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Money Matters

A Publication of the House Fiscal Analysis Department on Government Finance Issues

Fiscal Actions of the 1998 Legislature

The Supplemental Budget for FY 1998-99

***Abstract:** This issue of Money Matters provides a summary of the fiscal issues of the 1998 legislative session. It presents an overview of the state's general fund budget for the fiscal year 1998-99 biennium and summarizes each area by fiscal committee or division.*

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Budget Overview

Revenues Exceeded November 1997 Forecast by $1.917 Billion

The November 1997 state general fund forecast of revenues and expenditures projected that state General Fund revenues for the FY 1998-99 biennium would exceed expenditures by $1.36 billion. With the February 1998 forecast, the projected General Fund surplus increased to $1.917 billion.

Of this amount, $872 million was in the Property Tax Reform Account which was created in 1997 legislation and reserved for property tax reductions, reform and rebates. Table 1 shows the change in the major components of the state's general fund between the end of the 1997 legislative session and the February 1998 forecast. Table 1 does not include any actions of the 1998 Legislature.

It is important to note that while increases in revenue caused much of this change, a significant portion of the change was the result of expenditure reductions. Table 1 shows that of the FY 1998-99 changes, $346 million are caused by lower expenditures and, although not specifically highlighted in the chart, $92 million of the balance forward from the previous biennium were the result of lower expenditures. Expenditures were lower primarily in human services.

Table 1.

General Fund Budget Summary – – FY 1998-99

(Dollars in Millions)	**End of 1997 Session**	**February 1998 Forecast**	**Change**
Balance Forward from Previous Biennium	$1,631	$1,995	$364
Projected Revenues	$20,316	$21,471	$1,155
Estimated Expenditures	$20,925	$20,579	$(346)
Reserves:			
Cash Flow Account	$350	$350	$0
Budget Reserve	$522	$522	$0
Dedicated Reserves	$72	$98	$26
Property Tax Reform Account	$46	$872	$826
Available Balance:	**$32**	**$1,045**	**$1,013**

The 1998 Legislature allocated about 70 percent of the additional resources to three areas: a second "one-time" property tax rebate, cash instead of bonding in the capital bill, and property tax reform and reductions. Table 2 and the accompanying pie chart 1 on page 3 show how the $1.917 billion were allocated in the 1998 legislative session.

Chart 1. Percentages may not total 100 percent due to rounding. *Source: House Fiscal Analysis Department, 4/23/98.*

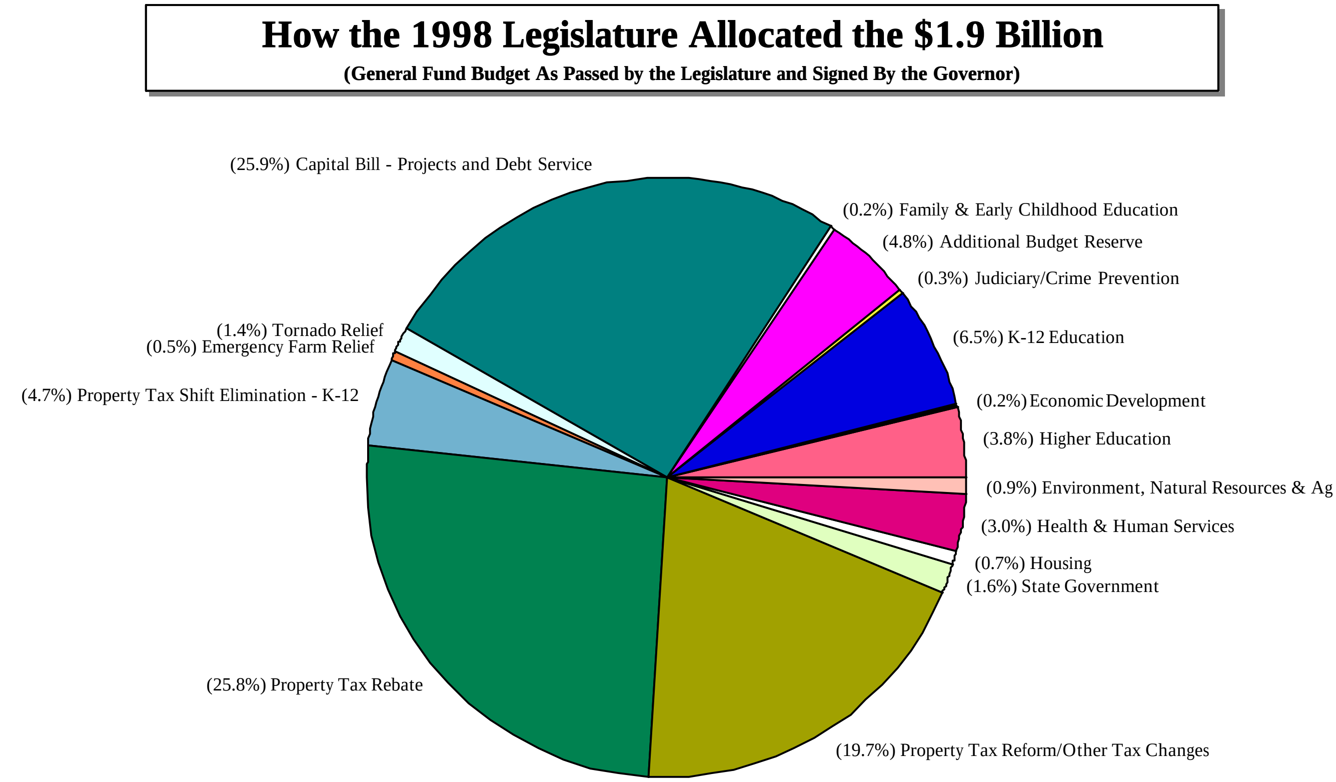


Table 2.

How the 1998 Legislature Allocated the $1.9 Billion Surplus

GF Budget as Passed by the Legislature and Signed by the Governor

	Dollars in thousands	*Percent of Total*
Higher Education	$72,500	3.8%
Economic Development	$4,100	0.2%
K-12 Education	$124,984	6.5%
Judiciary/Crime Prevention	$5,016	0.3%
Additional Budget Reserve	$91,200	4.8%
Family & Early Childhood Education	$4,200	0.2%
Capital Bill - Projects and Debt Service	$496,926	25.9%
Tornado Relief	$27,600	1.4%
Emergency Farm Relief	$8,800	0.5%
Property Tax Shift Elimination – K-12	$90,100	4.7%
Property Tax Rebate	$494,500	25.8%
Property Tax Reform/Other Tax Changes	$376,717	19.7%
State Government	$31,023	1.6%
Housing	$13,600	0.7%
Health & Human Services	$57,871	3.0%
Environment, Natural Resources & Ag	$16,958	0.9%
Others	$865	0.0%
Total	**$1,916,960**	**100.0%**

Total forecasted revenues for the FY 1998-99 biennium prior to any revenue reductions total $24.056 billion. Almost 43 percent of this revenue is from individual income taxes, another 27.5 percent is from sales tax. Almost $2 billion (8 percent) of the available resources are revenues carried-forward from the biennium ending June 30, 1997. Table 3 and the accompanying pie chart 2 illustrate these numbers.

Chart 2. House Fiscal Analysis Department, April 1998.

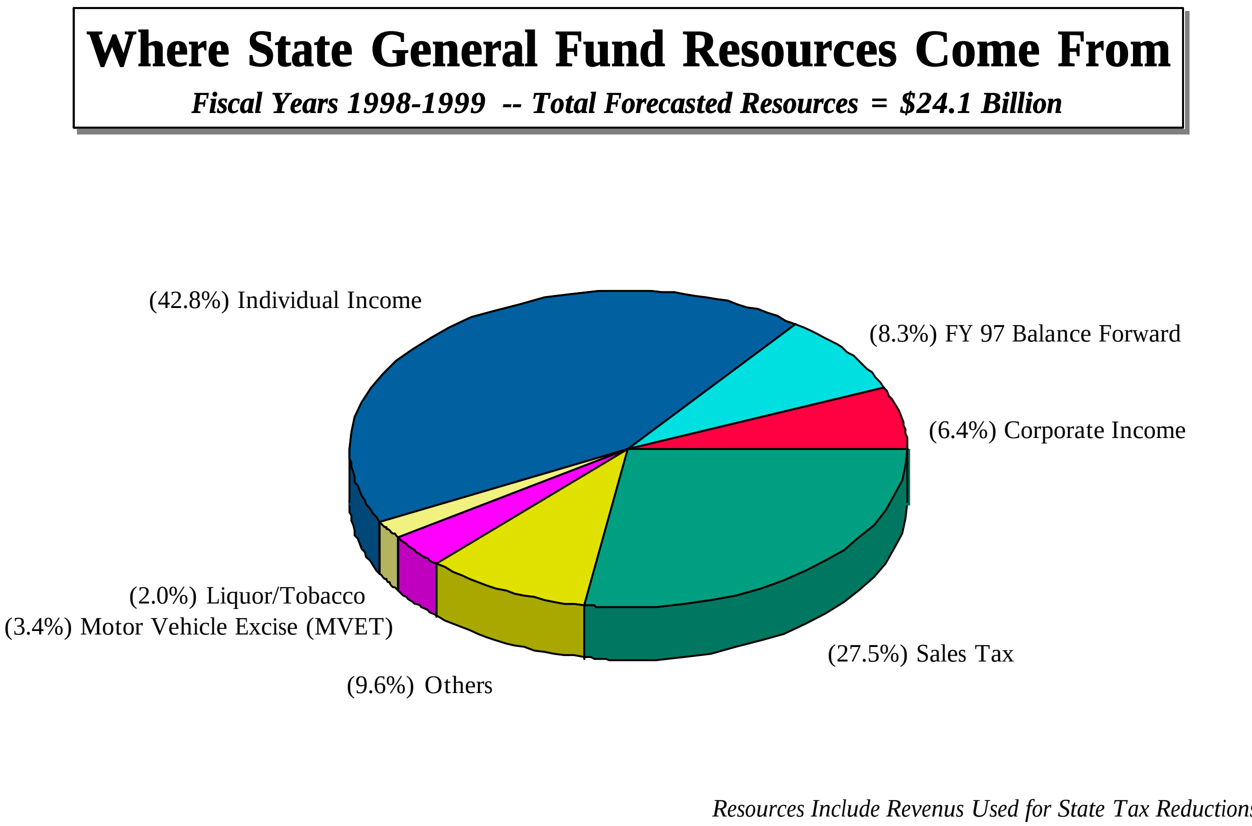


Table 3.

Minnesota General Fund Forecasted Revenues – FY 1998 & 1999

Updated for February 1998 forecast of state revenues. Resources Include Revenues Used for State Tax Reductions*

Revenue Source:	***Amount ($ millions)***	***Percent***
Corporate Income	*$1,551*	*6.4%*
FY 1997 Balance Forward	*$1,995*	*8.3%*
Individual Income	*$10,300*	*42.8%*
Liquor/Tobacco	*$470*	*2.0%*
Sales Tax on Motor Vehicles (STMV)	*$816*	*3.4%*
Other	*$2,318*	*9.6%*
Sales and Use Tax	*$6,606*	*27.5%*
TOTAL:	*$24,056*	*100.0%*

** Resources used for income and sales tax reductions in the 1997 and 1998 legislative sessions are included here as revenues. These amounts are shown as expenditures for tax reductions on the corresponding "How State General Fund Resources Are Allocated" charts.*

Table 4 and the accompanying pie chart 3 on page 6 show how the $24.056 billion of state revenue is allocated. K-12 education at $6.8 billion or 28.4 percent is the single largest expenditure component.

Table 4.

How State General Fund Resources Are Allocated -- FY 1998 & 1999

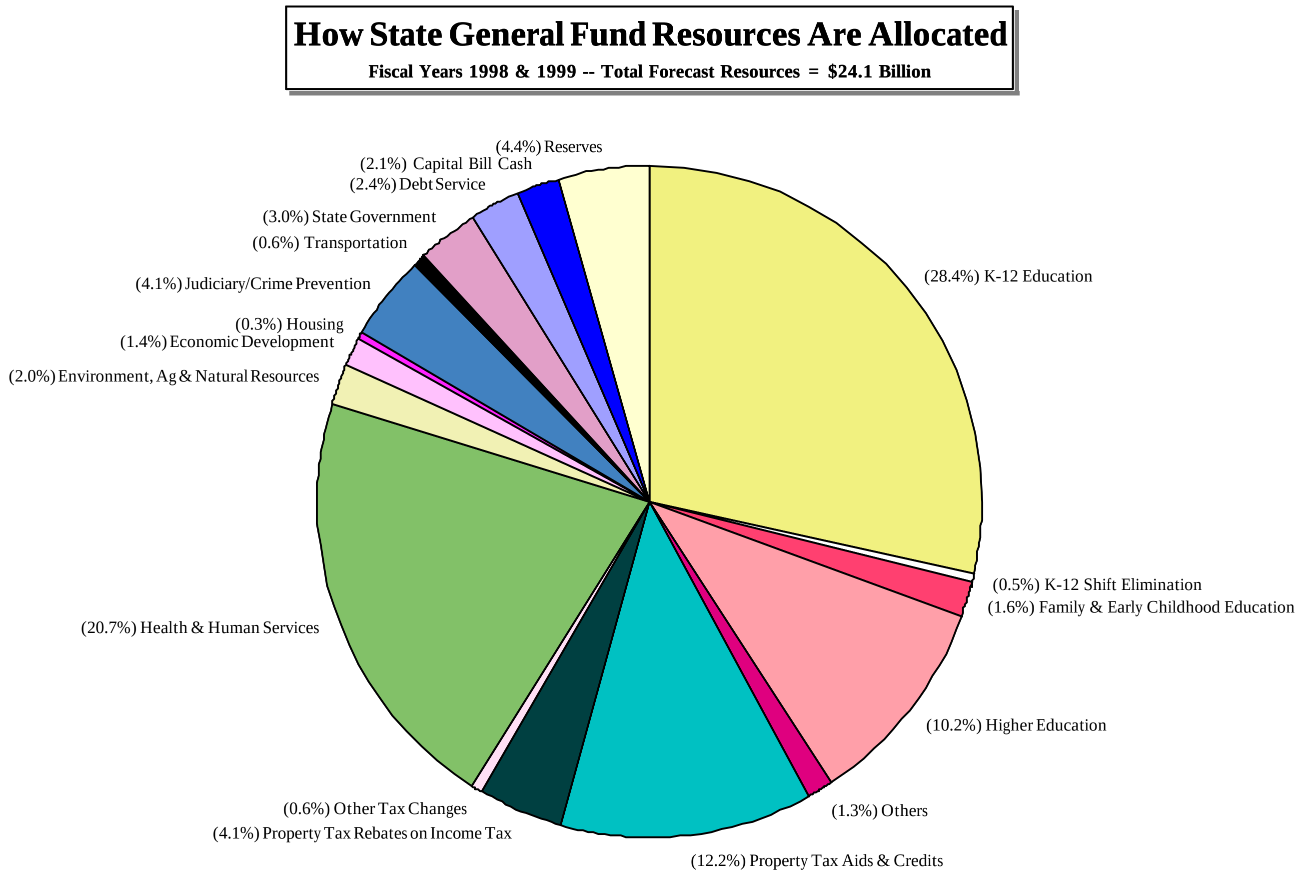
Total Resources = $24.1 Billion

	FY 1998-99	
Resources Include Revenues Used for State Tax Reductions	**Amount ($ millions)**	**Percent**
K-12 Education	$6,843	28.4%
K-12 Shift Elimination	$109	0.5%
Family & Early Childhood Education	$394	1.6%
Higher Education	$2,450	10.2%
Others	$318	1.3%
Property Tax Aids & Credits	$2,945.9	12.2%
Property Tax Rebates on Income Tax	$994.5	4.1%
Other Tax Changes	$136.2	0.6%
Health & Human Services	$4,987.1	20.7%
Environment, Ag & Natural Resources	$475.6	2.0%
Economic Development	$330.2	1.4%
Housing	$78.5	0.3%
Judiciary/Crime Prevention	$991.2	4.1%
Transportation	$151.1	0.6%
State Government	$719.1	3.0%
Debt Service	$571.6	2.4%
Capital Bill Cash	$500.0	2.1%
Reserves	$1,060.4	4.4%
TOTAL:	**$24,056**	**100.0%**

Chart 3 may differ from others illustrating spending for the biennium in that it treats revenue reductions that would otherwise reduce revenue available (the $24.056 billion) as resources being allocated. This more accurately reflects the fiscal decisions made by the Legislature in 1998 and 1999. However, actions such as the two property tax rebates enacted in 1997 and 1998 could just as legitimately be treated as reductions in revenue.

Alternative analysis would show total revenue reduced by the $994.5 million of those rebates to $23.062 billion, and the slice of the pie showing property tax rebates would not appear on the charts.

Chart 3. Resources include revenues used for state and local tax reductions. House Fiscal Analysis Department 5/6/98.



Budget Reserve Increased to $613.2 Million on July 1

Legislation passed in 1998 increased the state's budget reserve $100 million to $622 million. However, an emergency farm bill (Laws of Minnesota 1998, Chapter 395)appropriated $8.8 million from the budget reserve to compensate farmers in northern and western Minnesota for crop insurance costs if those farmers have experienced substantial losses on wheat or barley crops. As of July 1, 1998, the budget reserve will be at $613.2 million. The cash flow account is at $350 million.

How the November 1998 General Fund Forecast Will Be Allocated

If the forecast of general fund revenues and expenditures released in December of 1998 forecasts a balance for the FY 1998-99 biennium, those amounts are allocated as follows in the following order:

1. $8.8 million to bring the budget reserve to $622 million; then
2. $200 million to a tax reform and reduction account that could be used for reducing and reforming any of the state's taxes; then
3. an amount that would replace any bonds authorized in the 1998 Capital Bill but not yet sold as of the time of the forecast.

The Capital bill authorizes $483 million in new bonding. It is unclear at this time how many of those bonds may be sold by the time of the forecast but it is likely to be a relatively small portion of the total.

It is important to note that the general fund forecast released in December, 1998 will be cover the current biennium (FY 1998-99) and the next biennium (FY 2000-01). The allocation of any balance is the balance for FY 1998-99 only and does not affect any projected balance for FY 2000-01.

For more information on budget issues, contact Bill Marx, Chief Fiscal Analyst, Room 373, 612-296-7176; send email to: bill.marx@house.leg.mn.state.us; or, contact the Fiscal Analyst working with the specific issue area of interest (via the Fiscal Staff directory on the World Wide Web at: http://www.house.leg.state.mn.us/fiscal/staff.ssi*) or, refer to the addresses and telephone numbers at the end of each section of this paper.*

Minnesota House of Representatives Fiscal Analysis Department on the World Wide Web.

For more information about House fiscal committee structure, the responsibilities of the Fiscal Analysis department and a collection of fiscal writings, data, spreadsheets and graphics, visit our web site at:

http://www.house.leg.state.mn.us/fiscal/fahome.ssi.

Spreadsheets for each of the fiscal acts discussed in this paper are available at:

http://www.house.leg.state.mn.us/fiscal/docs.ssi#Spreadsheets.

A glossary of fiscal terms and acronyms is available at:

http://www.house.leg.state.mn.us/fiscal/files/97gloss.evy.

The Fiscal Analysis Department web site also has copies of back issues of *Money Matters* budget papers going back to 1995 at:

http://www.house.leg.state.mn.us/fiscal/docs.ssi#Money Matters.

Part 2.

Details of the Budget

Capital Investment

Overview: The 1998 Capital Investment Act, *Laws of Minnesota 1998*, Chapter 404, was the largest capital bill in state history. The total package of slightly less than $1 billion is half cash and half debt, with $500 million coming from the General Fund appropriations rather than bonds. General obligation bonds ($471.5 million), trunk highway funds ($1.2 million), and user-financed bonds ($25.6 million) make up the rest of the financing in the package. Though the overall act has several differences from the Governor's capital budget recommendations, most of the appropriations were in the same primary areas: Higher Education, Environment, and Economic Development.

Infusion of $500 million in General Fund cash kept the act well within the maximum bonded debt capacity limit of $900 million as computed by the Department of Finance. It is believed that by reducing the bond authorization in this act, future available debt capacity will increase to $950 million for the FY 2000-01 capital budget cycle.

Highlights of the Act

University of Minnesota

The University was appropriated $138 million in cash and bond proceeds to fund requested projects, and language requires the University to fund $68.5 million worth of additional capital projects. The University will be required to fund the requests for renovations of Ford and Murphy Hall and the Architecture building. In addition, the University will finance the construction of the "shell" of the new Molecular Biology facility at a cost of $35 million. Major State-funded projects are:

- $53.6 million to convert Walter Library to a Digital Technology Center.
- $6.9 million for Peters Hall on the St. Paul campus.
- $4 million for the renovation of Gortner and Snyder Hall in St. Paul.
- $3.8 million for improvement at the Crookston campus.
- $22.3 million for a new library at the Duluth campus.
- $28.2 million for a science facility addition in Morris.
- $3 million for women's athletic facilities.
- $4.4 million for agriculture experiment station additions and renovation.

Minnesota State Colleges and Universities

The MNSCU system received $143 million for capital improvement including $43 million for asset preservation. Other major projects are:

- $16 million for a College Center project in Hibbing.
- $11 million for a new classroom building at Inver Hills.
- $11 million for athletic facilities in Mankato.
- $10.4 million for a science facility at North Hennepin.

- $7.6 million for an addition at Ridgewater Technical College.
- $11 million for a University Center and sports facility in Rochester.
- $10 million for renovation and remodeling at St. Paul Technical College.
- $4 million for Northland Community College student facilities.
- $5 million for a land acquisition fund.
- $1 million for an addition to the St. Cloud Technical College.
- $1 million for Bemidjii Technical College remodeling.
- $1 million to design a library at Metro State University.
- $1.7 million for remodeling at Pine Technical College.

Department of Children Families and Learning

The Department of Children, Families and Learning appropriations total $62.4 million. Major projects are:

- $5 million for Head Start facilities.
- $5 million for Youth Enrichment Grants.
- $10.8 million for local community center grants.
- $22.2 million for voluntary desegregation magnet schools.
- $14 million for the Wilder schools projects in St. Paul.
- $1.5 million for library accessibility grants.
- $1 million for school building accessibility grants.
- $1.4 million for the Mississippi Education Center in Grand Rapids.

Faribault Academies

The Academies receive more than $9 million for asset preservation and renovation projects including $4 million for the renovation of Tate Hall and $4.5 million for the expansion and renovation of Lysen Hall.

Department of Natural Resources

The DNR is appropriated $130 million for a wide variety of projects. Those funded for $1 million or more are:

- $18 million for DNR owned buildings.
- $9 million for metro area regional parks.
- $30 million for flood mitigation grants.
- $15 million for trail acquisition and betterment.
- $8 million for local initiative grants.
- $5 million for the Lake Superior Safe Harbors program.
- $10.5 million for Re-invest in Minnesota (RIM) programs.
- $3.9 million for the Como Park Education Resource Center.
- $2.3 million for the Laurentian and Prairie Woods environmental learning centers.
- $4 million for metro area greenways.
- $2 million for statewide water access and fishing piers.
- $1.3 million a grant to the Lake Superior Zoo in Duluth.

Public Facilities Authority— A total of $44 million is appropriated to the Public Facilities Authority for wastewater treatment loans and grants. The Wastewater Infrastructure Program (WIF) and the Statewide drinking water revolving fund receive $15 million each, and $9 million is allocated for agriculture waste system loans.

Water and Soil Resources Board

The Board receives $19. 8 million in total, for these activities:

- $15 million for the RIM permanent wetlands program.
- $2.75 million for local government road replacement.
- $1 million for feedlot water quality standards.

Department of Administration

Projects under the jurisdiction of the Department of Administration total $46.25 million and include:

- $19 million for the Capital Asset Preservation Account or CAPRA.
- $3.1 million for the emergency relocation of employees currently in the Capitol Square Building.
- $6 million for the Labor Interpretive Center.
- $3.8 million to design a new facility for the Bureau of Criminal Apprehension.
- $2.2 million for a new Department of Revenue building in Ely.
- $5.3 million for upgrades in the electrical utility infrastructure in the Capitol complex.
- $5.3 million for Department of Revenue relocation.
- $2.5 million for the agency relocation fund.
- $2.8 million for real property acquisition.

Capital Area Architectural and Planning Board— The CAAP Board is appropriated $9.5 million for projects including $6.6 million for structural stabilization of the Capitol building and $1.5 million for security and Americans with Disabilities Act access projects in the Capitol building.

Amateur Sports Commission— The Amateur Sports Commission received $11 million for projects including:

- $4.8 million to expand the National Sports Center in Blaine, including the “Mighty Kids” golf course.
- $2 million for Mighty Ducks ice arena grants.
- $2 million to the City of Richfield for replacement of athletic facilities lost due to the expansion of the airport.
- $600,000 for the Minneapolis Urban Sports Center.
- $800,000 for design of the St. Paul Inner City Sports Center.

Transportation— Transportation projects totaling $93 million are:

- $34 million for local bridge matching money.
- $46.5 million for light rail matching money and transitway studies. Most of this funding would be directed to a light rail line in the Hiawatha corridor between downtown Minneapolis and the airport and beyond.
- $4.5 million for port assistance grants.
- $5 million for rural transit grants.
- $3 million to match federal demonstration projects.

Department of Health and Human Services— The Department of Health and Human Services was appropriated $19.9 million for projects including:

- $1.9 million for system wide roof repair.
- $4 million for system wide asset preservation.
- $1.5 million for Minnesota Extended Treatment Option (METO) construction in Cambridge.
- $8 million for a 50-bed addition at the Moose Lake facility.
- $3 million for remodeling at the Willmar regional treatment center.

Department of Corrections— The Department of Corrections' appropriations totaled $14 million for these projects:

- $3.5 million for asset preservation.
- $4.6 million to expand the women's correctional facility in Shakopee.
- $3 million for a mental health segregation unit in Oak Park Heights.
- $1.5 million for a system wide intake center in St. Cloud.
- $1.2 million for a new security fence at Red Wing.

Department of Trade and Economic Development— Appropriations to the Department of Trade and Economic Development totaled $16 million for projects including:

- $4 million for the Redevelopment Account to rehabilitate unused industrial sites to attract new businesses.
- $10 million for grants for the development of Direct Iron Reduction processing facilities.
- $1.5 million to the Green Institute in Minneapolis.

Grants to Political Subdivisions— Grants to political subdivisions totaled $209 million and make up over one-fifth of the Capital Investment Act. Most of the dollars flow to multiuse convention center type facilities throughout the state. These facilities comprise $175 million of the grants to political subdivision total. Major projects are:

- $65 million for a loan to the City of St. Paul for the completion of RiverCentre. This includes $17 million in loan forgiveness with the $48 million balance to be repaid interest-free over 20 years. The act requires the Minnesota Wild hockey franchise to agree to make annual rent payments to the state "Youth Activities Account" during years two through 20 of the repayment period. Rent payments would start at $1.25 million in the second year, increasing incrementally to $4.75 million per year during the last four years of the loan.
- $87 million to the city of Minneapolis to pay off the debt on the convention center. The repayment of debt would allow the City of Minneapolis to issue $150 million in new bonds to expand the current convention center.
- $12 million for the expansion of the Duluth convention center.
- $6 million for the event center in St. Cloud.
- $7 million for the Humboldt Avenue Greenway in Minneapolis.
- $4.5 million for the Mankato Technology Center.
- $3 million for Prairieland Expo Center.
- $2.5 million to pay existing debt on the Earl Brown Heritage Center, and allow for expansion.
- $2.25 million for a grant to the Penumbra Theater in St. Paul.
- $3.8 million for Phalen Corridor redevelopment in St. Paul.
- $2.6 million for Red Lake Training Center.

- $2 million for an Itasca County school to work technology center.

Housing— The Minnesota Housing Finance Agency's $6 million appropriation includes $4 million for transitional housing and $2 million for single family and multi-family housing.

Minnesota Historical Society— The Legislature appropriated $13 million for state and local historical projects:

- $1.5 million for Historical Society asset preservation projects.
- $1.15 million for local historical society asset preservation grants.
- $1.5 million for the Northwest Company Fur Post.
- $4 million for the St. Anthony Falls Heritage Zone.
- $1 million for the Hubert H. Humphry museum in Waverly.
- $1 million for the Red River Valley Center.

For more information on Capital Investment issues, contact: John Walz, Fiscal Analyst, Room 376, 612-296-8236, or send email to: john.walz@house.leg.state.mn.us.

Special Session Economic Development, Housing, and Family and Early Childhood Education

Overview: During the First Special session of 1998, the Legislature approved an Omnibus Economic Development, Housing and Family and Early Childhood Education Act, Special Session *Laws of Minnesota 1998*, Chapter 1. The act, totaling $12 million from the General Fund, represents a compromise between the Legislature and the Governor on economic development, housing and family and early childhood education supplemental appropriations for FY 1998-99.

Economic Development

Economic development appropriations total $4.2 million, of which $1.5 million were Governor's initiatives. Except for the Supreme Court appropriation, all provisions of this act were included in the vetoed Economic Development and Housing Omnibus bill.

Major economic development fiscal provisions are:

- $80,000 for a Department of Trade and Economic Development (DTED) grant the Neighborhood Development Center to expand its ethnic-based entrepreneurial training, lending and support programs.
- $500,000 to DTED to help build a biomass energy project in southwest Minnesota.
- $155,000 to the World Trade Center to retire debt on its conference center.
- $1,000,000 to the Department of Economic Security (DES) for the Vocational Rehabilitation Program, which provides services including vocational counseling, guidance and placement for those with disabilities. The Vocational Rehabilitation Program provides a match to generate $4 of federal funds for every $1 of state funds. This appropriation was added to DES' base budget.
- $1,000,000 to DES for the Summer Youth Employment Program.
- $126,000 to DES for a grant to Advocating Change Together, which will be used for training and empowerment of those with developmental and other mental health disabilities.

- $200,000 for DES' Displaced Homemaker Program to operate a community work empowerment support group for homemakers whose household has lost its primary source of income due to divorce, death or disability of a spouse.
- $393,000 to the Public Utilities Commission to cover increased personnel costs.
- $571,000 for salary adjustments for Historical Society employees.
- $75,000 to the Historical Society help establish the world's first Hmong history and culture archive.
- $100,000 to the Minnesota Supreme Court for the Community Justice System Collaborative.

Family and Early Childhood Education

Family and Early Childhood Education appropriations total $4.2 million and were reduced significantly from the amounts in the vetoed family and early childhood education bill.

Major family and early childhood education fiscal provisions are:

- $3.25 million added to the basic sliding fee program in FY 1999 to create approximately 800 child care slots for families in transition from MFIP child care to the basic sliding fee program. This one-time appropriation will ensure that families leaving welfare and going onto the basic sliding fee program do not experience any interruption in their child care assistance that could jeopardize their continued employment and movement toward self-sufficiency.
- $300,000 for the transitional housing program to provide more individuals (approximately 100) per year with housing. This is a one-time appropriation.
- $300,000 for the emergency services grants program to provide temporary shelter for an additional 1,200 individuals per year and enable them to find more stable and permanent, long-term housing. This is a one-time appropriation.
- $250,000 for a Head Start/Early Childhood Education (ECFE) collaboration grant program. Both Head Start and ECFE must collaboratively apply for these grant funds. This one-time appropriation builds on previous academic and scientific research on the relationship between early childhood brain development and learning readiness.
- $100,000 for lead hazard reduction activities including lead clean-up and lead hazard reduction services. This is a one-time appropriation.

Up to $1.2 million from Children's Trust Fund, Abused Children and Drug Policy and Violence Prevention program appropriations made during the 1997 legislative session may be used for administration by the Department of Children, Families and Learning (DCFL).

Family and Early Childhood Education Implications: Family and early childhood education appropriations in this act are not added to the funding base of these programs but rather are one-time only. If funding is not continued after FY 1999, the transitional housing and basic sliding programs may become deficient if they expand their delivery of services. If, however, after the end of the fiscal year there is a natural attrition of participants from these programs, they will not become funding-deficient.

Housing

Housing appropriations total $3.6 million, and the amounts were significantly downsized from the original vetoed bill. The new housing provisions in the special session act now more closely mirror the governor's original recommendations after the February Forecast.

Major housing fiscal provisions are:

- $3.3 million to the Minnesota Housing Finance Agency's (MHFA) Affordable Rental Investment Fund and Community Rehabilitation Fund programs. This one-time appropriation may leverage up to $16 million of other private and philanthropic funds to help cover the cost of financing the construction, acquisition, and debt restructuring of both single family and multi-family housing throughout Minnesota.
- $300,000 to MHFA's Family Homelessness Prevention program. These funds may be used for providing direct housing assistance such as emergency rental, mortgage assistance or supportive services to help families secure affordable housing.

In the Omnibus Tax Act $10 million was added to the base of MHFA's Affordable Rental Investment Fund (ARIF) to help retain the current supply of low income rental housing properties receiving federal section 8 project-based and section 236 assistance.

Housing Implications: The 1998 Legislature made significant investments in the production of affordable housing. In order to maximize the return on these investments, future legislatures will be faced with the challenge of ensuring that both private and non profit developers have sufficient resources to properly manage and sustain both the financial assets and physical condition of these affordable housing investments.

For more information on economic development issues, contact: C.J. Eisenbarth Hager, House Fiscal Analyst, Room 428, (612) 296-5813 ***or cj.hager@house.leg.state.mn.us.***

For more information on family and early childhood education issues and housing issues, contact: Cynthia Coronado, Fiscal Analyst, Room 361, (612) 296-5384; ***or send email to: cynthia.coronado@house.leg.state.mn.us.***

Economic Development and Housing (Vetoed Bill)

This summary is of the vetoed Economic Development Finance and Housing Omnibus bill, Laws of Minnesota 1998, Chapter 374. Chapter 374 contained $38.3 million in new spending, of which $18.2 million was for economic development programs and $20.1 million was for housing programs.

(***Note:*** For a detailed description of the special session omnibus act appropriations, see the special session economic development, housing and early childhood education finance summary).

Economic Development

In his supplemental budget, the Governor recommended $11.2 million from the General Fund for economic development initiatives. The Conference Committee funded all but three of his initiatives at $7.2 million. The following is a summary of some of the major spending provisions of the bill.

Department of Trade and Economic Development— The Trade and Economic Development Omnibus Act contained $6.2 million for the Department of Trade and Economic Development (DTED), which included the following appropriations:

- $3.4 million to encourage the film-making and television industry in Minnesota. The Omnibus bill would have created a $3.3 million Film and Television Revolving Loan for projects filmed in Minnesota and provided a grant to organize and promote the Millennium Screen Writing Festival.

- $1.5 million to promote tourism and strength the arts in Minnesota. The bill would have boosted DTED's tourism budget base by $900,000, provided a grant for the renovation of the University of Minnesota's Centennial Showboat, granted the Fairmont Opera House funds for restoration, and assisted with building and cataloging the city of Chatfield's music lending library.

- $1.1 million to further business and entrepreneurial efforts in Minnesota, including a grant to the Duluth Technology Center to encourage the computer software business in northeast Minnesota; a grant to the Neighborhood Development Center to expand its ethnic-based entrepreneurial training, lending and support programs in the poorest neighborhoods in Minneapolis and St. Paul; and a grant to help build a biomass energy project in southwest Minnesota. Besides the DTED appropriations, $200,000 was allocated to Minnesota Technology for Minnesota Project Innovation, which would have provided small business owners access to the latest computer technology, hardware, software and a consulting network.

Department of Economic Security— The Department of Economic Security (DES) would have received $9 million in General Fund and $300,000 in Special Revenue appropriations under the Omnibus bill, which were:

- $4.6 million for youth-oriented initiatives, which included increased funding for the Youth Intervention Program, Summer Youth Employment Program and Youthbuild. Another provision would have provided $200,000 for a pilot project to electronically link four DES Workforce Centers with four high schools to provide counselors and graduating students with labor market information that would ease the transition from school to work.

- $2.8 million to assist persons with various disabilities. Included in the bill was $1.4 million to update talking book receivers for the State Services for the Blind, $1 million for the Vocational Rehabilitation Program, and additional base funding for the Centers for Independent Living.

Department of Commerce— The Department of Commerce was appropriated $147,00 from the General Fund and $150,000 from the Special Revenue account. Under the Unclaimed Property article of the Omnibus bill, the Department would have begun to lose revenues in FY 1999; staring in FY 2000, revenues lost would equal $211,000 annually. Other major spending provisions consisted of:

- $22,000 to establish a uniform licensing program for mortgage originators and servicers.

- $125,000 from the General Fund is for a "Healthy Homes" Pilot Project. Measures of this pilot project included the development of guidelines for healthy indoor air quality while maintaining a tightly constructed building and the development of education tools for residential home contractors and homeowners. An additional $50,000 from the Special Revenue account was appropriated to fund education for consumers about residential construction issues, and $100,000 from the Special Revenue account for a grant to the University of Minnesota to complete an assessment of how residential buildings perform relative to existing and proposed energy code requirements.

Historical Society— The Historical Society would have received $1.1 million, which consists of funding for the following projects:

- $686,000 for salary adjustments for Historical Society employees.

- $300,000 for restoration or renovation projects, including a church restoration in Faribault County and assistance with repairs to the Fridley Historical Museum.

- $115,000 to help various groups with archiving their history, including a grant to assist in developing a Hmong history and culture archive.

Other State Agencies— More than $2.1 million was appropriated to various other state agencies. Some appropriation were:

- $130,000 to the Department of Public Service's budget base to cover the personnel costs of supporting regulatory electrical transmission issues.

- $40,000 to the Mediation Services Bureau to cover costs associated with implementing the Community-based Planning Act dispute resolution process.

- $155,000 to the Council on Black Minnesotans and the Minnesota Indian Affairs Council for planning and implementation of the Martin Luther King holiday celebration and the Interstate Indian Council Conference, respectively.

Housing Finance Agency

Overview: The 1998 Omnibus Economic Development and Housing Finance Bill contained $20.1 million from the General Fund, and of this amount $4 million was designated as a one-time appropriation, in FY 1999. Total appropriations to the Minnesota Housing Finance Agency (MHFA) approved by the Legislature were $5 million more than the Governor's recommendations.

The original omnibus economic development and housing finance bill, if enacted, would have funded the following housing initiatives:

- **Preserving Affordable Rental Housing** (***This provision was enacted in the Omnibus Tax Act, Laws 1998, Chapter 389, Article 14***.)— $10 million was added to the base of MHFA's affordable rental investment fund (ARIF) to help retain the current supply of low income rental housing properties receiving federal section 8 project-based and section 236 assistance. An increasing number of federally assisted rental housing properties have contracts with the Department of Housing and Urban Development (HUD) that will be expiring soon. When a contract expires, the owner has the option to prepay the mortgage and take the property out of the federally assisted housing program and offer rental housing at the market rate.

  Funds approved by the Legislature give MHFA the resources to extend the low-income affordability of these properties by offering various financial incentives to owners such as equity take-out loans and interest deferred loans for the acquisition and debt restructuring of these properties. An owner receiving these funds must consent to enter into an agreement that gives local units of government, housing redevelopment authorities, and non profit housing organizations the first right of refusal if the rental property if offered for sale. In FY 1999, this appropriation is expected to assist approximately 1,500 units out of a total of 30,000 federally assisted units statewide.

- **Production of Multi-family and Single Family Housing**— $5 million was appropriated to the Community Rehabilitation Fund, of which $2 million was added to the base of the program, for the production of single family housing units for low-income individuals and families. This appropriation would have been used to leverage other private and philanthropic funds to help cover the total cost of financing the construction, acquisition, and rehabilitation of single family housing. Part of this appropriation may also be directed to cities to leverage federal funds for the federal home ownership zone program.

The act also appropriated $3 million to ARIF for the production of multi-family housing units for low-income individuals. **This appropriation was enacted in the Special Session Economic Development, Housing, and Family & Early Childhood Education Act.** (***See the summary for 1998 Special Session, Chapter 1.)*** These ARIF funds approved by the Legislature provide no-interest loans to cover part of the costs related to the production of permanent affordable rental housing.

Housing Support and Assistance appropriations were:

- $1 million added to the base of the Bridges program (rental assistance to individuals with mental illness). This appropriation would have reduced the current waiting list for this program and provide temporary rental assistance to an additional 250 people until a Section 8 certificate becomes available.

- $1 million added to the base of the Family Homelessness Prevention program to provide direct housing assistance such as emergency rental, mortgage assistance and supportive services to help families in securing affordable housing such as shelters.

- $65,000 for a grant to the Corporation for National Service. State funds would have supplemented $96,000 of federal funds to place VISTA volunteers with nonprofit housing agencies throughout Minnesota.

- $70,000 for home ownership counseling to persons with developmental disabilities participating in the Fannie Mae HOME CHOICE program. This one-time appropriation would have enabled persons with developmental disabilities to enter into home ownership after receiving pre and post purchase counseling offered by a nonprofit organization. Minnesota's participation in this home ownership program was expected to produce cost savings for state and county social service providers over the long-term.

Up to $65,000 in FY 1999 was earmarked from MHFA's housing trust fund account for housing grants or loans for persons diagnosed with chemical sensitivities. The FY 1998-99 biennial appropriation for the housing trust fund was $4.6 million.

Administrative Cost Ceiling—The bill increased the administrative cost ceiling for MHFA by $667,000 in FY 1998 and $1,600,000 in FY 1999. This increase to the cost ceiling is not a General Fund cost. Rather, it would have been paid from MHFA earnings. With this increase, MHFA could contract with HUD to administer HUD's assisted multi-family housing portfolio. HUD has an FHA insured housing portfolio of 274 federally assisted properties with about 15,000 units of affordable housing. Approximately 20 additional full-time staff would be needed to administer this portfolio and play an active role in role in the preservation of these properties.

Implications, Other Considerations: A portion of the vetoed bill, including the appropriation for the **preservation of federally assisted housing**, was passed in the 1998 omnibus tax act. Other portions of the original vetoed omnibus bill were repassed in another bill during the First Special Session of 1998. During the special session, the Legislature took up a bill that combined some economic development and housing appropriations of this bill along with some provisions of the Family and Early Childhood Finance bill, which was also vetoed. (***Note:*** For a detailed description of Chapter 1, the 1998 Special Session Omnibus Act appropriations, see the economic development, housing and family and early childhood education finance summary.)

For more information on Economic Development Finance issues contact: CJ Eisenbarth Hager, Fiscal Analyst, Room 428, 296-5813 or send email to: cj.hager@house.leg.state.mn.us.

For more information on Housing Finance issues, contact: Cynthia Coronado, Fiscal Analyst, 612-296-5384, room 374, or send email to: cynthia.coronado@house.leg.state.mn.us.

Family and Early Childhood Education (Vetoed Bill)

Note: This summary is of the Family and Early Childhood bill, Chapter 365, passed by the Legislature but vetoed by the Governor.

Overview, Office of Community Services, Department of Children, Families and Learning: The 1998 Omnibus Family and Early Childhood Education Bill, Chapter 365, included General Fund appropriations for self sufficiency, prevention, early childhood education and child care programs totaling $16.8 million and changes to the Minnesota Dependent Care Tax Credit for a revenue loss of $4.9 in FY 1999. The Legislature also adopted the Governor's recommendation to appropriate $5 million from federal Temporary Assistance for Needy Families (TANF) funds for child care development initiatives. ***This bill was vetoed by the Governor.***

Portions of the original family and early childhood education omnibus bill were repassed in another bill during the first special session of 1998. (***Note:*** For a detailed description of the Special Session Omnibus Act appropriations, see the economic development, housing and family and early childhood education finance summary.)

Major provisions in the original family and early childhood education omnibus act, for fiscal year 1999 unless otherwise indicated, are:

Self Sufficiency and Prevention Programs

- $775,000 for a Family Assets for Independence Pilot Initiative. This appropriation would have been awarded to designated fiduciaries organizations to develop a program to help low-income families (at or below 200 percent of federal poverty level) accrue savings for post-secondary educational expenses, home acquisition or rehabilitation costs or business capitalization expenses. Savings from these accounts were to be matched with state and private contributions.

- $1 million to the transitional housing program to provide an additional 342 individuals per year with transitional housing. This was a one-time appropriation.

- $900,000 to is Emergency Service Grants to provide an additional 3,500 individuals per year with shelter. This was a one-time appropriation.

- $200,000 for Lead Hazard Reduction activities including lead clean-up and lead hazard reduction services in geographic areas where residents have a high risk of lead exposure. This appropriation would have helped "lead proof" approximately 75 residential units and the remaining appropriation would have been distributed to the City of St. Louis Park for lead testing of areas contaminated by an industrial lead site. This was a one-time appropriation.

- $200,000 for a gang prevention and intervention grants and services for individuals between the ages of seven and twenty-five. This appropriation was to have been administered in cooperation with the Department of Children, Families and Learning (DCFL) community crime prevention programs.

- $100,000 for a grant to First Call Minnesota to fund a statewide system of information and referral. State funds would have allowed this program to leverage additional federal and private funding from organizations such as United Way. This was a one-time appropriation.

The DCFL was required to set-aside $1.2 million for administration from appropriations made during the 1997 session for the Children's Trust Fund, Abused Children, and Drug Policy and Violence Prevention programs in FY 1998-99.

Child Care and Early Childhood Education

- $6.8 million to increase Minnesota Family Investment Program (MFIP) child care assistance in the 1998-99 biennium based on the February Forecast of expenditures under current law. If enacted, these changes would have been incorporated into the fund balance for FY 1998-99 and future years. The projected increase over the 1997 session estimates is primarily due to an increase in the number of families leaving cash assistance and entering the work force. (***Note: Because of the veto of this bill, these forecast changes in MFIP child care will not take effect.***)

- $5 million added to the base of the Basic Sliding Fee child care program. This appropriation would have created approximately 1,200 child care slots, reduced the current waiting list for this program and ensured that families in transition from MFIP child care to the basic sliding fee program do not encounter any interruption of child care service.

- $1.8 million for a Head Start/Early Childhood Family Education (ECFE) collaborative grant program. Both Head Start and ECFE program must collaboratively apply for any grants. This appropriation would have built n previous academic and scientific research on the relationship between early childhood brain development and learning readiness.

Child Care Development Initiatives

- $2.2 million from the federal TANF funds for child care service development grants to help increase the supply of child care providers and improve licensed child care facilities. This was a one-time appropriation.

- $500,000 from federal TANF funds for grants to increase the capacity of child care providers during nonstandard hours. This was a one-time appropriation.

- $500,000 from federal TANF funds for school-age care grants in school districts, community education, park boards, after school programs, and other organizations serving school-age care children. This was a one-time appropriation.

- $300,000 from federal TANF funds for child development education and training loan forgiveness for child care providers. This was a one-time appropriation.

- $1.5 million from federal TANF funds for the design and implementation of a statewide child data management system for child care assistance, to facilitate DCFL's ability to meet increased federal reporting requirements for federal TANF and Child Care Development Funds. This was a one-time appropriation.

Dependent Care Tax Credits— The bill would have extended the Minnesota Child and Dependent Care Tax Credit income eligibility phase-out threshold from $31,080, under current law, to $38,080. In 1998, 39,220 filers are expected to claim the credit under current law and an additional 17,000 filers would have been eligible to claim the credit with the new provision adopted by the Legislature. The estimated revenue loss was $4.9 million in FY 1999.

***Implications*:** With the Governor's veto, the overall family and early childhood education budget remains unchanged from the 1997 session. If the 1998 omnibus bill had been enacted, the FY 1998-99 biennial budget for programs funded by the division would have increased by 4 percent ($16.8 million to $393.6 million) and by 2 percent ($8.3 million to $464.6 million) in FY 2000-01 over the 1997 session estimates.

For more information on Family and Early Childhood Education issues, contact: Cynthia Coronado, Fiscal Analyst, 612-296-5384, room 374, or send email to: cynthia.coronado@house.leg.state.mn.us.

Environment, Natural Resources and Agriculture

Overview: The 1998 session's Supplemental Budget Act for Environment, Natural Resources and Agriculture Finance (*Laws of Minnesota 1998*, Chapter 401) contains General Fund appropriations of $5.194 million in FY 1998 and $12.313 million in FY 1999, for a biennial General Fund supplemental total of $17.507 million. The Act (SF 3353) as sent to the Governor appropriated a total of $17.792 million from the General Fund for FY 1998-99.

The Governor line-item vetoed three items, totaling $285,000. Vetoed items are shown in the summary by agency. The supplemental budget act also includes recommendations that would increase General Fund revenue by a total of $549,000 for FY 1998-99.

The following is a summary of total funding by agency and a listing of funded items.

Pollution Control Agency— The total supplemental appropriation for the agency for the biennium is $1.390 million. The act includes the following items of appropriation:

- $350,000 for grants to counties to be used in the feedlot permitting program. This funding is in addition to the funds appropriated in the 1997 session and is an increase to the agency base budget.
- $50,000 for the bioaccumulative residues research program at the University of Minnesota-Duluth, to be used to continue research into the presence of selenium in fish samples.
- $180,000 for the administration of the wastewater infrastructure program.
- $50,000 to complete a scoping study of a cost-benefit model to be used to analyze the cost of water quality standards.
- $375,000 to accelerate the ongoing investigation into the malformed frogs that have been found in Minnesota. $39,000 of the funds are for a grant to the friends of the frog program at Hamline University.
- $300,000 for expansion of permitting activities under the Clean Water Act at feedlots with more than 1,000 animal units.
- $85,000 for a grant to Benton County to pay the principal amount due in FY 1999 on bonds issued to pay part of a final order of a lawsuit for environmental response costs at a solid waste facility.

Minnesota Zoological Garden— $1.5 million is appropriated for operations at the Zoo in FY 1998. The Zoo has experienced a negative variance from projected revenues for the FY 1998-99 biennium. The one-time appropriation is to make up for part of the revenue deficiency.

Department of Natural Resources— The total supplemental General Fund appropriation for the agency for the biennium is $10.241 million. The appropriations are:

- $1.504 million for flood mitigation activities. Included are grants to the Marine on St. Croix watershed district, to Swift County for improvements at Lake Oliver, and to the Chisago Lakes improvement district for the outlet projects.
- $150,000 for increased funding of the Forest Resources Council to be used to implement the Sustainable Forest Resources Act.
- $476,000 for sealing inactive wells on state owned land.
- $430,000 for increased operations in the State Park system.
- $250,000 for population and habitat objectives of the nongame wildlife management program.
- $300,000 for increased management of white pine forests on state lands.

Department of Natural Resources, continued—

- $600,000 for improvements at state forest campgrounds.
- $450,000 from the Water Recreation Account in the Natural Resources Fund for increased enforcement of personal watercraft laws. $225,000 of this amount is for grants to counties.
- $250,000 for costs related to wildlife management areas.
- $720,000 for increased interpretation, management, and monitoring of state scientific and natural areas.
- $340,000 for the administration of and for grants to local units of government for the metro greenways program.
- $300,000 for increased state trail maintenance.
- $250,000 for a grant to the city of North St. Paul to be used for improvements of the trail connections to the trail bridge over highway 36.
- $500,000 to develop protected water flow recommendations and for restoration projects on Minnesota streams and rivers.
- $53,000 for an increase in the minerals cooperative environmental research program.
- $75,000 for repair to windstorm-damaged state forest land in Morrison, Mille Lacs, Kanabec, and Crow Wing counties.
- $1.175 million for wildlife habitat improvement, wildlife population surveys, monitoring, private land cost sharing for habitat and forest stewardship, and for grants to local governments to enhance fish, wildlife, and native plant habitats.
- $100,000 for engineering studies of the proposed urban whitewater trail on the Mississippi River in Minneapolis.
- $100,000 for a grant to the township of Linwood in Anoka County for control of surface water runoff. **(This item was vetoed by the Governor.)**
- $200,000 for the statewide conservation partners program.
- $465,000 for improvements to the Minnesota Environmental/Nature Resource Electronic Library.
- $350,000 for use as a state match to federal money to remove sediment along the banks of the Mississippi River at Little Falls.
- $203,000 for the forestry information management system.
- $150,000 for the becoming an outdoors woman program and the coordinator of shooting range development.
- $50,000 for ecosystem-based management workshops.
- $200,000 for aquatic plant restoration.
- $125,000 for administration of the local initiatives grant program.
- $150,000 for long term monitoring of lake ecosystems.
- $100,000 for an enhanced lake classification system.
- $200,000 to identify lake watershed boundaries for large lakes in a geographic information system format.
- $150,000 to develop methodologies to assess the cumulative effects of development on lakes.
- $100,000 for a grant to the Upper Swede Hollow Association for improvements in and around Swede Hollow Park.
- $100,000 for an agreement with the University of Minnesota College of Architecture and Landscape Architecture to develop brownfields mitigation strategies.
- $25,000 for promotion and public awareness of the critical habitat license plate program.

University of Minnesota— $292,000 is appropriated for alternative and sustainable hog production facilities and programs.

Board of Animal Health— $190,000 is appropriated for expansion of the program for control of Paratuberculosis in domestic bovine herds.

Board of Water and Soil Resources— The total supplemental appropriation to the agency for the biennium is $1.4 million. The appropriation includes the following items:

- $200,000 for a grant to the Faribault county soil and water conservation district for the Quad Lakes restoration project.
- $1 million for grants to soil and water conservation districts for cost sharing contracts for water quality management on feedlots.
- $100,000 for a grant to the University of Minnesota to improve existing shoreland guidance and related guidebooks.
- $100,000 for a pilot program to soil and water conservation districts for cost sharing contracts to establish plantings for controlling snow deposition for the benefit of public transportation.

Agriculture Department— The total supplemental appropriation to the agency for the biennium is $2.479 million. The appropriation includes the following items:

- $360,000 to increase the current gypsy moth control program in the department.
- $350,000 for state meat inspection in FY 1998-99. The state meat inspection program is created. The proposed appropriation would rise to $1.350 million in FY 2000-01. The program would allow for state on site inspection of small meat processors and value-added meat products.
- $75,000 for expansion of the farmers' market nutrition program.
- $25,000 for additional livestock depredation payments.
- $50,000 added to the current appropriation for beaver damage control grants.
- $100,000 added to the current appropriation to accomplish reform of the federal milk market order system and for legal actions opposing the Northeast dairy compact.
- $500,000 added to the current appropriation for dairy diagnostic teams.
- $267,000 for a pilot program to expand the Minnesota Grown program.
- $160,000 for expansion of the value added agricultural product processing and marketing grant program.
- $125,000 for a grant to the Market Champ Inc. board. **(This item was vetoed by the Governor.)**
- $25,000 to be added to the current appropriation for the Passing on the Farm Center.
- $200,000 for expansion of the shared saving loan program to include a program of revolving loans for demonstration projects of farm manure digester technology.
- $50,000 for a grant to the University of Minnesota for design and development of low-cost alternatives to pasteurization that provides comparable bacteria count reduction in fruit juice.
- $25,000 for a grant to the University of Minnesota to study factors associated with farms that experience livestock depredation caused by timber wolves, and to recommend best management practices to prevent such depredation.
- $60,000 for the costs of the Attorney General in assisting local governments in the process of adoption, review, or modification of ordinances relating to feedlots. **(This item was vetoed by the Governor.)**
- $107,000 for the development of the licensing program for commercial manure applicators.

The act contains changes to a statute that allows for **funding of an additional ethanol production facility**. This will have a cost of $4.8 million for FY 2000-01.

Administration Department appropriations

- $50,000 from the Natural Resources fund for a study to determine the actual percentage of gasoline used in the state for watercraft operation.
- $300,000 for modification of the Department of Natural Resources business systems to address year 2000 changes.

Implications: The 1998 session's Environment, Natural Resources and Agriculture Omnibus General Fund supplemental appropriation of $17.507 million represents an increase of 3.8 percent over the February 1998 forecast of $458.7 million of General Fund spending for the environment section in the FY 1998-99 biennium.

For more information on Environment, Natural Resources and Agriculture Finance issues, contact: Jim Reinholdz, Fiscal Analyst, Room 370, 612-296-4119 or jim.reinholdz@house.leg.state.mn.us.

Health and Human Services

Overview: For the 1998-99 biennium, the supplemental Health and Human Services Omnibus Act, *Laws of Minnesota 1998*, Chapter 407, reduces General Fund appropriations by $301.9 million, reduces Health Care Access Fund appropriations by $17.3 million, increases State Government Special Revenue appropriations by $344,000, and increases federal Temporary Assistance for Needy Families (TANF) block grant appropriations by $38.8 million. The Act also appropriates $5.4 million from the state TANF reserve.

The reductions in appropriations for Health and Human Services programs are primarily attributable to slower increases in caseload growth, due to the state's strong economy and a combination of other factors. Forecast reductions total $359.5 million from the General Fund and $13.2 million from the Health Care Access Fund (HCAF). Net of forecast changes, Chapter 407 increases General Fund appropriations by $57.6 million.

With a sufficient structural balance projected for the Health Care Access Fund in FY 2001 (as of April 1998), it is anticipated that the 1 percent gross premium tax will remain off in calendar year (CY) 2000 and CY 2001. The hospital and provider tax, which is currently set at 1.5 percent, will return to 2 percent beginning in CY 2000 because the fund's structural balance is insufficient to continue at the 1.5 percent level. [***Note:*** The final decision on whether to continue the taxes at lower rates will be made in September 1999 when the Commissioner of Finance projects the structural balance of the Health Care Access Fund for FY 2001.]

Detail on budget initiatives is provided below. Unless otherwise noted, budget initiatives are funded out of the General Fund.

Department of Human Services— The appropriation to the Department of Human Services (DHS) from the General Fund is $37.7 million in FY 1998-99. The Governor used his line-item veto to cancel appropriations for the Metro Area Agency on Aging ($100,000) and for a study of the capital budget needs of day training and habilitation programs ($25,000). Funding initiatives for DHS are:

- $21.4 million from the General Fund and $367,000 from the Health Care Access Fund is to provide a 3.0 percent cost-of-living adjustment effective July 1, 1998 for nursing facilities ($8.4 million), intermediate-care facilities for persons with mental retardation ($1.4 million), and mental health grants, alternative care grants, community-based waiver programs, selected services provided at community mental health center, and services provided to deaf and blind persons with mental illnesses ($11.6 million).
- $800,000 to increase base funding for the adoption assistance program to expedite the adoption of special needs children.

Department of Human Services, continued—

- $200,000 in one-time spending to provide technical assistance and training for counties and private nonprofit agencies interested in establishing crisis nursery programs.
- $300,000 to increase base funding for Children's Mental Health Grants.
- $10.0 million in one-time spending from the federal TANF block grant to implement the provisions of *1998 Laws of Minnesota*, Chapter 406, regarding child welfare prevention and early intervention services. Of the amount transferred, $9.3 million is to provide funding to counties to implement concurrent permanency planning programs, $200,000 is to establish mediation training for relative care conferencing, $200,000 is to evaluate concurrent permanency planning programs, and $300,000 is to pay for the administrative costs of operating the program.
- $1.8 million from the Health Care Access Fund to streamline and clarify MinnesotaCare policies and automate the program's eligibility determination process.
- $991,000 from the General Fund and a decrease of $215,000 from the Health Care Access Fund result from eliminating the asset test for Medical Assistance (MA) and MinnesotaCare ($978,000) and expanding eligibility for pregnant women and children up to two years of age up to 280 percent of the federal poverty guidelines ($13,000). The asset tests must be removed to leverage enhanced federal funds under the Children's Health Insurance Program contained within the 1997 Balanced Budget Act, although DHS is required under this legislation to request a waiver from the federal government to implement the asset test for pregnant women and kids under age two.
- $4.3 million to increase the MA income standard for persons with disabilities from 120 percent of the Aid to Families with Dependent Children (AFDC) standard ($420/month) to 133.3 percent of the AFDC standard ($467/month).
- $9.7 million from the General Fund and a decrease of $8.2 million from the Health Care Access Fund result from a delay in the transfer of General Assistance Medical Care clients into MinnesotaCare.
- $877,000 to comply with provisions in the federal Balanced Budget Act of 1997 that requires the state to create a new category of eligibility for children who lost Supplemental Security Income and a $3.4 million decrease to exempt Medicare premium revenues from state taxation.
- $274,000 to provide a $1.00 increase in the base rate and a $0.10 per mile increase for special transportation services.
- $270,000 to provide mental health counseling services for people who were victims of torture.
- $245,000 the net increase from the Health Care Access Fund to provide Medical Assistance and MinnesotaCare information (e.g., applications, notices, and disclosures) in multiple languages.
- $432,000 from the Health Care Access Fund to establish a system to allow MinnesotaCare applicants or enrollees to authorize the Department of Revenue to collect the premium obligations from their state income tax revenue refunds or to apply on behalf of the recipient for the state working family tax credit.
- $1.0 million from the Health Care Access Fund to restore MMIS/MAXIS funding that was reduced from the agency's base during the 1997 Legislative Session.
- $650,000 to provide staff for an additional 25-bed unit for the Minnesota Sexual Psychopathic Personality Treatment Center at St. Peter, MN.
- $7.4 million to provide funding for costs associated with the delay in clients' transitions from the Alternative Care program to the Elderly Waiver program.
- $646,000 as a result of removing the internal operating cost limits for nursing facilities in the rule 50-cost based reimbursement system.
- $930,000 in one-time spending to fund non-reimbursed costs associated with the 1997 spring floods in the Red River Valley, including equipment replacement costs for Wilkin County ($130,000) and counseling services ($800,000).

Department of Human Services, continued—

- $400,000 in one-time spending to fund the construction of 18 additional Chemical Dependency treatment beds for adolescents.
- $3.7 million from the federal TANF block grant to buy back the remaining $10 of the $30 reduction in the food portion ($20 was reduced in the November 1997 forecast to comply with federal food stamp laws) for Minnesota Family Investment Program (MFIP)-S recipients receiving subsidized housing ($1.9 million) and to provide a cost-of-living adjustment for the state portion of federal food stamps ($1.8 million).
- $3.8 million in one-time spending from the federal TANF block grant to provide food stamps for legal non-citizens receiving MFIP-S.
- $5.0 million in one-time spending from the state TANF reserve to provide food stamps for legal non-citizens who lost eligibility for federal food stamps with passage of federal welfare reform.
- $426,000 in one-time spending from the state TANF reserve to eliminate the requirement that legal non-citizens be residents of Minnesota on March 1, 1997 to be eligible for general assistance.
- $20.5 million in one-time spending from the federal TANF block grant to delay counting $100 as unearned income for MFIP-S recipients residing in subsidized housing.
- $791,000 in one-time spending from the federal TANF block grant to the Commissioner of DCFL to provide transitional child care assistance for MFIP field trial recipients who will be ineligible for MFIP-S when the pilot program ends on June 30, 1998.
- $1.0 million a decrease in the base appropriation for the Food Stamp Employment and Training program.

Department of Health— In FY 1999, $19.8 million is appropriated to the Department of Health for the following initiatives:

- $5.0 million to develop a statewide program to study, prevent, and treat cases of Fetal Alcohol Syndrome and Fetal Alcohol Effect.
- $10.0 million to fund the Medical Education and Research Costs Trust fund.
- $2.5 million to develop a food safety leadership initiative to redesign the state's food protection system.
- $1.3 million to establish a base appropriation for breast and cervical cancer screens and other health services.
- $250,000 to establish an Occupational Respiratory Disease Information System to identify, monitor, and prevent occupational respiratory diseases in Minnesota.
- $300,000 to conduct research and treatment of sexually-transmitted diseases.
- $200,000 to establish an Institutional Infection Control Program designed to control the spread of infectious diseases in hospital settings.
- $259,000 from the Health Care Access fund to provide additional resources for the State Rural Physician Loan Forgiveness Program.
- $200,000 in one-time spending from the federal TANF block grant to provide additional funding for the targeted home-visiting program.

For more information, on Health and Human Service Finance issues, contact Joe Flores, Fiscal Analyst, Room 385, 612-296-5483, or send email to: joe.flores@house.leg.state.mn.us.

Higher Education

Overview: The Omnibus Higher Education Finance Act, *Laws of Minnesota 1998*, Chapter 384, contains supplemental education spending of $73 million in FY 1999. This includes $36 million for the Minnesota State Colleges and Universities (MnSCU) and $35.5 million for the University of Minnesota. In addition, there is $1 million in new spending for financial aid as well as the reallocation of $13.5 million in previously appropriated financial aid funds.

Of these amounts $23.6 million for MnSCU and $23.35 million for the U of M and the $1 million in new spending for financial aid are recurring funds creating a FY 2000-2001 obligation of $95.8 million. Major spending items in the act are:

MnSCU

- $10 million business/industry initiatives. These funds are intended to support educational partnerships between MnSCU and fast growing industries throughout the state. This appropriation includes $450 thousand for aviation maintenance programs . It is also to be used to purchase new equipment, leverage donations and to expand current customized training efforts and internships. Of this amount, $1.15 million recurring funding and the remaining $8.85 million is non-recurring.
- $20 million in recurring funds for base equalization. These funds are intended enhance campuses base funding per student, including base funding for equipment, and to help reduce funding variances between MnSCU institutions. The appropriation language also directs MnSCU to develop a new internal allocation model for FY 2000 that addresses per student funding variances among campuses.
- $3 million in recurring funds for library acquisitions system wide.
- $3 million in non-recurring funds for MnSCU colleges of education teacher preparation programs. This appropriation is intended to create links between the colleges and school districts to help faculty in colleges and K-12 schools, as well as education majors in college, prepare for using classroom technology and teaching for the grad rule.

University of Minnesota

- $31.35 million for Operations and Maintenance at the University. Of this amount, $19.675 million is recurring. While the act does not earmark specific amounts for specific initiatives at the U of M, the language lists the various items which were included. These are faculty and staff compensation, new academic initiatives in digital technology, molecular and cellular biology and design, the equipment base and agricultural research.
- $3.65 million for Agricultural Specials at the University. These recurring funds are to enhance agricultural research and outreach activities conducted by the University throughout the state.

Two items in the bill were line-item vetoed by the Governor:

- $250 thousand in recurring funds for the law clinic programs at the University's Law School.
- $250 thousand in non-recurring funds for Project Inform which provides college planning information to K-12 students.

Higher Education Services Office— $1 million in new recurring funds are provided to the Higher Education Services Office (HESO), and $13.5 million in previously allocated funds in the State Grant Program are reallocated. The surplus in the State Grant Fund was created when there were unanticipated increases in federal financial aid, easing demand on state dollars. A language change which reduces the "Student Share" of the cost of attendance in the state financial aid formula from 50 percent to 48 percent will increase awards to students, using $13 million of the surplus funds. The remaining $500 thousand and the additional $1 million go into the work study program.

For more information on Higher Education Finance issues, contact Doug Berg, Fiscal Analyst, room 372, 612-296-5346, or doug.berg@house.leg.state.mn.us.

Judiciary — Omnibus Crime Prevention Act

Overview: The Judiciary Finance Crime Prevention Act, *Laws of Minnesota 1998*, Chapter 367, appropriates $822,000 in FY 1998 and $7.108 million in FY 1999 for a total of $7.93 million from the General Fund. The act also brings in revenue of $220,000 in FY 1998 and $2.794 million in FY 1999. The net effect in this biennium of the act is $4,196,000.

Omnibus Crime Prevention Act

This section provides details of the Omnibus Crime Prevention Act by agency. The appropriations are:

Supreme Court

- $200,000 in FY 1999 to fund a community justice system collaboration team in the Supreme Court.
- $120,000 in FY 1999 to fund two positions in the Supreme Court.
- $375,000 in FY 1999 to fund legal aid.
- $75,000 in FY 1999 to fund a parental cooperation task force.
- $400,000 in FY 1999 to begin the establishment of community courts in the second and fourth judicial districts.
- $100,000 to fund a grant to the city of Minneapolis attorney for collecting and maintaining certain criminal justice information.

Court of Appeals

- $60,000 in FY 1998 to increase funding for a workers compensation deficiency for the Court of Appeals.
- $90,000 FY 1999 to increase funding for the creation of a sixth appellate panel for the Court of Appeals.
- $57,000 in FY 1999 for salary increases for law clerks.

District Courts

- $360,000 in FY 1999 to fund 8 additional law clerks.
- $700,000 in FY 1999 for salary increases for law clerks.

Judicial Standards Board— $300,000 increased funding for costs associated with the investigation and public hearing expenses regarding a complaint against a judge.

Public Defense Board

- $10,000 in FY 1998 and $20,000 in FY 1999 are for the increased employer contribution rates for coverage under the General Plan of the Public Employees' Retirement Association (PERA).
- $320,000 in FY 1998 and $650,000 in FY 1999 are to pay increases for public defenders in the fourth and second judicial districts

Department of Corrections

- $220,000 in FY 1998 and $525,000 in FY 1999 are appropriated to increase probation and supervised release related to state assumption of the juvenile and adult misdemeanant probation services in Winona and Benton counties. These expenses will be offset by revenues received from the counties.
- $1 million in FY 1999 for probation caseload reduction.
- $222,000 in FY 1999 for a pilot project in Ramsey county called breaking the cycle of violence.
- $100,000 in FY 1999 for grants for restorative justice programs.
- $63,000 in FY 1999 for substance abuse intervention in neighborhoods.
- $123,000 in FY 1999 for juvenile mentoring programs.
- $150,000 in FY 1999 for the child guide program.
- $765,000 in FY 1999 for the remote electronic alcohol monitoring program.
- $700,000 in FY 1999 to expand and enhance the sentence to serve program.

Ombudsman for Corrections— $20,000 in FY 1999 for agency head salary and benefit adjustments for the office.

Department of Public Safety

- $50,000 in FY 1999 for a position to coordinate volunteer resources during disasters.
- $98,000 in FY 1999 for the emergency management center.
- $64,000 in FY 1998 and $165,000 in FY 1999 are appropriated to consolidate victims' services within the Office of the Crime Victims Ombudsman.
- $75,000 in FY 1999 for grants for organizations providing intensive case management for prostituted individuals.
- $170,000 in FY 1999 to establish and maintain an arson investigative data system.
- $50,000 in FY 1999 for a conditional release data system.
- $50,000 in FY 1999 for victim's witness protection grants.
- $133,000 in FY 1999 to hire two full-time forensic scientists.
- $200,000 in FY 1999 to fund weed and seed grants.
- $450,000 in FY 1999 to purchase automatic external difibrillators.
- $50,000 in FY 1999 for the Minnesota safety council to promote crosswalk safety.
- $50,000 in FY 1999 for a grant to the city of Fridley for a truancy service center in southern Anoka county.

Peace Officers Standards and Training Board— $148,000 in FY 1998 to settle litigation involving the Board.

Administration— $100,000 in FY 1999 for a study involving the issues of pretrial release.

Human Rights— $100,000 in FY 1999 for a fair housing initiative.

Minnesota State Colleges and Universities Board— $200,000 in FY 1999 to establish a center for applied research and policy analysis at Metropolitan State University.

Legislative Audit Commission— $75,000 in FY 1999 for a study on the cost of crime.

For more information on Judiciary Finance issues, contact Gary Karger, Fiscal Analyst, room 383, 612-296-4181, or gary.karger@house.leg.state.mn.us.

K-12 Education

Overview: As a supplement to the 1997 K-12 Education Appropriations Act for the 1998-99 biennium, the Legislature approved $125 million in additional appropriations in *Laws of Minnesota 1998*, Chapter 398. This amount is $109 million more than was requested by the Governor in his supplemental budget requests. In addition, the Legislature appropriated $90.1 million, the same amount as requested by the Governor, to eliminate the property tax revenue recognition shift. School district property taxes for FY 2000, payable in calendar year 1999, are forecast to be $2.1 billion, down 2.4 percent from FY 1999 taxes payable in 1998.

General Education Program

Major appropriations for general education are:

- $70.7 million for FY 1999 is graduation standards implementation revenue. All school districts will receive $52 per pupil for implementing the state's graduation rule through staff development (at least $20 per pupil), technology, class size reduction and gifted and talented programs (at least $5 per pupil). An additional $14 per pupil would be added if school districts choose to immediately fully implement the graduation rule for the 1998-99 school year for staff development purposes. Districts which choose to phase-in the graduation standards over three school years would not receive the additional $14 per pupil. Finally, districts whose referendum is still reduced by the $100 reduction from 1993 are eligible for a graduation standards implementation equity adjustment of $34 per pupil in additional revenue for the same purposes.
- $14.7 million in compensatory transition revenue to allow districts some flexibility in converting from a district-based to a site-based compensatory revenue model, for FY 1999 only, districts which had less than a 35 percent increase in total compensatory revenue are eligible for an additional $216 per compensatory pupil unit. Some districts also received supplemental grants for the same purpose, over and above the $216 per pupil. In addition, for FY 1999 and FY 00, school districts are allowed to reserve 5 percent of the amount of money they had received under the old AFDC revenue formula for transition purposes.
- $570,000 for expanded summer programs. School districts can now mandate that students attend summer school, using truancy laws. Contract alternative learning programs can now qualify for summer school funding, along with other alternative programs.

Special Programs

Appropriations are:

- $525,000 for **American Indian Programs**. Additional funding was added to the American Indian Language and Culture, American Indian Post-Secondary Preparation and American Indian Scholarship programs.
- $1.5 million for the **First Grade Preparedness** program. Additional sites will be added to this program, which funds all-day kindergarten.
- $2.1 million for **other special education costs**. There were many changes to special education in this year's act. Financial costs included: technical assistance to the Department of Children, Families, and Learning and the Department of Human Services for helping school districts and service cooperatives bill third party providers for health services required under an Individual Education Plan (IEP); district litigation expenses for special education due process hearings and, in some cases, judicial review; additional speech pathology services provided through the Medical Assistance and MinnesotaCare programs; the tuition and other

education related expenses of court-placed out of state students; and an in-school behavior intervention grant program.

Interagency Services and Lifelong Learning— $450,000 for Lifework Learning Site Planning and Design Grants. Current program funding for Lifework Learning Site start-up costs is supplanted with additional funds for planning and design of Lifework Learning Sites.

Facilities and Organization— $10.8 million for grants to School Districts with flood/storm losses. Additional funding is provided for schools impacted by last spring's Red River Valley flooding, and the summer storms near Monticello. The funding is for additional operating and capital costs for school districts, as well as for the City of East Grand Forks for a loan to assist in the reconstruction of a parochial school.

Academic Excellence

- $2.0 million for a clearinghouse for best educational practices and shared decision-making for improving student performance, in conjunction with the graduation rule, particularly for at-risk students. For research, collection and dissemination, in collaboration with interested stakeholders, of best educational practices affecting school management, operation, financing, personnel and instruction.
- $500,000 to supplement the 1997 appropriation for the collaborative urban educator programs, which prepare and license people of color to teach.
- $516,000 to fully fund the 6.5 cents per meal in the school lunch formula.
- $455,000 to provide grants for the Albert Lea, Hopkins and Hastings school districts for extended learning opportunity pilot programs.
- $3.5 million to provide grants to agencies or organizations to enhance resources available to school districts in implementing the graduation rule. Designated grantees include the Council on Economic Education, the Lola and Rudy Perpich Center for the Arts, Historic Murphy's Landing, the metropolitan multi-type library consortium, and A Chance to Grow/New Visions. Eligible applicants include the Minnesota Historical Society, the Richard Green Institute and Ironworld.
- $12.0 million for start up and/or remodeling and renovation for up to three residential academies for youth between the ages of 12 and 18, who would enroll on a voluntary basis.

State Agency Budgets— The act appropriates $450,000 to the Department of Children Families and Learning for additional support for agency costs related to the educational adequacy suits currently being litigated.

For more information, on K-12 Education Finance issues, contact Greg Crowe, Fiscal Analyst, Room 378, 612-296-7165, or greg.crowe@house.leg.state.mn.us.

State Government

The State Government Finance Supplemental Appropriations Act, Chapter 366, authorizes net General Fund spending of $32.1 million. The Governor vetoed $1.1 million for the Attorney General's Office, reducing net General Fund spending to $31 million.

Legislature

Legislative Coordinating Commission— The act appropriates $25,000 for a grant to the Council of State Governments to organize meetings between the Minnesota Legislature and members of the Manitoba and Ontario parliaments.

Constitutional Offices

Appropriations, by executive branch office, are:

Attorney General's Office (AGO)

- $24.1 million for the AGO's FY 1999 operating budget. The Governor vetoed four line item appropriations totaling $1.1 million: $250,000 for assistance with felony prosecutions and other law enforcement activities, $250,000 for gaming enforcement, $100,000 for citizen education on telemarketing fraud, and $500,000 for state agency legal services. These vetoes reduce the AGO's total General Fund appropriation to $23 million for FY 1999 and $48.3 million for the FY 1998-99 biennium.

Background: Following the 1997 legislative session, the Governor vetoed the AGO's entire FY 1999 General Fund appropriation, a total of $24.4 million. The Governor's veto message expressed concern that the Legislature's appropriation of $49.7 million was $3.8 million over the Governor's recommendation of $45.9 million. The final appropriation passed in the 1998 legislative session is $1.4 million below the 1997 Legislature's appropriation, and $2.4 million above the Governor's original recommendation for the AGO. Tails for FY 2000-01 are $46 million, a reduction of $2.9 million from 1997 session estimates.

The act also establishes a joint legislative / executive task force to evaluate current AG funding issues, including the current billing rates for legal services and the process for setting the rates charged to state agencies.

State Auditor— $408,000 in additional funding is for Tax Increment Financing (TIF) enforcement. Revenues to offset these funds are raised through a 0.15 percent increase (from 0.1 percent to 0.25 percent) in the tax increment deduction rate. The funds are for six additional auditors and one support person to address a backlog of compliance audits of local TIF authorities.

Secretary of State— $100,000 to modify statewide voter registration systems to facilitate reassignment of voters to the correct precinct and election districts after the 2002 redistricting.

State Agencies— The appropriations, by agency, are:

Department of Administration

- $4.37 million in additional funds for the Year 2000 Project for small agency needs, testing, and Department of Finance and Department of Natural Resources (DNR) systems. An additional $300,000 targeted for the DNR systems is included in the supplemental Environment and Natural Resources act. Total biennial appropriations for this project are $27.67 million.
- $150,000 to the Office of Volunteer Services to coordinate the Minnesota Alliance with Youth. This is a new statewide volunteer initiative to "develop the capacity of Minnesota communities to engage children and youth in reaching their full potential as citizens." Funds are for support staff, community events and other organizing activities.
- $315,000 to construct a noncommercial television tower in Ottertail County. The project requires a match from Pioneer Public Television and other non-state sources of at least 25 percent of the total project costs.
- $44,000 to make the State Register and the Guidebook to State Agencies available on the Internet free of charge. The department's Management Analysis Division must report to the 1999 Legislature on the financial impact of this provision on the bookstore's enterprise fund.
- $20,000 for a portrait of Governor Carlson in the state capitol.

Department of Employee Relations— $750,000 in FY 1998 for a transfer to the Public Employees Insurance Program (PEIP).

The act also requires the Commissioner to apply up to $2,075,000 of the remaining balance in the Minnesota employees insurance trust fund to be used for repayment of any amounts expended from the health care access fund for the Minnesota Employees Insurance Program (MEIP).

Department of Finance—$307,000 is appropriated from the General Fund and $128,000 from other funds are to cover employer-paid health and dental insurance premiums for part-time seasonal employees.

The act also amends *Minnesota Statutes* Chapter 16A to allow payment of interest earnings on all gift, bequest, damage deposit and court judgement accounts. This change creates an estimated $100,000 annual loss of revenue to the General Fund.

Department of Revenue— $731,000 is appropriated for information systems and to expand the Minnesota Collection Enterprise in Ely Minnesota. This expansion is projected to bring in an additional $1 million in annual General Fund revenues. (Administrative costs of the Omnibus Tax Act are covered in the appropriations section for Chapter 389, below.)

Office of Strategic and Long Range Planning (Minnesota Planning)

- $15,000 in FY 1998 and $65,000 in FY 1999 are to promote the census in the Year 2000. Funds will be used to hire temporary employees to work specifically on census promotion activities.
- $1.2 million in FY 1998 to the Environmental Quality Board (EQB) for a General Environmental Impact Study on animal feedlots. The project is a cooperative effort involving the EQB, Pollution Control Agency, Department of Health, and Department of Agriculture.
- $20,000 for a grant to the Southwest Regional Development Commission to assist local government with preparation of land use plans.

Minnesota Amateur Sports Commission— $100,000 for a grant to the U.S. Olympic Committee's Minnesota sports development program, a winter sports program for females and at-risk youth. This program received $50,000 in the 1997 legislative session for programs in the metropolitan area; the new grant is to expand the program statewide.

Public Employees Retirement Association— $10,000 for a state contribution toward a survivor benefit increase for the wife of a St. Paul housing inspector murdered on the job on Christmas Eve 1997.

Minnesota State Retirement System— $700,000 for transfer of prior service contributions by state legislators with less than six years of service credit. The 1997 Legislature created a defined contribution pension plan for new legislators, and allowed current legislators and constitutional officers the option of switching to this plan from the current defined benefit plan. This appropriation covers past employee and employer contributions plus 8.5 percent annual compound interest.

State Lottery Prize Fund— $750,000 from the state lottery prize fund for Project Turnabout, a compulsive gambling treatment center in Granite Falls.

Implications: The supplemental State Government Finance act increases the division's total FY 1998-99 budget by 4.9 percent to $660 million. Two items, the AGO's operating budget and the Year 2000 project, account for $27.4 million or 88 percent of this increase. The division's projected spending for the next biennium fell by $608,000 to $590 million due to the reductions in the planning estimates for the AGO.

For more information on State Government Finance issues, contact Helen Roberts, Fiscal Analyst, room 374, 612-296-4117, or helen.roberts@house.leg.state.mn.us.

Tornado Relief Act

Overview: Following the tornados in south central Minnesota on March 29, the Legislature passed a $27.6 million disaster relief act to assist those affected to clean up and rebuild homes and businesses. The act, *Laws of Minnesota 1998*, Chapter 383, appropriates funds through various agencies for programs related to tornado disaster relief.

The act also contained a number of tax provisions that are included in the summary of the Omnibus Tax Act. In additional to appropriations and tax relief, the act contained various provisions for waivers from state agency rules and state laws. It also provides for early payment of state aids to local governments in the affected areas. The act contains the following appropriations, listed by administering agency:

Public Safety

- $8 million for the state and local match on federal disaster funds. Federal funds generally cover 75 percent of eligible costs, the state is expected to contribute 15 percent and local governments 10 percent.
- $500,000 for grants to counties to cover unreimbursed costs of farm debris removal and burial.
- $300,000 for additional staffing and other needs at the emergency management division.

Housing Finance Agency

- $3.5 million for the community rehabilitation fund.
- $500,000 for the affordable rental investment fund.

Trade and Economic Development

- $1 million for grants to local governments to replace public infrastructure including buildings, drinking water, sewer, and wastewater systems.
- $4.8 million to the Minnesota Investment Fund for grants and loans to local businesses.
- $150,000 for technical assistance to local governments.

Agriculture— $4 million to the Rural Finance Authority for agriculture loans.

Revenue— $500,000 for the costs of abatements of property taxes.

Human Services— $400,000 for grants to counties and nonprofit social service agencies for social services and farm outreach.

Children, Families and Learning— $250,000 for grants for after-school and expanded day care services.

Minnesota Historical Society— $1 million for historical preservation grants and loans.

Finance— $2.7 million to the Department of Finance to cover other costs related to the disaster. Included in this amount is the cost of allowing the Comfrey, LeCenter, and St. Peter School Districts to receive revenue for students who are enrolled in other school districts as a result of the disaster.

School Districts— The Comfrey, LeCenter, and St. Peter School Districts are allowed additional property tax levy authority to repair facilities damaged in the disaster. For the 1998-99 and 1999-2000 school years, these school districts are allowed to use the enrollment count from the 1997-98 school year if it is larger than the current year enrollment.

For more information on tornado relief, contact the Fiscal Analyst working with the specific issue area or Bill Marx, Chief Fiscal Analyst, Room 373, 612-296-7176 or bill.marx@house.leg.mn.state.us.

Omnibus Tax Act — Property Tax Reform and State Tax Revenues

Overview: The tax spotlight in the 1998 legislative session remained focused on restructuring the local property tax system. The vast majority of the $1.1 billion available for tax reduction was directed to property tax reform and property tax relief, including another $500 million rebate for homeowners' and renters' property taxes paid in 1998.

The fiscal impacts of property tax relief and reform measures in the 1998 Omnibus Tax Act, *Laws of Minnesota 1998*, Chapter 389, are shown on Table 4.

The Omnibus Tax Act also provides in FY 1998 – FY 2001 approximately $139.5 million of additional net state tax relief in the individual income tax (primarily to bring the state tax code into conformity with federal tax law changes), corporate franchise tax, sales and use tax, lawful gambling taxes and other excise taxes.

Property Tax Relief and Reform

The major fiscal impacts of the property tax relief and reform measures in the 1998 Omnibus Tax Act, Chapter 389, are shown in the table below.

Table 4.
Property Tax Relief in the Omnibus Tax Act of 1998
$ in Thousands

	FY 1998	FY 1999	FY 1998-99	FY 2000	FY 2001	FY 2000-01
1998 Property Tax Rebate	$0	$500,000	$500,000	$0	$0	$0
Education Homestead Credit	$0	$0	$0	$136,200	$150,600	$286,800
General Education Levy Reduction	$0	$0	$0	$57,000	$57,000	$114,000
Referendum Equalization Aid	$0	$0	$0	$7,000	$7,000	$14,000
Desegregation Aid	$0	$0	$0	$7,000	$13,000	$20,000
Alternative Facilities Aid	$0	$0	$0	$3,000	$3,000	$6,000
County Family Preservation Aid	$0	$0	$0	$0	$20,000	$20,000
Local Government Aid	$0	$0	$0	$3,000	$3,000	$6,000
Low Income Housing Shift Aid	$0	$0	$0	$17	$200	$217
Renters' Credit	$0	$0	$0	$8,000	$8,200	$16,200
Fiscal Disparities HACA	$0	$0	$0	$0	$13,500	$13,500
Total Gross Spending	**$0**	***$500,000***	**$500,000**	**$221,217**	**$275,500**	**$496,717**
Adjustment for 90-10 metering	$0	$0	$0	($21,020)	($2,350)	($23,370)
Revenues –Interest Earnings	$0	$0	$0	($13,869)	($1,895)	($15,764)
Revenues –PTR & Income Tax Savings	$0	$0	$0	($13,100)	($17,700)	($30,800)
Total Net Spending	**$0**	***$500,000***	**$500,000**	**$173,228**	**$253,555**	**$426,783**

The 1998 Property Tax Rebate

A property tax rebate estimated to total approximately $500 million is provided to homeowners, homestead farmers, and renters. The rebate generally mirrors the tax year 1997 program, and is equal to 20 percent of property taxes paid in 1998 for homeowners and homestead farmers. For renters the rebate is 3.8 percent of total rent paid. The 1998 rebate is subject to a $1,500 maximum amount. (The 1997 rebate did not have a maximum). The 1998 property tax rebate is fully refundable and will be claimed on tax year 1998 individual income tax returns filed in 1999.

Increasing the State Share of K-12 Education Funding — Education Levy Reduction

The new tax law reduces reliance on the local property taxes to fund public education by providing an additional $57 million to reduce the general education levy for property taxes payable in 1999 and 2000. Combined with additional funding in the 1998 K-12 Education Appropriations Act, the state's percentage of K-12 public education finance is expected to increase from 66.5 percent in fiscal year 1999 to 69.0 percent in fiscal year 2000. The cost of this increased state funding of K-12 education, net of 90/10 metering, is $51.3 million in state FY 2000 and $57 million in FY 2001.

Property Tax Class Rates Changes

Differences in tax rates between the highest-taxed classes of properties and the lowest-taxed classes of properties are further reduced in the 1998 Omnibus Tax Act.

Highlights of the new class rates are:

- **For homeowners**. The class rate on the second tier (more than $75,000) of home value is reduced from 1.85 percent to 1.7 percent for taxes payable in 1999.

- **For farmers**. The class rate on homestead farm land and buildings is reduced from 0.4 percent to 0.35 percent for first $115,000 of value. For the value over $115,000 and less than 320 acres, the class rate is reduced from 0.9 percent to 0.8 percent. For over 320 acres, the new class rate is 1.25 percent The new class rate for nonhomestead farm land and buildings is 1.25 percent, down from 1.4 percent.

- **For businesses**. The class rate on the first tier (less than $150,000) of C/I value is reduced from 2.7 percent to 2.45 percent. The class rate on the upper tier (more than $150,000) is reduced from 4.0 percent to 3.5 percent.

- **For rental properties**. The class rate for nonhomestead single family residential is reduced to 1.25 percent on the first $75,000 in value and 1.7 percent on the remainder. The class rate on duplexes and triplexes is reduced from 2.1 percent to 1.7 percent. The class rate on market-rate apartments is reduced from 2.9 percent to 2.5 percent. The renters credit base is increased from 18 to 19 percent of rent paid.

- **For cabin owners.** The class rate for cabins is lowered on the first tier (less than $75,000) of value from 1.4 percent to 1.25 percent. The second tier (more than $75,000) of value is reduced from 2.5 percent to 2.2 percent.

Table 5 on page 36 shows current class rates and new rates.

Table 5.

PROPERTY TAX CLASS RATE CHANGES

	Current Law Payable 1998	New Class Rates Payable 1999
Residential Homestead		
<$75,000	1.0 %	1.0 %
>$75,000	1.85	1.7
Residential Nonhomestead		
Single unit:		
<$75,000	1.9	1.25
>$75,000	2.1	1.7
2-3 unit and undeveloped land	2.1	1.7
Apartments:		
Regular	2.9	2.5
Low-income*	1.9/2.0	1.0*
Small Cities	2.3	2.15
Commercial/Industrial		
<$150,000	2.7	2.45
>$150,000	4.0	3.5
Seasonal Recreational Commercial:		
Homestead resorts (1c)	1.0	1.0
Seasonal resorts (4c)	2.1	1.8
Seasonal Recreational Residential:		
<$75,000	1.4	1.25
>$75,000	2.5	2.2
Public Utility:		
Personal property	4.0	3.5
Attached machinery	4.0	3.5
Land & Buildings	4.0	3.5
Disabled homestead <$32,000	0.45	0.45
Agricultural land & buildings:		
Homestead:		
<$115,000	0.4	0.35
>$115,000		
<320 acres	0.9	0.8
>320 acres	1.4	1.25
Nonhomestead	1.4	1.25

*This class rate change was enacted in 1997 and was not changed in the 1998 Omnibus Tax Law.

Additional Major Property Tax Provisions

Education Homestead Credit

The Education Homestead Credit is enhanced to protect homeowners and homestead farmers from property tax increases or “shifts” resulting from tax rate compression. The program currently provides that the state pays 32 percent of the general education property tax levy for a residential homestead or agricultural homestead, up to a maximum of $225. For taxes payable in 1999, the state share will increase to an estimated 66.2 percent, with a maximum of $320. In pay year 2000, the state share increases to an estimated 67.2 percent, and the maximum increases to $335. The cost of these enhancements, net of 90/10 adjustment, are an additional $122.58 million in fiscal year 2000, and $149.16 million in fiscal year 2001.

Renters’ Credit Increase

The percent of rent deemed to be property taxes for the purpose of determining property tax refunds is increased from 18 to 19 percent. The estimated cost of the increase is $8 million in FY 2000 and $8.2 million in FY 2001. Also, renters will receive a larger 1998 property tax rebate due to this percentage change. They will now receive a rebate that is the equivalent of 3.8 of their total rent paid in 1998. The 1997 rebate was 3.6 percent of total rent paid.

Local Government Aid

The annual appropriation for city Local Government Aid (LGA) is increased by $3 million in pay 1999 and subsequent years (state fiscal years 2000 and 2001).

County Family Preservation Aid

Funding for the Family Preservation Aid program is increased by $30 million for taxes payable in 2000 (FY 2001) and subsequent years, including $20 million in new aid and $10 million from existing county Homestead and Agricultural Credit Aid (HACA). The purpose of this increased funding is to relieve counties from the pressure to increase property taxes because of escalating child out-of-home placement and family social service costs. The program also targets relief to help offset “shifts” from property tax rate compression.

Fiscal Disparities HACA

A new fiscal disparities HACA is established for aid payable in 2000 and subsequent years for taxing jurisdictions suffering a reduction in fiscal disparities distribution due to the reduction in commercial-industrial class rates. Estimated cost for Fiscal Year 2001, net of 90/10 adjustment, is $13.19 million.

Alternative Facilities Aid

New aid is provided to school districts that levy for alternative facilities on a pay-as-you-go basis. The aid is equal to one-sixth of the qualifying districts’ alternative facilities pay-as-you-go levy for taxes payable in 1998. The estimated cost of this new aid is $2.7 million in FY 2000 and $3 million in FY 2001.

School District Desegregation Aid

State aid for desegregation is increased from 54 percent of desegregation revenue to 67 percent for payable 1999, and 78 percent for payable 2000. Desegregation levies are correspondingly reduced. The cost of these increases, net of 90/10 adjustment, is $6.3 million in state FY 2000 and $12.4 million in FY 2001.

Referendum Equalization Aid

The level at which school districts' referendum levies are equalized is increased from $315 per pupil unit to $350 per pupil unit for taxes payable in 1999 and 2000. The estimated cost of this funding enhancement is $6.3 million in FY 2000 and $7 million in 2001.

Flood Loss Replacement Aid

Flood loss replacement aid is made available to Polk, Clay, Kittson, Marshall, Norman and Wilkin counties to replace tax base lost to the 1997 floods. Appropriates up to $1.7 million for calendar year 1999 (FY 2000) and up to $1.5 million for calendar years 2000 and 2001 (FY 2001 and 2002).

Temporary Aid — Flood Dikes or Levees

A temporary local government aid increases is provided to the cities of East Grand Forks ($9.2 million in 1998 and $4.6 million in 1999), and Warren ($0.8 million in 1998 and $.04 million in 1999) to assist with the cost of rebuilding or constructing new dikes or levees.

Metropolitan Council Transit Capitol Improvement Program

The Metropolitan Council is authorized to issue up to $32.5 million in bonds to fund transit capital improvement projects including new buses, transit hubs, and replacement and relocation of the Snelling garage. An appropriation of $1.5 million is made to MDOT to be used to match federal money and provide low-interest financing for transit capital improvements. The expected savings from this appropriation is $6 million in reduced transit financing costs.

Additional Levy Limit Adjustment Factor— The percentage increase in market value due to new construction of commercial/industrial property is added as a new growth factor when calculating a local government's levy limit.

Additional Special Levies Exempt from Levy Limits

Three new special levies are exempted from levy limits for taxes levied in 1998 and payable in 1999:

- a special levy for tax losses due to property tax abatements resulting from the tornados of March 29, 1998.
- a special levy to make up a loss due to an error in the amount of levy certified to the county auditor in prior year.
- a special levy to fund property tax abatements granted for economic development purposes.

Levy Limits for Regional Development Commissions (RDCs)

The maximum levy limits are increased from $150,000 to $180,000 for taxes levied in 1998 (payable in 1999) for the following region development commissions: Region 2 (Beltrami, Clearwater, Lake of the Woods, Hubbard and Mahnomen counties); Region 6W (Big Stone, Chippewa, Lac qui Parle, Swift and Yellow Medicine counties); and Region 7E (Chisago, Isanti, Kanabec, Mille Lacs, and Pine counties). Also, for **all RDCs,** beginning with taxes levied in 1999 and thereafter, the maximum levy amount shall be the greater of: (1) the maximum amount authorized for payable 1999, or (2) 103 percent of the actual amount levied in the previous year.

Local Fiscal Impact Note Law

Several amendments are made to the Local Fiscal Impact Note Law:

- Only counties and cities will be covered by the law. Towns and other taxing districts are no longer included.
- The requirement that mandate explanations be prepared at the time a bill is introduced is eliminated. Now, mandate explanations are required before a committee hearing at the request of the committee chair or ranking minority member.

- The dollar amount of the exception for bills containing provisions that do not apply statewide is change from $200 to the lesser of (1) $50,000 or (2) 0.5 percent of the local government(s)' revenue base as defined by the local government aid formula. The previous exception of $3 million for statewide bills is reduced to $1 million.

The start date for the application of the local fiscal impact note law to state administrative rules is delayed from July 1, 1998 to January 1, 1999.

For more information on property tax issues, contact Ron Soderberg, Fiscal Analyst, (612)296-4162, room 430, or send e-mail to: ron.soderberg@house.leg.state.mn.us**.**

State Tax Revenues

Federal Conformity: Individual, Corporate & Estate Taxes

The 1998 omnibus tax act updates Minnesota's individual and corporate income tax bases by adopting new federal definitions of taxable income and related provisions enacted in 1997. The net fiscal impact of federal conformity is a state General Fund revenue loss of $14.624 million in FY 1998-99 and $29.004 million in FY 2000-01.

Table 6.

Federal Update, Revenue Impact By Type of Tax

($ thousands)	Fiscal Year Impact -- Revenue Gain or (Loss)					
	FY 1998	FY 1999	FY 1998-99	FY 2000	FY 2001	FY 2000-01
Individual Income Tax	($6,490)	($9,660)	($16,150)	($10,972)	($13,338)	($24,310)
Corporate Franchise Tax	$1,433	$576	$2,009	($1,960)	($3,570)	($5,530)
Estate Tax	($100)	($930)	($1,030)	($1,160)	($1,500)	($2,260)
Sales Tax (automatic)	$17	$30	$47	$42	$54	$96
Interactions: Gains on home sales are income for child care, education credits and property tax refund	--	$500	$500	$1,700	$1,700	$3,400
Federal Update total:	**($5,140)**	**($9,484)**	**($14,624)**	**($12,350)**	**($16,654)**	**($29,004)**

Source: Mn Department of Revenue (Federal Update revenue estimate, 12/17/97 and 3/20/98 OTB estimate).

The Department of Revenue's detailed revenue estimate for the state impacts of the federal tax act tracks more than 70 provisions that have measurable fiscal impact on Minnesota revenues for FY 1998–FY 2001. Table 7 shows the estimated revenues losses and gains in the current and the next biennium from the major provisions (those resulting in tax expenditures or revenue gains more than $1 million in any year) affecting individuals, estates and corporations. Minnesota estimates are based primarily on national fiscal impact analysis by the U.S. Congress Joint Committee on Taxation. All provisions take effect on the federal effective dates, including retroactive provisions.

Table 7.

Major Federal Update Provisions

General Fund ($ Thousands)		Fiscal Year Impact -- Revenue Gain or (Loss)					
1. Update to the 1997 Taxpayer Relief Act	**Tax Type:**	**FY 1998**	**FY 1999**	**FY 1998-99**	**FY 2000**	**FY 2001**	**FY 2000-01**
Revenue-Decrease Provisions							
Student-loan interest deduction	Individual	($76)	($316)	($392)	($612)	($1,032)	($1,644)
Education IRAs	Individual	($658)	($2,937)	($3,595)	($4,754)	($5,756)	($10,510)
Exclusion of capital gains on home sales	Individual	($3,000)	($2,500)	($5,500)	($2,600)	($2,700)	($5,300)
Employer-provided education assistance	Individual	($2,253)	($2,308)	($4,561)	($1,574)	($352)	($1,926)
Individual Retirement Accounts	Individual	($1,549)	($1,972)	($3,521)	($122)	($1,335)	($1,457)
Home office deduction	Individual	$0	($502)	($502)	($1,197)	($1,411)	($2,608)
Conform AMT depreciation to regular tax	Individual	$0	$0	$0	($462)	($924)	($1,386)
	Corporate	$0	($1,216)	($1,216)	($4,231)	($6,498)	($10,729)
Raise unified estate & gift tax credit	Estate	$0	($900)	($900)	($1,100)	($1,400)	($2,500)
Other revenue-decrease provisions	Various	($1,225)	($2,036)	($3,261)	($2,666)	($2,773)	($5,439)
Revenue-Increase Provisions							
Require recognition of gain on certain appreciated positions	Corporate	$101	$66	$167	$30	$25	$55
	Individual	$1,392	$924	$2,316	$411	$364	$775
Determination of original issue discount for pooled debt	Corporate	$207	$820	$1,027	$1,228	$1,197	$2,425
Other revenue-increase provisions		$2,069	$3,295	$5,364	$3,877	$4,443	$8,320
Other Conformity Issues							
AMT exception for small corporations	Corporate	($274)	($575)	($849)	($532)	($406)	($938)

Source: Mn Department of Revenue (Federal Update revenue estimate, 12/17/97 and 3/20/98 OTB estimate).

The Congress enacted more than 100 revenue-losing tax changes last year, but since federal tax credits and rates do not directly affect the state tax system only a few provisions *initially* have a significant bearing on state revenues.

Provisions that have received the most public attention are:

- exemption for up to $500,000 profits on the sale of a principal residence;
- nondeductible "Roth" IRAs and education IRAs with tax-exempt withdrawals after a holding period;
- broader eligibility for traditional deductible tax-deferred IRAs;
- a deduction for up to 60 months of interest paid on qualifying educational loans;
- less stringent rules for claiming deductions for home offices;
- gradual expansion of the unified estate and gift tax credit; and,
- modified depreciation rules under the Alternative Minimum Tax.

Only two federal revenue raising-provisions have a state impact more than $1 million in a single year during the FY 1998-2001 budget period:

- recognizing a gain for tax purposes in certain financial ("constructive sales") transactions that substantially reduce the risk of loss associated with appreciated property; and,
- requiring accrual of interest or "original issue discount" on credit card receivables and similar "pooled debt instruments."

Most of the revenues raised at the federal level come from changes in Airport and Airway Trust Fund, and extending or increasing federal excise taxes. The estimated net gain in the state sales tax from higher federal cigarette taxes is estimated to be less than $50,000 in FY 1998-99 and less than $100,000 in FY 2000-01. Extension of the 3 percent federal telephone excise tax to certain prepaid phone cards will generate an estimated $57,000 in FY 1998-99 state sales tax revenue and $96,000 in FY 2000-01. Those revenues come automatically without update legislation.

Corporate charitable contributions. The 1998 state tax act also adopts the federal charitable contribution rules for the state corporate franchise tax, which limits the deduction of appreciated property or inventory to effectively the donor's investment value. This provision, effective January 1, 1998 brings about a $130,000 revenue loss in FY 1998, but net revenue increases of $80,000 for the FY 1998-99 biennium, and a $360,000 for FY 2000-01 are forecast.

Tax Interactions. The provision that exempts most capital gains from home sales interacts with existing state tax credits and the property tax refund. Including this tax-free income in the definition of "household income" (ability to pay versus taxable income)for the child and dependent care credit, the education tax credit and the property tax refunds, has a positive revenue impact of $500,000 in FY 1998-99 and $3.4 million in FY 2000-01.

Federal Update — Issues and Implications: While Minnesota's definitions of income correspond to the federal tax code, most federal law changes do not automatically affect state liability. Specific legislative approval is required for each provision of conformity or "update." For a decade, Minnesota has kept the state tax base in line with federal laws to make tax recordkeeping, preparation and filing easier for taxpayers and to improve tax administration and compliance. Conformity extends this precedent.

The Taxpayer Relief Act of 1997 made the federal tax code much more complicated, it introduces many new tax preferences and, while the initial fiscal impact of federal conformity is not great compared with other tax expenditures in this tax act, the intermediate and long-term tax expenditures will be much larger. That is because, to achieve their FY 2002 balanced budget target, the Congress delayed major revenue reductions to occur beyond their five-year budget window. Estimators project that after the first five years, state revenue losses resulting from this conformity legislation may be two to four times the amounts estimated for the first five years and within ten years will exceed $100 million per biennium.

Table 8 on page 42 shows as an example the Department of Revenue's (DOR) estimated impacts on state revenues of three popular savings incentives in the act for the current and four subsequent bienniums: expanded regular IRAs, Roth IRAs and Education IRAs. Regarding Roth IRAs, note that initially state revenues will *increase* slightly as existing tax-deferred IRA accounts are converted to Roth IRAs and the deferred tax on the original IRA is paid. Roth IRA earnings build up tax-free. Tax-free withdrawals from Roth IRAs require a minimum five-year holding period and revenue losses begin to occur in the sixth and subsequent years. Roth IRAs are expected to be held in most cases for 15 to 20 years until after retirement or longer (since there is no mandatory withdrawal age or holding period). DOR comments that accompany the revenue estimate state that after FY 2006-07, revenue losses "will keep rising at a significant rate. ... It will take 20 to 25 years for the long-term pattern [of revenue loss] to emerge."

Table 8.
Revenue Estimates for Adopting Federal Changes for IRAs
Minnesota Estimates, in $ Thousands

Fiscal Year	**FY 1998-99**	**FY 2000-01**	**FY 2002-03**	**FY 2004-05**	**FY 2006-07**
Provision:					
Regular IRAs	($4,600)	($10,700)	($15,700)	($21,000)	($27,400)
Roth IRAs	$1,100	$9,200	$2,600	($16,300)	($24,000)
Subtotal:	*($3,500)*	*($1,500)*	*($13,000)*	*($37,300)*	*($51,400)*
Education IRAs	($2,600)	($10,500)	($13,900)	($20,600)	($27,500)
Total:	($7,100)	($12,000)	($27,000)	($57,900)	($78,900)

Source: Minnesota Department of Revenue, Tax Research Division, March 20, 1998.

The phased-in increase in the federal unified gift and estate tax credit is another example of the delayed revenue loss effect. The state forgoes $1.03 million in FY 1998-99 and $2.66 million in FY 2000-01 revenues by adopting these provisions. The federal increase to $1 million for property transfers in a lifetime or at death is gradually —and unevenly — phased in. From the current $600,000 limit, the exemption rises to $625,000 in 1998; $650,000 in 1999; $675,000 in 2000 and 2001; $700,000 in 2002 and 2003; $850,000 in 2004; $950,000 in 2005, and $1 million in 2006 and thereafter. Note that the larger increments of tax relief occur *after* federal FY 2002, the "balanced budget target year."

Additional State Tax Provisions— Individual Income, Corporate Franchise Tax

New Deductions for the Individual Alternative Minimum Tax (AMT)— The 1998 tax act adds two deductions for the Minnesota individual AMT. The deduction for casualty, disaster and theft losses is effective retroactively for Tax Year 1997 to help the victims of last year's weather disasters. The deduction for impairment-related work expenses of disabled persons is effective for Tax Year 1998 and thereafter. These deductions reduce state revenue by $100,000 each year in FY 1999 – FY 2001.

S-Corporation Bank Income— The 1998 tax act gives shareholders of banks that are federally taxed as S-corporations a state subtraction to remove an added layer of taxation that occurred because the state did not conform to a 1996 change in federal tax law. These provisions are a $5.3 million tax expenditure in FY 1999 and $13.1 million in FY 2000-01. The subtraction on the individual income tax return is available to shareholders beginning with Tax Year 1998. The new law also modifies the AMT as it affects these shareholders.

Add back of Deductions for Expenses of Earning Tax-exempt Income — The tax act requires individuals, estates and trusts to add back on the state tax return amounts deducted on the federal return for the costs of earning tax-exempt income (primarily federal bond interest), beginning with Tax Year 1998. Currently, a deduction for expenses related to tax-exempt bond income is carried onto the state return in federal taxable income. The provision, which is linked to the subtraction for S-corp bank income, increases state individual income tax revenues by $1.5 million in FY 1999 and by $3.0 million in FY 2000-01.

1998 Property Tax Rebate Claims (see the *Property Tax* section of this article) will be administered with the 1998 individual income tax (returns filed in 1999). Application procedures are the same as for this year's rebate. The Department of Revenue receives an FY 1999 appropriation of $1,837,000 to administer the rebate including retroactive extension to homestead farmers who live on the farm and rent out the land.

Minnesota Working Family Tax Credit (MWFC) Restructured— Minnesota's Working Family Tax Credit and the Federal Earned Income Tax Credit (EITC) are meant to offset the regressive effects of payroll and excise taxes on lower-paid workers and the self-employed. The fully refundable state credit is primarily targeted to "working poor" households with dependent children living in the home. With one child, maximum eligible income in 1998 is $26,473; with two or more children, maximum income is $30,095.

The credits are set percentages of wages and self-employment income up to $6,680 with one child, $9,390 with two or more children. A maximum credit amount applies across a range of income. The credit begins to phase out when income reaches $12,260 or about $5.90 per hour full time wage. A weakness in the federal credit and by extension the state credit is, that some working parents in the phase out range do not get ahead when they get a raise, work extra hours or take a better-paying job. This is especially a problem for parents in the welfare-to-work transition earning $6.00 to $8.00 an hour, who can lose net income because of the extraordinarily high marginal tax rates that apply to each additional dollar of earnings when the combined effects of the credit phase outs, federal and state income and payroll tax liabilities, loss of Minnesota Family Investment Plan and TANF benefits are taken into account.

The 1998 tax act retains federal eligibility requirements. The income thresholds continue to be indexed for inflation. Otherwise the state Working Family Credit is "decoupled" from the federal EITC and redesigned to help families keep more of their earnings through a higher state credit with lower marginal tax rates. It replaces an across-the-board percentage increase in credit enacted in the 1997 first special session (that would have taken effect for tax year 1998). The new MWFC gives all claimants with children an increase in tax year 1998 credit amounts compared with 1997. The base credit is 20 percent of the federal EITC. Parents who work full time with earnings in the problematic $6.00 to $8.00 per hour wage range will receive increases greater than that provided by the 1997 special session law.

Restructuring the MWFC increases the tax expenditure for the credit by $4.4 million in FY 1999 and by $10.1 million in FY 2000-01. The Department of Revenue receives a one-time $203,000 appropriation in FY 1999 to administer changes in the credit.

No Social Security Numbers on Mailing Labels— The act prohibits the Department of Revenue from placing taxpayers' Social Security numbers on mailing labels and from delivering other materials where the numbers are visible. There is a one-time $68,000 appropriation to the DOR to administer this law change.

"Innocent Spouse" Relief— Under a law change requested by the Department of Revenue, the commissioner no longer can offset an income tax refund from a joint return to recover taxes owed by one spouse (but not the other).

Sales and Use Tax Provisions

Exemptions—

- **Farm Machinery & Equipment, Logging Equipment—** Purchases of new farm machinery including aquiculture production equipment and new logging equipment will be exempt from sales and use tax on July 1, 2000. The tax rate is phased down from the current 2.5 percent to 2.0 percent on July 1, 1998, to 1.0 percent on July 1, 1999. The machinery and equipment are fully exempt one year later. This provides $16.7 million savings for farmers and loggers: $1.74 million in FY 1999 and $14.96 million in FY 2000-01.

- **Nonprofits' fundraising sales (county fairs)—** Nonprofit organizations can conduct five days of tax-exempt sales on leased premises under the new tax law. Current law allows an exemption for up to four-day events, mainly used by nonprofits and charities for fundraising sales at county fairs. Thirty counties have five-day fairs, forty-six county fairs are of shorter duration and already qualify. This expanded exemption will result in revenue losses of $100,000 each fiscal year FY 1999 – FY 2001.
- **Wind Energy Conversion Systems—** The law makes permanent the exemption for materials and equipment used to manufacture, install, construct, repair or replace wind energy conversion systems used as electrical power sources. The exemption would have expired May 31. Permanent exemption gives direct users of wind power, and producers such as electric utilities and cooperatives an estimated $420,000 in sales tax relief in FY 1999 and $620,000 in FY 2000-01.
- **Nonprofit hospitals, effective date correction—** The law corrects an error in the 1997 tax act by making the exemption for certain nonprofit hospitals effective retroactively to December 31, 1995, which results in a one-time revenue loss of $76,000 in FY 1999.
- **Clarification, medicines & medical devices—** Purchases of medical supplies by health care professionals and licensed health care facilities for use directly on patients or residents are not subject to sales tax. This department administrative position is codified in the tax act with no fiscal impact, since it reflects current interpretation.

Sales to government—

- **Public library purchases** will be fully exempt from sales tax beginning July 1, 1998. Currently, purchases of books, publications and materials and equipment used by the public and cataloguing and circulation equipment are exempt, but purchases for "behind the counter"functions such as furniture, staff computers and workstations, and office supplies are taxable. The provision benefits all public libraries including local and regional public and multipurpose libraries, state and county law libraries and the Legislative Reference Library. This exemption is a tax expenditure of $700,000 in FY 1999 and $1.6 million in FY 2000-01.
- **Townships' purchases of gravel and road and bridge maintenance equipment** are exempt from sales and use tax on July 1, 1998. Motor vehicles used exclusively by towns for road and bridge maintenance (except automobiles, trucks and vans) are exempt form the motor vehicle sales tax. The exemption also applies to leases of qualifying vehicles. The exemptions will save townships an estimated $220,000 in FY 1999 and $520,000 in FY 2000-01.
- **Long Lake Conservation Center,** which is operated by Aitkin County, will be tax exempt like all other environmental learning centers operated by school districts. The exemption is a tax expenditure of $113,000 in FY 1999 (which includes a retroactive exemption for materials and equipment used for rehabilitation of the facility) and $41,000 in FY 2000-01.
- **Biosolids recycling equipment and installation materials** purchased by political subdivisions for wastewater treatment facilities will be exempt from sales tax after June 30, 1998. The estimated revenue loss is $600,000 in FY 1999 and $1.3 million in FY 2000-01, primarily for projects scheduled by the Western Lake Superior Sanitary District and the Metropolitan Waste Control district.

Local construction projects exemptions—

The 1998 tax act exempts purchases of construction materials and supplies for several construction and rehabilitation projects of regional significance: a soybean oilseed processing and refining facility to be built by a Minnesota-based cooperative with a capital investment of at least $60 million; construction, improvement and expansion of the Minneapolis Convention Center; construction, improvement or expansion of the River Center complex and new arena in St. Paul; rehabilitation of the Earle Brown Heritage Center in Brooklyn Park; extension of the exemption for the Duluth Entertainment Convention Center (DECC); and extension through June 30, 1999 of the exemption for construction or rehabilitation of indoor ice arenas funded in part by Amateur Sports Commission grants under the “Mighty Ducks” program. (The act also extends for one year municipal authority to issue bonds for youth ice facilities without a local referendum.)

Fiscal impacts of the local facilities exemptions are:

Table 9.

$ in Thousands	FY 1998-99	FY 2000	FY 2001	FY2000-01
Soybean processing facility	$(240.0)	$(980.0)	$(240.0)	$(1,220.0)
Minneapolis Convention Center	$(530.0)	$(1,240.0)	$(1,240.0)	$(2,480.0)
Duluth Entertainment Convention Center	$(117.0)	$(350.0)	$(58.0)	$(408.0)
St. Paul RiverCentre	$(1,203.0)	$(1,313.0)	$(328.0)	$(1,641.0)
Earle Brown Heritage Center rehabilitation	$(15.0)	$(45.0)	--	$(45.0)
"Mighty ducks" youth ice arenas	$(523.0)	--	--	$0.0

Sales of concrete from ready-mixed concrete trucks— The concrete industry requested clarification of the application of sales tax when concrete is sold from ready-mixed trucks at the construction site. The concrete material was taxable. Delivery and service charges were not. Under the new law, both the material and delivery charges will be taxed. The ready-mix trucks themselves are included in the definition of "manufacturing" capital equipment and thus will be exempt from sales tax and the sales tax on motor vehicles effective after June 30, 1998. The net revenue gain to the state from these law changes is $2.8 million in FY 1999 and $6.5 million in FY 2000-01.

Manufactured homes will be subject to tax on 65 percent of the dealer's cost of the home, rather than 65 percent of the retail price. This law change, effective beginning July 1, 1998, makes the tax base for such homes the same whether the housing is sold and installed by the dealer or the purchaser is responsible for installation. The law change results in a $250,000 reduction in sales tax revenue in FY 1999 and $800,000 in FY 2000-01.

Local option sales and use taxes and vehicle excise taxes authorized— The cities of Bemidji, Detroit Lakes, Fergus Falls, Hutchinson, Owatonna, St. Cloud, St. Joseph, Sauk Rapids, Sartell and Waite Park, Two Harbors and Winona are authorized to impose a local sales and use tax at a 0.5 percent rate on the state general sales tax base and a $20 per motor vehicle excise tax, subject to local approval by voter referendum. Authority is limited in each case to a set dollar amount and expires when the targeted amount has been raised. The tax authority pertains to construction (but not ongoing maintenance or operation) of specific local projects, generally civic and convention facilities or construction or rehabilitation of public infrastructure. While sales tax proceeds may be used to make bond payments for these projects, the bonds must be issued as general obligations that ultimately are backed by the property tax.

The act allows **Mankato** to use its existing city sales tax for a technology center and related educational facilities. It also extends the effect and allows new uses of proceeds from the **Rochester city sales tax** and the **St. Paul city sales tax**.

The cities proposing jointly to finance construction of the Central Minnesota Event Center (**St. Cloud, St. Joseph, Sauk Rapids, Sartell and Waite Park)** also are authorized to impose local lodging and restaurant taxes at a 1 percent rate. **Duluth** may increase by one-half cent the rate of its existing 1 percent local taxes on restaurant meals and lodging, to help finance capital improvements to the DECC.

For details on the local option taxes, see the House Research Department summary of Ch. 389 beginning on page 30. The summary is available on the World Wide Web at http://www.house.leg.state.mn.us/hrd/as/a0389a.evy.

Local option taxes have no state fiscal impact, but future "Price of Government" ratios could be affected if all of the authorized taxes are imposed. Local option taxes are collected and distributed by the Department of Revenue. The department recovers its administrative costs, estimated to be $145,000 in FY 1999 (including programming and start-up expenses) and $133,000 in FY 2000-01, from proceeds of local option taxes.

Gambling taxes

Tax relief for lawful gambling— Lawful gambling tax rates are reduced by 5 percent effective July 1, 1998. Tax relief is estimated to be $8.514 million over three fiscal years: $2.69 million in FY 1999, and $5.824 million in the FY 2000-01 biennium. Organizations are required to calculate their tax savings and apply the tax relief to charitable purposes.

Tax rates for the various lawful gambling taxes under current law and under the new law are shown here:

Lawful gambling taxes	Current law rate:	New rate:
Pulltabs and tipboards tax:	2.0% of ideal gross receipts	1.9% of ideal gross receipts
Lawful gambling tax:	10% of gross receipts less prizes	9.5% of gross receipts less prizes
Combined gross receipts tax:		
Receipts up to $500,000	0.0%	0.0%
Receipts > $500,000 to $700,000	2.0%	1.9%
Receipts > $700,000 to $900,000	4.0%	3.8%
Receipts > $900,000	6.0%	5.7%

Pari-mutuel taxes and unclaimed winning tickets— Under a 1996 law, from July 1, 1996 through June 30, 1999, the first $12 million withheld by the race track operator from pari-mutuel betting pools is exempt from the 6 percent pari-mutuel tax. The sunset is repealed and the exemption is made permanent in the 1998 tax act, resulting in a General Fund revenue loss of $1.44 million in FY 2000-01.

The tax act also repeals a law that required the race track licensee remit the value of unredeemed pari-mutuel tickets to the Racing Commission beginning January 1, 2000. Now the money will be retained by the track operation at a fiscal cost to the state of $500,000 in FY 2000-01.

Excise taxes & miscellaneous tax provisions

Cider tax— The excise tax on cider with alcohol content between 0.5 percent and 7 percent alcohol by volume will be the same as the beer tax rate (15¢ per gallon or 4¢ per liter) effective July 1, 1998. Currently, cider is taxed at the same rate as wine. The total revenue loss for FY 1999–2001 is $53,000.

Tax-sharing, Indian tribal compacts— Last year the tax act gave a 10 percent share of state revenues from Indian tax compacts to counties where compacts are in effect, that have Indian casinos and high poverty rates or a high percentage of tax-exempt property. The 1998 act extends revenue-sharing to three counties (Redwood, St. Louis and Scott) that do not meet the poverty/ exempt property criteria. If in the future, total payments to counties under the formula exceed $1.1 million, the "poverty counties" will receive their full formula allowances and payments to the others will be reduced *pro rata*. Expanded revenue sharing results in a General Fund loss of $300,000 in FY 1999 and $600,000 in FY 2000-01.

Rental car registration fee exemption for low-volume lessors— A fee *in lieu* of the license plate tax on rental vehicles was enacted last year at the request of national car rental firms. Under the new tax law, businesses may opt out of the rental car registration fee if they have 20 or fewer cars available for rent in a year or had less than $50,000 gross receipts from renting vehicles in the previous year. These businesses will instead pay the regular vehicle registration tax, so the exemption is revenue-neutral.

"SCORE" moratorium broadened, extended— In the 1997 tax act, an amnesty was created for use tax owed by political subdivisions on mixed municipal solid waste management services for the period January 1, 1990 through December 31, 1996. The 1998 act extends by one year (through December 31, 1997) the use tax moratorium for all local governments, and it is expanded to cover unpaid sales taxes and other related waste management charges. The FY 1999 revenue loss is $2.3 million.

Reprocessed industrial waste by-products incinerated with mixed municipal solid waste under a PCA-approved industrial plan will be taxed at the mixed municipal waste rate. The fiscal impact will be "negligible."

Aircraft registration tax exemption for air ambulances— See ***Transportation Finance*** section.

Tax Relief and Assistance for Victims of Weather Disasters

Omnibus Tax Act provisions:

- **FEMA Loan Guarantees, Ada and East Grand Forks—** The state will stand behind a federal disaster loan to the city of Ada ($1.4 million to cover operating losses of a publicly-owned heal care facility damaged in the 1997 floods), and a FEMA community disaster loan to East Grand Forks ($2.9 million). The cities will pay the actual loans and the state provides a guarantee, so there is no state fiscal impact. In the unlikely event that the cities default, and the state can recover its cost by withholding payment of state aids to the cities.
- **FEMA trailers transfer exempt from motor vehicle sales tax —** Transfer of travel trailers from the federal government to the state and any subsequent transfer to a political subdivision between November 30, 1997 and January 1, 1999 is exempt from the motor vehicle sales tax. The trailers initially were used in the Red River Valley flood disaster area and the effective date covers any intergovernmental transfers for tornado victims in southern Minnesota. The revenue estimate is $75,000 for FY 1998 based on the original transfer from the federal government to the state to local governments in the flood disaster area.
- **Flood and tornado victims, special classification of destroyed farm homesteads—** The omnibus tax act clarifies that agricultural homesteads abandoned owing to flood damage may continue to receive homestead classification without owner occupancy while the land continues to be used by the owner for agricultural purposes. Some homes on these properties cannot be re-occupied because of their location in a flood plain. Under the law change farmers do not have to re-notify the assessor annually if they continue to meet the qualifying conditions. Parallel treatment is extended in ***Ch. 383, 1998 Laws*** to farm victims whose dwellings were destroyed in the March 29 tornado disaster.
- **Solid waste tax moratorium extended in flood disaster counties—** The moratorium on collection of the solid waste tax on construction and demolition debris in flood disaster counties is extended by six months through June 30, 1998. The tax revenue impact is a loss of $154,000 in FY 1998.
- **MHFA Community Rehabilitation Fund Program—** The Minnesota Housing Finance Agency is authorized to make grants or loans to homeowners without regard to the borrower's income in areas where 20 percent of more or the housing stock is subject to buy out because of the 1997 floods.

Tornado and Natural Disaster Relief Act, *Chapter 383, 1998 Laws*

The fiscal implications, apart from specific appropriations, of the tax relief and aid provisions in this act have not been quantified.

- **Extension of filing deadlines—** Filing deadlines are extended until May 30, 1998 for paying or remitting **state taxes** owed by and claiming refunds owed to tornado victims in the disaster area. The disaster relief act also waives penalties and interest during this period and extends the time for filing tax actions in tax court and tax appeals. The due date for payment of **property taxes on businesses** (classes 3a and 3b) is extended to October 15, 1998 in the disaster area when tornado damage to the business makes an owner unable to pay on the May 15 due date. The owner must apply and document the hardship.

- **Property tax abatements, appropriation for county reimbursement—** County boards in counties declared tornado disaster areas are given authority to abate property taxes on properties fully that lost at least 50 percent of estimated market value because of tornado damage. For agricultural property, abatements apply to taxes on damaged and destroyed dwellings, farm buildings and structures. Property owners need not apply to the board to be granted an abatement. The act appropriates $500,000 in FY 1999 to the Commissioner of Revenue to reimburse local units of government for tax base lost to the abatements.
- **Early payment of state aid to local units of government—** The Commissioner of Revenue is directed to make HACA and local government aid payments available "as soon as practicable" to local governments suffering hardship after the tornadoes. The regular aid payment date is July 20.
- **Valuation exclusion and phase-in for small businesses—** In the tornado disaster area property taxes on improvements or repairs to small business properties in class 3a may be deferred for five years and then phased in at 20 percent per year over the next five years. The deferral applies to the owners' personal out-of-pocket costs for improvements valued up to $50,000. To qualify, total value of the land and buildings before March 29, 1998 cannot exceed $150,000, the owner must obtain a building permit (or notify the assessor before starting work where no permitting process applies), and the work must be done by January 1, 2002. Properties granted a tax abatement and work that is reimbursed by public grants or public financing do not qualify.
- **Solid waste tax waiver in tornado disaster counties—** The solid waste tax is waived on construction and demolition debris in counties declared disaster areas due to tornado and other weather damage on March 29, 1998. The moratorium is at the discretion of the Commissioner of Revenue through March 31, 1999.
- **Destroyed motor vehicles, reimbursement of registration tax—** Owners of vehicles that are declared a total loss for insurance purposes can claim a refund of unused motor vehicle registration tax on a monthly *pro rata* basis.

Health Care Access Fund, MinnesotaCare Taxes

HMO, CISN & nonprofit health service corporations: gross premiums tax exemption— The tax act clarifies the effective dates for the gross premiums tax exemption that applies when nonprofit health care entities meet cost containment goals. Enactment dates in a 1997 act were incorrect so the rate reduction took effect April 1, 1997 instead of January 1, 1998 as intended. The rate would have gone up again for nine months in 1999 without the correction in the tax act. HMOs, CISNs and nonprofit health service corporations will pay the 1 percent tax for premiums received between the original and intended effective dates, resulting in a one-time FY 1999 payment estimated to total $16.991 million. Then the exemption is in effect through calendar year 1999, for a $16.405 million tax reduction in HCAF revenues. (The exemption will continue in CY 2000 if the HCAF has sufficient funds to absorb the revenue loss.) The tax act also corrects the effective date for **MinnesotaCare's exemption from the** Minnesota Comprehensive Health Association **"MCHA"assessment**.

Prescription drugs, MinnesotaCare use tax— Purchases of prescription drugs for use in Minnesota from nonresident pharmacies are subject to a Minnesota Care use tax. This provision codifies current administrative practice and therefore has no impact on revenue.

For more information on state taxes (individual and corporate taxes, sales & use tax, gambling, excise, Minnesota Care and miscellaneous state taxes), disaster-related tax relief and appropriations in the tax act, contact M. J. Hedstrom, Room 432, (612) 296-1237, e-mail address: mj.hedstrom@house.leg.state.mn.us.

Economic Development and Tax Increment Financing

Changes to Tax Increment Financing (TIF) Reporting and Enforcement

The Legislature made some report date changes to the tax increment financing (TIF) reporting requirements. Communities with TIF districts must submit an annual disclosure statement to the Office of the State Auditor (OSA), county and school district by August 1. Communities must also submit to the OSA the annual financial report and annual report of debt by August 1.

If a development authority fails to submit the required reports or publish a newspaper disclosure or if the reports fail to comply with the law, OSA may take action to suspend the distribution of increments. The OSA will notify the development authority that it has failed to submit the required reports and describe the potential consequences of not filing the required reports. If OSA has not received the reports by the third Tuesday of November, OSA will notify the county auditor to hold the distribution of increments — 25 percent if the distribution is made during the same year, and 100 percent if it is made the following year. Once OSA receives a copy of the required reports, it will notify the county auditor to distribute the held tax increment to the affected development authority.

TIF Decertification. The Legislature defined decertification of a TIF district — the termination of a tax increment financing district that occurs when the county auditor removes all remaining parcels from the district.

The Act requires county auditors to decertify a TIF district when the earliest of the following events occur:

- the maximum district duration is reached;
- the maximum duration under the district's TIF plan is reached;
- the commissioner of revenue issues an order of noncompliance for a qualified housing district for failing to comply with income requirements, or the maximum duration of an economic development district has been exceeded;
- all obligations incurred under the five year rule have been completed and paid for or adequate money has been set aside to pay for them; or
- OSA requests the county auditor to decertify the district.

Green Acres and TIF. The act allows "green acres" — protected agriculture land in proximity to and being encroached upon by development — to be included in TIF districts for distribution facilities. Currently, green acres can be included in qualified housing districts and manufacturing facilities only. Manufacturing or distributing facilities located on a green acres parcel must agree to pay 90 percent of its facility employees at least 160 percent of the federal minimum wage.

TIF Special Taxing District. Under this provision, a city may establish a special taxing district within a TIF district and levy taxes to offset an increment deficit resulting from the 1997 and 1998 reductions in property tax class rates. Only property that is subject to an assessment or development agreement may be included in the district. A city may establish a special taxing district within a TIF district if: 1.) the TIF district deficit was caused by the 1997 and 1998 reductions in property tax class rates; and 2.) the city agrees to transfer any available increment from other TIF districts to pay for the affected district's obligations. If a city chooses to establish a special taxing district within a TIF district, increments and proceeds from the imposed tax can be used to pay for preexisting obligations only; the TIF district must be decertified once all preexisting obligations have been paid. The tax levy is limited to the lowest of the following: 1.) the amount specified in the assessment agreement; 2.) the amount necessary to pay preexisting obligations after using all available increments; or 3.) the reduction in taxes resulting from then 1997 and 1998 class rate reductions.

TIF Recodification Task Force. This provision extends the deadline for the TIF recodification task force to May 1, 1999.

Enterprise Zones— Eligibility requirements for an enterprise zone were expanded to include areas within St. Paul transit zones. Also, the Department of Trade and Economic Development may allocate $500,000 to the Koochiching County enterprise zone for tax reductions in order to attract new or retain existing businesses.

Border City Provisions

Five cities on Minnesota's western border have renewed authority and funding for "border city development zones," enterprise zones where cities may offer reductions of local property taxes and certain state taxes to attract businesses to locate there. The act authorizes $1.5 million in FY 1999–2001, for state corporate franchise tax and sales tax reductions.

The cities, allocation of state tax relief by city, and restrictions on the area of the zones are:

City:	***Breckenridge***	***Dilworth***	***E. Grand Forks***	***Moorhead***	***Ortonville***
Amount:	$394,000	$118,200	$788,000	$591,000	$78,800
Eligible Area:	Entire City	Maximum 100 acres, up to 6 areas.	Entire City	Maximum 100 acres, up to 6 areas.	Maximum 100 acres, up to 6 areas.
Other criteria:	Cities must prepare and submit to DTED written development plans that justify the need for, and feasibility and duration of proposed zones and identify support. Businesses must apply for the credits and reductions. Maximum duration of a zone is 15 years.				

Border cities issue state tax credit certificates to targeted businesses or may use the certificates to offset property tax abatements or reductions with state reimbursements. Local officials are not limited in the amount of property tax reductions they can grant within the zones since the loss of tax revenue is borne locally but full or partial property tax exemptions are limited to 5 years, or an agreement that the business will make payments *in lieu* of tax for 20 years.

Additional restrictions include requirements that businesses must notify the Commissioner of DTED and local government officials when planning to move 25 or more existing full-time jobs from a location within Minnesota to one of the enterprise zones. The city or county where the jobs originally are located can prevent the issuance of tax credit certificates to the relocating business in the border city by passing a resolution of objection within 60 days after being notified. **Recapture provisions** in current law are clarified such that if a business discontinues its operations in a zone it must pay back the last two years' tax credits.

Cities also may use their allocations to provide a **tax credit** equal to 1 percent of payroll for the first three years and 0.5 percent of payroll for two additional years **for new businesses that locate in the city but outside of the zones**.

Corporations created by political subdivisions—

Corporations created by political subdivisions (which were explicitly prohibited by the Legislature in 1997), are temporarily given legal status until July 1, 1999 (effective for corporations created before June 1, 1997). At present there is very little information about number and nature of quasi-public quasi-private corporations that municipalities have created. The policy concerns include: the variety of purposes for such corporations; whether or to what extent such entities may be operating outside of budget accountability for public funds and the open meeting law; or outside statutory restrictions on public finance and debt authority, conflict of interest, personal gain, compensation; and whether or not taxpayers in the creating municipalities are at risk for civil liabilities of the entities.

While the grandfather is in effect municipalities must report to the State Auditor about all corporations that they have created. The Auditor will report the information to the legislative committees on local government by January

30, 1999. Corporations whose existence is not reported to the Auditor by the October 15, 1998 deadline are prohibited from receiving public funds or contracting with public entities after July 1, 1999. This allows time for the Legislature act on the information in the 1999 session.

For more information on Tax Increment Finance (TIF) and tax incentives for economic development, contact CJ Eisenbarth Hager, Fiscal Analyst, (612)296-5813, room 428, or e-mail address: cj.hager@house.leg.state.mn.us.

Appropriations in the Tax Act

Department of Revenue, for administration— The Department of Revenue receives a $281,000 FY 1999 General Fund appropriation for the administration of the tax act (other than the 1998 rebate). The specific fiscal note costs that make up this total appropriation are noted in the item descriptions above. The department will recover its $1.837 million administrative costs of the 1998 Property Tax Rebate out of the July 1 fund transfer from the Property Tax Reform Account to the General Fund.

Housing Provisions—

- **Minnesota Housing Finance Agency (MHFA) Affordable Rental Investment Fund Program.** The tax act appropriates $10 million in FY 1999 and $20 million in FY 2000-01 **to preserve federally-assisted rental housing** and "equity take-out" loans. MHFA's may make equity take-out loans to all types of federally assisted rental housing regardless of whether the agency holds a first mortgage and it has greater discretion to set loan security requirements. The act also requires owners of federally assisted rental housing to notify local government and tenants at least a year before withdrawing from the program, including information about future rents and owner assistance to displaced tenants.

- **Matching grants for employer-assisted employee housing.** Employer contributions to funds administered by nonprofit organizations for development, rehabilitation or acquisition of affordable housing in Minnesota are eligible for matching grants up to $250,000 from the MHFA Housing Development Fund. The object of the matching grants, which originated as employer tax credit legislation, is to increase business participation in meeting the need for quality housing that is affordable to workers. The tax conference committee determined that grants are preferable to tax credits because the entire public expenditure is directed to housing *in this state* and, whereas state tax credits would increase employers' federal taxable incomes, their contributions generate federal and state tax deductions. The Housing Development Fund receives a $250,000 appropriation for FY 1999, and $800,000 each year for FY 2000-01. Funds remain available until expended.

MNDOT, Transit Grant— To offset or reduce the property tax impacts of transit capital improvements, a $1.5 million appropriation in FY 1999 to the Transportation Revolving Loan Fund Transit Account will leverage matching federal funds for and may be used to back bonds at a lower interest rate.

Refund for handlers of used motor oil— Originally proposed as a tax provision, a $250 per year refund is authorized as an incentive for PCA-certified business that accept used motor oil and filters from the public. Refunds are forecast to total $50,000 a year in FY 1999–FY 2001.

Family Care Tax Incentives Study— The department appropriation includes $10,000 for a joint study by the departments of Revenue and Human Services as to the potential effectiveness of tax incentives to encourage families to care for elderly and disabled relatives in their homes.

Legislative Coordinating Commission, Alternative Business Taxation Study— An appropriation of $100,000 in FY 1999 to the LCC will be used for technical and consulting services to help the Department of Revenue and the legislative tax staff in preparing a study of alternative forms of business taxation. The study was initiated in the 1997 tax act with a $50,000 appropriation. A business activities tax is among the options to be considered.

For more information: on property taxes, contact Ron Soderberg, Room 430, (612) 296-4162; e-mail: ron.soderberg@house.leg.state.mn.us; on TIF and tax incentives for economic development, contact C. J. Eisenbarth-Hager, Room 428, (612) 296-5813; e-mail: cj.hager@house.leg.state.mn.us; on state taxes, disaster-related tax relief and appropriations in the tax act, contact M. J. Hedstrom, Room 432, (612) 296-1237, e-mail address: mj.hedstrom@house.leg.state.mn.us.

Transportation

The Transportation Finance Act, *Laws of Minnesota 1998*, Chapter 372, contained relatively few items. One additional transportation appropriation was included in another act.

- $40 million from the trunk highway fund for FY 1999 is appropriated to the Department of Transportation increased the road construction program. The funding comes from federal funds captured before the expiration of the ISTEA act, and dollars collected in excess of prior revenue estimates for gas tax and license tab fees.
- $294,000 from the General Fund is appropriated to the Department of Public Safety for additional Capitol Security officers. The seven new officers are needed to provide security for the new Department of Revenue building on the capitol complex.
- $200,000 from the trunk highway fund is appropriated to the State Patrol received for additional helicopter flight time to deal with increasing requests from local law enforcement for assistance with rescues and pursuits.
- $2.7 million from the trunk highway fund is appropriated to the State Patrol for 29 additional state trooper positions and related support staff.
- $15.78 million appropriated from the trunk highway fund for the completion of the Transportation Building. This funding for the final phase of construction was not included in the capital investment act, rather it was amended into HF 2654, *Laws of Minnesota 1998,* Chapter 405.
- The Omnibus Transportation and Public Safety Act (Chapter 372) also exempts air ambulances from the aircraft registration tax. The exemption results in revenue losses to the State Airports Fund of $98,000 in FY 1998-99 and $241,000 in FY 2000-01.

For more information on Transportation Finance issues, contact: John Walz, Fiscal Analyst, Room 376, 612-296-8236, or send email to: john.walz@house.leg.state.mn.us.

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