Summary of the Fiscal Actions of the 2003 Legislature

Minnesota's General Fund Budget for the FY 2004-05 Biennium

The Overall Budget Picture

The Enacted Budget in Detail

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Fiscal Analysis Department
Minnesota House of Representatives

The Overall Budget Picture

The February 2003 forecast projected that general fund expenditures would exceed revenues by $4.1 billion for the FY 2004-05 biennium. That forecast projected revenues of $26.7 billion and expenditures of $30.8 billion for the FY 2004-05 biennium.

The enacted budget adopted by the Legislature and signed by the Governor results in general fund expenditures for FY 2004-05 of $28.3 billion, $2.5 billion or 8.1 percent lower than the projected expenditure level in the February 2003 forecast. However, the enacted budget will result in FY 2004-05 expenditures being $1.55 billion or 5.8% higher than expenditures in FY 2002-03. (The FY 2002-03 numbers used for these comparisons include unallotment and other adjustments made to FY 2003 appropriations.)

General fund revenues in the enacted budget for FY 2004-05 are projected to be $28.6 billion, $1.96 billion or 7.3 percent higher than revenues projected in the February 2003 forecast. The enacted budget revenue amount is $3.3 billion or 12.9 percent higher than FY 2002-03 revenues.

Table 1 summarizes the general fund resources available and expenditure amounts for the FY 2002-03 biennium, the FY 2004-05 biennium and the planning estimates for the FY 2006-07 biennium. The rows labeled "base" show how the revenue and expenditure amounts from the February 2003 forecast, the rows labeled "changes" show changes from the base level in the enacted budget.

Table 1: General Fund: Fiscal Years 2002-07
Enacted Budget, Change from Feb. Forecast Base
Dollars in millions

	FY 2002-03[1]	FY 2004-05	Percent Change[2]	FY 2006-07	Percent Change
Balance Forward	$1,574	$180		$522	
Revenues (Base)	$25,281	$26,683		$29,621	
Revenue Changes	$79	$1,959		$676	
Current Revenues	$25,360	$28,642	**12.9%**	$30,297	**5.8%**
Total Resources Available	**$26,934**	**$28,822**		**$30,819**	
Expenditures & Transfers (Base)	$26,867	$30,810		$32,087	
Expenditures Changes	($114)	($2,509)		($2,315)	
Total Expenditures	**$26,753**	**$28,301**	**5.8%**	**$29,771**	**5.2%**
Balance Before Reserves	$180	$522		$1,047	
Reserves	$0	$522		$522	
Balance After Reserves	**$180**	**$0**		**$526**	

(1) Unallotment included in FY 2002-03
(2) Percentage change compared to previous biennium

Table 2 illustrates a fiscal year by fiscal year comparison of revenues and expenditures in the enacted budget for FY 2002-05 using the same format as Table 1. Revenues in FY 2004 are $1.3 billion or 10.1 percent more than in FY 2003. However, $1 billion of this amount is a transfer from the tobacco endowments. Revenues in FY 2005 are $82 million below the FY 2004 amount but $1.2 billion above the FY 2003 amount.

Expenditures in FY 2004 would decrease by about $4 million or 0.0 % from expenditures in FY 2003 and expenditures in FY 2005 would increase by $311 million or 2.2% over expenditures in the enacted budget for FY 2004.

Table 2: General Fund by Fiscal Year: FY 2002-05
Enacted Budget, Change from Forecast
(Dollars in millions)

	Actual FY 2002	Enacted Budget FY 2003	Percent Change[1]	Enacted Budget FY 2004	Percent Change	Enacted Budget FY 2005	Percent Change
Resources							
Balance Forward	$1,574	$1,130		$180		$547	
Revenues (Base)	$12,310	$12,971		$12,876		$13,807	
Revenue Changes		$79		$1,486		$473	
Current Revenues	$12,310	$13,050	6.0%	$14,362	10.1%	$14,280	-0.6%
Total Resources Available	**$13,884**	**$14,180**		**$14,542**		**$14,827**	
Expenditures							
Expenditures & Transfers (Base)	$12,754	$14,113		$15,251		$15,559	
Expenditures Change		-$114		-$1,256		-$1,253	
Total Expenditures	**$12,754**	**$13,999**	**9.8%**	**$13,995**	**0.0%**	**$14,306**	**2.2%**
Balance Before Reserves	$1,130	$180		$547		$522	
Reserves	$475	$0		$300		$522	
Balance After Reserves	**$656**	**$180**		**$247**		**$0**	

(1) Percent change columns are compared to previous fiscal year

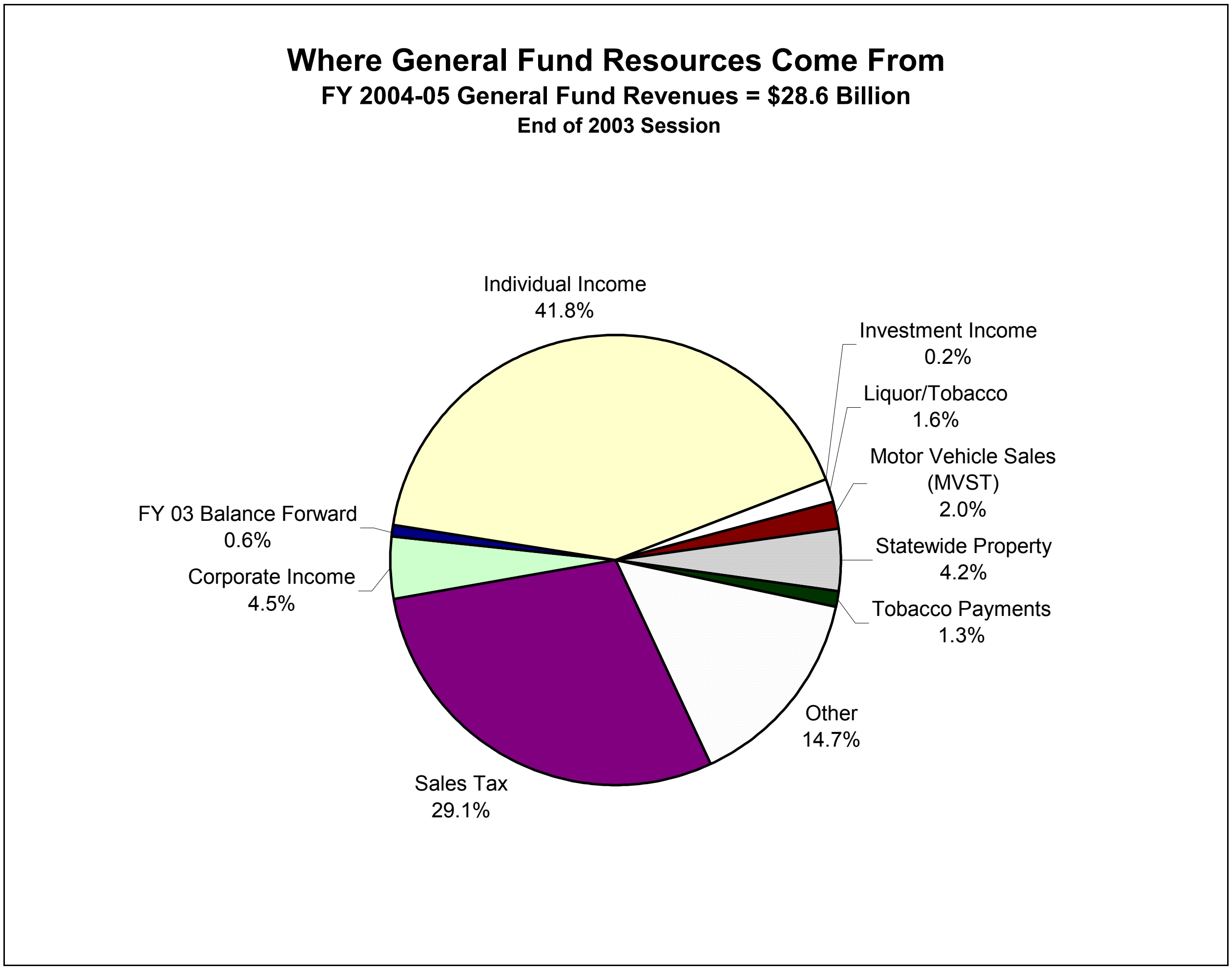
General Fund Revenues are Increased $1.96 Billion

General fund revenues for FY 2004-05 are $1.96 billion higher than the amount projected in the February 2003 forecast. These revenue increases include a transfer into the general fund of the estimated $1.029 billion balance in the two endowments established with tobacco settlement funds, other transfers to the general fund, increases in various fees, co-pays and surcharges, and changes in tax provisions, including requiring some taxes to be paid to the state earlier.

Table 3 shows the sources of general fund revenue for the FY 2004-05 biennium. Revenues from the individual income tax and state sales tax make up almost 71 percent of total general fund revenues. The graph on the next page also illustrates the major sources of general fund revenue.

Table 3: General Fund Forecasted Revenues
Fiscal Years 2004 & 2005
Based on February 2003 Forecast and 2003 Session
(dollars in thousands)

Revenue Type	Total Dollars	% of Total
Corporate Income	$1,304,490	4.5%
FY 03 Balance Forward	$180,427	0.6%
Individual Income	$12,034,157	41.8%
Investment Income	$45,200	0.2%
Liquor/Tobacco	$457,111	1.6%
Motor Vehicle Sales Tax (MVST)	$574,176	2.0%
Statewide Property	$1,220,528	4.2%
Tobacco Payments	$380,087	1.3%
Sales Tax	$8,383,610	29.1%
Inheritance, Estate, Gift	$141,000	0.5%
Taconite Occupation	$3,845	0.0%
Mortgage Registry Tax	$220,896	0.8%
Deed Transfer Tax	$170,992	0.6%
Insurance Gross Earnings & Fire Marshal	$447,100	1.6%
Controlled Substance Tax	$130	0.0%
Other Gross Earnings	$110	0.0%
Lawful Gambling	$119,807	0.4%
Medical Assistance Surcharges	$569,470	2.0%
Income Tax Reciprocity	$98,545	0.3%
Motor Vehicle Registration	$2,000	0.0%
Other Excise and All Other	$60,231	0.2%
All Other Tax Refunds	-$48,968	-0.2%
DHS RTC Collections	$134,919	0.5%
Lottery Revenue	$72,288	0.3%
Departmental Earnings	$498,408	1.7%
Other Non-Dedicated Revenue	$237,628	0.8%
All Other Refunds	-$22,000	-0.1%
Dedicated Revenues	$126,505	0.4%
Transfers In	$1,389,502	4.8%
Prior Year Adjustments	$20,200	0.1%
Total	**$28,822,394**	**100.0%**



Increases in general fund revenue include two major transfers from other funds - $1.029 million from the two tobacco related endowments - the medical education endowment and the tobacco use prevention and local public health endowment - and $192 million from the health care access fund. The budget also includes a variety of increases in fees, co-pays and surcharges. Table 4 (on the next page) shows the changes in general fund revenues by committee.

The information in Table 4 is for the general fund only and includes all revenue sources. Revenue from some fees is deposited in funds other than the general fund (for example, revenue from hunting and fishing licenses is deposited in the game and fish fund). A list of the increases in fees, co-payments and surcharges for all funds is included in Appendix 1. Appendix 1 shows information for each of the four years of the next two biennia (FY 2004-07). The final column shows the fund that is affected by the change in the fee, co-payment or surcharge. The FY 2004-05 biennial change in fees, co-payments and surcharges for all funds is $394.6 million.

Table 4: General Fund Revenue Changes - By Committee *Dollars in thousands*	**FY 2004-05**	**FY 2006-07**
Education	-$1,003	-$1,920
Higher Education	-$2,260	-$3,000
Taxes	$179,989	-$23,860
Tobacco Endowments Transfer	$1,029,000	$0
Health & Human Services	$273,502	$364,037
Health Care Access Fund Transfer	$192,442	$112,048
Environment	$52,770	$32,761
Agriculture	$330	$330
Jobs & Economic Development	$13,764	-$978
Judiciary	$93,214	$95,548
Transportation	$36,485	$28,770
State Government	$116,378	$103,313
Dedicated Revenues	-$25,432	-$25,978
Total	**$1,959,179**	**$681,071**

FY 2004 and 2005 Expenditures Are $2.5 Billion Lower than Forecast

Total FY 2004-05 expenditures (excluding reserves) are $2.5 billion lower than projected in the February 2003 forecast. Table 5 shows expenditures in the enacted budget by committee for FY 2004-05 and compares those to FY 2002-03 expenditures (as adjusted by unallotment and 2003 legislation) and the FY 2004-05 base level expenditures from the February 2003 forecast.

Of the major budget areas, the largest percentage increase in spending over the FY 2002-03 biennium is in education. However, much of this increase compared to FY 2002-03 is due to the property tax reform changes made in the 2001 session that replace the general education levy with state aid. The education area also had the smallest percentage reduction from the FY 2004-05 base of any committee area.

The largest percentage reduction in general fund spending compared to the FY 2002-03 biennium is in transportation. The size of the reduction is because the FY 2002-03 spending included one-time general fund appropriations for transportation projects. The largest percentage reduction in spending compared to the FY 2004-05 base is in agriculture.

Table 5: General Fund Expenditures - By Committee FY 2004-05

(all dollars in thousands)

	FY 2002-03*	Base FY 2004-05	Enacted FY 2004-05	% Change Enacted FY 04-05 vs. FY 02-03	% Change Enacted Bdgt vs. Base FY 2004-05
Education	$9,977,552	$12,498,491	$11,883,369	19.1%	-4.9%
Higher Education	$2,756,633	$2,913,208	$2,560,196	-7.1%	-12.1%
Taxes and Tax Aids	$3,378,679	$3,278,561	$2,737,026	-19.0%	-16.5%
Health & Human Services	$6,754,242	$8,089,308	$7,428,418	10.0%	-8.2%
Environment	$342,179	$391,061	$341,505	-0.2%	-12.7%
Agriculture	$104,739	$122,566	$90,894	-13.2%	-25.8%
Jobs & Economic Development	$420,033	$394,693	$335,258	-20.2%	-15.1%
Judiciary	$1,351,312	$1,527,276	$1,434,203	6.1%	-6.1%
Transportation	$318,357	$182,272	$161,208	-49.4%	-11.6%
State Government	$667,463	$597,051	$533,341	-20.1%	-10.7%
Debt Service	$581,047	$673,650	$673,625	15.9%	0.0%
Dedicated Expenditures	$89,049	$151,937	$126,505	42.1%	-16.7%
Other	$12,128	-$10,000	-$4,911	-140.5%	-50.9%
Total	**$26,753,413**	**$30,810,074**	**$28,300,637**	**5.8%**	**-8.1%**
Reserves	$0	$95,778	$521,757		444.8%
Total - Expenditures & Reserves	**$26,753,413**	**$30,905,852**	**$28,822,394**	**7.7%**	**-6.7%**

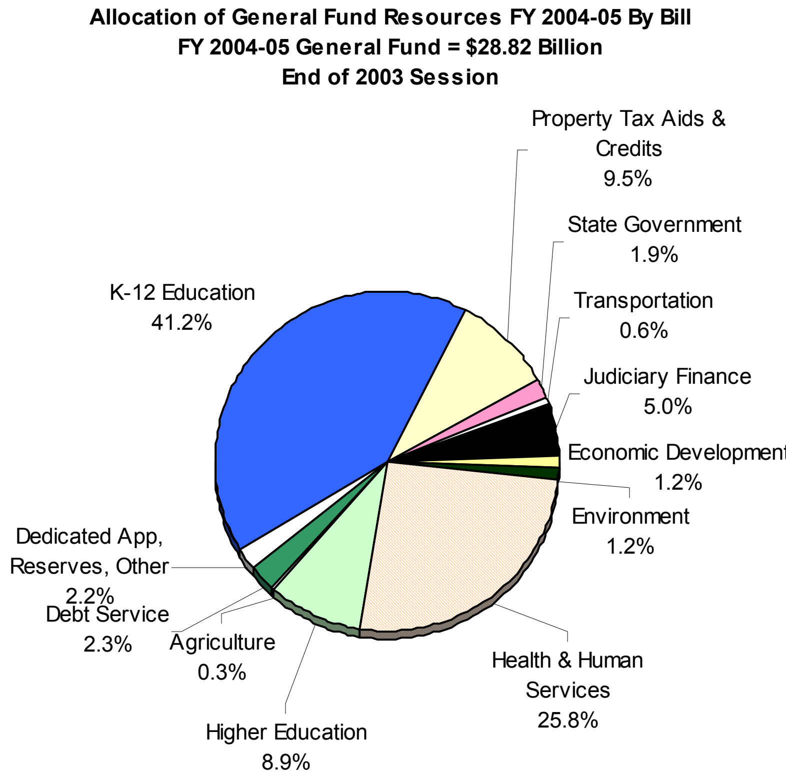
**Includes unallotment*

Table 6 shows the new base level expenditures for FY 2006-07 with the enacted budget and compares those to the base level from the February 2003 forecast. These base numbers do not include any overall allowance for inflation.

Table 6: General Fund Expenditures - By Committee FY 2006-07
(all dollars in thousands)

	Base FY 2006-07	**Enacted Budget FY 2006-07**	**% Change Enacted Budget vs. Base FY 2006-07**
Education	$12,584,908	$12,091,330	-3.9%
Higher Education	$2,902,440	$2,547,848	-12.2%
Taxes and Tax Aids	$3,391,986	$2,922,630	-13.8%
Health & Human Services	$8,997,704	$8,327,191	-7.5%
Environment	$393,006	$342,850	-12.8%
Agriculture	$105,566	$80,351	-23.9%
Jobs & Economic Development	$392,556	$329,313	-16.1%
Judiciary	$1,630,598	$1,506,920	-7.6%
Transportation	$182,242	$162,735	-10.7%
State Government	$596,100	$551,532	-7.5%
Debt Service	$762,835	$782,769	2.6%
Dedicated Expenditures	$156,641	$130,663	-16.6%
Other	-$10,000	-$5,000	-50.0%
Total	**$32,086,582**	**$29,771,132**	**-7.2%**
Reserves	$192,083	$521,757	171.6%
Total - Expenditures and Reserves	**$32,278,665**	**$30,292,889**	**-6.2%**

Graph 2 (on the following page) is a pie chart showing the allocation of general fund resources by committee area for the FY 2004-05 biennium.



About Half of the Budget Problem Solution is Expenditure Reductions

Table 7 shows a perspective on the types of changes used to solve the budget problem in 2003. The difference between current resources and current revenues for FY 2004-05 as shown in the February forecast was $4.127 billion. Adding to that amount the projected FY 2003 deficit and $530 million for a budget reserve meant the problem that had to be resolved was $4.669 billion.

About half of the amount, 48.3%, was resolved by implementing general fund expenditure reductions. Shift of expenditures into the next biennium accounted for another 15.5%. (These shifts are essentially also expenditure reductions but on a one-time basis.) Transfers from other funds made almost 30 percent of the total adjustments. Two of those transfers - from the tobacco endowments and health care access fund - were mentioned earlier. Finally, various increases of revenue to the general fund through fees and other sources accounted for the remaining 6.4%.

Table 7: General Fund Budget Problem FY 2003, 2004 & 2005
February 2003 forecast is the base for comparison
FY 2003 deficit and resolution included
Dollars in millions

Budget Problem:		
Current Resources	$26,683	
Forecasted Expenditures	$30,810	
Difference	**-$4,127**	
FY 2003 Deficit (Feb. 2003)	-$12	
Budget Reserve	-$530	
Total Budget Problem	**-$4,669**	
Budget Solution:		**Percent of total**
Expenditure Reductions from Forecast	$2,256	48.3%
Additional Transfers to the General Fund	$1,394	29.9%
Additional Resources - Fee Type Changes	$243	5.2%
Additional Resources - Non Fee Changes	$54	1.2%
Additional Shifts	$723	15.5%
Sum of Changes:	**$4,669**	**100.0%**

Legislation also Balances FY 2003 Budget

Several changes were made in the FY 2003 budget to offset the forecast deficit of $12.0 million for FY 2003. These changes result in a budget balance of $180 million at the end of FY 2003. This balance will be available to handle any additional unforeseen revenue or expenditure changes that occur yet in FY 2003 and then carry over into FY 2004-05. Most of the enacted FY 2003 changes were included in the items discussed in legislation in January to resolve the 2003 budget problem. Since these items are transfers or required bonding, they were unavailable to the Governor in the unallotment process.

Table 8 on the following page illustrates on a committee basis the FY 2003 changes enacted in May 2003.

Table 8: FY 2003 General Fund Changes By Committee
Dollars in millions

	Expenditure Change	Revenue Change
FY 2003 Projected Balance		**-$11.984**
Education	-$5.500	
Higher Education		$30.000
Health & Human Services	$1.529	$7.757
Environment		$11.000
Jobs & Economic Development		$15.000
Judiciary	-$0.051	
Transportation	-$110.000	$15.000
State Government	$0.368	
Sum	**-$113.654**	**$78.757**
Net General Fund Effect		**$192.411**
FY 2003 Ending Balance		**$180.427**

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Education Finance

For the FY 2004-05 biennium, the Legislature, in Minnesota Laws, 2003 First Special Session, Chapter 9 appropriated $11.9 billion in general fund state aid for early childhood and K-12 education. This compares with the February forecast of current law 2004-05 education spending of $12.5 billion, for a total reduction of $621.9 million, or 5.0 percent. Not including payment schedule shifts and the general education levy buyoff in FY 2003, spending for FY 2004-05 would be $12.3 billion, an increase of 7.6 percent from FY 2002-03 spending of $11.4 billion. For the FY 2006-2007 biennium, total state appropriations are $12.1 billion; a reduction of $462.0 million from the February forecast appropriations.

Total State Funding: Education Finance
(dollars in thousands)

Education State Appropriations	Base Funding	Governor's Recommendation	Chapter 9
FY 2002	4,419,641	4,419,641	4,419,641
FY 2003 *	5,589,824	5,567,293	5,567,293
change from prior year	26.5%	26.0%	26.0%
FY 2004	6,240,247	5,840,771	5,760,966
change from prior year	11.6%	4.9%	3.5%
FY 2005	6,261,337	6,113,450	6,115,633
change from prior year	0.3%	4.7%	6.2%
FY 2006	6,281,173	6,069,697	-3.4%
change from prior year	0.3%	-0.7%	-0.9%
FY 2007	6,307,085	6,057,267	-4.0%
change from prior year	0.4%	-0.2%	-0.4%

* *FY 2003 Governor's Recommendation and Chapter 9 totals include unallotments*

Education property taxes in Chapter 9 for FY 2005 would decline slightly from the current law estimate in the February forecast. Property taxes for FY 2004 (the pay 2003 property taxes already being levied) increased by $211.3 million from FY 2003, or 19.8 percent, to $1.3 billion. School district property taxes for FY 2005 (payable 2004) are estimated to increase by $170.9 million, or 13.4 percent from FY 2004, to $1.5 billion.

The following summarizes the Chapter 9 appropriations, with the cost expressed as a biennial total, from the general fund unless otherwise noted:

General Education Program

- $25.5 million in savings to due by limiting districts to counting each student as a maximum of 1.2 pupils in average daily membership (ADM). Currently, districts are allowed to count each student as more than one pupil unit if that student attends a learning year program, an area learning center or an approved alternative program for more than the equivalent of one school year. Under current law, ADM is limited to 1.2 for kindergarten students and 1.5 for 1st-12th grade students.

- $10.8 million in savings by limiting students who generate additional revenue via the Limited English Proficiency (LEP) program. There are two limitations put on the student LEP count: first, only those students being served in the district (rather than all identified LEP students) would count for generating revenues, and; second, only students who have been enrolled in Minnesota public schools for less than five years would be included in the calculations of LEP revenue. In order to offset part of the reduction in pupil counts, the funding provided for each qualifying student is increased.

- $49.2 million in savings in general education aid by reducing the formula amount used for calculating Compensatory Revenue, and Post Secondary Enrollment Options payments from the actual formula amount to the basic formula amount minus $415. For FY 2003, the formula allowance was increased by $415 per pupil that was shifted from operating referendum, on top of a percentage increase that was applied to the basic formula allowance. This change will link the formula for the funding for these programs to the basic formula allowance, as it would have been without the $415 conversion of referendum to basic formula.

- $44.2 million in aid savings from increasing the Equity Revenue component of General Education Revenue and then converting it from being fully funded with state aid to an equalized aid and levy, levied against referendum market value and equalized at the same rate as the first tier of operating referendum and from converting the operating capital component of General Education Revenue from all state aid to an equalized aid and levy on net tax capacity. These changes result in $64.1 million of increased local property tax levy.

- $35.7 million in additional state aid spending and $20.1 million in local property tax levy in General Education to offset the reductions in the general education program, in a new Transition / Hold Harmless revenue. Each district's FY 2004 general education revenue per pupil (not including referendum revenue and open enrollment adjustments) would be at least equal to the lesser of its FY 2003 general education revenue per pupil or its FY 2004 current law revenue per pupil. For FY 2004 this new revenue would be entirely state aid, but for FY 2005 to FY 2008, the revenue will be an equalized aid and levy, levied against referendum market value and equalized at the same rate as the first tier of operating referendum. The revenue will expire in FY 2009, but districts will be able to convert the revenue into operating referendum revenue with the approval of their voters, and the operating referendum cap for that district will increase by the amount that is converted.

- $38.6 million in additional aid to equalize local operating referendum levies. Currently, the first $126 per pupil of referendum revenue is equalized with state aid. Chapter 9 increases that to the first $405 per pupil of local referendum levy being equalized. The equalization factor is the same. This additional aid will be offset by a reduction in local levies of $46.5 million

- $397,000 in additional aid and $3.5 million in new local levies in FY 2005 through an increase in the operating referendum cap to reflect an adjustment for inflation. This inflationary adjustment will occur every year, beginning in FY 2005.

Accounting Shifts

- $183.7 million from changing the school aid payment schedule. State aid for many education programs is paid over the course of two years, with districts receiving 83 percent of the entitled amount in the fiscal year in which the funding is due, and the balance, approximately 17 percent, adjusted for corrected enrollment data, in the subsequent fiscal year. Chapter 9 changes that breakdown to 80 percent in the current fiscal year and 20 percent in the subsequent fiscal year.

- $253.2 million in savings in a property tax recognition shift, which requires districts to recognize property tax revenue that is due for a subsequent fiscal but received in the current fiscal year as revenue for the current fiscal year, which, on a one-time basis, allows the state to reduce aid by the amount districts recognize early in property tax payments.

Other General Education Funding

- $2.6 million in savings from elimination of a special grant to Richfield school district to offset declining pupil enrollments due to the loss of housing stock in Richfield from the expansion of the Minneapolis-St. Paul International Airport.

- Similar to the removal of the impact on the general education program from the conversion of $415 of referendum revenue to basic formula revenue during FY 2003, the formula for the calculation of Nonpublic Pupil aid and Nonpublic Pupil Transportation Revenue will be calculated based on the basic formula allowance minus $415, resulting in a savings of $523,000 in Nonpublic Pupil Aid and $2.2 million in Nonpublic Pupil Transportation Aid.

Education Excellence

- $1.4 million in savings from capping aid for new charter school leases at $1,200 per pupil or the actual cost of the lease, whichever is less, rather than the current limit of $1,500 per pupil or the actual lease cost. Current schools will be allowed to continue to collect more than $1,200 per pupil, up to the $1,500 per pupil, if their current lease exceeds $1,200 per pupil.

- $3.0 million in savings from a two year moratorium on charter school startup aid.
- $92,000 in savings due to the elimination of charter school integration aid.
- $6.2 million in savings in Integration Aid via a reduction in the per pupil amount for integration revenue, and due to an increase in the levy share of integration revenue from 22 percent to 23 percent in FY 2004 and from 29 percent to 30 percent in FY 2005.
- $2.0 million in savings from the elimination of Integration Program Grants, which were used to fund the Teachers of Color and Minority Fellowship programs.
- $2.4 million in savings from a reduction to Best Practices Grants.
- $1.5 million in savings from eliminating funding for Education Accountability Audits.
- $444,000 in savings through reductions in the Advanced Placement / International Baccalaureate program. The current program pays for teacher training, course initiation and improvement and exam fees. The reduction will result in fewer students having their exam fees paid by the State.
- $200,000 in savings through elimination of Reading Competency Grants.
- $1.8 million in savings from the reduction of the Youthworks program appropriation to $900,000 per year.
- $1.1 million in additional expenditures to fund the Collaborative Urban Educator program.
- $2.3 million in additional expenditures to fund an online learning program. The program allows Minnesota school districts, charter schools, or two or more districts in a joint powers agreement to provide online learning to students in any grade, K-12.

Special Education

- $65.7 million in savings due to the elimination of the 4.6 percent growth factor in the special education formula.
- $16.0 million in additional spending in payments to schools to reduce the special education cross-subsidy, whereby districts are spending general fund revenue to pay for special education expenses that are not fully reimbursed through the special education formulas. The cross-subsidy aid would be distributed in FY 2004 and FY 2005, and would be based on the distribution of state Excess Cost aid for the previous year.
- $1.8 million in savings due to the elimination of the 2.0 percent growth factor in the special education Excess Cost formula.

Facilities and Technology

- $1.4 million in aid savings and $42.3 million in local levy reductions in the Hazardous / Health and Safety program. These savings are achieved via a narrowing of the scope of projects that can be paid for by districts using this program, and by limiting districts to projects with a total cost of less than $500,000. Projects exceeding that cost threshold will have to be funded via the Alternative Facilities program (see next item), which will offset some of the loss in Health and Safety.

- $10.1 million in local levy increases in the Alternative Facilities program due the requirement (see previous item) that Health and Safety projects that exceed $500,000 in cost be funded via that Alternative Facilities program results.

- $4.3 million in local property tax reductions due to restriction of the Building Lease Levy to 90 percent of approved lease costs from the current 100 percent of approved lease costs.

Nutrition Programs

- $1.6 million in savings in the School Lunch and Food Storage appropriation from moving the portion for the Kindergarten Milk Program to school breakfast.

- $4.6 million in additional School Breakfast program expenditures from the elimination of the Fast Break to Learning breakfast program (see next item). When the Fast Break program is eliminated, there will be an increase in the number of breakfasts reimbursed under the regular breakfast program.

- $9.4 million in savings from eliminating the Fast Break to Learning program (see previous item).

Libraries

- $183,000 in savings from a reduction in basic library support grants.

- $800,000 in additional spending for the Electronic Library for Minnesota.

Early Childhood and Family Support

- $645,000 in aid savings from cancellation of excess fund balances and $1 million in aid savings via a general program reduction. Currently, districts may not have School Readiness reserves that exceed 25 percent of their annual School Readiness revenue. In the past, any balance exceeding 25 percent would have been reallocated to other districts. Now those excess fund balances cancel to the State general fund.

- $358,000 in aid savings and $1.0 million in local property tax reductions from cancellation of any district fund balance exceeding 25 percent of total revenue. Currently, districts may not have Early Childhood and Family Education (ECFE) reserves that exceed 25 percent of their annual ECFE revenue; any balance exceeding 25 percent was reallocated to other districts under current law. Now, those excess fund balances cancel to the State's general fund (in the case of the aid portion) or reduce the local property tax levy (for the levy part).

- $6.8 million in savings in the ECFE program from a reduction in the formula amount for population aid. Currently, the formula for ECFE is $120 per person under the age of five in a district. The new formula would be $96 per person under age five in the district.

- $950,000 in savings from the elimination of the Way to Grow program, which provided grants to five school districts for services to children and their families.

- $3.2 million in savings from reductions in State Head Start funding.

Prevention

- $1.2 million in savings in state aid and $2.3 million in local property tax reductions from changing the Community Education formula from $5.95 per capita in a district to $5.23 per capita.

- $516,000 in aid savings and $5.1 million in local property tax reductions from limiting reserves that districts may have in their Community Education program to 25 percent of annual revenue, which includes state aid, local levy and Community Education fees. Any balance exceeding 25 percent is cancelled to the State (in the case of the aid portion) or refunded to local property tax payers (in the case of the local levy portion).

- $2.9 million in savings from the elimination of Violence Prevention Grants.

- $11.0 million in savings from the elimination of After School Enrichment grants. The Department of Education hopes to replace this funding with federal funding through the 21st Century Community Learning Center program.

Self-Sufficiency

- $10.1 million in savings in the Adult Basic Education and Adult Graduation Aid programs. The Adult Graduation Aid program is consolidated with Adult Basic Education Aid for FY 2005 and the eight percent annual growth factor for Adult Basic aid is eliminated.

- $245,000 in savings from eliminating the requirement that the Department of Children, Families and Learning audit providers of Adult Basic Education services who receive state funding.

Other Miscellaneous Levies

- Miscellaneous levies slated for reduction include: Safe Schools Levy, Judgment levy and Ice Arena levy.

- Miscellaneous levies slated for elimination include: Staff Development levy and Community Education Grandfather levy.

Department of Children, Families and Learning (Department of Education)

- $8.3 million, approximately 15 percent, in reductions to the agency's base budget.

- $620,000 in additional general fund revenue through the increase of the teacher licensure fee from $47 to $57. The current fee does not generate sufficient revenue to pay for the costs of teacher licensure, so the general fund subsidizes licensure operations. The increase will allow the fee to cover the cost of licensure activities.

Minnesota State Academies for the Blind and Deaf

- $1.0 million, approximately 5 percent, in reductions to the agency's base budget.

Perpich Center for Arts Education

- $2.3 million, approximately 15 percent, in reductions to the agency's base budget.

Implications

There are four primary areas where fees may increase in Chapter 9: first, teacher license fees would increase by $10, from $47 to $57; second, approximately $1.8 million per year in new fees are assumed in the budget for Adult Basic Education services, with the elimination on a prohibition on fees for students over 21 years old; third, the reduction in ECFE funding is expected to generate increased fees for those programs on the local level, and; fourth, the reduction in the State appropriation for AP/IB may result in less State aid for exam fees, resulting in additional students being required to pay their own exam fees. Only the teacher license fee has a State General Fund impact.

As is shown in the Revenue per ADM table (where ADM is students in average daily membership, or headcount) on a per pupil basis, total general fund revenue received by districts will grow. Excluding operating referendum revenue, the column titled "Other Revenue" shows that statewide revenue will increase between FY 2003 and FY 2004 by $6 per pupil, or 0.1 percent, and between FY 2004 and

Revenue per ADM

Fiscal Year	Operating Referendum Revenue	Other Revenue	Total Revenue Per ADM
2002	644	6,501	7,144
2003	348	7,285	7,633
2004	508	7,291	7,799
2005	613	7,305	7,918

FY 2005, revenue per pupil excluding excess operating referendums will increase by $14 per pupil, or 0.2 percent. The revenues do not include non-general fund revenues, including the debt and community education funds. With the reductions in Community Education, School Readiness and Early Childhood Education funding, districts will see additional reductions starting in FY 2005, which are not included in this table.

During the 2002 Legislative session, there was a significant amount of discussion as to whether the conversion from the 90 percent current / 10 percent makeup payment schedule to 83 percent / 17 percent would cause financial problems in local districts. Districts use an accrual accounting method, in which they count as revenue for the current fiscal year any payments to which they are entitled, including state aid payments. As a result, moving additional state funding from one fiscal year to the next does not have an impact on the financial well-being of the district from the accounting perspective. However, to the extent that the district has to spend down its reserves or do short-term cash borrowing to meet its daily cash flow needs in anticipation of the revenue, the district will experience costs in terms of lost interest earned on reserves or interest paid on short-term cash loans.

For additional information on early childhood and K-12 education issues, contact Greg Crowe at 651-296-7165 or greg.crowe@house.leg.state.mn.us

Higher Education

The omnibus higher education finance act (Laws 2003, Chapter 133) authorizes total general fund spending for the fiscal year 2004-05 biennium of $2.560 billion. This is a reduction of $196.4 million (-7.1 percent) from FY 2002-03 appropriations after unallotment and $353 million (-12.1 percent) from the adjusted base. Table 1 below summarizes general fund appropriations in Chapter 133.

Higher Education Finance
Total General Fund Spending
(all dollars in thousands)

	Base FY 2004-05	FY 2004-05 Governor's Recs	FY 2004-05 Chapter 133 Enacted	FY 2006-07 Chapter 133 Tails
HESO	316,488	371,488	351,488	349,904
Mayo	3,274	2,782	2,782	2,782
MnSCU	1,297,575	1,093,575	1,108,575	1,095,388
U of M	1,295,871	1,084,611	1,097,351	1,099,774
Total	**2,913,208**	**2,552,456**	**2,560,196**	**2,547,848**
Percentage Change from Base:		**-12.4%**	**-12.1%**	

Higher Education Services Office (HESO)

For HESO, Chapter 133 includes biennial appropriations of $350 million. This is an increase of $37.1 million (11.8 percent) from FY 2002-03 appropriations after unallotment and $35 million (11.1 percent) from the adjusted base. Specific recommendations within these totals include:

State Grants:

Chapter 133 increases funding for the State Grant program by $39.4 million. This is $20 million less than the Governor's recommendation for State Grant spending. However, the $39 million increase, coupled with major changes in eligibility, meet HESO's projections for financial need in the program including both estimated tuition increases of 15% at the Minnesota State Colleges and Universities and slightly over 14% at the Twin Cities campus of the University of Minnesota (and slightly lower increases at the coordinate campuses), and projected enrollment increases during the biennium. The Governor's recommendation, while spending more money, did not address eligibility and was based on lower tuition and enrollment estimates. The Governor's plan anticipated transferring funds from the state child care and work study programs to cover projected deficits in the program and still would have required proration of grants to cover a remaining shortfall. Spending in Chapter 133 is balanced to meet need after changes in eligibility and does not allow for transfer of funds from childcare or work-study. The current statutory method of proration in the event of a grant shortfall remains in place. Chapter 133 also does not have any increases to the private tuition maximums or adjustments to the student share and the State Work Study and Child Care programs are funded at the Fiscal Year 2004-05 base level. Individual changes to State Grant program eligibility are:

- Elimination of the Summer Academic Scholarship program which provides on campus coursework for high school students. This is a reduction of $400,000 for the biennium.

- Elimination of the Advanced Placement Grant program. This is a reduction of $150,000 for the biennium.

- Length of eligibility is returned to 8 semesters or the equivalent. During the FY 2002-03 biennium it had been raised to 10 Semesters or the equivalent. This change reduces financial need in the program by $12.8 million for the biennium.

- Summer term Pell Grant backfills are eliminated. This provision stops the practice in the State Grant program of state funds covering the amount of a student's theoretical Pell Grant level in the summer if the student has already exhausted their Pell eligibility for the year. This change reduces need in the program by $11.7 million for the biennium.

- Students attending two-year programs will fall under the tuition cap for 2-year schools. Previously, HESO had allowed any student at a school that offered any 4-year programs to fall under the 4-year tuition cap regardless of the length of the program they were attending. This change reduces need in the program by $4.9 million for the biennium.

- Savings from changes in the federal PELL Grant program are recognized. Chapter 133 assumes savings to the State Grant program of $4 million during the FY 2004-05 biennium from an increase in the maximum Pell Grant award to $4,050 annually.

- Chapter 133 reduces the Living and Miscellaneous Expense (LME) portion of the financial aid formula by $200 to $5,205. This change reduces need in the program by $13.1 million for the biennium.

- The State Grant program is changed to conform with the Pell Grant program on assessment of family assets. Minnesota has allowed an exclusion of family assets that was $25,000 higher than the level used for Pell Grants. This change reduces need in the program by $2.8 million for the biennium.

- State Grants will return to using campus average tuition and fees. Chapter 133 eliminates the practice of recognizing the actual level of tuition and fees paid by each individual student in the program and returns to the prior practice of using a campus wide average of tuition and required fees. This change reduces need in the program by $15 million for the biennium.

- Application deadlines will be instituted starting in the FY 2004-05 biennium. Students will have to apply for aid by 2 weeks after the start of any term to be eligible. In addition, Chapter 133 specifies that aid may not be awarded retroactively. This change reduces need in the program by $2 million for the biennium.

Other programs:
Chapter 133 also makes reductions to the base budgets of every non-financial aid program run by HESO. These changes make total reductions of $4.5 million from adjusted base for these programs during the FY 2004-05 biennium. Individual changes to these programs include:

- Reducing MINITEX interlibrary loan system funding by $600,000 (6.4%) over the biennium.

- Reducing telecommunications funding under the Learning Network of Minnesota by $700,000 (6.4%) over the biennium.

- Reducing matching grants in the Minnesota College Savings Plan by $800,000 (28.2%) over the biennium.

- Reducing the agency administrative budget by $1.05 million for the biennium. Rider language in Chapter 133 requires the majority of this reduction to come from administrative spending at the agency and not from several small pass through grant programs under the general administrative budget.

- The cost of the Minnesota's tuition reciprocity agreements with other states is projected to go down by $1.3 million from the program's base for the biennium.

As mentioned previously, Chapter 133 does not enact the Governor's proposed statutory changes to Chapter 136A.121, Subd. 7 (proration of State Grants) to require the transfer of funds from the state Work Study and Child Care programs to the State Grant program prior to the general proration of State Grants if there are insufficient appropriations to make full awards. Existing Statutory language requiring proration of grants by placing a surcharge on family responsibility and an increase to the student responsibility is clarified by specifying that the dollar reductions achieved by each of these methods should be the same.

In addition, $30 million is transferred from the Student Educational Loan Fund (SELF) to the general fund in FY 2003. The SELF transfer provision in Chapter 133 would have required repayment of the $30 million to the SELF fund by the end of the FY 06-07 biennium. A subsequent Act, Laws 2003, 1SS, Ch. 3 negated the provision in Chapter 133 and simply transferred the $30 million from the SELF fund with no repayment provision. This was originally part of the Governor's FY2003 reduction package. Since this money is not in the general fund or general fund derived, the Governor was unable to make this transfer as part of the FY2003 unallotment. The transfer of these funds will require HESO to issue a new round of revenue bonds earlier than had been anticipated (sometime in calendar 2003 rather than in 2004) to continue expected growth in loan volume. HESO's bond advisors also predict that there will be increased interest impact to borrowers in future bond issues due to transfer of these funds.

Minnesota State Colleges and Universities

Chapter 133 appropriates a general fund total of $ 1.109 billion to the Minnesota State Colleges and Universities (MnSCU) for FY 2004-05 that is $15 million higher than the Governor's recommendation of $1.094 billion. This appropriation level represents a reduction of $85.3 million (-7.1%) from FY 2002-03 appropriations after unallotment and $189 million (-14.6%) from the adjusted base. Unlike the Governor's recommendation, Chapter 133 has no direct transfer of funds from MnSCU to the State Grant program. Chapter 133 also does not enact the Governor's proposed cap on tuition. Tuition increases during the biennium at MnSCU are anticipated to be 12.2% for State Colleges and 13.9% for State Universities in FY 2004 and 12.1% for State Colleges and 13.7% for State Universities in FY 2005.

University of Minnesota

Chapter 133 appropriates a general fund total of $1.097 billion for the University of Minnesota for FY 2004-05 that is $12.7 million higher than the Governor's recommendation. This appropriation level represents a reduction of $147.8 million (11.9%) from FY 2002-03 appropriations after unallotment and $198.5 million (15.3%) from the adjusted base. As with MnSCU, there is no direct transfer of funds from the University to State Grants in Chapter 133 and no restriction on tuition. Tuition and fee increases for undergraduates during the biennium are anticipated to be 14.7% at the Twin Cities campus; 14% at the Crookston campus; 12.9% at the Duluth campus; and 12.4% at the Morris campus for FY 2004 and 13% at the Twin Cities Campus and 12% at the coordinate campuses for FY 2005. Graduate tuition and fee changes for FY 2004 vary by college from 1% (Medical School) to 14% (Law School) and are estimated to be 12% in FY 2005.

Chapter 133 did not enact the Governor's proposed elimination of the Coleraine Minerals Research Grant. However, the education finance bill (Laws 2003, 1SS, Ch. 9) did repeal the transfer of funds from the Permanent University Fund Mineral Suspense Account to the general fund that funded the grant. This program transferred 20% of the money from the Mineral Suspense Account, derived from mining income from Permanent University Fund lands, to the general fund and then made a grant of the same amount from the general fund to the University's Coleraine Minerals Research Facility. With no source of funds in law, the grant will be zero. Funds previously transferred from the Mineral Suspense Account for the Coleraine Grant will now be distributed to the Permanent University Fund for scholarships and minerals research as specified in Minnesota Statutes Chapter 137. This creates a revenue loss to the general fund in FY 2004-05 of an estimated $2.26 million and results in a corresponding reduction in general fund appropriations to the University.

In addition to direct general fund appropriations for several biennia the University of Minnesota has received an annual appropriation of $2.5 million from the state's health care access fund for primary care physician training. Appropriations in Chapter 133 include an annual reduction of $380 thousand (15%) in this appropriation.

Several other bills enacted funding changes relevant to the University of Minnesota. The human services finance bill (Laws 2003, 1SS, Ch. 14) repealed the state's tobacco endowments that funded (in part) medical education at the University's Academic Health Center (See human services section). Payments to the University from these endowments were estimated to be approximately $45 million for the FY 2004-05 biennium. Funding for medical education at the University that was eliminated through repeal of tobacco endowments is replaced in the tax bill (Laws 2003, 1SS, Ch. 21) through dedication of 6.5 cents per pack of the state's cigarette tax. Funds from this provision are also estimated to be approximately $45 million for the FY 2004-05 biennium. In addition, 2.5 cents per pack of the cigarette tax is dedicated to clinical training costs for medical education (See human services section). Laws 2003, Ch. 128 appropriates $2 million to the Department of Employment and Economic Development for a biotechnology initiative between the University of Minnesota and the Mayo Foundation (See economic development section). Finally, the nuclear dry cask storage bill (Laws 2003, 1SS, Ch. 11) provides several pools of non-state revenue to the University. $10 million in one-time funds will go to the University from Xcel Energy under the Renewable Development Fund portion of the legislation and approximately $2 million per year will go to the University under the Conservation Improvement Program portion of the bill. These funds are to be used for renewable energy and energy conservation research and must be, in part, used at a rural campus.

Mayo Foundation

Chapter 133 followed the Governor's budget recommendation for FY 2004-05 appropriations of $2.782 million. This is a reduction of $425,000 (13.3%) from FY 2002-03 appropriations and $492,000 (15%) from the adjusted base. Since no funds were unalloted by the Governor from Mayo programs in FY 2003, dollar amounts and percent reductions do not change without unallotment. All three programs under the Mayo appropriation are reduced proportionately.

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

Environment and Natural Resources Finance

Chapter 128 appropriates funding for the environment and natural resource area of the state budget. Agencies funded include the Pollution Control Agency, the Department of Natural Resources, the Office of Environmental Assistance, the Board of Soil and Water Resources, the Minnesota Zoo, and the Science Museum of Minnesota. The chapter contains a total general fund appropriation of $341.5 million for FY 2004-05 for the environment and natural resource area. This is a decrease of $49.6 million from the base.

Environment & Natural Resources – General Fund Summary
(dollars in millions)

	Base FY 2004-05	Governor's Recs FY 2004-05	Enacted FY 2004-05	% Change Enacted vs. Base FY 2004-05
Pollution Control	32,770	29,638	29,430	-10%
Office of Environmental Assist.	36,862	29,570	23,520	-36%
Zoological Garden	14,570	13,114	13,114	-10%
Natural Resources Department	270,305	239,592	242,378	-10%
MN Conservation Corp	0	0	700	
Water and Soil Resources Bd.	34,084	30,223	30,863	-9%
Science Museum	2,470	618	1,500	-39%
Total	**391,061**	**342,755**	**341,505**	**-13%**

Pollution Control Agency (PCA)

The Chapter appropriates a total budget of $220.8 million, of which $29.4 million is general fund dollars. This is a general fund reduction of $3.3 million from the agency base. Changes in appropriations to the agency include the following:

- A reduction of $2.56 million from the base general fund appropriation for the Water Programs. Chapter 128 appropriates an equal amount of increased funding for this activity from the environmental fund.
- A reduction of $124,000 from the Mercury Reduction Program.
- Transfer to the general fund of $1,370,000 for reimbursement of the debt service on bonds sold for the Closed Landfill program.
- Transfer of $5 million per year from the solid waste fund balance to the General fund.
- Transfer of $9.9 million from the metro landfill contingency action trust account to the general fund.
- Elimination of the transfer of funds from the Motor Vehicle Title Transfer Fees to the environmental fund, sending $7.02 million to the general fund.

- Increased appropriation from the environmental fund of $5.1 million for phase 2 of the Stormwater Regulatory Program. This change includes an increase of fees to cover the amount of the appropriation.
- An appropriation from the environmental fund of $960,000 for increased activities of pollution prevention from individual septic treatment systems. This appropriation is paid for with a new fee on new systems.

In addition to these appropriation changes, the enacted chapter implements a reorganization of the funds in the PCA. This eliminates much of the dedication of resources to specific activities and creates increased amount in the undedicated portion of the environmental fund and the remediation fund.

Office of Environmental Assistance (OEA)

Chapter 128 appropriates a total budget of $52.0 million, of which $23.5 million is from the general fund. This is a reduction of $13.3 million from the general fund base. The specific reductions include:

- A reduction of $324,000 from the general fund grants and loans program.
- A reduction of $1.924 million from the agency operations budget.
- A general fund reduction of $11.1 million from the Score Grants program. This general fund reduction was offset by an increased appropriation of $10.9 million from the environment fund.

Minnesota Zoological Garden (MZG)

Chapter 128 appropriates a total budget of $35.587 million, of which $13.114 is from the general fund. This is a general fund decrease of $1.456 from the base amount forecast for the Zoo.

The Chapter also approves imposing a new fee on admissions of elementary school children attending the Zoo as a school group. Currently statute requires free admission to these students. This change would increase Zoo revenues by $215,000 per year.

The chapter contains an appropriation of $124,000 per year to the Zoo from the natural resources fund lottery in lieu dollars.

Department of Natural Resources

The Chapter appropriates a total Department of Natural Resources budget of $585.7 million, of which $242.4 million is general fund dollars. This is a General fund decrease of $27.9 million from the agency forecasted base. Some of the changes in the chapter to appropriations to the agency include the following items.

General fund changes:

- An increase of $370,000 to the Land and Minerals division for costs related to utility licenses to cross state lands. The proposal includes an increase in the current fee charged to recover the costs of the program.
- A reduction of $2.54 million to the Taconite Mining Grant program. This reduction will eliminate the program.
- A decrease of $1.84 million to the Water Resources division. The proposal includes an increase to the fees charged for water use that totals $1.5 million.
- An appropriation of $625,000 for flood mitigation activities in the DR-1419 (Roseau) disaster area.
- $108,000 appropriation for the Lewis and Clark Water system in SW Minnesota.
- A General fund reduction of $4.83 million to the Forestry Division.
- An $872,000 decrease to the White Pine restoration programs.
- A $6.5 million general fund reduction to the Parks division operations appropriation. This reduction is partially offset by an increase of $2.6 million from the natural resources fund. This is raised through an increase to the parks admission fees.
- The operations grant to the Metro Parks system is reduced by $600,000.
- Trails and Waterways Management programs are reduced by $1.3 million.
- Wildlife Management programs are reduced by $314,000.
- Ecological Services programs are reduced by $1.3 million.
- The Enforcement division general fund budget is increased by $500,000.
- Operations Support division budget is reduced by $5.5 million.

Other funds changes:

- An increase of $272,000 to fishing related activities. This increase is funded through an increase in the commercial fishing license fees.
- An increase of $250,000 for aquatic plant management activity. This proposal would be funded through an increase in the fees charged under the program.
- An increase of $1.468 million to Parks for operation of the state park system. This proposal includes an increase in the fees for camping at state parks.
- An increase of $1 million from the snowmobile account, for use on the state trails system.
- An increase of $2.798 million from the game and fish fund for fish management activity.
- An increase of $1.250 million from the game and fish fund for the Wildlife division.
- An increase of $358,000 from the natural resources fund for continuation of watercraft inspections in the Ecological Services division.
- Increases in appropriations for off road vehicle activities include $2.6 million for trail development, and $450,000 for grants to local governments.
- $700,000 was appropriated for continued development of the Mississippi River Whitewater Park.

Board of Soil and Water Resources (BWSR)
Chapter 128 appropriates a total BWSR budget of $31.1 million. Of that amount $30.9 million is from the general fund. This is a decrease of $3.2 million from the agency base forecast. Included in the appropriation are:

- A reduction of cost share funding for feedlots of $650,000 per year.
- A reduction of $1.6 million from the natural resources block grant program.
- A reduction to the Soil and Water Conservation District Services grant program of $471,000 per year.
- An increase of $128,000 in each year for the administration of the wetland banking program. This proposal includes a fee increase to offset the appropriation.
- An appropriation of $210,000 for the Area 2 MN River program.
- An appropriation of $200,000 for the Red River Basin management grant.

Science Museum of Minnesota
The enacted chapter contains an appropriation of $1.5 million from the general fund to the Science Museum.

Legislative Commission on Minnesota Resources (LCMR)
Chapter 128 provides for elimination of the future resources fund and instead directs $14.214 million to the general fund. This eliminates a dedication of the tax on tobacco products for environmental uses and directs the tax to the general fund permanently.

The chapter appropriates $32.675 million for programs recommended by the Legislative Commission on Minnesota Resources. Funding is primarily from the environment trust fund, which is revenue from the state lottery.

MN Conservation Corp
Chapter 128 appropriates $1.7 million to the Friends of the Minnesota Conservation Corp to continue the activities of the Corp. Previously the activities of the Corp were in the Department of Natural Resources.

For additional information on Environment & Natural Resources finance issues, contact Jim Reinholdz at 296-4281 or Jim.Reinholdz@house.mn

Agriculture and Rural Development Finance

The enacted omnibus bill, Chapter 128, recommends a total general fund appropriation of $90.828 million dollars for the agencies and programs under the jurisdiction of the Agriculture and Rural Development Finance Committee. This is a decrease of $31.738 million from the general fund base amount for these agencies.

Agriculture & Rural Development Finance: General Fund
(dollars in thousands)

	March 03 Forecast FY 2002-03	Base FY 2004-05	Gov's Rec's FY 2004-05	Enacted FY 2004-05	Percent Change Enacted vs. Base FY 2004-05
Agriculture Dept. (minus ethanol)	43,623	42,716	36,618	37,632	-12%
Agriculture-Ethanol	49,028	66,646	34,147	44,390	-33%
Animal Health Board	5,618	5,606	5,606	5,606	0%
AURI	6,322	7,434	2,434	3,200	-57%
Horticulture Board	148	164	0	0	-100%
Total	**104,739**	**122,566**	**78,805**	**90,828**	**-26%**

Minnesota Department of Agriculture (MDA)

Chapter 128 appropriates a total Department of Agriculture budget of $145.9 million dollars, of which $82.0 million is general fund dollars. Of this $82 million, $44.39 million is for the Ethanol Producer Payments program. This general fund appropriation is a 12% reduction to the MDA from the base, and a 33% reduction to the Producer Payments compared to the base. Changes in the general fund appropriation base to the MDA include:

- An increase of $1.39 million dollars for the food inspection programs. This proposal includes recommended fee increases to fund the increased appropriation.
- A decrease in the per gallon payment amount on the ethanol production payments to 13 cents a gallon.
- A reduction in grants issued by the MDA of $1.194 million.
- A decrease of $1.1 million dollars in the General fund appropriation for the nursery certification services and an increase of $1.7 million dollars in the appropriation from the agriculture fund for these purposes. The proposal includes a recommendation of a fee increase to offset the increased appropriation.
- Operating budget reductions throughout the MDA of $4.24 million dollars.

- An $100,000 dollar appropriation for the Agriculture and Food Science Academy.

Non general fund changes include:

- An increase from the agriculture fund of $317,000 for the seed inspection program. There is authorized an increase in fees to offset this appropriation increase.
- An increase in the appropriation for nursery and phytosanitary activities in the department of $954,000, and an increase in fees to fund the appropriation increase.

Animal Health Board

The enacted chapter appropriates a total Animal Health Board budget of $8.278 million, of which $5.606 million is general fund money. This general fund recommendation is an amount equal to the base level funding. Within that amount of funding is $800,000 from the general fund for efforts related to combating chronic wasting disease. A new fee that raises $61,000 per year was enacted on cervidae farms to monitor the disease.

Agriculture Utilization Research Institute

The enacted chapter appropriates a total AURI budget of $3.2 million dollars, all of which is general fund money. This is a reduction of 56% in the agency base general fund appropriation. The Governor also line item vetoed an appropriation of $200 thousand from the agricultural fund in each year. This funding was to be used for pesticide use reduction activity. The chapter does not implement the recommendation of the Governor that the functions of AURI be consolidated into the Minnesota Department of Agriculture.

Horticulture Board

Chapter 128 implemented the Governor's recommendation of a total elimination of state funding for the Horticulture Board. This is a reduction of $164,000 dollars from the agency base amount, all of which was general fund money.

For additional information on agriculture and rural development finance issues, contact Jim Reinholdz at 296-4281 or Jim.Reinholdz@house.mn

Jobs & Economic Development Finance

With the passage of Chapter 128 (Regular Session) and Chapter 1 (Special Session), the 2003 Legislature approved FY 2004-05 general fund appropriations totaling $335.258 million for 22 state departments, agencies, boards and councils under the budget jurisdiction of the House Jobs and Economic Development Finance Committee. The appropriated amount is $58.366 million below the FY 2004-05 base funding level, a 14.8 percent reduction.

Jobs & Economic Development Finance
Total General Fund Spending
(all dollars in thousands)

	Base FY 2004-05	FY 2004-05 Gov's Recs	FY 2004-05 Chpts 128 & 1 Enacted	FY 2006-07 Chpts 128 & 1 Tails
Dept. of Employment & Economic Development [1]	128,656	111,490	112,038	109,246
Trade & Economic Development Portion	[69,842]	[60,440]		
Economic Security Portion	[58,814]	[49,050]		
MN Technology	10,710	0	3000	0
Housing Finance Agency	79,068	69,470	70,270	71,540
Commerce	62,490	57,203	57,203	56,536
Bd. Of Accountancy	1,442	1,154	1,154	1,154
Architecture, Eng.et.al.	1,962	1,570	1,570	1,570
Barbers Board	318	254	254	254
Labor & Industry	6,318	5,054	5,744	4,988
Mediation Services	4,554	3,650	3,546	3,546
Public Utilities Commission	8,326	8,326	8,326	8,326
Historical Society	53,638	45,592	44,687	44,687
Council on Black Minnesotans	704	564	564	564
Chicano Latino Affairs	688	550	550	550
Asian- Pacific Minn	608	486	486	486
Indian Affairs	1,204	964	964	964
Region 3 - Occup Tax (IRRRA)	1,040	1,040	1,040	1,040
Arts Boards	25,232	15,186	17,186	17,186
Education	4,676	4,676	6,676	6,676
Humanities Commission	1,990	0	0	0
Board of Electricity (2)				
Iron Range Resources & Rehabilitation Agency (2)				
Workers Comp Court of Appeals (2)				
Total General Fund:	**393,624**	**327,229**	**335,258**	**329,313**
Percentage Change from Base:		**-16.9%**	**-14.8%**	

In addition to the general fund, the Legislature also directly appropriated $66.873 million in non-general fund appropriations. These appropriations are from the petroleum tank release cleanup fund, remediation fund, workers compensation special fund, workforce development fund and the special revenue fund.

Department of Employment & Economic Development (DEED)

Chapter 128 merges the Departments of Trade and Economic Development (DTED) and Economic Security (DES) effective June 30, 2003. In separate legislation, the Legislature named the merged departments the "Department of Employment & Economic Development".

The new Department of Employment and Economic Development will have a general fund appropriation of $109.49 million in the FY 2004-05 biennium. This level of funding is a reduction of $16.681 million from the combined biennium base budgets of DTED & DES. The percentage reduction is 13 percent. The Department's FY 2004-05 non-general fund direct appropriations total $19.020 million.

The Legislature's major funding decisions for the new Department, by programs and activities, are given in the table below. Also shown are the respective base and the Governor's recommended funding levels.

Department of Employment and Economic Development
FY 2004-05 Biennium General & Non-General Fund Appropriations
(dollars in thousands)

Program	Base	Governor	Legislature
Rural Policy Center	300	0	300
Mayo Clinic & U of M Bioscience Partnership	0	2,000	2,000
Minnesota Investment Fund	7,044	4,406	4,406
Contaminated Sites Cleanup Grants	5,610	2,962	2,962
Minnesota Investment Fund – Flood Relief	0	0	2,000
Contaminated Sites Cleanup – Flood Relief	0	0	750
Mortgage Credit Certificate Aid	500	500	0
Trade Development	4,588	4,374	4,374
Ag Trade Promotion (Ag. Dept.- from base)			127
Jobs Skills Partnership Program	16,880	16,070	13,570
Lifetrack Resources	0	0	200
Twin Cities Rise	0	0	500
Metro Ec. Dev. Assn.	0	0	200
Women Venture	0	0	300
Tourism	17,224	16,775	15,775
Minnesota Film Board Operations	658	0	350
Snowbate Jobs Program	900	0	0
Mississippi River Pkwy Comm. (from base)			50
MN Youth Program	10,780	8,226	8,308
Youthbuild	1,702	1,308	1,508
Youth Intervention	3,270	2,514	2,514
Learn to Earn	476	366	366

Department of Employment and Economic Development **FY 2004-05 Biennium General & Non-General Fund Appropriations** **(dollars in thousands)**			
Program	**Base**	**Governor**	**Legislature**
Displaced Homemakers Program	2,000	0	1,980
Occupational Industrialization Centers	1,500	1,500	1,700
Workplace Survey – UMD	0	0	20
Rehabilitation Services	15,042	15,042	15,042
Extended Employment	11,737	11,737	11,737
Mental Illness – Extended Employment	2,622	2,000	2,000
EE – Center for the Deaf	494	100	300
Independent Living Services	3,748	0	2,650
HIV Workplace Education	0	0	60
Services for the Blind	8,896	7,638	8,896
Administration	10,790	10,070	9,596

The Dislocated Worker Program will receive increased funding in the FY 2004-05 biennium from a temporary increase in the workforce development fund's special Assessment rate. The rate will increase from 0.07% to 0.1% in calendar years 2004 and 2005. The increase is expected to yield an additional $17.184 million for the Dislocated Worker Program in Fiscal Years 2004 and 2005. (Note: An additional 0.02% rate increase is possible at the discretion of the Commissioner of the Department of Employment and Economic Development).

The Legislature also changed the funding mechanism for two programs. The Minnesota Investment Fund is changed from solely a direct appropriation to a combination direct appropriation and revolving fund. The total dollars for the program -- $2.203 million per year -- will be the same as recommended by the Governor. The Displaced Homemakers Program will now be partially funded from a $10 increase in the marriage license fee.

The Legislature adopted the Governor's recommendation to eliminate the Health Care and Human Services Worker Training Program. The program's elimination saves $1,500,000 in TANF funds in FY 2004-05.

Several items were approved that will yield additional revenues for the state's general fund:

- $555,000 in FY 2004 and $510,000 in FY 2005 in new revenues is achieved by depositing the repayments to the Tourism Loan program in the general fund. The Legislature eliminated the Tourism Loan Program.
- $800,000 in one-time general fund revenues from the cancellation of the balance remaining in the Tourism Loan Program.
- $700,000 in one-time general fund revenues by canceling a prior-year Wastewater Infrastructure grants appropriation.
- $361,000 in one-time general fund revenues by canceling a prior-year Pathways Program appropriation, and,
- $1.1 million in general fund revenues by transferring a like amount from the Workforce Development Fund.

Minnesota Technology, Inc. (MTI)

The Legislature approved a one-time $3 million general fund appropriation for Minnesota Technology in FY 2004. The appropriation is intended to serve as seed money to assist MTI in transioning to a fully self-funded private nonprofit entity. Prior to this law change, MTI's base level general fund appropriation was $5.355 million each year.

Minnesota Housing Finance Agency

The Legislature approved $70.27 million in general fund appropriations for the FY 2004-05 biennium. This funding level is a decrease of $8.798 million from MHFA's appropriation base.

The table below shows MHFA's biennial appropriations by housing programs and activities as approved by the 2003 Legislature compared to the current base and the Governor's funding recommendations.

Minnesota Housing Finance Agency (dollars in thousands)			
Program	**Base**	**Gov's Rec.**	**Legislature**
Econ. Dev. & Housing Challenge Fund	23,608	19,444	19,244
Urban Indian Housing	368	360	360
Housing Trust Fund	9,090	8,610	8,610
Bridges	3,344	3,276	3,276
Family Homeless Prevention	7,130	7,130	7,430
Housing Rehabilitation Program	8,430	7,944	7,944
Home Ownership Assistance	1,770	0	0
Tribal Indian Housing	3,310	2,210	2,210
Affordable Rental Investment Fund	19,664	18,546	18,546
Homeownership Education etc.	1,686	1,540	1,540
Capacity Building Grants	668	610	610
Roseau Residential Buyout (onetime)			500

Department of Commerce

The Legislature appropriated $57.203 million from the general fund for the Department of Commerce for FY 2004-05. This is $5.287 million less than the current law base. The enacted funding reductions include:

- $1.124 million reduction for the Department's Financial Examinations Division,
- $726,000 reduction for the Administrative Services Division,
- $1.076 million reduction for the Market Assurance Division,
- $1.370 million reduction for the Weights and Measurements Division, and a
- $992,000 reduction for the Energy and Telecommunications Division. (This includes a $360,000 reduction in the Oil Burner Retrofit Program).

The Legislature approved increases in several fees within the Weights and Measurements division. The fee increases are estimated to generate additional revenues of $253,000 per year. These revenues are deposited in the general fund.

The Legislature also approved two one-time transfers to the general fund: $2.5 million from the building contractors recovery fund, and $500,000 from the liquefied petroleum gas account. An additional onetime $9 million in general fund revenues will be realized from the sale of previously unaccounted for unclaimed property.

In a separate action, the Legislature in the Transportation Finance bill approved a $527,000 per year appropriation from the petroleum tank release cleanup fund to the Department's Weights and Measurements division. The funds, which are appropriated for FY 2004 and FY 2005 only, will be used to continue gas station pump inspections which the Governor had recommended be privatized.

The Legislature also enacted significant items relating to the Department's Petroleum Tank Release Cleanup Program:

- The program sunset is extended to June 30, 2007. Under current law, the program was to sunset on June 30, 2005.
- Vapor recovery equipment for transport delivery vehicles will now be a reimbursable program expense during a 30-month window beginning July 1, 2003 and ending January 1, 2006.
- Commercial airlines that have regularly scheduled service and have their corporate headquarters in Minnesota are exempted from the Petrofund fee until July 1, 2005. The exemption is conditioned on the airlines developing a plan approved by the Commissioner of Commerce demonstrating the savings will go toward minimizing job losses and avoiding federal bankruptcy protection filings.

Board of Accountancy
The Legislature approved the Governor's recommendation that the Board of Accountancy receive general fund appropriations totaling $1.154 million in the FY 2004-05 biennium. This represents a $288,000 reduction from the Board's current law base funding. The percentage reduction is 20 percent.

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience and Interior Design
The Board's FY 2004-05 general fund appropriation is $1.57 million with the Legislature's approved budget. This compares to the Board's base appropriation of $1.962 million. The dollar reduction is $392,000 (20 percent).

Board of Barber Examiners
The Legislature approved a general fund appropriation totaling $254,000 in FY 2004-05. Similar to the other professional boards, the approved funding level is 20 percent below the Board's biennial base budget of $318,000. The dollar reduction is $64,000.

Bureau of Mediation Services
The Bureau will receive general fund appropriations totaling $3.546 million in FY 2004-05. The approved budget is a $1.008 million reduction from the current law base, and includes:

- $460,000 in biennial reductions in the Bureau's operating budget.
- $244,000 in savings from eliminating the Alternative Dispute Resolution program.

- $304,000 in reduced funding for the Labor-Management Cooperation Program. The program's new funding is $100,000 per year.

Department of Labor & Industry

The Legislature approved general fund budget for the Department is $5.744 million in FY 2004-05 biennium. This represents a $574,000 reduction from base. The reduction for the Department's ongoing operations is much larger, since the Legislature approved a temporary two-year program, funded at $345,000 per year, to reduce the backlog in boiler inspections. A temporary $5 surcharge on the boiler inspection license fee was approved to offset the cost.

The Legislature approved other initiatives in the non-general fund areas of the agency.

- $358,000 savings in workforce development funds is achieved by reducing direct funding for the Apprenticeship and Labor Education and Advancement programs.

- The Legislature approved a new $30 annual Apprentice Registration Fee that will partially fund the Apprenticeship program's approved $650,000 annual budget. The LEAP grants are reduced to from $204,000 to $100,000 per year.

- $408,000 in savings from reducing the Safety Grants by 24 percent. The grants are funded from the workers compensation fund.

Public Utilities Commission

The Legislature approved the current law base general fund funding of $8.326 million for the Commission in the FY 2004-05 biennium. The Commission recovers over 97 percent of its funding through fees and assessments levied on the utilities it regulates.

Historical Society

The Legislature's approved FY 2004-05 general fund appropriation for the Historical Society is $44.687 million, a 16.7 percent reduction from the current law base. The dollar amount of the reduction is $8.951million over the next two fiscal years. The table below depicts the reductions.

Minnesota Historical Society (dollars in thousands)			
Program	**Base**	**Governor**	**Legislature**
Education & Outreach	30,214	25,170	24,762
Preservation & Access	22,756	19,854	19,544
FarmAmerica	250	213	213
MN International Center	100	85	85
Project 120	220	0	0
MN Military Museum	79	67	67
MN Air National Guard	19	16	16

Council on Black Minnesotans
The Legislature approved a $564,000 general fund appropriation for the FY 2004-05 biennium. This is a $140,000 reduction, or 20 percent below the current law base.

Chicano Latino Affairs Council
The Council's general fund appropriation for the FY 2004-05 biennium is $550,000 under the Legislature's approved budget. This represents a 20 percent reduction from the current law base. The dollar reduction is $138,000.

Council on Asian-Pacific Minnesotans
The Legislature approved the Governor's recommendation that the Council's general fund appropriation for the FY 2004-05 biennium be $486,000. The approved budget is a 20 reduction from the current law base. The dollar reduction is $122,000.

Minnesota Indian Affairs Council
The Council's general fund appropriation for the FY 2004-05 biennium is $550,000. The dollar and percentage reductions from the current law base are $240,000 and 20 percent, respectively.

Arts Boards
The Board's approved general fund appropriation for the FY 2004-05 biennium is $17.186 million. This is an $8.046 million reduction from current law. The Legislature's reductions include:

- $806,000 reduction in the Board's operating expenditures,
- $4.862 million reduction in the Board's Grants Programs, and
- $1.944 million reduction in Regional Art Council grants.

Department of Education
Two programs within the Department are under the jurisdiction of the Jobs Finance Committee – Transitional Housing and Emergency Services Grants. The Legislature's enacted budget provides funds for Emergency Services Grants at their current law level of $700,000 for the 2004-05 biennium. Transitional Housing is funded at $5.976 million for the biennium, which is a $2 million increase over base funding.

Humanities Commission
The Legislature approved the Governor's recommendation to discontinue the Commission's general fund appropriation effective July 1, 2003. The action carries a biennial general fund savings of $1.99 million.

Workers' Compensation Court of Appeals
The Workers' Compensation Court of Appeals receives no general fund appropriation. The Legislature approved a direct appropriation of $3.236 million from the Workers compensation special fund for the Court in the FY 2004-05 biennium.

Board of Electricity

The Legislature approved a statutory appropriation of $22.09 million from the special revenue fund for the Board's operations in FY 2004-05. The Board of Electricity receives no general fund appropriation.

Iron Range Resources and Rehabilitation Agency

The Legislature approved statutory appropriations for the Agency in the FY 2004-05 biennium totaling $71.12 million. These appropriations are from the Iron Range Resources and Rehabilitation fund, the Giants Ridge Golf and Ski Resort fund, and the Northeast Minnesota Economic Protection fund.

The Legislature also approved the current law general fund open appropriation for the Region 3 – Occupation Tax. This open appropriation is forecasted to be $1.04 million in the FY 2004-05 biennium.

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

Judiciary Policy and Finance

With the passage of Chapter 2 (Laws 2003, Special Session), the 2003 Legislature approved FY 2004-05 general fund appropriations totaling $1.433 billion for state departments, agencies, boards and the judiciary under the budget jurisdiction of the Judiciary Finance Committee. The appropriated amount is $92 million below the FY 2004-05 base funding level, a six percent reduction. The criminal justice budget makes up 5.1 percent of the general fund budget for FY 2004-05. The following appropriations relate to the general fund unless otherwise noted.

Crime Prevention Committee: General Fund Summary
(dollars in thousands)

	Base FY 04-05	Gov's Recs FY 2004-05	FY 2004-05 SS Chapter 2 Enacted	FY 2006-07 Chapter 2 Tails
Supreme Court	77,248	69,523	74,890	72,168
Court of Appeals	16,279	14,651	15,837	15,878
Trial Courts	383,859	345,473	371,920	438,594
Tax Court	1,502	1,452	1,452	1,452
Uniform Laws Commission	90	77	77	78
Judicial Standards Board	504	504	504	504
Public Defense Board	107,182	91,105	99,845	92,164
Public Safety Department	153,872	136,319	138,486	141,590
Private Detective Board	296	252	252	252
Human Rights Department	7,882	7,130	7,010	6,980
Corrections Department	774,910	719,233	721,404	735,258
Ombudsman for Corrections	336	0	0	0
Sentencing Guidelines	1,026	872	872	872
Crime Victim Ombudsman	0		0	0
Sub-Total	**1,524,986**	**1,386,591**	**1,432,549**	**1,505,790**
Other Appropriations				
Department of Human Services			386	1,864
Carry-Forward - DPS			33	
Carry-Forward - DOC			45	
Personal Protection Act			1,190	238
Totals	**1,524,986**	**1,386,591**	**1,434,203**	**1,507,892**
Percent Change from Base		**-9.075%**	**-6.061%**	

Supreme Court
The Legislature approved a biennial appropriation of $74.89 million, a decrease of $2.358 million from the FY 2004-05 base.

Court of Appeals
The Legislature approved a biennial appropriation of $15.837 million, a decrease of $442,000 from the FY 2004-05 base.

District Courts
The Legislature approved a biennial appropriation of $371.92 million, a decrease of $11.939 million from the FY 2004-05 base.

Tax Court
The Legislature approved a biennial appropriation of $1.452 million, a decrease of $50,000 from the FY 2004-05 base.

Board of Judicial Standards
The Legislature approved a biennial appropriation of $504,000. There is no reduction for this agency, and the Legislature also approved a $35,000 deficiency request for FY 2003 to pay for anticipated hearing costs.

Public Safety
The Judiciary Finance Policy and Finance Committee is responsible for seven programs (other programs in the agency are the responsibility of the Transportation Finance Committee). The Legislature approved a biennial appropriation of $138.486 million for the Public Safety programs in the Judiciary Finance area, a decrease of 15.386 million from the FY 2004-05 base. The changes include the following:

Emergency Management
$2.346 million reduction in funding for state match for federally funded disaster assistance. This leaves $400,000 in the account for the biennium.

Bureau of Criminal Apprehension (BCA)
- $300,000 reduction in criminal justice information systems.
- $590,000 reduction in police training and development activities (compensation and operating expenses).
- $980,000 reduction in criminal justice information systems for interagency agreements.
- $300,000 in one time spending to continue the collection of DNA samples from all convicted felons.
- $1.612 million to establish a criminal history data internet website. This will be fee supported.

There is also a reallocation of funds within the BCA due to their rent increase for the new building and a criminal justice data network fee increase.

Fire Marshal
$1.5 million reduction in funding. This will partly be made up through fees increases.

Gambling & Alcohol Enforcement
$316,000 reduction in funding.

Crime Victims Services
- $3.784 million reduction in funding for per diem grant funding for battered women shelters. This leaves the funding level at $30.974 million for the biennium.

- $5.492 million reduction in crime victim assistance program grants. This leaves the funding level at $10.4 million for the biennium.

- The abused children's program funding was transferred ($1.89 million for the biennium) from the Education Department to the Department of Public Safety and the funding was continued.

Law Enforcement & Community Grants
- $3.076 million reduction for the gang strike force. This leaves the funding level at $362,000 for the biennium.

- $1.192 million reduction for prevention grants. This is a twenty-eight percent reduction in funding.

- $83,000 is transferred from prevention grants to the Transportation Committee for the peace officer death benefit account.

- $4.34 million is transferred from the criminal justice project account in the special revenue fund to the general fund.

Private Detectives Board
The Legislature approved a biennial appropriation of $252,000, a decrease of $44,000 from the FY 2004-05 base.

POST Board
The Legislature approved a biennial appropriation of $7.886 million, a decrease of $1.38 million from the FY 2004-05 base. This is a reduction in the appropriation from the special revenue fund, that amount is then transferred to the general fund.

Public Defense Board
The Legislature approved a biennial appropriation of $99.845 million, a decrease of $7.337 million from the FY 2004-05 base. It is anticipated that the reduction will be made up due to an increase in co-payments.

Department of Corrections
The Legislature approved a biennial appropriation of $721.4 million, a decrease of $53.5 million from the FY 2004-05 base. The reductions by program include the following:

$17.062 reduction in operating expenses. This reduction is spread throughout the department.

$9.974 million reduction due to savings for double-bunking a portion of the beds at both St. Cloud and Stillwater.

$20.598 million reduction by eliminating certain grants and reducing various pass-through funds.

$8.789 million reduction for moving short-term offenders with less than six months left on their sentence to local facilities. There is appropriation of $2.414 million to counties to house these short-term offenders.

Mille Lacs County probation services for juvenile and misdemeanor offenders will be transferred to the state, but costs reimbursed by the county There is also one person transferred to the state from Beltrami County. Both of these are budget neutral.

$340,000 reduction due to savings in serving two meals a day instead of three on weekends and holidays.

$449,000 reduction due to savings for treatment alternatives for offenders with mental illness.

Ombudsman for Corrections
The Legislature approved the elimination of this office. The projected savings is $336,000 for the biennium.

Sentencing Guidelines
The Legislature approved a biennial appropriation of $872,000, a decrease of $154,000 from the FY 2004-05 base.

Human Rights Department
The Legislature approved a biennial appropriation of $7.01 million, a decrease of $872,000 from the FY 2004-05 base. This reduction will result in a loss of $200,000 in federal reimbursements that are transferred to the general fund.

Uniform Laws Commission
The Legislature approved a biennial appropriation of $77,000, a decrease of $13,000 from the FY 2004-05 base.

Implications:
The overall general fund reduction in the criminal justice area is over $92 million from the technical base. The reductions range from zero percent to 100 percent with the elimination of the Ombudsman for Corrections. The Legislature did increase many fees, fines, and surcharges in the criminal justice area. The following table is a summary of the increase in fees and fines.

Criminal Justice – Fee/Surcharge Increase			
Fee/Surcharge	**Current Fee/Surcharge- New Fee Surcharge**	**FY04-05 ($ in thousands)**	**Fund**
Surcharge Increase on Fines	$35 to $60	33,156	General
Surcharge Increase on Parking Fines	New $3	4,159	General
Public Defense Co-pay and Revenue Recapture	Increase is from $50 to $200 depending on the type of case	10,421	Special Revenue
Court Administration Fees (see below)		15,238	General
Subpoenas	$3 to $12		General
Judgment Transcripts	$7.50 to $30		General
Deposit of Wills	$5 to $20		General
Executions	$10 to $40		General
Trust Reports	$10 to $40		General
Record Notorial Fees	$20/$5 to $80/$20		General
Civil Filing Fee	$135 to $235	22,264	General
Conciliation Court	$25/35 to $50	1,469	General
Appellate Filing Fee	$250 to $500	726	General
Motion Fee	New - $25	3,603	General
Tax Court Small Claims Fee	$25 to $150	15	General
Fire Marshall- Exam Fee	For journeyman sprinkler fitter and fire protection contractor managing employee exams. The fee is $55	24	Special Revenue
Fire Marshall-Inspection of Schools	New - Based on square footage.	1,144	Special Revenue
Fire Marshall-Inspection of Hotels, Motels	New fee $435 plus room charge – every 3 years (some exceptions for year 1)	1,040	Special Revenue
Fire Marshall-Potable water piping system installer certificate	New - contractor license-$250, certification for those that install $75 and an exam fee of $55.	51	General
BCA – Criminal Justice Data Network Fee	FBI check goes from $26 to $31, new $10 fee for taking fingerprints for employment or licensing, new fees for internet and dial-up connections to criminal justice information system	158 316	General Special Revenue
BCA Criminal History Charge – for use of web-site	New – estimated at $1.55	1,663	General
Indoor Fireworks Inspection Fee	New - $150	8	General
Retail Buyer Card Liquor Licensing Fee	$20 to $35	186	General
Human Rights Certificate of Compliance Fee	New $75	120	SR

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

State Government

The State Government Omnibus Act (2003 Laws of Minnesota, 1st Special Session Chapter 1) authorized net general fund spending of $416.96 million, a decrease of 7.9 percent from the forecasted base for FY 2004-05 biennium. Direct and open general fund appropriations totaled $550.9 million. These appropriations were offset by $116.4 million in new general fund revenues, and a $17.6 million general reduction to state agency operating budgets.

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

Agency / Program	FY 2004-05 Base	FY 2004-05 Gov's Recs	FY 2004-05 SS Chapter 1 Enacted	FY 2006-07 SS Chapter 1 Tails
Legislature	128,785	109,467	116,429	116,400
Governor's Office	8,436	7,172	7,172	7,172
State Auditor	19,544	16,612	16,612	16,612
Attorney General	53,328	45,118	45,118	45,118
Secretary of State	14,052	11,944	11,944	11,890
Campaign Finance Bd	1,364	1,424	1,424	1,424
Investment Board	4,816	4,334	4,334	4,334
MN Planning	8,856	6,528	6,628	6,528
Dept. of Administration	41,968	39,062	38,718	38,038
Public Broadcasting	6,394	4,482	3,806	3,806
CAAP Board	654	0	524	524
Dept. of Finance	35,802	30,432	30,432	30,432
Dept. of Employee Relations	14,402	12,236	12,376	12,376
Dept. of Revenue	181,366	175,432	182,870	187,108
Dept. of Military Affairs	25,933	25,047	25,047	24,558
Dept. of Veterans Affairs	9,044	8,122	8,326	7,976
Veterans Service Orgs.	176	0	176	176
Gambling Control Board	4,852	202	202	0
Racing Commission	834	104	104	0
MN Amateur Sports Cmsn.	1,234	1,050	1,050	1,050
Contingent Accounts / Tort Claims	322	5,322	1,322	322
MN State Retirement	10,895	5,245	5,245	5,894
1st Class City Pension Aids	50,798	50,798	50,798	50,798
Misc. Open General Fund	(25,735)	(19,735)	(19,735)	(21,004)
Total Expenditures:	**598,120**	**539,112**	**550,922**	**551,532**
Percentage Change from Base		**-9.9%**	**-7.9%**	
New Revenues:		54,218	116,378	103,313
General Reductions			(17,581)	
Net Recommended Spending:	**598,120**	**484,894**	**416,963**	**448,219**

Constitutional Offices

The four constitutional offices each received a 15 percent funding reduction from their base operating budgets.

Attorney General's Office (AGO)

The Attorney General's Office (AGO) received a $45.1 million general fund appropriation, a decrease of $8.2 million from the projected FY 2004-05 base. Changes include:

- $8 million in a general operating reduction
- $210,000 shift in funding from the AGO's general fund appropriation to new fee-based payments from two agencies (Gambling Control Board and the Racing Commission) that will be transitioned to fee-based operations.

Governor's Office

The Governor received $7.1 million for the biennium to fund his own office, a decrease of $1.3 million from the FY 2004-05 base level funding. To achieve this lower funding level, the Governor is considering several reductions, including:

- Resigning membership in the National Governor's Association, a savings of $240,000 in membership dues
- Reducing staff in the Washington, DC office.

Secretary of State

The Secretary of State received $11.9 million for the biennium, a decrease of $2.1 million from the FY 2004-05 base. The Secretary's request to revise her office's fee structure and establish a special revenue revolving account for a portion of the office's operations was not approved.

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

State Auditor

The State Auditor received $16.6 million, a decrease of $2.9 million from the FY 2004-05 base.

Legislature

The Legislature appropriated a total of $116.4 million for its own operations, a 9.6 percent reduction from base.

	FY 2004-05 Appropriation	Percent Reduction from Base
House	$ 51,986,000	8.5 %
Senate	$ 36,638,000	9.0 %
Legislative Coordinating Commission	$ 25,056,000	15 %
Legislative Television – transfer in	$ 720,000	0 %
Total General Fund:	**$116,400,000**	**9.6 %**

The Legislative Coordinating Commission had the largest reduction in funding, with a 15 percent overall cut from base. The Geographic Information Systems (GIS) office, which provided technical support for the 2000 redistricting efforts, was eliminated for a savings of $618,000. The remaining reduction was allocated across the LCC offices, which include the Legislative Auditor, the Revisor of Statutes, the Legislative Reference Library, and various other smaller commissions.

Funding for television transmission of legislative activities was transferred from the Department of Administration to the Legislative Coordinating Commission. This activity was funded at its base level of $720,000.

State Agencies

Department of Administration

Chapter 1 appropriated $38.5 million for the Department of Administration's general fund operations. This represents an 8.2 percent decrease from base. However, if the $15.8 million appropriation for in-lieu-of-rent is not included (this program was not impacted by the budget reductions), the department's overall operating budget reduction is 13.1 percent.

Operations Management

The Legislature appropriated $5.3 million, a reduction of $666,000, or 11.1 percent, from base.

Chapter 1 also included language to allow the department to close the PrintComm, the state's central duplicating and print shop. PrintComm, which operated as an enterprise fund, was first closed in 2002 because it was operating at a loss. However, a court order forced the department to reopen PrintComm when the employee unions argued that state law required the department to operate a central printing and duplicating service.

Office of Technology (OT)

The Office of Technology received $4.96 million, a reduction of $1 million, or 16.9 percent, from base. Chapter 1 also repealed the Technology Enterprise Fund, which was created by the 2001 Legislature.

Intertechnologies Group (InterTech)
All remaining general fund appropriations for the communications center (state operators) were eliminated, for a savings of $764,000. Funding for this activity had been cut substantially in the 2002 session.

Intertech's remaining computer services and telecommunications management services are funded through state agency reimbursements for services. Estimated revenues for Intertech's internal service fund for FY 2004-05 are $170 million. Administration is reducing Intertech's rates charged to agencies by 5 percent.

Facilities Management
This program received total funding of $22.6 million, a decrease of $360,000 from base. Specific funding levels include:
- $1.27 million for Real Estate Management. This funding level includes an $86,000 operating budget reduction, and a $500,000 one-time *increase* for state agency relocation costs.
- $1.7 million for Plant Management, a decrease of $276,000 from base.
- $15.8 million for the In-Lieu-of-Rent activity, which funds space costs for the Legislature, Governor's residence, ceremonial spaces in the Capitol, as well as the Capitol mall.
- $3.8 million for Building Construction, a decrease of $498,000 from the FY 2004-05 base.

In addition to these General Fund activities, the Building Codes and Standards activity is funded through an account in the special revenue fund. The estimated budget for this activity is $13.5 million for the biennium.

Plant Management operates an internal service fund to provide facility services to state agencies located in buildings under Administration's custodial control. Estimated FY 2004-05 revenues for this internal service fund are $88.5 million. Administration is reducing Plant Management's rates charged to agencies by 7 percent.

Chapter 1 also transferred $10.7 million to the general fund from the Facilities Repair and Replacement (FR&R) special revenue account. The FR&R account was established in 1997 as a method to fund asset preservation projects in the Capitol Complex. The account is funded through a portion of lease payments from state agencies. The transfers in Chapter 1 amount to approximately 80 percent of the FR&R account's projected FY 2004-05 receipts. $6.6 million of this amount is a permanent diversion of funds back to the general fund; the remaining $4.1 million is a one-time transfer. With the reduced amount of $2.5 million remaining in the account, the department will need to delay some asset preservation projects, and may need to seek additional funding in its capital budget request.

Management Services
$5.66 million was appropriated for this program, which includes the administrative, fiscal and human resources functions of the department. Also funded under this program are:
- The Office of the State Archaeologist, funded at $392,000.
- Information Policy Analysis office, which is responsible for data practices advisory opinions, funded at $850,000

- The Management Analysis Division (MAD), state government's internal management consulting group. MAD operates primarily on fees paid by agencies for its services. However, MAD does receive a $734,000 general fund appropriation to cover legislatively mandated activities and statewide activities, including transition planning.

911 Emergency Telecommunications System
Responsibility for the 911 emergency telecommunications program is transferred from the Department of Administration to the Department of Public Safety. The maximum level for the 911 fee is also increased seven cents (from 33 cents to 40 cents). Beginning in FY 2005, this additional seven cents is dedicated for debt service on bonds to finance expansion of the public safety radio system to Rochester and Saint Cloud.

Total funding for the 911 program is $47.5 million for the biennium, from the state government special revenue fund. This amount includes $15.5 million in funding for the public safety answering points (PSAPs), and $150,000 for a study of the feasibility of consolidating PSAPs.

Office of Administrative Hearings (OAH)

This agency is supported by the Workers' Compensation Special Fund and revolving fund revenues. The legislature appropriated $14.4 million for the biennium from the Workers Compensation Fund for the Worker's Compensation division of OAH. This is a 10 percent reduction in funding for the division, which adjudicates claim petitions for worker's compensation benefits. The cut will be achieved through the reduction of compensation judge positions, administrative budget cuts, and the closure of the Detroit Lakes office (as authorized in Chapter 1).

The Administrative Law division conducts hearing on state and local government rulemaking. The Legislature approved the Governor's recommendation to decrease by 10 percent OAH's fees charged to agencies and local governments for rule hearings and contested case proceedings.

Amateur Sports Commission (MASC)

The MASC received a total of $1.1 million for its operations, a decrease of $184,000 from forecast base. $450,000 of the appropriation is only available if offsetting fee revenues are generated by the MASC. The MASC was directed to develop a fee structure that would allow it to recover a portion of its operating costs. Revenues from the new fees will be deposited in the General Fund as non-dedicated receipts to offset the $450,000, or 43 percent, of the MASC's direct appropriation.

These fees could be charged to the non-profit organizations affiliated with the MASC. The National Sports Center Foundation, which runs the National Sports Center in Blaine, is the most likely source of revenue. The Sports Center is the home to many large amateur sporting events, including the USA Cup soccer tournament, and the foundation itself has shown an operating profit for the last 10 years.

Capitol Area Architectural Planning Board (CAAPB)

The CAAP Board received $502,000 for the biennium, a reduction of 20 percent. The Board will remain an independent entity; the Governor's recommendation to transfer the Board's operations to the Department of Administration was not approved.

Campaign Finance and Public Disclosure Board

The Campaign Finance board received an operating budget of $1.4 million, an increase of $60,000, or 4.4 percent, over the forecast FY 2004-05 base. This small increase is intended to cover the Board's costs for administering a new schedule of registration fees for lobbyists.

The legislature approved a modified version of the Governor's recommendation that the Board develop a new fee structure to recover the costs of its operating budget. The fees will be deposited in the general fund as non-dedicated receipts, so the Board's operations are not directly dependent on the new fees. The new fees will be charged to lobbyists and principals only[1], and the fees will sunset at the end of FY 2003. To replace the sunset fees, the Board is also directed to consult with lobbyists, principal campaign committees, political committees and political party units to develop an "equitable schedule of fees" to recover the costs of regulating these entities, and must report back to the 2004 legislature with its recommendations.

The enacted budget also includes $3.8 million in an open general fund appropriation for the Campaign Financing public subsidy program authorized in MS 10A. Although both the Governor and the House bills had included substantial funding reductions to this program, the final legislation made no changes to the structure or funding of this program.

Contingent Accounts

The Legislature restored some funding for the General Fund portion of the contingent accounts with an appropriation of $1 million. The base for this program was zero, because the 2002 Legislature eliminated funding for this account as part of its budget-balancing efforts.

The contingent accounts are appropriations made to provide supplemental funding to state agencies for emergencies or for unexpected deficiencies. The Governor may approve expenditures from the accounts only after consulting with the Legislative Advisory Commission (LAC). However, the Governor can release funds even if the LAC recommends against the expenditure.

In addition to the General Fund increase, the legislature also appropriated contingency funds from two other funds: $800,000 from the State Government Special Revenue Fund, and $200,000 from the Workers Compensation Special Fund.

Department of Employee Relations (DOER)

DOER received a general fund appropriation of $12.4 million, a decrease of $2 million, or 14.1 percent, from the forecasted base. DOER plans to achieve these most of this cut through professional and support staff reductions (projected at 15.5 FTE). Other reductions include the elimination of the Government Training Services grant ($50,000), and state funding for the Combined Charities campaign ($44,000).

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[1] Chapter 1 also amended the definition of "lobbyist" to mean an individual engaged for pay or other consideration of more than $3,000 from all sources for the purpose of attempting to influence legislative or administrative action. The new definition excludes certain individuals who volunteer personal time to work on a lobbying campaign, and individuals who provide administrative support to a lobbyist but who do not communicate with public or local officials.

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

The contingency reserve is used to pay medical claims in excess of premiums. These transfers leave the trust fund with less than two months total anticipated claims. The reserve does not have a statutory required balance. However, if DOER has insufficient funds to pay claims, it may need to request additional funds, or pass the shortfall on to agencies.

Department of Finance

The Department of Finance received a general fund operating budget of $30.4 million, a reduction of $5.4 million, or 15 percent, from base.

The department is also reducing rates charged to agencies for the use and support of the Statewide Administrative Systems, the state's accounting and payroll systems. These rates will be reduced by 8.8 percent for the biennium.

State Board of Investment (SBI)

The SBI received $4.8 million for the biennium, a decrease of $482,000 from base. Because 90 percent of the SBI's operating budget is recovered through administrative fees charged against the funds, this reduction is accompanied by a loss of revenue, bringing the net reduction to $48,000.

Lawful Gambling Control Board

The Legislature approved the Governor's recommendation to transition the Lawful Gambling Control Board from a general fund activity to a fully-fee supported operation. However, the Legislature modified the Governor's original fee proposal, which included an .18 percent fee on the gross receipts of charitable gambling operations. The modified fee schedule raises the license fees for manufacturers, distributors and bingo halls, establishes new fees for distributor salespersons and organizations, and creates a monthly regulatory fee of .1% (.001) of gross receipts.

$202,000 was appropriated to the Board from the general fund to provide cash-flow for the Board's transition to fee-supporting. These funds must be repaid to the general fund by the end of the biennium.

Minnesota State Lottery

The Lottery is usually considered "off-budget" because it is funded through lottery proceeds, and does not receive an appropriation for its operating budget. Instead, state statute limits the overall operating budget of the Lottery to no more than 15 percent of gross revenues.

Chapter 1, however, restricts the Lottery's FY 2004-05 operational budget to a specific funding level - $48.7 million per year. This provision, which originated in the Senate, puts the dollar cap in session law. This cap is expected to provide additional biennial revenues of $2.76 million for the general fund, and $1.75 million for the environment and natural resources fund. These savings were calculated by comparing the $48.7 million annual limit against the Lottery's own projected administrative budget.

Chapter 1 also changed the distribution of the unclaimed prize funds. Under previous law, 30 percent of unclaimed prize funds were returned to the prize pool, and the remaining funds were distributed 60 percent to the general fund, and 40 percent to the environment & natural resources fund. Chapter 1 changes this distribution so that 100 percent of all unclaimed prizes at the end of a fiscal year are transferred to the general fund, for a gain of $9.2 million for the biennium. The environmental & natural resources fund loses $4.4 million in revenue as a result of this change.

Minnesota Racing Commission
The Racing Commission is also transitioned to a fully-fee supported operation. The Commission will no longer receive a general fund appropriation; instead, the Commission is directed to impose fees on the racing and card-playing industries sufficient to recover the costs of the Commission's operations. Most of these new fees are set by rule (MN Rules, Chapter 7877.0120). Chapter 1 also raised the fees for all classes of racing licenses.

$104,000 was appropriated to the Racing Commission from the general fund to provide cash-flow for the Commission's transition to fee-supporting. These funds must be repaid to the general fund by the end of the biennium.

The Department of Military Affairs (DMA)
DMA's appropriation is $24.5 million for the biennium, a decrease of $386,000, or 1.5 percent, from base. Funding for enlistment incentives was provided at the base level of $9.7 million, although $500,000 in carry-forward funds from previous year's appropriations was cancelled.

Public Broadcasting
Total state funding provided for public broadcasting is $3.8 million, an overall reduction of 31.4 percent from base.

Public Radio: The legislature approved $1.02 million in grant funds for the Association of Minnesota Public Educational Radio Stations (AMPERS) and Minnesota Public Radio (MPR). Specific funding levels are:
- $626,000 in AMPERS community service grants, a 20 percent reduction from base.
- $390,000 for MPR equipment grants, a 50 percent reduction from base.

Public Television: $400,000 for equipment grants, and $2.35 million for matching grants, for a total of $2.75 million. This represents a 30 percent reduction from the base for this program.

Legislative Television: Funding was transferred from the Department of Administration to the Legislature's own budget.

Public-Local Employees Retirement
Three public retirement programs under the State Government Finance committee's jurisdiction received either direct or open General Fund appropriations. The funds include:
- MN State Retirement System - $5.2 million for benefits paid to former legislators and elected officials (those on the pre-1997 plan). The legislature adopted the Governor's recommendation to move the Legislator's retirement plan to an annually funded program,

funding only each year's expected benefit amount, instead of the full lifetime benefit. This change reduced the amount of the annual appropriation, saving $5.65 million over the biennium, but will stretch the time that the state needs to continue funding this specific program. Because the funding source is an open appropriation, MSRS would always be able to access the funds needed to pay all benefits. This change will **not** impact any benefits owed to these legislators.

- First Class City Teachers State Aid - a $37.5 million open appropriation to reduce the unfunded liabilities of the Minneapolis and St. Paul teacher's retirement funds.
- The Minneapolis Employees Retirement Fund (MERF) - $13.3 million to reduce the plan's unfunded liability.

Department of Revenue

The Department of Revenue received a $182.9 million general fund appropriation, an increase of $1.5 million, or .8 percent over base. Funding for the Department increased slightly because of funding for compliance initiatives designed to identify new general fund revenues. However, the department's non-compliance related activities were cut by $11.3 million, or 6.2 percent.

Chapter 1 appropriates a total of $12.8 million for a new compliance initiative to identify and collect taxes from both individuals and corporations that currently do not pay all taxes owed. The department estimates that focusing additional staff resources on this activity will bring in new general fund revenues of $59.8 million in FY 2004-05, for a net general fund gain of $47 million.

This compliance initiative is in addition to the $15.3 million funding that the department received in the 2001 and 2002 sessions. Those two initiatives are on target to bring in new general fund revenues of $59.6 million in FY 2002-03, and $37 million in FY 2004-05.

In addition to its general fund appropriation, the Department also received $3.3 million from the health care access fund, $4.2 million from the highway user tax distribution fund, and $666,000 from the environmental fund.

Office of Strategic and Long Range Planning (Minnesota Planning)

Minnesota Planning is funded at $6.6 million, a reduction of $2.2 million, or 25.2 percent, from base funding. The office has already implemented several budget reductions in response to the 2002 session budget cuts and the Governor's unallotment in February 2003. These reductions included reducing staffing by 19.5 positions, primarily support and administrative positions, including the legislative relations, communications, and assistant director positions.

In addition to these reductions, $100,000 in one-time funding was provided for a grant to the Northern Counties Land Use Board.

Chapter 1 appropriates funds directly to the Office of Strategic Planning. However, the Governor, through his executive authority, has transferred the office and its functions to the Department of Administration.

Tort Claims

The legislature appropriated $550,000 from the general fund for tort claim judgments against state agencies that cannot be paid from the agencies' appropriated funds.

Department of Veterans Affairs

Veteran's Affairs received $8.3 million for the biennium, a decrease of $522,000, or 5.9 percent, from base. Details include:

- Elimination of $30,000 in state funding provided for Minnesota StandDown, an event designed to help homeless veterans.
- ($285,000) in total reductions for the County Veterans Service Office grant program, a 60 percent reduction for the program. The dollar amount of each grant will be reduced by 30 percent, and the frequency of the grants reduced from every 2 years to every 3 years.
- $350,000 was appropriated to the Vinland National Center contract for rehabilitation service, a 36 percent reduction from base. However, this funding is specifically designated as one-time, so no funding remains in the base for FY 2006-07.
- $186,000 in remaining carry-over funds from the Persian Gulf bonus program was cancelled.

Veterans Service Organizations

The Legislature maintained the existing funding arrangement for these small service organizations, with direct appropriations totaling $112,000, which is base level funding. The Legislature did not approve the Governor's recommendation to transferring the service organizations to the Department of Veterans Affairs, with a corresponding reduction of 15 percent in funding.

- **Disabled American Veterans (DAV)** -$26,000 for the biennium.
- **Military Order of the Purple Heart** - $40,000 for the biennium.
- **Veterans of Foreign Wars (VFW) Claims and Service Office** - $82,000 for the biennium.

Provisions Affecting All State Agencies

General Reduction to State Agency Operating Budgets

FSS Chapter 1 also includes $17.581 million in an across-the-board reduction to state agency operating budgets. This reduction applies to all state agencies and constitutional officers, including agencies funded in other omnibus finance acts[2]. Reductions must be made to operating budgets only, excluding grants. The reduction to the Minnesota State Colleges and Universities (MnSCU) was limited to $2.5 million. In addition, reductions to state constitutional officers are restricted to each office's percentage of the overall general fund appropriation.

The Department of Finance has issued a memorandum[3] detailing the allocation of this reduction to each agency. Amounts were allocated to agencies on the following basis:

- $5 million of the total reduction was based on expected savings from the implementation of expanded authority for the uses of reverse auctions for purchases of commodities and specific types of professional/technical services. This portion of the reduction was calculated on the FY 2002 general fund commodity purchases by agency. The administration expects that savings from more aggressive use of reverse auctions will offset at least a portion of this reduction.
- The starting point for the remaining reductions was based on FY 2004-05 general fund salary budgets.
- 75 percent of salary costs related to direct care service in corrections, human services, and related programs were excluded.

The allocations per agency are biennial amounts, which allows agencies some flexibility in managing reductions across fiscal years 2004 and 2005. The Department of Finance has required agencies to identify specific appropriation reduction amounts (by year and program) by September 2003.

Sale of Surplus State Land

Chapter 1 requires the commissioner of administration, in consultation with other state agencies, to identify and sell at least $5.5 million of surplus state-owned land. If the total net proceeds to the general fund from the sale of land is anticipated to be less than $5.5 million, the difference will be allocated as additional state agency operating reductions (on top of the $17.6 million discussed above).

The Department of Administration has notified agencies of this provision, and has asked agencies to report back by July 15, 2003, if they have property that can be sold. One parcel, a 15.66-acre parcel of undeveloped property in southeast St. Cloud, has already been offered for sale with a minimum starting bid of $1.3 million.

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

[2] The Legislature and courts are excluded from these reductions.

[3] July 1, 3003 memorandum from Dan McElroy, Commissioner of Finance, and Brian Lamb, Commissioner of the Department of Administration. (link to memorandum)

Transportation

The enacted fiscal 2004-2005 budget for transportation (Laws 2003, Special Session Chapter 18) makes one-time and permanent cuts to the Department of Transportation, Department of Public Safety, and Metropolitan Council transit programs. The budget also includes new funding for light rail transit in the Hiawatha corridor. The enacted law includes cuts and refinancing totaling over $180 million for the forthcoming biennium.

Transportation Finance
(all dollars in thousands, general fund only)

	Base FY 04-05	**Gov's Rec FY 04-05**	**Enacted Budget 1st SS Chp 18 FY 04-05**	**Chapter 18 Tails FY 06-07**	**% Change Chp 18 vs. Base FY 04-05**
Dept. of Transportation	36,046	32,441	32,441	32,442	-10%
Dept. of Public Safety	23,105	16,317	14,017	14,037	-39.34
Metropolitan Council Transit	125,772	112,266	114,720	114,386	-8.79%
Total:	**184,923**	**161,024**	**161,178**	**322,043**	**-12.84%**

Highlights of the enacted budget include:

Department of Transportation

- Refinancing the remaining $110 million of general fund dollars for highway construction appropriated in the 2000 transportation finance bill. The $20 million that the Governor previously unalloted in early February will not be refinanced.
- Transferring $15 million of the unobligated balance in the state airports fund to the general fund. Revenues in the state airports fund are derived from aircraft registrations, aviation fuel and the air flight property tax.
- A permanent annual general fund reduction of $1.8 million in Greater Minnesota transit grants.
- A department wide annual reduction of $36.1 million in trunk highway non-construction related expenditures.
- The legislation recaptures $3.2 million in FY2004 and $3.2 million in FY 2005 from the Rail Service Improvement program. The program is a revolving loan fund that loans money to companies to improve freight rail lines and facilities. The program has been funded with "seed" money periodically from the general fund and this proposal recovers $6.4 million for the general fund.
- Authorizes $400 million in trunk highway bonds for highway construction. The money will be used to match federal dollars in order to deliver projects in advance of the existing construction schedule. Approximately $800 million in additional highway construction will be delivered in the next four years due to this provision.

- A four year reduction in the transfer of MVST to the highway user tax distribution fund from 32% to 30% will cost the trunk highway fund $12.4 million per year. The dollars lost by the trunk highway fund will be used to bolster transit budgets and lessen the blow of cuts. Provisions were also added to hold local road funds harmless. This transfer of MVST dollars to transit restores $1.1 million of the $1.8 million general fund cut to transit in greater Minnesota.

Department of Public Safety

- Annual general fund reductions of $2.1 million across the department and $538,000 in annual trunk highway fund cuts. Reductions will be made in administrative costs and Capitol Security.
- Moving revenues from motor vehicle transfer fees to the general fund. Revenues had been used in the Pollution Control Agency's budget but will now be used for general fund purposes.
- Fee increases for title transfers and motor vehicle plate fees. Title fees will increase by $1 under the proposal and plates fees will go up by up to $3 for special plate fees. Revenues will increase by approximately $3 million per year and are intended to match revenues with the cost of service delivery.
- The addition of up to 50 additional State Patrol troopers in greater Minnesota in conjunction with 2 A.M. bar closing legislation. The patrol was given an addition of $2.5 million in fiscal 2004 and $2.7 million in fiscal 2005 for the increased trooper compliment. Fees collected from bars and restaurants for permits to remain open until 2 A.M. are expected to pay the additional cost necessary for the addition of 50 troopers.

Metropolitan Council Transit

- An $8.9 million annual cut to the agency's general fund base.
- The elimination of a 2% dedication of motor vehicle sales tax to metropolitan area transit that was scheduled to start in fiscal 2004. Though not a cut to the agency's base, it still represents a loss of $12 million per year for metro area transit.
- An additional appropriation of $2.8 million in FY 2004 and $3.9 million in FY 2005 for light rail operation. The Governor had recommended that the state pay 40% of the un-funded portion of LRT operation with 60% coming from local sources of the area served by the line. The compromise agreed to by the legislature increases the state's share to 50%, with the balance coming from local sources.
- An increase in the transfer of motor vehicle sales tax dollars to the Metropolitan Council (for the state's takeover of metro property tax levy for transit) from 20.5% to 21.5%. The temporary change will give the Metropolitan Council an extra $6.2 million per year for four years to "backfill" the $8.9 million general fund cut that was made. This makes the net cut to metro area bus service $2.7 million or less about 1% of Metropolitan Council Transit's $280 million annual budget base for the 2004-2005 biennium.

Implications

Refinancing the remaining general fund highway construction dollars will provide $110 million to the general fund but represent a loss to the trunk highway fund. The dollars will be replaced with trunk highway bonds which will essentially borrow from future revenues that were programmed to be used for other projects. The refinancing will not impact projects in the current three year plan, but may delay future projects. Borrowing costs will increase, however, because the state of Minnesota's bond rating was downgraded by Moody's from Aaa to Aa1. The downgrade will force the state to pay a higher interest rate in the bond market on all of the bonds it issues.

Permanent reductions of $36.1 million annually in the Department of Transportation will not benefit the general fund, but are intended to streamline the agency. The department claims the cuts will have slight impacts on activities such as snowplowing, but is necessary to put a greater emphasis on the construction program. The $36.1 million cut from the agency's budget will be used to fund debt service on $400 million in trunk highway bonds that will be sold to boost the state's construction program. MN/DOT estimates that the cuts will reduce the number of positions by close to 170.

The Department of Public Safety estimates that the annual cut of $2.6 million will create some delays in service to the public. This will include longer wait times at state examination and licensing stations and slower processing of motor vehicle transactions such as title transfers. Cuts in security in the capitol complex will also be necessary.

The Metropolitan Council will undertake service reductions and route changes to implement budget reductions. Fare increases may include extending peak period fare times by an hour in the morning and evening and increasing the base fare for Metro Mobility.

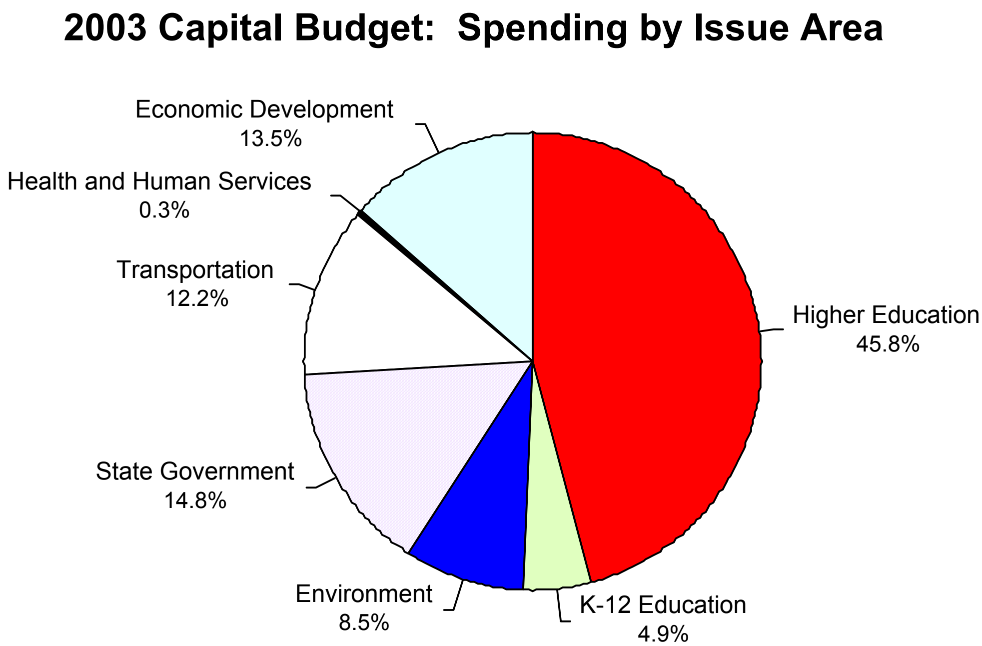
The set aside of $6.7 million for LRT is meant to fund only 50% of the projected un-funded operating needs of the system. The plan assumes equal local participation to fully operate the Hiawatha line. Local share will come from the Hennepin County Regional Rail Authority, either through local levies or the use of reserves. The largest implication of this proposal is what it might mean to future projects such as the Northstar Commuter Rail line, and if those projects will be asked to come forward with an plan to pay for 50% of the operating needs before securing capital funds for construction from the legislature.

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

Capital Investment

The 2003 Capital Investment bill (Laws 2003, Special Session Chapter 20), was mostly made up of projects that had been vetoed by the former Governor Ventura at the conclusion of the 2002 legislative session. At that time, Governor Ventura vetoed close to $350 million in projects approved by the 2002 legislature. The bill passed by the 2003 legislature, for the most part, is a restoration of funding for $230 million dollars in projects vetoed by Governor Ventura. Seven new projects totaling over $7 million were also included in the bill, most of which were related to flood damage restoration projects in the Roseau area.

Of the $236 million funding package, $189 million will be state supported debt service and $47 million will be user financed. A breakdown of spending by issue area is shown below. The bill required $15 million to be added to general fund debt service over the February 2003 forecast to account for the new spending.



2003 Capital Budget: Spending by Issue Area
($ in thousands)

Higher Education	$108,424
K-12 Education	$11,500
Environment	$20,155
State Government	$35,000
Transportation	$28,900
Health and Human Services	$775
Economic Development	$31,925
Total:	**$236,679**

Chapter 20 contained over 65 projects across the state and highlights include:

- $24.7 million for a Translational Research Facility at the University of Minnesota Minneapolis campus. The state contribution is to be matched by over $12 million from private donors.
- $8.6 million for a social science building renovation at the University of Minnesota Morris campus.
- $8.4 million for Phase III of the athletic facility renovations at Minnesota State University, Mankato.
- $9.2 million for library remodeling at Southwest Minnesota State University.
- $10 million for remodeling of the Centennial Hall at St. Cloud State University.
- $10 million for MNSCU land acquisitions.
- $5 million for a Paul and Sheila Wellstone Community Center in St Paul.
- $25 million for a new Guthrie theater near the Minneapolis riverfront.
- $20 million for loans to local governments to undertake local road projects in conjunction with state trunk highway improvement projects.
- $15 million for Wastewater Infrastructure Grants (WIF) including $1.5 million for the Lake Superior North Shore project.

Flood relief provisions include:

- $1.4 million for Warren flood relief.
- $2 million for flood mitigation grants.
- $1 million for Roseau flood damage property buy-outs.
- $400,000 for replacement of a culvert in Polk County.
- $1 million for repair of flood damaged roads.
- $1.125 million for replacement of flood damaged public infrastructure.
- $500,000 for relocation of the Roseau city hall.

Before passage of the 2003 bill, the state had slightly over $3 billion in outstanding bonds issued in previous years. In addition to the outstanding bonds, another $1.8 million has been authorized by the legislature but not yet sold. Of that amount, about $350 million represents bonds authorized for appropriations that were vetoed by Governor Ventura. In other words, of the $1.8 million not yet issued, the legislature could take $350 million "off the books" by canceling the bond authorizations for appropriations that no longer exist, and have no impact on any current project.

The state uses, as a self imposed debt management tool, what is known as the "3% guideline." This rule states that the debt service required on state general obligation bonds should not exceed 3% of non-dedicated general fund revenue. With the passage of the 2003 bill, debt service currently consumes 2.57% of general fund revenue. This would leave current maximum capacity for a 2004 bill in the $900 million range if there are no drastic changes in upcoming revenue forecasts. Sharps swings in interest rates and tax collections could increase or decrease the maximum capacity.

Subsequent to the passage of the 2003 bill, bond rating agencies updated the credit rating of the State of Minnesota. Standard and Poor, and Fitch left the state's triple "A" rating intact but Moody's downgraded the state to "Aa+." Just days after the announcement of the downgrade, the state sold refunding bonds to refinance previously issued bonds at a lower interest rate. The downgrade by Moody's had no measurable impact on the most recent sale, but may cause the state to pay a higher interest rate on future bond sales.

For further information on capital budget issues, contact John Walz at (651)-296-8236 or john.walz@house.mn

Tax Committee Revenue Changes

In combination, Chapter 21, 2003 Special Session Laws and Chapter 127, 2003 Regular Session Laws (hereafter referred to jointly as "the 2003 tax omnibus act") increased general fund revenue for FY 2004-2005 by $83.5 million and reduced general fund revenue by $20.3 million in FY 2006-07. As shown in Figure 1, most of the $220 million increase in FY 2004-05 revenue due to the tax shifts is offset by revenue losses from (a) updating the Minnesota income tax for changes in federal law and (b) changes in tax dedications.

Figure 1. Impact of Omnibus Tax Bill on General Fund Revenues
($1000s)

	2004-05 biennium	2006-07 biennium
Tax shifts	219,950	21,540
Change in tax dedications	(60,594)	(59,773)
Federal update (income tax)	(103,300)	(4,500)
Tax free zones (JOBZ & biotech)	(4,470)	(9,310)
Other tax changes	17,678	17,373
Change in fees	14,225	14,410
Net change in general fund revenue	83,489	(20,260)

*Includes only provisions included in Chapter 127, 2003 Regular Session and Chapter 21, 2003 Special Session. However, the one-time transfer of $1.029 million from the tobacco endowments is not shown here; rather, it is described in the Health and Human Services section of this document. Tax-related provisions that were included in other omnibus acts are noted in the text.

A more detailed breakdown of revenue impact is shown in Figure 2 on the next page.

Tax Shifts: Accelerated Payment of Selected Tax Revenues[1]

Small changes in the payment date of existing taxes can be used as a source of (primarily) one-time revenue.

June accelerated payments of sales and excise taxes – Since 1983, venders with annual sales and use tax liability of $120,000 or more have been required to make an early payment of 75 percent of their June tax liability. Because payment is due two business days before the end of June (rather than the 20th of the following month, as is typical for sales and use taxes), these payments are shifted to an earlier state fiscal year. This "fiscal shift" was originally used to balance the state budget in years when tough budget decisions were required.

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[1] An additional tax shift raising revenues in FY 2003 – not shown here – resulted from administrative changes in the timing of certain sales tax refunds. By permanently delaying capital equipment refunds for 90 days, the Department of Revenue shifted $50 million of refund payments from FY 2003 into FY 2004. (Given the permanent nature of that change, the continuing shift of $50 million each year has no net revenue impact in future years.) The impact is not shown here because this change was accomplished by administrative rather than legislative action.

Figure 2
2003 Omnibus Tax Bill Provisions That Change General Fund Revenues*
(Dollars in $1000s)

Tax Provision	effective date	FY 2004	FY 2005	2004-05 Biennium	FY 2006	FY 2007	2006-07 Biennium
Tax Shifts							
June accelerated payments – make permanent, increase, and extend to some excise taxes	June 2004	192,420	11,430	**203,850**	10,380	8,960	**19,340**
Accelerate June mortgage & deed tax payments (from counties)	June 2004	14,700	1,400	**16,100**	1,100	1,100	**2,200**
Tax shifts total		**207,120**	**12,830**	**219,950**	**11,480**	**10,060**	**21,540**
Changes in tax dedications**							
Cigarette Excise Tax							
Dedicate 6.5 cents per pack to Academic Health Center	7/1/03	(22,515)	(22,403)	**(44,918)**	(22,291)	(22,179)	**(44,470)**
Dedicate 2.5 cents per pack to DHS medical research	7/1/03	(8,660)	(8,616)	**(17,276)**	(8,573)	(8,530)	**(17,103)**
Sales tax -- Repeal dedication of tax on State Fair admissions	7/1/03	800	800	**1,600**	900	900	**1,800**
Total dedication changes		**(30,375)**	**(30,219)**	**(60,594)**	**(29,964)**	**(29,809)**	**(59,773)**
Other Tax Changes							
Sales tax refunds for capital equipment – delay for 90 days	claims filed after enactment	2,500	2,700	**5,200**	3,200	3,700	**6,900**
State property tax – make corrections to levy	Taxes payable in 2004	5,400	6,700	**12,100**	3,600	3,600	**7,200**
Repeal discounts on cigarette and tobacco taxes	7/1/03	1,460	1,460	**2,920**	1,470	1,470	**2,940**
Gambling taxes – license granted only if agree to pay tax	7/1/03	580	595	**1,175**	605	620	**1,225**
Update for federal income tax changes	1/1/03	(74,200)	(29,100)	**(103,300)**	(12,600)	8,100	**(4,500)**
Income tax – Increase charitable deductions in AMT	Date of enactment	(312)	(331)	**(643)**	(352)	(395)	**(747)**
Miscellaneous sales and excise tax reductions	various	(1,561)	(1,513)	**(3,074)**	(71)	(74)	**(145)**
Tax free zones (JOBS & Biotech)	7/1/03	(1,410)	(3,060)	**(4,470)**	(4,030)	(5,280)	**(9,310)**
Total – other tax changes		**(67,543)**	**(22,549)**	**(90,092)**	**(8,178)**	**11,741**	**3,563**
Fee Changes							
Cigarette fee ($0.35/pack) for manufacturers not participating in Minnesota tobacco settlement (incl. June acceleration, sales tax on fee)	7/1/03	**7,235**	**6,990**	**14,225**	**7,170**	**7,240**	**14,410**
Total impact on General Fund		**116,437**	**(32,948)**	**83,489**	**(19,492)**	**(768)**	**-20,260**

**Includes only provisions included in Chapter 127, 2003 Regular Session and Chapter 21, 2003 Special Session. The one-time transfer of $1.029 million from the tobacco endowments – not shown here – is described in the Health and Human Services section of this document Tax provisions included in other omnibus tax bills, though not listed here, are noted in the text.*

The 2001 omnibus tax bill repealed these accelerated payments, so prior law required no accelerated sales tax payments after June 2003.[2] This Act makes the June accelerated sales tax payments permanent. In addition, it raises the required percentage from 75 percent to 85 percent and extends the requirement to include cigarette, tobacco, and alcohol excise taxes as well (starting June 2004).[3] Figure 2 shows the separate impact of each of these three changes.[4]

Figure 3: June Accelerated Payments of Sales and Excise Taxes

($1000s)

	FY 2004	FY 2005	**2004-05 Biennium**	FY 2006	FY 2007	**2006-07 Biennium**
Undo repeal of June accelerated sales tax (at 75%)	154,720	9,930	**164,650**	8,880	7,660	**16,540**
Raise June accelerated payments from 75% to 85%	20,600	1,300	**21,900**	1,200	1,000	**2,200**
Extend June accelerated payments to cigarette, tobacco and alcohol excise taxes	17,100	200	**17,300**	300	300	**600**
Total	192,420	11,430	**203,850**	10,380	8,960	**19,340**

All changes effective June 2004. The $17.1 million for excise taxes in FY 2004 includes $14 million from cigarettes, $1 million from other tobacco products, and $2.1 million is from alcohol.

The impact of these changes on total sales and excise tax revenues in future fiscal years is summarized in the diagram on the following page. The magnitude of total June accelerated payments grows each year, because total sales and excise tax revenue is forecast to grow. For example, total June accelerated payments are forecast to rise from $192.62 million in June 2004 to $203.85 million in June 2005. As a result, not only will FY 2004 revenues rise by $192.62 million, but FY 2005 revenues will also rise by $11.23 million. The $192.62 million shifted back to FY 2004 is more than offset by the $203.85 million shifted forward from FY 2006. As a result. the accounting shift not only raises $192.62 million in one-time revenues; it also increases revenue – though by a much smaller amount – in each future year.

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[2] The intention of the 2001 omnibus tax bill was to repeal the June accelerated payments a year earlier, but the bill's wording was unclear and an additional year's delay in the effective date was made as a forecast adjustment in the February 2002 forecast. Although the 2000 omnibus tax bill had reduced the fraction of June tax subject to acceleration from 75 percent to 62 percent (effective starting with the June 2003 payment), that reduction was repealed in the 2002 omnibus tax bill.

[3] Accelerated payments, when required, have always been limited to 75 percent. Although excise taxes were subject to the requirement in past years, the 2000 tax bill exempted them from the requirement, effective starting June 2002.

[4] The accelerated payment rules also apply to the new 35-cent per pack fee on cigarettes manufactured by companies that do not participate in the Minnesota tobacco settlement. The impact on fee revenues is shown in Figure 11.

Figure 4.
June Acceleration's Continuing (Though Small) Impact in Future Years

	$192.62 mill	$203.85 mill	$213.93 mill	$222.59 mill
FY 2004 +$192.62 mill	FY 2005 +$11.23 mill	FY 2006 +$10.08 mill	FY 2007 +$8.66 mill	FY 2008

Mortgage and deed tax acceleration -- County treasurers administer and collect the state mortgage registry tax and deed registration tax on behalf of the state. Ninety-seven percent of the revenue is remitted to the state general fund; the remaining three percent is retained by counties as an administrative fee. Under current law, the county payment is remitted by the 20th of the month following the month the taxes are collected. The Act requires counties to accelerate payment of 100 percent of the state share of June collections, making those payment two business days prior to June 30. The June accelerated payment will equal actual tax collections between June 1 to June 25 and the amount the county estimates will be collected between June 25 to 30. (The August 20 payment will be adjusted for any error in that estimate.)

The recommendation would shift an estimated $14.7 million in mortgage and deed tax collections into FY 2004 from FY 2005. A slightly larger shift would occur in each future year, due to forecast growth in mortgage and deed tax collections. As a result, in addition to the one-time revenue gain in FY 2004, there is also a small net state revenue gain in FY 2005 and later years.

Changes in Dedication of Existing Taxes

Cigarette and Tobacco Taxes

Dedicate 6.5 cents per pack to the Academic Health Center at the University of Minnesota – As shown in Figure 5 on the next page, this would replace (roughly dollar for dollar) the funding currently received from the tobacco endowments, which would be eliminated.

Dedicate 2.5 cents per pack for medical education activities at the Department of Health – As shown in Figure 5, this would replace (roughly dollar for dollar) the funding currently received from the tobacco endowments, which would be eliminated.

Figure 5. Net Impact on Academic Health Center and Medical Education
($1000s)

Fund and Use	FY 2004	FY 2005	2004-05 Biennium	FY 2006	FY 2007	2006-07 Biennium
Academic Health Center						
Tobacco Endowment Funds	(22,062)	(22,041)	(44,103)	(22,144)	(22,767)	(44,911)
Cigarette tax (6.5 cents/pack)	22,515	22,403	44,918	22,291	22,179	44,470
Net Change	453	362	815	147	(588)	(441)
Medical Education (Dept of Health)						
Tobacco Endowment Funds	(8,927)	(8,623)	(17,550)	(8,425)	(8,634)	(17,059)
Cigarette tax (2.5 cents/pack)	8,660	8,616	17,276	8,573	8,530	17,103
Net Change	(267)	(7)	(274)	148	(104)	44

Eliminate dedication of sales tax on State Fair admissions – Under prior law, the State Fair collected sales tax on admissions to all events sponsored by the State Fair, but it retained that tax rather than sending it to the general fund.[5] The act ends this special treatment. This transfers $800,000 each year from the State Fair to the general fund.

[5] The State Fair is required to provide matching funds and use for capital improvements at the fairgrounds.

Tax dedication changes included in the Chapter 128, 2003 Regular Session (Environment & Natural Resources Finance Act)

1. **Cigarette Tax: Repeal dedication of two cents per pack to Minnesota future resources fund**[6] – The two cents per pack dedication of the cigarette tax has been the primary source of revenue for this fund, which financed projects for the Legislative Commission on Minnesota Resources. This act shifts this revenue to the general fund.

Figure 6a. Cigarette tax dedication to LCMR

Impact on General Fund Revenue	FY 2004	FY 2005	**FY 04-05**	FY 2006	FY 2007	**FY 06-07**
Repeal dedication of 2 cents per pack to LCMR	6,928	6,893	**13,821**	6,859	6,824	**13,683**

2. **In-lieu sales tax on lottery tickets: Increase general fund share** – Although lottery tickets are exempt from the state sales tax, they are subject to an in-lieu tax at the same rate (6.5 percent). Under current law, these in-lieu tax payments from the state lottery are split between the general fund (12.9 percent) and several natural resource funds (87.1 percent). The Governor proposes to reduce the share dedicated to natural resource funds from 87.1 percent to 74 percent, increasing the general fund share to 26 percent. The $3.338 million annual gain by the general fund is lost by the natural resource funds – roughly a 15 percent cut in this source of funding. This cut is proportional to the funding reduction proposed for most agency budgets.

   Annual in-lieu tax collections are forecast at $25.481 million, and the forecast assumes zero growth. Figure 4 shows the net impact on both the general fund and the natural resource funds.

Figure 6b. Lottery in-lieu sales tax

Fund and Use	Prior Law Percent	Prior Law $1000s	New Law Percent	New Law $1000s	Change $1000s
General Fund	12.90%	3,287	26.00%	6,625	3,338
Environmental Funds	87.10%	22,194	74.00%	18,856	(3,338)
Game and Fish					
Heritage Enhancement Account	43.55%	11,097	37.00%	9,428	(1,669)
Natural Resources					
State parks & trails	19.60%	4,994	16.70%	4,255	(738)
Metro parks & trails	19.60%	4,994	16.70%	4,255	(738)
Local trails	2.61%	666	2.20%	561	(105)
Zoos (Minnesota, Como, Duluth)	1.74%	444	1.50%	382	(62)
Total	100 %	25,481	100%	25,481	0

[6] Language for this provision was included in the tax omnibus bill (Chapter 21, 2003 Special Session) as well, but the cost was tracked in the environment committee.

Other Tax Changes that Increase Revenue

Delay interest on sales tax refunds, including capital equipment refunds[7] – Businesses generally pay sales tax when they buy or lease capital equipment,[8] but they can apply for a full refund of any tax paid on purchases of "qualified capital equipment." To qualify, the machinery or equipment must be used either (a) to manufacture, fabricate, mine or refine tangible property or (b) to electronically transmit computerized data to consumers.[9] Capital equipment refunds averaged $163 million per year over the four-year period FY 1999 through FY 2002.
To help balance the FY 2002-03 biennium budget, the Governor directed the Department of Revenue to delay paying these refunds for 90 days, thereby shifting $50 million of payments from FY 2003 to FY 2004.[10] Under prior law, interest on capital equipment refunds accrued starting the day the refund application was received by the Department of Revenue, so the administrative change to delay refund payments would have increased the amount of interest paid by the state. The act requires that interest start only 60 days after the refund application is received (rather than the day the application is received). Taxpayers will receive $2.5 million less in interest in FY 2004. As shown in Figure 1, the fiscal impact rises in future years because the rate of interest is forecast to rise.

The change affects a number of other sales tax refunds as well, in addition to capital equipment refunds. Under prior law, some types of refunds accrued interest from the date the refund application was received (the same as capital equipment refunds); others delayed interest for 60 days, and some accrued interest beginning on the 20th of the month after the affected purchase was made.[11] The new law follows a consistent rule – a 90-day delay – for all sales tax refunds.

Correct state general property tax levy – The tax act authorizes the Commissioner of Revenue to collect the total amount of state general property tax levied under current law. Amounts not collected due to tax base changes following the certification of the tax rate will be added to the statutory levy amount in the following year. The proposed change is estimated to increase general fund revenue by $12.1 million in FY 2004-2005 and by $7.2 million in FY 2006-2007.

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[7] In Finance Department documents, this is shown as a change in expenditures ("sales tax refunds") rather than a change in tax revenues.

[8] Business machinery and equipment that is exempt from sales tax *at the time of sale* includes farm machinery, logging equipment, telecommunications equipment, accessory tools and special tooling, air flight equipment sold to airlines, and ski area equipment.

[9] For more detail on eligible purchases, see the Department of Revenue's Sales Tax Fact Sheet on Capital Equipment at www.taxes.state.mn.us/salestax/factshts/pdf/1030203.pdf .

[10] The delay is permanent, so there is no revenue loss in any future year. The $50 million shifted from FY 2003 to FY 2004 is offset by a similar $50 million shifted from FY 2004 to FY 2005, and so on.

[11] See Minnesota Statutes 289.50 for purchaser refunds and 297A.75 for a list of the other types of sales tax refunds that would be affected.

Figure 7
Adjustments to the State Property Tax Levy
($1000s)

	FY 2004	FY 2005	FY 2004-05	FY 2006	FY 2007	FY 2006-07
"Abstract errors"	3,800	5,257	9,057	3,579	3,579	7,158
"Airport error"	1,600	1,434	3,034	0	0	0
Total	5,400	6,691	12,091	3,579	3,579	7,158

The state general property tax levy was set at $592 million for taxes payable in 2002 and is increased each year based on the percentage growth in the consumer price index (CPI). However, the amount collected differs from the levy amount for a variety of reasons. The tax *base* used by the Department of Revenue to set the final state tax *rate*, differs from the tax *base* to which the tax *rate* is ultimately applied.[12]

More specifically, the certified state property tax rate is based on tax capacity data submitted by counties in the abstract of tax assessments each Fall. However, a variety of tax base adjustments typically occur subsequent to the abstract of tax assessments including error corrections by counties, changes in tax-exempt status, court-ordered reductions in market values, and abatements. Based on observations for taxes payable in 2002 and 2003, the Department estimates that these "abstract errors" reduce state property tax revenue collections by approximately $3.6 million annually

The new law will add the amounts not collected in state property tax due to these abstract errors to the statutorily-determined levy for the subsequent taxes-payable year. In addition, a one-time increase would be made in the levy for taxes payable in 2004 to recapture $3.1 million that was not collected in 2002 due to an error made in calculating the state tax rate, referred to below as the "airport error"[13].

As illustrated in Figure 7, the revenue gain will be higher in FY 2004-2005 because the additional amounts levied in taxes payable in FY 2004 will adjust for "abstract errors" for two years (taxes payable 2002 and taxes payable 2003) as well as the one-time "airport error" correction.

Finally, note that, even under the new law, revenue collected from the state property tax will continue to differ somewhat from the amount levied due to a variety of other factors – delinquent

[12] Under current law, counties are supposed to submit their abstract of assessment by September 1 to the Department of Revenue. The Department would then use the tax base data submitted by the counties to calculate a final certified state tax rate by the statutory deadline of November 1. However, because a portion of counties typically submit their abstract of assessment well after the September 1 deadline, the Department has been following the strategy of certifying a preliminary state tax rate by November 1 and a revised state tax rate on January 1. The omnibus tax act gives the Department the authority to continue that practice.

[13] The error made was that the tax base used to calculate the tax rate included tax base for personal property at the major airports, which is exempt from the tax. As a result, the tax rate on all properties subject to the state tax was somewhat lower than it should have been.

payments and the application of the tax rate to certain categories of property not included in the tax base when determining the rate.

Repeal cigarette and tobacco tax discounts – Prior law provided wholesalers who purchased cigarette stamps or paid tax on other tobacco products a "discount" to help cover their compliance costs (such as the cost of applying the stamps to each pack of cigarettes). The cigarette stamp discount was one percent for the first $1.5 million of stamps purchased in a year and 0.6 percent of any additional stamps. A 1.5 percent discount was allowed those subject to the tobacco products tax. The omnibus tax act repealed these discounts, raising revenue by $1.46 million per year.

Provide lawful gambling license only if agree to pay gambling taxes – The omnibus tax act effectively removed a gambling tax exemption to organizations recognized by federal law as "quasi-governmental organizations." Testimony at hearings identified a Red Cross affiliate as the only current gambling license holder who would be affected, and the provision was supported by other organizations to create a level playing field. The provision was estimated to raise about $600 thousand per year.

<u>*Tax Changes that Reduce Revenue*</u>

Federal income tax update – The omnibus tax act updates Minnesota income tax (both individual and corporate) for federal tax law changes enacted in the Job Growth and Tax Relief Reconciliation Act of 2003 (JGTRRA), at a cost of $103 million in the 2004-05 biennium. The three federal tax changes that affect the definition of Minnesota taxable income are:

- Increase the standard deduction for married taxpayers (joint returns) to twice that for single taxpayers (tax years 2003 and 2004);
- Increase the limit on expensing of capital assets from $25,000 to $100,000, and raise the starting point of the phaseout from $200,000 to $400,000 (tax years 2003 through 2005); and
- Increase the allowance for bonus depreciation from 30% to 50%, effective for property acquired between May 5, 2003, and January 1, 2005.

The omnibus tax act fully conforms Minnesota law to federal law for the first two of these. The standard deduction change removes one of the remaining marriage penalties from the income tax, and the expensing rules (section 179 of the federal tax code) provide a tax break for smaller businesses. Failing to conform to these federal changes would have required adding lines to the Minnesota tax return.

For bonus depreciation, the new law does not fully conform. Instead, it adopts the same fix as with the original bonus depreciation provisions enacted in 2002. Taxpayers will add back 80 ercent of the bonus depreciation in the year it is claimed on the federal return, then subtract one-fifth of that add-back amount in each of the following five years. This simplifies tax calculations because taxpayers are not required to keep track of two different depreciation schedules – one for federal tax and another for state tax. But it also avoids the large revenue loss the state would face under full conformity.[14]

The fiscal impact of the federal update provisions is shown in Figure 8.

Figure 8: Federal Tax Update
($1000s)

	FY 2004	FY 2005	2004-05 Biennium	FY 2006	FY 2007	2006-07 Biennium
Standard deduction increase for married filers (Individuals)	(56,400)	(18,600)	(75,000)	0	0	0
Increase expensing from $25,000 to $100,000						
Individuals	(18,400)	(17,300)	(35,700)	(8,500)	9,000	500
Corporations	(2,400)	(2,200)	(4,600)	(1,100)	1,100	0
Total	(20,800)	(19,500)	(40,300)	(9,600)	10,100	500
50% bonus depreciation (5/6/03 to 12/31/04)						
Individuals	1,200	3,600	4,800	(1,200)	(800)	(2,000)
Corporations	1,800	5,400	7,200	(1,800)	(1,200)	(3,000)
Total	3,000	9,000	12,000	(3,000)	(2,000)	(5,000)
Total federal update	(74,200)	(29,100)	(103,300)	(12,600)	8,100	(4,500)

Changes in expensing and bonus depreciation simply shift a company's tax deductions among tax years, so gains and losses sum to zero over the lifetime of the assets. A reduction (gain) in revenue in FY 2004 will be offset by an equal gain (reduction) in revenue in some later tax year.

Other income tax changes:

- **Increase charitable deductions allowed in the AMT**– In computing income subject to tax under the alternative minimum tax, prior law allowed a taxpayer to deduct charitable contributions only to the extent they exceeded 1.3 percent of income.[15] The 2003 omnibus

[14] As in 2002, the new law conforms to the federal definition of adjusted gross income, with full deduction of bonus depreciation, in calculating eligibility for and phaseout of various deductions and credits. Full conformity for the new bonus depreciation would have cost over $200 million in the 2004-05 biennium. In contrast, the chosen approach raises $12 million of revenue in the first biennium, with losses starting in FY 2006. For further explanation of bonus depreciation, see the 2002 version of this document, *Summary of the Fiscal Actions of the 2002 Legislature* (www.house.leg.state.mn.us/fiscal/files/02budsum.pdf), pages 67-70. Note that new lines are added to the Minnesota tax return beyond those already added in 2002.

[15] This 1.3 percent floor was enacted in the 2002 special session (effective beginning in 2002), in response to a court case (*Chapman vs. Commissioner of Revenue*). Prior to that court decision, only contributions to "Minnesota charities" were deductible; no deduction was allowed for contributions used by charities at locations outside Minnesota. The Minnesota Supreme Court ruled this a violation of interstate commerce. The 1.3 percent floor was chosen in 2002 because it was estimated to have the same revenue impact as the unconstitutional limitation. For a more complete explanation of the 2002 changes, see House Fiscal Analysis Department, *2002 Special Session: Fiscal Summary of Flood Relief and Tax Provisions (*Money Matters 02-08, October 2002), pages 6-7. www.house.leg.state.mn.us/fiscal/files/02floodmm.pdf

tax act reduced the 1.3 percent floor to 1.0 percent. This provision will reduce tax by roughly $300,000 per year.

- **Jobs Credit for Northwest Airlines** – Extends carryover period for jobs credits from 10 years to 20 years, and any credits unpaid at the end of the 20-year carryover period will be refunded to the taxpayer. These credits were provided under the state refinancing package enacted in 1991, for jobs created at the Duluth aircraft maintenance base in the late 1990s. Under prior law, Northwest Airlines might never have received these nonrefundable credits if it failed to earn sufficient profits by the 2008 tax year. *Any state revenue impact would occur in FY 2009 or later.*

Miscellaneous Sales and Excise Tax Provisions – See Figure 9.

Figure 9
Miscellaneous Sales and Excise Tax Provisions
(Dollars in $1000s)

Tax Provision	effective date	FY 2004	FY 2005	**2004-05 Biennium**	FY 2006	FY 2007	**2006-07 Biennium**
General Sales Tax							
Camp fees exemption	7/1/03	(39)	(46)	**(85)**	(47)	(49)	**(96)**
Construction materials exemptions for specific projects							
Public safety radio system (extend date)	8/1/03 to 7/31/05	(350)	(815)	**(1,165)**	0	0	**0**
Duluth Convention Center (modify)	7/1/95 to 6/30/01	(22)	0	**(22)**	0	0	**0**
Walker Art Center	6/1/03	(815)	(610)	**(1,425)**	0	0	**0**
Hydro-electric power plant (Minneapolis)	1/1/04 to 12/31/04	(115)	(18)	**(133)**	0	0	**0**
Biomass electric power plant (Benson)	7/1/03 to 6/30/05	(200)	0	**(200)**	0	0	**0**
Total – general sales tax		**(1,531)**	**(1,489)**	**(3,030)**	**(47)**	**(49)**	**(96)**
Motor vehicle excise tax							
Vehicles gifted by nonprofits	7/1/03	(9)	(9)	**(18)**	(9)	(9)	**(18)**
Alcohol Excise Tax							
Low-alcohol ice cream – special rate	7/1/03	(11)	(15)	**(26)**	(15)	(16)	**(31)**
Total for general fund		(1,561)	(1,513)	**(3,074)**	(71)	(74)	**(145)**

- **Camp fees** – Prior law limited the exemption to fees camps owned and operated by charitable organizations charged for campers age 18 and under. The omnibus tax act eliminates the age restriction, but limits the exemption to fees paid for educational or religious services primarily for children, adults accompanying children, or people with disabilities.

- **Public safety radio** – extends for two years the exemption for materials used to construct, operate, maintain, or improve the backbone system of a region-wide public safety radio system.
- **Duluth Convention Center** – modifies exemption originally granted in 1995, extended in 1998 (but repealed in 2001) to include equipment (rather than just building materials) and purchases by contractors. This is consistent to the exemption provided for the Minneapolis Convention Center and River Centre Arena (St. Paul). Effective retroactively to period of exemption in prior law.
- **Walker Art Center** – exempts construction materials and equipment if at least $70 million is raised from private sources. (The exemption does not apply to the parking garage.)
- **Crown Hydro (Minneapolis)** – extends exemption for construction materials by one year.
- **Biomass electric power plant (Benson)** – extends exemption for construction materials, supplies, and equipment by two years.
- **Vehicles gifted by nonprofits** – expands the motor vehicle sales tax exemption for gifts between individuals to include donation of a vehicle to an individual by a nonprofit organization.
- **Low-alcohol ice cream** – special tax rate of 2 cents per liter for low-alcohol (less than 3.2 ercent alcohol) dairy cocktails. Products would include both ice cream including liquor and pre-mixed cocktails using milk or milk products as the mix. These products now taxed at about the rate that applies to 3.2 beer. Under prior law, the distilled spirits tax rate ($1.33 per liter) applied to these products, making it difficult to market these new products.

Tax free zones

- **JOBZ:** The new law designates up to ten Job Opportunity Building Zones (each including up to 5,000 acres) located in economically distressed rural areas of Minnesota (outside the seven-county metro area). New businesses in those zones would be exempt from most or all state and local taxes.

  The estimated state cost of the tax-free zones is based on the experience of similar zones in Michigan and Pennsylvania. The sales tax exemption is expected to account for about 75 percent of the total state cost over the next four fiscal years, with a tax credit on qualifying payrolls accounting for an additional 20 percent. The act appropriates money to both the Department of Trade and Economic Development and the Department of Revenue to pay for administrative costs. Details are shown in Figure 10, and a more complete description is given in the box on the next page.

Figure 10. Estimated State Fiscal Impact of Job Opportunity Building Zones
$1000s

Job Opportunity Building Zone Provision	FY 2004	FY 2005	2004-05 Biennium	FY 2006	FY 2007	2006-07 Biennium
Sales & Use Tax exemption	(1,410)	(2,950)	(4,360)	(2,780)	(3,280)	(6,060)
Job Credit	0	0	0	(990)	(1,640)	(2,630)
Corporate tax exemption	0	(110)	(110)	(260)	(360)	(620)
Total	(1,410)	(3,060)	(4,470)	(4,030)	(5,280)	(9,310)

*Administrative appropriations to DTED and the Department of Revenue total $207 thousand in the 2004-05 biennium and $114 thousand in the 2006-07 biennium. Because some tax of the property tax is assumed shifted to homeowners, state expenditures for property tax refunds are also estimated to rise by $10 thousand in the 2004-05 biennium.

Job Opportunity Building Zones (JOBZ)

Eligible Businesses: Businesses are generally eligible if they carry on a trade or business within the tax free zone. However, a business *relocating from outside the zone* is a qualifying business only if it either:

- Increases full-time employment by at least 20 percent in its first full year of operation in the zone and maintains that employment for the duration of the zone; or
- Makes a capital investment in the zone equal to at least 10 percent of the business' gross revenue in immediately preceding year.

Recapture provision: A business that ceases business operations after relocating from outside the zone must repay any local contributions or tax reductions received in the 2 years immediately prior to ceasing operations in the zone.

Businesses in those zones would generally be exempt from the following taxes for up to 12 years:

- *Local property tax* on all real property and improvements (though land would still be taxed)
- *State property tax* on all real property and improvements
- *Wind energy production tax*
- *State and local sales and use taxes* on goods and services a qualified business uses within the zone
- *State and local sales and use taxes* on construction materials for business improvements within the zone (purchased by the business or a contractor)
- *Motor vehicle sales tax* on vehicles garaged and primarily used in the zone.
- *Corporate franchise tax* (prorated by average share of Minnesota property and payroll in the zone)
- *Income tax on business income* earned in the zone (capped at 20 percent of sum of wages and initial investment)
- *Income tax on rental income* from real or tangible personal property located in the zone
- *Income tax on capital gains* from sale of real or tangible personal property located in the zone (prorated by share of time property was owned while the zone was in effect) or of ownership shares in zone businesses.

Payroll Credit: Businesses would also qualify for a 7 percent refundable tax credit on each dollar of total payroll in excess of $30,000 times the number of full-time equivalent employees. (The portion of any worker's salary in excess of $100,000 is excluded in calculating the total payroll.)

- **Agricultural Processing Development Zones** – up to five zones can be designated, with benefits identical to those in a Job Opportunity Building Zone. However, the size of these zones is limited to the agricultural processing plant.

- **Biotechnology and Health Science Zone** – one zone, potentially made up of noncontiguous subzones located near the Mayo Clinic or the University of Minnesota. Tax benefits vary from JOBZ in the following ways:
  - No general exemptions from individual income tax, wind energy production tax, or motor vehicle sales tax.
  - Refundable research and development credit. This is essentially the same as the research credit generally allowed under the corporate franchise tax except that it is refundable. Credit equals 5 percent of first $2 million of research expenditures plus 2.5 percent of additional research expenditures. If the credit exceeds tax in the year the research expenditures are made, the excess will be paid as a refund rather than simply carried forward to future years.

  Most importantly, state tax benefits for the biotechnology zone are limited to a total of $1 million and are funded only for the 2004-05 biennium. Businesses must apply to DTED for a share of the maximum allowable $1 million in tax certificates. *Although the zone will be authorized for 12 years, no state tax exemptions or credits are authorized beyond the 2004-05 biennium.*

Fees in the Omnibus Tax Act

Cigarette fee on nonparticipating manufacturers – A fee of 35 cents per pack is imposed on all cigarettes manufactured by a business that is not a participant in the Minnesota tobacco settlement. It is estimated that this fee will be paid on 6.4 percent of all cigarettes sold in Minnesota, raising about $7 million per year in general fund revenue.

Only the four largest cigarette manufacturers are participants in the Minnesota tobacco settlement. Those manufacturers make annual payments to Minnesota. The $189 million they will pay in FY 2004 is roughly equivalent to 55 cents per pack sold in Minnesota. Those not part of the settlement have a competitive advantage over the settling companies because they do not pay this amount. The 35 cent per pack fee is designed to help create a level playing field and to help slow the erosion in market share by the participating companies (which itself reduces the annual settlement payments).

The cigarette fee will be collected in the same way as the cigarette excise tax, so the cigarette wholesalers will be required to make accelerated payments in June. As a result, collections will be higher the first year (FY 2004). Because the fee is expected to raise the price of these cigarettes, it will also lead to an increase in sales tax revenue, as shown in Figure 11.[16]

[16] There is no floor tax on these cigarettes, so companies may avoid some of the first-year tax by increasing their stock of these brands right before fee's effective date.

Figure 11. Fee on Cigarettes from Nonparticipating Manufacturers
($1000s)

	FY 2004	FY 2005	2004-05 Biennium	FY 2006	FY 2007	2006-07 Biennium
Fee of $0.35 per pack	6,390	6,560	12,950	6,730	6,800	13,530
One-time gain from June accelerated payment	425	0	425	0	0	0
Increased sales tax due to higher-priced cigarettes	420	430	850	440	440	880
Total	7,235	6,990	14,225	7,170	7,240	14,410

Tax-Related Fees in Other Acts

Fee for filing a paper return – Chapter 1, 2003 Special Session (State Government Finance Bill) levies a $5 fee for each individual income tax return filed as a paper return by a commercial tax preparer. The Department estimates that it costs about $5 to process each paper return (compared to $1.24 per electronically filed return). Under current law, commercial preparers are required to file electronically if they filed at least 100 tax returns in the previous year, but there is no penalty for those who fail to comply.[1] There would be no fee charged for paper returns filed by individual taxpayers or by voluntary tax preparers (such as the VITA program) who charge no fee.

The revenue estimate assumes that 240,000 paper returns will be filed in FY 2004 by commercial preparers, yielding $1.2 million in revenue. The number is expected to fall to 160,000 (and $0.8 million) in the following years.

Selected No-Cost Items

Local food and lodging taxes – The omnibus tax act authorized Newport to levy a lodging tax, and it authorized Duluth to use the existing food and lodging taxes to repay debt on the Great Lakes Aquarium. Itaska County is also authorized to levy a county-wide lodging tax, superceding existing city and township lodging taxes.

Local sales tax study – Department of Revenue study of the appropriate role of local sales taxes in the state and local revenue system, with recommendations, to be completed by February 1, 2004.

Regulation of commercial tax preparers – Primarily in response to complaints about abuses by commercial tax preparers offering "refund anticipation loans" at high rates of interest, the omnibus tax act specifies disclosure rules as well as standards of conduct.

Tax Committee Expenditure Changes

Omnibus tax provisions enacted by Chapter 21, 2003 First Special Session, along with a few provisions enacted as part of Chapter 127, 2003 Regular Session, will reduce general fund expenditures by an estimated $541.5 million for the FY 2004-05 biennium. FY 2004-05 expenditures reflect aids paid in CY 2003 and CY 2004. As summarized in Table 1, FY 2004-05 expenditures will decline to $2.737 billion from a February 2003 forecast base of $3.279 billion, including reductions for:

- **Cities** totaling $333.0 million, including $292.6 million for local government aid (LGA) payments and $40.4 million for lower market value credit reimbursement payments.

- **Counties** totaling $189.5 million, including reductions of $65.0 million in CY 2003 and $124.6 million in CY 2004. In addition, market value credit reimbursement payments will be reduced by $612,000 for two counties in CY 2005.

- **Towns** totaling $7.5 million, including reductions to market value credit reimbursement payments of $3.0 million in CY 2003 and $4.5 million in CY 2004. The CY 2003 reductions are equal to 2 percent of a town's CY 2003 certified levy; the CY 2004 reductions are equal to 3 percent of a town's CY 2003 certified levy.

- **Special Taxing Districts** totaling $6.6 million, including reductions to market value credit reimbursement payments of $2.8 million in CY 2003 and $3.8 million in CY 2004. The CY 2003 reductions are equal to 1.5 percent of a district's CY 2003 certified levy; the CY 2004 reductions are equal to 2 percent of a district's CY 2003 certified levy.

Further, a variety of smaller changes (described more fully below) include,

expenditure reductions of:
- $5.2 million for lower taxpayer interest payments;
- $1.6 million for the elimination of attached machinery aid;
- $100,000 for the elimination of the oil filter refund program;
- $627,000 in FY 2005 resulting from a correction to a court takeover provision enacted in 2001

and expenditure increases of:
- $1.5 million for the border city disparity reduction credit program;
- $200,000 for taxpayer assistance grants;
- $412,000 for the department of revenue to administer the bill provisions; and
- $30,000 to extend the Indian Casino Aid program to one more county.

Finally, homeowner property tax refunds are expected to increase somewhat relative to baseline as a result of selected property tax exemptions and increases in property taxes resulting from local governments levying back of a portion local aid reductions.

Table 1 2003 Omnibus Tax Provisions Changes to General Fund Budgeted Expenditures (dollars in thousands)				
Program	**Base FY 2004-05**	**FY 2004-05 Governor's Recs**	**FY 2004-5 Enacted Budget**	**FY 2006-07 Tails**
Homeowner property tax refunds	247,017	247,017	247,386	293,948
Renter refunds	272,832	272,832	272,832	279,114
Targeting refunds	26,200	26,200	26,200	26,200
Forest land tax credits	8,206	8,206	8,206	9,898
Oil filter refunds	100	0	0	0
Political contribution refunds	9,800	3,934	9,800	9,800
City LGA + low-inc. housing aid	1,196,308	820,522	903,729	874,104
Major County Aids				
Attached machinery aid (13 counties)	4,784	0	410	0
HACA (regular + manf. Home)	334,536	134,471	134,540	0
Out-of-home placement aid	53,313	0	0	0
Criminal justice aid	65,758	32,476	32,201	0
Public defender costs	997	992	992	1,000
Family preservation aid	48,582	23,991	23,884	
County program (inc. transition aid in FY06)		110,750	110,750	412,627
Court takeover aid		15,872	15,594	3,288
Court maintenance of effort aid	2,769	2,769	2,142	1,576
Home+Ag Market Value Credits				
Cities	172,617	113,674	132,242	162,109
Counties	311,388	311,210	310,776	312,834
Townships	35,583	28,283	28,083	33,943
Special Districts	27,442	22,142	20,892	30,557
School Districts	146,902	146,902	146,902	143,960
Other Local Aids				
Attached machinery aid-school	1,620	0	0	0
Disparity reduction aid	39,124	39,124	39,124	39,468
Border city disparity aid	9,496	9,496	10,996	11,499
Indian casino aid	1,386	1,386	1,416	1,426
Supplemental homestead credit	9,896	9,896	9,896	10,397
Taconite aid reimbursement	1,066	1,066	1,066	1,066
Taconite state aid	15,004	15,004	15,004	14,690
Pension aids*	189,788	189,788	189,788	210,971
Taxpayer interest	45,200	40,000	40,000	40,000
Other expenditures**	867	-126	1,479	782
TOTAL EXPENDITURES	**3,278,561**	**2,627,877**	**2,736,330**	**2,922,630**

* Includes Aid to Police and Fire, local police and fire amortization aids, and PERA aid.

** Includes disaster credits, enterprise zone credits, senior deferral program, and educational homestead credit (repealed in 2001 and no expenditures after FY 2004), taxpayer assistance grants, and departmental appropriations for administering the JOBZ program and other provisions.

City Aid Reductions and New Distribution Formula

Chapter 21 requires permanent reductions in city local government aid (LGA) as well as temporary reductions in city market value credit reimbursement payments to cities that receive little or no LGA.

LGA payments are reduced by $122.0 million in CY 2003 aids (20.8 percent) and by $170.6 million in CY 2004 (28.1 percent) relative to the prior law baseline. The resulting LGA funding level of $437.1 million for CY 2004, compared to $607.6 million under prior law, will carry forward as the permanent funding level in CY 2005 and thereafter. In addition, market value credit reimbursement payments are reduced by $20.2 million in both CY 2003 and CY 2004.

CY 2003 LGA and market value credit cuts are based on across-the-board reductions equal to a set percentage of a city's CY 2003 certified levy plus certified state aids subject to certain caps. Reductions for CY 2004 reflect the implementation of a new LGA distribution formula, subject to minimum and maximum cut criteria designed to phase-in the new distribution formula over time. Reductions in CY 2003 apply first to LGA and then to market value credit reimbursement payments; CY 2004 market value credit cuts are equal to the CY 2003 market value credit reduction, up to a city's total amount of market value credits.

<u>Calendar 2003/ FY 2004</u>
In CY 2003, every city is subject to an aid reduction equal to 9.3 percent of the city's "levy plus aid revenue base" for CY 2003. The levy plus aid revenue base for a city is equal to its CY 2003 certified levy plus the sum of the aid amounts the city is certified to receive in CY 2003 (before cuts) for LGA, existing or new construction low-income housing aid, and taconite aid. Cities may also receive revenue from other sources—such as local option sales taxes, fines and charges, or federal assistance—and CY 2003 aid reductions are limited to the lesser of:

- 9.3 percent of levy plus aid; or
- 5.25 percent of the city's total revenues for CY 2000, as reported by the Office of State Auditor, for cities over 1,000 in population, or 3.7 percent of total revenues for cities under 1,000 in population and for cities with a three-year average growth in levy plus aid of less than two percent.

The levy plus aid cut amount is subtracted first from a city's LGA payment and then from its market value credit reimbursements. The overall aid cut further limited to the sum of the payments a city would otherwise receive under these two programs. The reductions enacted for 2003 follow the same methodology as proposed by the Governor, although the percentage reductions differ slightly due to more current information becoming available during the legislative session.

Calendar 2004/FY 2005 Aid Reductions
Beginning in CY 2004, LGA will be distributed based on a new funding formula intended to eliminate all "grand-fathered" aid over time. For CY 2004, a city's LGA cut—relative to CY 2003 certified LGA prior to cuts—is equal to the difference between the amount it was certified to receive on CY 2003 and the amount it would receive under the new distribution formula, except that a city's CY 2004 aid cut cannot be smaller than its CY 2003 aid cut and:

- cannot be less than its CY 2003 aid cut, except to the extent that it receives a special city aid base increase in CY 2004;

- cannot be more than 14 percent of the city's 2003 levy plus aid base if the city's ANTC per capita exceeds $700, or 13 percent if the city's ANTC per capita is less than $700.

New LGA Distribution Formula
Chapter 21 replaces the old law four-factor LGA distribution formula enacted in 1993 for cities with populations equal to or greater than 2,500, with a new five-factor formula effective for aids payable in CY 2004. Further, the old-law formula for cities under 2,500 is retained but formula coefficients are updated to reflect current city spending patterns.

It is important to note that the formula is not intended to measure absolute need, such as the minimum amount of revenue a certain city needs to provide a defined level of city services. Rather the formula measures relative need and capacity among cities with the objective being proportionately less aid, or no aid, distributed to cities with low revenue need and high ability to pay, and more aid distributed to cities with high revenue need and low ability to raise revenue.

Like the old formula, the new formula distributes aid based on the gap between a city's **Revenue Need** and its **Revenue Capacity**, subject to appropriation limits and other minimums and maximums. A city's **Revenue Need** is equal to the sum of each of its need factors multiplied by the relevant coefficient for each need factor, multiplied by the population for the city. A city's **Revenue Capacity** is equal to its net tax capacity multiplied by the tax effort rate plus, beginning for aids payable beginning in CY 2005, a portion of its taconite aids[1].

Under the old law formula for cities over 2,500, city revenue need was determined by four factors: the percentage of pre-1940 housing; the percentage of commercial-industrial property; population decline; and population. As described in Table 2, the new formula determines **Revenue Need** based on five factors: the percentage of pre-1940 housing; population decline; the number of road accidents per capita; metropolitan status; and average household size.

[1] Chapter 21 requires that 25 percent of a cities taconite aids be added to its revenue capacity for aids payable in 2005, 50% for 2006, 75% for 2007, and 100% for 2008 and subsequent years.

Table 2
New LGA Distribution Formula Factors
Cities Over 2,500 in Population

Revenue Need Factor	Coefficient	Description/Interpretation
Percentage of housing stock built before 1940	5.0734908	Need is increased by 5.07 for every 1% of housing stock built before 1940
Population decline percentage	19.141678	The greater the percentage decline in a city's population over the past 10 years, the greater the city's revenue need
Road accidents per capita	2540.06334	The more accidents occurring within a jurisdiction, the greater a city's revenue need
Metropolitan area city	35.20915	A city's revenue need is increased by 35.20915 if it is located outside the seven-county metro area.
Average household size	49.10638	The greater the average household size in a city, the lower its revenue need

The need factors and the coefficients are the result of a statistical analyses designed to identify the variables best able to predict a city's revenue need, based on past spending patterns for all cities. While the link between city spending and formula factors and coefficients may not always seem apparent, the statistical methods used are designed to identify the most unbiased factors, even if those factors are proxies for other factors. For example: the number of road accidents per capita is likely correlated with high numbers of non-residents using city streets, such as commuters, college students, or tourists; and cities with large proportions of housing stock built before 1940 tend to be older cities, with aging populations and infrastructure.

In addition to revising the distribution formula, Chapter 21 repeals most city base aid, or "grand-fathered aid," beginning with aids payable in CY 2004. In particular, all grand-fathered aid established in 1993 when the old formula was created, as well as regional center aid enacted in 2001 are repealed. However, limitations on the amount that each city's aid may increase/decrease from one year to the next have the affect of phasing-in the new formula and phasing-out grand-fathered aid. More specifically, a city's LGA cannot increase or decrease from the previous year by more than 10 percent of the city's net tax capacity for the previous year.

Special law aid base provisions applying to specific cities are retained and two additional special law provisions are added by Chapter 21, including an increase of $200,000 in 2004 only for Red Wing and a permanent increase of $10,000 beginning in 2004, to compensate that City of Comfrey for the fact that much of its pre-1940 housing stock was wiped out by natural disaster in 1998.

<u>City Levy Limits</u>
Chapter 21 extended levy limits for one year for cities with populations greater than 2,500 to taxes payable 2004. The levy limits are equal to the amounts the city actually levied in 2003, not including special levies, plus 60 percent of its aid loss for 2004 (meaning the difference between 2003 certified aids and the amount it is certified to receive in 2004). A city cannot levy back its

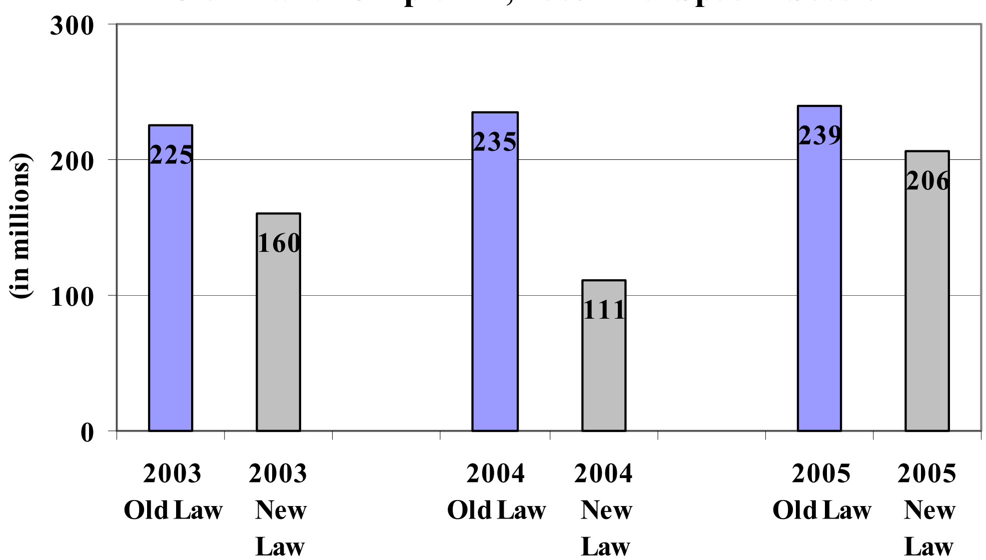
2003 aid loss. State payments for market value credits will return to full funding level beginning in 2005 and thereafter. Cities will be allowed to levy-back for 60 percent of the 2004. Levy limits do not apply to cities under 2,500 in population, which means levies for taxes payable in 2004 are at the discretion of local officials.

County Aid Cuts

Chapter 21 reduces county aids by $65.0 million in 2003 (FY 2004) and $124.6 million in CY 2004 (FY2005). In addition, five county aid programs are consolidated into one aid program beginning in CY 2004. The aid cuts consist of across-the-board reductions in levy plus aid for both CY 2003 and CY 2004, as well as the repeal of CY 2004 rental housing replacement aid and repeal of statutory inflation for aid appropriations beginning with aids payable CY 2004. A new county program aid funding formula was enacted for CY 2005 and thereafter.

As summarized in Figure 1, general purpose county aids will decline by 29 percent in CY 2003, from $225 to $160 million, and by 53 percent in CY 2004, from $235 to $111 million, before rebounding to a funding level of $206 million in CY 2005. As will be discussed further below, these amounts do not include the aid certain counties will receive to fund district court administration until those costs are assumed by the state.

Figure 1
Comparison of Total County Aids
Old Law -v- Chapter 21, 2003 First Special Session



In addition, Chapter 21 makes changes to ensure continued funding for a variety of programs intertwined with the programs being consolidated and repealed, including completion of the state takeover of court administration, funding for certain public defender costs, and funding for local fiscal impact notes. Selected corrections are also made to previously enacted provisions related to state takeovers of court functions.

Calendar 2003/ FY 2004

As summarized in Table 3, CY 2003 county aid reductions are equal to 3.21 percent of each county's levy plus aid revenue base. The levy plus aid revenue base is defined as CY 2003 certified aids plus the sum of the aids the county was certified to receive in CY 2003, before aid cuts, from regular homestead and agricultural credit aid (HACA), manufactured home HACA, family preservation aid, criminal justice aid, and taconite aid.

Table 3

County Aid Reductions CY 2003 and CY 2004

FY 2004 and FY 2005

2003 Aid Changes

3.21 percent of the counties levy plus aid for 2003. Levy plus aid is defined as the 2003 certified net tax capacity levies plus the sum of the certified 2003 aid amounts for:

- regular HACA, excluding amounts for future court administration takeover;
- manufactured home HACA;
- criminal justice aid;
- family preservation aid; and
- taconite aid.

Aid cuts are to be subtracted in order from:

- attached machinery aid;
- regular HACA (after adjustment for court takeover);
- manufactured home HACA;
- criminal justice aid;
- family preservation aid; and
- market value credit reimbursement payments.

Differences from the 2003 reductions proposed by the Governor include:

- No maximum cut based on a percentage of total revenues reported to state auditor;
- No preferences for counties with slow levy plus aid growth;
- 2003 HACA adjusted to regular HACA (after adjustment for court takeover); and
- Transit aid eliminated from the levy plus aid base.

2004 Aid Changes

CY2004:
5.689 percent of the counties 2003 levy plus aid (see above).

Aid cuts are to be subtracted in order from:

- County program aid*; and then if necessary
- market value credit reimbursement payments.

****County program aid** for 2004 will equal the sum of the 2003 certified aid amounts for:*

- *attached machinery aid;*
- *regular HACA, after subtractions for court administration takeover and not including 2004 rental housing replacement aid and out-of-home placement aid, which are both repealed;*
- *manufactured home HACA;*
- *criminal justice aid;*
- *family preservation aid.*

Chapter 21 reductions for 2004 differ from those proposed by the Governor in the same was as for 2003.

In 2003, the reductions are subtracted from payments under individual county aid programs in the following sequence: attached machinery aid, basic homestead and agricultural credit aid (HACA); manufactured home HACA; family preservation aid, and criminal justice aid. No counties will experience a reduction in market value credit reimbursements in CY 2003.

Calendar 2004/ FY 2005

As also summarized in Table 3, five county aid programs are consolidated into one county program aid in CY 2004. County program aid payments are then reduced 5.689 percent of each county's CY 2003 levy plus aid revenue base. In addition, two aid programs enacted as part of the 2001 property tax reforms and scheduled to first take effect in CY 2004—2004 rental housing replacement aid and out-of-home placement aid—were repealed.

The overall reduction of $124.6 million in county aids for CY 2004, relative to baseline, consist of $114.5 million in cuts relative to CY 2003 aid amounts, plus $4.6 million from the repeal of rental housing replacement aid for CY 2004; a total of $4.6 million of statutory appropriation growth for four aid programs; and approximately $0.8 million for the increase in out-of-home placement aid relative to HACA offsets that would had occurred had out-of-home placement aid not been repealed[2].

However, because the aid amounts and distribution amounts folded into county program aid are equal to the CY 2003 certified aid amounts for each program, the distribution of aids across counties is not affected by the consolidation in CY 2004.

Calendar 2005/ FY 2006 and after

Beginning in CY 2005, the funding level for county program rebounds to $205 million annually from $110.8 million in CY 2004, after aid reductions. However, the full amount is subject to a new funding formula that will distribute $100 million based on need factors similar to factors included in the county aid programs that are eliminated. The remaining $105 million will be distributed based on the tax capacity of the county relative to an average county spending level.

Although the funding level increases substantially from CY 2004, not all counties will receive more aid, and some may receive less, depending on how the county compares on the need and capacity factors. In general, counties that have high per capita tax base and receive large amounts of HACA, relative to other counties, are more likely to experience lower aid levels. However, Chapter 21 also provides for transition aid for those counties that experience changes in aid, relative to current law aid distribution at a commensurate funding level, in excess of 3 percent of adjusted net tax capacity. Counties qualifying for transition aid CY 2005 will receive two-thirds of the CY 2005 amount as transition aid in 2006, one-third of the CY 2005 amount as transition aid in 2007, and no transition aid after CY 2007.

[2] Under old law, out-of-home placement aid would have been equal to 30% of non-federal out-of-home placement costs and the 2004 aid amounts would have been subtracted the 2004 HACA amounts for each county. However, because county received less in HACA than it would have received in out-of-home placement aid, that county would have gained $900,000 in aid.

Interactions with Other Programs
Elimination of HACA and criminal justice aid in CY 2004 when those programs are collapsed into county program aid necessitated several changes to maintain funding sources for several programs that had been linked to those programs.

Public Defender Costs: Under prior law, 1.5 percent of the criminal justice aid appropriation was annually set-aside fund public defense services for correctional facility inmates and any unspent funds were added into the criminal justice distribution formula the following year. Chapter 21 requires that $500,000 be subtracted from county program aid to fund these services[3].

Local Impact Notes: Under prior law, the Commissioner of Finance was authorized to bill the Commissioner of Revenue up to $200,000 annually for the costs of completing local fiscal impact notes and then those costs were then deducted from county HACA distributions. Chapter 21 directs that these subtractions now be made from the $105 million allocated to tax base equalization aid under the new county aid program. Similar timing issues to those sighted in the footnote to the public defender costs apply to local impact note funding.

In addition, Chapter 21 also requires that local impact notes must also be completed, upon request, for law changes affecting school districts. The amount that the Commissioner of Finance is authorized to bill for completing local impact notes is increased to $207,000 and the Commissioner of Education is similarly authorized to bill the Commissioner of Revenue up to $7,000 annually for completing such local impact notes for school districts.

Court Takeover Provisions and Aid: Under prior law, county HACA payments were to be reduced by the a portion of the difference between court administration costs for the county and the fine revenue that county was transferring to the state once court costs were taken over by the state. However, because HACA is being eliminated in 2004 and court takeover adjustments would not have been completed until CY 2006, Chapter 21 makes the following changes:

- The levy plus aid revenue base for all counties that have not yet been taken over is adjusted so that such counties do not incur a greater share of the aid cuts relative to other counties;
- The Supreme Court, Office of State Courts, is directed to certify a final aid offset amount for all counties by July 15, CY 2003, regardless of when the state will assume final funding responsibility for a county's court administration costs, and those aid offset amounts will then be deducted from HACA prior to consolidation into the new county aid program in CY 2004;
- A new, temporary, court transition aid program is established to pay aid to counties in direct proportion to the HACA amounts that would have been lost upon state takeover under prior law; and

[3] Although the intent was to provide a seamless source of funding for these public defender services, the $500,000 subtraction from county program aid becomes effective for 2005 under chapter 21 rather than 2004 as intended. A letter from the Chairs of the House and Senate Tax Committees clarifies the intention of the Members to seek the necessary adjustments in the next legislative session. In addition, provisions may need to be added to allow for any unspent funds to be returned to the general fund in subsequent years.

- Court maintenance of effort is established as a temporary aid program, independent of HACA, to provide funding for the required increases in county spending on district court administration after CY 2003 and up until the time the state assumes funding responsibility for such costs.

Use of County Aids - County Budget Flexibility

Chapter 21 maintains the statutory requirements that counties use family preservation aid to fund family preservation programs, and criminal justice aid to fund criminal justice programs, for aids payable in CY 2003. However, those requirements are repealed for aids payable in CY 2004 when family preservation aid and criminal justice aid are collapsed into county program aid.

Although county program aid will continue to be based, in part, on need factors related to family preservation and criminal justice programming, county program aid is considered a general-purpose aid with no limitations on how counties can spend the money. Further, although the amounts of court transition aid and court maintenance of effort aid a county receives are directly related to how much they are required to spend on court administration until those costs are assumed by the state, there is no requirement that the dollars paid under those programs be the dollars used to fund court administration.

County Levy Limits

Similar to cities, Chapter 21 extends levy limits for counties by one year for taxes payable 2004. The levy limits are equal to the amounts the county actually levied in 2003, not including special levies, plus 60 percent of its aid loss for CY 2004, including any amounts that will be subtracted from market value credits. A county cannot levy back its CY 2003 aid loss.

However, it should be noted that because some county aids had not been previously included in the calculation of levy limits, Chapter 21 also directs that the CY 2003 levy limit base be adjusted to incorporate those aids. Table 4 summarizes the treatment of the various county aid programs under Chapter 21.

Table 4

Treatment of County Aid Programs for Levy plus Aid Base, and Levy Limits

Program	**Included in Levy + Aid Revenue Base**	**Included in 2004 Program Aid**	**Part of Adjusted Levy Limit Base**
Attached Machinery Aid	No	Yes	Yes
HACA-regular	Yes	Yes	Yes
HACA-manufactured home	Yes	Yes	Yes
Family Preservation Aid	Yes	Yes	Yes
Criminal Justice Aid	Yes	Yes	Yes
Taconite Aid	Yes	No	Yes
HACA adjustment for Court Errors	Yes	Yes	Yes
Court MOE Aid	No	No	No
Court Transition Aid	No	No	Yes

Other Expenditure Provisions

Chapter 21 also included general fund expenditure changes for a variety of targeted aid programs, including:

- Repeal of the used oil filter refund program that provided $50,000 in "refunds"[4] annually. The program was first enacted in 1998 to supplement the used oil reimbursement program by paying refunds to businesses or individuals that collected and properly disposed of used oil filters. Refunds were limited to 200 applicants and $250 per applicant.

- Expansion of the county tribal casino aid program to include all counties regardless of whether the Tribe operating the casino in the county has entered into a tax agreement with the state. As result, Goodhue County will receive payments estimated at $10,000 in FY 2004 and $20,000 each year thereafter. The program shares 5 percent of the state excise taxes (tobacco, alcohol, and motor fuels) collected from activities on reservations with counties in which tribal casinos are operated. However, under prior law the program only applied to counties the Tribe operating the casino had entered into a tribal tax agreement with the state.

- Repeal of attached machinery aid for school districts beginning with aids payable in 2003. Under this program, 11 school districts had been annually receiving a total of $810,000 in aid. The aid program was created in the early 1970's to reimburse local governments for lost tax base when attached business machinery was made exempt from the property tax. The attached machinery aid payments to the 13 counties benefiting from the program will continue for 2003, but be folded into county program aid beginning in 2004.

- Appropriates $1.5 million for the border city enterprise and development zone programs. The appropriation is divided equally between the two programs and is allocated among the five qualifying border cities—Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville—based on population. Under these programs, the local governments develop a plan for and grant tax credits to qualifying businesses or homeowners. The $1.5 million appropriation is made in FY 2004 but the dollars are available until spent.

- Appropriates $100,000 in FY 2004 and $100,000 in FY 2005 to the Commissioner of Revenue to make grants to non-profit organization to provide taxpayer assistance services. The appropriation does not become part of the base.

Finally, Chapter 21 included the following appropriations: $200,000 in FY 2004 to the Commissioner of Revenue to administer the law changes enacted in 2003; $53,000in FY 2004 and $29,000 in FY 2005 to the Commissioner of Revenue to administer the provisions of the JOBZ program; and $100,000in FY 2004 and $30,000 in FY 2005 to the Commissioner of Trade and Economic Development to administer the provisions of the JOBZ program.

[4] The refunds may be more appropriately thought of as grant payments because they are not tied to a specific tax.

Changes in Fees, Surcharges, Co-pays in 2003 Budget Bills

Numbers show result of the change by fiscal year

	FY 04	FY 05	FY 06	FY 07	Fund
Higher Education					
Private institution registration - initial registration from $550 to $1,100					
Private institution registration - renewal from $400 to $950					
Total private institution fee revenue to go from $41,000 to $75,000/yr	34	34	34	34	SR
Education					
teacher licensure - increased from $47 to $57 - $310,000 per year	310	310	310	310	GF

Judiciary	FY 04	FY 05	FY 06	FY 07	Fund
Surcharge increase of $25 on fines - $35 to $60	15,071	18,085	18,085	18,085	GF
Surcharge on Parking Fines - $3	1,891	2,268	2,268	2,268	GF
Court Administration Fees (listed below)	6,873	8,365	8,365	8,365	GF
Subpoenas - $3 to $12					
Judgment transcripts - $7.50 to $30					
Deposit of Wills - $5 to $20					
Executions - $10 to $40					
Trust Reports - $10 to $40					
Record Notorial Fees - $20 state & $5 county to $80/$20					
Civil filing fee - $135 to $235	10,120	12,144	12,144	12,144	GF
Conciliation court - $25/$35 to $50	668	801	801	801	GF
Appellate filing fee - $250 to $500	330	396	396	396	GF
Motion fee - new $25 fee	1,638	1,965	893	893	GF
Tax Court Small Claims Fee - $25 to $100	7	8	8	8	GF
DWI Test Refusal Fine	104	169	169	169	GF
Fire marshal - potable water piping system installer certificate - $55	0	51	89	75	GF
BCA Criminal History Charge - Use of Website - new-estimated at $1.55	0	1,663			GF
DPS - Indoor Fireworks Inspection Fee - New $150	4	4	4	4	GF
DPS - Retail Buyer Card Liquor Licensing Fee - $20 to $35	93	93	93	93	GF
BCA - fees to carry handguns (Chapter 28) $10 to $100	1,075	200			GF
Criminal Justice Data Network Fee Increase (Internet access)	82	76	76	76	GF-Ded
Criminal Justice Data Network Fee Increase (FBI check, new $10 fngrprnt	158	158	158	158	SR
Fire marshal exam fee - $55	12	12	12	12	SR
Fire marshal school inspections - fee is $.14 per square foot	572	572	572	572	SR
Fire marshal hotel/motel inspections - $435 plus room charge/$225 follow-	520	520	520	520	SR
Human Rights - Certificate of Compliance Fee - New $75	60	60	60	60	SR
Public Defense Co-Pay ($200/$100/$50)	2,740	0	0	0	GF
Public Defense Co-Pay ($200/$100/$50)		7,681			SR
Judiciary Totals					
General Fund	40,696	46,288	43,391	43,377	GF
Other Funds	1,322	9,003	1,322	1,322	SR

Jobs & Economic Development	FY 04	FY 05	FY 06	FY 07	Fund
Boiler License & License Fee Surcharge - $5	345	345	0	0	GF
Commerce - Weights & Measures - various increases	253	253	253	253	GF
Commerce - various reductions	-1,486	-1,486	-1,486	-1,486	GF
Apprenticeship Program Registration Fee (new -$50)	300	300	300	300	SR
Marriage License Fee - Displaced Homemaker ($10 increase - $70 to $80	240	240	240	240	SR
Workforce Development Fund Special Assessment (.09 to .12)	4,824	12,360	7,686	0	WD
Petroleum Tank Release Cleanup Fee	0	0	24,800	24,800	Petro
Certain Airlines Exempted from Petro Fund Fee	-2,000	-2,000	0	0	Petro
Jobs & Economic Development Totals					
General Fund	-888	-888	-1,233	-1,233	GF
Other Funds	3,364	10,900	33,026	25,340	Other

State Government

	FY 04	FY 05	FY 06	FY 07	Fund
Board of Assessors Fee	25	25	25	25	GF
Revenue Recapture Fee (general fund)	408	408	408	408	GF
Revenue Recapture Fee (other funds)	167	167	167	167	SR
Paper Filing Fee - Income Tax Preparers	1,200	800	800	800	GF
Campaign Finance Board - $50 per client, annual fee	420	0	0	0	GF
MN Amateur Sports Facilities Commission (various fees)	225	225	225	225	GF
Lawful Gambling Control Board fees (move out of general fund)	-1,044	-633	-1,044	-633	GF
Lawful Gambling Control Board fees (move to special revenue fund)	2,901	2,901	2,901	2,901	SR
Racing Commission fees (moved out of general fund)	-135	-135	-135	-135	GF
Racing Commission fees (moved to special revenue fund)	421	421	421	421	SR
Internal Revenue Service Levy Fee	32	32	32	32	SR
G/HVAC surety bond program (Administration) - $15 bond filing fee	37	37	37	37	SR
911 Fee Change (33 c to 40c)	4,881	5,187	5,187	5,187	SR
State Government Totals					
General Fund	1,099	690	279	690	
Other Funds	8,439	8,745	8,745	8,745	

Environment & Agriculture

	FY 04	FY 05	FY 06	FY 07	Fund
Utility license fees (DNR)	185	185	185	185	GF
Water use permit processing fee (DNR)	1,262	1,262	1,262	1,262	GF
DNR camping	13	13	13	13	GF
Wetlands banking (BWSR) 1% of account value up to $500	128	128	128	128	GF
Food handler fees (Ag) variety of increases	708	708	708	708	GF
Dairy fees (Ag) $25 to $45 for reinspection	285	285	285	285	Ag
Food handler reinspection fees (Ag)	15	15	15	15	Ag
Nursery/phytosanitary fees (Ag)	447	477	477	477	Ag
Seed inspection fees (Ag)	200	200	200	200	Ag
Chronic wasting (Animal Health) $10 per cervid up to $100 per herd	61	61	61	61	SR
Commercial fishing (DNR) (a) see list below	79	193	193	193	G&F
Aquatic plant (DNR) $200 to $750 for harvesting	125	125	125	125	G&F
Trout & Salmon (DNR) $8.50 to $10.00	120	158	158	158	G&F
Wild rice (DNR) $12.50 to $25 seasonal, $15 daily, $30 nonresident	15	15	15	15	G&F
Camp Ripley archery (DNR) $8	11	11	11	11	G&F
All hunting license changes (deer, small game, waterfowl, youth, etc) (b)	511	1,371	1,371	1,371	G&F
Mn Zoo - school fee	215	215	215	215	SR
DNR camping	709	709	709	709	NR
Park entrance fees (DNR) $20 to $25 for annual, $4 to $7 for daily	1,290	1,290	1,290	1,290	NR
Off Highway Vehicle (OHV) registration fees (DNR) (d)	350	595	840	840	NR
Stormwater fees (PCA)	2,555	2,555	2,555	2,555	Env
Water fees (PCA) various increases	10	24	24	24	Env
Hazardous waste fee (PCA)	0	2,000	2,000	2,000	Env
Individual Sewage Treatment System (ISTS) fee (PCA) $25 per tank insta	480	480	480	480	Env
Environment & Agriculture totals					
General Fund	2,296	2,296	2,296	2,296	
Other Funds	7,478	10,779	11,024	11,024	

(a) Commercial fishing includes: resident fishing guide $35 to $125, minnow dealer $100 to $310, minnow retailer $15 to $47, fish hatchery $35 to $70, fish netting: $90 to $120, fish buyer: $70 to $150, fish packer: $20 to $40, fish vendor: $35 to $70, frog dealer: $100 to $220

(b) small game: $12 to $12.50, small game surcharge: $4 to $6.50, deer: $25 to $26, non-resident deer: $124 to $135, waterfowl & pheasant - $5 to $7.50

(d) $2 to $4.50 plus filing fee of $7

Transportation	FY 04	FY 05	FY 06	FY 07	Fund
Motor vehicle transfer fee - $2 to $3	1,600	1,700	1,700	1,700	GF
Motor vehicle transfer fee - $2 to $3	1,342	1,395	1,395	1,395	HUTDF
Driver license reinstatement fee (brain injury) $630 to $680	1,085	1,085			SR
Driver license reinstatement fee (vehicle forfeiture) $630 to $680	362	362			SR
High occupancy vehicle lane users fee					SR
Late bar closing ($200, $500, $600)	2,499	2,499	2,499	2,499	SR
Transportation totals					
General Fund	1,600	1,700	1,700	1,700	
Other Funds	5,288	5,341	3,894	3,894	
Taxes					
Fee (35c/pack) on cigarette manufacturers not part of tobacco settlement	6,390	6,560	6,730	6,800	GF

Health & Human Services	FY 04	FY 05	FY 06	FY 07	Fund
Child Support Services User Fee (2%)	462	636	884	884	GF
Parental fees - (TEFRA, HCBS) (DHS)	2,075	2,075	2,075	2,075	GF
Various license fee increases (DHS)	1,225	1,225	1,225	1,225	GF
MA/GAMC/MNCare Co-pays and caps with exemptions	10,270	13,424	16,115	17,794	GF
Restorative dental 50% co-pay (GAMC)	1,070	781	1,609	1,671	GF
Adult eyeglasses $25 co-pay (GAMC)	215	143	295	306	GF
Non-emergency ER visits $25 co-pay (GAMC)	838	526	1,084	1,126	GF
Nursing home Surcharge and IGT	49,422	49,100	49,087	49,067	GF
Intermediate Care Facility/MR Surcharge	1,112	1,047	947	847	GF
Child Care family co-pay changes	4,980	6,291	6,283	6,283	GF
Remove provider tax exemptions	-9,849	-27,565	-29,931	-31,989	GF
County share on large Intermediate Care Facilities/MR	0	10,579	10,788	10,052	GF
County share Regional Treatment Centers-IMDs	0	5,804	3,475	2,176	GF
Reduce MA payment for Nursing Facility Medicare co-pays	4,371	4,662	4,639	4,668	GF
Swimming pool regulation (Health)	87	87	87	87	SGSR
Plumbing plan review (Health)	985	985	985	985	SGSR
Newborn screening (Health)	2,870	2,870	2,870	870	SGSR
Occupational Therapists fee holiday (Health)	-220	-220	0	0	SGSR
Alcohol and drug counselor regulation	153	159	156	154	SGSR
Counselors Board (new board)	0	259	259	259	SGSR
Hearing Instrument Dispenser Regulation (Health)	-78	58	58	58	SR
MA/GAMC/MNCare Co-pays and caps with exemptions	1,573	2,736	3,106	3,462	HCA
MNCare premium increase	2,125	3,194	3,329	3,464	HCA
Remove provider tax exemptions	16,587	46,322	49,413	52,659	HCA
Health & Human Services totals					
General Fund	66,191	68,728	68,575	66,185	
Other Funds	24,082	56,450	60,263	61,998	

All Committees	FY 04	FY 05	FY 06	FY 07
General Fund	117,694	125,684	122,048	120,125
Other Funds	50,007	101,252	118,308	112,357
All Funds	**167,701**	**226,936**	**240,356**	**232,482**
Biennial Totals - All Funds		**394,637**		**472,838**

Fund abbreviations:

- GF = general fund
- G&F = game and fish fund
- SR = special revenue fund
- SGSR = state government special revenue fund
- HCA = health care access fund
- HUTDF = highway user tax distribution fund
- Env = environmental fund
- Ag = agricultural fund
- NR = natural resources fund
- WD = work force development fund
- Petro = petroleum tank release fund