Chemical List Reporting Fee	DPS		58	58	29	29	58	Gen	Ch 357
Water Use Fees	DNR		500	500	500	500	1,000	Gen	Ch 363
Mine Permits	DNR		200	200	200	200	400	Nat Res	Ch 363
Aquatic Plant Management Fee	DNR			0	700	700	1,400	Nat Res	Ch 363
Aquatic Farming Fee	DNR		15	15	15	15	30	G&F	Ch 363
Fish Inspection Fee	DNR		21	21	21	21	42	G&F	Ch 363
Turkey Stamp	DNR		26	26	26	26	52	G&F	Ch 368
Extended Metro Turkey Season	DNR		2	2	2	2	4	G&F	Ch 368
Youth Turkey License Reduction	DNR		-22	-22	-22	-22	-44	G&F	Ch 368
Bear Outfitters License	DNR		4	4	4	4	8	G&F	Ch 368
Conservation Angling License	DNR		-1,802	-1,802	-1,802	-1,802	-3,604	G&F	Ch 368
All Firearms Deer License	DNR		-442	-442	-442	-442	-884	G&F	Ch 368
Mutual Fund Registration Cap Removal	Commerce		20,500	20,500	11,000	11,500	22,500	Gen	Ch 363
Construction Professionals	DOLI		100	100	100	100	200	Build Cd	Ch 337
Fine Surcharge Increase - $72 to $75	Courts		1,215	1,215	1,620	1,620	3,240	Gen Fd	Ch 363
DUI Reinstatement Fee - Payment Change	DPS				-4,525	-4,525	-9,050	Gen Fd	Ch 152
DVS Technology Surcharge at $1.75	DPS		12,250	12,250	12,250	12,250	24,500	Spec Rev	Ch 363
US Open License Plates	DPS		3	3				Spec Rev	Ch 251
Driver License Reinstatement Fee (Juvenile)	DPS		51	51	51	51	102	Spec Rev	Ch 283
Vehicle Move Over Law Fines	DPS		24	24	24	24	48	THF	Ch 350
Medium Speed Vehicle Registration	DPS		0	0	0	5	5	HUTD	Ch 350
Spotter Trunk Registration	DPS		-76	-76	-76	-76	-152	HUTD	Ch 350
One-Ton Trunk Registration	DPS		0	0	0	1,123	1,123	HUTD	Ch 350
Concrete Pumps	DPS		54	54	54	54	108	HUTD	Ch 350
Agricultural Product Permits	MnDOT		20	20	20	20	40	THF	Ch 287
Canola Permit	MnDOT		43	43	43	43	86	THF	Ch 350
6 and 7 Axle Vehicle Permits	MnDOT		850	850	850	850	1,700	Spec Rev	Ch 287
Rail Safety	MnDOT		75	75	150	150	300	Spec Rev	Ch 287

Changes in Fees, Fines and Surcharges - 2008 Legislative Enactments

Dollars in thousands

	Agency	FY 08	FY 09	FY 08-09	FY 10	FY 11	FY 10-11	Fund	Act
UPA Fee Income	MnDOT		0	0	400	900	1,300	Spec Rev	Ch 306
Wavier of Reinstatement Fee-Veterans	Sec of State		-1	-1	-1	-1	-2	Gen	Ch 363
All Funds Total		**43**	**34,431**	**34,474**	**21,954**	**24,082**	**46,036**		
General Fund Subtotal		0	22,272	22,272	8,623	9,123	17,746		
Other Funds Subtotal		43	12,159	12,202	13,331	14,959	28,290		

<u>Fund Code</u>
Gen = General Fund
Spec Rev = Special Revenue Fund
SGSR = State Government Special Revenue Fund
G&F = Game & Fish Fund
Nat Res = Natural Resources Fund
Env Fd = Environmental Fund
Build Cd = Building Codes Fund
HUTD = Highway User Tax Distribution Fund
THF = Trunk Highway Fund

For more information on general budget issues, *contact Bill Marx at 651.296.7176 or email: bill.marx@house.mn*.

Agriculture, Rural Economies & Veterans Affairs

The Agriculture, Rural Economies and Veterans Affairs budget provides funding for the state activity related to the agricultural sector of the economy, and for the delivery of veterans services. Agencies funded by this House finance division include the Veterans Affairs Department, the Agriculture Department, the Animal Health Board, and the Agriculture Utilization Research Institute. This summary is for Laws 2008, Chapter 363, the supplemental budget bill; and for Chapter 274, the bovine tuberculosis control bill. Chapter 363 also included funding for the Military Affairs Department. The total general fund net change for fiscal years 2008 and 2009 for this area of funding was a $1.597 million increase.

Agriculture, Rural Economies and Veterans Affairs - 2008 General Fund Supplemental Budget
(Dollars in thousands)

	FY 08	FY 09	FY 08-09	FY 10	FY 11	FY 10-11
General Fund Expenditure Changes						
Minnesota Department of Agriculture	(200)	388	188	(302)	(302)	(604)
Board of Animal Health	3,822	2,322	6,144	2,172	2,172	4,344
Board of Regents (UofM)		80	80	80	80	160
Department of Veterans Affairs	0	4,145	4,145	2,420	2,420	4,840
Military Affairs	0	390	390	350	350	700
Subtotal- expenditure changes:	**3,622**	**7,325**	**10,947**	**4,720**	**4,720**	**9,440**
General Fund Revenue Changes						
DVA-GI Bill Cancellation	5,150	4,300	9,450	0	0	0
Military Affairs- Camp Ripley Land Fund		(100)	(100)	(100)	(100)	(200)
Subtotal revenue changes:	**5,150**	**4,200**	**9,350**	**(100)**	**(100)**	**(200)**
Net General Fund Change:	**(1,528)**	**3,125**	**1,597**	**4,820**	**4,820**	**9,640**

Veterans Affairs Department

Chapter 363 increased the DVA general fund appropriation for the biennium by $4.145 million. Changes include the following items.

- An increase of $2.5 million in FY 2009 for the State Soldiers Assistance Program. The program provides emergency cash assistance and benefits for veterans.

- An increased appropriation of $500,000 to increase the grants to counties for the county veterans service officers.

- An increase of $250,000 in FY 2009 is for a grant to the Minnesota Assistance Council for Veterans to be used in helping homeless veterans.

- An additional $220,000 in FY 2009 for the LinkVet telephone information system.

- A base increase of $500,000 in FY 2009 to be used for community based case work services.

- An additional $250,000 is added to the agency base to be used for assisting in claims filing.

- The agency administrative base is decreased by $300,000. This reduction is to reflect saving experienced through the consolidation of the Veterans Home Board into the DVA.

- The DVA is directed to study several emerging issues and to develop a strategic plan for the agency activities. $200,000 was appropriated for these studies.

- $25,000 in FY 2009 is for a peer to peer counseling pilot program.

- Additional education benefits for military veterans were funded at an increase of $600,000 in FY 2009.

Department of Agriculture (MDA)

The chapter increased the biennium Department of Agriculture budget by $188,000. Changes to the base budget to the MDA include:

- A one-time appropriation of $1 million in FY 2009 is for the livestock investment grant program.
- An appropriation decrease of $310,000 in FY 2009 was obtained by ending the ethanol producer payments to currently non producing plants.
- A $302,000 reduction was made to the administrative appropriation to the agency for FY 2009.
- Funds previously appropriated for a bioenergy project grant of $200,000 were canceled.

Animal Health Board

Chapter 274 provided increased funding to the board of $6.144 million for the biennium. The new initiatives appropriated funding in the chapter include:

- Appropriation increases of $2.644 million to support the elimination of bovine tuberculosis by increasing the monitoring, testing, eradication, education and outreach activities of the board.

- A appropriation of $150,000 for a grant to the North Central Research Center for a study of the best management practice for control of bovine tuberculosis in pastures.

- A temporary assessment of $1 dollar per head was placed on sale of beef cows, heifers, or steers in the state. The revenue is expected to be $600,000 a year and is appropriated to the board to be used for bovine TB control activity.

- An appropriation of $3.35 million in FY 2008 is to be used for animal reimbursements related to the bovine TB control programs.

Board of Regents (U of M)
Chapter 247, the Bovine TB control bill contains a direct appropriation of $80,000 in FY 2009 to the University of Minnesota. The funds are to be used for by the North Central Research Center at Grand Rapids for the study of best management practices for control of bovine tuberculosis in pastures.

Military Affairs Department
The chapter provide for an additional appropriation of $390,000 for the department. Changes to the base budget for the department include the following.

- $75,000 is for the enhancement of the employer support of the guard and reserve program.

- A program to award bonus payment to National Guard medics who meet recertification requirements was funded at $135,000 in FY 2009.

- $180,000 was appropriated to fund new positions at the agency to support and assist soldiers and their families during the reintegration process.

For additional information on Agriculture, Rural Economies, and Veteran's Affairs Finance issues, contact Jim Reinholdz at 651.296.4281 or email: jim.reinholdz@house.mn.

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Capital Investment

The 2008 legislative session brought the passage of three bills related to the capital budget: Chapter 152, Article 2; Chapter 179; and, Chapter 365. These bills included $882.5 million in projects funded with general obligation bonds supported by the general fund as well as projects funded with general fund cash, revenue bonds, trunk highway bonds and cash, and user-financed bonds. An overview of the general fund expenditures related to the capital budget is included below and additional information on specific projects funded in these Chapters can be found in the 2008 Capital Budget Summary (www.house.leg.state.mn.us/fiscal/files/08bondsum.pdf).

Capital Investment: 2008 General Fund Appropriations
(Dollars in thousands)

	FY 08	FY 09	FY 08-09	FY 10	FY 11	FY 10-11
General Fund Expenditure Changes						
Debt Service for GO Bonds Above Forecast						
Transportation Finance Bill: Chapter 152, Article 2	0	0	0	0	0	0
Capital Budget Bill I: Chapter 179	0	1,105	1,105	2,887	12,856	15,743
Capital Budget Bill II: Chapter 365	0	572	572	3,532	11,512	15,044
General Fund Appropriations: Chapter 179	14,432	0	14,432	0	0	0
Maximum General Fund Appropriation: Housing Finance Agency	0	0	0	2,400	2,400	4,800
Maximum General Fund Appropriation: University of Minnesota	0	0	0	850	3,650	4,500
General Fund Change:	**$14,432**	**$1,677**	**$16,109**	**$9,669**	**$30,418**	**$40,087**

Budget Highlights

The February 2008 forecast assumed debt service for a bonding bill of $645.0 million in general obligation bonds and suggested a maximum debt capacity of $885 million based on Minnesota's debt management guidelines. General obligation bonds authorized during the 2008 session totaled $882.5 million. Additional information on each of the three Chapters is included below.

Minnesota Laws 2008, Chapter 152, Article 2

Chapter 152, Article 2 authorized $60.1 million in general obligation bonds supported by the general fund. This included $50 million for local bridges, $10 million for local roads, and $60,000 in bond sale expenses. Debt service for these projects was included in the forecasted debt service amount since it was the first bill passed. This Chapter also included $1.8 billion in trunk highway bonds authorized over 10 years with $500 million authorized each year in FY 2009 and 2010, and $100 million authorized each year over the next eight years. Additional information on these bonds can be found in the transportation section of this summary.

Minnesota Laws 2008, Chapter 179

Chapter 179 authorized an additional $717 million in general obligation bonds. The Legislature passed $952.1 million in new general obligation bonds for various projects and cancelled $27.1 million in bonding for previous projects for a total of $925 million. Of the $925 million, the Governor line-item vetoed $208 million in projects bringing the total bonding for Chapter

179 to $717 million. Debt service for the general obligation bonds authorized in Chapter 179, above the debt service included in the February 2008 forecast and the debt service needed for Chapter 152, is estimated to be $1.1 million in the FY 2008-09 biennium and $15.7 million in the FY 2010-11 biennium. Debt service for approximately $585 million of the bonding in this bill was included in the forecasted amount.

The Legislature also included general fund cash for seven projects in Chapter 179 totaling $15.1 million, but the Governor vetoed two of these projects: $500,000 to the Department of Natural Resources for the Wildlife Rehabilitation Center and $125,000 to the Department of Public Safety for the Nassau Public Safety Facility. General fund appropriations for capital projects in Chapter 179 totaled $14.4 million after the Governor's line item vetoes, including the following projects:

- $3.9 million for the Department of Natural Resources for a flood hazard mitigation grant in the City of Browns Valley;
- $600,000 for the Department of Natural Resources to develop a digital elevation model of the Red River basin;
- $3.5 million for the Department of Transportation for a portion of the state matching funds for the Urban Partnership Agreement;
- $300,000 to the Department of Employment and Economic Development for a grant to Gillette Children's Specialty Healthcare for surgical suites and a pediatric intensive care unit;
- $750,000 for a grant to the Upper Sioux Community to improve their water system;
- $100,000 for the Public Facilities Authority to streamline infrastructure financing; and,
- $5.3 million for the Lewis and Clark water system. Bonding has previously been authorized for this project and that bonding authorization was cancelled.

Language in Chapter 179 also authorized general fund appropriations to pay for the debt service on bonds authorized by other state entities. The University of Minnesota requested funding for four projects totaling $292 million in estimated construction costs. Chapter 179 outlines that the state will pay the debt service on up to up to $219 million of the construction costs (75% of the total) and sets a limit on the amount of debt service the state will pay per year from the general fund. Chapter 179 also provides up to $2.4 million in general fund cash per year to pay the debt service on $30 million in bonds to be issued by the Minnesota Housing Finance Agency. For additional information on these projects, please see the 2008 Capital Budget Summary.

Minnesota Laws 2008, Chapter 365

Chapter 365 included $105.5 million in additional general obligation bonds for six projects: $70 million to the Metropolitan Council for the Central Corridor rail project; $20 million to the Department of Natural Resources for Lake Vermillion State Park; $3.4 million to the Department of Administration for Statewide Capital Asset Preservation and Replacement; $2 million to the Metropolitan Council for the Old Cedar Avenue Bridge; and, two projects totaling $10.1 million at the Minneapolis Veteran's Home. The estimated debt service for the general obligation bonds authorized in Chapter 365 is $572,000 in FY 2008-09 and $15.0 million in FY 2010-11.

If you have further questions on capital investment issues, please contact Koryn Zewers at 651-296-4178 or koryn.zewers@house.mn.

Economic Development Finance

The 2008 Legislature enacted a FY 2008-09 supplemental budget that will result in $13.481 millions in net general fund savings in the Economic Development portion of the budget (Chapter 363, Article 10). The savings come from two sources:

- $3.346 million in reduced Economic Development agencies authorized spending, and
- $10.135 million in additional general fund revenues.

The FY 2010-11 biennium net general fund tails number is reduced by $1.151 million.

Economic Development - 2008 Supplemental General Fund Budget
(Dollars in thousands)

	FY 08	FY 09	FY 08-09	FY 10	FY 11	FY 10-11
General Fund Expenditure Changes						
DEED	(3,000)	(2,163)	(5,163)	(550)	(550)	(1,100)
MN Explore Tourism (Film Bd.)	0	1,299	1,299	0	0	0
Housing Finance Agency	0	(200)	(200)	0	0	0
DOLI		(43)	(43)	(43)	(43)	(86)
Historical Society	750	0	750	0	0	0
Bureau Mediation Services		(69)	(69)	(69)	(69)	(138)
Boxing (Combative Sports)Com.	0	80	80	80	80	160
subtotal expenditure changes:	**(2,250)**	**(1,096)**	**(3,346)**	**(582)**	**(582)**	**(1,164)**
General Fund Revenue Changes						
Workforce Dev. Fund Transfer	0	8,000	8,000	0	0	0
Methamphetamine Lab Cleanup	0	150	150	0	0	0
Red Lake Loan Repayment	(3)	(12)	(15)	(13)	0	(13)
Code Consolidation Fund Transfer	0	2,000	2,000	0	0	0
subtotal revenue changes:	**(3)**	**10,138**	**10,135**	**(13)**	**0**	**(13)**
Net General Fund Change:	**(2,247)**	**(11,234)**	**(13,481)**	**(569)**	**(582)**	**(1,151)**

The general fund appropriation and revenue changes are contained in the supplemental budget bill (Laws 2008, Chapter 363, Article 10) with the exception of a $175,000 onetime appropriation to the Historical Society for Sesquicentennial Commission which was included in Chapter 155 — the deficiency bill.

Department of Employment & Economic Development (DEED)

DEED General Fund

The Department's General fund appropriations are decreased by $5.2 million in FY 2008 and FY 2009 under the supplemental budget approved by the Legislature. The major general fund appropriations changes include:

- $550,000 in agency operating budget reductions. The reductions begin in FY 2009 and are ongoing.

- $3 million reduction in FY 2008 for the Minnesota Investment Fund program. This reduction is onetime, and represents money that had been set aside by the 2007 Legislature for the Thomson West project which did not go forward as planned. The Legislature also adopted language that requires DEED to set aside $1 million of the funds remaining in MIF for a biomass heating grant/loan program.

- $400,000 in FY 2009 for one-time pilot funding of the Office of Science and Technology. The department is required to report back to the Legislature on the success of the office.

DEED – 2008 Supplemental General Fund Appropriations
(Dollars in thousands)

	FY 2008	FY 2009	FY 08-09	FY 2010	FY 2011	FY 10-11
Operating Budget Reduction		(550)	(550)	(550)	(550)	(1,100)
Minnesota Investment Fund	(3,000)		(3,000)			
Office of Science and Technology		400	400			
Military Reservist Business Loans		400	400			
HIRED Industry Training		120	120			
Lifetrack Resource – Rochester		75	75			
Foreign Trade Zone (Cancellation)		(608)	(608)			
Job Skills Partnership (Cancellation)		(2,000)	(2,000)			
General Fund Appropriations:	**(3,000)**	**(2,163)**	**(5,163)**	**(550)**	**(550)**	**(1,100)**

- $400,000 in FY 2009 for military reservist economic injury business loans. This is a revolving loan program to provide up to $20,000 in no-interest loans.

- $120,000 in FY 2009 for a onetime grant to HIRED to operate its industry training initiatives in high-demand industries.

- $75,000 in FY 2009 for a grant to Lifetrack Resource in Rochester for an immigrant and refugee collaborative pilot program. This is a onetime appropriation.

- $2.608 million in cancellations from previous appropriations to the Job Skills Partnership and the Foreign Trade Zone programs.

DEED Non General Fund

In addition to DEED's general fund appropriations, the 2008 Legislature adopted non-general fund items affecting the Department's budget. The non-general fund provisions were included in both the economic development article of the budget act (Chapter 363), and the 2008 economic development policy act (Chapter 300).

- Approved the Governor's recommendation to make unemployed or underemployed military reservists eligible for the Dislocated Workers program. The estimated cost to the program from this change is $1 million per year. The cost is paid for from the Workforce Development Fund.

- Directed the commissioner to make a $1 million grant and a $1 million loan from the Minerals 21st Century Fund to Magnetation, Inc.

- Enacted the following Unemployment Insurance (UI) changes:
    1. Approved a 13-week benefit extension for unemployed workers in high-unemployment counties. A high unemployment county is defined as a county having a total unemployment rate for the prior 12-calendar month period of at least 1.8 times the state average unemployment rate for the prior12-calendar month period and the state average unemployment rate for the same 12-calendar month period was at least 4.6 percent [Est. cost is $2.64 million in FY 2008-09 and $2.598 million each year in FY 2010-11];

    2. Equalized vacation pay treatment when paid from a vacation fund administered by a union or a third party not under the control of the employer [Est. cost is $67,000 per year];

    3. Authorized a 13-week benefit extension for laid off workers at Ainsworth Lumber Company [Est. cost is $507,000 onetime in FY 2008];

    4. Provided that business owners and their relatives may receive an additional week of UI benefits (5 weeks up from 4 weeks) under certain circumstances [Est. cost is $183,000 per year]; and

    5. Specified that UI benefits paid to workers who are laid off due to the return of military reservists, do not affect the employers experience ratings [Est. cost is $150,000 per year].

Explore Minnesota Tourism

The Legislature appropriated $1.3 million in FY 2009 for a one-time grant to the Minnesota Film and TV Board for reimbursements of production costs under the Film Production Jobs Program. This appropriation is available until expended.

The Legislature also appropriated $500,000 to the Film Board from carry forward general funds in the special marketing account within Explore Minnesota Tourism. This is a "from base appropriation", and does not include any new funds. The appropriation is to be used to entice the production of a major film in Minnesota in calendar years 2008 and 2009.

Minnesota Boxing Commission

The Legislature enacted the Governor's recommendation to reconstitute the Minnesota Boxing Commission as the Minnesota Combative Sports Commission. The new Commission is funded with an $80,000 General fund appropriation in FY 2009. This appropriation is ongoing.

The Legislature also revamped the Commission fee structure to better reflect the Commission regulatory responsibilities and costs. The new fee structure will result in earned revenue losses estimated to be $ 4,000 in FY 2009, and $8,000 in subsequent years.

Minnesota Historical Society

The Legislature appropriated $750,000 in FY 2008 for two grants to the Minnesota Sesquicentennial Commission. The first grant, contained in Chapter 155 — the deficiency bill, is for $175,000 and is intended to support the Commission's operations. The second grant, contained in Chapter 363, the budget-balancing bill, is for $575,000, and is intended to support grants to local communities for celebrations of Minnesota's 150th statehood anniversary.

Minnesota Housing Finance Agency

The Legislature reduced the Housing Finance Agency's fiscal year 2009 general fund budget by $200,000. The reduction is onetime. The Legislature also enacted the Governor's recommended Supportive Housing bonding initiative in the capital budget bill [Chapter 179]. The initiative has a general fund impact of $2.4 million each year beginning in the FY 2010-11 biennium.

Department of Labor & Industry

The Legislature reduced the Department's fiscal year 2009 budget by $43,000. The reduction is ongoing.

Bureau of Mediation Services

The Legislature reduced the Bureau's fiscal year 2009 general fund budget by $69,000. The reduction is ongoing.

Iron Range Resources & Rehabilitation

The Legislature enacted two non-general fund items affecting accounts within the Iron Range Resources & Rehabilitation agency. The items included:

- The portion of taconite production taxes deposited in the Iron Range Higher Education Account is increased from 2 cents to 5 cents. The change is estimated to increase funds in the account by $1.159 million each year,

- 12 local projects are funded from existing monies in the Taconite Homestead Property Tax Relief fund. The projects total an estimated $3.727 million.

For additional information on Economic Development issues, contact Ron Soderberg at 651-296-4162 or ron.soderberg@house.mn

Environment, Natural Resources & Energy Finance

The Environment and Natural Resource budget provides funding for the management, protection and enhancement of the natural resources of the state. Agencies and programs funded include the Pollution Control Agency, the Department of Natural Resources, the Minnesota Conservation Corps, the Metropolitan Council parks, the Board of Soil and Water Resources, and the recommendations of the Legislative Citizens Committee on Minnesota Resources. The Energy Finance budget provides funding for the Commerce Department and the Public Utilities Commission. Actions of the 2008 session changing the funding of these activities were contained in Chapter 363, the supplemental budget bill, Articles 5 and 6; Chapter 367, the LCCMR funding bill, and several bills with smaller funding effects. The combined effect of these actions was that general fund appropriations for these activities were reduced by $7.11 million for FY 2008-09. New general fund revenues totaling $41 million brought the total net general fund reduction in this area to $48.1 million.

Environment and Natural Resources & Energy - 2008 General Fund Supplemental Budget
(Dollars in thousands)

	FY 2008	FY 2009	FY 08-09	FY 2010	FY 2011	FY 10-11
General Fund Expenditure Changes						
Pollution Control	0	(603)	(603)	(623)	(623)	(1,246)
Dept of Natural Resources	(328)	(2,208)	(2,536)	(1,433)	(1,433)	(2,866)
Board of Water and Soil Resources	0	235	235	7	(268)	(261)
Metropolitan Council Parks	0	(100)	(100)	0	0	0
Commerce Department	(2,670)	(1,436)	(4,106)	814	(186)	628
Subtotal-expenditure changes:	**(2,998)**	**(4,112)**	**(7,110)**	**(1,235)**	**(2,510)**	**(3,745)**
General Fund Revenue Changes						
Dept of Natural Resources-water appropriation fees	0	500	500	500	500	1,000
Dept of Natural Resources-cancel stream protection account	1,400	0	1,400	0	0	0
MN Future Resources Fund Transfer	0	103	103	0	0	0
PCA-Toxic Chemical Reporting	0	58	58	29	29	58
Commerce Department	0	34,940	34,940	11,781	12,281	24,062
Public Utility Commission	0	4,000	4,000	0	0	0
Subtotal-revenue changes:	**1,400**	**39,601**	**41,001**	**12,310**	**12,810**	**25,120**
Net General Fund Change:	**(4,398)**	**(43,713)**	**(48,111)**	**(13,545)**	**(15,320)**	**(28,865)**

Pollution Control Agency (PCA)

The FY 2008-09 budget for the agency was reduced by a net of $603,000. Changes made to the PCA budget include the following:

- A reduction of $623,000 to the FY 2009 general fund appropriation. The commissioner is directed to make the reduction to the administrative activities of the agency.
- HF 1812 as sent to the governor contained an appropriation increase of $134,000 from the environmental fund to be used for the development and adoption of rules to regulate emission standard of motor vehicles sold in the state. This item was vetoed by the governor.
- An appropriation of $20,000 to be used for the development of a product stewardship approach to the disposal of products, for a study of the construction and demolition waste stream in the metro area, and for the development of recommendations to increase the percent of the waste stream being recycled.

Department of Natural Resources (DNR)

Changes were made to the Department of Natural Resources FY 2008-09 budget that resulted in a net appropriation increase of $505,000. The agency's FY 2008-09 general fund budget was reduced by a net of $2.536 million.

- The FY 2008-09 funding for management of state lands and state owned mineral resources was reduced by $225,000. Within this amount were reductions of $124,000 for the Iron Ore cooperative agreements, and a reduction of $101,000 for Minerals Diversification grants. A new fee for the holders of permits to mine is expected to raise $200,000 a year, and this amount is appropriated to the agency for related activities.
- The division of waters budget was reduced by a net of $88,000 for the biennium. Items changed include a reduction of $38,000 for water assessment report costs, a reduction of $22,000 for ring dike grants, a reduction of $30,000 in the grant to the Red River Management Board, and a $98,000 reduction from the budget of the division's clean water act activities. The division received a one time appropriation of $100,000 from the natural resources fund to develop new rules for shore land management.
- A $53,000 appropriation from the general fund is for use by the Forest Resources Council to conduct a study of the problems related to forest parcelization.
- State parks operations funded from the general fund were reduced by $220,000, with a corresponding increase from the natural resources fund.
- $50,000 was appropriated to make grants to local units of government to be used to upgrade public pool safely requirements.
- The non-motorized trails general fund budget was reduced by $50,000.
- Natural resources fund dollars were used to increase the all-terrain vehicle trails budget by $300,000.

- A grant of $100,000 to the city of Hoyt Lakes for improvements to an off highway vehicle trail.
- The Off Highway Vehicle Recreation Area located near Virginia will be improved with a $700,000 appropriation from the natural resources fund.
- The fish and wildlife division budget from the general fund was reduced by $472,000.
- $300,000 from the game and fish fund is for predesign costs of a shooting center proposed to be located at the Vermillion Highlands WMA.
- $369,000 from the game and fish fund is for fish virus containment activities.
- The ecological resources division funding for clean water act activities was reduced by $230,000.
- The enforcement division general fund budget was reduced by $543,000. The natural resources fund budget was increased by $568,000.
- The DNR administration budgets were reduced by $755,000.
- Fees for water appropriation permits were increased, resulting in new general fund revenues of $500,000.
- Grants of $33,000 each from the general fund were made to the Little Falls zoo, and the Duluth zoo.
- Chapter 368, the game and fish bill authorized the establishment of a new state part on Lake Vermillion. It also authorizes an annual payment to the local government entities of 1.5 percent of the value of the land. That payment is estimated to be $330,000 beginning in FY 2010.

Board of Soil and Water Resources (BWSR)

The budget of the BWSR was increased by a net of $235,000. Included in the appropriations are these changed items.

- An increase of $450,000 of funding for the programs for recovery efforts in the DR-1717 flood area in southeastern Minnesota.
- A decrease of $247,000 for grants for cooperative weed management and establishment of native buffers.
- A $68,000 decrease in the drainage assistance program funding.
- $100,000 was appropriated for the newly created Star Lake program.

Metropolitan Council Parks

The Metro Council parks appropriation for the biennium was increased by $200,000, and included a $200,000 grant specified for the Como Park Zoo.

Legislative-Citizen Commission on Minnesota Resources (LCCMR)

The recommendations of the LCCMR were funded at a total appropriation of $23.9 million from the environmental and natural resources trust fund. Funding included $15.8 million for land and habitat projects, $3.5 million for water resources projects, $2.4 million for natural resource information activity, and $1.1 million for environmental education projects. Details on the projects are available at the commission web site.

Commerce Department

The Department's FY 2008-09 general fund appropriations were reduced by a total of $4.1 million. Items changed include the following.

- A decrease of $46,000 in FY 2009 to the base appropriation for the Office of Energy Security and administration unit.

- The FY 2009 budget was increased by $130,000 for increased unclaimed property compliance efforts. This funding is estimated to bring in increased revenue of $260,000.

- The agency budget was reduced by $540,000 due to a reduction in the "do not call" workload. The federal government program has replaced the state program as the primary activity.

- An increase of $200,000 was appropriated for the solar rebate program.

- The 2007 session appropriation for grants for E-85 pump installation was reduced by $1.25 million but planned spending in FY 2010 was increased by $1.0 million.

- $2.6 million in Renewable Hydrogen Initiative grants are cancelled. The Initiative grants were appropriated $3.25 million on a one-time basis in the 2007 session.

Several activities and accounts within the department had balances cancelled or transferred to the general fund, or revenue increases including the following.

- $3 million is transferred from the Insurance Fraud Prevention account in the special revenue fund to the general fund. The money in the account is collected from insurance companies and supports the Unit's insurance fraud investigation activities.

- From the real estate education, research and recovery fund; $850,000 is transferred to the general fund.

- $100,000 is transferred from the consumer education account to the general fund.

- $10 million is transferred from the workers' compensation assigned risk plan account to the general fund. (Another $4.9 million is transferred from the assigned risk plan account to the general fund in Chapter 248 – see the Higher Education section for more information.)

- $230,000 from the automobile theft prevention account is transferred to the general fund.

- The largest general fund item within the department repeals the current cap on securities registration fees collected from mutual funds. Under current law, any fees in access of $25.6 million in year are refunded to the securities firms. Chapter 363 repeals this dollar cap. The repeal would yield an estimated $20.5 million in FY 2009 (representing both FY 2008 and FY 2009), and $22.5 million in the FY 2010-11 biennium.

- The chapter authorizes the Insurance Fraud Prevention Unit be allowed to retain assets they seize during investigations. This initiative is expected to yield $1,000 per year beginning in FY 2010 that would be deposited in the General Fund.

Public Utilities Commission

- $4 million from the Telephone Assistance Plan account in the special revenue fund was transferred to the general fund. The account is funded with a monthly surcharge collected on all landline telephones, and funds $1.75 a month in assistance for phone cost to qualifying Minnesota residents.

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

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Health and Human Services

Changes to the budget in the area of Health and Human Services resulted in savings to the general fund of $233.2 million for the FY 2008-09 biennium. While some of the savings were of a one-time nature, many reductions were permanent, creating continued savings of $218 million in the forthcoming FY 2010-11 biennium.

Health and Human Services Finance - 2008 General Fund Supplemental Budget
(Dollars in thousands)

	FY 2008	FY 2009	FY 08-09	FY 2010	FY 2011	FY 10-11
Chapter 363, Article 18						
General Fund Expenditure Changes						
Human Services	(46,789)	(117,713)	(164,502)	(110,938)	(86,253)	(197,191)
Department of Health	0	(4,130)	(4,130)	(3,084)	(3,084)	(6,168)
Veteran's Home Board	0	0	0	0	0	0
Health Related Boards	0	0	0	0	0	0
Emergency Medical Services Bd.	0	0	0	0	0	0
subtotal expenditure Changes:	**(46,789)**	**(121,843)**	**(168,632)**	**(114,022)**	**(89,337)**	**(203,359)**
General Fund Revenue Changes						
Human Services	(2,306)	53,787	51,481	469	(2,503)	(2,034)
Health Related Boards	0	3,219	3,219	0	0	0
Emergency Medical Services Board	0	6,200	6,200	0	0	0
subtotal revenue changes:	**(2,306)**	**63,206**	**60,900**	**469**	**(2,503)**	**(2,034)**
Ch. 363, Net General Fund Change:	**(44,483)**	**(185,049)**	**(229,532)**	**(114,491)**	**(86,834)**	**(201,325)**
Chapter 358, Health Care Reform		(3,657)	(3,657)	(8,855)	(8,163)	(17,018)
Total Net GF Change - HHS	**(44,483)**	**(188,706)**	**(233,189)**	**(123,346)**	**(94,997)**	**(218,343)**

Department of Human Services

Grants

While very little spending was done in the 2008 legislative session, there were a few spending items of note in the Health and Human Services section of Laws of 2008 Chapter 363. These included a Governor's initiative to spend $2 million in 2009 on a Native American youth substance abuse treatment center, and two House initiatives including $505,000 for long term homelessness prevention, and $500,000 for food shelves. All three spending items were one time and do not add to the agency's base appropriation.

Agency Management
Changes made to the agency administration will save $9.5 million for the biennium. First, a 2 percent across the board reduction will save an ongoing $3.5 million beginning in FY 2009 and does not affect funding to programs.

In addition, $2.7 million in unallocated balances in the special revenue fund for health care outreach and chemical dependency were transferred to the general fund. The department's carry forward for technology expenditures was removed saving $1.1 million for the general fund. The agency is also directed to reduce payments to counties that have accounts past due with the state until those receivables, totaling $2.2 million, are paid off.

Income Support Programs
In the income support area, the legislature spent an additional $6 million for both FY 2009 and 2010 for work support grants for counties. These grants will be used by counties to create jobs for families on the Minnesota Family Investment Plan or MFIP.

In addition to the spending, MFIP was a major area for savings to the general fund. While programs were not reduced, mechanisms were used to substitute federal dollars for state general fund through meeting federal work requirements and TANF "refinancing".

In the first approach, the legislature passed language that allows Minnesota to claim additional program spending against the federal work requirement for TANF related programs. This allows the state to lower its maintenance of effort from the general fund and spend unused federal funds to backfill the state reduction. The first approach saves the state $20.6 million in the current biennium, and an additional $14.7 million in the FY 2010-11 biennium.

The second approach, TANF refinancing, saves the state $59.3 million in the current biennium. The federal government requires each state to pay a certain minimum share or "maintenance of effort" to income support programs in order to receive federal Temporary Assistance to Needy Families or "TANF" dollars. Because Minnesota spends above that required minimum and has an accumulated balance of unspent TANF dollars, the state can choose to reduce state general fund spending and substitute federal TANF dollars as long as the state minimum spending level is maintained. Though this technique has saved close to $60 million for the general fund, it has resulted in no reduction in forecasted spending to the program.

Child Care
Changes made to child care in Chapter 363 were primarily in the Basic Sliding Fee program area. The allocation formula was altered so that unused funding can be reallocated to counties with more families in need. The Basic Sliding Fee program was reduced by $9.2 million in general fund money, which was replaced by the same amount from the federal child care development fund (CCDF). The CCDF had nearly $10 million unexpended at the end of FY 2007. The modification to the formula will allow for greater access to the fund in order to reduce the number of families on the program's waiting lists.

Health Care

Chapter 363 also made many changes to public programs in the health care area. These changes will save millions of dollars but will also have an impact on the providers who give care to state health care program enrollees.

Hospitals

The first policy change was to delay payments to hospitals for care of state enrollees by one month. This change will not decrease the amount paid to the hospitals themselves, but the timing shift will save the state $10 million this biennium, and delay those costs into the next biennium.

Hospitals will also be affected by decreasing the rates that Minnesota pays for their care by 3 percent for both inpatient and outpatient services. These reductions will decrease the amounts the state pays to hospitals by just under $9 million per year beginning in fiscal 2009. Hospitals with more patients on public programs will be affected the most.

The last policy change to affect hospitals will be to delay rebasing of hospital costs until January of 2009. Rebasing is the adjusting of payments to reflect inflation after an examination of actual hospital costs. The delay will add one year before the hospitals should receive such an inflationary adjustment.

Managed Care

Another change was to increase the state withhold percentage on payments to managed care organizations. The state currently withholds 5 percent and then awards the money at the end of the contract based on performance. This policy change will increase the withhold to 7 percent and save $13.6 million in the current biennium.

Another policy change aimed at the managed care plans is to limit their administrative spending by law at 7 percent. The current average is above 8 percent and this change is estimated to save $2.9 million in fiscal 2009 and over $7.5 million each year after.

Other Policy Changes

The rates paid to pharmacies for public program enrollees will be reduced by 2 percent. This change will save the general fund $2.5 million per year.

Finally, there was a $50 million transfer from the health care access fund to the general fund. This one time transfer will be repaid to the health care access fund in the future if an actuary determines that reforms enacted by the legislature in the health care reform bill have saved the general fund an equal amount.

The legislature also passed health care reform legislation in the 2008 legislative session. The bill included payment reform, policy changes and some expansions in the Minnesota Care program. The bill spends slightly under $10 million in the 2008/09 biennium and over $110 million for the 2010/11 biennium, with all costs paid from the health care access fund.

Continuing and Long Term Care
In the area of-long term care, the legislature passed an additional COLA for nursing home workers only. This COLA will be a 1 percent permanent addition and a 1 percent one time bonus. The cost is approximately $5.7 million for the 2008-09 biennium. All other long term care workers had their COLAs delayed for one quarter. This delay will result in a one time savings to the general fund of $7.4 million.

Substance abuse treatment rates will be frozen and forego a scheduled increase, saving the general fund $1.5 million per year. In addition, home and community based waiver growth will be limited saving $5 million this biennium.

State Operated Services
A reduction in funding for the sex offender program will cut funding by $2 million annually. This provision does not begin until fiscal year 2010 and does not affect funding for the current biennium.

Minnesota Department of Health & Related Activities
The state provides funding for activity related to the health sector of the economy – specifically to the Minnesota Department of Health (MDH). The House finance division that funds the Department of Health also funds the health-related boards, which includes the Emergency Medical Services Board. This summary covers Laws 2008, Chapter 363; Laws 2008, Chapter 328; and Laws 2008, Chapter 348. The total general fund reduction for fiscal year 2009 for this area of funding was $4.13 million dollars. There was a total appropriation amount of $467,000 from the State Government Special Revenue (SGSR) fund.

Department of Health
Chapter 363 reduced the MDH general fund appropriation by $4.13 million dollars. Changes made to the appropriated budget to the agency include the following items.

- A decrease of $1.1 million in FY 2009 from the Administrative Support Services. The goal of the legislature is to have the agency reduce its operating budget by 4 percent.

- The MN Enable program was eliminated. This resulting savings to the general fund is $220,000 per year.

- The agency is required to reduce the base level funding for its grants programs by 1.8 percent. This reduction is effective July 1, 2008 and will result in a savings to the general fund of $2,810,000 annually. The legislature specified that $2 million of this reduction come from an existing appropriation to the Mayo Clinic which provides transition funding necessary while federal compliance changes are implemented.

- The legislature authorized a one-time transfer from the SGSR fund of $3.219 million. The SGSR fund is the primary source of money for the Health-Related Boards.

- An appropriation of $32,000 in 2009 from the SGSR fund for an initiative that creates a registry and certification process for spoken language health care interpreter services.

- The county of St. Louis relinquished responsibility for local inspection back to the state. This resulted in an appropriation from the SGSR fund of $435,000 in 2009.

Health-Related Boards

Emergency Medical Services Board (EMSB)
Chapter 363 includes a onetime reduction to the Longevity Award and Incentive Program. This is a decrease of $6.2 million, and the money was transferred to the general fund to be applied toward other state services. There is close to $10 million remaining in the account for long-term service awards.

Abigail Taylor Pool Safety Act
Laws 2008, Chapter 328 made changes to public pool and spa safety regulations in the name of a 6-year-old girl who died after suffering from injuries related to a pool drain system. The appropriation from the SGSR fund is $210,000 in fiscal year 2009.

Medical Practices Board
Chapter 348 establishes the registration of naturopathic doctors and the creation of a naturopathic doctor advisory council. Registration fees will be $200 and $150 for annual renewal. There are two appropriations from the SGSR fund for fiscal year 2009: $8,000 to the Medical Practices Board and $25,000 to the Department of Health for the naturopathy work group.

For additional information on Human Services finance issues, contact John Walz at 651.296.8236 or email: john.walz@house.mn.

For additional information on Health Finance issues, contact Emily Adriaens at 651.296.7171 or email: emily.adriaens@house.mn.

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Higher Education

The 2008 legislature passed two bills with higher education finance implications. The supplemental appropriations bill, Laws MN 2008, Chapter 363, Article 4, includes a net general fund savings for the FY 2008-09 biennium of $21.769 million. The base for the higher education programs in the FY 2010-11 biennium is reduced by $33.52 million. In addition, Laws MN 2008, Chapter 248 appropriates $4.9 million to the Board of Regents in FY 2008 to conduct a study of miner's lung health at the University of Minnesota's School of Public Health. Chapter 248 also transfers $4.9 million to the general fund in FY 2008 from the state Assigned Risk Plan. The following chart summarizes higher education funding changes enacted by the 2008 Legislature and signed by the Governor.

Higher Education - 2008 General Fund Supplemental Budget
(Dollars in thousands)

	FY08	FY 09	FY 08-09	FY 10	FY 11	FY 10-11
General Fund Expenditure Changes						
Office of Higher Education	0	(1,471)	(1,471)	(361)	(361)	(722)
Minnesota State Colleges & Universities	(1,000)	(6,880)	(7,880)	(7,700)	(7,700)	(15,400)
University of Minnesota*	(1,250)	(6,150)	(7,400)	(8,700)	(8,700)	(17,400)
subtotal expenditure Changes:	**(2,250)**	**(14,501)**	**(16,751)**	**(16,761)**	**(16,761)**	**(33,522)**
General Fund Revenue Changes						
Assigned Risk Plan Transfer to General Fund (Mesothelioma)	4,900	0	4,900	0	0	0
Office of Higher Education Transfer Pvt Inst. Registration Surplus	0	100	100	0	0	0
Office of Higher Education Transfer Technology surplus	0	18	18	0	0	0
subtotal revenue changes:	**4,900**	**118**	**5,018**	**0**	**0**	**0**
Net General Fund Change:	**(7,150)**	**(14,619)**	**(21,769)**	**(16,761)**	**(16,761)**	**(33,522)**

*Includes funds appropriated in Chapter 248

Minnesota State Colleges and Universities (MnSCU)

The Minnesota State Colleges and Universities receives a general fund appropriation reduction of $7.88 million in FY 2008-09. The system is directed to cut $1 million from central reserves in FY 2008, $5 million from the technology budget in FY 2009 and the balance from the Office of the Chancellor's budget in FY 2009. Rider language also restricts tuition increases to no more than 2 percent at the colleges and 3 percent at the universities.

Office of Higher Education (OHE)

Changes at the Office of Higher Education have a net General Fund savings of $1.589 million in FY 2008. This includes a 4 percent agency operations cut of $111,000, shifting matching payments in the Minnesota College Savings Plan to FY 2010 saving $1.02 million in FY 2009, and reducing funding for tuition reciprocity interstate payments by $250,000 in FY 2009. In addition, a $100,000 surplus in the private college registration program and an $18,000 surplus in the office technology budget are transferred to the general fund, and $90,000 is cancelled from a prior technology appropriation. The agency base is reduced by $361,000 per year in FY 2010-11. There is no general fund impact from financial aid changes, however, 2007 session law directing any projected surplus in the State Grant Program be used to temporarily increase the Living and Miscellaneous Expense Allowance portion of the financial aid formula was made permanent law.

University of Minnesota (U of M)

The University of Minnesota receives a general fund appropriation cut of $12.3 million in FY 2008-09. Rider language in the bill directs the University to look for administrative reductions and to minimize any tuition impact on students. In addition, Chapter 248 appropriates $4.9 million to the Board of Regents of the University to carry out a public health study of mesothelioma rates among miners and their families on the Iron Range. Legislation also passed to reimburse the University for debt service related to new biomedical facilities starting in FY 2010. See the Capital Investment section for additional information.

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

K-12 and Early Childhood Education

For K-12 and Early Childhood Education, Chapter 363 includes a net general fund increase of $25.7 million in the FY 2008-09 biennium and $48.6 million in the FY 2010-11 biennium. In addition, there is a net increase of $2.8 million in local property tax levies in FY 2010-11. The FY 2008-09 general fund increase is composed of a net reduction of $20.3 million, and additional spending of $45.1 million.

K-12 & Early Childhood Education Finance - 2008 General Fund Supplemental Budget

(Dollars in thousands)

	FY 2008	FY 2009	FY 08-09	FY 2010	FY 2011	FY 10-11
General Fund Expenditure Changes						
K-12 Aid Increases	20	44,986	45,006	35,579	31,225	66,803
K-12 Aid Reductions	(1,236)	(18,122)	(19,358)	(15,655)	(3,080)	(18,735)
Early Childhood Aid Increases	0	936	936	1,111	1,170	2,281
Department of Education Increases	0	50	50	0	0	0
Department of Education Reductions	0	(892)	(892)	(892)	(892)	(1,784)
subtotal expenditure changes:	**(1,216)**	**26,958**	**25,742**	**20,142**	**28,423**	**48,565**
Net General Fund Change:	**(1,216)**	**26,958**	**25,742**	**20,142**	**28,423**	**48,565**

The major changes in K-12 and Early Childhood Education finance (with FY 2009 general fund appropriation impacts, unless otherwise noted) include:

General Education

- $43.8 million to provide an addition $51 per pupil unit in general education revenue to all school districts on a one-time basis for FY 2009.

- $10.3 million in savings from restricting approvals for alternative compensation revenue (QComp) for FY 2009 and FY 2010 to equal half of the February 2008 forecast revenue that was designated for districts which had not yet applied or been approved. For FY 2010-11, this provision saves an additional $13.2 million. The limitation also results in $4.1 million in levy reduction for FY 2010-11.

- $60.6 million in new spending in FY 2010-11 due to the elimination of the general education revenue subtraction for permanent school fund revenue. Currently, school districts receive approximately $30 per pupil of revenue from the permanent school trust fund. Each district's general education revenue is reduced by the amount of permanent school fund revenue collected. For FY 2010 and later, the subtraction will be eliminated, and the permanent school fund revenue will be actual new revenue to districts.

- $6.7 million in savings due to the elimination of the payment schedule change impact adjustment pool. During a previous budget reduction period, the state changed the percentage of total aid paid to school districts during the current fiscal year to 80 percent of their entitled aid in the current fiscal year and 20 percent of their entitled aid in the next fiscal year. Because this could create a cash flow challenge in districts in financial difficulty (defined as being in statutory operating debt (SOD), where the district's expenditures exceed their revenues by more than 2.5 percent), those districts were allowed to apply for an exemption that would let them to collect an additional 7 percent of their entitled aid in the current fiscal year. Currently, state aid payments have returned to a 90 percent current / 10 percent final year payment schedule, so this exemption now allows districts in SOD to collect 97 percent of their entitled funding in the current year. Eliminating this provision shifts the 7 percent for districts that qualified from FY 2009 to FY 2010 and generates a one-time savings to the state for FY 2009.

- $158,000 for a grant to the Rushford-Peterson school district for flood-related costs.

- $100,000 for the Lancaster school district for sparsity transition aid.

Education Excellence

- $275,000 for a grant to the Humanities Commission.

- $275,000 for a grant to the Principle's Leadership Institute.

- $2.0 million in savings from reductions in the Get Ready, Get Credit College Level Exam program.

Special Programs

- $20,000 to extend the Special Education Task Force an additional year.

Facilities and Technology

- $436,000 in savings from elimination of unused disaster relief grants related to flooding in southeastern Minnesota.

- $6.1 million in additional levy authority during FY 2010-11 for school districts and intermediate districts to levy for lease costs. The current lease levy limit is $100 per pupil for each school district, with an additional $25 for districts that are members of intermediates. Those limits are increased to $150 and $43, respectively.

Nutrition

- $402,000 for an increase in the kindergarten milk reimbursement rate from 14 cents to 20 cents.

Department of Education

- $892,000 in savings from reducing the agency's operating budget by 4 percent.

- $50,000 for the Academic Achievement Task Force.

Board of Teaching

- $17,000 from the special revenue fund is appropriated to the board for duties related to Licensure by Portfolio, a new method of teacher licensure. A new fee is implemented to raise the $17,000 that is appropriated.

Early Childhood and Family Support

- $936,000 to increase the amount of state aid per child for Health and Developmental Screening beginning in FY 2009. The aid for a child screened at age 3 is $75 (previously $50); $50 for a child screened at age 4 (previously $40); and $40 for a child screened at age 5 (previously $30).

- A State Advisory Council on Early Childhood Education and Care was created with an appropriation of $25,000. This is not new funding, and half of it will come from administrative funds for the federal Child Care Development Fund, and the other half from funding for the pre-kindergarten exploratory project established during the 2007 session. These funds are available for FY 2009.

- The maximum amount of financial assistance available to eligible individuals taking the GED test has increased from $20 to $40. The annual appropriation of $125,000 was not increased.

For further information on K-12 Education Finance related issues contact Greg Crowe at (651) 296-7165 or greg.crowe@house.mn

For additional information on Early Childhood Education Finance issues, contact Emily Adriaens at 651.296.7171 or email: emily.adriaens@house.mn.

Public Safety Finance

The 2008 Legislature approved FY 2008-09 net general fund spending reductions totaling $13.4 million for the state agencies, boards and the judiciary under the budget jurisdiction of the Public Safety Finance Division. This net reduction is achieved through spending reductions of $10.22 million and new general fund revenues of $3.2 million. Actions of the 2008 session changing the funding of these activities were contained in Chapter 363, the supplemental budget bill, Article 12.

Public Safety Finance Division - 2008 General Fund Supplemental Budget
(Dollars in thousands)

	FY 08	FY 09	FY 08-09	FY 10	FY11	FY 10-11
General Fund Expenditure Changes						
Supreme Court		(951)	(951)	(951)	(951)	(1,902)
Court of Appeals		(250)	(250)	(250)	(250)	(500)
District Courts		(2,800)	(2,800)	(2,800)	(2,800)	(5,600)
Public Defense Board		(1,491)	(1,491)	(1,491)	(1,491)	(2,982)
Department of Public Safety	360	(2,057)	(1,697)	(2,505)	(2,005)	(4,510)
Department of Corrections	(92)	(2,792)	(2,884)	(2,792)	(2,792)	(5,584)
Human Rights		(149)	(149)	(149)	(149)	(298)
subtotal expenditure changes:	**268**	**(10,490)**	**(10,222)**	**(10,938)**	**(10,438)**	**(21,376)**
General Fund Revenue Adjustments						
POST BD Adjustment	25	(50)	(25)	(50)	(50)	(100)
Fire Safety Account Transfer		2,000	2,000			0
Fine Surcharge Increase ($3)		1,215	1,215	1,620	1,620	3,240
subtotal revenue adjustments	25	3,165	3,190	1,570	1,570	3,140
Net General Fund Change:	**243**	**(13,655)**	**(13,412)**	**(12,508)**	**(12,008)**	**(24,516)**

Department of Corrections

The Legislature approved funding reductions of $92,000 for FY 2008 and $2.79 million for FY 2009.

- $2.1 million reduction in FY 2009 for short-term offender funding.
- $600,000 reduction in FY 2009 for sentencing to serve grants.
- $92,000 reduction in FY 2008 and again in FY 2009 for 8-day hold funding.

Department of Public Safety

The Legislature approved funding of $360,000 in FY 08 and reductions of $2.057 million for FY 2009.

- $360,000 increase in FY 2008 for the state match costs that are related to one of the past disasters the state has experienced. This is a one-time appropriation.
- $40,000 reduction in FY2009 for a change in CAT/Hazmat reimbursement change.
- $1.265 million reduction in FY 2009 for criminal justice information system (CRIMNet) activities.
- $250,000 general reduction in FY 2009 to the Department Public Safety programs with the exception of Office of Justice Programs.
- $450,000 reduction in FY 2009 for the financial crimes task force.
- $52,000 reduction in FY 2009 for squad car technology upgrades. The base funding ($500,000) for this program was also eliminated.

Supreme Court

The Legislature approved funding reductions of $951,000 for FY 2009. Of this reduction $120,000 comes from civil legal services.

Court of Appeals

The Legislature approved funding reductions of $250,000 in FY 2009.

District Courts

The Legislature approved funding reductions of $2.8 million in FY 2009.

Public Defense Board

The Legislature approved funding reductions of $1.491 million in FY 2009.

Human Rights

The Legislature approved funding reductions of $149,000 in FY 2009.

Revenue Adjustments

The surcharge on fines is increased by $3. This increases the surcharge to $75 ($76 in Ramsey County). The estimated revenue from the $3 increase is projected to be $1.215 million in FY 2009 and $1.62 million each year after. This revenue goes into the general fund.

$2 million is transferred in FY 2009 from the Fire Safety Account in the special revenue fund to the general fund. This is a one time transfer.

For additional information on Public Safety Finance issues, contact Gary Karger at 296-4181 or gary.karger@house.mn

State Government Finance

The 2008 supplemental budget bill, Chapter 363, reduces net spending in the State Government Finance area by $33.1 million in FY 2008-09. This net reduction is achieved through spending reductions of $1.1 million and new general fund revenues of $32 million. Recommended net spending for FY 2010-11 is reduced by $58.7 million, the result of $3.3 million in new spending offset by $62 million in new general fund revenues. In addition to these changes, Chapter 288, the 35W Bridge Compensation bill, appropriates $38 million in FY 2008.

State Government Finance - 2008 General Fund Supplemental Budget
(Dollars in thousands)

	FY 08	FY 09	FY 08-09	FY 10	FY 11	FY 10-11
Chapter 363, Article 13						
General Fund Expenditure Changes						
Legislature	0	(1,821)	(1,821)	(1,258)	(1,258)	(2,516)
Governor's Office	0	(113)	(113)	(76)	(76)	(152)
State Auditor	0	(42)	(42)	(42)	(42)	(84)
Attorney General	0	(749)	(749)	(749)	(749)	(1,498)
Secretary of State	0	(195)	(195)	(190)	(195)	(385)
Office of Enterprise Technology	0	(313)	(313)	(253)	(253)	(506)
Finance Department	0	(624)	(624)	(624)	(624)	(1,248)
Administration Department	0	(1,274)	(1,274)	(469)	(469)	(938)
Employee Relations Department	0	(218)	(218)	(218)	(218)	(436)
Revenue Department	0	6,120	6,120	6,120	6,120	12,240
Professional / Technical Contracts Reduction - All Agencies		(1,875)	(1,875)	(575)	(575)	(1,150)
subtotal expenditure Changes:	**0**	**(1,104)**	**(1,104)**	**1,666**	**1,661**	**3,327**
General Fund Revenue Changes						
Waive Reinstatement fee for Returning Vets - Sec. Of State	0	(1)	(1)	(1)	(1)	(2)
Facilities Repair & Replacement Account Transfer - Admin	0	1,000	1,000	0	0	0
Tax Compliance Audits - Dept. of Revenue	0	21,000	21,000	21,000	21,000	42,000
Bank Data Matches - Department of Revenue	0	10,000	10,000	10,000	10,000	20,000
subtotal revenue changes:	**0**	**31,999**	**31,999**	**30,999**	**30,999**	**61,998**
Chapter 363, Net GF Change:	**0**	**(33,103)**	**(33,103)**	**(29,333)**	**(29,338)**	**(58,671)**
Chapter 288, 35W Bridge Compensation Fund	**38,000**		**38,000**			
Total Net GF Change - State Govt.	**38,000**	**(33,103)**	**4,897**	**(29,333)**	**(29,338)**	**(58,671)**

Chapter 363, Article 13

Legislature: The overall reduction to the Legislature is $1.8 million in FY 2009 and $2.5 million in total for FY 2010-11. This represents a 3 percent reduction to the operating budgets of the House and Senate for FY 2009, and a 2 percent reduction to the FY 2010-11 tails. The Legislative Coordinating Commission's budget is reduced by 1 percent.

Legislature - General Fund Reductions *(dollars in thousands)*		
	FY 2009	**FY 2010-11**
House	(952)	(1,260)
Senate	(710)	(938)
Legislative Coordinating Commission	(159)	(318)
total reductions	**(1,821)**	**(2,516)**

Constitutional Offices

Governor's Office: The Governor's general fund operating budget is reduced by $113,000 in FY 2009 and $152,000 in total for FY 20010-11. This is a 3 percent reduction in FY 2009 and a 2 percent reduction to the FY 2010-11 tails.

Secretary of State: The office's operating budget is reduced by $195,000 in FY 2009 and $385,000 in total for FY 2010-11. This cut equals 3 percent of the office's general fund budget.

State Auditor*:* The Auditor's general fund budget is cut by $42,000 in FY 2009 and $84,000 in total for FY 2010-11. This reduction equals 3 percent of the portion of the office's budget that is not reimbursed through audit fees or other offsets.

Attorney General*:* The Attorney General's office received a $749,000 reduction in FY 2009 and a $1.5 million total reduction for FY 2010-11. This represents a 3 percent reduction to the office's general fund base.

State Agencies

Department of Administration: The department's general fund budget is reduced by $1.27 million in FY 2009, with a $938,000 total reduction for FY 2010-11. This amount includes a 4 percent reduction to the agency's overall general fund operating budget, totaling $469,000 each year. One-time changes for FY 2009 include:

- $885,000 from the cancellation of an appropriation made in the 2007 session for relocation of the Department of Public Safety. This appropriation is no longer needed.
- $40,000 appropriation for a Worker's Memorial on the Capitol grounds

- $40,000 appropriation for a state contribution to a memorial to Hubert H. Humphrey, also to be located on the Capitol mall
- $1 million must be transferred to the general fund from the Facilities Repair and Replacement account in the special revenue fund. This transfer will reduce funds available for asset preservation projects for buildings located in the Capitol complex.

Department of Finance: The department's general fund operating budget is reduced by $624,000 in FY 2009 and $1.2 million total for FY 2010-11. This represents a 4 percent cut.

Department of Employee Relations: The department's overall general fund operating budget was reduced by 4 percent, or $218,000 each year, beginning in FY 2009. The Department of Employee Relations was eliminated as of June 30, 2008, so these reductions will be transferred to the budget of the Department of Finance.

Department of Revenue: The department's general fund operating budget was **increased** by $6.1 million in FY 2009 and $12.2 million in total for FY 2010-11. Chapter 363 specifies a reduction of $1.24 million each year, beginning in FY 2009, to the tax system management program. This represents a 3.1 percent reduction to the department's non-compliance related activities. However, the agency also received new appropriations of $7.36 million for additional compliance activities, so the department's overall operating budget increased.

Additional Compliance Initiatives: Chapter 363 includes funding for 2 additional tax compliance activities, bringing in a total of $23.6 million in new general fund revenues for FY 2009 and $47.3 million for FY 2010-11.

Department of Revenue: New Compliance Initiatives
(dollars in thousands)

	FY 2009	FY 2010-11
Bank Data Matches		
Expenditures	360	720
New Revenues	10,000	20,000
Net General Fund Gain	**9,640**	**19,280**
Increase Audit Staff		
Expenditures	7,000	14,000
New Revenues	21,000	42,000
Net General Fund Gain	**14,000**	**28,000**
Total Net General Fund Gain	**23,640**	**47,280**

- Bank Data Matches: $360,000 is appropriated for the expenses of a new program requiring financial institutions to participate in a data-matching program with the department. If a data match is found, the department may levy against the tax-debtor's assets. This new program is expected to bring in $10 million each year in new general fund revenues, for a net gain of $9.64 million annually.

- Additional Audit Activities: $7 million is appropriated to further expand compliance activities in the department. These activities include identification and collection of tax liabilities from individuals and businesses that currently do not pay all taxes owed, and audit and collection activity in various tax areas. The new funding is expected to bring in an additional $21 million per year in revenue, so the net gain to the general fund is $14 million each year. This 3:1 ratio of expenditures is lower than previous initiatives – the last initiative funded in the 2007 session used a 5:1 ratio.

Professional and Technical Contracts Reduction – All Agencies

The commissioner of finance is required to allocate a reduction of $1.875 million among general fund appropriations to executive branch state agencies, excluding MnSCU. To the extent possible, this reduction must be achieved by reducing expenditures for professional and technical contracts, but otherwise must be allocated proportionally across operating budgets. Chapter 363 also provides that $575,000 per year is a permanent base reduction for fiscal years 2010 and 2011.

Chapter 288, 35W Bridge Collapse Victims Fund: $38 Million

Chapter 288 appropriates a total of $38 million to provide compensation to survivors of the I-35W bridge collapse. A three-person special master panel is established to consider claims and enter into settlement agreements.

- $24 million is to make payments under settlement agreements, capped at $400,000 per claimant;
- $12.64 million is to make supplemental payments for survivors with extraordinary losses exceeding $400,000. These payments are limited to uncompensated medical expenses and economic losses, such as loss of income;
- $750,000 is for administrative expenses of the special master panel;
- $610,000 is for a grant to Pillsbury United Communities in Minneapolis, to allow Waite House to provide services to youth who were on a school bus on the bridge when it collapsed.

The commissioner of finance is required to report to the legislature on the expenditure of these appropriations by January 15 of 2009, 2010, and 2011.

Chapter 349, Omnibus Pension Bill: Fiscal Impacts[1]

Article 9, Section 1 of Chapter 349 redirects state aid that is paid under Minnesota Statutes 354A.12. The Teacher's Retirement Association state aid payment is reduced by $346,000, beginning in FY 2008. This same amount is then redirected to the Duluth Teacher's Retirement Association, so the net impact on the state aid appropriation is zero.

[1] Full details on the pension legislation passed by the 2008 Legislature can be found on the Legislative Pension Commission's website at http://www.lcpr.leg.mn/lcprmain.htm

Article 11, Section 17 includes a $140,000 appropriation in FY 2009 to the Legislative Commission on Pensions and Retirement. The appropriation amount is offset by a reduction in the state aid payment to the St. Paul Teacher's Retirement Fund (in Article 9, Section 1).

Chapter 349, Omnibus Pension Bill: Summary of General Fund Impacts
(dollars in thousands)

		FY 2008	**FY 2009**
General Fund Aid Programs: Reallocation within existing appropriations			
Teachers Retirement Association			
Redirection of state aid in MS 354A.12	Article 9, Section 1	(346)	(346)
Duluth Teachers Retirement Association			
Redirection of state aid in MS 354A.12	Article 9, Section 1	(346)	(346)
	Net Impact:	**0**	**0**
General Fund Appropriation Changes:			
Legislative Commission on Pensions & Retirement			
Appropriation for Consulting Actuarial Services	Article 11, Section 17	0	(140)
St. Paul Teachers Retirement Fund			
Reduction in direct state aid	Article 9, Section 1		(140)
	Net Impact:		**0**

For additional information on State Government finance issues, contact Helen Roberts at 296-4117 or helen.roberts@house.mn.

Transportation Finance

During the 2008 Legislative Session two transportation finance-related bills and a number of policy bills with fiscal impacts became law. Minnesota Laws 2008, Chapter 152 included a number of revenue raising provisions as well as appropriations, and Chapter 363, the budget balancing bill, contained an article (Article 11) related to transportation. The Governor also signed the following transportation policy-related Chapters into law that have fiscal implications: 251, 287, 306, 308, and 350.

Minnesota Laws 2008, Chapters 152 and 363 impact the general fund. The general fund impact of Chapter 152 totals $2.8 million in additional spending in FY 2009 and no additional spending in FY 2010 or 2011. This Chapter also decreases general fund revenue by $400,000 FY 2009, $35.7 million in FY 2010, and $45.8 million in FY 2011.

Chapter 363, Article 11 includes $255,000 in general fund spending reductions in the transportation area in the FY 2008-09 biennium and $404,000 in spending reductions in the FY 2010-11 biennium. In addition, a total of $21.0 million in transfers are included in the FY 2008-09 biennium from the rail service improvement account and the state airports fund to the general fund. Below is a summary of the general fund impact by agency of Minnesota Laws 2008, Chapter 152 and Chapter 363, Article 11:

Table I: Transportation Finance - 2008 Laws, Chapters 152 & 363, Article 11

(dollars in thousands)

	FY 08	FY 09	FY 08-09	FY 10	FY 11	FY 10-11
General Fund Expenditure Changes						
Department of Transportation	0	2,416	2,416	(34)	(34)	(68)
Metropolitan Council	0	(136)	(136)	(136)	(136)	(272)
Department of Public Safety	0	(60)	(60)	(32)	(32)	(64)
University of Minnesota / Value Capture Study	0	300	300	0	0	0
Subtotal Expenditure Changes:	**0**	**2,520**	**2,520**	**(202)**	**(202)**	**(404)**
General Fund Revenue Changes						
Rail Service Improvement Account Transfer	3,000	3,000	6,000	0	0	0
State Airports Fund Transfer	15,000	0	15,000	0	0	0
Lower Income Motor Fuels Tax Credit	0	0	0	(29,800)	(30,700)	(60,500)
Dedication of Sales Tax on Motor Vehicle Leases	0	0	0	0	(8,140)	(8,140)
Income Tax Offset for Registration Tax Change	0	(400)	(400)	(1,400)	(2,400)	(3,800)
DUI Reinstatement	0	0	0	(4,525)	(4,525)	(9,050)
Subtotal Revenue Changes:	**18,000**	**2,600**	**20,600**	**(35,725)**	**(45,765)**	**(81,490)**
Net General Fund Change:	**(18,000)**	**(80)**	**(18,080)**	**35,523**	**45,563**	**81,086**

Budget Highlights: Minnesota Laws 2008, Chapter 152

Significant state expenditure and revenue changes occur in Chapter 152 due to additional revenue from a gas tax increase, tab fee changes, and rental car fee increase. These changes impact the trunk highway fund, county state aid highway fund, and municipal state aid street fund as well as a number of non-transportation related funds. A summary of state expenditure and revenue changes within the transportation area are included below and additional details on each of these items follow:

Table II: Transportation Finance Division - 2008 Laws, Chapter 152
(dollars in thousands)

	FY 08	FY 09	FY 08-09	FY 10	FY 11	FY 10-11
Expenditure Changes by Fund						
General Fund	0	2,775	2,775	0	0	0
Trunk Highway Fund	55,000	163,250	218,250	117,602	173,358	290,960
County State Aid Highway Fund	0	50,173	50,173	50,173	50,173	100,346
Municipal State Aid Street Fund	0	13,179	13,179	13,179	13,179	26,358
Expenditure Changes:	**55,000**	**229,377**	**284,377**	**180,954**	**236,710**	**417,664**
State Revenue Changes by Source						
Gasoline and Special Fuel Taxes	10,500	136,000	146,500	218,900	230,800	449,700
Motor Vehicle License Tax	0	17,000	17,000	63,900	114,100	178,000
Dedication of Sales Tax on Motor Vehicle Leases	0	0	0	0	8,140	8,140
Rental Car Fee Increase from 3% to 5%	0	400	400	2,100	2,300	4,400
HUTD Revenue Changes:	**10,500**	**153,400**	**163,900**	**284,900**	**355,340**	**640,240**
Bonding						
Trunk Highway Bonds	0	500,000	500,000	500,000	100,000	600,000
GO Bonds (Local Roads & Bridges)	0	60,060	60,060	0	0	0
Bonds Authorized:	**0**	**560,060**	**560,060**	**500,000**	**100,000**	**600,000**

Expenditure Changes: MN Department of Transportation

- $1.7 million from the general fund for greater MN transit in FY 2009;
- $250,000 in FY 2009 from the general fund for a study on extending the Northstar rail line;
- $500,000 from the general fund for ports in FY 2009;
- $41.4 million increase beginning in FY 2009 from the trunk highway fund for state road infrastructure operations and maintenance;
- $200,000 grant from the trunk highway fund in FY 2009 to the Hubert H. Humphrey Institute of Public Affairs for the Institute's participation in the Urban Partnership Agreement;

- $33.8 million increase beginning in FY 2009 from the trunk highway fund for state road infrastructure investment support;
- $7.2 million increase in FY 2009, $38.8 million increase in FY 2010, and $94.5 million increase in FY 2011 from the trunk highway fund to cover debt service on the additional bonds authorized;
- $50.2 million increase beginning in FY 2009 from the county state aid highway fund and $13.2 million from the municipal state aid street fund for local roads and bridges; and
- $55 million increase in FY 2008 and $77 million in FY 2009 authorizing the agency to spend federal funds received for the I-35W Bridge.

Expenditure Changes: Other Agencies

- $3.7 million increase beginning in FY 2009 to the Department of Public Safety from the trunk highway fund for the state patrol for additional troopers; and,
- $325,000 from the general fund to be used in FY 2008 and FY 2009 by the University of Minnesota for a value capture study to examine the impact of enhancing transportation infrastructure on neighboring land value. This amount was decreased by $25,000 in Minnesota Laws 2008, Chapter 363.

State and Local Revenue Impacts

- Gasoline and Special Fuels Tax Increase: Increases the gasoline tax by 5 cents and the tax on other fuels by a proportional amount. This increase will occur in two phases: a 2-cent increase on April 1, 2008 and a 3-cent increase on October 1, 2008. Chapter 152 also includes a variable increase in the gas tax to pay for the debt service on the trunk highway bonds authorized in this Chapter. The table below outlines the tax rates:

(tax in cents per gallon)	**Tax Prior to 2008 Session**	**Gas Tax Increase**	**Debt Service Surcharge**	**Total Gas Tax**
FY 2009	20	5	0.5	25.5
FY 2010	20	5	2.1	27.1
FY 2011	20	5	2.5	27.5
FY 2012	20	5	3.0	28.0
FY 2013	20	5	3.5	28.5

  The debt service surcharge is capped at 3.5 cents and will decrease when the amount of debt service on the bonds falls below the revenue generated by the 3.5-cent tax; the surcharge will remain in effect until the bonds are paid off with the revenue generated by the surcharge. Total additional revenue from the gas tax increase and surcharge is highlighted in Table II.

- Lower Income Motor Fuels Tax Credit: Creates a refundable credit against the individual income tax of $25 in tax year 2009 (FY 2010) and succeeding years for certain filers. To qualify for the credit, a taxpayer's taxable income must fall into the lowest tax bracket for that year. This tax credit is paid with the revenue generated from the sales tax on motor vehicle leases discussed below and is meant to offset a portion of the impact of the increased taxes in the Chapter. An estimate on the anticipated impact of this credit is included in Table I.

- Dedication of Sales Tax on Motor Vehicle Leases: Funding from the sales tax on motor vehicle leases will no longer be used for various purposes funded through the general fund. Rather, a portion of the total will be used to fund the low-income gas tax credit mentioned above. The remaining portion of the revenue will be split 50% for greater Minnesota transit and 50% for metro roads. Dedication of these funds will begin in FY 2010 and will be phased-in during FY 2010 and FY 2011. Information on this change is included in Table I above.

- Motor Vehicle License Tax (Tab Fee) Changes: Changes the depreciation schedule, so the formula depreciates motor vehicles more quickly. This results in less revenue over time. However, Chapter 152 also removes language regarding the maximum amount motor vehicle owners will pay; this increases revenue over time. Overall, revenue will increase due to these changes, and this increase is noted in Table II.

- 0.25% Metro Area Local Option Sales Tax: Creates the option for counties within the 7-county metropolitan to enter into a joint powers agreement and increase their sales tax by 0.25%. Currently, five of the seven counties have entered into a joint powers agreement: Anoka, Dakota, Hennepin, Ramsey, and Washington. Revenue generated from this sales tax will be dedicated to transit and will be distributed based on decisions made by the joint powers board. Approximately $30 million of the initial funds raised under this tax will be available in FY 2009 to the Metropolitan Council. The table below represents the estimated amount that will be generated with this tax over the next three fiscal years by the five counties who have joined the joint powers board:

Local Option Taxes			
($ in thousands)	**FY 2009**	**FY 2010**	**FY 2011**
5-County Metro 0.25% Sales Tax	$ 96,020	$ 107,376	$ 110,815
80-County 0.5% Sales Tax	$ 85,406	$ 131,581	$ 136,083

- 0.5% Greater MN Local Option Sales Tax: Allows a single county or a coalition of counties acting under a joint powers agreement to impose a 0.5% sales tax if the tax increase is approved by voters. The funds must be used for a specific transportation project, and the tax terminates after project completion. The table above estimates the maximum amount that could be generated if all 80 greater Minnesota counties impose this tax.

Other Fiscal Impacts

- $1.8 Billion in Trunk Highway Bonds: Authorizes $1.8 billion in trunk highway bonds over a 10-year period: $500 million each year in FY 2009 and FY 2010, and $100 million each year from FY 2011 to FY 2018. A portion of the funds authorized are used for specific projects, including $300 million in FY 2009 and an additional $300 million in FY 2010 for the trunk highway bridge improvement program outlined in Chapter 152. Debt service on these bonds will be paid with the revenue generated from the debt service surcharge noted above. Specific authorizations are included in the table below:

Capital Projects - Chapter 152		
Department of Transportation	**FUND**	**($ in thousands)**
State Road Construction	THF	$ 1,717,694
Great River Road	THF	$ 4,299
Urban Partnership Agreement	THF	$ 24,778
Mankato District Headquarters	THF	$ 23,983
Chaska Truck Station - Carver County Partnership	THF	$ 8,649
Rochester and Maple Grove Truck Station Design	THF	$ 2,000
Local Bridge Replacement and Rehabilitation	GO	$ 50,000
Local Road Improvement Program	GO	$ 10,000
	TOTAL	**$ 1,841,403**
Metropolitan Council		
Urban Partnership Agreement	THF	$ 400
	TOTAL	**$ 400**
Department of Administration		
Department of Transportation exterior	THF	$ 18,197
	TOTAL	**$ 18,197**
Department of Finance		
Bond Sale Expenses	GO	$ 60
Bond Sale Expenses	THF	$ 1,800
	TOTAL	**$ 1,860**
BONDING TOTAL	**GO**	**$ 60,060**
	THF	**$ 1,801,800**
	TOTAL	**$ 1,861,860**

- <u>$60.060 Million in General Obligation Bonds:</u> Authorizes $50 million in general fund supported general obligation bonds for local bridges and $10 million for local roads as indicated in the table above.
- <u>County State Aid Highway Formula:</u> Modifies the county state aid highway formula, so additional revenues generated from the gas tax, motor vehicle sales tax, and tab fees are distributed under a new formula with 60% based on needs and 40% based on vehicle registrations. "Additional revenue" from the motor vehicle sales tax is based on the percent apportioned to county state aid highways in FY 2007.

- DUI Reinstatement: Allows an individual whose license has been revoked due to a DUI offense and who is eligible for a public defender to pay the current surcharge of $430 to reinstate their license in two phases. This results in a loss of general fund revenue of approximately $4.5 million per year beginning in FY 2010 and is noted in Table I above.
- Income Tax Offset for Registration Tax Changes: The increase in the registration tax (tab fees), described in the State and Local Revenue Impacts section above, yields an increase in the amount individuals can deduct on their income taxes. The fiscal impact of this offset is noted in Table I.
- Flexible Highway Account: Changes the distribution of the funds where 100% of the additional revenues generated from the gas tax, motor vehicle sales tax, and tab fees will be used for metropolitan area roads in FY 2010 and 50% for metro roads in subsequent years. Remaining funds will be split equally between greater Minnesota and the metro area and will be used for turnbacks, safety improvements, and routes of regional significance.

Budget Highlights: Minnesota Laws 2008, Chapter 363, Article 11

Department of Transportation

- $32,000 decrease per year in the general fund appropriation for greater MN transit beginning in FY 2009;
- $2,000 on-going decrease in the general fund appropriation for freight beginning in FY 2009;
- $6.9 million increase in the trunk highway appropriation for state road construction for FY 2009. This amount represents an increase in federal funds;
- $15 million transfer from the state airports fund to the general fund in FY 2008 and a decrease in the FY 2009 appropriation for state airport development and assistance by a corresponding $15 million; and,
- $6 million in transfers from the rail service improvement account to the general fund. $3 million of which is transferred in FY 2008 and an additional $3 million in FY 2009.

Department of Public Safety

- $17,000 decrease per year in the general fund appropriation for public safety support beginning in FY 2009, and a $28,000 decrease in FY 2009 for the security coordinator for the Republican National Convention;
- $15,000 decrease per year in the general fund appropriation for capitol security; and
- Includes a surcharge of $1.75 on vehicle registration renewals, title fees, and driver's license fees to fund new technology for driver and vehicle services. This surcharge will be in effect from FY 2009-2012. An account is created within the special revenue fund,

and revenues generated from the surcharge will be deposited in this account. The Department currently estimates the surcharge will raise $12.3 million per year, and they estimate the new system will cost approximately $48 million to develop.

Metropolitan Council Transit

- $136,000 on-going decrease in the general fund appropriation beginning in FY 2009.

University of Minnesota

- $25,000 decrease in the University of Minnesota appropriation from the general fund in Minnesota Laws 2008, Chapter 152 for a value capture study.

Budget Highlights: Transportation Policy Bills

Minnesota Laws 2008, Chapters 251, 287, 306, 308, and 350 include transportation policy provisions with fiscal impacts. The fiscal impacts for each chapter are outlined below:

Minnesota Laws 2008, Chapter 251: U.S. Open Special Temporary Permits

- Directs the Department of Public Safety to design and issue special temporary permits for the U.S Women's Open. This will generate $3,000 in revenue in FY 2008 and will cost $2,000 for a gain of $1,000 in FY 2008 to the special revenue fund.

Minnesota Laws 2008, Chapter 287: Transportation Policy Omnibus I

Agencies estimate the total impact of Chapter 287 will be an additional cost of $23,000 in FY 2008, a savings of $1,000 in FY 2009, a savings of $424,000 in FY 2010, and a savings of $391,000 in FY 2011. Additional details on the fiscal impacts are included below:

- 24-hour pharmacies are added to a list of businesses that can take part in the sign franchise program, and costs for this program are not covered by the state;
- $40,000 per year savings to the trunk highway fund because language allows the MN Department of Transportation to advertise bids electronically;
- Requires the MN Department of Transportation to examine all contracts over $100,000 related to construction and maintenance of trunk highways in order to determine the cost of having agency employees conduct the work rather than a private contractor. Chapter 287 also requires the Department to submit an annual written report to the Legislature on contracts. The agency estimated these provisions will cost approximately $51,000 in FY 2009 and $61,000 in FY 2010 and 2011 in trunk highway funds. The Legislature did not appropriate funds for these activities, so the agency will need to use existing resources to complete the work;
- Up to $400,000 in additional resources for the Center for Transportation Studies at the University of Minnesota from existing resources. This represents a shift in who the MN Department of Transportation is allowed to contract with for research;

- $22,000 in savings to the trunk highway fund per year because culverts may be inspected every four years rather than every two years;
- $20,000 in additional trunk highway fund revenue from a fee increase from $24 to $60 on motor vehicles carrying agricultural products;
- $850,000 in additional revenue in FY 2009, 2010 and 2011 for the special revenue fund from permits for six and seven-axel vehicles hauling agricultural products. The permits are $300 and $500, respectively;
- Requires the MN Department of Transportation to submit a report to the Legislature every odd-numbered year on the amount of federal funds used for highway construction training programs. The agency estimated these provisions will cost approximately $20,000 every odd-numbered fiscal year from the trunk highway fund. The Legislature did not make an appropriation for this activity, so the agency will need to complete the reports using existing funds;
- Requires a pavement lifecycle analyses for projects constructed after July 1, 2011. The MN Department of Transportation estimates this will take approximately $15,000 in additional expenditures from the trunk highway fund in FY 2009 and $33,000 in FY 2010, and $46,000 in FY 2011. The Legislature did not make a separate appropriation for this activity, so the Department will need to complete the analysis using existing resources;
- Requires the MN Department of Transportation to submit a report every odd-numbered year on the complaints related to special transportation services. The agency estimates it will cost approximately $70,000 each year in FY 2009-11 to prepare the report. The Legislature did not make a separate appropriation for this activity, so the agency will need to use existing resources to complete the reports;
- Creates a state rail safety inspector position within the MN Department of Transportation. The Department will annually assess railroad companies for the cost of this position. In addition, the Department of Labor and Industry estimates a cost of approximately $231,000 in FY 2009 and $234,000 in FY 2010 and 2011 from the workers compensation fund for additional use of the "MNSharp" program due to additional provisions in the bill regarding rail safety. The Legislature did not appropriate funds from the workers compensation fund for additional MnSharp program activities, so the Department will need to use existing resources to provide these services;
- Directs the MN Department of Transportation to reopen the Culkin safety rest area. The agency estimates the cost of opening the rest area will be $23,000 in FY 2008 and $120,000 subsequent years. The Legislature did not make an additional appropriation for this provision, so the agency will need to use its existing appropriation to open the facility; and,
- Requires the Department of Transportation to submit a report on speed limits to the Legislature by January 30, 2009. The Department estimates it will cost approximately $70,000 to prepare the report. An additional appropriation was not made for doing this work, so the Department will need to use its existing resources to complete the report.

Minnesota Laws 2008, Chapter 306: UPA Implementation

- Makes changes to law to allow for the implementation of the Urban Partnership Agreement. Revenues generated from these provisions equal expenditures from the special revenue fund. However, the Department of Transportation anticipates the implementation of this legislation will cost $360,000 in FY 2010 and $335,000 in FY 2011 from the trunk highway fund. No appropriations were made related to these provisions in this Chapter, but other appropriations were made related to the state matching funds required for the Urban Partnership Agreement in Minnesota Laws 2008, Chapters 152 and 179.

Minnesota Laws 2008, Chapter 308: Report on Construction Impacts

- Requires the Department of Transportation to submit a report to the Legislature by February 15, 2009 on mitigating the impact of transportation construction on small businesses. The Department estimates a cost of $7,500 in FY 2008 and $35,000 in FY 2009 from the trunk highway fund. An additional appropriation was not made for this activity, so the Department will use its existing resources to complete this work.

Minnesota Laws 2008, Chapter 350: Transportation Policy Omnibus II

Agencies estimate the total impact of Chapter 350 will cost $33,000 in FY 2008, $1.5 million in FY 2009, and $1.6 million in FY 2010 and will save $309,000 FY 2011. Additional details on the fiscal impacts are included below:

- $1.1 million in additional highway user tax distribution fund revenue beginning in FY 2011 when one-ton pickups / vans, unless used for commercial enterprise, will be required to pay non-commercial rates for registration taxes;
- $76,000 decrease in highway user tax distribution fund revenue because spotter trucks will no longer pay registration taxes;
- $5,000 in additional highway user tax distribution fund revenue in FY 2011 related to multiple provisions in the bill that create a class of medium-speed vehicles;
- $54,000 in additional highway user tax distribution fund revenue each year beginning in FY 2009 from the tax on concrete pumps and street sweeping vehicles;
- $24,000 in additional trunk highway fund revenue each year beginning in FY 2009 due to provisions related to the vehicle move over law. The Department of Public Safety also noted a cost of $267,000 per year to administer these provisions; however, an appropriation was not made to cover these costs. The agency will use existing resources to implement these provisions;
- $575,000 appropriation from the trunk highway fund to the Department of Public Safety for the Office of Pupil Transportation Safety;
- $43,000 in additional trunk highway fund revenue from canola hauling permits. The agency estimates it will cost $33,000 in FY 2008, $22,000 in FY 2009, and $5,000 in FY 2010 and 2011 to administer the new permits. An appropriation was not made from

the trunk highway fund for administration, so the agency will use its existing budget authority;

- Requires the Department of Transportation to complete a statewide freight and passenger rail plan as a part of the statewide transportation plan. The cost to develop the plan is estimated to be $1.0 million over two years. Chapter 350 also allows funds from the Rail Service Improvement Account to be used for this activity but does not make a direct appropriation;
- Prohibits engine braking on I-394 in Minneapolis. This provision is fiscally neutral because the City of Minneapolis will reimburse the Department of Transportation for the costs to the trunk highway fund; and,
- Requires the Department of Transportation and the Metropolitan Council to conduct a study on complete streets policy and to report findings to the Legislature by December 5, 2009. The Department of Transportation estimates this will cost $200,000 in FY 2009 and $50,000 in FY 2010. An appropriation was not made for this activity, so the work will be completed within current appropriation levels.

For further information on transportation finance issues, contact Koryn Zewers, House Fiscal Analyst at 651-296-4178 or koryn.zewers@house.mn.

Taxes, Local Aids & Credits

The 2008 session produced two tax acts – Chapters 154 and 366 – that altered Minnesota's laws governing state taxes and property taxes and local aids. Each tax act is summarized in the context of changes in general fund revenues and tax expenditures. An additional act, Chapter 151, proposes a constitutional amendment for voter approval in the November 2008 general election. If approved, this referendum (which seeks to dedicate a new 3/8 of one percent sales tax for the environment and the arts) will change Minnesota sales tax revenues. An estimate of potential fiscal impact for Chapter 151 is provided at the end of this section.

Changes in General Fund Revenue

Chapter 154 - Overview

Chapter 154, Minnesota Laws of 2008, is mainly a revenue neutral act that contains revenue raising tax provisions that are offset by the cost of federal conformity provisions and other tax expenditures in FY 2008-09. In the current biennium, general fund tax revenues are raised by $10.745 million and offset by $10.745 million in revenue reductions and tax expenditures. In the planning years, general fund revenues are raised by $24.812 million and tax revenues are reduced by $24.401 million. Table 1 highlights these changes by major tax type.

Table 1. Chapter 154, 2008 Omnibus Tax Act -General Fund Revenue and Expenditure Changes.

(Dollars in thousands)	FY 2008-09	FY 2010-11
Income Tax & Corporate Franchise Tax changes		
Revenue Increases	4,505	17,138
Revenue Decreases	(8,340)	(19,225)
Net Income Tax Change	**(3,835)**	**(2,087)**
Sales & Use Tax & June Acceleration Payment Shifts		
Revenue Increases	6,230	320
Revenue Decreases	(1,100)	(2,398)
Net Sales & Use Tax Change	**5,130**	**(2,078)**
Property Tax, Aids & Credits		
Revenue Increases	0	7,274
Revenue Decreases	(600)	(2,778)
Net Property Tax, Aids & Credits Change	**(600)**	**4,496**
Other		
Revenue Increases (Department Penalties)	10	80
Revenue Decreases (expenditures)	(705)	(0)
Net Other Changes	**(695)**	**80**
Net General Fund Impact	**0**	**411**

Note: Negative numbers represent a cost to the state and positive numbers represent a revenue gain to the state.

Major components of Chapter 154 related to federal tax conformity, income tax, corporate franchise tax, sales tax and other taxes are summarized.

Update to Federal Tax Law

Minnesota tax calculations (for both individual and corporate tax) start with federal taxable income (FTI). 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 tax return to add back the difference.

In Chapter 154, Minnesota authorizes federal conformity to *most* provisions in these federal acts:

- The Heroes Earned Retirement Opportunities Act,
- the Pension Protection Act of 2006,
- the Tax Relief Act and Health Care Act of 2006,
- the Small Business and Work Opportunity Act of 2007,
- the Clean Renewable and Conservation Act of 2007,
- the Mortgage Forgiveness Debt Relief Act of 2007, and
- the Economic Stimulus Package of 2008.

Due to budget constraints, there are federal conformity items that were excluded from Minnesota's authorizing federal conformity legislation in Chapter 154. In the Tax Relief Act and Health Care Act, the higher education tuition deduction and the educator classroom expense deduction are not included for adoption and instead these federal deductions are added-back to Minnesota taxable income.[1] Chapter 154 also excludes the extension of an enhanced deduction for qualified computer contributions provision in the Tax Relief and Health Care Act. Adoption of this item would have been an additional cost of $330,000 in FY 2008 to Chapter 154.

In the Economic Stimulus Act of 2008, Chapter 154 provides partial conformity to federal laws with the requirement that 80 percent of the bonus depreciation be added to income in the first year and the remaining amount subtracted in equal parts over five years.

Table 2 on the following page shows the estimated revenue impact for each act of federal conformity as enacted in Chapter 154.

[1] Adoption of both items would have cost an additional $20.2 million in FY 2008-09. Of this amount, $19.2 million is the cost for the higher education tuition deduction and $1 million is the cost for the educator classroom expense deduction.

Table 2. Selected Federal Conformity Items in Chapter 154.

	FY 08-09 Biennium	2010-11 Biennium
Heroes Earned Retirement Opportunities Act	Negli.	Negli.
Pension Protection Act of 2006		
Individual Income Tax	(4,120)	(15,790)
Corporate Franchise Tax	(200)	0
Subtotal	(4,320)	(15,790)
Selected Tax Relief Act and Health Care Act of 2006 Provisions		
Individual Income Tax	(3,325)	(1,385)
Corporate Franchise Tax	(2.980)	(1,120)
Subtotal	(6,305)	(2,505)
Small Business and Work Opportunity Act of 2007		
Individual Income Tax	(120)	130
Corporate Franchise Tax	45	280
Subtotal	(75)	410
Clean Renewable Energy Conservation Act of 2007		
Individual Income Tax	0	0
Corporate Franchise Tax	25	85
Subtotal	25	85
Mortgage Forgiveness Debt Relief Act of 2007		
Individual Income Tax	(3,135)	(3,025)
Corporate Franchise Tax	0	0
Subtotal	(3,135)	(3,025)
Partial Conformity to the Economic Stimulus Act of 2008		
Individual Income Tax	2,070	3,030
Corporate Franchise Tax	4,370	6,280
Subtotal	6,440	9,310
General Fund Revenue Change Total with enactment of Ch. 154	**(7,370)**	**(11,515)**

Notes: (1) Dollars in thousands; (2) Positive dollars reflect revenue gains, negative dollars reflect revenue reductions;

Major highlights of each federal conformity act and related revenue impact of various items include:

Pension Protection Act of 2006:

- Allow the 2001 law changes to pension provisions, including increased limits on contributions and benefits to be continued permanently. Conformity costs $6.7 million in FY 2011.

- Allow the 2001 law changes to IRAs, including increased contribution limits to be continued permanently. Conformity cost $3.4 million in FY 2011.

- Allow the 2001 law changes to Section 529 qualified tuition programs to be continued permanently. Conformity costs $400,000 in FY 2011.

- Allow tax-free distribution up to $100,000 from an IRA for charitable purposes for taxpayers age 70.5 years and older. Cost $975,000 in FY 2008-09 and $500,000 in FY 2010-11.

- Allow tax-free distribution up to $3,000 from government pension plans for health and long-term care insurance for public safety officers. Cost $1.75 million in FY 2008-09 and $2 million in FY 2010-11.

Tax Relief and Health Care Act of 2006:

- Allows full deductible for Health Savings Account (HAS) contribution for months preceeding taxpayer is in a high deductible plan. Conformity costs about $375,000 for FY 2008-09 and $410,000 in FY 2010-11.

- Allows a one-time roll-over of health reimbursement account and health flexible spending arrangements funds into a health savings account (HAS). Allow this one –time roll-over to a HAS costs about $30,000 each year.

- Repeal limitation on HAS contribution that corresponds to the annual plan deductible. Repealing this limitation costs about $140,000 to $200,000 each year from FY 2009 to FY 2011.

Mortgage Forgiveness Act of 2006:

- Exclude discharges of principle residence acquisition indebtedness from gross income. Costs: $2.2 million for FY 2008-09 and $1.0 million in FY 2010-11.

- Extend deduction of private mortgage insurance. Costs: $700,000 million to $750,000 each year.

Small Business Act of 2007

- Increased section 179 expensing with 80 percent add-back and a five year subtraction. Section 179 expensing allows businesses to deduct the entire amount of the cost of qualifying business property in the tax year it was placed in service, rather than claiming depreciation deduction over a number of years. Under prior law, up to $112,000 of depreciable personal property could be expensed in tax year 2007. If the taxpayer placed more than $450,000 of qualifying property in service during the year, the $112,000 was reduced by one dollar for each dollar that the total exceeded $450,000. The new law increases the $112,000 to $125,000 and increases the $450,000 to $500,000 for tax year 2007. Minnesota's partial conformity to Section 179 expensing results in more revenue gain relative to the three to four year depreciation because more revenue is recovered in the first year with the 80 percent/five year add-back. Revenue gain: $235,000 in FY 2008-09 and $1.38 million in FY 2010-11.

- S Corporations include but are not limited to a change in the treatment of certain bank director shares, recapture of bad debt reserves when a bank changes from the reserve method of accounting and elects to be an S corporation. Cost: $300,000 to $500,000 each year.

Clean Renewable Energy and Conservation Act of 2007:

- Increased amortization period for geological and geophysical expenditures from five to seven years. Revenue gain: $25,000 in FY 2008-09 and $85,000 in FY 2010-11.

The Economic Stimulus Package of 2008

- Increased section 179 expensing, with the 80 percent add-back and five year recovery. In tax year 2008, up to $250,000 of depreciable property could be expenses in TY 2008, if more than $510,000 of qualifying property was placed in service during the year. This amount of $250,000 is reduced by one dollar for each dollar that the total exceeded $800,000. This partial conformity approach shifts depreciation toward the early years of asset life resulting in net tax savings to businesses relative to the time value depreciation. In terms of the revenue impact to the state's bottom-line, this approach raises $340,000 in general fund revenue in FY 2008-09.

- Bonus depreciation at 50 percent, with 80 percent add-back and 5 year recovery. In tax year 2008 only, bonus depreciation allows taxpayers to claim 50 percent of an asset's basis as "bonus depreciation" in the year the asset is placed in service and claim the regular depreciation amount on the remaining 50 percent of the asset's basis. Rather than full conformity, Minnesota provides partial conformity by allowing an 80 percent add-back in the first year with five year recovery. This partial conformity approach yields a revenue gain of $6.1 million in FY 2008-09 and $9.3 million in FY 2010-11. Full conformity without the 80 percent add-back and five year add-back would cost $150 million in FY 2009 with a revenue gain of about $51 million in FY 2010-11.

Individual Income Tax

Require contractors to withhold two percent from all payments made to sole proprietors. Chapter 154 requires construction contractors to withhold state income tax from payments to all self employed individuals who are hired as sub-contractors (both Minnesota residents and non-residents) and paid more than $600 during the year.[2] Contractors would issue a Form 1099 at the end of the year showing the amount withheld. If the amount withheld is in excess of the amount owed in state income taxes, a refund will be issued after the appropriate income tax forms are filed. The estimated additional revenue from this provision (about $2 million per year) reflects an assumed increase in the collection of tax liabilities from sole proprietors, especially non-resident contractors in the construction industry. This provision is effective for payments after December 31, 2008 and is expected to increase compliance because it would insure that all sole proprietors in the construction industry pay the state income tax they currently owe.

Subtraction for Active Duty Military Outside Minnesota. Chapter 154 provides a subtraction from federal taxable income for the amount of compensation paid to Minnesota residents who are members of the armed forces for active service performed outside Minnesota (under Title 10 of the federal code). Under current law, members of the National Guard (under Title 32 of the federal code) who are outside Minnesota for training or other duty are not allowed this subtraction. The language in this act allows this subtraction to the National Guard starting in tax year 2008. Revenues to the general fund are expected to be reduced by $125,000 in FY 2008-09 and $270,000 in FY 2010-11. An additional 2,000 taxpayers are expected to benefit from this expanded provision.

Prohibits the deduction of fines, penalties and restitution. Under prior law, amounts paid under a civil proceeding would be deductible as a business expense. The language in this provision prohibits the deduction of fines, fees and penalties paid in violation of a law to a government or to a specified non government entity, excluding restitution. This provision is effective for tax year 2008 and general fund revenue is estimated to increase by $260,000 in FY 2008-09 and $190,000 in FY10-11 with this provision.

Eliminates the exclusion from taxable income of wages earned when the taxpayer was a Minnesota resident but received when the taxpayer was not a resident. Under prior law, wages for work performed while a Minnesota resident that are not received until the individual is a resident of another state is not subject to Minnesota income tax. Chapter 154 eliminates this exclusion from income tax for tax year 2008. This provision is estimated to increase general fund revenue by $2.4 million in FY 2009 and $5.3 million in FY 2010-11.

Income Tax Interaction from Property Tax Changes. Chapter 154 authorizes several property tax provisions such as the homestead property tax exclusion for the disabled veteran and bracket change for disabled homestead class 1b. These changes will be discussed in the property tax expenditure section of this summary and are only referenced in this section because these provisions are expected to lower homeowner property taxes. If homeowner property tax deductions are lowered, the net effect to the state is lower income tax and corporate franchise

[2] This requirement applies to the following types of businesses engaged in the: (1) construction of buildings (2) heavy and civil engineering construction; (3) specialty trade contractors.

income tax deductions and increased income tax collections. Due to these property tax law changes, general fund revenues are expected to increase by $208,000 from income tax and corporate franchise income tax during the FY 2010-2011 biennium.

Sales Tax

Adopt a new definition of *"bundled transaction"* from the streamline sales tax agreement (SSTA). This new definition of bundled transaction is when two or more products are sold at retail for one non-itemized price. With this new definition, bundled transactions are taxable sales but there are a number of exceptions when bundled transaction would not be taxable.[3] In addition, there is a related provision that requires that when a bundled transaction is not taxed because of these exceptions in law, that use tax must be applied on the purchase price of the taxable portion if the amount is equal to or greater than $100. Conformity to this new definition would be effective for sales and purchases made on or after January 1, 2008.

The adoption of this definition results in a slight reduction in sales tax general fund revenue of $90,000 in FY 2008-09 and $.138 million in FY 2010-11.

Adopt a new definition of *"fur clothing*" from the streamline sales tax agreement. The new SSTA definition of fur clothing allows the state to exclude fur clothing from the sales tax exemption for clothing and make it subject to sales tax. Under prior law, fur clothing was subject to a 6.5 percent gross receipts tax (rather than sales tax). Conformity to this new definition would be effective June 30, 2008 and business taxpayers would remit monthly sales tax payments rather than quarterly gross receipt tax payments. This shift in payment schedule results in a one-time gain in general fund sales tax revenue of $20,000 in FY 2009.

Exempt third party aggregate materials: Chapter 154 modifies the taxation of delivery charges for aggregate materials except for aggregate used in public road construction and private road construction to the point up to the fire number sign for private roads in a township outside the seven county metro area. This exemption is effective in FY 2009 and is estimated to reduce general fund revenue by $1.010 million in FY 2008-09 and $2.260 million in FY 2010-11.

Other Taxes

Additional Border City Enterprise Zones and Border City Development Zones allocations. An additional $705,000 is authorized for border city enterprise zone and border city development zone tax reductions. These programs were created in 1984. This allocation may be used for existing enterprise zone tax reductions or to offset other taxes imposed or remitted by businesses in the enterprise zone. DEED is authorized to distribute these allocations on a per capita basis to

[3] See the bill summary for HF 3201 (UEH3201-2) or Chapter 154, Laws of 2008 by House Research for more detail on the exceptions for bundled transaction not subject to sales tax.
http://www.house.leg.state.mn.us/hrd/bs/85/hf3201.html

eligible businesses[4] located in the cities of: (1) Breckenridge; (2) Dilworth; (3) East Grand Forks; (4) Moorhead; (5) Ortonville. This cost is a one-time allocation from the general fund in FY 2009.

Department of Revenue Penalty Provisions Modified: There are a number of penalty provisions under current law enacted with the intent of improving compliance with reporting information on tax returns. The penalty provisions in this bill cover changing taxpayer behavior as it relates to tax return filing. Some compliance issues that can be addressed with penalties are: (1) encouraging taxpayers to report tax return information; (2) encouraging taxpayers to submit complete tax return information; and (3) encouraging taxpayers to provide correct ID numbers. These new or modified penalties are expected to generate $10,000 in FY 2008-09 and $80,000 in FY 2010-2011.

Accelerated June Payments Increase from 78 percent to 80 percent. Since 1983, business taxpayers with over $120,000 of annual sales and use tax liability have been required to make an accelerated payment of a portion of their June tax liability – paying that portion of the tax two business days before June 30 rather than on July 20. (Tax liabilities for sales, cigarettes and alcohol, other than the month of June, are due by the 20th of the following month). By shifting the payment forward by about three weeks, the revenues received by the state are shifted to an earlier fiscal year. This "fiscal year shift" was originally used to help balance the state budget by creating a large one-time gain in revenue.

Chapter 154 increases the required portion of June liability that must be paid in June, starting with payments due in June 2009 from 78 percent up to 80 percent. This increase in the amount accelerated is expected to increase general fund revenue by $5.780 million in FY 2009, an additional $.430 million from June acceleration payments will be transferred to the general fund from the Health Impact Fund (as shown in table 4). There are about 3,485 sales taxpayers, 14 alcoholic beverage taxpayers and 52 cigarette and tobacco taxpayers that pay this accelerated payment.[5] See the chapter 366 summary for the additional increase in the required accelerated June tax liability payment passed in 2008 Session Laws.

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4 Businesses excluded from this allocation are: recreation or entertainment facility, one owned by a fraternal or veteran's organization, one owned by a public utility, one used in operation of a financial institution, or one owned by a retail food or beverage service business operating under a franchise agreement.

5 Chapter 154 includes a provision that accelerates June payments from 78 percent to 80 percent. The additional revenue raised from this time shift in revenues is $6.210 million in FY 2009 and $.320 million in FY 10-11.

Table 3. Chapter 154 Omnibus Tax Act **- General Fund Tax Revenue Change Provisions** *(dollars in thousands)*						
	FY 08	**FY 09**	**FY 08-09**	**FY 10**	**FY 11**	**FY 10-11**
Individual Income Tax & Corporate Franchise Tax						
Independent Contractor Withholding (1/1/09)	0	1,000	**1,000**	2,000	2,000	**4,000**
National Guard Out-of-State Subtraction, applies retroactive (TY 2008))	0	(125)	**(125)**	(130)	(140)	**(270)**
Selected Federal Conformity Update Items	(8,215)	845	**(7,370)**	7,440	(18,955)	**(11,515)**
Repeal Deferred Compensation Exclusion for Non residents. (1/1/08)	0	2,400	**2,400**	2,600	2,700	**5,300**
Prohibit Deduction for fines and penalties (1/1/08)	0	260	**260**	130	60	**190**
Income Tax Interactions with Property Tax Provisions	0	0	**0**	104	104	**208**
Sales & Use Tax						
Conform to the SSTP definition of "bundled transaction" (eff 1/1/08)	(25)	(65)	**(90)**	(68)	(70)	**(138)**
Eliminate fur gross receipts tax, allow sales tax on fur clothing (eff 7/1/08)	0	20	**20**	0	0	**0**
Third Party Aggregate Delivery – DOR (7/1/2008)	0	(1,010)	**(1,010)**	(1,120)	(1,140)	**(2,260)**
Other Taxes						
Acceleration of June Payments from 78% to 80% at 6.5% rate: (1) Sales tax; (2)Cigarette Excise Tax; (3) Cigarette-in Lieu Sales Tax; (4) Tobacco Products Excise Tax; (5) Alcoholic Beverages Excise Tax	0	6,210	**6,210**	140	180	**320**
Border City Allocation	0	(705)	**(705)**	0	0	**0**
Various Penalty Provisions	0	10	**10**	50	30	**80**
Net General Fund Revenue Change Total	(8,240)	8,840	**600**	$11,146	($15,231)	**($4,085)**
Notes: (1) Dollars in thousands; and (2) Positive dollars reflect revenue gains, negative dollars reflect revenue reductions						

Increase the percent of un-refunded gas tax for the operation of All-Terrain Vehicle Account (ATV) from .15 percent to .27 percent. Chapter 154 requires that the percent of total gas tax revenue related to ATV operation should increase from .15 percent to .27 percent. Increasing this rate has no impact on the general fund. Instead, this provision would reduce funding from the Highway User Tax Distribution Fund (HUTDF) and increase the amount of unrefunded gas tax transferred into the Natural Resources Fund. The total amount re-distributed between funds is $810,000 each year after the first year of implementation (as shown in table 4).

Table 4. Chapter 154 Omnibus Tax Act – Non General Fund Revenue Change Provisions

(dollars in thousands)	FY 08	FY 09	2008-09 Biennium	FY 10	FY 11	2010-11 Biennium
Acceleration of June Payments for: (1) Cigarette Health Impact Fee; (2) Tobacco Products Health Impact Fee. (effective June 2009)						
Rate Accelerated from 78% to 80% at 6.5%: Health Impact Fee	0	430	**430**	(10)	(10)	**(20)**
Rate accelerated from 78% to 80% at 6.5%: Health Impact Fee Transferred to the General Fund	0	(430)	**1,000**	10	10	**20**
ATV Unrefunded Gas Tax, change rate from .15% to .27% of 1%						
Natural Resources Fund	0	370	**370**	810	810	**1,630**
Highway Users Tax Distribution Fund	0	(370)	**(370)**	(810)	(810)	**(1,630)**
Notes: (1) dollars in thousands; (2) positive dollars reflect revenue gains, negative dollars reflect revenue reductions;						

Chapter 366 – An Overview

Chapter 366, Minnesota Laws of 2008, (the 2008 Omnibus Tax Act) includes changes that will increase general fund tax revenue to help offset the forecasted budget deficit in the FY 2008-2009 biennium[6]. It also includes changes that will increase general fund tax revenue to offset tax expenditures in the FY 2010-2011 biennium.

In the current biennium, this omnibus tax act increases general fund revenues by $141 million in FY 2008-09 as summarized in Table 5. With the exception of a few one-time appropriations and a sales tax exemption, most tax changes in this act are permanent and continue into the FY 2010- 2011 biennium. Permanent tax changes include corporate income franchise tax FOC (foreign operating corporation) changes, a fiscal year time shift payment increase in June acceleration payments starting in June 2009 and income tax benefits for military personnel. Table 5 on the following page highlights these changes by major tax type.

[6] The 2008 February Forecast projects a $935 million deficit for the 2008-09 biennium with a projected shortfall of $1.08 billion 2010-11. For details, see: http://www.finance.state.mn.us/ffeu/archive.html

Table 5. Chapter 366, General Fund Revenue and Expenditure Changes, 2008 Omnibus Tax Act

(Dollars in thousands)	**FY 2008-09**	**FY 2010-11**
Income Tax & Corporate Franchise Tax changes		
Revenue Increases	$109,000	$175,680
Revenue Decreases	($110)	($32,930)
Net Income Tax Change	**$108,890**	**$142,750**
Sales & Use Tax & June Acceleration Payment Shifts		
Revenue Increases	$31,750	$1,680
Revenue Decreases	($127)	($9,804)
Net Sales & Use Tax Change	**$31,623**	**($8,124)**
Property Tax, Aids & Credits		
Revenue Increases	0	$11,445
Revenue Decreases	($500)	($197,993)
Net Property Tax, Aids & Credits Change	**($500)**	**($186,548)**
Other		
Revenue Increases (Surplus lines insurance stamping office)	$1,500	$6,000
Revenue Decreases (expenditures)	($475)	($220)
Net Other Changes	**$1,025**	**$5,780**
Net General Fund Impact	**$141,038**	**($46,142)**

Note: Negative numbers represent a cost to the state and positive numbers represent a revenue gain to the state.

Income Tax and Corporate Franchise Tax

Qualifying rules for foreign operating corporations (FOC) and foreign royalty subtraction are changed. Foreign Operating Corporations (FOC) – are corporations that qualify for special tax treatment. The special tax treatment or tax benefits include a foreign royalty subtraction (a deduction at 80 percent of their income from Minnesota tax) and a dividend received deduction. In Chapter 366, a corporation's FOC status would be determined by having at least 80 percent of its gross income from active foreign business. A corporation's FOC status would no longer be determined by payroll and property factors.[7]

In addition, the treatment of FOC income is modified in three ways. First, FOC income must include: (1) interest and intangible expenses[8]: (2) dividend paid deduction of real estate

[7] In the late 1980's, Minnesota tax laws required related corporations to file a combined tax return as a "unitary business." This approach was used to offset the resulting heavy taxation of foreign operations. In 2005, the legislature enacted law changes to ensure that an FOC foreign operations had economic substance and are not just a guise that shifts domestic profits into a nontaxable shell. These law changes required corporations to meet new *de minimus* threshold to maintain its status. FOCs were required to have a least $2 million in foreign property and $1 million in foreign payroll.

[8] For additional detail on the type of interest and intangible expenses that must be added to FOC income. Please see the bill summary by House Research Summary for HF 3149 (CCRH3149C) or Chapter 366, Laws of 2008 at http://www.house.leg.state.mn.us/hrd/bs/85/hf3149.html

investment trusts; and (3) gains from the sale of U.S. real or personal property by the FOC. Second, the percentage of income receiving a foreign royalty subtraction at 80 percent is only applicable if the income resulting from payments is from income sources *outside* the United States. These tax changes are effective starting in tax year 2008 and are intended to "tighten-up" and minimize any opportunities to use this subtraction of income as another loophole.

Overall, these changes are expected to have a positive revenue impact to the general fund generating an additional $109 million in FY 2008-09 and $175 million in FY 2010-11. About 88 percent of the total increase in revenues from these tax changes is due to the definitional change to the treatment of FOC income. A smaller percentage of the tax revenue increase is generated from the foreign royalty subtraction change and interaction impact.

Apportionment of Income Earned by Mutual Fund Service Providers. Chapter 366 changes the tax liability for mutual fund service provider (MFSP) hired by mutual funds. Under prior law, the services of MFSPs are defined as taking place at the mutual fund's place of business. So if a MFSP is hired by a mutual fund whose place of business is in MN, under prior law, 100 percent of those services are considered Minnesota sales. The enacted language in chapter 366 treats the individual investor in a mutual fund as the consumers of MFSP services. These changes provide tax relief to MFSPs hired by MN based mutual funds. Analysis by the Minnesota Department of Revenue describes that the reduction in taxes paid by MFSPs hired by Minnesota mutual fund companies as exceeding the tax paid by MFSPs hired by non Minnesota fund companies. This estimated net general fund revenue reduction is $600,000 in FY 2009 and $4.3 million in FY 2010-11.

Bovine Tuberculosis Testing Credit Modified. Chapter 366 modifies an existing refundable credit to the owners of cattle in Minnesota equal to 50 percent of the expenses incurred in the testing cattle for bovine tuberculosis during the year for both income and corporate income tax filers. Chapter 366 reduces the credit from 50 percent to 25 percent for corporate tax filers. The credit remains at 50 percent of expenses incurred for all other filers. With this modification, the revenue increase to the general fund will be $340,000 in FY 2010 and $340,000 in FY 2011. This change in revenue is based on the assumption that the USDA will assign a split-state status to Minnesota which is a modified accredited status to the portion of the state where bovine tuberculosis has been found, while the rest of the state would be upgraded to a modified accredited advanced status. The change is effective starting for tax year 2009.

Subtraction for National Educational Awards from the National Service Trust for Service. AmeriCorps is an approved national service program. Chapter 366 re-authorizes an income tax subtraction for awards received from approved service programs such as AmeriCorp. From 1997 to 2004, an income tax subtraction was allowed but in 2005 this subtraction was repealed inadvertently based on incorrect information. This provision, effective for tax year 2008, would reinstate the subtraction and general fund revenues are estimated to be reduced by $110,000 starting in FY 2009 with an on-going revenue impact. An estimated 587 taxpayers will receive some tax benefits from this subtraction.

Subtraction for Military Pay. Chapter 366 allows a subtraction from taxable income and from alternative minimum income for military pay which is not currently exempt. The military pay included in this exemption is drill pay in-state and active service in Minnesota by Minnesota residents. Active Guard Reserve program pay is the only military pay excluded from this subtraction. This provision is effective in TY 2009 and is estimated to reduce general fund revenue by $3.5 million starting in FY 2010 with on-going general fund revenue impact in FY 2011 and forward. An estimated 14,130 National Guard and Reserve with in-state drill pay and about 40 Minnesota residents on active service in Minnesota as recruiters for the Coast Guard or the ROTC are estimated to receive tax benefits from this subtraction.

Military Service Credit for Current and Past Service. Chapter 366 includes two credit provisions for military personnel.

For current military service, the amount of the refundable tax credit for active military service in a combat zone increases from $59 per month to $120 per month for a taxpayer who was in active military service in a designated area after September 11, 2001.[9] With the increase, the maximum yearly credit is capped $1,440. Active military service includes the United State Armed Forces, the National Guard or reserves. A surviving spouse or dependent child of a Minnesota resident killed while in active military service in a designated area may claim the credit. The increased credit is effective in TY 2009 and is estimated to reduce general fund revenues by $1.1 million in FY 2010 and by $1.1 million in FY 2011. About taxpayers 2,660 individuals are assumed to qualify for this tax benefit.

For past military service, chapter 366 also allows for a new non refundable credit against the individual income tax of $750. This credit is limited to taxpayers that have at least 20 years in the military or have a service connected disability rating of 100 percent for total and permanent disability. The credit phases-out starting at an adjusted gross income exceeding $30,000 and the credit is completely phased-out for taxpayers with an adjusted gross income over $37,500. This credit is estimated to reduce general fund revenue by $10.3 million in FY 2010 and is an on-going provision. An estimated 14,000 taxpayers are expected to receive a tax benefit from this subtraction and about 70 percent of those taxpayers expected to receive this benefit will qualify based on the income requirements.

Border City Investment Credit established. Chapter 366 authorizes a border city investment credit. Funding authorized in Chapter 154 for Border City Allocations may be used to fund this income and corporate franchise tax credit that is equal to 45 percent of the investment in qualifying businesses. The maximum credit is $112,500 each year and a four-year carry forward is allowed if the credit amount exceeds the maximum allowed. Businesses within border cities (Breckenridge, Dillworth, East Grand Forks, Moorhead, and Ortonville) qualify for the border city investment credit. To obtain this credit, qualified cities must be certified by the Department of Employment and Economic Development starting in FY 2009.

Income Tax and Corporate Franchise Income Tax Interaction with Property Tax Provisions. Chapter 366 authorizes several provisions such as a levy limit and appropriations to local government to cities and counties. The property tax expenditure summary section will provide more description about these changes. The reason they are referenced in this section is

[9] Military service in a combat zone, qualified hazardous duty area, or area eligible for combat zone tax benefits. Eligible areas include the Arabian Peninsula Areas, the Kosovo area, Afghanistan and other supporting areas.

because they are expected to lower homeowner property taxes. If homeowner property tax deductions are lowered, the net effect to the state is lower income tax deductions and increased income tax collections.[10] Due to these property tax law change, general fund revenues are expected to increase by $13.456 million for income tax and by $2.906 million for corporate franchise tax during the FY 2010-2011 biennium.

Table 6 . Income Tax & Corporate Franchise Tax Revenue Changes in Chapter 366.

	FY 08	FY 09	2008-09 Biennium	FY 10	FY 11	2010-11 Biennium
Individual Income Tax						
Past Military Service Credit, $750 Credit Cap (1/1/09)	0	0	**0**	(10,300)	(10,300)	**(20,600)**
Active Military Combat Zone Credit Increased from $59/mo to $120/mo (1/1/09)	0	0	**0**	(1,100)	(1,100)	**(2,200)**
Military Pay Subtraction (1/1/09)	0	0	**0**	(3,500)	(3,600)	**(7,100)**
Subtraction for Americorp Education Awards (1/1/08)	0	(110)	**(110)**	(110)	(120)	**(230)**
AMT Modified to Exclude Charitable Contributions by Non-itemizers (1/1/08)	0	(Negl.)	**(Negl.)**	(Negl.)	(Negl.)	**(Negl.)**
Income Tax Interaction Impact with Local Aid provisions	0	0	**0**	[5,022]	[8,434]	**[13,456]**
Small Employer Participation Credit with Section 125 plans (Revenue Impact carried in Chapter 158/SF 3780).	0	0	**0**	[(730)]	[(730)]	**[(1,460)]**
Subtotal – Individual Income Tax	**0**	**(110)**	**(110)**	**(15,010)**	**(15,120)**	**(30,130)**
Corporate Franchise Tax						
Foreign Operating Corporation Income Modification (1/1/08)	0	95,900	95,900	75,700	78,300	154,000
Foreign Royalty Subtraction Provisions (1/1/08)	0	10,900	10,900	8,600	8,900	17,500
Interaction between FOC and Royalty Provisions	0	2,200	2,200	1,700	1,800	3,500
Mutual Fund Service Providers, Changes in Apportionment (1/1/10)	0	0	0	(600)	(2,200)	(2,800)
Bovine Tuberculosis Income Tax Testing Credit Modification (1/1/09)	0	0	0	340	340	680
Corporate Income Tax Interaction Impact with Local Aid provisions.	0	0	0	[1,091]	[1,815]	[2,906]
Subtotal – Corporate Franchise Tax	**0**	**109,000**	**109,000**	**85,740**	**87,140**	**172,880**
Net Individual Income Tax and Corporate Fran Tax Changes	**0**	**108,890**	**108,890**	**70,730**	**72,020**	**142,750**

Notes: (1) dollars in thousands; (2) positive dollars reflect revenue gains, negative dollars reflect revenue reductions. Numbers in brackets are not included in the totals.

[10] Pay 2009 aids are increased by $66 million in Chapter 366. This increase in aids is expected to reduce levies by $43 million (based on the assumption that 2/3 of aid reduces levy). The addition of levy limits increases the total levy reduction to $112 million. These levy reduction were combined with other levy changes to compute the income tax interaction impact.

Sales and Use Tax

Exemptions for sales tax on North Star Commuter Rail Vehicle and Repair Parts and Central Corridor Light Rail Construction Materials. Chapter 366 provides sales tax exemptions for two mass transit projects at an estimated cost to the general fund of $8.5 million in the FY 2010-11 biennium. Of the $8.5 million total revenue impact, $3.5 million provides an up-front exemption for vehicle and repair parts to equip operations for North Star commuter rails facilities[11]. Another $5 million (capped amount) of the total revenue impact is to exempt construction materials and supplies used in the Central Corridor Light Rail Line and associated facilities. Refund applications must be filed after June 30, 2009.

Exemption for construction for low-income housing. Under prior law, there is an existing sales tax exemption for materials and supplies, and equipment incorporated into, the construction, improvement, or expansion of low-income housing projects under specified conditions. This provision would extend the exemption to include construction of low-income housing by limited partnerships in which the sole general partner is a non profit entity. This provision is effective in FY 2010 would reduce general fund revenue by $1.3 million in the FY 2010-11 biennium.

Exempt public safety radio communication in Itasca County. Under prior law, there is a sales tax exemption for items purchased in constructing, operating, maintaining, and enhancing phases I and phases II and a portion of III of the Allied Radio Matrix for Emergency Response (ARMER). The counties included in the current exemption are: Benton, Sherburne, Stearns and Wright. This provision adds the exemption for the portion of the system that is located in Itasca County. This provision is effective in FY 2009 and would reduce general fund revenue by $125,000 in FY 2009.

Exemption for a limited used vehicle dealer. Chapter 366 provides an exemption from motor vehicle sales tax for motor vehicles that are transferred by gift from a limited used vehicle dealer. The Greater Twin Cities United Way is a charitable organization that would qualify as a limited used vehicle dealer. This charitable organization operates a lease-to-own program for low-income families. As an example, this program allows low-income families to lease a vehicle for two years, at the end of the lease the title is transferred to the lessee without charge. This exemption impacts motor vehicle sales tax revenue (MVST). MVST revenue is distributed by law to various funds including the general fund, the highway user tax distribution fund (HUTDF), and the transit fund. This exemption has a negligible impact to these funds in FY 2009 and reduces HUTDF revenue by $10,000 and transit fund revenues by $60,000 with negligible impact to the general fund in the FY 2010-11 biennium.

Exempt repair and replacement parts for emergency response vehicles. Chapter 366 expands the exemption to repair and replacement parts to other emergency response vehicles owned by a licensed ambulance service. Under prior law, the exemption applied exclusively to ambulances. This provision is expected to reduce general fund revenue by $2,000 each year

[11] In 2001, a sales tax exemption was enacted for vehicles and repair parts to equip light rail operations. This exemption is on-going. The Hiawatha Light Rail Line has $4.560 million in sales tax exemptions from FY 2003-04.

beginning in FY 2009 based on the assumption that an estimated 20 additional vehicles will qualify for this exemption.

Other Taxes

Surplus-Lines Insurance Stamping Office Authorized. Chapter 366 authorizes the establishment of a surplus-lines insurance stamping-office. Surplus-lines insurance includes specialty coverage that is not available through a Minnesota insurer. This office would be funded through stamping fees paid by the insured to the surplus-lines licensee and would report on surplus-lines policies to the Minnesota Department of Revenue and Minnesota Department of Commerce. Most surplus-lines policies are sold to businesses and would be subject to surplus-lines insurance premiums tax of three percent. This provision is assumed to increase compliance, resulting in increased tax revenues of $1.5 million in FY 2009 and $6 million in FY 2010-11 biennium.

Health Insurance Credits Authorized. Chapter 366 contains the authorizing language for two health insurance credits for businesses and their employees but the funding for both credits is contained in the Health Care Reform bill, Chapter 358. Based on an agreement between the Executive and Legislative Branches, these health insurance provisions are to be repealed in the 2009 session retroactive to the date of original enactment and replaced with a credit for health insurance premiums paid by previously uninsured individuals with limited household income.

Increase fiscal year shift in June acceleration payments from 80 percent to 90 percent. Chapter 366 increases the percentage of June tax collections that must be remitted early by vendors or distributors with an annual tax liability of at least $120,000. This increased percentage is in addition to the increase in Chapter 154, 2008 Session Laws. June accelerated payments impacts vendors and distributors remitting sales tax, cigarette and tobacco tax and alcohol tax. Table 7 shows the changes in June accelerated payments.

The fiscal year shift increases general fund revenue by $29.790 million and an additional $1.960 million is transferred from the health impact fund to the general fund for a total revenue increase of $31.750 million in FY 2009. This acceleration provision also generates $1.680 million in additional revenue from all funds in FY 2010-2011. The additional revenue in the planning years is due to growth in sales tax relative to the amounts that are accelerated from 80 percent to 90 percent.

Table 7. Recent History of June Accelerated Payments

1981	***Enacted at 50% for Sales Tax for 1982 liabilities.***
1986	Enacted at 50% for Cigarette Taxes, Tobacco Taxes, Alcohol Beverage Taxes
1993	Increased from 50% to 75% for Sales Taxes for 1994 liabilities. Increased from 50% to 75% for Cigarette Taxes , Tobacco Taxes, Alcohol Beverage Taxes for 1994 Liabilities.
2000	Reduced from 75% to 62% for 2002 Liabilities for Sales Tax. Repealed for 2002 Liabilities for Cigarette Taxes, Tobacco Taxes and Alcohol Beverage Taxes.
2001	Repealed for 2004 Liabilities for Sales Tax.
2002	Increased from 62% to 75% for 2002 and 2003 Liabilities for Sales tax.
2003	Re-Enacted at 85% for 2004 Liabilities for Sales Tax. Re-Enacted at 85% for 2004 Liabilities for Cigarette Taxes, Tobacco Taxes & Alcohol Beverage Taxes.
2006	Reduced from 85% to 78% for 2007 Liabilities for Sales Tax. Reduced from 85% to 78% for 2007 Liabilities for Cigarette Taxes, Tobacco Taxes & Alcohol Beverage Taxes.
2008	Increased from 78% to 90% for 2009 Liabilities for Sales Tax. Increased from 78% to 90% for 2009 Liabilities for Cigarette Tax, Tobacco Taxes & Alcohol Beverage Taxes.

Source: 2006 MN Tax Handbook and Chapter 366, 2008 Session Laws

Table 8 . Sales Tax and Other Tax Revenue Changes in Chapter 366.

	FY 08	FY 09	2008-09	FY 10	FY 11	2010-11
Sales Tax						
Exempt North Star Commuter Rail Vehicle & Repair Parts	0	0	**0**	(3,400)	(100)	**(3,500)**
Exempt Central Corridor Light Rail Construction Materials	0	0	**0**	(1,830)	(3,170)	**(5,000)**
Exempt Emergency Response Vehicle Repair Parts	0	(2)	**(2)**	(2)	(2)	**(4)**
Exempt Construction Materials for Low-Income Housing	0	0	**0**	(600)	(700)	**(1,300)**
Exempt Public Safety Radio Communication Products for Itasca County	0	(125)	**(125)**	(Negl.)	(Negl.)	**(Negl.)**
Subtotal – Sales Tax	90	(127)	**(127)**	(5,832)	(3,972)	**(9,804)**
Other Tax and Non-Tax Revenue						
Surplus –Lines Insurance Stamping Office	0	1,500	**1,500**	3,000	3,000	**6,000**
Increase June Accelerated Payments from 80% to 90% for June 2009 Liabilities for Sales Tax	0	27,100	**27,100**	600	1,200	**1,800**
Increase June Accelerated Payments from 80% to 90% for June 2009 Liabilities for Cigarette, Tobacco and Alcohol Taxes	0	2,690	**2,690**	(15)	(15)	**(30)**
Increase June Accelerated Payments from 80% to 90% for June 2009 Liabilities for Cigarette and Tobacco Taxes transferred to the GF from the HIF.	0	1,960	**1,960**	(45)	(45)	**(90)**
Subtotal – Other Tax and Non-Tax Revenue	0	33,250	**33,250**	3,540	4,140	**7,680**
Net Sales Tax and other Tax/Non-Tax Revenue Changes	**0**	**33,123**	**33,123**	**(2,292)**	**168**	**(2,124)**

Notes: (1) dollars in thousands; (2) positive dollars reflect revenue gains, negative dollars reflect revenue reductions.

Non General Fund Tax Revenue Changes

Modify Motor Vehicle Registration Tax Rates on Intracity Bus Registration. Chapter 366 sets the rate for the registration tax on intra-city buses to $2 per bus and eliminates the requirement that registration rates be based on city size classifications. The intent of this change, originally proposed by the Driver and Vehicle Service Division within the Department of Public Safety, is to provide administrative consolidation for license plate categories and about 69 buses will be impacted by this tax rate change that will be effective August 1, 2008. The cost of this change has a negligible impact to the Highway User Tax Distribution Fund (HUTDF) revenue.

Exempt Spotter Trucks from Motor Vehicle Registration and Titling Requirements. Chapter 366 exempts a subset of spotter trucks not meeting federal standards from vehicle registration and titling requirements, specifying limitations on their operations on public roads, and requiring annual inspections. About 250 spotter trucks may be eligible for this exemption that is authorized the day following enactment through the end of FY 2013. HUTDF revenue is estimated to be reduced by about $75,000 each year during this exemption period.

Exempt Emergency Response Vehicles from Motor Vehicle Registration Tax Expanded. Chapter 366 expands an existing exemption for vehicles that are owned by a licensed ambulance service that are equipped and intended for emergency response or ambulance service from the motor vehicle registration tax. Under prior law, this exemption only applied to emergency response vehicles based on its unmistakable "emergency response" appearance and now the exemption applies to emergency vehicles regardless of the general appearance of the vehicle. With this change, it is assumed that an additional 20 vehicles will qualify for this exemption that becomes effective August 1, 2008 and is estimated to reduce general fund revenue to HUTDF by about $5,000 each year.

Exempt Vehicles Used Exclusively for Disaster Response from Motor Vehicle Registration Tax. Under prior law, non profit charities had an exemption from motor vehicle registration tax for vehicles used to transport certain individuals for charitable, religious and educational purposes. Chapter 366 expands an exemption from this tax to disaster response vehicles owned by non profit charities. This provision has a negligible revenue impact on the HUTDF.

Table 9: Non General Fund Tax Revenue Changes in Chapter 366. (dollars in thousands)						
	FY 08	**FY 09**	**2008-09 Biennium**	**FY 10**	**FY 11**	**2010-11 Biennium**
Highway User Tax Distribution Fund (HUTDF)						
Exempt Spotter Trucks from Motor Vehicle Registration Tax	0	(75)	**(75)**	(75)	(75)	**(150)**
Exempt Emergency Response Vehicles from Motor Vehicle Registration Tax	0	(5)	**(5)**	(5)	(5)	**(10)**
Exempt Charitable Organizations Holding a MN Vehicle Dealer License	0	(Negl.)	**(Negl.)**	(5)	(5)	**(10)**
Tax on Intra-City Bus Registration Modified	0	(Negl.)	**(Negl.)**	(Negl.)	(Negl.)	**(Negl.)**
Exempt Disaster Response Vehicles owned by non profits from Motor Vehicle Registration Tax	0	(Negl.)	**(Negl.)**	(Negl.)	(Negl.)	**(Negl/.)**
HUTDF Subtotal	0	(80)	**(80)**	(85)	(85)	**(170)**
Transit Fund						
Exempt Disaster Response Vehicles owned by non profits from Motor Vehicle Registration Tax	0	(Negl.)	**(Negl.)**	(3)	(3)	**(6)**
Health Impact Fund (HIF)						
Increase June Accelerated Payments from 80% to 90% for Cigarettes and Tobacco Products	0	1,960	**1,960**	(45)	(45)	**(90)**

Notes: (1) dollars in thousands; (2) positive dollars reflect revenue gains, negative dollars reflect revenue reductions.

Incentives for the Mall of America (MOA) Expansion

Various local tax incentives for the expansion of the Mall of America were authorized in Chapter 366 including:

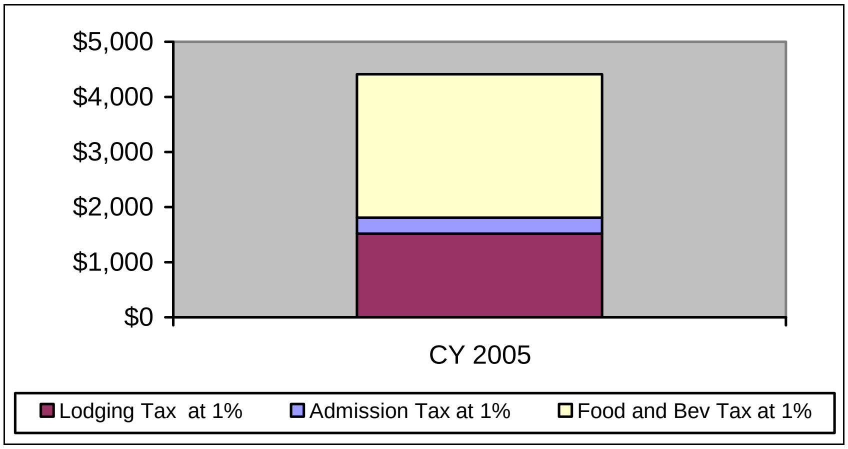
- Bloomington Tax Increment Financing (TIF). Authorizes the transfer of property from phase 1 TIF district to the phase 2 TIF district. The transfer of this property allows the collection of three additional years of increment from these parcels. This transfer increases the tax capacity of the phase 2 district by $208,000. The increments from the TIF have several requirements including a requirement that it must be used for public infrastructure costs.

- Local Sales Tax. Authorizes a sales tax of up to 1 percent and a lodging tax of up to 1 percent within the two MOA TIF districts.[12] It also authorizes a 3 percent tax on food and beverages for consumption in the MOA TIF district and an admission tax of up to 1 percent within the MOA TIF districts or within a bigger area that the city specifies. Table 9 shows the estimated annual local tax revenue (based on 2005 data) that could be raised with this local tax authority authorized in chapter 366.

[12] The City of Bloomington is authorized to use its existing city lodging tax for the phase 2 parking ramp.

- State Revenue Bonds. Authorizes a contract with the state to issue revenue bonds for the cost of the parking facility project. The revenue bonds may only be repaid with the local taxes authorized for the city of Bloomington authorized in this act.

Table 9. Estimated Annual Local Tax Revenue for the City of Bloomington based on Historical & Projected Data (Dollars in thousands)



Source: 2008 DOR estimate. Estimated revenue is based on existing tax data for lodging and admission taxes. The estimate for food and beverage tax is based on an existing on-sale liquor tax plus an estimate for proposed tax on food.

Changes in General Fund Expenditures

Chapters 154 and 366 altered Minnesota's laws governing property taxes and local aids. Total expenditures for Property Tax, Aids and Credits will increase to $3.153 billion in FY 2008-09, a slight increase of 0.05 percent over the February 2008 forecast base of $3.152 billion. In FY 2010-11, expenditures will grow to $3.392 billion, reflecting an increase of 5.7 percent.

Table 1: Summary of 2008 Tax Act Expenditures
General Fund Expenditure Changes – Aids & Credits

Dollars in 000's	**FY 2008**	**FY 2009**	**FY08-09**	**FY 2010**	**FY 2011**	**FY 10-11**
February Forecast 2008			3,151,836			3,209,303
Total Tax Expenditure Changes Chapter 154 General Fund		600	600	(2,376)	(2,120)	(4,496)
Total Tax Expenditure Changes Chapter 366 General Fund		975	975	84,475	102,293	186,768
Total General Fund Forecast Plus Expenditure Changes			3,153,411			3,391,575
Total % Change, Forecast Plus Expenditures Changes			0.05%			5.68%

Note: Positive numbers reflect a cost to the state and negative numbers reflect a revenue gain.

Chapter 154 - Overview

Chapter 154, Minnesota Laws of 2008, increases spending in the Property Tax Aids and Credits budget by $600,000 for FY 2008-09, and decreases spending by $4.5 million in FY 2010-11. Table 2 provides detail for each change:

Table 2: Chapter 154
General Fund Expenditure Changes – Aids & Credits

Dollars in 000's	FY 2008	FY 2009	Biennium FY08-09	FY 2010	FY 2011	Biennium FY 10-11
February Forecast 2008			**3,151,836**			**3,209,303**
Property Tax Changes						
Reduce Threshold for Class 4d Low Income Housing to 20%				105	105	210
Disabled homestead, Class 1b Bracket Change from $32K to $50K (PTR impact)				(12)	(12)	(24)
Early recognition of Utility Rule tax base changes (Art 1, sec. 6 education aid)				442	786	1,228
Exclusion for Disabled Veteran Homesteads Based on Degree of Disability (PTR impact)				(2,080)	(2,180)	(4,260)
Exclusion for Disabled Veteran Homesteads Based on Degree of Disability (MVC impact)				(1,460)	(1,530)	(2,990)
Metropolitan Council Transit Bonds (PTR impact)				0	82	82
First Tier 1c Homestead Resorts MV Threshold Increased to $600K, 0.5% rate				13	13	26
Subtotal		**0**	**0**	**(2,992)**	**(2,736)**	**(5,728)**
Aids and Credits Changes						
Permanently Increase Payments to Local Governments in Mahnomen Co. - County $450K, City $80K, ISD#432 $70K		600	600	600	600	1,200
Mahnomen ISD 432 increase in school aid (90/10) due to tax base adjustments				16	16	32
Subtotal		**600**	**600**	**616**	**616**	**1,232**
Total Tax Expenditure Changes Chapter 154 General Fund		**600**	**600**	**(2,376)**	**(2,120)**	**(4,496)**

Note: Positive numbers reflect a cost to the state and negative numbers reflect a revenue gain.

For FY 2008-09, just one item –Payments to Local Governments in Mahnomen County- reflects the $600,000 expenditure increase for the biennium.

For FY 2010-11, six items reflect tax expenditure changes as follows:

- $4.20 million decrease in Property Tax Refunds due to changes in property taxes resulting from 1) the class 1b bracket change from $32,000 to $50,000 for homesteads with homeowners who are disabled, 2) a property tax exclusion for homesteads with homeowners who are disabled veterans, and 3) levy authority for Metropolitan Council Transit Bonds
- $2.99 million decrease in Market Value Credit costs due to the property tax exclusion for homesteads with homeowners who are disabled veterans
- $1.23 million increase attributable to the early recognition of utility rule tax base changes
- $1.23 million increase for the ongoing increase in payments to local governments in Mahnomen County, Mahnomen ISD 432 increase in school aid
- $210,000 increase to pay for a 20 percent reduction in the threshold for Class 4d Low Income Housing
- $ 26,000 increase to pay for a threshold increase in market value to $600,000 at a rate of 0.5 percent for first tier 1c homestead resorts

Chapter 366 –Overview

Property tax and local aids provisions found in Chapter 366, Minnesota Laws of 2008, (the 2008 Omnibus Tax Act) increase general fund expenditures by $975,000 in FY 2008-09, and by $186.77 million in FY 2010-11. Table 3 on the following page provides detail for each change.

Table 3 – Chapter 366
General Fund Expenditure Changes – Aids & Credits

Dollars in 000's	FY 2008	FY 2009	Biennium FY08-09	FY 2010	FY 2011	Biennium FY 10-11
February Forecast 2008			**3,151,836**			**3,209,303**
Property Tax Changes						
Enhanced Homeowner Property Tax Refund				21,200	24,700	45,900
Farmland class rate change for 1st tier homesteads from 0.55% to 0.5%				365	365	730
White Community Hospital District Authorized				9	9	18
Northwest MN HRA levy authority				12	12	24
School district tax levy authority for Local Collaborative Time Studies (LCTS) judgments				104	104	208
Retired employee health benefits date extended				25	34	59
Bovine TB property tax credit				368	368	736
Homestead Property Valuation Exclusion for Disabled Veterans				Negligible	Negligible	0
Green Acres Program Changes				Unknown	Unknown	0
Levy authority for first responder services in unorganized territories				Unknown	Unknown	0
Subtotal		**0**	**0**	**22,083**	**25,592**	**47,675**
Aids and Credits Changes						
Utility Transition Aid to Local Governments with >4% threshold				2,058	4,117	6,175
Local Government Aid with inflation adjustment beginning in FY 11				42,000	52,520	94,520
County Program Aid with permanent transition aid beginning in FY 10 and inflation adjustment beginning in FY 11				22,464	27,004	49,468
Out of home placement aid - Beltrami County		500	500	0	0	0
PTR interaction for Local Aids and Levy Limits 3.9% for 3 yrs				(4,240)	(7,050)	(11,290)
Subtotal		**500**	**500**	**62,282**	**76,591**	**138,873**
Other Appropriations						
Dept of Revenue administration- various projects		415	415	100	100	200
Dept. of Administration- Land Management Information Center		60	60	10	10	20
Subtotal		**475**	**475**	**210**	**210**	**420**
Total Tax Expenditure Changes Chapter 366 General Fund		**975**	**975**	**84,475**	**102,293**	**186,768**

Note: Positive numbers reflect a cost to the state and negative numbers reflect a revenue gain.

Three items reflect expenditure increases in FY 2008-09:

- **$500,000** one-time appropriation in aid to Beltrami County for out-of-home placements;
- **$415,000** to the Department of Revenue for administration and taxpayer assistance grants; and
- **$60,000** to the Department of Administration for start-up and ongoing expenses for a Land Management Information Center to record township acreage data.

Thirteen items reflect expenditure changes in FY 2010-11:

- **$94.5 million** increase in Local Government Aid for cities,
- **$49.5 million** increase in County Program Aid for counties,
- **$45.9 million** increase for enhanced Homeowner Property Tax Refunds which is mitigated by a **$11.3 million** decrease in Property Tax Refunds due to interactions resulting from increases in aids to local governments and the imposition of limits on certain property tax levy increases,
- **$ 6.2 million** increase for Utility Transition Aid to local governments to mitigate a reduction in tax revenues due to a change in Department of Revenue administrative rule,
- **$736,000** increase to pay for a property tax credit to livestock owners facing the threat of bovine tuberculosis,
- **$730,000** increase to pay for a reduction in the class rate (from 0.55 percent to 0.5 percent) for first tier farmland homesteads,
- **$208,000** increase to allow school districts to levy for judgments regarding Local Collaborative Time Studies (LCTS),
- **$220,000** increase for ongoing property tax assessment and acreage data management costs, and
- **$101,000** increase for local levy authority for a hospital district and a housing reinvestment area, and for an extension of certain retiree health benefits.

Property Tax

Property Tax Exclusion for Disabled Veterans: Chapter 154 creates a homestead property valuation exclusion for any honorably discharged veteran who has a military service-connected disability of 70 percent or higher, as determined by the United States Department of Veterans Affairs. The exclusion amount is tied to the percentage of disability: 70 to 100 percent disabled allows a value exclusion of $150,000, totally and permanently disabled allows a $300,000 value exclusion. Upon the death of the veteran, the value exclusion carries over to the surviving spouse. A property qualifying for this valuation exclusion is not eligible to receive the market value homestead credit.

Of Minnesota's 10,780 veterans with a disability of at least 70 percent, about 8,100 are estimated to be homeowners who would qualify for this provision. About 75 percent of these veterans likely receive property tax refunds; the exclusion would lower their property taxes and thus reduce those refunds by an estimated $2.08 million in FY 2010 and by $2.18 million in FY 2011.

In addition, when a property qualifies for the value exclusion, it no longer can receive the market value credit. For FY 2010, the reduction in market value credits will be approximately $1.46 million, and $1.53 million in FY 2011.

Chapter 336 provides clarification of the disabled veterans market value exclusion provisions contained in Chapter 154. New language addresses issues regarding spousal survivorship of permanently and totally disabled veterans, the extended application deadline for assessment year 2008 and repealed provisions for spouses of paraplegic veterans receiving class 1b benefits. The overall fiscal impact of these items is negligible.

Disabled Homestead Bracket change: Former provisions of property classification 1b provided a tax break for homeowners who are blind, paraplegic and veteran. Chapter 154 revises this provision by creating a new property tax exclusion for disabled veterans (see preceding entry) and by modifying the remaining law for class 1b properties. Previously, this classification provided a tax break for qualifying homeowners at a class rate of 0.45 percent for the first $32,000 in market value. The new provision raises this threshold to the first $50,000 in market value. Approximately 4,000 class 1b homesteads are expected to benefit from this change, lowering net taxes and thus reducing property tax refunds by $12,000 per year beginning in FY 2010.

Homestead Resorts bracket changes: Under prior law, land classified as 1c homestead resorts had three rates for assessment: land with a market value up to $500,000 had a rate of 0.55 percent, land with a market value of $500,000 to $2.2 million had a rate of 1.0 percent, and market values of over $2.2 million had a rate of 1.25 percent percent.

Chapter 154 changes the class rate for the first tier and the market value thresholds for all three tiers as follows: land with a market value up to $600,000 will be assessed a rate of 0.5 percent, land with a market value of $600,000 to $2.3 million will be assessed a rate of 1.0 percent, and market values of over $2.3 million will be assessed a rate of 1.25 percent.

Beginning with assessment year 2008, property taxes on class 1c homestead resorts are estimated to decrease by 3.5 percent, thereby shifting the tax burden to other properties. Homesteads will bear a portion of this additional tax burden, which will increase property tax refunds each year by $13,000 beginning in FY 2010.

Class 4d Low-Income Housing Threshold Reduction: Under current law, class 4a apartments have a class rate of 1.25 percent while class 4d subsidized housing has a 0.75 percent class rate. To qualify for the 4d rate, a property must have at least 75 percent of its rental units under at least one of Minnesota's low-income rental property programs. Chapter 154 reduces this "unit" threshold from 75 percent to 20 percent.

Approximately 9,700 units would benefit from this less stringent requirement to meet the 4d classification. Beginning in pay 2009, net taxes on 4d properties are estimated to decrease by

$6.8 million, shifting about $1.7 million of the burden to homestead properties. As a result, homeowner property tax refunds will increase by $105,000 per year, beginning in FY 2010.

Metropolitan Council Transit bonding: On December 15, 2004, the Metropolitan Council adopted a 2030 Transportation Policy Plan with the goals of doubling transit ridership by the year 2030, slowing the growth in traffic congestion in the metro area and improving mobility for everyone. Among the strategies for attaining these goals is the development of "a network of rail and bus 'transitways,' with mode choices based on a careful cost-benefit analysis."
`

The 2030 Plan states: "Transit service increases, which could mitigate the negative effects of unfunded highway needs, will not be possible at current funding levels... and building a network of transit corridors will require new revenues for both capital and operating needs."

Chapter 154 gives the Metropolitan Council authority to issue up to $33.6 million in transit bonds or other obligations to pay for regional transit capital expenditures and related costs as prescribed in the current version of the 2030 Plan. This authority is in addition to any authority previously granted and is limited to the seven-county metropolitan area.

Any bond principle and interest issued under this provision would be paid by increasing property tax levies in the seven-county metro area. Additional debt service levies would increase homeowner taxes. Property tax refunds are estimated to increase by $82,000 in FY 2011.

Enhanced Homeowner Property Tax Refund (PTR): Currently, more than 295,000 homeowners file a claim to receive a property tax refund from Minnesota's homeowner property tax refund program. Chapter 366 expands two provisions of this "circuit breaker" program. First, new language reduces the percentage of income threshold for homeowners with incomes of $74,210 to $96,280 from 4.0 percent to 3.5 percent. Approximately 14,000 current filers would have an increased amount of property tax eligible for refund. Approximately 10,000 new claimants would become eligible for and file to receive a property tax refund.

The second change increases the maximum property tax refund by 27.5 percent for all incomes. Based on taxes payable in 2009, the maximum refund will increase from $1,800 to $2,300. Currently, 49,000 homeowners receive the maximum refund allowed for their income level. Beginning in FY 2010, maximum refund caps will be increased by $100 to $500. The shaded areas of the Tables 4a and 4b highlight these changes according to income level.

Tables 4a and 4b
Homeowner Property Tax Refunds, Before and After Chapter 366

Homeowner PTR Law for refunds based on Pay '09 Property Taxes (no change)

Income	Range	Threshold	Copay	Max Refund
0	1,480	1.0%	15.0%	1,800
1,480	2,960	1.1%	15.0%	1,800
2,960	4,460	1.2%	15.0%	1,750
4,460	5,950	1.3%	20.0%	1,750
5,950	7,430	1.4%	20.0%	1,690
7,430	10,400	1.5%	20.0%	1,690
10,400	11,870	1.6%	25.0%	1,630
11,870	13,360	1.7%	25.0%	1,630
13,360	14,840	1.8%	25.0%	1,560
14,840	16,320	1.9%	30.0%	1,560
16,320	17,820	2.0%	30.0%	1,500
17,820	20,790	2.1%	30.0%	1,500
20,790	22,270	2.2%	35.0%	1,440
22,270	23,750	2.3%	35.0%	1,440
23,750	25,240	2.4%	35.0%	1,380
25,240	31,170	2.5%	40.0%	1,380
31,170	35,620	2.6%	40.0%	1,330
35,620	44,520	2.7%	40.0%	1,330
44,520	51,940	2.8%	45.0%	1,200
51,940	59,370	3.0%	45.0%	1,200
59,370	66,790	3.2%	45.0%	1,080
66,790	74,210	3.5%	50.0%	970
74,210	81,640	4.0%	50.0%	840
81,640	86,090	4.0%	50.0%	720
86,090	89,070	4.0%	50.0%	600
89,070	92,680	4.0%	50.0%	480
92,680	96,280	4.0%	50.0%	360
96,280	and over		not eligible	

H.F. 3149 FINAL for refunds based on Pay '09 Property Taxes

Income	Range	Threshold	Copay	Max Refund
0	1,480	1.0%	15.0%	2,300
1,480	2,960	1.1%	15.0%	2,300
2,960	4,460	1.2%	15.0%	2,230
4,460	5,950	1.3%	20.0%	2,230
5,950	7,430	1.4%	20.0%	2,150
7,430	10,400	1.5%	20.0%	2,150
10,400	11,870	1.6%	25.0%	2,080
11,870	13,360	1.7%	25.0%	2,080
13,360	14,840	1.8%	25.0%	1,990
14,840	16,320	1.9%	30.0%	1,990
16,320	17,820	2.0%	30.0%	1,910
17,820	20,790	2.1%	30.0%	1,910
20,790	22,270	2.2%	35.0%	1,840
22,270	23,750	2.3%	35.0%	1,840
23,750	25,240	2.4%	35.0%	1,760
25,240	31,170	2.5%	40.0%	1,760
31,170	35,620	2.6%	40.0%	1,700
35,620	44,520	2.7%	40.0%	1,700
44,520	51,940	2.8%	45.0%	1,530
51,940	59,370	3.0%	45.0%	1,530
59,370	66,790	3.2%	45.0%	1,380
66,790	74,210	3.5%	50.0%	1,240
74,210	81,640	**3.5%**	50.0%	1,070
81,640	86,090	**3.5%**	50.0%	920
86,090	89,070	**3.5%**	50.0%	770
89,070	92,680	**3.5%**	50.0%	610
92,680	96,280	**3.5%**	50.0%	460
96,280	and over		not eligible	

The fiscal impact of these changes is estimated to increase general fund expenditures by \$21.2 million in FY 2010 and by \$24.7 million in FY 2011.

Farmland class rate change for 1st tier homesteads: The class rate for farmland in the first tier has been 0.55 percent for properties with a market value of up to \$790,000 (indexed annually for taxes payable in 2008). Chapter 366 reduces the rate for this property to 0.5 percent.

Under this provision, property taxes on about 100,000 agricultural properties will decrease 6.5 percent statewide and will cause a shift in tax burden from farmland owners to homestead property owners. As a result, property tax refunds are estimated to increase by \$365,000 annually.

Green Acres Program Changes: Chapter 366 makes numerous changes to Minnesota's agricultural property valuation laws. Some of the major changes are as follows:

- Rural vacant land located in a township and abutting public waters will be assessed without regard to its public waters access. If the property is developed or platted, the property is assessed at full market value.
- Farm ownership restrictions are removed from "green acres" provision. Only land used for agricultural production as newly defined continues to qualify for green acres treatment.
- The relationship between farm homes, buildings, productive land, and wasteland is clarified. Class 2a includes agricultural production land. Class 2b becomes unplatted property not used for agricultural purposes, and timberland. Class 2c is timberland under a forest management plan between 10 and 1920 acres in size. Class 2d becomes private airports. Any of the subclasses may contain homestead property. These definitions also replace the agricultural use provisions in the green acres section.

The fiscal impact of these changes is unknown. Changes in land values resulting from these provisions will inversely alter tax rates on all property in affected jurisdictions. Net taxes on homestead property would change, thus impacting property tax refunds.

White Community Hospital District Authorized: Chapter 366 permits the establishment of the White Community Hospital District in St. Louis County by resolution of any two or more of the following cities or towns: Aurora, Biwabik, Hoyt Lakes, White, Biwabik (town) and Colvin. It also authorizes a tax levy with a maximum amount not exceed 0.066088 percent of the jurisdiction's fully taxable market value.

Based on the participation of four jurisdictions, revenues to be raised will yield approximately $200,000. Increased property taxes will result in an increase in property tax refunds, about $9,000 per year.

Levy authority for first responder services: Effective for taxes payable in 2009 and thereafter, Chapter 366 authorizes county boards to levy taxes within an unorganized territory where first responder or fire protection services are provided. The Morse-Fall Lake Rural First Responder Fire Protection Association is located in unorganized territory in St. Louis County.

The size of the levy and the number of parcels affected are unknown. However, an increase in property tax could create a small increase (unknown) in homeowner property tax refunds.

Retired Employee Health Benefits Date Extension: Under M.S. 2006 section 126C.41, subdivision 2, school districts are allowed to levy the amount necessary to pay for certain health benefit obligations under the collective bargaining agreement in effect on March 30, 1992, for health benefits and unreimbursed medical costs for employees who retired before July 1, 1992. For taxes payable in 2008, 20 districts had levy authority under this provision.

Chapter 366 amended this provision by extending the date from July 1, 1992 to July 1, 1998, and by requiring that "a sunset clause is in effect for the current collective bargaining agreement."

The initial analysis of this provision, submitted by the Department of Education, assumed that there would be no reductions to existing levy authority, and that the sunset clause provision would apply only to the expanded levy authority covering those employees that retired between 1992 and 1998. The fiscal impact was scored at $ 25,000 in FY 2010 and $34,000 in FY 2011. However, that analysis appears to be inconsistent with the enacted language in the legislation. The enacted language could inadvertently cause some school districts to lose their existing levy authority. Corrective measures will likely be addressed at the beginning of the 2009 legislative session.

Housing and Redevelopment Authority (HRA) maximum levy: Previous law permitted a housing and redevelopment authority to levy for general operations a maximum of 0.0144 percent of the taxable market value of properties within the district. Chapter 366 increases this maximum by about 25 percent, raising it to 0.0185 percent of taxable market value. The provision also deletes the language that calculates the rate based on taxable market value for the current year. The resulting calculation will be based on the previous year's taxable market values.

The Northwest Minnesota Multi-county HRA, a special district operating in Kittson, Polk, Marshall, Pennington, Red Lake and Roseau counties, is likely to use this provision. Assuming a levy increase to the maximum amount of 0.0185 percent, approximately $326,000 in additional revenue would be generated. This increase in property taxes would trigger an increase in homeowner property tax refunds of about $12,000 per year beginning in FY 2010.

School district judgments levy authority for Local Collaborative Time Studies (LCTS): After many months of dispute and appeal, the State of Minnesota and the federal Center for Medicaid Services (CMS) reached an agreement regarding disallowed uses totaling $9.7 million in FY 2004 federal funds (statewide) for Local Collaborative Time Studies (LCTS). LCTS is a federal reimbursement designed to repay public school, public health, and juvenile corrections expenses incurred in the administration of state Medicaid and Title IV-E Foster Care programs. Minnesota law requires these moneys to go to Family Service Collaboratives and Children's Mental Health Collaboratives.

Since 1995, all Minnesota counties have used LCTS funds (distributed to schools); thirty-two counties are responsible for the FY 2004 repayment to the federal government. The Department of Human Services (DHS) appealed the audit finding. A settlement was reached recently which includes a reduction of disallowed uses to $ 8.4 million statewide. Of this amount, $2.5 million is attributed to Hennepin County. By law, DHS must invoice the affected counties for their share of the disallowance by May 1, 2008. Many county and school district budgets cannot absorb a payment of this magnitude.

Chapter 366 permits school district levy money to repay federal funds that have been disallowed. More specifically, it 1) requires the commissioner of education to calculate the revenue needs of each school district to replace the federal funding, and 2) allows a school district to replace the amount of lost federal revenue with a levy increase for taxes payable in 2009 through 2011, not to exceed one-third of the amount in each year. This levy increase does not require voter approval.

The fiscal impact of this provision would be an increase in net local taxes, a portion of which will be paid by homesteads. As a result, property tax refunds would increase by about $104,000 per year for each FY 2010, FY 2011 and FY 2012.

Local Aids & Credits

Permanent Aid to Local Governments in Mahnomen County: During calendar year 2006, the United States Department of the Interior, Bureau of Indian Affairs, placed revenue producing land (a tribal casino) in Mahnomen into trust, thus removing it from the property tax rolls. This action produced significant losses in CY 2006 state and local government revenues totaling over $932,000.

In an effort to buffer these adverse affects, the 2006 Legislature provided a one-time appropriation totaling $600,000 to the Commissioner of Revenue for compensation to localities in Mahnomen. Specifically, the act required payments of $450,000 for Mahnomen County, $80,000 for the City of Mahnomen, and $70,000 for Mahnomen Independent School District No. 432, which were made on July 20, 2006.

Chapter 154 makes permanent the $600,000 appropriation for annual payments to local governments in Mahnomen County. Also, beginning with aids payable in 2008, the city aid base for local government aid is increased by $80,000 and certified tax base used to calculate Mahnomen school district levies is permanently reduced.

Mahnomen ISD 432 School Aid: The removal of tribal property from Mahnomen County's tax rolls also lowers revenues generated by school district levies for the Mahnomen School District. The school funding formula will recognize this reduction, and provide additional school aid of $16,000 per year beginning in FY 2010.

Early Recognition of Utility Rule Tax Base changes: Recent changes in administrative rule relative to the taxation of utility property will reduce tax base revenues for many local governments and school districts. To help synchronize the provision of aid to these entities, Chapter 154 instructs the commissioner of revenue to calculate the adjusted net tax capacity of these local governments and the adjusted net tax capacity and referendum market value of these school districts as if the tax base changes were effective one year earlier. For local governments, these changes in aid will occur within the set appropriations for Local Government Aid and County Program Aid, and therefore produce no overall impact on state general fund expenditures. For school districts, this provision triggers an increase in general fund appropriations in school aid totaling $ 442,000 in FY 2010 and $786,000 in FY 2011.

Bovine tuberculosis property tax credit: Programs to eradicate bovine tuberculosis, a contagious disease that threatens both humans and animals, have been successfully administered by the United States Department of Agriculture (USDA) for years. According to analyses by the Minnesota Department of Revenue, since 2005, eleven herds of cattle and seventeen white-tailed deer have tested positive with bovine tuberculosis in Minnesota. In response to this threat, the USDA established the Bovine Tuberculosis Management Zone (BTMZ) in northern Minnesota, which includes portions of Beltrami, Roseau, Lake of the Woods and Marshall Counties. The establishment of the BTMZ helps to control the spread of the disease among livestock, but infected cattle must be destroyed.

Chapter 366 attempts to assist livestock owners who have suffered productivity losses of their land due to bovine tuberculosis eradication procedures. The new law defines a "modified" version of the Bovine Tuberculosis accredited zone, as proposed by the Board of Animal Health. It also provides a property tax credit for agricultural land located in the "modified" accredited zone if the property owner eradicated a cattle herd on that land during the year in order to prevent the onset or spread of bovine tuberculosis. The law further requires the county auditor to certify to the Commissioner of Revenue the amount of tax lost to the county from these bovine TB property tax credits. The Commissioner is required to reimburse taxing districts for taxes lost under this credit.

A total of 300 cattle herds are within the modified accredited zone. Assuming that the average farm has a market value of $250,000, the net tax per farm is assumed to be $1,227. The net tax loss on 300 farms is about $368,100 per year.

Utility Transition Aid to Local Governments: Changes to Minnesota Rules Ch. 8100 (which govern utility property valuation) were implemented in March 2007. These administrative rule changes reflect a three-year phase-in of lower property values and thus lower property tax payments for utility property. When property values for one or more properties are reduced, the tax burden shifts to all other property types in the tax base, including homestead property. Most Minnesota counties, cities, towns and school districts will be impacted by this change, by varying degrees.

Chapter 366 provides a new Utility Transition Aid to give partial relief to 14 cities and 29 towns where the rule changes will result in a reduction in tax capacity that is greater than 4 percent. The 2-year aid program would help to pay for excess losses of levy plus aid. The payments are equal to the difference between the public utility tax capacity prior to reassessment and the public utility tax capacity for the current year, multiplied by the jurisdiction's tax rate. The aid continues for each eligible government until the valuation of public utility property exceeds its assessment year 2007 valuation under the old system. Utility Transition Aid would cover 50 percent of the excess loss in FY 2010 and 100 percent of the excess loss in FY 2011, as shown in Table 5: Utility Transition Aid.

The fiscal impact of this new program to the state general fund includes 1) appropriations for aids totaling $2.1 million in FY 2010 and $4.2 million in FY 2011, and 2) reductions in property tax refund payments to individuals totaling $52,000 in FY 2010 and $103,000 in FY 2011.

Table 5: Estimated FY 2010-2011 Utility Transition Aid

(1) Eligibility: Jurisdictions with tax capacity reduction greater than 4%
(2) State Aid: The state will provide aid equal to levy plus aid decrease

Local Government	% Change in Tax Capacity	Estimated % Change Levy + Aid	Levy + Aid % Chg Cap -4%	Transition Aid @ 50% FY 2010	Transition Aid @ 100% FY 2011
Cities* (14)					
% Chng in Tax Capacity < -4%					
BECKER CITY OF	-21.79%	-21.09%	1,076,462	538,231	1,076,462
COHASSET CITY OF	-11.68%	-11.60%	233,333	116,667	233,333
OAK PARK HEIGHTS CITY OF	-9.39%	-10.87%	353,336	176,668	353,336
RED WING CITY OF	-11.39%	-10.65%	1,530,318	765,159	1,530,318
MONTICELLO CITY OF	-8.60%	-9.29%	706,122	353,061	706,122
TRAIL CITY OF	-9.62%	-7.19%	770	385	770
RIVERTON CITY OF	-7.93%	-7.07%	3,566	1,783	3,566
HOYT LAKES CITY OF	-6.98%	-5.73%	75,575	37,788	75,575
THOMSON CITY OF	-6.21%	-5.47%	4,892	2,446	4,892
LASTRUP CITY OF	-5.27%	-4.37%	686	343	686
PLUMMER CITY OF	-4.89%	-3.26%	4,789	2,394	4,789
GRANITE FALLS (JT) CITY OF	-4.77%	-3.22%	62,494	31,247	62,494
TWIN LAKES CITY OF	-4.70%	-1.69%	772	386	772
LEONIDAS CITY OF	-4.29%	-1.07%	506	253	506
Cities Total			**4,053,620**	**2,026,810**	**4,053,620**
Towns* (29)					
% Chng in Tax Capacity < -4%					
LAVELL TOWN OF	-17.54%	-17.70%	31,215	15,607	31,215
VIKING TOWN OF	-10.23%	-10.23%	5,117	2,558	5,117
LEON TOWN OF	-9.97%	-9.97%	7,675	3,837	7,675
CHANARAMBIE TOWN OF	-9.44%	-9.44%	421	211	421
EMARDVILLE TOWN OF	-9.42%	-9.42%	3,173	1,587	3,173
HALDEN TOWN OF	-8.96%	-9.02%	3,431	1,716	3,431
SVEA TOWN OF	-8.86%	-8.86%	6,057	3,029	6,057
ROCK LAKE TOWN OF	-7.51%	-7.51%	4,546	2,273	4,546
PLEASANT VALLEY TOWN OF	-7.40%	-7.40%	7,395	3,697	7,395
CHESTER TOWN OF	-7.24%	-7.24%	1,557	779	1,557
CEDARBEND TOWN OF	-6.55%	-6.69%	1,405	702	1,405
CEDAR TOWN OF	-6.61%	-6.61%	5,290	2,645	5,290
LAKE BENTON TOWN OF	-6.59%	-6.59%	3,294	1,647	3,294
WANGER TOWN OF	-6.58%	-6.58%	2,894	1,447	2,894
LAKE TOWN OF	-6.36%	-6.38%	13,337	6,669	13,337
WINGER TOWN OF	-6.23%	-6.23%	2,691	1,345	2,691
FOLDAHL TOWN OF	-6.17%	-6.17%	926	463	926
SOUTH RED RIVER TOWN OF	-6.10%	-6.10%	1,037	519	1,037
SINNOTT TOWN OF	-5.66%	-5.66%	3,143	1,571	3,143
RIVER FALLS TOWN OF	-5.66%	-5.66%	1,144	572	1,144
MANYASKA TOWN OF	-5.65%	-5.65%	4,804	2,402	4,804
NORDEN TOWN OF	-5.33%	-5.33%	1,166	583	1,166
NUMEDAL TOWN OF	-4.67%	-4.67%	1,089	545	1,089
GARNES TOWN OF	-4.55%	-4.55%	874	437	874
PIKE BAY TOWN OF	-4.36%	-4.36%	11,880	5,940	11,880
SANDERS TOWN OF	-4.29%	-4.29%	586	293	586
PRAIRIE LAKE TOWN OF	-4.19%	-4.29%	532	266	532
ELLSBOROUGH TOWN OF	-4.29%	-4.29%	2,334	1,167	2,334
LEENTHROP TOWN OF	-4.11%	-4.11%	2,017	1,009	2,017
Towns Total			**131,033**	**65,516**	**131,033**
Calc margin			35,300	17,650	35,300
				0	
Cities+ Towns+ margin Total			**4,219,953**	**2,109,976**	**4,219,953**

Based on Pay 2008 PU data, 100% phase in, no aid adjustments, Old Law versus New Rule

On August 1 of each year, the Commissioner of Revenue will certify the amount of transition aid payable for the following year.

Cap on Local Property Tax Growth - In an attempt to hold down increases in local property taxes, Chapter 366 limits property taxes for tax years 2008-2010 by capping levy growth for all counties and also for cities with populations over 2,500 residents. More specifically, the law expands the definition of special levies, redefines "levy aid base" and imposes levy limits—allowing adjustments for annual household growth, business tax base growth and plus inflation up to 3.9 percent. In addition, a local government's levy limit is adjusted for aids received, including local government aid (LGA), county program aid (CPA), taconite aids, wind production credits and utility transition aid, for the year in which the levy is payable.

In certain circumstances, a local government may use special levies to go beyond these levy limits, including debt levies, voter approved levies, levies used to pay federal or state matching fund or local share requirements, levies for local jail operations, certain police and firefighter costs, county health and human service costs related to decreased federal funding, etc.

The estimated impact of this cap on local property taxes for city levies would be a reduction of about 2.8 percent or $46 million in FY 2010; county levies would be reduced by about 1.5 percent or $36 million. In FY 2011, the impact grows to just under $87 million for city levies and to about $70 million for counties. The state general fund will be affected by secondary impacts to the property tax refund program, as given below.

Levy/Aid Related Property Tax Refund Program Impact - Due to the imposition of a 3.9 percent levy limit on local governments with a population of 2,500 or more residents, coupled with an additional $146 million in city and county program aids over the biennium, local property taxes in certain areas will be affected. The resulting reductions in property tax refund payments to individuals are estimated to be $4.0 million in FY 2010 and $6.7 million FY 2011.

Local Government Aid: Local Government Aid (LGA) is state aid distributed to cities according to “need factors” – measured differently for small cities (with populations of under 2,500 residents) versus large cities (with populations of 2,500 or more)- minus the “ability to pay” measured by cities’ tax base plus taconite aid. In FY 2008, 854 Minnesota cities are eligible to receive an LGA distribution. Appropriations for FY 2009 are set at $485 million per year, of which approximately $494,000 is retained by the Commissioner of Revenue to pay for various intergovernmental service costs.

Chapter 366 makes numerous changes to city LGA law. Some of these changes include:

- Appropriations increase by $42 million for aids payable in 2009 (FY 2010), and by $52.2 million in payable year 2010 (FY 2011), which reflects a 2 percent increase over FY 2010 amounts. The law also provides for a 4 percent increase payable year 2011 (FY 2012).
- The small city portion of the current city aid base ($6 per capita) is totally replaced by a new separate small city aid base of $8.50 per capita.
- A new city jobs based aid (equal to $25.20 per capita) is established for cities with a population of over 5,000.
- Formula aid is now equal to small city aid plus city job base aid plus a percentage of the difference between city revenue need and ability to pay.
- Various maximum/minimum changes in aid have been adjusted.

- Beginning in payable year 2010 (FY 2011), the city formula is based on the average of two years of "unmet need."
-

Estimated LGA distributions for specific cities can be found at the House Research link: http://www.house.leg.state.mn.us/hrd/issinfo/lgachap366.pdf

County Program Aid: County Program Aid (CPA) provides state aid to Minnesota's 87 counties primarily to help pay for county administrative costs associated with property tax collection and to equalize tax capacity. The formula used to calculate CPA consists of a need aid portion and a tax base equalization aid portion. Appropriations for FY 2009 are limited to $100 million for need aid and $104.9 million for equalization aid for a total of $204.9 million.

Chapter 366 makes two changes to CPA law as follows:

1. Appropriations increase by $22 million for aids payable in 2009 (FY 2010) with about $11 million going to need aid and $11 million for equalization aid. For aids payable in 2010 (FY 2011) appropriations increase by $22 million plus a 2 percent increase for a total of $26.5 million above FY 2009 amounts. The law also provides for a 4 percent increase payable year 2011 (FY 2012).

2. County Transition Aid is made permanent beginning in FY 10. This state aid was provided on a temporary basis to certain counties to buffer reductions in aid attributable to the 2003 consolidation of County Program Aid. Seven counties (Aitkin, Chippewa, Cook, Kanabec, Kittson, Traverse, and Wilkin) qualified for a total of $1.3 million of transition aid in CY 2005, which was then reduced by one-third in each CY 2006 (FY 2007 and CY 2007 (FY 2008). The fiscal impact of this appropriations increase is $464,000 annually.

Estimated CPA distributions for specific counties can be found at the House Research link: http://www.house.mn/hrd/issinfo/ConfCommCPA.xls

Out of home placement aid - Beltrami County: Chapter 366 provides for a one-time payment of $500,000 in 2009 to any county meeting certain conditions relating to the county's size and its percentage of households receiving food stamps. The only county that qualifies for this aid is Beltrami County. The payment, to be issued before June 30, 2009, is to be used to fund out-of-home placement programs.

Appropriations

Department of Revenue administration, various projects: Chapter 366 provides four biennial payments for various administrative purposes:

1. $200,000 is appropriated for the Voss database in FY 2009. Named after former Rep. Gordon Voss, this database connects income data with home values, but it has not been updated since the 1990's. With more current data, the goal is to better understand how changes in property taxes impact individual households.

2. $100,000 is appropriated for taxpayer assistance grants in FY 2009;

3. $100,000 is appropriated for ongoing property tax base assessments regarding industrial special uses in each FY 2009, FY 2010 and FY 2011; and

4. $ 15,000 is appropriated in FY 2009 for a survey of nonprofit institutions**.**

Department of Administration, Land Management Information Center (LMIC): The Land Management Information Center is the repository and clearinghouse for the state's geographically referenced information systems (GIS). Among other things, it provides services to state agencies using digital cartographic files for recording geographic features including roads, utility lines, sewer and water lines, natural and man-made boundaries. In 2003, the LMIC developed maps for the Secretary of State that could be used to compute town acreages, but no provisions exist currently to update acreage estimates for townships on an annual basis. With 300 to 500 boundary changes occurring each year, regular updates are needed to maintain accurate land records.

Chapter 366 appropriates start-up funding of $60,000 in FY 2009 and $10,000 in annual, ongoing funding to the LMIC to record township acreage data.

Other Enactments - Constitutional Amendment ballot proposal

Chapter 151 – Overview

2008 Constitutional Amendment Authorized

Chapter 151 is an act that proposes a Constitutional Amendment be submitted to voters in the 2008 general election. The question that will be on the ballot is if a new 3/8 of one percent sales tax for a 25 year period should be dedicated to the following four purposes;

33%	• To restore, protect and enhance wetlands, prairies, forest and habitat for fish, game and wildlife.
33%	• To protect, enhance, restore water quality in lakes, rivers, and streams with at least 5 percent of the fund to be spend to protect drinking water sources.
14.25%	• To support parks and trails
19.75%	• For arts and cultural heritage
100%	

The current sales tax rate is 6.5 percent and revenues received from this tax are deposited into the general fund. If this constitutional amendment is approved by voters, the sales tax rate will increase by 3/8ths of one percent (.375%) to 6.875 percent. Such a rate increase is estimated to raise an additional $240.5 million in FY 2010. The additional revenue attributed to this rate increase is to be deposited into the four dedicated funds and purposes specified in the table below.

Funds	Dedication	FY 2010	FY 2011
Outdoor Heritage Fund	33%	$79,388,657	$90,343,806
Clean Water Fund (Sustainable Drinking Water Account)	33%	$79,388,657	$90,343,806
Parks and Trails Fund	14.25%	$34,281,466	$39,012,098
Arts and Cultural Heritage	19.75%	$47,512,908	$54,069,399
Total	100%	$240,571,689	$273,769,108
Source: DOR Revenue Estimate for HF 2285 adjusted for the DOF 2008 February Financial Forecast			

For additional information on income, corporate, sales and health care taxes, contact Cynthia Templin at 651: 297-8405, or cynthia.templin@house.mn

For additional information on property aids and credits, motor vehicle taxes and other taxes, contact Katherine Schill at 651: 296-5384, or katherine.schill@house.mn