Summary of the Fiscal Actions of the 2006 Legislature

Money Matters 06.06
July 2006

Fiscal Analysis Department
Minnesota House of Representatives

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Overview of the Supplemental Budget

The 2006 legislative session began on March 1 following the release of the February 2006 general fund forecast. That forecast projected a balance on June 30, 2007 of $88.4 million. In addition, a tax relief account had a balance of $316.7 million for total resources available of $405 million.

FY 2006-07 Revenue Changes

The 2006 Legislature allocated $295 million of the $405 million for revenue reductions and spending increases in the FY 2006-07 biennium. Of the $295 million, $217 million is for net increases in spending, $78 million is for net reductions in revenue. The remaining $110 million remains in the tax relief account until July 1, 2007 (fiscal year 2008) when it is transferred to the general fund.

Table 1 summarizes the budget changes for the FY 2006-07 biennium.

Table 1: 2006 Session Actions - Summary
Changes from Current Law
Dollars in Millions

	FY 2006-07	FY 2008-09
Resources		
General Fund Balance	88.4	1,091.9
Tax Relief Account Transfer (a)	207.1	109.7
Subtotal - Resources	**295.4**	**1,201.6**
Uses		
Spending Increases	217.1	369.4
Revenue Decreases	78.3	101.0
Subtotal - Uses	**295.4**	**470.4**
Balance Carried Forward		0.0
Balance	**0.0**	**731.2**

(a) $109.7 million of the balance in the tax relief account is not used in FY 2006-07 and is transferred to the general fund in FY 2008.

Table 2 shows the 2006 budget changes by fiscal committee. Spending changes are listed for each committee and revenue changes are listed for those committees that have revenue changes. Each of the committee sections of this document explain the changes in that committee area.

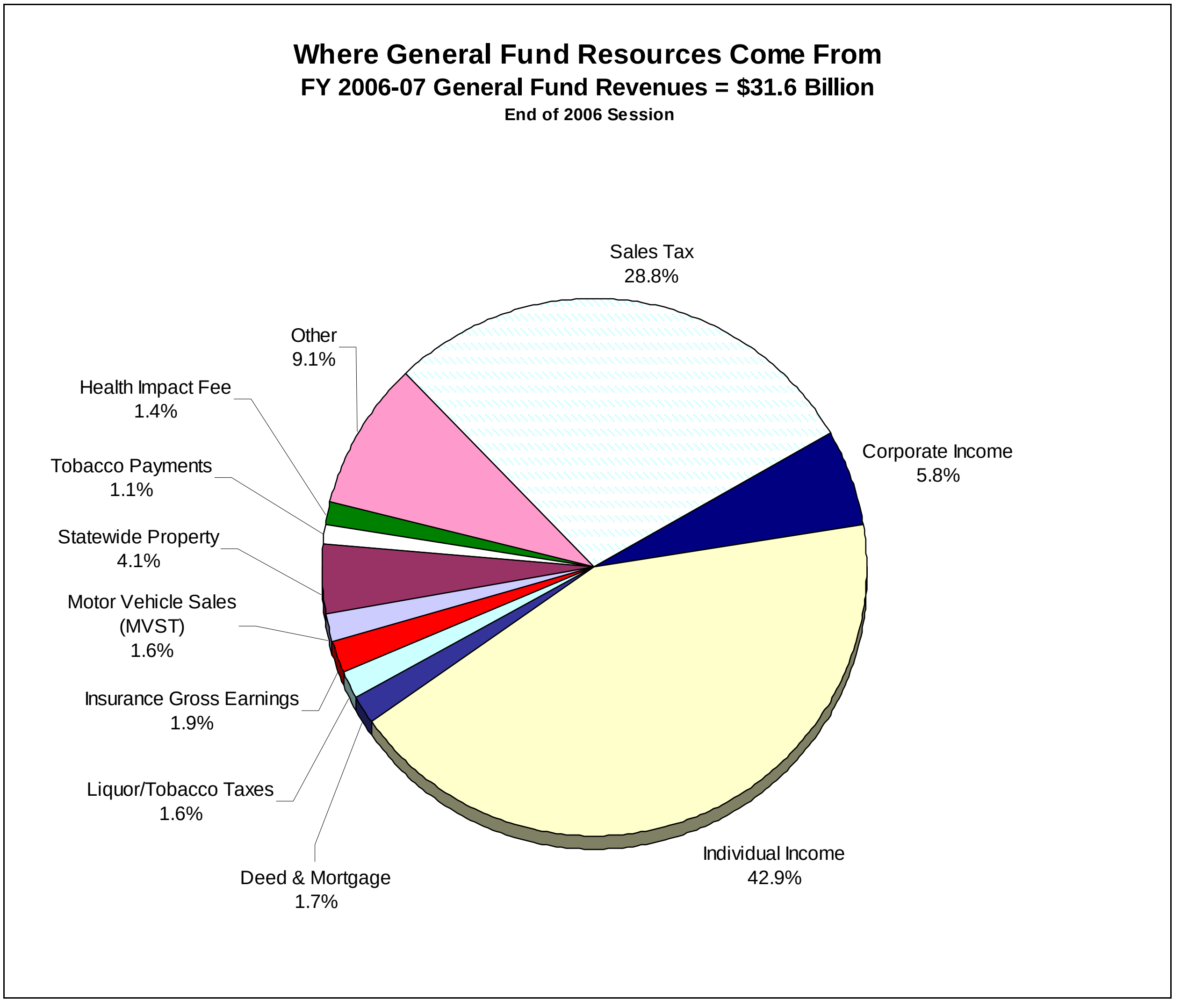
Table 2: 2006 Session General Fund Fiscal Tracking

Changes from Forecast Amounts - Based on February 2006 Forecast and 2006 Session Actions.
A positive spending number is a cost, a positive revenue number is a revenue loss or cost.

	FY 2006	FY 2007	FY 06-07	FY 2008	FY 2009	FY 08-09
Education	4,093	9,230	13,323	26,868	28,469	55,337
Higher Education		5,000	5,000	5,000	6,330	11,330
Taxes - Aids & Credits Spending		720	720	80	329	409
Taxes - Revenue Changes	5,190	86,555	91,745	48,045	43,775	91,820
Taxes Net	**5,190**	**87,275**	**92,465**	**48,125**	**44,104**	**92,229**
Health - Spending	43,413	68,657	112,070	78,893	70,047	148,940
Health - Revenue	-10,107	-7,343	-17,450	-8,356	-7,920	-16,276
Health Net	**33,306**	**61,314**	**94,620**	**70,537**	**62,127**	**132,664**
Jobs & Ec Opp (Econ Dev) - Spending		29,652	29,652	225	225	450
Jobs & Ec Opp (DHS) - Spending	-7,854	15,188	7,334	18,188	17,577	35,765
Jobs & Ec Opportunity - Spending	**-7,854**	**44,840**	**36,986**	**18,413**	**17,802**	**36,215**
Agriculture - Spending	414	3,435	3,849	627	627	1,254
Agriculture - Revenue		21	21	21	21	42
Agriculture - Net	**414**	**3,456**	**3,870**	**648**	**648**	**1,296**
Environment - Spending	-108	13,282	13,174	650	650	1,300
Environment - Revenue		-11	-11	-7		-7
Environment - Net	**-108**	**13,271**	**13,163**	**643**	**650**	**1,293**
Public Safety - Spending (Incl Claims)	3,910	15,774	19,684	9,390	10,644	20,034
Public Safety - Revenue		200	200	2,974	2,962	5,936
Public Safety - Net	**3,910**	**15,974**	**19,884**	**12,364**	**13,606**	**25,970**
State Government - Spending	250	3,599	3,849	3,134	3,134	6,268
State Government - Revenue		1,950	1,950	1,950	1,950	3,900
State Government - Net	**250**	**5,549**	**5,799**	**5,084**	**5,084**	**10,168**
Transportation - Spending		692	692			0
Capital Bill - Debt Service		6,779	6,779	22,906	44,930	67,836
Capital Bill - General Fund		1,000	1,000			
Gopher Stadium - Chapter 247 Spending				10,250	10,250	20,500
Gopher Stadium - Chapter 247 Revenue			-	2,000	3,000	5,000
Gopher Stadium - Chapter 247 Net				**12,250**	**13,250**	**25,500**
Twins Stadium - Chapter 257 - Revenue		1,830	1,830	5,630	4,930	10,560
Sum - Spending Changes	44,118	173,008	217,126	176,211	193,212	369,423
Sum - Revenue Changes	-4,917	83,202	78,285	52,257	48,718	100,975
Tax Relief Account Transfer to GF	-207,056		-207,056	-109,660		-109,660
Total	**-167,855**	**256,210**	**88,355**	**118,808**	**241,930**	**360,738**
Reconciliation						
Budget Balance - February Forecast			88,355			1,091,932
Balance			**0**			**731,194**
Potential Cost Impact - Transportation Constitutional Amendment				55,770	116,220	171,990

Revenue Changes

The revenue changes enacted in the 2006 session reduce total general fund revenues for the FY 2006-07 biennium $78 million. Most of the revenue changes are in the tax area ($76 of the $78 million). The Tax section of this summary provides more detail on the tax revenue changes, other revenue changes are mentioned in the relevant sections. The pie chart shows the major sources of general fund revenue for the FY 2006-07 biennium.

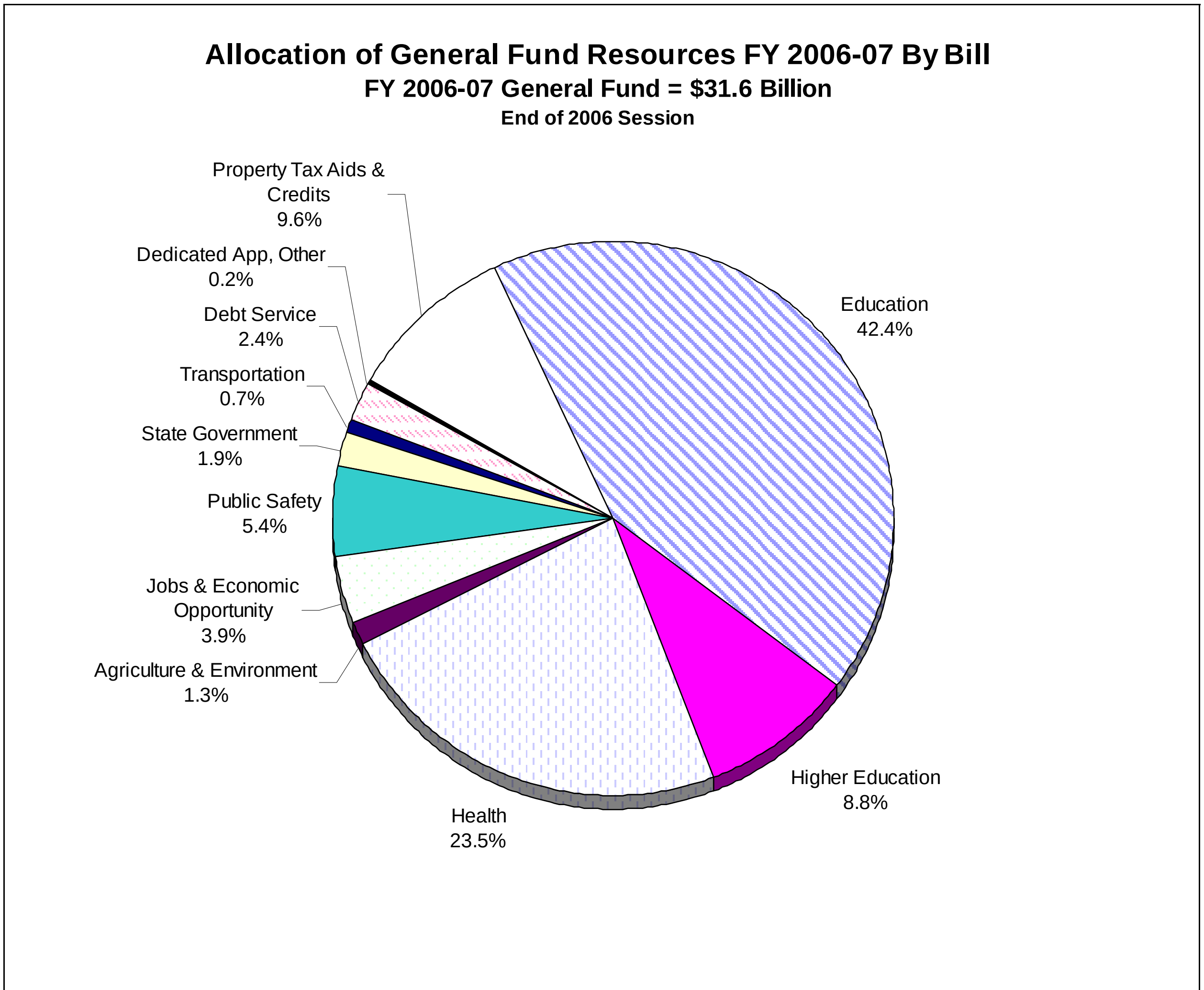


General fund revenue for the FY 2006-07 biennium actually increases from $31.5 billion as projected in the February forecast to $31.6 billion. The change of $129 million is the difference of the $78 million reduction in revenue and the transfer into the unrestricted general fund from the tax relief account of $207 million. These revenue numbers are also illustrated on Tables 3 and 4 later in this summary.

FY 2006-07 Spending Changes

Of the $217 million of FY 2006-07 spending changes, about $116 million is related to funding shortfalls in the Department of Human Services in its programs for sex offenders and mentally ill and dangerous persons and in the Department of Corrections for prison staff. Additional general fund debt service for the 2006 bonding bill required another $7 million. The remaining appropriations met a variety of needs across all committee areas.

The pie chart shows how FY 2006-07 general fund spending breaks down by House fiscal committee structure.



General fund spending in FY 2006-07 increases from the $31.4 billion projected in the February 2006 forecast to $31.6 billion after 2006 legislative session enactments. This is a 12.4 percent increase over general fund spending in the FY 2004-05 biennium. These spending numbers are also illustrated on Tables 3 and 4 later is this summary.

FY 2008-09

The February 2006 forecast projected a balance at the end of the FY 2008-09 biennium of

$1.092 billion. This balance did not include the revenue loss if a proposed constitutional amendment on the general election ballot in November 2006 is adopted. This amendment would dedicate the full amount of motor vehicle sales tax for transportation and transit purposes. Currently, slightly less than 47 percent of these proceeds are deposited in the general fund. If the constitutional amendment is adopted, the general fund will receive $172 million less revenue in FY 2008-09.

Not including the transfer of $110 million from the tax relief account, 2006 legislative enactments reduced revenues for the FY 2008-09 biennium by $101 million. Net revenue for the biennium is up $9 million.

Laws enacted in the 2006 session increased projected spending for FY 2008-09 by $369 million.

The revenue and spending changes enacted in the 2006 session reduce the projected general fund balance by $470 million. This is partially offset by the transfer from the tax relief account of $110. The net change is a reduction in the projected FY 2008-09 balance of $361 million to $731 million. If the proposed constitutional amendment dedicating more motor vehicle sales tax to transportation purposes is adopted, this balance will be reduced by an additional $172 million.

Changes by Year and Biennium

Tables 3 and 4 show changes in general fund revenues and spending by year and by biennium after changes enacted by the 2006 Legislature. Base level spending numbers for FY 2008 and 2009 are set as defined in law, the FY 2007 spending amount unless another amount is specified in law or the amount needed to fund a forecasted program.

Table 3: General Fund Summary By Fiscal Years 2006-2009
Enacted Budget, Change from February Forecast Base
($ in thousands)

	FY 2005	FY 2006	Percent Change	FY 2007	Percent Change	FY 2008	Percent Change	FY 2009	Percent Change
Revenue - Base	14,653.3	15,382.0		16,095.8		16,341.4		16,974.0	
Revenue - Change		4.9		-83.2		-52.3		-48.7	
Revenue-Tax Relief Acct.		207.1				109.7			
Total Current Revenue	**14,653.3**	**15,593.9**	**6.4%**	**16,012.6**	**2.7%**	**16,398.8**	**2.4%**	**16,925.3**	**3.2%**
Expenditures - Base	14,528.6	15,760.5		15,629.0		15,966.6		16,256.9	
Expenditures - Change		44.1		173.0		176.2		193.2	
Total Expenditures	**14,528.6**	**15,804.6**	**8.8%**	**15,802.0**	**0.0%**	**16,142.8**	**2.2%**	**16,450.1**	**1.9%**

Note on revenues: $207.1 million is transferred from the tax relief account to the general fund in FY 2006, the remaining $109.7 million is transferred in FY 2008. Also revenue loss from the proposed constitutional amendment dedicating all motor vehicle sales taxes to non-general fund purposes is not included.

Table 4: General Fund Biennial Summary: Fiscal Years 2004-2009
Enacted Budget, Change from February Forecast Base
Dollars in Millions

	FY 04-05	FY 06-07	Percent Change	FY 08-09	Percent Change
Revenue - Base	29,152.6	31,477.8		33,315.4	
Revenue - Change		-78.3		-101.0	
Revenue-Tax Relief Account		207.1		109.7	
Total Current Revenue	**29,152.6**	**31,606.6**	**8.4%**	**33,324.1**	**5.4%**
Expenditures - Base	28,128.4	31,389.5		32,223.5	
Expenditures - Change		217.1		369.4	
Total Expenditures	**28,128.4**	**31,606.6**	**12.4%**	**32,592.9**	**3.1%**

Note on revenues: $207.1 million is transferred from the tax relief account to the general fun in FY 2006, the remaining $109.7 million is transferred in FY 2008. Also, revenue loss from the proposed constitutional amendment dedicating all motor vehicle sales taxes to non-general fund is not included.

Fees, Fines and Surcharges

Fees, fines and surcharge changes totaling a $632,000 increase for FY 2006-07 were enacted in the 2006 session. Most of this amount was not in the general fund. Revenue changes from fees, fines and surcharges are projected to be higher in FY 2008 and after as a result of changes made in the 2006 session primarily due to a fire marshal insurance surcharge that replaces a fire marshal insurance tax. The surcharge will raise more money than was raised by the tax.

Table 5 (on the following page) shows changes in fee, fines and surcharges by fund.

Table 5: Changes in Fees, Fines and Surcharges - 2006 Legislative Enactments
($ in thousands)

	Agency	FY 06	FY 07	**FY 06-07**	FY 08	FY 09	**FY 08-09**	Fund
Housing Services - Assisted Living Surcharge	Health				280	280	**560**	SGSR
Child Support Enforcement Fee	DHS		255	**255**	340	340	**680**	Spec Rev
Boxing Commission Fees	Box Com		20	**20**	23	26	**49**	Spec Rev
Small Business Assistance Fee	DEED		10	**10**	15	25	**40**	Spec Rev
Energy Utilities Assessment	PUC		500	**500**	500	0	**500**	Spec Rev
Beekeeping Regulation Repeal	Ag		-21	**-21**	-21	-21	**-42**	Gen Fund
Beekeeping Regulation Change	Ag		8	**8**	8	8	**16**	Ag Fund
Forest Management Services	DNR		35	**35**	35	35	**70**	Spec Rev
Forest Special Events Fee	DNR		15	**15**	15	15	**30**	Nat Res
Horse Trail Pass	DNR		200	**200**	314	314	**628**	Nat Res
Youth Firearms Deer Hunting License	DNR		-390	**-390**	-396	-396	**-792**	G&F
Fire Marshal Insurance Surcharge (a)	DPS				7,400	11,600	**19,000**	Spec Rev
Hennepin County Fine Revenue	Courts				58	70	**128**	Gen Fund
Total			**632**	**632**	**8,571**	**12,296**	**20,867**	
Total - General Fund			-21	**-21**	37	49	**86**	
Total - Other Funds			653	**653**	8,534	12,247	**20,781**	

(a) This replaces a fire marshal insurance tax that would have raised $3.3 million in FY 2008 and $5.1 million in FY 2009.

Fund Code
Gen Fund = General Fund
Ag Fund = Agricultural Fund
Spec Rev = Special Revenue Fund
SGSR = State Governemtn Special Revenue Fund
Nat Res = Natural Resources Fund
G&F = Game and Fish Fund

For more information, contact Bill Marx at 651-296-7176 or bill.marx@house.mn

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Agriculture, Environment and Natural Resources

The 2006 legislative session actions made changes to expenditures and revenues that result in a net General Fund increase of $17.023 million for the Agriculture, Environment and Natural Resources Finance area in FY 2006-07. Recommended expenditure and revenue changes result in a net General Fund increase for FY 2008-09 of $2.589 million.

Agriculture, Environment and Natural Resources
Supplemental Appropriations
(Dollars in thousands)

Fiscal Year	2006	2007	2006-07	2008	2009	2008-09
General Fund Expenditure Changes						
Agriculture Dept.	137	3,027	3,164	627	627	1,254
Pollution Control	0	5,030	5,030	0	0	0
Dept. of Natural Resources	-108	2,412	2,304	650	650	1,300
Water and Soil Resources		5,840	5,840	0	0	0
Board of Animal Health	277	408	685	0	0	0
Subtotal expenditure changes:	**306**	**16,717**	**17,023**	**1,277**	**1,277**	**2,554**
General Fund Revenue Changes						
Dept. of Natural Resources	0	12	12	7	0	7
Agriculture Dept.		-21	-21	-21	-21	-42
subtotal revenue changes:	**0**	**-9**	**-9**	**-14**	**-21**	**-35**
Net General Fund Change:	**306**	**16,726**	**17,032**	**1,291**	**1,298**	**2,589**

Agriculture Department

There is a General Fund expenditure increase of $3.2 million in FY 2006-07, and $1.27 million in FY 2008-09 for the Agriculture Department. The list below indicates the specific changes made in the 2006 legislative session.

- **Invasive Species Staffing**: This increase of $248,000 for FY 2006-07 adds staffing to the program to eradicate gypsy moths and other invasive species.

- **Livestock/Crop Compensation**: This increase of $93,000 in FY 2006-07 is to provide additional funding to cover a rise in wolf predation claims on livestock.

- **Renewable Energy:** This increase of $75,000 for FY 2006-07 is to increase public information dissemination on renewable energy.

- **BioSafety Containment Facility:** This appropriation is for an increase of $190,000 annually to provide for the operations of the containment facilities located at the University of Minnesota.

- **Second Harvest Heartland Milk Program:** The food bank milk distribution subsidy program received an increased appropriation of $200,000 for FY 2006-07.

- **Beekeeping Registration:** The repeal of the beekeeping registration program resulted in a decreased appropriation of $42,000 in FY 2006-07.

- **Clean Water Legacy:** This appropriation for FY 2006-07 of $2.4 million General Fund dollars is for the department's activities in implementation of the Clean Water Legacy Act. This request includes funds for best management practices, nutrient use technical assistance, and research, evaluation and reporting. This is a one time appropriation.

Animal Health Board

Bovine Tuberculosis Control: The increase of $685,000 in FY 2006-07 is to test for and eliminate bovine tuberculosis in Minnesota' cattle population. This is a one time appropriation.

Pollution Control Agency

Clean Water Legacy Act: This appropriation for FY 2006-07of $5.03 million General Fund dollars is for the agency's activities in implementation of the Clean Water Legacy Act. This request includes funds for water quality monitoring and development of Total Maximum Daily Load studies. This is a one time appropriation.

Department of Natural Resources (DNR)

The session actions resulted in a total General Fund expenditure increase of $2.3 million in FY 2006-07, and $1.3 million in FY 2008-09 for the DNR. The list below indicates the changes made in the 2006 session.

- **Bovine Tuberculosis Control**: This appropriation of $220,000 for FY 2006-07 is for testing and surveillance costs associated with the outbreak of Bovine TB in Northwestern Minnesota. The deer population will be monitored.

- **Invasive Species Control:** Increased funding of $550,000 for FY 2006-07 is for increased monitoring and enforcement activities, increased prevention education and program implementation to control harmful invasive species.

- **Emergency Deterrent Materials:** This funding increase of $54,000 is to be used to for increased assistance under the program adding farmers to avoid damage to crops from wildlife. This is a one time appropriation.

- **Shooting Sports Center**: The appropriation of $100,000 in FY 2006-07 is for operation costs of the center located in Grand Rapids.

- **Tower Soudan Mine Grant Cancellation:** An appropriation from the 2005 session of $250,000 for research at the mine was cancelled.

- **Clean Water Legacy Act:** The appropriation of $1.63 million is for the department's activities in implementing the Clean Water Legacy Act. Included are surface water quality assessment, riparian land acquisition, and planning activities. This is a one time appropriation.

Non General Fund Appropriation.

- **Canoe Route Improvement**: An appropriation of $130,000 from the Natural Resources fund is to be used to improve access, marking and campsites on designated canoe routes.

- **Forest Management Services to Landowners:** This item increases expenditures from the Special Revenue Fund by $35,000 in FY 2006-07 for the development of forest management plans for private landowners. This results in an increase in revenue to the fund.

- **U. S. Army Corp Campsites:** An appropriation of $400,000 from the state parks account in the Natural Resources fund is for operations cost at campsites previously operated by the Corp of Engineers.

- **Land Appraisals:** This item is to reimburse donors who request reimbursement for the cost of land appraisal on donations of land to the state. The estimated increase is $45,000 from the Natural Resources fund for FY 2006-07.

- **Horse Trail Pass:** This item is for a new annual trail use fee for horseback riders who use state trails. Funds will be used to improve horse trail maintained by the department. The estimate of revenue and expenditures for FY 2006-07 is $200,000 from the Natural Resources Fund.

Board of Water and Soil Resources

Clean Water Legacy Act: The appropriation of $5.84 million is for the department's activities in implementing the Clean Water Legacy Act. Included are non-point restoration cost share grants, ISTS grants, and reporting and evaluation activities.

Legislative-Citizen Commission on Minnesota Resources

Statewide Strategic Plan: The legislature appropriated $4.125 million from the Environment and Natural Resources Trust Fund for administration costs and various specified program activities. Legislation also restructured the Commission to include citizen members.

For additional information on agriculture or environment finance issues, contact Jim Reinholdz, Fiscal Analyst, at 651-296-4281 or Jim.Reinholdz@house.mn

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Education Finance

The 2006 Legislature passed three main bills which had education-related provisions in them, the supplemental appropriations bill, HF 4162, Chapter 286, an education policy bill, SF 2994, Chapter 263 and a bill that consolidated the Minneapolis teacher pension fund and the statewide teacher pension fund, HF 1120, Chapter 277. Chapters 286 and 277 included $14.4 million in additional general fund expenditures for the fiscal year 2006-07 biennium with $8.2 million in K-12 education programs and $6.2 million in early childhood education programs. The additional $14.4 million in represents a net increase of 0.1 percent additional funding over the base education finance budget. In addition, the act includes a net increase of $56.3 million for the fiscal year 2008-09 biennium, and $8.8 million in property tax increases for taxes payable in calendar year 2007 (fiscal year 2008) and $2.7 million in property tax increases for taxes payable in calendar year 2008 (fiscal year 2009).

Education Finance - 2006 Supplemental Budget
(Dollars in thousands)

	FY 2006	FY 2007	FY 06-07	FY 2008	FY 2009	FY 08-09
General Fund Expenditure Changes						
K-12 Education Programs	3,969	4,264	8,233	17,534	17,592	35,126
Early Childhood and Family Education Programs	124	6,026	6,150	9,334	10,877	20,211
subtotal expenditure Changes:	**4,093**	**10,290**	**14,383**	**26,868**	**28,469**	**55,337**
Net General Fund Change:	**4,093**	**10,290**	**14,383**	**26,868**	**28,469**	**55,337**

All appropriations are for fiscal year 2006-07 and from Chapter 286 unless otherwise noted.

General Education

- $9,000 in savings in fiscal year 2007, and $176,000 in equalization aid savings in fiscal years 2008-09 due to two changes in the alternative teacher pay program. The first change allows integration districts and the Perpich Center for Arts education to participate in the program. Second, districts which had participated in alternative compensation prior to fiscal year 2006 are allowed to remain on the old funding system for two additional years. The alternative compensation program is a mix of state aid and local property tax levy, and both of these changes result in less local levy (by $1.2 million) than is forecast currently, resulting in less state equalization aid being paid.

- $34.2 million in fiscal year 2008 and 2009 to increase revenue for school districts participating in the Teacher Retirement Association (TRA) teacher's pension plan to fund a higher employer pension contribution rate. Districts in TRA are required in Chapter 277 to make an additional 0.5 percent of salary contribution for teacher pensions beginning fiscal year 2008. School districts' general education revenue is currently reduced by an amount that is related to their payrolls in 1994 and 1997, and a reduction in the required employer contributions for teacher pensions that was made at the time. Chapter 277 reduces this general education revenue reduction in current law by an amount equal to 0.5 percent of teacher payroll, which in effect increases general education revenue for those school districts by an amount equal to the added employer contribution in Chapter 277.

- $3.5 million for one time school district energy assistance aid, which may be used to pay for heating, fuel, and other energy costs. Each school district or charter school is eligible for $3.67 per pupil in revenue.

Education Excellence

- $1.0 million to expand the Advanced Placement and International Baccalaureate programs.

- $500,000 to allow Minnesota 4th and 8th grade students to participate in the TIMSS international assessment of student achievement in math and science.

- $50,000 in FY 2007 only for the Northwestern Online College in the High School program, for professional development and to develop Web-based technology.

- $1.5 million for a character development pilot program. The program would allow districts to apply for up to $30 per pupil to be used for purchasing character development curriculum from approved providers.

- $25,000 for the Department of Education for the Scholars of Distinction program.

- $250,000 to develop of Mandarin Chinese curriculum, assessments and materials for schools.

Facilities and Technology

- $316,000 for the Waseca school district to offset the loss of funds in the Health and Safety program that occurred as a result of a Department of Education calculation error. The district will also be able to levy $344,000 per year for five years beginning in fiscal year 2008.

- $474,000 for an emergency aid grant for the Red Lake School District.

- $137,000 for an emergency aid grant to the Rocori School District.

Nutrition

- $495,000 to increase the state school lunch reimbursement rate from 10 cents per lunch to 10.5 cents per lunch.

Early Childhood and Family Support

- $2.7 million to increase the Early Childhood and Family Education formula from $96 per child under five to $112, beginning in fiscal year 2007.

- $$400,000 to expand early childhood services to a group of birth to three-year-olds who are currently not eligible, thus bringing Minnesota's "Part C" eligibility criteria into compliance with federal law.

- $143,000 in fiscal years 2006 and 2007 to allow school districts to receive revenue for Kindergarten screenings that occur up to thirty days after the student has entered Kindergarten.

- $287,000 to restore the Minnesota Kindergarten Readiness Assessment, which is used to help determine which districts are in need of intervention services for students preparing to enter Kindergarten.

- $80,000 to match $1.4 million of nonprofit funding for education materials for new parents.

- $250,000 to create the Legislative Commission to End Poverty.

Self-Sufficiency and Lifelong Learning

- $1.3 million for intensive English Instruction for new adult refugees. This appropriation, available for the current biennium only, would allow Adult Basic Education providers to add English a second language instruction to accommodate the large number of refugees entering Minnesota. At this time, there is a technical issue with this appropriation that will

- $1.1 million to increase Adult Basic Education funding by 3 percent per year, beginning in fiscal year 2007.

Non-Appropriation Changes with Fiscal Impact (these changes are from Chapter 263)
On operating referendum ballot questions, school districts may ask for an inflationary increase by stating that the referendum amount will increase "by the rate of inflation" rather than projecting and specifying what the increase is on a per student basis for each year the referendum is authorized, as they are required to do now.

The commissioner of Education is required to develop and maintain a school district consolidated financial statement format that will convert UFARS data into a more understandable format.

Because the State is close to failing to meet its federal special education maintenance of effort requirements, any forecast reductions in special education programs could result in federal penalties. This act requires that any forecast reductions in special education programs be reallocated to the regular special education appropriation to help meet the federal maintenance of effort requirements.

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

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Health Finance

The net general fund increase is $93.8 million in the Health Finance area, and a total of $100.7 million net increase in spending for all funds for FY 2006-07. A significant share of the increase in general fund expenditures is for operational costs in State Operated Services (SOS) under the Department of Human Services. This is mostly due to increased growth in commitments for the Minnesota Sex Offender Program (MSOP) and Mentally Ill and Dangerous (MI&D) populations. The majority of increased spending in other funds includes various initiatives for the Departments of Human Services and Health from the health care access fund (HCAF) totaling $5.4 million for FY 2006-07. Most of the funding changes are included in the supplemental budget bill (HF 4162), Laws 2006, Chapter 282.

Health Finance – 2006 Supplemental Appropriations
(dollars in thousands)

	FY 2006	FY 2007	FY 06-07	FY 2008	FY 2009	FY 08-09
General Fund Expenditure Changes						
Department of Human Services	40,965	59,056	**100,021**	71,189	62,382	**133,571**
Department of Health	0	5,000	**5,000**	0	0	**0**
Veterans Homes Board	2,448	3,790	**6,238**	7,735	7,735	**15,470**
subtotal expenditure changes:	**43,413**	**67,846**	**110,474**	**78,924**	**70,117**	**149,041**
General Fund Revenue Changes	**(7,174)**	**(10,276)**	**(17,450)**	**(8,387)**	**(7,990)**	**(16,377)**
Net General Fund Change:	**36,239**	**57,570**	**93,809**	**70,537**	**62,127**	**132,664**
Non-General Fund Expenditure Changes						
Health Care Access Fund (HCAF)						
Department of Human Services	0	3,897	**3,897**	2,561	(791)	**1,770**
Department of Health	0	1,500	**1,500**	0	0	**0**
Net HCAF Changes	**0**	**5,397**	**5,397**	**2,561**	**(791)**	**1,770**
State Government Special Revenue Fund (SGSR)						
Department of Health	0	140	**140**	0	0	**0**
Health-Related Boards	514	572	**1,086**	67	67	**134**
Emergency Medical Services Board	0	50	**50**	50	50	**100**
Net SGSR Changes	514	762	**1,276**	117	117	**234**
Lottery Prize Fund						
Department of Human Services	25	150	**175**	0	0	**0**
Net Lottery Prize Fund Changes	**25**	**150**	**175**	**0**	**0**	**0**

Department of Human Services

The net general fund increase for the Department of Human Services (DHS) is $85.5 million in FY 2006-07 and $117.2 million in FY 2008-09 in the House Health Policy & Finance committee jurisdiction.[1] The net health care access fund (HCAF) increase for DHS is $3.9 million in FY 2006-07 and $1.8 million in FY 2008-09.

Mental Health Initiatives

Chapter 282 increases funding for mental health initiatives that improve statewide access to mental health services and investments in mental health infrastructure. The net impact on the HCAF is a cost of $1.3 million in FY 2006-07 and $2.1 million in FY 2008-09. The net impact on the general fund is $6.6 million in FY 2008-09. The mental health initiatives contained in Chapter 282 were part of the Governor's supplemental budget recommendations on mental health transformation.

The mental health initiatives passed by the legislature focus on new funding for improving access and infrastructure of mental health services for the uninsured and underinsured in the following areas:

- Create a system for measuring mental health service outcomes. Administrative funding to DHS totaling $119,000* in FY 2006-07 and $143,000* in FY 2008-09 for developing a web-based statewide outcomes evaluation system for mental health services.
- Ensure statewide access to crisis services and support the mental health service delivery infrastructure.
    - Increase adult and child mental health grants by $1 million in FY 2006-07 and $1 million in FY 2008-09 for mobile mental health crisis services ($250,000 in child mental grants and $750,000 in adult mental health grants).
    - Increase in administrative funding of $150,000* in FY 2006-07 and $52,000* in FY 2008-09 for mental health service tracking.
    - Increase rates in Medical Assistance (MA) Basic Care, General Assistance Medical Care (GAMC), and MinnesotaCare (MnCare) for critical access providers to address workforce shortages totaling $6.6 million* for FY 2008-09 from the general fund and $899,000* in FY 2008-09 from the HCAF.

National Council on Problem Gambling Grants. Chapter 225 (SF 930) appropriates $25,000 in FY 2006 and $150,000 in FY 2007 from the lottery prize fund to the Department of Human Services for a grant to the state affiliate recognized by the National Council on Problem Gambling (Northstar Problem Gambling Alliance) to provide services to increase public awareness of problem

1 The total net general fund increase for DHS is $92.8 million in FY 2006-07 and $153 million in FY 2008-09. The difference reflects the jurisdictional difference of the DHS budget between the House Health Policy & Finance and the Jobs & Economic Opportunity Finance committees. The Health Finance jurisdiction numbers are carrying $19,000 in spending of the Jobs & Economic Opportunity Finance accounts.

***An asterisk (*) indicates the cost or savings shown is the state's share only unless otherwise noted. For administrative costs, federal match is 40 percent of the total cost and for Medical Assistance (health care and long-term care) and federally funded MnCare the federal match is usually 50 percent of the total cost.**

gambling, education and training for individuals and organizations providing effective treatment services to problem gamblers and their families, and research relating to problem gambling.

State-Operated Services (SOS)

Minnesota Security Hospital (MSH) shortfall related to growth in commitments of Mentally Ill and Dangerous persons. Chapter 282 increases the appropriation for operating costs to address the increase in referrals and commitments to the programs under MSH. The net impact to the general fund for this recommendation is $31 million in FY 2006-07 and $41.1 million in FY 2008-09. The funding covers growth in three programs in MSH: Transition Program, Adolescent Program, and Forensics Nursing Home Program for the following programs costs:

- $27.3 million for the opening of six new units. This covers direct care staff, support staff, and non-salary costs such as food, supplies, and utilities.
- $6.3 million for sustaining the programs' clinical oversight, management infrastructure and program integrity, and increased clinical, administrative and system-wide staffing related to the increased growth in referrals and commitments.

Minnesota Sex Offender Program (MSOP) operating shortfall related to the growth in commitments. Chapter 282 increases the appropriation for operating costs resulting from higher than anticipated referrals and commitments to the MSOP. The net impact to the general fund for this recommendation is $33.7 million in FY 2006-07 and $41.7 million in FY 2008-09. The increased funding recommend for the MSOP includes:

- $22.9 million for an additional 100 beds (4 units) in FY 2006-07 to accommodate current population growth (50 beds in FY 2008-09 for projected population growth). This funding covers direct care staff, support staff, administrative and clinical staff, and non-salary costs such as food, drugs, and supplies.
- $7.6 million in FY 2006-07 and $10.6 million in FY 2008-09 for costs associated with leasing inmate space from the Department of Corrections (DOC). In order to meet immediate growth in MSOP commitments, DHS is temporarily leasing space in a DOC facility at Moose Lake until the future expansion of the MSOP facilities at the Moose Lake campus are complete (funded in the 2006 bonding bill).
- $2.3 million in FY 2006 for one-time costs associated with modifying the temporary DOC space at Moose Lake.
- $7.5 million in expenditures savings for utilizing the Modified "K" building model related to the expansion of the MSOP facilities at Moose Lake (savings result from the expansion the Moose Lake facilities in the 2006 bonding bill).

Managing growth in commitment to the Minnesota Extended Treatment Options (METO) program. Chapter 282 increases funding to SOS to provide community-based support and crisis services for individuals who are at risk of commitment to the METO program and keep them in the least-restrictive community setting whenever possible. Prior to the changes in the Mentally Retarded and Related Conditions (MR/RC) waiver in the 2003 legislative session, funding for these types of community-based services used to be available under the waiver program. The increased funding is for 51.5 FTE's to provide community support and crisis services due to the recent growth in admissions to the METO program. The net impact to the general fund is $1.5 million in FY 2006-07 and $1 million in FY 2008-09.

State-Operated Services Salary Deficit. Chapter 282 increases funding for SOS to cover increased operating costs associated with labor contracts negotiations. This increase represents a two-percent cost-of-living increase and funds the costs of employee step increases. The net impact to the general fund is $14.6 million in FY 2006-07 and $17.5 million in FY 2008-09. The increased funding appropriated by the legislature is approximately $1 million lower than the full request for the SOS salary deficit for FY 2006-07 and $1 million for FY 2008-09.

Health Care Grants

Federal Deficit Reduction Act requirements for health care programs. Chapter 282 requires compliance with new federal requirements passed in the 2006 Federal Deficit Reduction Act (DEFRA) for Medical Assistance (MA), and federally funded MinnesotaCare (MnCare). The conforming changes result in a net reduction to the general fund of $1.2 million* in FY 2006-07 and $7.7 million* in FY 2008-09; and a net increase to the HCAF of $623,000 in FY 2006-07 and $516,000 in FY 2008-09. Major changes that have a fiscal impact include:

- 60-month look-back period for asset transfers (MA long-term care)
- Start of penalty period for asset transfers (MA long-term care)
- Transfers involving annuities (MA long-term care)
- Home equity limit of $500,000 (MA long-term care)
- Verification of citizenship – Chapter 282 complies with DEFRA for verification of citizenship for federally funded health care programs (Medical Assistance and federally funded MnCare recipients). The Governor requested verification of citizenship for all health care programs which includes GAMC and non-federal MnCare recipients.
- Fractional asset transfers (MA long-term care)
- Long-term care partnership program (MA long-term care)

Exempt certain GAMC groups from shifting to MnCare. Chapter 282 requires that certain GAMC enrollees (see list below) be exempt from shifting to MnCare following the initial six-month eligibility period. This change was made in the 2005 Legislature to shift GAMC enrollees (who are not excluded by law) to MnCare after a temporary period of GAMC eligibility regardless of MnCare eligibility rules and without paying the MnCare premium. After the initial six-month period of temporary eligibility, enrollees must meet MnCare eligibility requirement and pay the premium. In the list below, the first three groups do not meet a MnCare basis of eligibility and the MnCare $10,000 limit on impatient services is problematic for persons receiving treatment through the Consolidated Chemical Dependency Treatment Fund (CCDTF). This change results in an increase to GAMC of $2.1 million in FY 2006-07 and $12.1 million in FY 2008-09 to the general fund, and a decrease in MnCare of $1.8 million in FY 2006-07 and $10.6 million in FY 2008-09 to the HCAF.

Exempt Groups:

- Persons with end stage renal disease (ESRD) with Medicare benefits
- Persons with private health insurance benefits
- Persons who retain GAMC eligibility when they become and remain incarcerated with the initial six-month period.
- Persons receiving treatment through the CCDTF

Eliminate Dental Co-pays for Adults without kids and Parents under 175% of FPG on MnCare. Chapter 282 eliminates the 50 percent dental co-pay for non-preventative dental services for adults without children and parents on MnCare with incomes under 175 percent of the federal poverty guidelines (FPG) effective July 1, 2007. The cost to MnCare of eliminating the dental co-pay is a cost of $7.9 million* in FY 2008-09 to the HCAF.

One-time increase in Critical Access Dental Payments. Chapter 282 increases MA payments to critical access dental providers from October 1 to June 30, 2007 only. The increase is equal to 38 percent of the current MA reimbursement rate. The one-time critical access dental rate increase is a cost to the general fund of $3.6 million* in FY2006-07 and $1.7 million* in FY2008-09. The cost to the general fund is fully reimbursed by the health care access fund.[2] Chapter 282 also requires the Department to annually establish a reimbursement schedule, set provider-specific limits for future critical access dental payments, and report to the legislature by January 15, 2007 on possible funding sources to continue the higher payments.

Pay-for-Performance for health care providers. Chapter 282 provides funding for a pay-for-performance system to be developed for Minnesota's publicly funded health care programs to reward medical groups that demonstrate optimum care in serving enrollees with diabetes. The net impact to the general fund is an increase of $75,000* in FY 2006-07 and $160,000* in FY 2008-09 and the net impact to the HCAF is an increase of $205,000 in FY 2006-07 and $400,000 in FY 2008-09.

Pharmacy Payment Reform and Advisory Committee and Study. Chapter 282 establishes a Pharmacy Payment Reform and Advisory committee[3] under the Department of Human Services to advise the commissioner and make recommendation to the legislature on the implementation of pharmacy reforms in the 2006 Federal Deficit Reduction Act. The legislature appropriates $75,000 (net cost of $45,000 with federal participation) in FY 2007 for the Department to contract with a third party to conduct a cost of dispensing study for Medical Assistance. The commissioner must report to the legislature on the findings of the study and recommendations of the advisory committee by February 1, 2007.

Medicare Part D implementation. Chapter 170 (HF 3015) appropriates a total of $4.57 million in FY 2006 for Part D assistance for dual eligible recipients (eligible for Medicare and Medical

2 The current base for the state's share of critical access dental payments is $1.55 million annually ($3.1 mil total with federal match). Beginning in January 1, 2006, the Department lowered the critical access dental payments to the current $1.55 base to match the intent of the 2001 legislature. Prior to January 1, the Department had allowed the payment to be a forecasted appropriation and had grown to approximately $5 million annually (state share). The one-time payment in FY2007 is intended to bring the critical access dental payments to the appropriation level prior to the January 1, 2006 change.

3 The committee expires January 31, 2008.

Assistance). This was a part of emergency funding resulting from systems difficulties at the federal level upon implementation of Medicare Part D (prescription drug benefit) to provide assistance to dual eligible persons. The net cost to the state is $570,000 due to the federal reimbursement of $4 million the state will receive in FY 2006.

Continuing Care Grants

Performance-Incentive Payments for Nursing Homes. Chapter 282 provides nursing facilities the option to earn performance-incentive Medical Assistance (MA) payments (bonus payments) for achieving improvements in the quality of their services, rather than implementing a new nursing facility payment system. The net cost to the general fund for the performance-incentive payments is zero in FY 2008-09 because the proposals restores earlier language and redirects funding appropriated in the 2005 legislative session for phasing in the new payment system to be used for performance-incentive payments instead. The value of the incentive payment totals $7.9 million* in FY 2008-09.

Nursing Facilities rate increase for Benton, Sherburne and Stearns counties. Chapter 282 provides a Medical Assistance (MA) operating rate increase to nursing facilities in Benton, Sherburne, and Stearns counties. The rate increase brings nursing facilities rates for the three counties in the St. Cloud area in line with the median rates in the seven-county metro area and parts of northeastern Minnesota. The change will increase MA long-term care general fund payments by $1.8 million* in FY 2006-07 and by $3.9 million* in FY 2008-09.

Increase Ah-Gwah-Ching property rate for new nursing facility. The 2005 Legislature requires DHS to sell or transfer up to 150 nursing home beds upon the sale or transfer of the state-operated Ah-Gwah-Ching nursing facility. Chapter 282 provides an increased property rate of $35 per day (current law is $18.50 per day) required for the new facility for up to 80 beds. The cost of the provision is the difference between the current law rate and new $35 rate ($16.50). This would increase MA long-term care general fund payments by $265,000* in FY 2008-09.

Nursing Facility Adjustments:

- Crestview Lutheran: Allows beds to be removed from layaway status if it is part of a project approved under the competitive moratorium exception process. Taking beds off layaway would increase MA long-term care payments to this nursing facility. The net cost of this provision is zero because the MA surcharge paid for each licensed nursing facility bed will offset the MA payment.
- Battle Lake (Otter Tail County): Effective October 1, 2007, the Battle Lake nursing facility will receive a rate increase to the 60th percentile of the operating rates of all other nursing facilities in the county. This increases MA long-term care facilities general fund payments by $130,000* in FY 2008-09.
- Lutheran Retirement Center (Martin County): effective October 1, 2007, the Lutheran Retirement Center nursing facility operating rate will be increased by $5 per resident day. This increases MA long-term care facilities general fund payments by $77,000* in FY 2008-09.

Meeker County one-time Day Training and Habilitation (DT&H) rate increase. Chapter 282 appropriates $30,000 in FY 2007 for a temporary rate increase equal to six percent of the operating payment in effect on July 1, 2006. The rate increase is for a DT&H provider in Meeker County that is serving up 110 individuals.

Intermediate Care Facilities for the Mentally Retarded (ICFs/MR) study on the future of services. Chapter 282 requires the commissioner to consult with ICFs/MR providers, advocates, counties, and consumer families to develop a stakeholder plan and legislation concerning the future services provided to people served in ICFs/MR. Chapter 282 appropriates $50,000 (net cost of $30,000 with federal match) in FY 2008-09 to develop the plan and present it to the legislature by December 15, 2008.

Alternative Care (AC) Program Funding Shortfall. Chapter 282 provides increased funding to partially cover current case load projections for the Alternative Care Program. The 2005 Legislature made several changes to AC program eligibility that was projected to achieve a savings over the current and next biennium. The shortfall in the AC program is primarily due to lower than anticipated savings in the program from the 2005 changes. The legislature appropriates $1.7 million (net of $1.3 million)[4] in FY2006-07 and $1.2 million (net of $399,000) from the general fund to partially fund the projected demand in the AC program. The appropriation represents approximately half of the cost to fully fund the projected caseload demand recommended by the Governor.

Department Of Health

Chapter 282 increases funding for the Minnesota Department of Health (MDH) by $5 million in FY 2006-07 from the general fund; $1.5 million in FY 2006-07 from the health care access fund; and $140,000 in FY 2006-07 from the state government special revenue fund.

Pandemic Influenza Preparedness

Chapter 282 provides one-time funding of $5 million from the general fund in FY 2007 for preparedness activities to reduce the impact of pandemic influenza. The funds will be used for the following preparedness activities at the state and local level:

- Preparing communities to respond by providing grants mostly to county-level emergency management and public health agencies, regional hospital systems and tribal governments.
- Providing for the use and distribution of antiviral drugs. MDH currently has the opportunity to purchase a limited stockpile of Tamiflu™ where the federal government would cover 25 percent of the cost.

4 The net of $1.3 million for partially funding the AC shortfall is the result of savings in the MA long-term facilities and waivers because people served by the AC program would not be moving into a hospital, nursing home, or the Elderly Waiver program. The savings in MA long-term care is $388,000 in FY 2006-07 and $818,000 in FY 2008-09.

- Coordinating and preparing with other state agencies to respond to a pandemic(Departments of Human Services, Agriculture, Transportation, Education, Military Affairs, Natural Resources, Employee Relations, and the Board of Animal Health).
- Testing the system to respond effectively to a pandemic including drills and exercises for the coordination of preparedness activities that involves agencies all at level of government.

Minnesota E-Health Initiative

Chapter 282 provides a one-time appropriation of $1.5 million from the health care access fund to invest in interoperable electronic health records systems and other health information technology (HIT). The majority of the funding will be directed for matching grants to support community collaborative projects.

Assisted Living Regulation

Chapter 282 appropriates $140,000 in FY 2007 to MDH from the state government special revenue fund for cost related to bring actions of injunctive relief for housing with services establishments that provide or offer assisted living.[5] Effective July 1, 2007 the commissioner of health is will assess a surcharge on the annual registration fee[6] for housing with services establishments that provide or offer assisted living to pay for the costs of bringing injunctive relief actions. The current cost estimate by MDH for injunctive relief actions is $280,000 annually.

Transfer from Tobacco Endowment Funds

Chapter 282 transfers $2.933 million from the tobacco use prevention and local public health endowment fund and the medical education endowment fund to the general fund. The balance in the tobacco endowment funds is the result of investment income credited to the funds after the transfer of the balances on July 1, 2003.

Veterans Homes Board

Chapter 282 increases general fund spending for the Veterans Homes Board of $6.2 million in FY 2006-07 and $15.5 million in FY 2008-09. The funding covers the following three areas:

- $357,000 in FY 2006-07 and $714,000 in FY 2008-09 for the consultant study (Health Dimensions) recommendations for three of the home sites.
- $759,000 in FY 2006-07 and $9.4 million in FY 2008-09 to fund an operational shortfall due to lower than anticipated projected revenues. This operational shortfall is the difference between project revenues and expenditures for the Board’s base budget.

5 The appropriation in FY 2007 for injunctive relief action is made before the surcharge becomes effective due to a surplus in the Home Care account in the state government special revenue fund.
6 The current annual registration fee for housing with services establishments is $35 (see Minnesota Statutes 144D.03, subdivision 1).

- $5.1 million in FY 2006-07 and $5.3 million in FY 2008-09 to remedy deficiencies found in the Department of Health's survey of the Minneapolis Veterans Home and to prevent similar deficiencies at other homes around the state. The majority of the funding ($4 million in FY 2006-07) will cover 42 additional nursing staff (FTEs) for the Minneapolis home. The rest of the funding covers additional staff and equipment necessary to satisfy the Health Department's standards.

Health-Related Boards

Board of Chiropractic Examiners: Chapter 267 (SF 367) provides one-time funding of $10,000 in FY 2006-07 only from the state government special revenue fund to cover unanticipated expenses for programming difficulties during the conversion to US Bank payment processing.

Board of Dentistry: Chapter 282 appropriates additional on-going funding of $67,000 in FY 2006-07 and $134,000 in FY 2008-09 from the state government special revenue fund. The funding will allow the Board to retain an in-house legal analyst at a lower cost for its basic legal services as opposed to contracting with the Attorney General's office.

Board of Medical Practice: Chapter 282 provides one-time funding of $1 million in FY 2006-07 from the state government special revenue fund. The funding will cover unanticipated costs of investigation legal work.

Board of Physical Therapy: Chapter 282 provides one-time funding of $9,000 in FY 2006 only from the state government special revenue fund to cover unanticipated expenses for programming difficulties during the conversion to US Bank payment processing.

Emergency Medical Services Board

Chapter 282 appropriates additional on-going funding of $50,000 in FY 2006-07 and $100,000 in FY 2008-09 from the state government special revenue fund for the Emergency Medical Services Board. The additional funding will allow the Board to maintain the Health Professional Service Program's (HPSP) ability to address rising caseloads and maintain current service levels for their clients.

For additional information on Health Finance issues, contact Marie Zimmerman at 296-7171, or marie.zimmerman@house.mn

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Higher Education

The 2006 legislature passed two bills with higher education finance implications. The supplemental appropriations bill, Laws MN 2006, Chapter 282, Article 10, includes an appropriation of $5 million in FY 2006 to the University of Minnesota to expand higher education programs in Rochester. The bill also sets tails for the program at $5 million in FY 2008 and $6.33 million in FY 2009.

In addition, Laws MN 2006, Chapter 247 appropriates $10.25 million to the Board of Regents annually, beginning in FY 2008, to construct a new on-campus football stadium for the University of Minnesota. The bill specifies that a payment of this amount shall be made from the state's general fund to the Board of Regents for 25 years. The bill also specifies that materials for constructing and equipping the stadium are exempt from sales tax. This provision has a negative general fund revenue impact of $2 million in FY 2008 and $3 million in FY 2009.[7]

The following chart summarizes higher education finance legislation for the 2006 Legislature.

Higher Education Finance – 2006 Supplemental Budget
(Dollars in thousands)

General Fund Expenditure Changes	**FY 2006**	**FY 2007**	**FY 06-07**	**FY 2008**	**FY 2009**	**FY 08-09**
University of Minnesota						
Rochester program expansion	0	5,000	5,000	5,000	6,330	11,330
New stadium-appropriation x 25 years	0	0	0	10,250	10,250	20,500
New stadium-sales tax exemption	0	0	0	2,000	3,000	5,000
Net General Fund Changes:	**0**	**5,000**	**5,000**	**17,250**	**19,580**	**36,830**

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

7 Additional detail on the Gopher Stadium act is available in a separate Fiscal Analysis department publication, Sports Stadium Funding: A Summary of Actions by the 2006 Legislature.

Jobs & Economic Opportunity Finance

The 2006 Legislature appropriated $36.986 million in FY 2006-07 supplemental General Fund budget increases for the agencies under the jurisdiction of the Jobs & Economic Opportunity Finance Committee. On an all funds basis, the Legislature approved supplemental budget increases totaling $56.041 million. The total includes $49.491 in direct appropriations, and $6.55 million in statutory appropriations.

The appropriation changes are contained in Laws 2006, Chapter 282 -- the supplemental budget bill, and Laws 2006, Chapter 281, Article 4 -- Economic Development Policy bill.

Jobs & Economic Opportunity – 2006 Supplemental General Fund Appropriations *(Dollars in thousands)*						
	FY 2006	**FY 2007**	**FY 06-07**	**FY 2008**	**FY 2009**	**FY 08-09**
DEED	0	27,702	27,702	225	225	450
Boxing Board	0	50	50	0	0	0
Minnesota Film Board	0	1,700	1,700	0	0	0
Historical Society	0	200	200	0	0	0
DHS: Children & Econ. Assist.	(7,854)	15,188	7,334	18,188	17,577	35,765
Net General Fund Change:	**(7,854)**	**44,840**	**36,986**	**18,413**	**17,802**	**36,215**

Department of Employment & Economic Development (DEED)

The Department's General Fund appropriations are increased by $27.702 million in FY 2007 under the supplemental budget approved by the Legislature. The major General Fund appropriations include:

- $467,000 for a one-time grant in FY 2007 to the BioBusiness Alliance. The Alliance will use the grant for industry analysis, bioscience business development, marketing, promotion, and company technical assistance; and retain 10 percent for grant processing and monitoring.

- $150,000 in FY 2007 for the Youthbuild program. The Youthbuild program's base appropriation for FY 2008-09 is $75,000 each year.

- $200,000 in FY 2007 for a onetime grant to the Summit Academy OIC for the 100 Hard Hats program.

- $15 million in FY 2007 for a onetime grant to the University of Minnesota/Mayo Clinic Partnership in Biotechnology and Medical Genomics. The grant will support new collaborative research projects and infrastructure investments.

- $100,000 in FY 2007 for a onetime grant to city of Cedar Mills for a water treatment project.

- $150,000 in FY 2007 for a grant to Advocating Change Together to provide training, technical assistance, and resource materials to persons with developmental and mental health disabilities. This program's appropriation is ongoing and is part of DEED's base in FY 2008-09.

- $10,000 in FY 2007 for a onetime grant to city of Worthington for the construction of a Veterans Memorial.

- $11.5 million in FY 2007 for a onetime transfer to the Mineral 21st Century Fund for a grant to Itasca County to design, construct, and equip roads, rail lines, natural gas pipelines, water supply systems, or wastewater collection and treatment systems for a steel plant.

- $10,000 in FY 2007 for a onetime grant to the city of St. Louis Park for the Meadowbrook collaborative housing project to enhance youth outreach services and to provide educational and recreational programming for at-risk youth.

- $100,000 in FY 2007 to the Public Facilities Authority for Small Communities Wastewater Treatment Loans & Grants. This is a onetime appropriation.

In addition to DEED's General Fund appropriations, the 2006 Legislature directly appropriated $3.2 million in FY 2006 and FY 2007 from the Workforce Development Fund. The major appropriations include:

Department of Employment & Economic Development – 2006 Supplemental Workforce Development Fund (WDF) Appropriations
(Dollars in thousands)

	FY 2006	FY 2007	FY 06-07	FY 2008	FY 2009	FY 08-09
Summer Youth Employ – Mpls.	1,250	1,250	2,500	1,250	1,250	2,500
West Central Initiative – Pilot	0	250	250	0	0	0
Health Care Professionals – Pilot	0	450	450	0	0	0
Deaf or Hard-of-Hearing Center		0	0	150	150	300
Total WDF Change:	**1,250**	**1,950**	**3,200**	**1,400**	**1,400**	**2,800**

- $1.25 million in FY 2006 and $1.25 million in FY 2007 grants to fund Summer Youth Employment in Minneapolis. Of this appropriation, $250,000 each year are for a grant to the Learn-to-Earn youth employment program. These grants are ongoing and are part of DEED's base appropriations in FY 2008-09.

- $250,000 in FY 2007 for a onetime grant to the West Central Initiative in Fergus Falls to implement and operate Northern Connections, a pilot workforce program.

- $450,000 in FY 2007 for a pilot project to encourage the licensure in Minnesota of foreign-trained health care professionals, including physicians, nurses, dentists, pharmacists, veterinarians, and other allied health care professionals. This appropriation is one-time.

The Legislature also made permanent a onetime $150,000 per year appropriation from the Workforce Development Fund to Rise, Inc. for the Minnesota Employment Center for People Who are Deaf or Hard-of-Hearing. This means the Center will continue to receive the same level of funding in the 2008-09 biennium as in the 2006-07 biennium.

The Legislature adopted the Governor’s recommendation to statutorily appropriate the revenues from the fee created in the 2005 session for the Small Business Innovation Research and Small Business Technology Transfer Assistance Programs. The fee is estimated to raise $10,000 in FY 2007.

Department of Commerce

The 2006 Legislature made no supplemental General Fund appropriations for the Department of Commerce. The Legislature did, however, appropriate $477,500 in FY 2006 and $477,500 in FY 2007 from the Petroleum Tank Release Cleanup Fund for transfer to MNDOT. The transfer represents a settlement of all outstanding MNDOT Petrofund claims. The settlement is designed to reduce administrative costs for MNDOT and Commerce by eliminating the costs of preparing and processing approximately 200 Petrofund reimbursement applications.

Explore Minnesota Tourism

The Legislature appropriated $1.7 million in FY 2007 for a onetime grant to the Minnesota Film and TV Board for reimbursements of up to 15 percent of eligible production costs under the newly created Film Production Jobs Program. This appropriation is available for films that begin filming on or after May 1, 2006, and is available until June 30, 2007.

Minnesota Boxing Commission

The Legislature enacted the Governor’s recommendation to reestablish the Minnesota Boxing Commission which was abolished by the 1999 Legislature and last was funded in Fiscal Year 2000. The Commission is funded with a onetime, startup $50,000 General Fund appropriation in FY 2007. Beginning in FY 2008 and going forward, the Commission is required to be self-supporting from fees. The Commission’s appropriations are statutory for FY 2008 and beyond.

Minnesota Historical Society

The Legislature appropriated $200,000 in FY 2007 for a onetime grant to the Minnesota Agricultural Interpretive Center (FarmAmerica) in Waseca to equip and restore current sites and exhibits.

Department of Human Services

The Children & Economic Assistance Grants & Management Division within the Department of Human Services is under the jurisdiction of the Jobs & Economic Opportunity Finance Committee.

The 2006 Legislature approved direct supplemental appropriations increases totaling $15.734 million. Of this amount, direct General Fund appropriations totaled $7.334 million, direct TANF appropriations totaled $7.9 million, direct HCAF appropriations totaled $250,000 and direct special revenue fund appropriations totaled $250,000. The Legislature also approved statutory appropriations totaling $6.04 million. The statutory appropriations were mainly federal funds contained in the Deficit Reduction Act approved by Congress in late 2005.

The Department's General Fund appropriations are summarized below:

Department of Human Services – 2006 Supplemental General Fund Appropriations (Dollars in thousands)						
	FY 2006	**FY 2007**	**FY 06-07**	**FY 2008**	**FY 2009**	**FY 08-09**
MFIP/DWP Grants	(7,484)	7,484	0	0	0	0
MFIP Child Care Assist. Grants	0	62	62	8,957	8,210	17,167
BSF Child Care Assistance Grants	0	7,897	7,897	9,493	9,629	19,122
Mental Health Pilot Project	0	168	168	168	168	336
Food Assistance Program	(370)	(461)	(831)	(430)	(430)	(860)
Program Management	0	38	38	0	0	0
Total General Fund Change:	**(7,854)**	**15,188**	**7,334**	**18,188**	**17,577**	**35,765**

The Department's TANF appropriations are summarized below:

Department of Human Services – 2006 Supplemental TANF Appropriations (Dollars in thousands)						
	FY 2006	**FY 2007**	**FY 06-07**	**FY 2008**	**FY 2009**	**FY 08-09**
MFIP/DWP Grants	7,484	(7,484)	0	0	0	0
MFIP Child Care Assist. Grants	0	7,856	7,856	0	0	0
Program Management	0	44	44	44	44	88
Total TANF Change:	**7,484**	**416**	**7,900**	**44**	**44**	**88**

- *MFIP/DWP Grants* – The General and TANF appropriations changes for MFIP/DWP Grants result in zero overall funding changes. The changes represented a repositioning of General and TANF funding between FY 2006 and FY 2007. The repositioning was done to assure that federal TANF Maintenance of Effort (MOE) requirements are met throughout the biennium.

- *MFIP Child Care Assistance Grants* – The total General Fund ($62,000) and TANF ($7.856 million) appropriations for MFIP Child Care Assistance Grants are increased by $7.918 million in FY 2007. The increases reflect the cost of several child care changes: a 6% provider rate increase; a 15% accreditation differential; and absent day policy changes. In the 2008-09 biennium, these increases are paid for entirely with General Funds: $8.957 million in FY 2008 and $8.21 million in FY 2009.

- *BSF Child Care Assistance Grants* – The General Fund appropriation for BSF Child Care Assistance Grants are increased by $7.897 million in FY 2007. In addition to the increases resulting from the several child care changes noted above (6% provider rate increase; 15% accreditation differential; and absent day policy), the appropriation also includes $3.842 million for reducing waiting lists. In the 2008-09 biennium, the increases in BSF Child Care Assistance Grants' General Fund appropriations are: $9.493 million in FY 2008 and $9.629 million in FY 2009.

- *Mental Health Pilot* – $168,000 in FY 2007 for the mental health pilot program for unsheltered individuals in Ramsey County and Hennepin County. This appropriation continues at the same amount per year in the 2008-09 biennium.

- *Food Assistance Program (includes cost of food stamp asset increase to $7,000)* – $370,000 reduction in FY 2006 and $461,000 in FY 2007. The reduction is due to program demands being less than appropriated for in the 2005 session. Note that the reduction is a net amount, and includes a $30,000 per year appropriation increase in 2007 and beyond to pay for the cost of increasing the maximum allowable asset limit for this program to $7,000.

- *Program Management* – The total General Fund ($38,000) and TANF ($44,000) appropriations for Children & Economic Assistance Grants Management are increased by $82,000 in FY 2007. The General Fund increase is one-time. The TANF increase is ongoing, and pays for producing a domestic violence informational brochure.

In addition to the above appropriations, two additional direct appropriations were enacted from other funds:

- *Mental Health Crisis Infrastructure* – $250,000 in FY 2007 from the Health Care Access Fund for children's mental health crisis infrastructure. This appropriation is ongoing.

- *Commission Serving Deaf and Hard-of-Hearing People* – 250,000 in FY 2007 from the telecommunications access Minnesota account in the special revenue fund. This appropriation is ongoing.

The 2006 Legislature also enacted several statutory appropriations and a federally required fee, including:

- Increased federal funds for child care are statutorily appropriated to the Basic Sliding Fee Child Care Program. The appropriation means an additional $2.374 million in program funding in FY 2006, and $3.257 million in FY 2007 and beyond.

- $154,000 in one-time federal funds to reimburse counties for their hurricane relief costs, based on documented relief expenditures.

- Federally required $25 per year child support enforcement fee. The fee is estimated to collect $255,000 in FY 2007. The proceeds are split between a one-time $100,000 statutory appropriation to the DHS for PRISM (computerized collection and payment system) implementation costs, and $155,000 in grants to the counties. In FY 2008 and beyond, the fee is estimated to generate $340,000 per year. The entire proceeds are granted to counties.

LAWS 2006, CHAPTER 281 – Economic Development Policy Provisions

In addition to Laws 2006, Chapter 282 -- the supplemental budget bill, the 2006 Legislature passed Laws 2006, Chapter 281. Article 4 of Chapter 281 includes several Economic Development policy provisions. Three of the provisions have fiscal impacts:

Public Utility Commission: PUC's authority to assess energy utilities for up $500,000 annually is extended to June 30, 2008. Under previous law, this assessment authority was to sunset on June 30, 2006.

Iron Range Resources & Rehabilitation: IRRR is authorized to lease surface and mineral interests within those portions of the taconite assistance area affected by the closure of the LTV Steel Mining Company facility near Hoyt Lakes. The agency estimates the lease payments may yield $770,000 per year. The lease can not exceed 50 years.

Public Facilities Authority: PFA's bonding authority is increased from $1.25 billion to $1.5 billion. The increase in bonding authority will allow the PFA to sell bonds for another 3-5 years, depending on bonding appropriations.

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

Public Safety Policy and Finance

The 2006 Legislature approved FY 2006-07 general fund appropriations totaling $19.62 million for state departments, agencies, boards and the judiciary under the budget jurisdiction of the Public Safety Policy and Finance Committee. Funding changes were contained in Laws 2006, Chapter 282 (the supplemental budget bill) and Chapter 260 (the omnibus public safety policy bill). The following appropriations relate to the general fund unless otherwise noted.

Department of Corrections

The Legislature approved funding increases of $3.213 million for FY 2006, and $10.546 million for FY 2007.

- $9.4 million in FY 2006 and $18.6 million in FY 2007 for salary and benefit increases for operational and community service staff.
- Reductions of $6.187 in FY 2006 and $8.5 million in FY 2007 due to prison population increases being below projections. For FY 06 there are now projected to be 230 fewer inmates and in FY 2007 the new projections show 335 fewer inmates than previously projected.
- $196,000 in FY 2007 for Scott County to become a Community Corrections Act County.
- $300,000 in FY 2007 for grants to fund mentoring for children of inmates.
- Tails funding (FY 2008-09) of $4.589 million due to Sentencing Guideline changes that will result in new beds for the Department of Corrections.
- Tails funding (FY 2008-09) of $392,000 due to a provision in chapter 260 that will also result in new beds for the Department of Corrections.

Department of Public Safety

The Legislature approved funding of $461,000 for FY 2006 and $4.628 million for FY 2007.

- $284,000 in FY 2006 for the state match costs that are related to three of the past disasters the state has experienced. This is a one-time appropriation.
- $1 million in FY 2007 for an internet child pornography team. The team will consist of BCA agents and support staff.
- $200,000 in FY 2007 to provide for the posting of non-compliant sex offenders on the internet.
- $100,000 in FY 2007 to address the missing persons and unidentified bodies backlog.

- $800,000 in FY 2007 of increased funding for the gang strike force.
- $268,000 in FY 2007 for human trafficking provisions. These include a pilot program for Ramsey County, a task force on human trafficking, legal advocacy for trafficking victims, and a trafficking hotline.
- $200,000 in FY 2007 for increased funding for the youth intervention program.
- $150,000 in FY 2007 for increased funding for the crime intervention program.
- $200,000 in FY 2007 for the expansion of the Minneapolis security system.
- $1.533 million in FY 2007 for the city of Minneapolis for more police funding
- $177,000 in each FY 2006 and FY 2007 for increased funding for the financial crimes task force.
- Funding for the Fire Marshal program will change from a general fund appropriation to a special revenue fund beginning in FY 2008. The current general fund base for the Fire Marshal is $2.832 million per year. The new funding will be from a surcharge on insurance premiums and is anticipated to increase funding to the Fire Marshal at $6.932 million in FY 2008 and $9.332 million in FY 2009.

Supreme Court
$600,000 for FY 2007 to implement the first part of the recommendations from the Supreme Court task force on chemical dependency. There was also tails revenue of $128,000 ((FY 2008-09) as a result of fine revenue changes for the fourth judicial district.

Board of Judicial Standards
$172,000 in FY 2006 for increased costs for the proceedings of judicial misconduct. This is a one-time appropriation.

Peace Officers Board (POST)
$200,000 for FY 2007 for training funds to local law enforcement agencies. This covers a part of the deficit that is a result of the projections on the driver's license reinstatement being below projections.

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

State Government Finance

The 2006 Legislature approved net general fund increases of $5.8 million in the State Government Finance area. The majority of this funding is for new initiatives in the Department of Veterans Affairs. Funding changes were contained in Laws 2006, Chapter 282 (the supplemental budget bill) and Chapter 277 (omnibus pension bill II).

State Government Finance: 2006 Supplemental Appropriations
(dollars in thousands)

	FY 2006	FY 2007	FY 06-07	FY 2008	FY 2009	FY 08-09
General Fund Expenditure Changes						
Chapter 282, State Government, Article 14						
LCC: Legislative Training Forum: **VETOED**	~~0~~	~~30~~	**~~30~~**	0	0	**0**
LCC: Legislators Forum: **VETOED**	~~0~~	~~7~~	**~~7~~**	0	0	**0**
Office Of Enterprise Technology: IT Security	0	1,900	**1,900**	1,900	1,900	**3,800**
Dept. of Finance: Bankruptcy Counsel for NW Airlines proceedings	0	325	**325**	0	0	**0**
Dept. of Employee Relations: Center for Health Care Purchasing Improvement	0	100	**100**	100	100	**200**
Amateur Sports Commission: One-time Cut Restoration	0	60	**60**	0	0	**0**
Subtotal Chapter 282, Article 14	0	2,422	**2,422**	2,000	2,000	**4,000**
Chapter 282, Veterans, Article 15						
Veterans Outreach & Assistance Funding Deficit	250	250	**500**	250	250	**500**
Veterans Service Organizations Funding Deficit	0	80	**80**	0	0	**0**
State Soldiers Assistance Program Grants	0	2,000	**2,000**	2,000	2,000	**4,000**
CVSO Service Enhancement Grants	0	200	**200**	200	200	**400**
Veterans Assistance Offices on Campus	0	600	**600**	600	600	**1,200**
One-Stop Website & Internet Support Services	0	100	**100**	100	100	**200**
Subtotal Chapter 282, Article 15:	250	3,230	**3,480**	3,150	3,150	**6,300**
Chapter 277, Omnibus Pension Bill II						
State Bd. of Investment (SBI) : Funding Source Restructuring	0	(2,016)	**(2,016)**	(2,016)	(2,016)	**(4,032)**
Total All General Fund Expenditure Changes	**250**	**3,599**	**3,849**	**3,134**	**3,134**	**6,268**
General Fund Revenue Changes						
SBI Funding Source Restructuring*	0	(1,950)	**(1,950)**	(1,950)	(1,950)	**(3,900)**
subtotal revenue changes:	**0**	**(1,950)**	**(1,950)**	**(1,950)**	**(1,950)**	**(3,900)**
Net General Fund Change:	**250**	**5,549**	**5,799**	**5,084**	**5,084**	**10,168**

State Government Finance: Non-General Fund Expenditure Changes (dollars in thousands)	FY 2006	FY 2007	FY 06-07	FY 2008	FY 2009	FY 08-09
Non-General Fund Expenditure Changes - direct						
Office of Administrative Hearings: Workers Compensation Fund						
Office Relocation Costs to Stassen Building	0	320	**320**	0	0	**0**
Rent Savings Due to Relocation to Stassen Building	0	0	**0**	0	(297)	**(297)**
subtotal non-GF expenditure Changes:	**0**	**320**	**320**	**0**	**(297)**	**(297)**

Chapter 282, Article 14

Governor-Elect Expenses Chapter 282 requires the commissioner of administration to request a transfer of funds from the general fund contingent account to make money available to provide office space and to pay salaries for employees of a new governor-elect. The transfer is equal to 1.5 percent of the governor's current year operational budget, subject to Legislative Advisory Commission approval. For FY 2007 (the first time this provision would be applicable), this transfer would amount to $54,000.

Legislature

$37,000 was appropriated to the Legislative Coordinating Commission (LCC) for two initiatives:

- $30,000 in one-time funding for forums to improve legislative effectiveness.
- $7,000 for dues to the International Legislators forum, to allow Minnesota legislators to meet with counterparts from the Dakotas and Manitoba, Canada, to discuss issues of mutual concern.

The Governor vetoed these appropriations.

Office of Enterprise Technology (OET), Enterprise IT Security Enhancement

The Legislature appropriated $1.9 million for comprehensive planning, implementation, and administration of enterprise information technology security. This funding amount is $1 million less than requested by the Governor for FY 2006-07, with tails of $1.9 million each year.

Chapter 282 also authorizes OET to establish an "information and telecommunications technology systems and services account" in the special revenue fund, funded through charges to state agencies for purchases of information and telecommunications services through state contracts. The state agencies must agree to these charges in advance. Funds in the new account will be used to defray the costs of personnel and technology for activities that create government efficiencies.

Department of Finance, Bankruptcy Counsel

The Legislature approved $325,000 in one-time funds for a special attorney to represent the state's interests in Northwest Airlines Chapter 11 bankruptcy proceedings. The state has $36.9 million of general obligation (GO) bonds outstanding that were issued to build the Duluth Maintenance Facility; of this total, $21 million is scheduled to be paid by Northwest Airline lease payments.

Office of Administrative Hearings, Relocation Costs

$320,000 was appropriated from the workers' compensation fund for costs associated with the relocation of Administrative Hearing's offices to the Stassen building in St. Paul. The base for the Office of Administrative Hearings is reduced by $287,000 each year, beginning in FY 2009, to reflect savings in rent costs due to the relocation of offices to St. Paul.

Department of Employee Relations

$100,000 was appropriated to the department to establish and operate the Center for Health Care Purchasing Improvement as an administrative unit. The center is intended to aid the state in developing and using more common strategies and approaches for health care performance measurement and health care purchasing.

Minnesota Amateur Sports Commission

$60,000 was appropriated for a one-time, partial restoration of a cut to the agency's base made in the 2005 session. It is expected that the commission will be able to cover its operating budget needs in the future through lease payments made by a private developer of land at the National Sports Center.

Chapter 282 also modified the land-lease provision first approved in the 2005 session, by allowing the Commission to offer two 30-year renewals on a lease at the National Sports Center, for a total lease period of 90 years. The commission is in negotiations with a private developer to allow the construction of a Sports Mall complex on the state-owned land. Current plans include the potential for a hotel and waterpark on the site.

Chapter 282, Article 15, Veterans Affairs

Veterans Affairs Department

The Legislature approved a total of $3.48 million in additional appropriations for the Department of Veterans Affairs for new and expanded veterans programs. The package includes:

State Soldier's Assistance Program (SSAP) Grant

A $2 million increase to SSAP, bringing total biennial funding to $3.4 million. The additional funding will allow for enhanced services, such as family therapy or temporary financial assistance for veterans experiencing difficulties obtaining their VA benefits.

Outreach and Assistance Funding Deficit

$250,000 each year is provided to help fund a deficit in the outreach and assistance efforts of the department. These programs were originally funded in the 2005 session through revenues from the sales of Support Our Troops license plates. However, current revenues from the plates are below projections, and this general fund appropriation is intended to ensure that the department will meet its commitments for outreach to veterans.

Veterans Service Organizations Deficit

$80,000 in one-time funds are provided to fund a projected deficit for the small Veterans Service Organizations, which are partially dependent on funds from the Support Our Troops plates.

Service Enhancement Grants for CVSO's
$200,000 annual increase for County Veteran Services Offices (CVSO) grants. Total annual funding will now be $295,000 per year. The new funds will be used for grants to enhance benefits and services to veterans, giving priority to outreach, reintegration of combat veterans into society, and reducing homelessness among veterans.

Veterans Assistance Offices on Campus
$600,000 to establish "Veterans Assistance Offices" at state-funded four-year colleges and universities, coordinated by the Minnesota Department of Veterans Affairs. These offices would serve as referral points for all state and federal veterans benefits, as well as community and university services.

One-Stop Website & Internet Support
$100,000 to create a centralized website containing information on benefits and services offered by all levels of government, as well as private organizations.

Omnibus Pension Bills: Fiscal Impacts[8]

Chapter 271, Minneapolis Teachers Plan Consolidation with TRA

Chapter 271 consolidates the Minneapolis Teachers Retirement Fund Association (MTRFA) with the statewide Teachers Retirement Association (TRA). MTRFA has an unfunded actuarial liability of nearly $1 billion, and was facing insolvency within the next 10 years.

MTRFA merged into TRA on July 1, 2006. All MTRFA members and retirees are transferred to TRA, and TRA assumes both MTRFA assets and liabilities. The unfunded MTRFA liability of nearly $1 billion will be funded over a 30-year period through a combination of increased employer contributions and direct aid payments. All current state aid and Minneapolis local aid has been redirected to TRA.

Chapter 271 also includes a 0.5 percent contribution rate increase for both employee and employer and a benefit accrual rate increase for all TRA members from 1.7 percent to 1.9 percent for prospective service after July 1, 2006. Aid to school districts is increased to fund the additional 0.5 percent employer contribution, with an estimated cost of $17 million per year, beginning in FY 2008.

Non-MTRFA Provisions in Chapter 271:

- A 5 percent cap will be applied to the Post Fund adjustments paid to benefit recipients, effective January 1, 2010. This change impacts all statewide funds (MSRS, PERA and TRA).

8 Full details on the pension legislation passed by the 2006 Legislature can be found on the Legislative Pension Commission’s website at http://www.lcpr.leg.mn/lcprmain.htm

- The Legislative Commission on Pensions and Retirement (LCPR) is required to conduct a study analyzing the structure and transfer requirements between the Active Member Retirement Funds and the Minnesota Post Retirement Investment Fund.
- The LCPR is also required to conduct a study analyzing the structure of investment-based post retirement increases. This study also will review the benefit structure of Minnesota teacher retirement plans with teacher pension plans in other states.

Chapter 277, Omnibus Pension Bill I

State Board of Investment (SBI), Funding Source Restructuring
The Legislature approved a change in the funding mechanism for the board. SBI will now be allowed to directly bill the state retirement plans for its costs, and deposit the billing receipts directly in a special revenue fund account for the Board's use. The expected revenues and expenditures for this activity are $3.9 million for the biennium. A small general fund appropriation will remain to fund the Board's investment activities directly related to the General Fund itself.

Minnesota Statewide Retirement Plans, Contribution Rate Increases
Contribution rate increases for the General Employees Retirement Plan, the Correctional Plan, and State Patrol Plan are included in Article 1 of Chapter 277. The employer contribution increases will have an impact on state agency operating budgets; however, agency base budgets have not been adjusted to cover these increases.

- General state employee and employer contributions increase from 4.0 percent to 5.0 percent over four installments, beginning in FY 2008.
- Correctional employee contributions increase from 5.69 percent to 8.6 percent and employer contributions increase from 7.98 percent to 12.1 percent over four installments, beginning in FY 2008.
- State Patrol employee contribution increases from 8.4 percent to 10.1 percent and employer contributions from 12.6 percent to 15.6 percent over three installments, beginning in FY 2008.

The table on the following page shows the total estimated fiscal impact of these contribution rate increases, for both the employer (state) and employee share.

Chapter 277, Employer (ER) / Employee (EE) Contribution Rate Increases, All Funds Cost Estimates using Payroll Data FY2005 (source: MSRS Fiscal Note) *(dollars in thousands)*					
		FY08	**FY09**	**FY10**	**FY11**
General Employees Retirement Plan					
	ER	$4,880	$9,761	$14,641	$19,522
	EE	$4,880	$9,761	$14,641	$19,522
Total		**$9,761**	**$19,522**	**$29,283**	**$39,045**
Highway Patrol Retirement					
	ER	$519	$1,038	$1,557	$1,557,927
	EE	$363	$727	$1,038	$1,038
Total		**$882**	**$1,765**	**$2,596**	**$2,596**
Correctional Employees Retirement					
	ER	$1,482	$2,806	$4,129	$5,453
	EE	$939	$1,734	$2,660	$3,851
Total		**$2,422**	**$4,540**	**$6,790**	**$9,305**
Total Employer	**ER**	**$6,882**	**$13,606**	**$20,329**	**$26,534**
Total Employee	EE	$6,183	$12,222	$18,341	$24,413
Total Cost		**$13,066**	**$25,828**	**$38,671**	**$50,947**

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

Transportation Finance

Very few transportation related provisions passed during the 2006 legislative session. Two small appropriations in the supplemental "deficiency" bill, 2006 Laws Chapter 247, were the only items related to financing transportation to make it to the Governor's desk.

The first appropriation is $312,000 to purchase defibrillators for state patrol vehicles in greater Minnesota. The second provision is $380,000 for a MN/DOT radio tower in Roseau.

Transportation Finance - 2006 Supplemental Budget (Dollars in thousands)						
	FY 2006	**FY 2007**	**FY 06-07**	**FY 2008**	**FY 2009**	**FY 08-09**
General Fund Expenditure Changes						
Department of Transportation - Roseau Radio Tower	0	380	380	0	0	0
Department of Public Safety - State Patrol Defibrillators	0	312	312	0	0	0
Total expenditure Changes:	**0**	**692**	**692**	**0**	**0**	**0**

While the House and Senate passed transportation finance bills, the conference committee talks broke off late in the session and no compromise on a bill was reached.

Both bills had included funding for MN/DOT's capital building needs for a new headquarters in Mankato and repair of the granite facade at the headquarters in St Paul. Each bill also included a provision to revise the upcoming Motor Vehicle Sales Tax (MVST) constitutional amendment ballot question. The question as previously passed, would have dedicated no more than 60% to highway uses and no less than 40% to transit uses. The revision would have changed the dedicated and ballot question to a fixed 60% for highways and 40% for transit.

The House bill also included an increase in highway construction of $88 million for fiscal 2007, as well as the Governors $2.5 billion trunk highway bonding proposal. That proposal would have allowed the Commissioner of Transportation to issue up to $2.5 billion in trunk highway bonds, contingent upon passage of the MVST constitutional amendment, to accelerate highway construction based on the new revenue.

The Senate had moved a provision formerly included in the Twins stadium bill discussion, a half cent seven county metro sales tax for transit, into the transportation conference committee discussion. The Senate bill also included some small appropriations for a few individual highway projects.

After a few days of discussion, negotiations broke down and session ended without an agreement on transportation finance issues.

For further information on Transportation Finance Issues, contact John Walz, House Fiscal Analysis at 651-296-8236, or john.walz@house.mn

Taxes & Local Aids And Credits

Changes in General Fund Revenue

Chapter 259, Minnesota Laws of 2006, (the 2006 Omnibus Tax Act) consists primarily of changes that will result in general fund tax revenue reductions or tax relief. As summarized in Table 1, in the current biennium, this tax act reduces general fund revenues by $94.295 million in FY 2007 and by $107.789 million in FY 2008-09. The bulk of the changes in the tax act are permanent and include changes to the Alternative Minimum Tax, federal conformity updates to income and corporate tax laws, and a reduction in accelerated sales tax payments. A small proportion of the changes in the tax act are temporary such as sales tax exemptions for various project materials.

Table 1. General Fund Revenue and Expenditure Changes
(Dollars in thousands)

	FY 2006-07	FY 2008-09
Income Tax (includes Federal Conformity, Alternative Minimum Tax and Corporate Franchise Tax changes)		
Revenue Increases	$90	$1,490
Revenue Decreases	($69,115)	($93,790)
Net Income Tax Change	**($69,025)**	**($92,300)**
Sales & Use Tax (Includes Reducing June Acceleration and stadium exemptions)		
Revenue Increases	$0	$0
Revenue Decreases	($24,550)	($15,080)
Net Sales & Use Tax Change	**($24,550)**	**($15,080)**
Property Tax, Aids & Credits		
Revenue Increases	0	$180
Revenue Decreases	($720)	($589)
Net Property Tax, Aids & Credits Change	**($720)**	**($409)**
Net General Fund Impact	**($94,295)**	**($107,789)**

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

Update to Federal Tax Law Changes

The act conforms to the federal change in the standard deduction contained in the Working Families Tax Relief Act of 2004 (WFTRA 2004). Under prior law in tax year 2005, the standard deduction for married joint filers was 184 percent of the standard deduction for single filers. Minnesota taxpayers had to add to state taxable income the $1,300 difference between the old federal standard deduction amount and the increased deduction allowed under WFTRA 2004.[9]

9 Minnesota conformed to the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA 2001). This act provided for the gradual increase in the standard deduction for married joint filers relative to the standard deduction for single filers:

Conforming to the standard deduction provisions in WFTRA of 2004 allows the Minnesota standard deduction for married joint filers to be at 200 percent of the deduction for single filers – which has the effect of eliminating the so called "marriage penalty." This change will become effective in tax year 2006 and it is expected that 419,300 returns in tax year 2006 would experience a tax decrease. In FY 2007, conformity to WFTRA 2004 will reduce general fund revenue by $28.7 million in FY 2007 and $21.1 million in FY 2008-2009.

The act also conforms to these federal provisions:

Energy Tax Incentives Act of 2005
This act provides for the acceleration of the deduction of capital expenditures for companies providing energy and energy services to U.S. consumers. These provisions are effective for expenses incurred under contracts entered into after April 11, 2005. The revenue reduction to the general fund for conforming to these provisions is $2.56 million in FY 2006-07 and $5.56 million in FY 2008-09.

Katrina Emergency Tax Relief Act of 2005
This act provides additional tax incentives for both individuals and corporations to make charitable contributions after August 25, 2005, and before January 1, 2006 and additional tax relief to victims of the hurricane. The revenue reduction to the general fund for conforming to these provisions is $4.235 million in FY 2006-07 and a revenue increase to the general fund revenues of $55,000 in FY 2008-09.

Gulf Opportunity Zone Act of 2005
Similar to the tax provisions in the Katrina Emergency Tax Relief Act of 2005, this act also proposes temporary suspension of limitations on charitable contributions. The new law also allows additional section 179 expensing or 50 percent bonus depreciation on business property placed in service in the areas damaged by Hurricane Katrina. Conforming to these federal changes will reduce general fund revenues by $935,000 in FY 2006-07 and $260,000 in FY 2008-09.

Tax Increase Prevention and Reconciliation Act of 2005
By conforming to the various federal changes in this act, now geological and geophysical costs for

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TY 2005: 174%
TY 2006: 184%
TY 2007: 187%
TY 2008: 190%
TY 2009: 200%

Minnesota also conformed to the Jobs Economic Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). This act increased the standard deduction for married joint filers to be equal to 200 percent of the deduction for single filers for tax year 2003 and 2004 only.

Minnesota did not conform to the federal Working Families Tax Relief Act (WFTRA 2004). This act accelerated the scheduled increase in the standard deduction for married filers to be equal to 200 percent of the deduction for single filers beginning in TY 2005, rather than 2009. Due to Minnesota's lack of conformity to this act, Minnesota married joint filers who claimed the federal standard deduction were required to add back to their Minnesota taxable income the difference between the federal standard deduction and the Minnesota standard deduction.

oil and gas exploration can be amortized over two years, rather than 5 years. This act also extends higher limits on section 179 expensing and the active financing exception for subpart F income for tax years 2007 and 2008, and provides a controlled foreign corporation look-through exception from subpart F for cross border payments of dividends, interests, rents, and royalties that are funded with active income that has been repatriated, for tax years 2006 to 2008. Other federal changes were made to the extension of the Alternative Minimum Tax exemption amounts, extension of preferential tax rates for dividend and capital gain income but these changes do not affect federal taxable income and thus do not flow through to Minnesota income tax. The net effect of conforming to these federal changes has a positive impact on the general fund with increased revenues of $245,000 in FY 2006-07 and $1.345 million in FY 2008-09.

Table 2 shows in detail how the federal tax changes affect both income and corporate taxes.

Table 2

Conform to Federal Tax Changes

(Dollars in thousands[1])

	FY 2006	FY 2007	2006-07 Biennium	FY 2008	FY 2009	2008-09 Biennium
Tax Increase Prevention Act 2005						
Individual Income Tax	0	65	**65**	(30)	705	**675**
Corporate Tax	0	180	**180**	220	450	**670**
Subtotal	*0*	*245*	***245***	*190*	*1,155*	***1,345***
Energy Tax Incentives Act 2005						
Individual Income Tax	(560)	(60)	**(620)**	0	40	**(40)**
Corporate Tax	(40)	(1,900)	**(1940)**	(3,000)	(3,740)	**(6,740)**
Subtotal	*(600)*	*(1,960)*	***(2,560)***	*(3,000)*	*(3,700)*	***(6,700)***
Katrina Emergency Relief Act 2005						
Individual Income Tax	(3,885)	90	(3,795)	65	0	65
Corporate Franchise Tax	(320)	(120)	(440)	(10)	0	(10)
Subtotal	(4,205)	(30)	(4,235)	55	0	55
Gulf Opportunity Zone Act of 2005						
Individual Income Tax	(85)	(140)	(225)	(50)	10	(40)
Corporate Tax	(300)	(410)	(710)	(200)	(20)	(220)
Subtotal	(385)	(550)	(935)	(250)	(10)	(260)
Working Families Tax Act Relief						
Subtotal	0	(28,700)	(28,700)	(14,800)	(6,500)	(21,300)
Federal Conformity Grand Total	**($5,190)**	**($30,995)**	**($36,185)**	**($17,805)**	**($9,055)**	**($26,860)**

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

Income Tax

Alternative Minimum Tax (AMT) Exemption Amounts. For tax year 2006, the AMT exemption amounts are increased. The phase-out thresholds are the same as current law but the phase-out range has been extended. After tax year 2006, the exemption amounts are also adjusted for inflation. Adjusting the new AMT exemption amounts for inflation reduces the number of filers that will shift from the regular tax onto the AMT in the coming year. Table 3 provides more detail about the changes enacted.

Table 3. Alternative Minimum Tax Change Summary

Prior Law			
Filing Status	Exemption	Phase-out Threshold Begins	Phase-out Range Ends
Married Joint	$40,000	$150,000	$310,000
Married Separate	$20,000	$75,000	$155,000
Single	$30,000	$112,500	$232,500
Head of Household	$30,000	$112,500	$232,500
Tax Year 2006			
Filing Status	Exemption (indexed)	Phase-out Threshold Begins	Phase-out Range Ends
Married Joint	$60,000	$150,000	$390,000
Married Separate	$30,000	$75,000	$195,000
Single	$45,000	$112,500	$292,500
Head of Household	$45,000	$112,500	$292,500

With these changes, of the 37,000 returns with AMT liability under prior law, it is expected that only 8,000 returns will have AMT liability under the new law in tax year 2006. Of the 8,000 returns, 7,000 will have reduced AMT liability and about 1,000 will not have any change in liability. In FY 2007, general fund revenues will be reduced by $23.8 million and by $59.9 million during the FY 2008-09 biennium.

Active Military Income Credit. Provides a refundable individual income tax credit for a taxpayer who was in active military service in a designated area after September 11, 2001.[10] The credit is equal to $59 for each month that the taxpayer served. 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. In tax year 2006, about 12,000 taxpayers are will be able to claim this credit and about 3,4000 returns will claim this credit in later years. General fund revenues are expected to be reduced by $8.1 million in FY 2007 and $2.3 million in FY 2008 and FY 2009 as a result of this provision.

Bovine Tuberculosis Testing Credit. Provides a income tax or corporate franchise refundable credit to the owners of cattle in Minnesota equal to one-half of the expenses incurred during the year for testing bovine tuberculosis. An estimate 7,500 taxpayers will be eligible for this tax benefit. This provision has no expiration date but it is assumed that testing will be required for two years or until Minnesota has recovered its status as tuberculosis-free and further testing would not be needed. With this provision, the revenue reduction to the general fund will be $390,000 in FY 2007 and

10 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.

$390,000 in FY 2008.

Sales Tax

Reduce June acceleration payments from 85 percent to 78 percent for June 2007. Since 1983, venders 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. (Sales tax liabilities for months, 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.

The 2006 tax act reduces the portion of the June tax liability that venders must accelerate from 85 percent to 78 percent, effective for June 2007. There are about 3,300 sales taxpayers, 13 alcoholic beverage taxpayers and 45 cigarette and tobacco taxpayers that would be affected by this provision. As summarized in Table 4, this reduction will reduce general fund revenues by $21.240 million in FY 2007 and $1.925 million in FY 2008-09 and tobacco/cigarette revenues to the Health Impact Fund will be reduced by $1.360 million in FY 2006-07 and will increase by $25,000 in FY 2008-09. Amounts in the health impact fund are transferred to the general fund so changes to health impact revenue ultimately affect the general fund.

Table 4 - Reduce June Acceleration Payments for Sales Tax Summary *(Dollars in 000's)*

	Fund	**FY 2006-07**	**FY 2008-09**
Sales & Use Tax	GF	($19,500)	($1,930)
Cigarette/Tobacco Product Tax	GF	($1,340)	$25
Alcoholic Beverages Tax	GF	($400)	($20)
Subtotal	***GF***	***($21,240)***	***($1,925)***
Cigarette/Tobacco Product Tax	HIF	($1,360)	$25
Grand Total	**GF & HIF**	**($22,600)**	**($1,900)**

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

Exemptions for sales tax on construction materials include the following:

Hydro Electric Generation facility in lower St. Anthony. Materials and supplies used or consumed in the construction of a 10.3 megawatt hydroelectric generating facility. The total tax benefit is $120,000 in FY 2007 and $120,000 in FY 2008.

Crown Hydro energy facility in Minneapolis. This exemption was first provided in the 2001 tax act (expiring 12/21/2003). The 2003 tax act extended it to 12/31/2004, due to construction delays. The 2005 tax act extended the exemption for an additional two years and the exemption was again extended for an additional two years in the 2006 tax act. The total tax benefit is $165,000 in FY 2006-09.

Other

The Alternative Minimum Tax (AMT) that applies to taconite and other mineral producers is repealed. Any AMT credit as of December 31, 2005 can be applied to tax year 2006 and future tax years. With these changes, the revenue reduction to the general fund is $550,000 in FY 2007 and $550,000 in FY 2008-09. There are currently 6 taconite companies in Northeastern Minnesota that will receive tax benefits from these changes.

International Economic Development Zones. When originally authorized during the 2005 legislative session, the legislation established the duration of the international economic zone to be 12 years and for the zones to be designated by June 30, 2006 and to go into effect on January 1, 2007. General fund revenue losses were projected for FY 2008 and FY 2009 from various tax benefits provided to these zones.

The 2006 tax act delays the designation of the zones to June 30, 2008 and the designation would be effective January 1, 2010. These new dates push back the twelve year duration of the zones by 3 years. Therefore, revenue losses projected for FY 2008 and FY 2009 from various tax exemptions cannot occur until FY 2010. Now the projected general fund revenue losses of $1.9 million in FY08 and $600,000 in FY09 are added back to the general fund because of the delay of the zone designation and effective dates.

JOBZ Ethanol Plants. The duration of a Job Opportunity Building Zone (JOBZ) has been extended by 3 years for parcels of property that meet the following criteria;

- The qualifed business operates an ethanol plant on the site that includes the parcel;
- The business subsidy agreement was executed after April 30, 2006.[11]

The extension of the duration of the zone increases state costs because through 2018. State costs are increased because eligibility for tax incentives is extended through 2018 for ethanol plants.

Tax Relief Account transfer. The Minnesota Department of Finance is directed to transfer sufficient money from the tax relief account to bring the ending FY 2007 general fund balance to zero based on legislation enacted during the 2006 regular session and the February 2006 forecast. Any remaining amount in the account will be transferred to the general fund on the first day of the FY 2008-09 biennium. It is estimated that $207 million will be transferred in FY 2006 and the remaining $110 million will be transferred in FY 2008.

Fire Insurance Tax Repealed (Chapter 217). The Fire Insurance Tax is repealed and is replaced with a .65 percent surcharge on homeowner and commercial insurance policies starting in FY 2007. Table 5 describes how the surcharge is applied to both homeowners and commercial policies. In

11 During the 2006 session, the language extending the duration of JOBZ Ethanol Plants by 3 years was included in both chapter 259 (Omnibus Tax Act) and chapter 281 (Omnibus Natural Resources Act). Chapter 281 was signed after Chapter 259, so the JOBZ language from this chapter (not the Omnibus Tax act language) becomes current law. The language in Chapter 281 is less restrictive and allows an ethanol plant if their business subsidy agreement is signed after April 30, 2006 to get an additional three years of benefits.

some instances with the new surcharge for fire peril, the premiums for homeowners may increase 300 percent because the base for the surcharge is split 70/30 percent between homeowners and businesses.

Table 5. Summary of Surcharge Base on Fire Safety Premiums

	Surcharge Base	Rate of Fee Surcharge
Homeowners	Applies to homeowner multi peril policies. The entire value of the policy would be subject to the surcharge.	0.65%
Commercial	a. Applies to the lesser of: (1) the surcharge of .65%, or (2) the .5% gross premium tax on fire premiums.	0.5% or 0.65%
	b. 100% of commercial multi peril non liability policies. The entire value of the policy would be subject to the surcharge	0.65%

The revenues from the surcharge are deposited into a fire safety account (in the special revenue fund) created in the state treasury. The effect of repealing this tax is intended to be revenue neutral to the general fund because each year a specified amount of the surcharge revenues deposited to the fire safety account are to be transferred to the general fund to offset the loss of general fund revenue caused by the repeal of this tax.[12]

Other Acts with Tax Provisions

The Twins Ballpark Act (Chapter 257) authorized the construction of a $522 million out-door ballpark in Minneapolis and allows for a sales tax exemption for materials used in the construction of the ball park. Of the $522 million project cost, $390 million is for the ballpark. It was assumed that 50% of the $390 million ballpark cost would be for materials, supplies, and incorporated equipment that would have otherwise been subject to sales tax. The total tax benefit for all fiscal years with this exemption is $14 million. The exemption for construction materials used in the construction or improvement of the ballpark expires one year after the first Major League game is played in the park. The exemption for construction materials used in the construction or improvement of related infrastructure expires five years after the issuance of the first bonds.

Chapter 257 also allows for a sales tax exemption for regular season events to the State High School League Section and state tournaments. With this provision, general fund revenues will be reduced by $530,000 each year starting in FY 2007. This provision has no expiration date.

12 Before the Fire Insurance Tax was repealed, the amount of expected general fund revenue for this tax was $3.3 million in FY 2008 and $5.1 million in FY 2009. With the repeal of this tax, the amount of expected general fund revenues lost from the repeal of this tax are to be replaced with an equal amount of revenue from the fire safety account transferred to the general fund. The effect of this transfer is to hold the general fund harmless as a result of a repeal of this tax.

The Twins Ballpark Act, Chapter 257: Existing law requires a political subdivision to hold a local referendum at a general election before imposing an authorized local sales tax.[13] Chapter 257 authorizes a local sales tax of .15 percent for Hennepin County without a local referendum. The revenue from the local sales tax will be primarily used to pay debt service on bonds for the ballpark construction. The local sales tax of .15 percent terminates after defeasance of the bonds and the establishment of reserves adequate to meet future county obligations. In CY 2007, a .15 percent local sales tax in Hennepin County is expected to raise $28.4 million. Over 30 years, this sales tax is expected to raise $776 million. With this local option sales tax, it is estimated that Hennepin County's contribution for the new ball park will be 75 percent and the team will contribute 25 percent for this project.

It should also be noted that the Twins Ballpark Act authorizes a .75 percent local option sales tax without a referendum in Anoka County for a Vikings Stadium contingent on the approval of a development and financing plan at the 2007 or later legislative session.

The Gopher Stadium Act (Chapter 247) authorized the construction of a $248 million stadium project. Of the $248 million, $186 million of the project costs will go toward stadium construction. It is estimated that 41 percent of the $186 million would before materials, supplies, and equipment incorporated into the stadium that would normally be subject to sales tax. The total tax benefit is $5 million over the FY 2008-09 biennium. The sales and use tax exemption on construction materials expires one year after substantial completion of the project.

13 For more information about local sales taxes in Minnesota, see an information brief published by House Research called, "Local Sales Taxes in Minnesota" (December 2005) by Pat Dalton. It can be found at this web link: http://www.house.leg.state.mn.us/hrd/pubs/localsal.pdf

Changes in General Fund Expenditures

Property tax and local aids provisions found in Chapter 259, Minnesota Laws of 2006, (the 2006 Omnibus Tax Act) minimally increase general fund expenditures in the Property Tax Aids and Credits budget. The act increases spending by $0.72 million for FYs 2006-07, and by $0.41 million in FYs 2008-09. Table 6 shows that total expenditures will increase to $3.034 billion in FY 2006-07, a slight increase of 0.02 percent over the February 2006 forecast base of $3.033 billion.

Table 6
General Fund Expenditure Changes – Aids & Credits
Dollars in 000's

	FY 2006	FY 2007	Biennium FY06-07	FY 2008	FY 2009	Biennium FY 08-09
February Forecast 2006			$3,033,525			$3,138,717
Property Tax Adjustments						
Metropolitan Council Transit Bonding					$50	$50
Ag. Homestead Land Bracket Adj for Inflation				$170	$340	$510
Retroactive Rebate for Property Tax Refunds w/ Tuition Waiver Income		$120	$120			
Biomass Electric Generating Facility Eligibility Extention					$20	$20
EMS Special Taxing District Levy Authority					$9	$9
Subtotal		**$120**	**$120**	**$170**	**$419**	**$589**
Aids and Credits Changes						
Agricultural Market Value Credit – Calculation for Fractional Homesteads				($15)	($15)	($30)
Disparity Reduction Aid – Timing of Adjustment for Class Rate Changes				($75)	($75)	($150)
Mahnomen County County & City Aids – One Time		$600	$600			
Subtotal		**$600**	**$600**	**($90)**	**($90)**	**($180)**
Total General Fund Expenditures		**$720**	**$720**	**$80**	**$329**	**$409**
Total General Fund Forecast Plus Expenditure Changes			**$3,034,245**			**$3,139,126**
Total % Change, Forecast Plus Expenditures Changes			**.02%**			**.01%**

Two items reflect expenditure changes in FY 2006-07:

- **$120,000** increase to fund a one-time, retroactive rebate to include tuition waiver income for property tax refunds; and
- **$600,000** one-time appropriation in aid for Mahnomen County.

Six items reflect expenditure changes in FY 2008-09:

- **$30,000** decrease to Agricultural Homestead Market Value Credit for fractional homesteads,
- **$150,000** decrease for Disparity Reduction Aid for a timing adjustment for class rate changes
- **$50,000** increase for Metropolitan Council Transit bonding,
- **$510,000** increase for Agricultural Homestead land bracket adjustment for inflation,
- **20,000** increase for Biomass Electric Generating Facility eligibility extension,
- **$9,000** increase for Emergency Medical Service special taxing district levy authority

Expenditures

Property Tax

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."
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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."

The 2006 omnibus tax act gives the Metropolitan Council authority to issue up to $32.8 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 $50,000 in FY 2009.

Agricultural Homestead land bracket adjustment for inflation: Under previous law, land classified as 2a agricultural homestead [14] had two rates for assessment: land with a market value up to $600,000 had a rate of 0.55 percent, and land with a market value over $600,000 had a rate of 1 percent.

The 2006 Omnibus Tax Act provides an annual adjustment to the $600,000 tier break for class 2a agricultural homestead property. This adjustment will be an amount based on the percentage change in the statewide average taxable market value of agricultural property per acre of deeded farm land, rounded to the nearest $10,000.

Beginning with assessment year 2006, the threshold for the first tier (which is eligible for the 0.55 percent class rate) will be adjusted based upon the ratio of the previous assessment year's statewide average taxable market value of agricultural property to the statewide average taxable market value of agricultural property for assessment year 2004. Under this provision, the estimated threshold for pay 2007 is $690,000. Thus, land with a market value up to $690,000 would have a rate of 0.55 percent, and land with a market value over $690,000 would have a rate of 1 percent.

Property tax refunds are projected to increase $170,000 in pay 2008 and $340,000 in pay 2009 due to net tax shifts onto homestead property.

Retroactive tuition waiver income for property tax refunds: Under current law, nontaxable scholarships, fellowship grants, and qualified tuition discounts are included in the definition of household income.[15] According to the Department of Revenue, 115 property tax refund claimants were audited for underreporting nontaxable tuition discount income in their 2004 taxes and their refunds were reduced accordingly. Similarly, 45 property tax refund claimants were identified as underreporting nontaxable tuition discount income, but not yet audited.

The 2006 Omnibus Tax Act provides a kind of tax amnesty in the form of a retroactive rebate to claimants who underreported nontaxable, tuition discount income in their claims for 2004 property tax refunds or earlier.

The estimated fiscal impact of this rebate provision is $120,000 in FY 2007.

Biomass Electric Generating Facility eligibility extension: Prior law exempts from the property tax certain attached machinery and other personal property which are part of an electric generating facility that uses biomass as its primary fuel source. (Ethanol and biodiesel are common types of biofuels that are derived from biomass sources.) At the time of construction, the facility must:

1) be designed to utilize biomass to generate electricity as established in section 216B.2424; and

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14 In this act, agricultural property is defined as class 2 property, excluding timberland, airport land, and the house, garage, and one acre.

15 Federal adjusted gross income does not include nontaxable scholarships, fellowship grants and qualified tuition discounts but they are include in the definition of household income for the purposes of calculating property tax refunds.

2) be constructed for the purpose of generating power that will be sold pursuant to a contract approved by the Public Utilities Commission in accordance with mandates contained within section 216B.2424.

Construction of the facility must be commenced after January 1, 2000, and before December 31, 2002. Property eligible for the exemption does not include electric transmission lines or gas pipelines and interconnections appurtenant to the property or facility.

The 2006 omnibus tax act extends the window for construction startup from 2002 to 2005. The only facilities known to fit these criteria are those of the Laurentian project (located in Hibbing and in Virginia, St. Louis County), each of which began construction in 2005. The increased property tax burden on homesteads caused by the exemption will increase state-paid homeowner property tax refunds by about $20,000 beginning in FY 2009.

Emergency Medical Service special taxing district levy authority: Under prior law, an emergency medical services special taxing district is permitted to impose a tax of up to 0.048 percent on taxable real and personal property in the district, not to exceed $250,000. These funds may be used for out-of hospital emergency medical services such as first responder or rescue squads, ambulance services, communications equipment and regional program services.

The 2006 omnibus tax act increases the maximum dollar amount of levy from $250,000 to $400,000; the levy remains limited to the lesser of 0.048 percent of the taxable market value of the district or $400,000. The act also extends the sunset on emergency medical services special taxing districts by two years, from taxes levied in 2009 to taxes levied in 2011, payable in 2012.

Local Aids & Credits

Modify Agricultural Homestead Market Value Credit calculation: *In the 2005 legislative session, Chapter 151 changed the calculation of the market value homestead credit for fractional homesteads (i.e., property only partially homesteaded because one or more of the owners does not reside at the property) to more accurately reflect the credit due to each owner. Before then, homestead and non-homestead properties had the same class rate, which created a benefit to fractional homesteads using the market value credit.*

The 2006 omnibus tax act amends the calculation of the *agricultural* homestead market value credit to 1) clarify that its application is only for homestead farmlands (not the house, garage and one acre), and 2) more fairly allocate fractional agricultural homesteads credits, similar to the provision for residential homesteads that was passed last session. These changes would safeguard a property from receiving both credits (when one credit is intended) and also assure that a full owner of a same-valued agricultural homestead has a larger credit and lower tax than a partial owner.

This change reduces Agricultural Homestead Market Value Credits by $15,000 per year beginning in FY 2008.

Authority to defer certain Disparity Reduction Aid adjustments: Occasionally, when real property undergoes a change in class rate, it is difficult for the Department of Revenue to determine the appropriate adjustment to Disparity Reduction Aid; the data needed to make an informed adjustment is not available.

The 2006 omnibus tax act authorizes the Commissioner of Revenue to defer such an adjustment to Disparity Reduction Aid (DRA) for one year. Current law is silent regarding this issue.

This provision would reduce Disparity Reduction Aids by $75,000 per year beginning in FY 2008.

Temporary Aid to Mahnomen: 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 has produced unanticipated, significant losses in CY 2006 state and local government revenues totaling over $932,000.

According to estimates by the county auditor, taxes on an average home in the City of Mahnomen would need to increase by about 40 percent to make up for their tax base loss; similarly, taxes on an average home in the rest of the county would face an increase between 8 and 25 percent. And due to its existing low tax base and high amount of state aid, the impact on Mahnomen's school district is noteworthy.

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 requires payments of $450,000 for Mahnomen County, $80,000 for the City of Mahnomen, and $70,000 for Mahnomen Independent School District No. 432, to be made on July 20, 2006.

Also, beginning with aids payable in 2008, the city's tax base loss will be compensated for under the "grandfathered portion" of the Local Government Aid (LGA) formula.

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

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