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Money Matters

A Publication of the House Ways and Means Committee Staff on Government Finance Issues

SUMMARY OF THE FISCAL ACTIONS OF THE 1997 LEGISLATURE

Minnesota's General Fund Budget for the FY 1998-1999 Biennium

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***Abstract:** This Money Matters paper provides an overview and details of the enacted FY 1998-99 Minnesota biennial budget, including the actions of the 1997 regular session and first special session. The first section summarizes the overall budget. The second section provides details, organized by the jurisdictions of the House of Representatives fiscal committees and divisions.*

TABLE OF CONTENTS

Part one.

Budget Overview[1]

The Legislature considered the allocation of $22.415 billion in resources for the biennium beginning July 1, 1997 and ending June 30, 1999, Fiscal Years 1998 and 1999 (FY 1998-99). Of the $22.415 billion, $20.752 billion results from revenues projected to be raised during the FY 1998-99 biennium and $1.663 billion is revenue carried over from the previous biennium.

In allocating the $22.415 billion, the Legislature used approximately $500 million for a one-time 20 percent rebate of homeowners' and renters' 1997 property taxes (administered with income tax returns to be filed in 1998), and placed $918 million in reserves. The budget reserves include $350 million for a cash flow reserve, $522 million for a budget reserve and $46 million for a property tax reform reserve to cover future costs of property tax reform. The Legislature left approximately $7 million unspent.

Total General Fund allocations for the FY 1998-99 biennium (with the property tax rebate included) are projected to increase $2.878 billion or 14.7% over FY 96-97. Without the property tax rebate included, the increase from FY 1996-97 to FY 1998-99 would be $2.378 billion or 12.2%.

The General Fund is the single largest portion of the state budget. Other funds bring the total state budget for the FY 1998-99 biennium to about $35.3 billion. Other funds are usually dedicated for specific purposes (trunk highway for highways and bridges, health care access for health care). The largest funds in additional to the General Fund are federal funds at $6.98 billion and the trunk highway fund at $1.94 billion.

Table 1. State General Fund — FY 1998-99
(Dollars in Millions)

Resources	
Balance Forward from FY 97	$1,662.8
Current Revenues	$20,752.3
Total Resources Available	$22,415.1
Allocation of Resources	
Property Tax Rebate	$500.0
Program Spending	$20,990.6
Budget Reserve	$522.0
Cash Flow Reserve	$350.0
Property Tax Reform Reserve	$46.0
Budget Balance - Unspent	**$6.5**

State Resources Are $22.4 Billion

Total General Fund resources for the FY 1998-99 biennium are $22.415 billion. A substantial amount, $1.663 billion or 7.4 percent, is revenue carried over from FY 1996-97. The single largest source of revenue is the personal income tax at $9.526 billion or 42.5 percent of the total. Sales tax revenues make up another $6.554 billion or 29.2 percent. These two sources of revenue make up 71.7 percent of the total revenue for FY 1998-99.

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[1] *Note:* The figures used in this paper are based the 1997 Session and First Special Session appropriations in legislation and fiscal estimates. Revenue estimates are based on the forecast of revenues released by the Department of Finance in February, 1997. Appropriations for fiscal year (FY)1997 deficiencies are included in the FY 1998-99 appropriations since they were taken out of the total resources available to the 1997 Legislature. The effect of Governor's vetoes are noted in the narrative for each appropriations area but are not included in the numbers in the summary charts.

Where the Money Comes From

Enacted General Fund Revenues, FY 1998-99

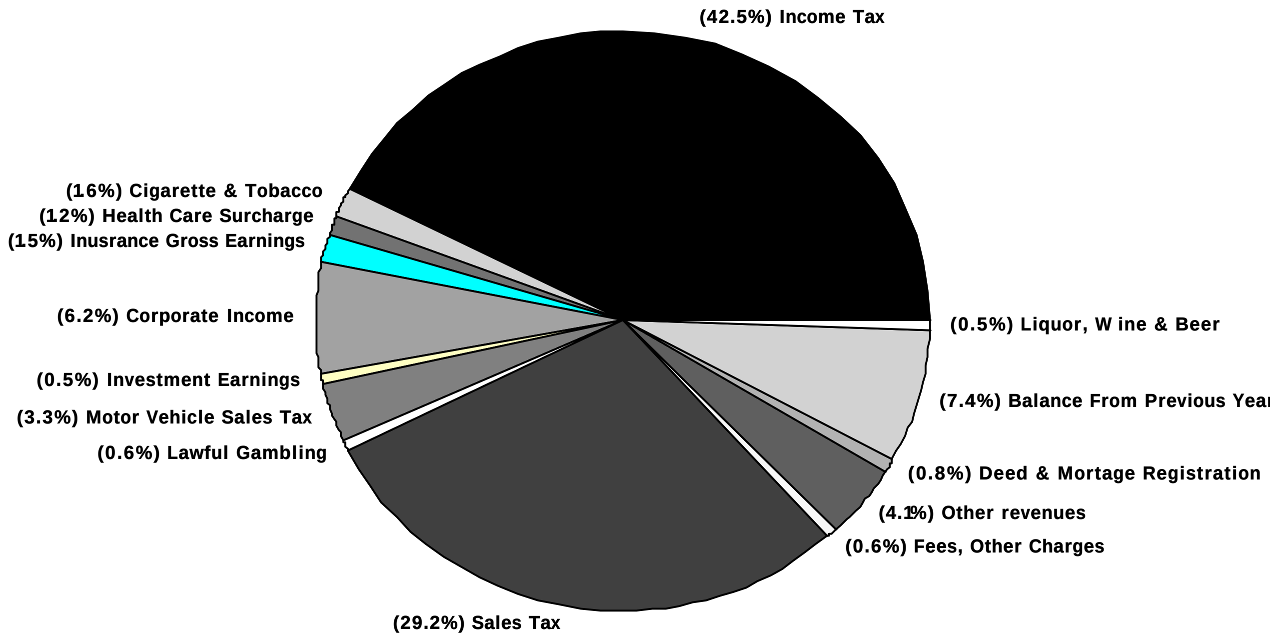


Chart 1.

Table 2 and Chart 1 show the primary sources of the $22.415 billion in General Fund resources for FY 1998-99.

Table 2. State General Fund Resources by Major Category for FY 1998-99

	$ in Millions	
	Dollars	**Percent of Total**
Individual Income Tax	$9,525.8	42.5%
General Sales & Use Tax	$6,553.7	29.2%
Motor Vehicle Sales Tax	$734.7	3.3%
Corporate Franchise Tax	$1,399.3	6.2%
Cigarette & Tobacco	$351.0	1.6%
Health Care Surcharge	$261.7	1.2%
Insurance Gross Earnings	$342.0	1.5%
Investment Earnings	$115.0	0.5%
Lawful Gambling	$133.9	0.6%
Liquor, Wine & Beer	$113.6	0.5%
Deed & Mortgage Registration Taxes	$183.0	0.8%
Fees, Other Charges	$124.0	0.6%
Others	$914.6	4.1%
Balance From Previous Year	$1,662.8	7.4%
Total Revenues	**$22,415.1**	**100.0%**

Note: Numbers shown are as passed the Legislature prior to tax reductions enacted by the 1997 Legislature.
-- House Fiscal Analysis Department, July 1997

Forecast Revenues Exceeded Forecast Expenditures by $2.3 Billion

The 1997 Legislature had a substantial amount of resources to work with. The forecast of General Fund revenues and expenditures released in November of 1996 by the Department of Finance projected the revenues would exceed expenditures by $1.438 billion for the remainder of the FY 1996-97 biennium and in FY 1998-99. This was the information available for the initial Governor's budget recommendations and the first two months of the Legislature's consideration of the budget. The forecast of General Fund revenues and expenditures released at the end of February 1997, projected an additional $892 million available by the end of FY 99.

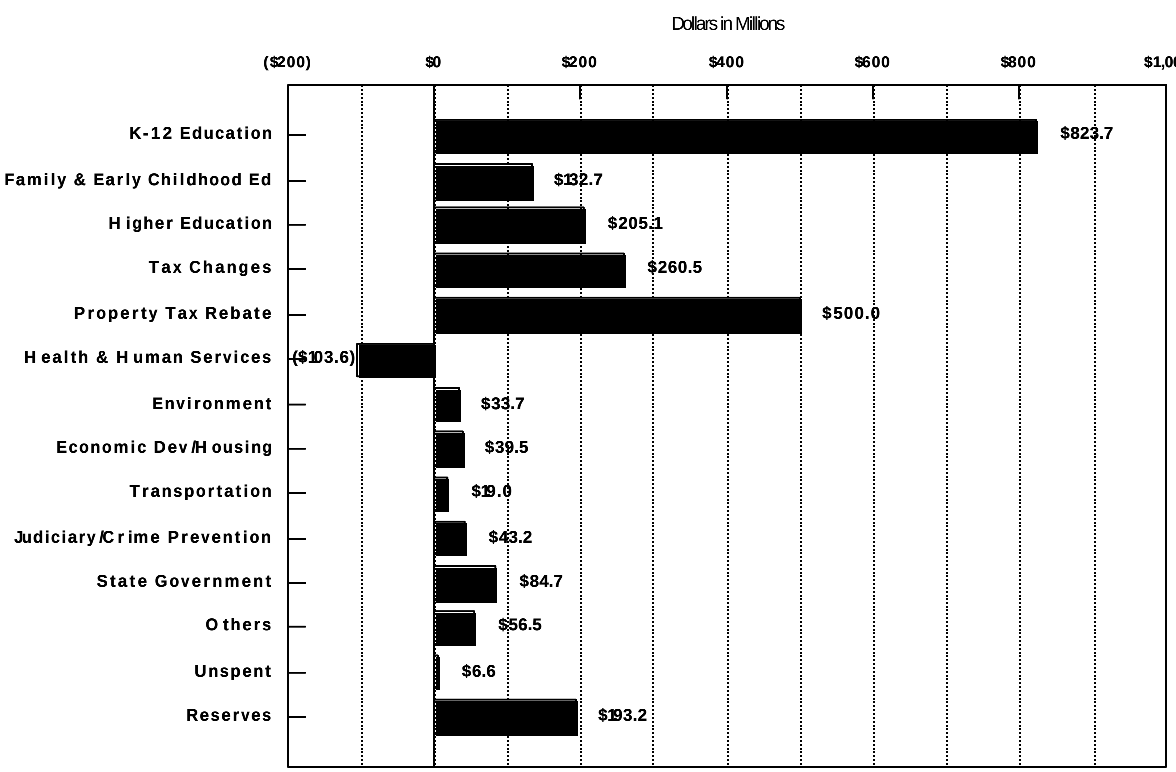
K-12 Education "Caps" Addressed Early in the Session

A major issue addressed early by the 1997 Legislature was the "caps" in K-12 Education. Legislation passed in 1995 reduced the general education formula and reduced the secondary pupil unit weighting to keep projected K-12 Education spending for FY 98-99 within the budget targets set in 1995. With the resources available to remove these "caps," a bill to do so was passed early in the session. The actual cost of the "cap repeal" was $270 million. The discretionary inflation cost used in expenditure forecasts of the "cap repeal" was an additional $330 million so the "cap repeal" cost $600 million relative to the forecast. While the revenue and expenditure estimate from the February forecast projected revenues exceeding expenditures by $2.3 billion, the Legislature had already passed and the Governor signed a bill repealing the "caps" in K-12 Education.

Chart two.

How the $2.3 Billion Is Spent

Adjusted Feb. Forecast* Compared to Legislative Actions



*This compares spending as forecast in Feb. 97 (before the effect of the K-12 caps bill) to Legislative actions as of May 19.

It is important to keep in mind that the $2.3 billion "surplus" was the amount that forecasted revenues would have exceeded forecasted expenditures as of June 30, 1999 based on current law with certain adjustments. The adjustments included changes in base budgets and adding inflation to many budgets even though, in many cases, that inflation would not occur without law changes.

Chart two on page 3 illustrates how the $2.3 billion "surplus" was spent by the 1997 Legislature as compared to projected spending in the February 1997 revenue and expenditure forecast, but before passage of the K-12 Education "caps repeal" legislation.

State General Fund Expenditures Increased by $2.9 Billion

State General Fund expenditures increase by $2.9 billion in FY 1998-99 over FY 1996-97 or 14.7 percent. If the $500 million property tax rebate is not counted as spending, the increase from biennium to biennium is $2.4 billion or 12.2 percent. K-12 Education is the single largest appropriation category in the budget at $6.7 billion. The area with the greatest percentage growth is Family and Early Childhood Education at 58.7 percent. However, the total appropriation is relatively small at $394 million. A large share of this growth is in the child care area and is, in large part, a response to welfare reform. Table 3 shows total appropriations for the FY 1998-99 biennium compared to the previous biennium and dollar and percentage change between the two biennia. Chart three (page 5) is a pie chart showing allocations of the $22.4 billion General Fund.

Table 3. General Fund Expenditures by Biennium

($ in Millions)	**FY 1996-97**	**FY 1998-99**		
	Feb Est.	**97 Session**	**Change**	**% Change**
K-12 Education	$5,864.9	$6,731.0	$865.7	14.8%
K-12 Shift Reductions	$651.3	$18.7	($632.6)	-97.1%
Family & Early Childhood Education	$248.0	$393.6	$145.6	58.7%
Higher Education	$2,146.2	$2,376.1	$229.9	10.7%
Property Tax Aids & Credits, Other Tax Changes	$2,412.3	$2,713.2	$300.9	12.5%
Property Tax Rebate	$0.0	$500.0	$500.0	--
Health & Human Services	$4,455.4	$5,276.9	$821.5	18.4%
Environment, Agriculture & Natural Resources	$369.1	$444.1	$75.0	20.3%
Economic Development & Housing	$376.3	$379.3	$3.0	0.8%
Transportation	$133.6	$151.0	$17.4	13.0%
Judiciary/Crime Prevention	$876.8	$979.5	$102.7	11.7%
State Government	$560.7	$622.4	$61.7	11.0%
Debt Service	$438.9	$557.6	$118.7	27.0%
Reserves	$724.8	$918.0	$193.2	26.7%
Snow/Flood	--	$41.0	$41.0	--
Other	$57.4	$72.8	$15.3	26.7%
Dedicated Expenditures	$221.6	$240.5	$18.9	8.5%
Totals	**$19,537.2**	**$22,415.3**	**$2,878.0**	**14.7%**
Totals w/o property tax rebate	**$19,537.2**	**$21,915.3**	**$2,378.0**	**12.2%**

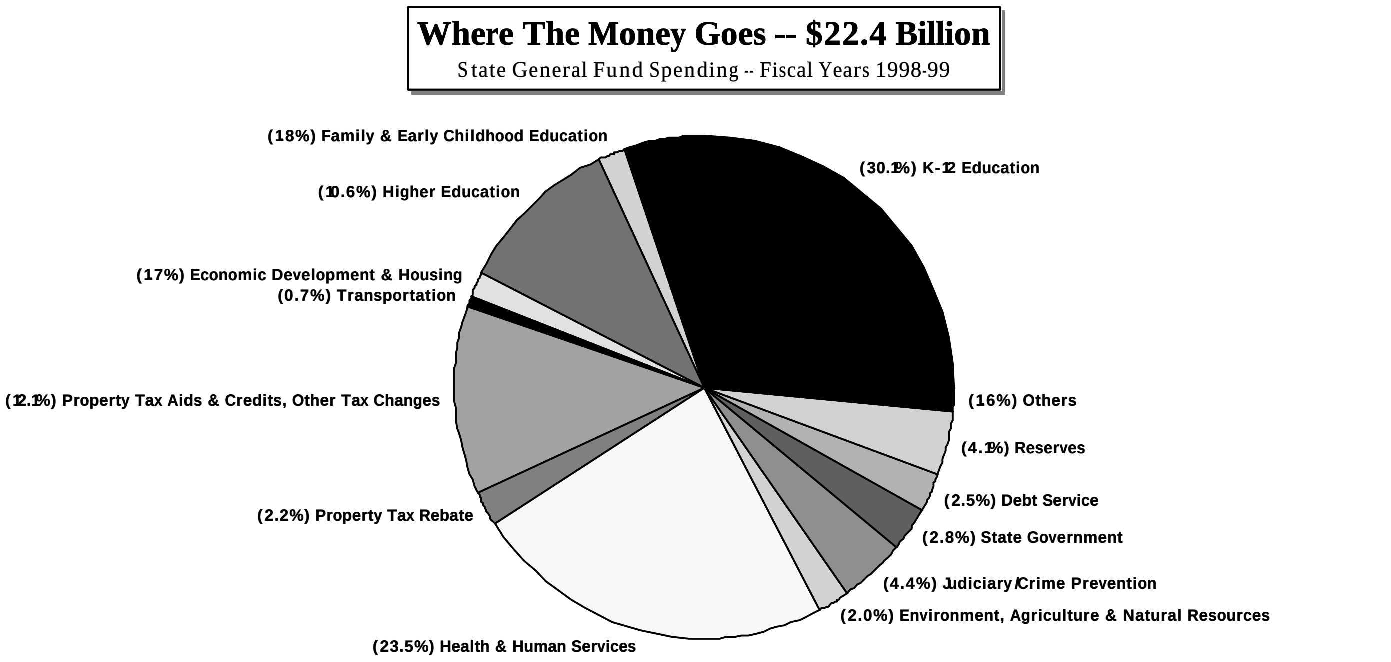


Chart 3.

Table 4. State General Fund Estimates - FY 2000-01 *($ in Millions)*

Balance Forward	$996.6
Current Resources	$22,462.0
Total Resources	$23,458.6
K-12 Education	$6,832.9
Family & Early Childhood Education	$463.7
Higher Education	$2,317.6
Property Tax Aids & Credits, Other Tax Changes	$3,000.5
Health & Human Services	$5,759.1
Environment, Agriculture & Natural Resources	$428.2
Economic Development & Housing	$331.8
Transportation	$147.5
Judiciary/Crime Prevention	$1,012.0
State Government	$591.0
Debt Service	$598.4
Reserves	$918.0
Other	$52.0
Dedicated Expenditures	$240.5
Inflation for Planning Estimates	$739.2
Total Expenditures	**$23,432.4**
Remaining Balance	**$26.2**

Based on projected revenues and expenditures, and including inflation, the state's General Fund budget for the FY 2000-01 biennium is also balanced with the actions of the 1997 Legislature. Table 4 shows resources and projected base level expenditures for that biennium. These estimates include an estimate for inflation at $739.2 million which is a planning estimate amount. It is likely that only some portion of this amount will actually be funded when a budget for the FY 2000-01 biennium is considered.

Special Session Tax Changes Effective Only if Adequate Funds Are Available

In the 1997 First Special Session, the Legislature passed a K-12 Education Finance Bill that included an increase in the working family income tax credit (to 25 percent of the federal earned income credit), an increase in the current income tax deduction for tuition and other education expenses, and a new income tax credit for education expenses (excluding tuition). These changes take effect for income taxes paid for calendar year 1998 in state fiscal year 1999. However, these changes take effect *only* if the November 1997 forecast of state General Fund revenues and expenditures indicates that an additional amount needed to fund the total cost of these provisions (estimated to be $80 million in FY 1999) is available in the FY 1998-99 biennium. If less than that amount is available in the forecast, the income tax changes do not take effect. For additional details, see the 11, 47*K-12 Education Finance* and 11, 47*Taxes* sections of this paper.

For more information on general budget issues, contact Bill Marx, Chief Fiscal Analyst, at (612) 296-7176.

Part two.

The Enacted Budget in Detail

Family and Early Childhood Education Finance

Overview, Community Services, Department of Children, Families and Learning (DCFL): The Family and Early Childhood Education Omnibus Bill authorizes record spending. The Omnibus bill appropriates $393.6 million in general fund dollars for child care, early childhood education, self-sufficiency and community/prevention programs. Of the $393.6 million in FY 1998-99, approximately $140 million is new spending. Seventy-five percent of this new spending is dedicated to child care programs such as TANF child care, Basic Sliding Fee child care and Head Start. The remaining portion of this new spending is distributed to self sufficiency programs such as the Minnesota Economic Opportunity Grants, Food Shelves/Food Banks and to Community/Prevention Programs such as Adult Basic Education. Nothing in the omnibus bill was vetoed by the Governor.

Major fiscal provisions in the Family and Early Childhood Education Omnibus Bill in detail are:

Child Care Recommendations

- Increase TANF Child Care by $50 million in FY 1998-99. The additional funding will allow more families on public assistance to access child care services as they transition off welfare and into employment. The recommended increase for this program appropriated by the Legislature is identical to the Governor's budget request.

  In addition, the Legislature earmarks $500,000 for a child care diversion program. This is a one-year program to allow eligible participants under the working family assistance program to use TANF child care dollars to pay for education, training and transportation for up to two months on a one-time basis. This program will be limited to one county.

- Increase the Basic Sliding Fee (BSF) Program by $43 million in FY 1998-99. The additional funding for this program will allow approximately 5,000 more working poor families to obtain child care assistance. The recommended increase for this program appropriated by the Legislature is identical to the Governor's budget request.

The Legislature also directs DCFL to allocate an amount necessary from the BSF program for the administration of the **At-Home Child Care program**. The At-Home Child Care program, scheduled to be implemented in FY 99, provides assistance for a maximum of 12 months to an income-eligible parent of a child, under age one, who personally provides full-time care for the child.

- Increase **Child Care Development** by $4 million for the FY 1998-99 biennium only. The additional funding will enhance the training and education of child care professionals and will allow for the expansion of child care facilities. Of the total appropriation for this program, $2 million in FY 98 has been earmarked for grants to implement family child \care mentorship models programs, expansion of project impact, regional resource and referral programs and for grants to administer a loan program for child care and early childhood education facility improvements. This recommended increase is $1 million over the Governor's request for this program. The conference committee appropriated more funding to this program to ensure that the "supply-side" of child care services is able to respond to projected increased demands that will be placed on the child care system when welfare reform is fully implemented.

- Increase **Child Care Administration** by $594,0000 in FY 1998-99. The additional funding, for the 1998-99 biennium, will be used to hire temporary staff and update tracking and monitoring systems for child care assistance programs. The recommended increase by the Legislature for administration is $1 million below the Governor's request.

Self Sufficiency Recommendations

- Increase **Transitional Housing** by $1.1 million in FY 1998-99. The recommended increase by the Legislature is $680,000 over the Governor's budget request. A portion of this allocation may be used for the emergency services grant program.

- Increase **Food Shelves/Food Banks** by $1.1 million in FY 1998-99. Additional funding was appropriated to this program to compensate for the budget reduction in the federal food stamp program. The Governor's budget did not request any additional funding for this program.

- Increase the **Minnesota Economic Opportunity Grant** (MEOG) Program by $4 million in FY 1998-99. These funds, in addition to federal funds such as the Community Services Block Grant, help provide the infrastructure for Community Actions Agencies (CAA's). The recommended increase by the Legislature is $2 million below the Governor's request.

Community & Prevention Recommendations

- Increase **Adult Basic Education** (ABE) by $8.2 million in FY 1998-99. The recommended increase by the Legislature is $1.9 million over the Governor's budget request. The Legislature appropriated additional funding in order to alleviate current deficiencies in the program and to finance the lifting of the non profit consortia cap on state aid. With the passage of the omnibus bill, ABE consortia will receive state aid based on the number of full-time equivalent students participating in the program. The provision will cause a redistribution of funding for the ABE consortia. The omnibus bill also has a provision that requires districts receiving state aid in FY 99 to levy 0.12 percent of the ANTC or have their state aid reduced proportionately to what they levy.

- Appropriate $800,000 in FY 98 for a legislative initiative called the **Adolescent Parenting Program** in FY 98. This new program, funded for the FY 1998-99 biennium only, provides grants to school districts, alternative learning programs or family services collaboratives to help improve outcomes for adolescent parents and their children.

- Appropriate $1 million in FY 98 for a new legislative initiative called the **ESL/Citizenship Promotion Program**. This new program, funded for the FY 1998-99 biennium only, has been established to assist legal immigrants in their application efforts for U.S. citizenship.

- Appropriate $80,000 in FY 1998-99 for two pilot **Adults with Disabilities** programs in regions of the state without an existing program. These pilot programs are not granted levy authority.

- Decrease **Family Collaboratives** by $500,000 in FY 1998-99.

- Decrease **Male Responsibility** by $250,000 in FY 1998-99.

Of the two community/prevention initiatives by the Governor, the Legislature authorized $800,000 for **Community Crime Prevention Grants** for mentoring at-risk youth to the Office of Drug Policy in FY 1998-99. The amount appropriated by the Legislature is $200,000 less than the Governor's request. Finally, the Legislature did not authorize any funding for the Governor's **Early Intervention** (children ages 6-12) program initiative with a proposed budget of $2.1 million.

Early Childhood Education Recommendations

- Increase **Head Start** by $14.5 million in FY 1998-99 to expand the program. The recommended increase for this program is $500,000 above the Governor's request. Of the amount allocated for this program, $1 million is earmarked for competitive grants to local Head Start agencies for full year programming for children ages zero to three.

- Increase state aid and levy for the **Early Childhood Family Education (ECFE**) program. In FY 98 only, the omnibus bill has $10 in special aid times by the number of people less than five years of age residing in the school district. The amount of special aid authorized is $3.30 above the Governor's request. Beginning in FY 99, the ECFE education allowance will increase to $113.50. This increase by the Legislature in the education allowance is eighty cents above the Governor's request. The combined increases in special aid and the education allowance in FY 1998-99 will generate approximately $2.1 million more in state aid in FY 1998-99 for the program. Finally, the tax rate for ECFE is raised from 0.609 to 0.653 percent in the omnibus bill to raise an additional $2,000 million in levy. The increased tax rate for this program is identical to the Governor's budget recommendation.

- Appropriate $2 million for ECFE programs for pilot programs to expand services to families with infants. The new grant program is funded for the FY 1998-99 biennium only.

The Legislature did not authorize funding for the **Learning Readiness/ECFE/Head Start Block Grant**, a Governor's Initiative, with a proposed budget of $5 million in FY 1998-99.

Implications and Issues

The Family and Early Childhood Education omnibus bill is $6 million less than the Governor's projected tails for the FY 2000-01 biennium primarily because the omnibus bill contains more one-time funding for projects in FY 1998-99 than the Governor. The projected tails for the Family and Early Childhood Education omnibus bill for the FY 2000-01 biennium total $463.6 or $70 million over FY 1998-99 spending.

Increased spending in the FY 2000-01 biennium is primarily driven by the TANF Child Care program. By FY 2000, welfare reform will have been in full implementation and thus the participation rates in the TANF Child Care program will increase as families receiving public assistance will be required to work and will need child care. In comparison to the FY 1998-99 biennium, funding for the TANF child Care was calculated based on the assumption that welfare reform would be in full implementation during only one year of the biennium.

Other programs with projected increased participation rates due to welfare reform in the FY 2000-01 biennium are Adult Basic Education and Adult Graduation Aid. The appropriations for these programs, despite increased participation rates, are capped into the next biennium. Funding for these programs is based on the number of full time equivalents times the general education allowance.

One concern is if that funding in the next biennium is not increased, these programs will experience significant deficiencies because their level of funding is not consistent with projected participation rates.

For more information about Family and Early Childhood Education, contact Cynthia Coronado at 296-5384.

K-12 Education Finance

Overview: For the FY 1998-99 biennium, the Legislature approved $6.7 billion in state aid for K-12 education, compared with the Governor's recommendation of $6.4 billion. This amount is an increase over FY 1996-97 of $866 million, or 14.8 percent (exclusive of property tax shift reduction payments), and an increase of $531 million (8.6 percent) over base FY 1998-99 funding. K-12 education property taxes in the bill passed by the Legislature are essentially unchanged from current law. Property taxes for FY 1998 (the payable 1997 property taxes already being levied) increased by $21 million over FY 1997, or 1 percent, to $2.2 billion. Property taxes for FY 1999 (payable in 1998) are estimated to increase by $125 million, or 5.7 percent over the previous year. (***Note: See the*** ***47******omnibus tax bill section.*** The **combined impact** of the omnibus education and omnibus tax acts is to **reduce** reliance on property taxes to fund K-12 education.)

These appropriations were made in an initial bill which passed the Legislature during the regular session, but it was vetoed by the Governor. The bill was repassed, with the additional provisions for education tax credits and deductions and the working family tax credit that are described at the end of this section. In addition to the tax credits and deductions, the only other change between the regular and special session bills was the addition of a $500,000 appropriation to the Department of Health for Fetal Alcohol Prevention programs.

General Education

General Education Aid. For FY 98, the basic formula amount will be $3,581, an increase of $76 from the current law level and Governor's recommendation of $3,505. For FY 99, the formula amount is increased again, by an additional $79, but due to the roll-outs, it would end up at $3,531, based on the following:

$3,581	FY 98 basic formula amount
$79	Increase in the basic formula amount
($130)	Roll-out training and experience revenue
$3,530	FY 99 basic formula amount

The total cost of the formula changes for the biennium is approximately $231 million.

Other General Education changes—

- Training and experience revenue is changed so that new teachers are no longer included in a district's T&E index. (FY 99 Savings: $25 million)
- Transportation, which under current law would be reinstated as a categorical program in FY 99, is left rolled into the general education formula.
- Most funding formulas, including sparsity, Post-Secondary Enrollment Options, and compensatory, which were based on the basic formula amount minus $300, are now based solely on the basic formula amount.
- The fund balance reduction is eliminated. (Cost: $2.3 million)
- Assurance of Mastery, Limited English Proficiency, Limited English Proficiency Concentration Aid and compensatory revenues are rolled into general education to create a new basic skills block grant.
- Compensatory aid is computed based on free and reduced lunch counts, rather than on AFDC counts, using a concentration factor so that pupils are weighted, for the purposes of compensatory aid only, at a higher level if a site has a higher concentration of students eligible for free and reduced lunch. Compensatory revenue is allocated to the school site that generated the revenue, with site decision-making teams making recommendations on how revenue

is to be used. Compensatory revenue must be spent on students who are not meeting performance standards. Expenditures can be made to meet the needs of these students through a variety of means, including staff increases, longer days or years, summer school, staff development, additional programs and increased parental involvement in remediation. (Cost: $100 million)

- Private alternative programs collect compensatory aid for enrolled pupils, and receive 90 percent of total general education revenue, rather than of basic revenue. (Cost: $4.6 million)
- The PSEO program is expanded to include nonpublic school students. (Cost: $884,000)

Property Tax Revenue Recognition Shift. $18.7 million is allocated to simplify the tax shift by making it apply only to the general education levy. (No changes are proposed in the referendum levy shift, which would remain at 7 percent.) An additional $94 million would be needed to reduce the shift percentage to zero.

Permanent School Fund. Dividends from the investment of the principal in the Permanent School Fund are used to reduce general education state aid. At this time, the entire fund is invested in bonds. The intent of the K-12 bill is to change that investment strategy by moving from 100 percent bond investment to 50 percent investment in bonds and 50 percent in stocks. This would reduce the short-term dividend return available for education aid, but increase the long-term principal balance, and long-term dividend payments. (Cost: $18.0 million)

Targeted Needs Transportation. Creates nonpublic transportation aid out of the targeted needs transportation for FY 99. (Cost: $16.6 million)

Interdistrict Desegregation Transportation. Increases slightly. (Cost: $510,000)

Debt Service Aid. Removes the requirement that a school average 66 pupils per grade to qualify for Debt Service Aid for facilities serving grades K-8, or that portion of any facility that serves grades K-8. Provides exemptions for sites that would qualify under the sparsity provision based on the location of the new building that will be built, and for the Janesville-Waldorf-Pemberton school district. Create a provision that debt excesses cannot be used to repay capital notes. (Cost of all changes and new aid: $5.3 million)

Historic Building Aid. Creates a new category of revenue for districts that maintain buildings listed on the National Register of Historic Places, in the amount of $100 per pupil served in the building. (Cost: $346,000, Levy: $124,000)

Flood Relief. Provides grants and loans to school districts affected by the 1997 floods for capital losses or extraordinary operating expenses associated with the floods not covered by insurance or state or federal disaster relief. School districts must repay any loan or grant if the losses are funded from other sources. (Cost: $4.7 million)

Special Programs

Special Education– Regular. Rolls special education transportation revenue into special education-regular. Increases special education-regular by 2.0 percent per year. Replace special education tuition revenue and special education court placement revenue with an adjustment in the special education-excess cost formula. (Cost: $73.3 million)

Special Education– Excess Cost. Includes special education transportation revenue and expenditures in computation of special education-excess cost revenue in FY 99. Replace special education tuition revenue and court placement revenue with an adjustment in special education-excess cost formulas to help districts whose costs are growing rapidly between base and current year. (Cost: $14.3 million)

Special Education– Equalization Aid. Discontinues Limited English Proficiency and associated levy equalization aid in FY 99, which are rolled into the new Basic Skills revenue and replace with state aid. (Savings: $2.1 million, Levy: $5.3 million)

Secondary Vocational– Students with Disabilities. Changes purpose from funding secondary vocational education for children with a disability to funding school to work activities for children with a disability. Prorate base revenue for districts that do not have a full base year. (Cost: $293,000)

Targeted Needs– Limited English Proficiency. Creates a new category of aid. “Concentration aid” will equal $190 times the number of LEP pupil units. Creates a new definition of pupil units. (Cost: $7.9 million, Levy: $878,000)

Targeted Needs– Assurance of Mastery. Rolls into Basic Skills block grant (savings includes roll-in of Assurance of Mastery and LEP aid into the Basic Skills block grant). (Savings: $30.0 million, Levy: ‹$1.9 million)

Targeted Needs– Integration Aid. Combines targeted needs-integration revenue and integration transportation revenue to form a new integration revenue program. Sets integration allowances. Integration revenue will be split 54 percent aid and 46 percent levy. Also, requires integration aid to follow students in alternative attendance programs. (Net Cost: $7.28 million, Net Levy: $3.0 million)

Magnet School Grants. Increases appropriation base for voluntary desegregation efforts in the metropolitan area and to accelerate desegregation and integration. (Cost: $4.5 million)

Tribal Contract Schools. Provides compensatory aid for tribal contract schools and adjust aid for changes in the general education formula. (Cost: $3.1 million)

Basic Skills Summer School. Discontinues, funds via compensatory aid. (Savings: $2.0 million)

Homeless Student Programs. Provides $100 per homeless student in aid and funds for capital projects. (Cost: $800,000)

Adolescent Parenting. Provides school-based and community programs to ensure the long-term self-sufficiency of adolescent families and the school readiness of their children. Two outstate and two metropolitan school districts are eligible to receive grants. The Family and Early Childhood Education bill appropriated $800,000 in FY 98 for the program. (Cost: $500,000)

Learn and Earn. Provides funding to ensure educational opportunities for at-risk students, beyond basic education, students must perform community service, basic competency above regular classroom instruction, and cultural and life-skills enrichment. Upon completion of various aspects of the program, students receive stipends and scholarships. (Cost: $2.0 million)

Angle Inlet Grant. Support the operation of the Angle Inlet School in the Warroad School District. (Cost: $50,000)

Lifework Development

Education and Employment Transitions Systems. Increases funding for Partnership Development Grants, Youth Apprenticeship Programs, Labor-Management Information Support, Entrepreneurship Education Grants, Youth Employer Grants and state-level activities. (Cost: $4.5 million)

Minnesota School to Work Foundation. Provides staffing for the foundation and individual student school-to-work student organizations at the state level. (Cost: $750,000)

Lifelong Learning Sites. Develop and model practices of lifework learning, including vocational education, preparation for work, family and community responsibilities, and lifelong learning. (Cost: $1.0 million)

Education Organization & Cooperation. No changes from current law.

Education Excellence

Community-based Charter School Grant (Wilder Grant). Increases program funding. (Cost: $2.3 million)

Charter Schools. Permits charter schools to raise non-governmental funds. Remove the cap on the number of charter schools. Allows private colleges to sponsor charter schools.

Charter School Building Lease Aid. Provides funding for charter schools to rent or lease instructional space outside their general instruction foundation aid. (Cost: $2.7 million)

Charter School Start-up. Provides aid to charter schools for their first two years of operation equal to $500 per pupil, with a minimum of $50,000. (Cost: $1.5 million)

Laboratory Schools. Provides start-up revenue to post-secondary institutions to encourage the creation of lab schools, to be operated in cooperation with interested school districts. (Cost: $5 million)

State Accountability System. A separate bill (H.F. 2179) passed, requiring a standard assessment each year for students in grades 3, 5 and 8. In addition, secondary students must be tested within each area of the profiles of learning. The Department of Children, Families and Learning must report test results. (Cost: $5 million)

Extended Day, Year Programs. Continue funding pilot programs in the White Bear Lake, South Washington and Cambridge school districts. To fund, with a maximum grant amount of $300,000, similar projects in other districts. (Cost: $1.8 million)

Gifted and Talented Programs. Provides grants to enable school districts to better identify and challenge gifted and talented students, and to provide staff development for teachers to help meet gifted and talented students' needs. Requires a one-to-one match with funds or in-kind contributions. (Cost: $3.0 million)

Graduation Rule Implementation. Provides $10 per pupil of one-time aid, to accelerate the implementation of the graduation rule throughout all education sites in a district through intensive staff development and decentralized decision making. (Cost: $10 million)

Academic Performance

Abatements. Provides full funding. (Cost: $13.6 million, Levy: -$13.6 million)

Post-Secondary Enrollment Options Replacement Aid. Eliminate program funding. (Savings: $230,000)

Reemployment Insurance Levy. Changes computation of reemployment insurance levy using expenditures through the fiscal year the levy is certified, instead of expenditures through the fiscal year after the year the levy is certified. Exempts the levy from tax shift aid reduction and allows districts to recognize 100 percent of the levy in the year certified. (Levy: ‹$5.8 million)

Targeted Breakfast Pilot Programs. Continue the pilot programs that provided breakfast to all students, regardless of financial need, in the four schools already operating these programs, and expand to other schools on a first-come, first-served basis. (Cost: $1.0 million)

Education Policy Issues

Various small grants and pilot programs for school districts and other organizations are provided to meet the unique needs of their served populations. (Cost: $1.5 million)

Bus Advertising. Authorizes a statewide contract for school bus advertising, with any revenues generated allocated to Head Start, Learning Readiness and Early Childhood Education. (Revenue: $2.5 million, Cost: $2.5 million)

Libraries

Regional Public Library Outreach. For regional public library systems for outreach and direct library services to children and families. (Cost: $500,000)

Technology

InforMNs Grants. Eliminate program funding. (Savings: $400,000)

Regional Library–Telecommunications Aid. Eliminate program funding. (Savings: $800,000)

Telecommunications Access Grants. Increase funds on a one-time basis, to complete the Learning Network of Minnesota and cover lease costs for data and video transmission lines. (Cost: $12.5 million)

Instructional Transformation Through Technology. Reduces program funding. (Savings: $4.4 million)

Minnesota Learning Academy. Provides teachers, administrators and librarians training in the use of technology and its integration into learning activities. Provides start-up and initial operating subsidies for learning academy sites, and partially subsidize costs of attendees. (Cost: $2 million)

Library Site Technology Grants. Fund projects to expand and integrate technology into library operations and increases public access to technology. Grant dollars must be matched with an equivalent amount from a library's current budget. (Cost: $3.5 million)

Learning Site Technology Grants. Provides one-time grants to school districts, groups of school districts, residential academies, and the center for arts education to fund technology projects. Eligible projects include, but are not limited to, hardware and software purchases or leasing and installation, establishment or expansion of networks, technical support, and training and staff development in the use of technology and software. Districts with more than 5,000 students must provide a match of $1 local money and $1 of nonstate or nondistrict money, or in-kind contributions. Districts less than 5,000 students must demonstrate attempts to provide a match. (Cost: $14.0 million)

Technology Investment Aid. Increases operating capital revenue for FY 98 only by the greater of: (1) $24 per pupil unit; or (2) the lesser of (a) $25,000 or (b) $80 per pupil unit. Revenue must be used for technology purposes. (Cost: $25.0 million)

Electronic Curriculum. Expands the learning resource network to include an electronic curriculum, as a resource for instruction. Specifies eligible projects. (Cost: $4.0 million)

Regional Management Information Center. For the transition period in regional management info centers technology uses, and consolidation of processing needs. (Cost: $978,000)

Computer Refurbishing Program. Upgrade donated computers to handle multimedia demands. The computers would then be provided to schools. (Cost: $6.0 million)

State Agencies

Lola and Rudy Perpich Minnesota Center for Arts Education. Maintains base level funding, which includes $683,000 in base adjustments for bringing a new instructional facility on line, and for salary compensation inflation.

Minnesota State Academies for the Deaf and Blind. Allocates, in addition to base level funding, $246,000 in base adjustments for salary compensation inflation and for transferring Resource Centers to the Department of Children, Families and Learning. Also allocates $150,000 in FY 98 and in FY 99 for facility repair and maintenance and $200,000 in FY 98 for furniture replacement.

Department of Children, Families and Learning. Maintains base level funding, including adjustments. Reduces biennial spending by $700,000 by reallocating the Learner Improvement Activity. Add $1.7 million for expected litigation costs. Add $1 million in Information Technologies for school district technology support.

Individual Income Tax Credits & Deductions

The omnibus K-12 education finance act included three major individual income tax changes for a combined revenue loss of $80.0 million in FY 1999. The provisions in this article of the act, however, will take effect *only* if the November budget forecast shows that enough unencumbered revenue will be available to pay for the program. The new education tax credit, the increase in the Working Family tax credit and the expanded deduction would be effective beginning in tax year 1998, which is FY 1998-99.

K-12 dependent education deduction and new tax credit. A $53 million income tax expenditure in FY 1999 provides tax relief to parents for education expenses of children in kindergarten through 12th grade:

(1) Expands the existing school expenses deduction by increasing the maximum deductible amount from $650 to $1,625 per child in grades K-6 and from $1,000 to $2,500 per child in grades 7-12.

The current deduction covers nonpublic and public school fees, tuition, nonreligious textbooks and instructional materials, and transportation expenses paid to others. The act would expand eligible expenses to include tutoring, academic summer school and nonsectarian educational summer camps, and up to $200 per year per family for the cost of computer hardware and software purchased for educational enrichment.

Under current law, only parents who itemize deductions on the federal tax return can take this deduction on the state return. The act allows taxpayers who claim the standard deduction on the federal return to claim the state deduction.

For tax year 1998, state FY 1999, the estimated fiscal impacts and benefits of the expanded deduction are:

Feature:	Number of returns:	Average tax benefit:	FY 99/TY98 estimated cost:

Private school expenses	51,500	$185.00	$9.5 million
Public school expenses	252,800	$35.00	$8.8 million
— cost of current deduction*	— 72,900	— $52.00	$(3.8) million
Net total:	**--**	**--**	**$14.5 million**

Source: MN Dept. Of Revenue, Research Division

**There is a –$3.8 million adjustment to the estimated total cost of the expanded deduction to account for the estimated* current *cost of the deduction.*

The value of a deduction, which is a subtraction from income subject to taxation, depends on the taxpayers' marginal tax rate. For example, a family with a 7 percent tax rate, three elementary school children and maximum qualifying expenses ($1,625 X 3 = $4,875) could reduce their state income tax by $341 ($5,850 X 0.07), compared with $137 under current law.

(2) Creates a new, refundable after-tax credit for parents with household incomes less than $33,500 who incur costs for qualifying school expenses. The credit uses an expanded statutory definition of household income that takes most categories of nontaxable income into account. The credit does **not** apply to private school tuition. The credit covers actual costs of the deductible expenses (except tuition) up to $1,000 per child but it is limited to a maximum $2,000 per family. Married separate filers are not eligible. This credit is projected to be claimed on 192,500 returns in tax year 1998 for an average benefit of $200 per family, at a cost of $38.5 million in FY 1999.

A refundable tax credit is subtracted from bottom-line tax liability. For example, if a family owes $200 of individual income tax above their withholding and estimated tax payments, and that family qualifies for an $800 tax credit for their out-of-pocket education expenses, they would receive a $600 state income tax refund.

Filers with qualifying incomes and sufficient expenses can claim both a credit and a deduction.

(3) Increases the Minnesota Working Family Credit from 15 percent to 25 percent of the federal Earned Income Tax Credit for claimants with dependent children. On average, this $27 million tax expenditure would provide an additional $169.00 benefit to 160,000 claimants for tax year 1998 returns filed in 1999. (The law change does not affect the number of families eligible for the credit.) The maximum credit for a family with one child would increase from $332 to $553. For a family with two or more children, the maximum credit would increase from $548 to $914. The refundable credit is based on a taxpayer's income from wages or self-employment, and is available up to maximum incomes of $25,760 with one child and $29,290 with two or more children in 1997. (The credit's income parameters are adjusted annually for inflation).

The combined fiscal impact of the three income tax provisions will increase each year, to —$84 million in Tax Year 1999 and —$88 million in Tax Year 2000, for a biennial tax expenditure of $172 million in the FY 2000-01 biennium.

Non-Fiscal Items of Interest

- Beginning with the 1998–99 school year, school district calenders must be three days longer than the number of days of student instruction adopted by the district at the beginning of the 1996-97 school year.
- January 15th bargaining deadline is suspended for the 1998-99 school year.
- Post-secondary institutions are allowed to "bill-back" to school districts for remedial instruction they are forced to provide to students from that school.
- School boards must allow open enrollment students into their district, up to the lesser of 1 percent of enrollment at each grade level in the district or the number of students at that grade level who open enrolled outside the district.

- The compulsory age of attendance remains at 18, but students can drop out between age 16 and age 18 if they meet with their parent or guardian and school officials, and still opt to drop out.

For more information on K-12 Education Finance issues, contact Greg Crowe at (612) 296-7165.

Higher Education Finance

Overview: The Omnibus Higher Education Finance Act (*Laws 1997*, Ch. 183) provides a total of $2,372,284,000 for the FY 1998-99 biennium. This represents an increase of $299 million(14.4 percent) over the adjusted base budget for FY 1998-99. Looking at the funding level a different way, it represents an increase of $232 million over FY 1996-97 forecast spending (10.8 percent).

The difference between the two ways of presenting the increase results from removing one-time appropriations during the FY 1996-97 biennium from the adjusted base, as well as technical adjustments to the base for items such as reduced pressure on the state grant fund due to unexpected changes in financial aid at the federal level. Because the 1993 cap limited higher education appropriations during the FY 1996-97 biennium to $2.04 billion, most spending above that level during the FY 1996-97 biennium was required to be one-time-only. This cap accounts for the unusually large difference between actual spending and adjusted base budget for higher education in the current biennium. Because Ch. 183 includes $96.3 million in one-time funds, the same disparity will be true of the FY 1998-99 spending levels compared with adjusted base. The following table summarizes the current biennial appropriations, forecast spending for the FY 1996-97 biennium, as well as the adjusted bases and appropriations for the FY 1998-99 biennium.

Table 5
Higher Education Budget: Fiscal Years 1998-1999
Base Budgets and Governor's Recommendations
($ in 1,000's)

	FY 1996-97 Appropriations	FY 1996-97 Forecast Spending	FY 1998-99 Adjusted Base	FY 1998-99 Governor's Recomendations	FY 1998-99 Ch. 183 Spending
HESO	$236,336	$225,647	$241,262	$248,462	$278,169
Mayo	$1,770	$1,717	$1,650	$1,650	$2,431
MnSCU	$942,447	$940,801	$905,130	$991,846	$1,015,636
U of M	$978,034	$972,094	$924,672	$1,040,812	$1,076,048
Total	**$2,158,587**	**$2,140,259**	**$2,072,714**	**$2,282,770**	**$2,372,284**

Higher Education Services Office

Ch. 183 allocates a biennial total of $278.2 million for the Higher Education Services Office. This represents an increase of $36.9 million (15.3 percent) over the adjusted base, or $41.8 million (17.7 percent) over FY 1996-97 appropriations. Specific actions in Ch. 183 related to the Higher Education Services Office include:

- For the **State Grant program**, increases of 2.5 percent annually in public tuition and fees and the maximum grant for private college students. The Living and Miscellaneous Expense allowance portion of the State Grant Program is also raised to $4,885 in the second year, an increase of $685 (16.3 percent) over the current statutory level of $4,200. In addition, the bill includes $2 million to fully fund fourth quarter (summer session) awards, and $4.3 million for the Minnesota Savings Allowance which is an adjustment to the financial aid formula to eliminate any penalty on families for the first $25,000 in general college savings as well as $25,000 in savings through the new Gopher State Bond program that will allow families to purchase tax-exempt state bonds for college savings.

- $2.5 million in additional **work-study** funding to cover increased costs to the program owing to a higher minimum wage as well as costs to add students to the program.

- $1 million in additional funding for the **MINITEX interlibrary loan system**.

- $3 million for additional **telecommunications costs and equipment** through the Learning Network of Minnesota (formerly called the Telecommunications Council).

- $12 million is appropriated for the **Minnesota Library Information Network (MnLINK)**. This is an on-line library system designed to replace both the PALS (MnSCU) and LUMINA (U of M) electronic library systems, and also serve K-12, private college, government, and public libraries. This is not a recurring appropriation, however, additional costs for expansion of the system are expected in future biennia.

- $3 million for start-up costs related to the new **Edvest Program** that will allow families to establish tax-deferred educational savings accounts for their children.

Minnesota State Colleges and Universities

For the Minnesota State Colleges and Universities, Ch. 183 spends a total of $1,015,636,000. This represents an increase of $110 million (12.2 percent) over the adjusted base, or $73 million (7.7 percent) over FY 1996-97 appropriations. For the FY 1998-99 biennium the bill includes:

- $55.5 million for Educational Improvement/Performance Items. This item subsumes two items and objectives covered in the system request as both “Continuous Improvement” and “Strategic Statewide Objectives” as well as other educational improvement items.

- $10.5 million for the “Electronic Academy.” This plan seeks to build the systems technological resources and capabilities. In addition the act includes $22.5 million in funding to purchase classroom-based instructional technology. Also, $1 million is included for MnSCU’s participation in two statewide education technology initiatives; the Virtual University and the Minnesota Career and Education Planning System (MnCEPS). These initiatives are to create hubs on the Internet for Minnesotan’s to access a wide range of educational programs, career planning resources, and occupational information.

- $15 million for improved management/student information systems. These systems are being recommended to help MnSCU improve accountability through better management, student, and financial information.

- $4 million for additional building repair and maintenance throughout the MnSCU system.

- $1.5 million to assist campuses that have incurred costs related to the snow and flood disaster efforts this spring.

University of Minnesota

For the University of Minnesota, Ch. 183 allocates a biennial total of $1.08 billion. This represents an increase of $151.4 million (16.4 percent) over the adjusted base, or $98 million (10 percent) over FY 1996-97 appropriations. For the FY 1998-99 biennium SF 1888 includes:

- $40 million for faculty recruitment and retention.
- $53.7 million for "Investments in Excellence" This fund, to be matched by the University through reallocations and increases in revenue, is to support investments in new technology, facilities and programs.
- $2 million to create the Minnesota Technology Development Corporation. This initiative is designed to accelerate the transfer of technology developed by University health sciences researchers to the private sector.
- $3 million to match private contributions for an operating endowment for the Biomedical Engineering Institute.
- $1.16 million to support the Universities participation in the two statewide initiatives previously mentioned in the MnSCU section, the Virtual University and the Minnesota Career Education Planning System.

Mayo Medical School

Ch. 183 allocates a total of $2.4 million to the Mayo Foundation. This represents an increase of $781,000 (47 percent) over the adjusted base. This increase is due to two factors; (1) 2.5 percent inflation on the existing Mayo appropriation; and (2) an expansion of the St. Cloud Family Practice Residency program from four residents to twelve.

For more information on Higher Education Finance issues, contact Doug Berg at (612) 296-5346.

Health & Human Services Finance

Overview: Total direct appropriations for Health and Human Services amount to $5.936 billion over the 1998-99 biennium, including $5.3 billion from the General Fund, $542.5 million from the federal Temporary Assistance for Needy Families (TANF) block grant, $64.1 million from the State Government Special Revenue Fund, $386,000 from the Metropolitan Landfill Contingency Action Fund, and $3.3 million from the Trunk Highway fund. General Fund spending contained within the Health and Human Services Omnibus Bill (*1997 Laws of Minnesota*, Chapter 203) is offset by $40.5 million in federal reimbursements and $12.4 million in revenue collections. Total General Fund expenditures on Health and Human Services are provided at the same level as the Governor's 1998-99 budget request. *(Note: Information refers to direct General Fund appropriations for the FY 1998-99 biennium unless noted otherwise.*)

Department of Human Services (DHS)

A total of $5.2 billion is appropriated to the Department of Human Services during FY 1998-99 out of the General Fund. Significant budget initiatives include the following:

- An increase of $39.3 million to provide a 5 percent cost-of-living adjustment for the following services/programs: therapy services, dental services, day training & habilitation services, semi-independent living services, mental health grants, developmental disabilities waiver, elderly waiver, community alternative care for chronically ill individuals (CAC) waiver, community alternatives for disabled individuals (CADI) waiver, home and community-based services for persons with mental retardation or related conditions (MR/RC) waiver, alternative care waiver, traumatic brain injury (TBI) waiver, personal care attendant/private duty nursing services, and home health services.

- An increase of $19.0 million to accelerate the buyout of the county share of income maintenance programs. The Governor originally proposed a $51.3 million budget initiative that would have accelerated the buy out of the county share for all programs, including income maintenance programs and medical assistance (MA) accounts.

Agency Management. Direct appropriations for Agency Management total $49.7 million out of the General Fund, a reduction of $2.7 million compared to the Governor's recommendations. Direct appropriations out of the State Government Special Revenue (SGSR) fund total $692,000. Significant budget initiatives within Agency Management include:

- A decrease of $1.4 million to reduce the Department's central office budget.

Children's Grants. Direct appropriations for Children's Grants programs total $78.3 million during the FY 1998-99 biennium, $2.5 million less than the Governor's request. Major initiatives include:

- An increase of $17.8 million for the Family Preservation Fund to replace federal funds previously provided to counties.

- An increase of $5.0 million to privatize the adoption of special needs children committed to the guardianship of the Commissioner of Human Services, $2.0 million less than the Governor requested.

- An increase of $1.8 million to establish a needs-based guardianship support program, a reduction of $0.9 million from the Governor's budget.

- An increase of $1.4 million to expand mental health services for children.

Basic Health Care Grants. Direct appropriations out of the General Fund for Basic Health Care Grants total $1.8 billion for FY 1998-99, $28.5 million more than the Governor's budget request. Budget initiatives include:

- A decrease of $6.6 million to reflect savings associated with implementing an asset test for recipients of medical assistance (MA) and general assistance medical care (GAMC). Persons deemed ineligible for MA and GAMC because of the asset test requirement are expected to enroll in MinnesotaCare at a cost to the Health Care Access Fund of $4.7 million over the biennium.

- An increase of $5.0 million in FY98 to establish funding for the Medical Education and Research Cost trust fund. An additional appropriation of $3.5 million in FY98 is provided in the MinnesotaCare bill. General fund appropriations will be matched by federal funds to provide total funding of approximately $17.0 million in FY98 for the trust fund.

- A decrease of $1.6 million to limit rate adjustments for hospital case-mix appeals to 5 percent changes in a hospital's patient-acuity mix. The Governor's budget projected savings of $5.9 million by limiting rate adjustments to a threshold of 10 percent patient-acuity.

- An increase of $1.5 million to reflect the cost associated with reducing the prescription drug dispensing fee from $3.85 to $3.65 and eliminating the $1.00 pharmacy co-payment for MA and GAMC.

- An increase of $1.6 million to establish two managed care pilot projects for persons with disabilities. The Department estimated savings in FY00-01 of $3.1 million. The Governor proposed funding five pilot sites for this initiative at a cost of $16.9 million during the FY 1998-99 biennium with estimated savings in FY00-01 of $32.6 million.

Continuing Care & Community Support Grants. Direct appropriations for Continuing Care & Community Support Grants programs total $2.3 billion over the biennium, $34.9 million more than the Governor's budget request. Initiatives in the Continuing Care & Community Support Grants program area include:

- An increase of $0.7 million to provide additional funding for the living at home/block nurse program.
- An increase of $1.0 million to provide funding for exceptions to the moratorium process for nursing facilities approved by the Commissioner of Health.
- An increase of $5.6 million as a result of changing nursing facility reimbursement rates (an increase of $11.8 million compared to the Governor's proposed recommendations). In addition, $37.2 million was provided to increase fee-for-service rates for nursing facilities.
- An increase of $1.6 million to provide additional funding for intermediate care facilities for persons with mental retardation (ICF-MRs) and an increase of $5.3 million to increase payment rates for ICF-MRs.
- An increase of $1.4 million to raise the supplementary service rate for certain group residential housing facilities serving persons with mental illness or chemical dependency.
- An increase of $1.5 million to provide, as a condition for receiving GA, chemical dependency treatment services for drug dependent persons who are determined to be ineligible for federal Supplemental Security Income (SSI) benefits.
- An increase of $1.3 million to provide additional funding for chemical dependency non-entitlement grants, which provides treatment services for persons not eligible for Medical Assistance (MA) whose income does not exceed 60 percent of Minnesota's median income.

Continuing Care & Community Support Management. Direct appropriations from the General Fund total $38.4 million, $1.1 million less than the Governor's budget.

Economic Support Grants. Out of the General Fund, a total of $431.2 is appropriated for economic support grants, $2.9 million less than the Governor's request. Additional funding for economic support grants of $542.5 million is provided from the federal Temporary Assistance for Needy Families (TANF), $36.3 million more than the Governor recommended. Major initiatives within the Economic Support Grants program include:

- An increase of $3.9 million in FY98 for the Minnesota Family Investment Plan - Statewide (MFIP-S), and an increase of $2.0 million in FY98 for the General Assistance (GA) program to provide a temporary food stamp supplement for legal noncitizens receiving assistance.
- An increase of $960,000 in FY98 to provide one-time assistance for legal noncitizens who recently purchased a home and are at-risk of losing their home, as a result of being terminated from the SSI program upon passage of the federal welfare reform law.
- A net decrease of $374,000 (a reduction of $1.1 million in general fund expenditures which was offset by $726,000 in federal reimbursement) to the Department of Human Services as a result of transferring responsibility for publishing the most wanted obligors list and conducting the public education campaign for child support to the Attorney General's office at a net cost of $73,000 ($218,000 in general fund expenditures which will be offset by federal reimbursement of $145,000).

  *[**NOTE:** Governor Carlson vetoed a rider in the omnibus bill which would have transferred funding to the Attorney General's office for these purposes.]*

- A decrease of $1.8 million to reflect projected savings to the General Assistance (GA) program as a result of drug dependent recipient's noncompliance with chemical dependency assessment and treatment services as a condition for receiving GA.

Department of Health

The direct appropriation for the Department of Health includes $100.3 million from the General Fund, $43.9 million from the State Government Special Revenue fund, and $386,000 from the Metropolitan Landfill Contingency Action fund. The General Fund appropriations are a reduction of $28.8 million compared to the Governor's recommendations. Budget initiatives within the Department include:

- An increase of $10.0 million for local community health boards to fund core public health functions, a decrease of $2.0 million from the Governor's original request.
- An increase of $2.0 million for Tobacco Free Communities, $2.0 million less than the Governor recommended. This initiative is designed to prevent smoking among children.
- An increase of $1.3 million for Fetal Alcohol Syndrome initiatives, a reduction of $2.8 million compared to the Governor's request. An additional $500,000 was appropriated for Fetal Alcohol Syndrome in the K-12 Education Finance Act in the 1997 special session.
- An increase of $2.2 million for supplemental funding for the women, infants, and children's (WIC) nutrition program, an increase of $1.5 million compared to the Governor's request.

Veterans Homes Board. The Veterans Homes Board recommended budget is $45.0 million in direct appropriations, $1.1 million less than the Governor's recommendation.

MinnesotaCare

A healthy projected surplus in the Health Care Access Fund, which funds the MinnesotaCare program, allowed lawmakers to expand health insurance coverage for low-income uninsured persons, reduce the tax on providers and hospitals from 2.0 percent to 1.5 percent for two years, reduce the gross premium tax on HMOs, CISNs, and nonprofit health service plans from 1.0 percent to 0.0 percent for at least two years and retain a $83.6 million in the fund's balance after four years. Highlights of budget initiatives in the MinnesotaCare bill (*1997 Laws of Minnesota*, Chapter 225) include:

- An increase of $11.8 million in FY 98 and $23.9 million in FY 99 to expand coverage for singles and adults without children up to 175 percent of the federal poverty guidelines (FPG) ($18,568/year for a family of two) up from 135 percent of FPG.
- An increase of $1.5 million to provide grants for private and public organizations to conduct outreach activities for the MinnesotaCare program in areas of the state with high uninsured populations.
- An increase of $1.6 million in FY 98 and $4.3 million in FY 99 to provide coverage for additional persons as a result of the expansion to 175 percent of FPG and outreach activities.
- An increase of $469,000 in FY 98 and $763,000 in FY 99 to increase reimbursement rates for dental services by 15 percent for MinnesotaCare.
- An increase of $3.7 million in General Fund spending to establish a prescription drug program for seniors with income less than 120 percent of FPG ($9,468/year for a single person). It is anticipated that more seniors will qualify for Medical Assistance through the Qualified Medicare Beneficiary and Services for Low-income Medicare Beneficiary programs, as a result of the senior drug program. This radiation effect is expected to increase General Fund MA expenditures by $1.7 million, which will be paid for with a transfer from the Health Care Access Fund.
- An increase of $1.4 million during the biennium to provide non-preventive dental care to persons up to 175 percent of FPG ($13,808/year for a single person). A 50 percent co payment is required under the dental program.

- An increase of $3.3 million in FY 98 and $4.9 million in FY 99 to reflect increased costs associated with removing the $10,000 annual limit on inpatient hospital care.
- An increase of $13.4 million in FY 99 to transition enrollees with income greater than 75 percent of FPG from the General Assistance Medical Care program to MinnesotaCare. A transfer from the Health Care Access Fund to the General Fund of $13.7 million in FY 98 and $2.7 million in FY 99 will pay for the cost of providing coverage to these enrollees during the transition period. The Governor originally proposed transferring all GAMC enrollees into the MinnesotaCare program at a cost of $57.5 million to the Health Care Access Fund with savings of $55.6 million to the General Fund during the 1998-99 biennium.
- An increase of $3.5 million in FY 98 to establish funding for the Medical Education and Research Cost (MERC) trust fund. This increase is in addition to $5.0 million in FY 98 for MERC appropriated in the Omnibus Health and Human Services bill.
- An increase of $15.0 million during each year of the biennium to the Minnesota Comprehensive Health Association (MCHA).
- An increase of $2.1 million in General Fund spending to reflect the cost of enrolling eligible clients into MA and GAMC instead of using MA and GAMC funding to pay the premiums for a client to be enrolled in MCHA.
- An increase of $3.0 million in FY 98 and $4.5 million in FY 99 for the Rural Hospital Capital Improvement Grant and Loan program.
- A decrease of $647,000 each year of the biennium from the Department of Health's base appropriation for administrative costs, including $209,000 each year as a result of eliminating the Minnesota Health Care Access Commission.
- A decrease of $26.0 million over the biennium as a result of eliminating (at least temporarily) the 1 percent gross premiums tax on HMOs, CISNs, and nonprofit health service plans. Provided that the Health Care Access Fund remains in annual structural balance (that is, revenues less expenditures are positive), the 1 percent premium tax will not be collected. If, after calendar year 1999, the Department of Finance projects a structural deficit for the next fiscal year, the tax will be reimposed at increments of 0.25 percent until the fund's structural balance is restored.
- A decrease of $52.5 million as a result of reducing the 2 percent tax on providers and hospitals to 1.5 percent.
- A decrease in General Fund revenues of $4.1 million each year of the biennium as a result of eliminating the $400 surcharge on physicians.

For more information about Health and Human Services fiscal issues, contact Joe Flores, (612) 296-5483.

Judiciary Finance

Overview: The total General Fund appropriations approved by the Legislature for criminal justice is $978 million for FY 1998-99. (Amounts discussed below are for the FY 1998-99 biennium, unless otherwise indicated.)

Supreme Court

A biennial appropriation of $43.372 million was approved.

Initiatives for the FY 1998-99 biennium include:

- $80,000 for a judicial salary increase.
- $30,000 for the expansion of services for community dispute resolution.
- $40,000 for an increase for the victim offender mediation grant program.
- $1.2 million for an increase in civil legal service funding.
- $2.77 million for a judicial branch justice computer network. The proposal will establish a local area network in each courthouse which is connected statewide to MN/NET. The proposal will link courts and other justice system users to court information and data warehouse technology to facilitate manipulation of transactional court data for management and policy decisions.
- $40,000 for an increase in funding for the law library.

Court of Appeals

A biennial appropriation of $12.268 million was approved.

Initiatives for the FY 1998-99 biennium include the following:

- $170,000 for a judicial salary increase.
- $100,000 for an increase in administrative support costs.
- $100,000 for a video hearings project.

District Court

A biennial appropriation of $143.2 million was approved.

Initiatives for the FY 1998-99 biennium include the following:

- $75,000 for trial court administrative support.
- $748,000 for judicial support costs.
- $2.378 million for judge and capped employee salary increases.
- $900,000 for an increase in the 8th judicial district operating costs.
- $771,000 for a video pilot project for the 9th judicial district.

Tax Court

$1.619 million was appropriated.

Initiatives for the FY 1998-99 biennium include the following:

- $344,000 for information enhancement.

Board of Judicial Standards. $531,000 was appropriated.

Initiatives for the FY 1998-99 biennium include the following:

- $80,000 for payment of costs and attorney fees.

Department of Public Safety

The Judiciary Finance Division is responsible for seven programs in the Department of Pubic Safety (other programs in the agency are the responsibility of the Transportation Finance Division). The appropriation is $72.852 million.

Major initiatives for the FY 1998-99 biennium include the following:

- $150,000 for hazardous materials incident response.
- $2.6 million to cover projected state match obligations for public assistance and hazard mitigation grants. A deficiency appropriation of $1.393 million for FY 97 to cover a state match obligation under the federal natural disaster assistance program was also approved.
- $443,000 is for drug fire and case management.
- $7.054 million for an enhanced criminal justice computer system.
- $7.772 million for BCA agents and the formation of a gang unit.
- $50,000 for fire sprinkler certification inspections.
- $350,000 for arson enforcement and prevention.
- $200,000 for grants for emergency assistance for crime victims.
- $98,000 for an additional investigator for the crime victim ombudsman program.
- $6 million for law enforcement and community grants.
- $278,000 for health benefits for police, firefighters and family members.

Private Detectives Board. $262,000 was appropriated.

Board of Peace Officer Standards and Training (POST Board. $7.382 million (the source of financing is a special revenue fund).

Initiatives for the FY 1998-99 biennium include:

- $60,000 for administrative law judge costs.
- $58,000 for non-salary support for minority recruitment.
- $20,000 for training, maintenance and equipment support for their new computers.
- $60,000 for DARE officer training.
- $100,000 for law enforcement library.
- $25,000 to hire a consultant to develop a screening exam for admission to a law enforcement skills program.
- $101,000 for increased reimbursement to local law enforcement for the cost of administering board-approved continuing education to peace officers.

Public Defense Board. $83.63 million was appropriated.

Initiatives for the FY 1998-99 biennium include:

- $2.536 million to reduce the caseloads in the juvenile and felony area to the current statewide average, to accommodate a 5 percent growth in these cases, to provide investigators and paralegals to those Judicial Districts not currently at the statewide average and to provide caseload relief to supervising attorneys.
- $1.411 million for the information technology positions, a network time and case management system, and a remote access information system.
- $330,000 to accommodate the increase in inmate populations and the resulting appeals in the State Public Defender Office.

Department of Corrections

$609.107 million was appropriated.

Initiatives for the FY 1998-99 biennium by program include the following:

Institutions—

- $1.263 million for preservation of correctional services.
- $360,000 for retirement changes.
- $300,000 for facility repair and maintenance of facilities.
- $2.2 million for an adult non-violent offender work camp.
- The opening of the Brainerd facility as a correctional facility was delayed until May of 1999. This delay saved $4.1 million. In a separate bill (HF 268) construction of the new Rush City correctional facility with a double-bunked configuration is authorized. A new inmate/facility classification system is authorized and the limit on double-bunking in medium custody institutions is lifted.

Juvenile Services—

- $108,000 for preservation of juvenile correctional services.
- $734,000 for planning for juvenile services.

- $728,000 for special needs of juveniles.
- $260,000 for juvenile aftercare services (2 professional staff and 1 clerical).
- $1 million to implement a weekend work camp at Camp Ripley.
- $100,000 is to conduct planning for and evaluation of additional camp programs and aftercare services for juveniles.

The **Sauk Centre juvenile facility** is funded for only 18 months. After December 30, 1998 the facility may no longer confine juvenile male offenders who are committed to the commissioner. Many of the residents at Sauk Centre will be transferred to Red Wing. The commissioner of corrections will report to the Legislature by January 1, 1998 on how Sauk Centre will be used and the costs associated with this.

Community Services–

- $3.108 million for preservation of correctional services.
- $830,000 for additional probation/supervised release agents.
- $903,000 for county probation reimbursement. This will maintain the 50 percent county probation reimbursement.
- $280,000 for additional intensive supervised release agents.
- $144,000 for an additional Challenge Incarceration agent.
- $100,000 to expand the sentencing to Service program.
- $4 million for statewide probation caseload reduction.
- $1.4 million for drug/night/family court innovation grants.
- $50,000 is for restorative justice programs.
- $200,000 is for a gang intervention service pilot project.
- $494,000 is for a productive day project for juveniles.
- $95,000 is for a pilot project for family group conferencing in Dakota county.
- $100,000 enhanced probation in Ramsey county.
- $450,000 is for a pilot project for school based probation.
- $1.5 million is for a subsidy increase for community correction counties.
- $120,000 is for an electronic alcohol monitoring pilot project.

Crime Victim & Prevention Services–

- $200,000 for crime victim and prevention services.
- $50,000 is for support grants for women leaving prostitution
- $55,000 is for grants to improve the education of landlords and tenants on best practices in the rental market.
- $207,000 is to provide funding for two battered womens programs that are currently not funded.

- $60,000 is to provide support services to the surviving family members of homicide, suicide, and accidental death victims.

Management Services. $296,000 for a legal settlement and assessment costs.

Ombudsman for Corrections. $1.145 million is appropriated.

Sentencing Guidelines. $880,000 is appropriated. New initiatives for the FY 1998-99 biennium include $80,000 for a new staff position.

Human Rights Department

$7.553 million is appropriated

Uniform Laws Commission. $71,000 is appropriated.

Additional appropriations are $1.3 million to the Economic Security Department for Minnesota cities grants and $250,000 to the Attorney General for the DARE advisory council.

For more information on Judiciary Finance issues contact Gary Karger at 296-4181.

Environment, Natural Resources & Agriculture Finance

Overview: *Laws* 1997, Chapter 216, the Omnibus Environment Finance Act for fiscal years 1998-99 appropriated a total of $947,313,000 in funding for those agencies of state government that fall under the jurisdiction of the Environment, Natural Resources and Agriculture Finance Committee. Of that total, $445,362,000 was direct and open appropriated General Fund dollars. What follows is a summary of Chapter 216 funding by agency and significant changes to agency base amounts.

Pollution Control Agency

For FY 1998-99 the total appropriated Pollution Control Agency budget is $196.2 million of which $27.4 million is General Fund dollars.

Changes to the agency base budget include:

- $2.1 million increase from the General Fund for water monitoring activities.
- $554,000 increase from the General Fund for a technical assistance initiative in the Water Protection division.
- $1.9 million increase from the General Fund for the point source pollution permit program.
- $214,000 increase from the General Fund for administrative costs of the Wastewater Infrastructure Fund program.
- $255,000 increase from the General Fund for a program to study hydrogen sulfide emissions.
- $344,000 increase from the General Fund for an increase in the individual sewage treatment systems program.

- $200,000 for continued investigations into the discovery of deformed frogs.
- $400,000 for demonstration programs and research on feedlots and septic systems.
- $545,000 increase from the Environmental Fund for administration of the air quality programs.
- $460,000 increase from the Environmental Fund for the motor vehicle waste program, to safely dispose of the waste oil and antifreeze from vehicles.
- $1.0 million increase from the Petroleum Release Cleanup Fund for expansion of the leaking storage tanks staff and program.
- $282,000 from the Environmental Fund for the toxic in products program.
- $1.3 million increase; $736,000 from the General Fund and $600,000 from the Environmental Fund, for agency information systems.

Office of Environmental Assistance. For FY 1998-99, chapter 216 appropriates a total agency budget of $43.5 million. Of that total, $38.5 million is from the General Fund.

- The appropriated budget calls for a total of $14.008 million per year from the General Fund for grants to local government under the recycling grant program known as SCORE.
- $338,000 of General Fund dollars are recommended to be reallocated from grants to technical assistance within the agency.
- $90,000 is appropriated from the Environmental Fund for the toxic in products program.

Minnesota Zoological Garden. For FY 1998-99, Chapter 216 appropriates a total agency budget of $36.6 million, $10.9 million of the total amount is from the General Fund. The appropriated increases include the following items:

- $240,000 from the General Fund for increasing the technology capabilities of the agency.
- $300,000 from the General Fund is to increase spending on repair and maintenance.

Department of Natural Resources

For FY 1998-99, Chapter 216 appropriates a total budget of $435.5 million. This includes a total of $238.1 million from the General Fund. The appropriation includes the following changes to the agency base appropriations:

- $8.322 million increase for a base adjustment to cover compensation inflation, $4.709 million from the General Fund, $2.859 million from the Game and Fish Fund, and $754,000 from the Natural Resources Fund.
- $500,000 for a grant to be used for development of a direct reduction iron processing facility.
- $446,000 for grants under the flood hazard mitigation program.
- $400,000 for a grant to be used for planting of native vegetation along the Mississippi River.
- $500,000 for a grant to the city of Thief River Falls for dredging activity.
- $1.5 million to be used for restoration of white pine forests.

- $750,000 for the youth community service program.
- $300,000 for grants to counties to mitigate the damage from windstorms to forests in north central Minnesota.
- $1.7 million increase in state parks operations funding.
- $1.5 million increase in the grants for region park operations.
- $600,000 for park operations at Cuyuna and Glendalough parks.
- $1.1 million increase for the DNR's portion of a multi-agency program recommended on increasing water monitoring in the state.
- $6 million increase in the funding of the snowmobile grant in aid trail system, $1.2 million from General Fund dollars, the remainder is from the dedicated snowmobile account in the Natural Resources Fund.
- $1.0 million increase from the Natural Resources Fund to expand the fishing pier construction and water access development projects.
- $1.4 million increase for an initiative to improve the information technology and staffing at the DNR. The funding is a combination of General Fund, Natural Resources Fund, and Game and Fish Fund dollars.
- $600,000 for implementation of an electronic licensing system. The system would issue hunting, fishing, and boating licenses through a vendor.
- $500,000 from the General Fund for increased repair and maintenance of DNR buildings.
- $850,000 from the General Fund for an initiative on community assistance and education to work with local communities on sustainable development.
- $500,000 increase in Game and Fish Fund dollars to trout and salmon habitat improvement. Funding is through an increase in the Trout and Salmon Stamp fee from $5.00 to $8.50.
- $5.0 million for fishing activities within the DNR. The funds are raised through an increase in the fishing licenses.
- $1.6 million increase in ecological services.
- $600,000 for the critical habitat match program.
- $800,000 to be used for grants for local snowmobile regulation enforcement.
- $2.7 million for a grant to the city of St. Paul to be used for development of the Harriet Island regional park.
- $3.0 million General Fund dollars to be used to reduce the cost of administrative activities charged to the Game and Fish fund.
- $325,000 for a grant to the Laurentian environmental learning center.

Board of Water and Soil Resources. The FY 1998-99 appropriated budget for the agency is a total of $32.7 million. The General Fund recommendation is for a total appropriation of $30.9 million. The following new General Fund initiatives are included in the appropriated budget:

- $300,000 to improve agency communications and information management.
- $300,000 for the agency portion of a multi-agency initiative on community assistance and education. Staff will be added to the agency to work with local government and the public in education and communication efforts.
- $683,000 for increasing the grants to local soil and water conservation districts.

- $475,000 for a grant to the Minnesota River Joint Powers Board.

Department of Agriculture

The appropriated FY 1998-99 budget is $148.2 million for the agency. Of this amount $83.5 million is from the General Fund. The following new spending items are included in the budget:

- $24.6 million increase from the General Fund for the Ethanol Production Subsidy program.
- $671,000 increase in General Fund dollars for compensation inflation in FY 1998-99.
- $1.2 million for development of an improved electronic information management system at the agency.
- $400,000 from the General Fund for a program to develop a data base on feedlot odor, to conduct research on technologies for odor suppressants, and to evaluate drainage systems for effectiveness.
- $320,000 increase from the General Fund for dairy services.
- $115,000 from the Special Revenue Fund for a study of the agricultural land preservation program.
- $500,000 increase from the Special Revenue Fund to expand the water monitoring program to assess trends and pesticide management plan effectiveness.
- $1 million to the dairy diagnostics program.
- $525,000 for continued research on the livestock odor issues.
- $1 million for the MN Grown program.

Animal Health Board. The appropriated FY 1998-99 budget for the agency is a total of $5.5 million. New items for the agency include:

- $80,000 for a program to expend identification of and treatment of herds infected with Johnes disease.
- $89,000 for the companion animal program.

Minnesota/Wisconsin Boundary Area. The appropriated funding for FY 1998-99 is $349,000.

Citizen's Council on Voyageurs' National Park. The appropriated funding in Ch. 216 for FY 1998-99 is $127,000.

Science Museum of Minnesota. The appropriated funding for FY 1998-99 is $2.8 million.

Minnesota Academy of Science. The appropriated funding for FY 1998-99 is $82,000.

Minnesota State Horticulture Society. The appropriated funding for FY 1998-99 is $164,000.

Agriculture Utilization Research Institute. The appropriated funding for FY 1998-99 is $8.8 million, of which $8.3 million is from the General Fund.

- Included is an increase of $400,000 for the hybrid poplar demonstration program.

For more information on Environment Natural Resources & Agriculture Finance issues, contact Jim Reinholdz at 296-4119.

Economic Development & Housing Finance

Overview: The 1997 Omnibus Economic Development and Housing Appropriations Bill included General Fund appropriations totaling $364.7 million in FY 1998-99, an increase of $68.6 million over the February 1997 Forecast, and an increase of $76.8 million over the base (as determined by the Department of Finance in accordance with the Governor's instructions). If all accounts being transferred from the Department of Economic Security to the Department of Children, Families and Learning are excluded, the General Fund appropriations total for FY 1998-99 is $60.6 million greater than spending in FY 1996-97.

In addition, the 1997 Omnibus Capital Investments Bill included $8.6 million in FY 1998-99 General Fund appropriations for economic development. Funding for the Minnesota Arts Board and the Minnesota Humanities Commission, which was included in the House Economic Development and Housing Finance Bill, was placed in the Omnibus State Departments Appropriations Bill and, therefore, is not discussed in this section.

Highlights of the Omnibus Economic Development and Housing Appropriations Act

- $2.5 million for increased funding for the Rental Assistance for Family Stabilization ("RAFS") program
- $2.15 million for the Home Ownership Assistance program
- $1.6 million to increase resources for the Affordable Rental Investment Fund ("ARIF")
- $12.4 million from the Petroleum Tank Release Cleanup Fund for cleanup of "brownfields" sites with petroleum-related contamination, paid for by extending the sunset of the "petrofund" fee and increasing it by $12.4 million
- $5.6 million from the General Fund and $1.4 million from the Motor Vehicle Transfer Account in the Special Revenue Fund for "brownfields" contamination cleanup development grants program, paid for in part by repealing the sunset of the motor vehicle transfer fee; the required local match was reduced from one-half to one-quarter of the project costs, which include the cost of demolishing existing structures
- $6.5 million for major welfare-to-work programs, including $3.5 million for the new Pathways program to be coordinated by the Minnesota Job Skills Partnership and $3.0 million for a new state supplement to the federally-funded Job Training Partnership Act ("JTPA") Title II-A program
- $7.4 million for increased funding of the Minnesota Job Skills Partnership, which is expanded to include the new Hire Education Loan Program ("HELP")
- Increased base funding for a variety of youth job training and crime prevention programs, including $6.0 million for the Minnesota Summer Youth Program, $800,000 for the Youth Intervention Program, $800,000 for the YouthBuild program, and $500,000 for the Learn to Earn program
- $1.344 for increased base funding for the Centers for Independent Living
- $5.0 million to increase the resources of the Minnesota Investment Fund
- $3.5 million for the new Technology Partnership Fund
- $3.0 million for a direct reduction iron processing facility in northeastern Minnesota
- $1.0 million for the new Film Production Jobs Fund
- $2.0 million for an endowment and $500,000 for operation of a new Rural Policy and Development Center to be located at Mankato State University
- $4.444 million to match increased federal funding for the Drinking Water Revolving Fund

- $3.0 million from the General Fund and $4.0 million in bonding for supplemental grants or loans to municipalities with wastewater treatment plants that were more expensive to construct as a result of the bodies of water into which they discharge being classified as "outstanding resource value water"
- $2.0 million to construct ponds to contain runoff from the Brookdale Mall in Brooklyn Center
- $3.9 million for new information technology of the Minnesota Historical Society

Minnesota Housing Finance Agency

The Legislature appropriated $58.4 million in FY 1998-99 to the Minnesota Housing Finance Agency ("MHFA"). In comparison to FY 1996-97, MHFA has received an additional $10.8 million. Of the total increase over FY 1996-97, $5.3 million is one-time funding only that is not to be added to the permanent base of MHFA.

Highlights of the Legislature's housing finance appropriations for FY 1998-99 included:

- A $600,000 increase for the Bridges (rental subsidies for the mentally ill) program. The additional funding will help shorten the waiting list for state funded rental subsidies to individuals with mental illness that are in danger of becoming homeless. The state provides these rental subsidies until Section 8 certificates become available. Increased funding for this program is estimated to generate savings for nursing homes and hospitals for the mentally ill.
- A $1.0 million increase for the Family Homelessness Prevention & Assistance program. The additional funding will expand the program. More grants will be available to counties and non-profit organizations to provide case management for persons that need assistance to rehabilitate their rent history and to organizations that will provide and report on the success or failure of innovative approaches to housing persons with poor rental histories.
- A $600,000 increase for the Foreclosure Prevention program. Additional funding in this program will provide more interest free loans for renters and homeowners, at or below 60% of the area median income limits, faced with eviction or foreclosure due to a temporary hardship. This program is expected to ensure long-term savings by preserving investment and homeowner's equity in the property and by averting losses to public and private mortgage insurance.
- A $1.6 million one-time increase for the Affordable Rental Investment Fund ("ARIF") program to provide more interest-free loans for the production or rehabilitation of moderate- and low-income housing. Additional funding for this program is intended to mitigate the lack of affordable housing in areas, which often is considered a barrier to economic development.
- A $50,000 for the Home Equity Conversion Counseling program. In the Governor's budget, this program was eliminated and funding was transferred to the Foreclosure Prevention program. The Legislature maintained the base level of funding for the program because it did not find adequate evidence to support the Governor's assertion that the market could satisfactorily provide the home equity conversion loan counseling services to seniors.
- A $587,000 increase for the Community Rehabilitation program. Of that amount, $500,000 was from funds that had been earmarked for rental revitalization activities but which were redirected to increase the base of the Community Rehabilitation program. The Legislature also authorized non-profit organizations, in addition to cities, to apply for grants and loans through this program.

In addition, the Legislature made a variety of "one-time" appropriations: $125,000 for HIV/AIDS housing assistance in the non-metro area, $750,000 for multi-housing reconfiguration projects statewide, $250,000 for Affordable or Life Cycle Housing in Minneapolis and St. Paul, $550,000 for the City of Landfall—HRA purchase, $100,000 for a neighborhood land trust, and $80,000 for an affordable neighborhood development and design initiative.

Housing Finance — Governor's Initiatives

In the omnibus act, the Legislature adopted a Governor's initiative to increase the Rental Assistance for Family Stabilization ("RAFS") program by $2.5 million in FY 1998-99 and to expand the eligibility for this program to include not only those on public assistance but also individuals transitioning off public assistance and into employment. The amount of the Legislature's appropriation was identical to the Governor's recommendation for FY 1998-99.

The Legislature also appropriated $2.15 million for the Home Ownership Assistance program. The amount of the appropriation was $350,000 below that Governor's recommendation. The purpose of this program is to assist families with equity participation loans and help them move out of Section 8 housing and into home ownership. This program has not received a direct general fund appropriation since 1991 and has been funded by agency proceeds.

Housing Finance Implications and Issues: The total budget for MHFA contains increased funding for MHFA programs that ensure safe, affordable and decent housing for the very low-to-moderate income. The appropriations in the omnibus bill distribute General Fund appropriations to home ownership, rental housing and emergency support housing programs in a manner similar to the Governor's budget. The only difference is that the omnibus bill allocated slightly more for emergency support housing programs such as Foreclosure Prevention and Family Homelessness Prevention. More funding has been allocated to these programs in light of welfare reform and the uncertainty surrounding how it will impact individuals on public assistance and their housing.

Department of Trade and Economic Development

The Legislature appropriated $95.2 million (including open and standing appropriations) from the General Fund to the department for FY 1998-99, an increase of $42.4 million over the February 1997 Forecast and $44.0 million over base. The department's total appropriation for FY 1998-99 is $32.1 million greater than its spending in FY 1996-97. Increases in the department's base include the amounts listed in the overview for "brownfields" contamination cleanup development grants, the new Pathways program, the Minnesota Job Skills Partnership (including the new Hire Education Loan Program), the new Film Production Jobs Fund, and the operating funds for the Rural Policy and Development Center. In addition, appropriations for base increases included:

- $500,000 for Advantage Minnesota, Inc.
- $1.0 million for grants to the St. Paul Rehabilitation Center for training refugees in job-seeking skills, job orientation, and functional work English
- $200,000 for grants to create and to operate community development corporations that target Asian-Pacific Minnesotans
- $500,000 for grants to non-profit organizations that provide technical assistance to microenterprises
- $125,000 for WomenVenture
- $155,000 for the Metropolitan Economic Development Association ("MEDA")
- $190,000 for grants to county agriculture societies

The department also will receive substantial "one time" appropriations, which include the amounts listed in the overview for the increase in the Minnesota Investment Fund, the direct reduction iron processing facility, the endowment for the Rural Policy and Development Center, the Drinking Water Revolving Fund match, and the Brookdale runoff containment ponds. In addition, the Legislature made one-time appropriations for a China Trade Initiative ($350,000), technical assistance for non-profit organizations that work with individuals transitioning from welfare to work ($750,000), taconite mining research ($650,000), and promotion of foreign trade zones ($160,000), and for grants to the Software Technology Center ($250,000), the Duluth Technology Center ($100,000), the LeRoy Neiman Museum in St. Paul

($500,000), Morrison County for a grant to the Hennepin Paper Company ($250,000), a children's museum adjacent to the Judy Garland Museum in Grand Rapids ($200,000), and several other projects distributed throughout the state.

It is not clear from the law's language whether the General Fund appropriation for wastewater infrastructure grants/loans listed in the overview was intended to be "one time" or part of the department's base for the FY 2000-01 biennium. The Department of Finance, however, has interpreted that to be a one-time appropriation, because the bonding for the same purpose is one time.

The Legislature's appropriations to the department included many Governor's initiatives: the increase in funding for the Minnesota Job Skills Partnership, the new Hire Education Loan Program, the new Pathways program, the increase in resources for the Minnesota Investment Fund, the increase for Advantage Minnesota, Inc., the grant to the Software Technology Center, the China Trade Initiative, the new Film Production Jobs Fund, the Drinking Water Revolving Fund match, and the wastewater infrastructure grants/loans.

Minnesota Technology, Inc.— The Legislature appropriated $19.6 million from the General Fund to the agency for FY 1998-99, an increase of $4.7 million over forecast and base. Of the increase, $3.5 million is for the new Technology Partnership Fund, which was a Governor's initiative. The remainder of the increase is for base funding increases for several of the agency's pass through grantees, including the Natural Resources Institute, Minnesota Project Innovation, Minnesota Council on Quality, and the Cold Weather Research Center.

Minnesota World Trade Center Corporation— The Legislature made a one-time appropriation of $78,000 for the trade center's annual debt service. The Governor had recommended $217,0000, which would have retired the trade center's debt.

Department of Economic Security

The Legislature appropriated $75.9 million (including open and standing appropriations) from the General Fund to the department for FY 1998-99, an increase of $15.8 million over forecast and $18.1 million over base. If all accounts being transferred from the Department of Economic Security to the Department of Children, Families and Learning are excluded, the total General Fund appropriation for FY 1998-99 is $8.5 million greater than spending in FY 1996-97.

Increases in the department's General Fund base include the amounts listed in the overview for the Minnesota Summer Youth Program, Youth Intervention Program ("YIP"), YouthBuild, the Learn to Earn program, and the Centers for Independent Living ("CILS"). In addition, appropriations for base increases included:

- $600,000 for the Displaced Homemaker program
- $400,000 for employment centers for the deaf and hard of hearing
- $500,000 for employment services for the mentally ill

The department also will receive substantial "one-time" appropriations, which include the amounts listed in the overview for the new state supplement for the JTPA Title II-A program, the funds for which will be targeted to assist individuals on public assistance. In addition, the Legislature made one-time appropriations for demonstration projects for displaced homemakers ($250,000) and empowerment groups ($250,000), the Sister to Sister program ($250,000), the Center for Victims of Torture ($500,000), and employment support services for the hard to employ ($500,000).

The Legislature transferred $7.0 million from the "Dislocated Worker Fund" to the General Fund and appropriated $1.6 million from the "Dislocated Worker Fund" fund for the Opportunities Industrialization Centers ("OICs"). The appropriation for the OICs was an increase of $350,000 over base, plus $500,000 was added for a new OIC targeted to assist refugees. The Governor had recommended transferring $13 million from the "Dislocated Worker Fund" to the General Fund and appropriating $16 million from the "Dislocated Worker Fund" to the Minnesota Comprehensive Health Association ("MCHA").

The Legislature's appropriations to the department included two of the Governor's initiatives, increasing the funding for the Youth Intervention Program and the Centers for Independent Living. The Legislature, however, increased the funding for YIP more than the Governor recommended and for the CILS less than the Governor recommended.

Department of Commerce

The Legislature appropriated $28.8 million from the General Fund to the department for FY 1998-99, a decrease of $391,000 compared to forecast, and the same as base. The Governor recommended a General Fund appropriation of the same amount. The Legislature extended the sunset of the fee that funds the Petroleum Tank Release Cleanup Fund, which will increase the resources available in that fund by $189,000 in FY 1999.

Department of Labor and Industry

The Legislature appropriated $8.0 million from the General Fund to the department for FY 1998-99, a decrease of $237,000 compared to forecast and $80,000 compared to base. The reduction was achieved even though the Legislature adopted the department's plan for an additional $120,000 from the General Fund to provide additional inspections of complex ammonia and high pressure piping systems. The reduction was accomplished by funding the Vinland rehabilitation center and all of the Governor's information technology initiative from the Workers Compensation Special Compensation Fund ("WCSC Fund") rather than from the General Fund. The Governor had recommended an additional $130,000 from the General Fund and $1.8 million from the General Fund to add a total of 4.0 FTE positions for completing an overhaul of the department's computer technology and assuring compliance with the year 2000 event. The Legislature fully funded the Governor's initiative from the WCSC Fund.

The Legislature also adopted the department's plan for increased appropriations from the WCSC Fund to match increased federal funds for OSHA consultation/compliance and to convert computerized workers compensation records and make other operational improvements in the workers compensation system. An increase of $998,000 from the WCSC Fund will permit the department to add a total of 8.0 FTE positions for OSHA consultation/compliance. A separate increase of $555,000 from the WCSC Fund will permit the department to add 6.0 FTE non-temporary positions and 4.0 FTE temporary positions in FY 1998 to manage the department's remaining paper worker compensation records. The department has discontinued use of paper records for newly created files.

Bureau of Mediation Services— The Legislature has adopted the Governor's recommendation to appropriate $4.1 million from the General Fund to the agency for FY 1998-99, an increase of $200,000 over forecast and $270,000 over base. The Governor had proposed $270,000 in initiatives which included additional funds for information management systems, grants to Area Labor-Management Committees, and an additional 1.0 FTE position in the Office of Dispute Resolution.

Workers Compensation Court of Appeals— This agency receives no General Fund appropriations. The Legislature adopted the Governor's recommendation to maintain the appropriation from the WCSC Fund at the base level of $3.0 million for FY 1998-99.

Labor Interpretive Center— The Legislature adopted the Governor's recommendation to maintain the appropriation from the General Fund at the base level of $421,000 for FY 1998-99.

Public Utilities Commission

The Legislature adopted the Governor's recommendation to appropriate $6.7 million from the General Fund to the agency for FY 1998-99, a decrease of $21,000 compared to forecast, and an increase of $70,000 over base. The increase over base will fund a raise in the commissioners' salaries

Department of Public Service

The Legislature appropriated $19.9 million (including open and standing appropriations) from the General Fund to the department for FY 1998-99, a decrease of $281,000 compared to forecast, and an increase of $60,000 over base. The Legislature adopted the department's plan to increase direct General Fund appropriations by $60,000 over base to purchase new equipment for the Weights and Measures Program. The department's base includes new open General Fund appropriations of $1.813 million for production incentive payments to owners of qualified hydro power and wind energy conversion facilities.

Minnesota Historical Society— The Legislature appropriated $46.8 million from the General Fund to the society for FY 1998-99, an increase of $5.0 million over forecast and $5.9 million over base. Of the increase, $3.9 million is for new information technology, which is $100,000 less than the Governor had recommended. The Legislature also adopted the Governor's recommendations to appropriate an additional $600,000 for repair and maintenance of historical sites and an additional $300,000 for celebrations of Minnesota's territorial sesquicentennial and the coming millennium. The Legislature also increased the base appropriation for the society's grant-in-aids programs for local historical societies and provided one-time appropriations for a variety of projects throughout the state.

Minnesota Municipal Board— The Legislature adopted the Governor's recommendation to appropriate $622,000 from the General Fund to the agency for FY 1998-99, a decrease of $11,000 compared to forecast, and the same amount as the base.

Iron Range Resources and Rehabilitation Board ("IRRRB")— The Legislature made no direct General Fund appropriations to the IRRRB for FY 1998-99, whereas the agency received a direct appropriation of $890,000 for FY 1996-97. The agency will receive an open General Fund appropriation of $1.3 million, an increase of $476,000 over the amount it received for FY 1996-97.

The Legislature also made $1.4 million in direct appropriations from the **Taconite Environmental Projection Fund** for a variety of community development projects. The Governor line-item vetoed all of those appropriations.

"Non-Health Boards"— The Legislature made appropriations at the base levels for FY 1998-99 to the Board of Accountancy, Board of Barber Examiners, and Board of Boxing. The Legislature adopted the plan of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Certified Interior Design to decrease its General Fund appropriation for FY 1998-99 by $71,000 to reflect decreased costs associated with certification examinations for architects. The Board of Electricity continued to receive no General Fund appropriations.

"Ethnic Councils"— The Legislature increased the base appropriations for FY 1998-99 to the Council on Black Minnesotans, Chicano Latino Affairs Council, Council on Asian-Pacific Minnesotans, and Minnesota Indian Affairs Council. In addition, the Legislature made a one-time appropriation $75,000 to the Council on Black Minnesotans for an African Resource Center and a one-time appropriation of $14,000 to the Council on Asian-Pacific Minnesotans for office equipment.

Implications: The share of the General Fund budget surplus allocated to economic development made possible a number of substantial one-time investments in the state's economic climate. The Department of Trade and Economic Development received a $5.0 million increase for the Minnesota Investment Fund. In addition, DTED received $3.0 million to invest in a direct reduction iron processing facility, $2.0 million to finance construction of runoff retention ponds at Brookdale Mall, and $2.0 million as an endowment for a new Rural Policy and Development Center. DTED also received $7.4 million for drinking water and wastewater infrastructure financing. The Department of Economic Security received $3.0 million for a state supplement to the federal JTPA Title II-A program; the supplement is targeted at public assistance recipients who need training to find and maintain employment. None of those increases carries over into FY 2000-01.

The Legislature also substantially increased obligations of future General Fund resources to economic development. The Department of Trade and Economic Development received a $7.4 million increase for employer-specific worker training through the Minnesota Job Skills Partnership and the new Hire Education Loan Program, and $3.5 million for the new Pathways program to provide employer-specific worker training to public assistance recipients. DTED also received $5.6 million for “brownfields” contamination cleanup and $1.0 million for the new Film Production Jobs Fund. The Department of Economic Security received a $6.0 million increase for the summer youth program and additional amounts for the Learn to Earn and YouthBuild programs. Minnesota Technology, Inc. received $3.5 million for its new Technology Partnership Fund. The Minnesota Historical Society received $3.9 million for new information technology. Those and other increases will carry over into FY 2000-01.

The “tails” for economic security and housing finance are $339.5 million (including appropriations in the Omnibus Capital Investments Bill) before inflationary increases. Although that figure reflects a substantial increase in the base for economic development and housing finance, it is considerably reduced from the $373.3 million appropriated for FY 1998-99 (including appropriations in the Omnibus Capital Investments Bill).

For more information on Housing Finance issues, contact Cynthia Coronado, 296-5384.
For more information on Economic Development issues, contact Bill Connors, 296-5813.

Transportation Finance

The Transportation Finance Act , passed by the House and Senate, *Laws 1997*, Chapter 159, was very similar fiscally to the Governor’s recommended budget. Total General Fund spending for the FY 1998-99 biennium of $151 million was equal to that of Governor’s budget proposal. The spending on initiatives was not, however, identical.

Department of Public Safety

Governor Carlson’s request for computer support for the Department of Public Safety was reduced by $1.1 million by delaying the start of the project one year.

A requested increase of $400,000 per year for Capitol Security was also reduced to a $78,000 annual increase.

The Legislature did not fund the Governor’s request for a 15-member State Patrol Special Response Team. The cost would have been $2.3 million to hire and equip the team for the biennium. In addition, the conference committee denied the request for 60 additional State Troopers at a cost of $11 million from the Trunk Highway Fund. With these cuts, the Legislature can fund some of its own initiatives.

The **Driver Safety Center and St. Cloud State University** received $200,000 to continue driver safety education programs. In another provision, the State Patrol received $150,000 from the General Fund for trooper candidate education stipends. The intent of the program is to recruit women and minorities. Candidates just short of the educational credits they need to be qualified by the State Patrol, may be granted a stipend to obtain the needed credits. The Department of Public Safety hopes that this will diversify the pool of qualified candidates for the State Patrol.

Metro and Greater Minnesota Transit

The Governor budgeted roughly a 10 percent increase in Metro and Greater Minnesota Transit from $89 million the previous biennium to $98 million. The Legislature added to that $2.9 million for welfare to work transit programs, $2 million for the Metro area and $925,000 for outstate programs.

Commuter Rail. The House and Senate agreed to spend $1 million on a feasibility study of Commuter Rail. Commuter Rail would use existing heavy freight rail lines to transport commuters to and from work, relieving metro area congestion.

Long-term Highway and Transit Finance Remains Unresolved

Again this year, several funding packages were discussed to solve Highway and Transit needs. State Road Construction was increased by $32.5 million per year, to spend down a $100 million accumulated fund balance. This will deplete the balance in three years, and the level of the construction program will be reduced unless a new funding plan is enacted. Because no consensus could be reached this year, a possible solution for transit and highway funding will wait at least another session.

For more information on transporation finance issues, contact: John Walz, (612) 296-8236.

State Government Finance

Overview: The State Government Finance Omnibus Act(*1997 Laws of Minnesota*, Chapter 202) authorized net General Fund spending of $654.3 million, an increase of $78 million over FY 1996-97 spending. The Governor vetoed three line item appropriations in the omnibus bill: $250,000 to the Department of Administration for prescription drug activities, $455,000 to the Capital Area Architecture and Planning Board for two governors' portraits and three memorials, and $24.4 million for the Attorney General's office. With this veto, net General Fund spending was reduced to $629.2 million. One-time items totaled approximately $68 million, including the Year 2000 initiative for $23 million and the Persian Gulf Veterans' bonus program for $17.6 million.

Constitutional Offices

Attorney General's Office (AGO)

The Legislature appropriated $49.7 million for the biennium, an increase of $3.9 million over base and $4.2 million below current spending. This decrease reflects the transfer of funds to partner agencies' budgets. The Governor vetoed the AGO's entire FY 1999 General Fund appropriation, a total of $24.4 million. The remaining $25.3 million appropriation for FY 1998 includes several initiatives:

- $1 million to restore the AGO's base. The 1995 Legislature appropriated $3 million above the base for salaries and technology. The Department of Finance included only $1 million of this amounts in the AGO's base for the 1998-99 biennium. The 1997 Legislature determined that the full $3 million was intended to be a permanent increase, and restored $1 million each year to the AGO's base.

- $1.4 million in one-time funds for information systems, including completion of the local area network, development of a case management system, and purchase of a CD ROM-based server to replace the use of on-line legal research services.

- $280,000 for the AGO's consumer protection initiative.

- $25,000 to continue a study of gender equity in athletics.

Implications: The Governor's veto message expressed concern that the Legislature's total appropriation was $3.8 million over the Governor's recommendation of $45.9 million.* By vetoing the second year appropriation, the Governor has forced the Legislature to revisit the issue in the 1998 session.

If the AGO is required to wait until January 1998 to plan for legal activities carrying over into FY 1999, it may need to delay projects or cut services to state agencies. Some agencies may be compelled to seek outside counsel, most likely at rates higher than those charged by the AGO. The AGO also has the authority to charge state agencies to recover the costs of providing legal services, through inter-agency agreements.

> *****_The AGO, like all other constitutional offices, retains the right to present its own budget directly to the Legislature for consideration. Traditionally the Governor respects the separation of powers and makes no recommendation on constitutional offices' budget initiatives. However, the FY 1998-99 Governor's Budget recommended a 7.7% biennial increase to the base operating budgets of constitutional offices for salary adjustments and other initiatives. The recommended increase for the AGO's office was $2 million._

State Auditor

The State Auditor's office received $15.6 million for the biennium, an increase of $1.3 million above current spending but $55,000 below the agency's request. Initiatives include $342,000 for technology, $335,000 for additional positions to comply with statutory audit duties for local pension funds and $168,000 to handle caseload increases in Special Investigations Division.

Governor's Office

The Governor received $7.7 million for the biennium, an increase of $700,000 above current spending. $323,000 was appropriated for new two positions to deal with federal and tribal relations.

Legislature

Total appropriations were $111 million, an increase of $7.1 million above FY 1996-97 spending. Appropriations included $49.9 million for the House of Representatives, $36.7 million for the Senate, $15.5 million for the Legislative Coordinating Commission, and $9.2 million for the Legislative Auditor. The Senate received $1.5 million and the House received $500,000 in one-time funds for technology. Other initiatives included $16,000 to provide sign language interpreters at legislative meetings away from the Capitol, and $65,000 to support an information policy task force.

Secretary of State

Total appropriations were $11.9 million, a decrease of $450,000 over current spending. Legislative initiatives included $60,000 for administrative expenses related to the Uniform Partnership Act, and $50,000 for licensing of digital signature certification authorities.

State Treasurer

The State Treasurer received $4.2 million for the biennium, $1.2 million less than the office's original request. The decrease represents a transfer of funds to the Department of Revenue for lockbox operations previously handled through a contract with Norwest Banks. The resulting reduction in bank processing charges will save the General Fund $1 million each year.

State Agencies, Boards and Commissions

Department of Administration

Total General Fund appropriations were $66.2 million for the department's operations, an increase of $22.9 million above current spending, and $1.3 million below the Governor's recommendation. $30 million of this amount was designated as one-time spending. Significant legislative initiatives included:

- $23 million for the Minnesota Year 2000 project. $8 million of this amount was placed in a contingent account and will not be available until the commissioner has determined that all other money allocated for replacement or enhancement of existing technology for Year 2000 compliance will be expended. The Governor's recommendation was $25 million.

- $4.5 million in direct General Fund spending for repair and maintenance of state facilities under the custodial control of the commissioner. The Legislature also approved the Governor's recommendation to transfer to a special revenue fund a portion of the funds collected as rent to recover the cost of capital improvements. This action will generate a long-term funding stream for repairs and maintenance.

- $2.3 million was transferred to the new Minnesota Office of Technology, which will assume most of the responsibilities of the Information Policy Office. The responsibilities and funding for the Public Information Policy Analysis (PIPA) division will remain with the Department of Administration. PIPA is responsible for data practices and records management.

- $650,000 to purchase the building in Ely currently leased by the Department of Revenue.

- $561,000 to continue operations of the Intergovernmental Information Systems Advisory Council (IISAC). Carryover funds were also made available to implement the local government financial reporting system (FINREP).

- $450,000 to the city of Wabasha to prepare a site and design the American Bald Eagle Center.

- $500,000 for a study to determine if there is sufficient justification to continue the state's targeted purchasing program for the benefit of socially disadvantaged groups.

- $350,000 to replace lost federal funding for the System of Technology to Achieve Results (STAR) program to aid persons with disabilities through technology. This one-time state funding is intended to bridge the STAR program's transition to a nonprofit organization.

- $200,000 for a one-time grant to the Hockey Hall of Fame for capital improvements and building and grounds maintenance

- $250,000 for a grant to the city of International Falls for the predesign and design of an interpretive library and conference center related to the history of the voyageurs and the fur trade in Minnesota.

- $173,000 in additional funding for the state archaeologist, including $30,000 in one-time funds for identification of Indian burial mounds.

Amateur Sports Commission(MASC). Amateur Sports received $8.6 million for the biennium, $3.2 million above current spending and $5.9 million above the Governor's recommendation. Initiatives included an additional $5 million in FY 1998 for Mighty Ducks ice arena grants and $800,000 for youth sports pilot programs.

State Arts Board. Total appropriations were $26.1 million, a $12 million permanent increase over base funding. $100,000 was designated for grants to individual artists of color to create new works in collaboration with nonprofit arts and community organizations.

Capitol Area Architectural Planning Board (CAAPB). The Legislature appropriated $1 million for the biennium. The Governor vetoed $455,000 in legislative initiatives, including $30,000 for two governors portraits, $100,000 in additional funding for the Women's Suffrage Memorial Garden, $300,000 for the Hubert H. Humphrey memorial, and $25,000 in planning funds for a memorial to Coya Knutson, Minnesota's only woman ever elected to the U.S. Congress. With the veto, total authorized spending was reduced to $595,000.

Department of Employee Relations (DOER)

Total General Fund appropriations were $15.7 million, an increase of $800,000 above current spending. New initiatives included $1 million for start-up funds for a workers' compensation settlement and contingency reserve, and $575,000 to continue the Human Resources Management reform process. The Governor had recommended $875,000 for this initiative. The Legislature also approved continuation of the voluntary leave program for state employees, and will allow state agencies to capture any savings from this program. In the past biennium, all savings canceled directly to the General Fund.

Department of Finance

Total appropriations were $45.3 million for the biennium, an increase of $3 million above current spending, and $6.7 million below the Governor's recommendation. $7.4 million was directly appropriated for operating costs of the Statewide Administrative System (also known as the Statewide Systems Project or SSP). The Governor's recommendation for SSP operating costs was $14.2 million.

Implications: *T*he Department of Finance is authorized to bill state agencies up to an additional $6.77 million for any operating deficits, continuing the practice established by the 1996 Legislature. However, because the Department of Finance did not allow state agencies to include additional funds for SSP costs in their budget plans submitted to the 1997 Legislature, agencies must fund SSP operating costs out of their existing budgets.

Board of Government Innovation and Cooperation. The Legislature appropriated $2 million for the biennium, an increase of $235,000 over current spending.

Humanities Commission. The Humanities Commission received $1.8 million for the biennium, including a $600,000 increase in base funding above the Governor's recommendation.

Lawful Gambling Control Board. $4.5 million was appropriated to the Lawful Gambling Control Board, an increase of $334,000 over current spending.

State Lottery. $2.45 million was appropriated from the state lottery prize fund for compulsive gambling treatment programs, including $150,000 for an inpatient treatment center in Granite Falls.

Minneapolis Employees Retirement Fund (MERF). The maximum state contribution to the Minneapolis retirement fund was reduced from $10.45 million to $9 million, beginning in FY 1999. This reduction was made possible by changing the assumed rate of return on the fund's investments. If the actuarial projections change and the new state contribution amount is insufficient, the fund may have an unfunded liability because employers who contribute to MERF are not responsible for making up the difference.

Minnesota Office of Technology. The Legislature appropriated a total of $7.9 million for this new office, $700,000 less than the Governor's recommendation. $4.7 million was allocated for salaries and operating expenses, including $2.3 million transferred from the Department of Administration for the activities of the Information Policy Office. These activities will include oversight over all major purchases of information systems. The remaining $3.2 million was divided among several initiatives, including:

- $935,000 for expansion of the North Star Web site.
- $800,000 in one-time funds for United Nations Trade Point, a transaction gateway to the UN's trading network.
- $500,000 for the Minnesota Internet Center, to help Minnesota communities in planning, design and implementation of technology activities.
- $500,000 for the International Telecommunications Union plenipotentiary conference to be held at the Minneapolis convention center in 1998.
- $500,000 for the Business Customer Service initiative, a system to allow the public to electronically retrieve business license information prepared by the Department of Economic Development.

Department of Military Affairs

Military Affairs received $20.9 million for the biennium, an increase of $1.4 million over current spending and $2.5 million below the Governor's recommendation. Initiatives included $950,000 to reduce the backlog of armory and airbase maintenance and repairs, and $800,000 for a pilot program to make the National Guard armories available for after-school and evening recreational activities for youth. The Governor had recommended $3.8 million for the program in his crime prevention package.

Public Broadcasting. A total of $9 million was allocated for Public Broadcasting, an increase of $2.7 million above FY 1996-97 spending and $2.2 million above the Governor's recommendation. All increases above the base were one-time funding. This funding level included $5.5 million for Public Television, $2.7 million for Public Radio, and $746,000 for Legislative Television.

Board of Public Disclosure and Campaign Practices (formerly the Ethical Practices Board. Total General Fund appropriations were $1.1 million for the biennium, including $122,000 for the development of campaign finance reporting software.

Department of Revenue

Total General Fund appropriations were $161.4 million for the biennium, an increase of $4.8 million over current spending. The appropriation includes $182,000 for the inclusion of seasonal employees in the Minnesota State Retirement System. An additional appropriation of $2.6 million was included in the omnibus tax bill to cover administrative costs for property tax reform and other changes to the tax laws.

Office of Strategic and Long Range Planning (Minnesota Planning). The Legislature appropriated a total of $10.3 million, an increase of $1.5 million over current spending, and $1 million below the Governor's recommendation. Initiatives included:

- $1.58 million for community-based planning, including $375,000 for planning grants to counties and joint planning districts, $375,000 for technology grants, and $350,000 for a grant to a joint powers board in the St. Cloud area.

- $350,000 in one-time funds for statewide grants to implement teen court pilot projects. The Governor had recommended $3 million in ongoing funds for this project.

Department of Veterans Affairs

The Legislature appropriated $25.9 million for the biennium, an increase of $18 million over current spending, and $360,000 over the Governor's recommendations. Major legislative initiatives include:

- $17.6 million for a one-time appropriation for the Persian Gulf Veteran bonuses. This program will provide a $600 bonus to the approximately 13,200 veterans who received the Southwest Asian Service Medal, and a $300 bonus to the more than 30,000 veterans who did not receive the medal but served on active duty in the Armed Forces or were ordered to duty from a reserve unit and deployed outside Minnesota during the war. Families of veterans who were killed during the period of eligibility will receive bonus payments of $2,000.

- $110,000 for the Red Tail project, the restoration of a vintage WWII fighter plane to honor the Tuskeegee Airmen, the first African-Americans to qualify as military pilots in any branch of the armed forces.

- $110,000 for a veterans' memorial in Park Rapids.

Implications for State Government Finance for the next biennium: Projected spending for the next biennium is $591 million, or $13.4 million below the Governor's projected spending. Several initiatives, including the teen courts, youth sports programs, and armory crime prevention, were funded as pilot projects so that the effectiveness of the programs may be evaluated before long-term funding is allocated. The Division also allocated more than $31 million in one-time funds for various technology projects.

For more information on State Government Finance issues, contact Helen Roberts, Room 374, 296-4117.

Capital Investment Finance

Although the Governor's initial position was against a bonding bill this session, he eventually signed the bill put forth by the Legislature. *Laws 1997,* Chapter 246 spent $21.4 million in cash and authorized up to $89.5 million in new bonds.

The **cash appropriations** totaled $13.6 million of General Fund money and $7.8 million of special revenue funds, all of which are spent on environmental or waste water programs.

- "Superfund" sites received $6.4 million and urban contaminated sites or "brownfields" received $7 million for environmental cleanup projects.

- Another $5 million was spent on individual sewage treatment system programs, $4 million for loans and $1 million for grants. Wastewater infrastructure programs received $7 million, $3 million from the general fund and $4 million in bond proceeds.

The **major component of the bond appropriation** section is an additional authorization of $73 million for the construction of a new Department of Revenue building. The appropriation was contingent on locating the new building in the Capitol area. If the Commissioner of Administration determines that it is not feasible to complete the building in the Capitol area within the time and appropriation limits, a new building may be built at an Inver Grove Heights site at a reduced amount of $46 million.

Other bond provisions are:

- $5.5 million total for local bridge assistance, of this amount,
- $2.5 million transferred from a prior Bloomington Ferry Bridge authorization, and
- $3 million in new bond authorizations.
- Emergency relief for the spring flood was set at $4 million.
- An addition at Hibbing Community College, which had been vetoed the previous year, was reauthorized at a cost of $4.5 million.
- The Capitol Cafeteria renovation was also given $1 million to complete the project.

For more information contact: John Walz, Transportation Fiscal Analyst, 296-8236.

Tax Revenues, Local Aid & Credits

Overview: The primary focus of the 1997 legislative session concerning state tax fiscal policy was directed at reforming the property tax system. As a result, the vast majority of resources available for tax reduction were directed at property tax reform, including a $500 million property tax rebate. Some additional dollars are applied to conformity to certain federal income tax provisions and modifications to specific state sales tax provisions.

Property Tax Relief & Reform

The fiscal impacts of property tax relief and reform measures in the 1997 Omnibus Tax Act, (*Laws 1997*, Chapter 231) are shown in table 6 on page 46.

One-time property tax rebate. A property tax rebate estimated to total $500 million is provided to homeowners, homestead farmers and renters, equal to 20 percent of property taxes they paid in 1997. The tax rebate is fully refundable and will be claimed on the tax year 1997 individual income tax returns filed in 1998. The Department of Revenue expects to process an extra 200,000 returns in 1998 from taxpayers claiming property tax rebates who otherwise would not have to file an individual income tax return.

Levy limits imposed on local governments for two years. City and county governments are subject to levy limits for taxes levied in 1997 and 1998 (taxes payable in 1998 and 1999). Special levies outside the limits are available to local governments that had unreimbursed flood costs due to damages caused by the 1997 floods and in a few other limited circumstances.

Table 6. Property Tax Relief in the Omnibus Tax Act of 1997

	$ in Millions					
	FY 1998	**FY 1999**	**FY 1998-99**	**FY 2000**	**FY 2001**	**FY 2000-01**
Property Tax Rebate	$0.0	$500.0	$500.0	$0.0	$0.0	$0.0
Adjustment for property tax reductions	$0.0	($11.0)	($11.0)	($11.0)	($11.0)	($22.0)
Education Homestead Credit	$0.0	$156.7	$156.7	$156.7	$156.7	$313.4
General Education Levy Reduction	$0.0	$85.0	$85.0	$85.0	$85.0	$170.0
State Takeover: alternative facilities bonding	$0.0	$17.4	$17.4	$17.4	$17.4	$34.8
Adjustment for 90-10 metering	$0.0	($26.0)	($26.0)	$0.0	$0.0	$0.0
Early Recognition Shift Cost @ 7%	$17.0	$0.0	$17.0	$0.0	$0.0	$0.0
Additional Property Tax Refund	$0.0	$10.3	$10.3	$10.3	$10.3	$20.6
Repeal PTR on property tax statement	$0.0	($2.750)	($2.750)	$6.630	$8.530	$15.2
PTR adjustment for property tax reductions	$0.0	($4.0)	($4.0)	($4.0)	($4.0)	($8.0)
Other Property Tax Issues						
TIF	$0.0	$2.0	$2.0	$1.5	$1.5	$3.0
Targeting for cabin owners (income tax)	$0.0	$1.1	$1.1	$1.1	$0.0	$1.1
Performance Aid	$0.0	$1.0	$1.0	$1.0	$0.0	$1.0
Revenue sharing, casino counties	$0.5	$0.5	$1.0	$0.5	$0.5	$1.0
Senior Deferral	$0.0	$0.0	$0.0	$0.8	$0.8	$1.6
Total, Property Tax Relief Provisions:	**$17.5**	**$730.3**	**$747.8**	**$265.9**	**$265.7**	**$531.7**

Property Tax Reform in 1997 Omnibus Tax Act

Increasing the state's share of funding public education. The new tax law provides an additional $93 million for general education levy reduction in state FY 1999 (tax payable year 1998), reducing reliance on the local property tax to fund public education. Combined with additional funding in the special session education finance act, the state's percentage of K-12 public education finance is expected to rise from 62.7 percent in pay year 1997 to 65.3 percent in pay year 1998.

"Compressing" the property tax classification rates. The law reduces the tax rate disparity between the highest-taxed classes of property and the lowest-taxed classes of property. Rate compression will enhance accountability regarding the demand for services funded with local property tax revenues. To prevent "shifting" of tax burdens onto homestead properties, $157.6 million is provided for an education homestead credit in FY 1999.

"Property Tax Reform Account." A new account is created to fund additional property tax reform, a legislative priority, through FY 2001. The fund is initially funded with one-time revenues in FY 1998 totaling $487 million. In addition, the one-time dollars earn interest estimated at 5 percent per year. Any revenue surplus (over forecast) is first applied to ensure a general fund budget reserve of $522 million, then the first $80 million in revenues over projections is dedicated to funding the K-12 Education Finance package recently adopted during the special session. After commitment of these dollars, 60 percent of any remainder is deposited in the property tax reform account. Dollars accumulating in the account may be spent on class rate compression, increasing education aids, increasing the state's share of education funding, increasing the Education Homestead Credit, and/or increasing the Property Tax Refund.

- **Permanent tax relief for homeowners**. The "breakpoint" for the first tier of homestead property value that qualifies for the lower ("preferred") class rate is increased from $72,000 of value to $75,000 of value. The class rate on the second tier of home value (more than $75,000) is reduced from 2 percent to 1.85 percent. In addition, an **Education Homestead Credit** is established at a cost in FY 1999 of $157 million. The program provides that the state pays 32 percent of the general education homestead tax for a residential homestead or ag homestead, up to a maximum of $225. This policy will not encourage local levy increases since the state determines the general education levy.

- **Permanent tax relief for business property.** The "breakpoint" for the first tier of commercial/industrial property qualifying for the preferred class rate is increased from $100,000 in value to $150,000 in value. The class rate on the 1st tier of C/I value is reduced from 3 percent to 2.7 percent. The class rate on the upper tier (more than $150,000) is reduced from 4.6 percent to 4.0 percent. In addition, the current law provision limiting designation of the lower-tier rate to just one parcel per owner per county is repealed, so multiple properties owned by one owner each get the lower-tier rate for the first $150,000 of value for **every** parcel. The bill provides a $2 million appropriation for "TIF grants" to local units of government where these class rate changes would otherwise cause TIF districts to default on outstanding bond obligations.

- **Permanent tax relief for residential rental property.** The class rate on market-rate apartments is reduced from 3.4 percent to 2.9 percent. A new classification is created for nonhomestead single family residential units, with a class rate of 1.9 percent on the first $75,000 in value and 2.1 percent on the remainder. The class rate on duplexes and triplexes is reduced from 2.3 percent to 2.1 percent. The reduction in landlords' property taxes will not reduce the renters credit that their tenants receive, because the base for the renters credit has been changed from a share of taxes paid to 18 percent of rent paid.

- **"Target" class rates for commercial/industrial and rental property**. Recognizing that certain C/I property and rental property are among the highest taxed real properties of their class in the nation, the law establishes target class rates of 3.5 percent for upper tier C/I, 2.5 percent for apartment property, and 1.25 percent for the first $75,000 in single family rental property. The governor is authorized to recommend a new class rate schedule at the time of submission of the biennial budget recommendation.

- **Simplified, uniform classification of low-income rental housing.** The current system for classifying low-income rental housing is extremely complex. Under the new law, each unit must meet four requirements to be eligible for the favorable 1 percent classification rate: (1) the tenants must meet established income guidelines, (2) a 5-year rent restriction agreement must be completed between the owner and the Minnesota Housing Finance Agency, (3) the unit must meet minimum housing standards, and (4) MHFA must certify that the units meet these requirements. The bill appropriates $450,000 to the MHFA to administer the new law.

Education Homestead Credit. A new property tax credit equal to 32 percent (up to $225) of the state-determined general education tax on each homestead property will be subtracted from the gross tax on the property tax statement beginning with taxes payable in 1998. (For a farm homestead, the credit applies to the tax on the residence, garage and one acre of surrounding land.) This provision is based on a gubernatorial recommendation in the 1997 supplemental budget.

Senior Citizens Property Tax Deferral. The law addresses the special circumstances of low-income senior citizens who own and occupy homestead property. The program allows eligible seniors to defer part of their property tax if the homeowners are more than 65 years of age, household income is less than $30,000, and the homestead has been owned and occupied by the homeowner for at least 15 years. The provision will cost $800,000 in FY 2000 and $800,000 in FY 2001.

"Truth-in-Taxation" process modified. The notices of proposed property taxes ("Truth-in-Taxation" or "TinT") and the property tax statements are modified to provide better information to the taxpayer concerning the taxes paid to school districts and municipalities. For school districts, the proposed levy notice and the final tax statement will break down the levy into three components: (1) the state determined levy amount, (2) the voter-approved portion of the levy, and (3) the sum of all remaining levies. For municipalities, the focus of the TinT notice will shift from a comparison of a taxpayer's current and proposed property taxes to a comparison of changes from one year to the next in the local government unit's spending level. This change is designed to focus attention on the impact of local spending decisions on property tax levels, and de-emphasize the impact of year-to-year valuation changes.

New "mandate reform" provisions. Under the new law, it is no longer possible to consider proposed legislation affecting local government services without accounting for the property tax implications of the proposal. In addition, the new law provides that certain state mandates must include adequate funding, or the local government may stop administering the program.

Economic Development Issues in the Omnibus Tax Act

Changes to Tax Increment Financing Restrictions. The Legislature significantly loosened some of the most important restrictions on tax increment financing ("TIF") and tightened other restrictions. First, the Legislature loosened the definition of "cost of correcting conditions" for redevelopment and renovation/renewal districts. Second, the Legislature added to the "cost of correcting conditions" list the costs of renovation and cleaning up hazardous substances, pollution or contaminants. Third, the Legislature significantly lengthened the duration of soils condition districts, which also are used to finance clean up of hazardous substances, pollution or contaminants.

Finally, the Legislature made two exceptions to the statute that prohibited using economic development districts to finance commercial development on bare ground. First, TIF revenues from an economic development district in a "small city" may be used to finance construction of a commercial facility up to 15,000 square feet in size. A city is a "small city" if, at the time the request for certification of the district is made, the city has a population of 5,000 or fewer and is located more than 10 miles from the nearest city with a population of 10,000 or greater. Second, TIF revenues from an economic development district may be used to finance development of a "qualified border retail facility," which must meet the following requirements:

- The facility is in a "small city" located within one mile of the state boarder;
- It is located outside of the seven-county metro area;
- It contains at least 25,000 square feet of retail space; and
- The proposed new retail facility or a competitive facility will be located in bordering state or province if TIF revenues are not used to finance the development in the small Minnesota boarder city.

The Legislature also enacted a few additional restrictions on the use of TIF:

- Under a new definition of "tax increments," the proceeds of tax increments must be treated as tax increments, which will prevent tax increments from losing their character (and thus prevent them from being freed from applicable restrictions) as a result of purchases, sales, loans, repayments, or investments.
- Interior inspections of buildings are required before a determination can be made that they are sufficiently blighted to justify creation of a redevelopment or renovation/renewal district.
- Written records of how the blight requirements were met must be retained to demonstrate that the creation of a redevelopment or renovation/renewal district was proper.
- Fiscal disparities contributions attributable to new commercial/industrial development in a TIF district must be paid out of TIF revenue rather than from the tax capacity rather than from the tax capacity of other commercial /industrial properties in the city, county and school district.

Property Tax Abatements Authorized as a Substitute for TIF— A city, town, county or school district may grant an abatement of its own share of the property taxes on a structure (but not the land on which it is situated) for up to 10 years the political subdivision may grant the abatement only if it expects the benefit it receives to be at least equal to the costs it will bear under the proposed abatement agreement ***and*** it finds that granting the abatement is in the public interest because it will—

- Increase or preserve tax base;
- Provide employment opportunities in the political subdivision;
- Provide or help acquire or construct public facilities;
- Help redevelop or renew blighted areas; or
- Help provide the residents of the political subdivision with access to services.

A school district is limited in the amount of abatement it may grant, and if it grants an abatement the state will not increase education aids to make up for the lost property tax revenue. An abatement may not be granted for property in a TIF district.

Individual & Corporate Income Tax Law Changes

"Federal Update"— The 1997 tax act conforms Minnesota's individual and corporate income taxes to most of the federal tax law changes enacted in Washington, D.C. last year. The federal update provisions will result in General Fund revenue losses of $2.4 million in FY 1996-97, $3.4 million in FY 1998-99, and $6.7 million in FY 2000-01.

By adopting provisions that tighten eligibility for the Earned Income Tax Credit (EITC) from the 1996 federal *Personal Responsibility & Work Opportunity Act* (welfare reform act) the **Minnesota Working Family Credit** tax expenditure is reduced, for a revenue gain of $0.8 million in FY 1997 and $1.6 million in each of the next two fiscal biennia. (The Minnesota Working Family Credit was 15 percent of the federal EITC for purposes of these estimates.)

Conforming to the federal *Health Insurance Portability and Accountability Act (HIPAA) of 1996* brings several new insurance-related tax provisions into the base of the Minnesota individual income tax. The net state fiscal impact (in the individual income tax and corporate franchise taxes) is a general fund loss of $2.3 million in FY 1998-99 and an additional $1.9 million in FY 2000-01. These are highlights: incentives for qualifying long-term care insurance premiums; a pilot program for medical savings accounts; favorable tax treatment of accelerated death benefits; and disallowance of a deduction for interest on corporate-owned life insurance policy loans.

The *Small Business Job Protection Act of 1996* contains twenty-five provisions with significant impacts on Minnesota individual and corporate tax revenues, and myriad federal tax changes with "minimal" (less than + / – $50,000) state revenue impact. The state tax act conformed to all but one of the *Small Business Act* provisions, for revenue losses of $3.9 million in FY 1997, $1.3 million in FY 1998-99 and $5.4 million in FY 2000-01. This act: gradually increases the small business expensing limitation; simplifies tax management of retirement savings plans; creates a new *SIMPLE* retirement savings vehicle for small businesses; increases the nonworking spouse IRA contribution limit; restores the exclusion for employer-provided (undergraduate) education benefits; and allows a new exclusion for up to $5,000 of employer-paid adoption assistance. The act also extends tax-exempt status to qualified state higher education tuition savings programs (see *Higher Education* section). Punitive damage awards generally will be taxable to individuals. The $5,000 death benefit exclusion, and 5-year forward averaging of lump-sum retirement distributions are repealed.

The state act allows eligible banks to convert to S-corporation tax status (closely-held firms that do not pay a tax at the corporate level), but it does **not** allow "passthrough taxation." If adopted, the passthrough provisions would have cost the General Fund $28.7 million in FY 1998-99, and $40.8 million in FY 2000-01 (mainly because states are forbidden to tax federal bond interest paid to individuals and there would have been no corporate tax on that income). Instead, for state tax purposes, banks will be taxed at the business entity level and shareholders of S-corp banks will adjust their federal deductions and pay Minnesota individual income tax on deemed dividend income.

Table 7.
Minnesota Fiscal Impact of Federal Update Sections, by Federal Act and State Fiscal Year.

($ Millions)	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Personal Responsibility & Work Opportunity Act	$ 0.8	$ 0.8	$ 0.8	$ 0.8	$(4.3)
Health Insurance Portability and Accountability Act	$ 0.7	$(2.2)	$(2.3)	$(1.5)	$(1.9)
Small Business Job Protection Act of 1996	$(3.9)	$(1.2)	$(0.1)	$(1.6)	$(3.8)
Federal Update Total:	**$(2.4)**	**$(2.2)**	**$(1.2)**	**$(2.0)**	**$(4.7)**

New Provisions: Minnesota Individual Income and Corporate Franchise Taxes.

The 1997 Omnibus Tax Act creates several new and unique state income and corporate tax provisions, reversing a pattern that has prevailed for the past decade of near-total adherence to federal definitions of taxable income.

Provisions Affecting Individuals—

- Claims for the **Property Tax Rebate** (see the *Property Tax* section of this article) will be administered with the 1997 individual income tax (returns filed in 1998). The rebate will be applied to reduce income tax liability and it is refundable, meaning that if the rebate is greater than taxes owed, the filer will receive a refund. The Department of Revenue expects to process 200,000 additional returns next year from property owners who normally do not have to file income taxes.

- **"Cabin targeting"** is available when property taxes increase *both* by more than 10 percent and at least $100 in a year. In that event, for property taxes payable in 1998 and 1999, the state will pay 75 percent of the first $300 of the increase in tax that is above 10 percent. The credit is estimated to cost $1.1 million each year in FY 1999 and FY 2000. It will be administered as a nonrefundable credit against taxes due on the individual income tax return.

- A new **credit for taxpayers who buy long term care insurance** will be available beginning in tax year 1999. To qualify, besides meeting federal criteria under the *HIPAA of 1996*, policies must provide at least $100,000 of lifetime benefits *and* provide inflation protection for escalating nursing home costs that meets or exceeds federal standards. The new credit covers 25 percent of premiums not deducted on the federal return. It is estimated to cost $2.3 million in the FY 2000-01 biennium.

- Post-service benefits paid on behalf of participants in Americorps/Youth Works are exempt from state income taxes. Young people who complete a year of service are eligible for a stipend of $4,725, which is applied to post-secondary education expenses, including student loans. The exemption will affect an estimated 240 youth each year, for a "minimal" revenue loss of about $35,000 per year.

The act also repeals an income tax credit for home buyers who purchased homesteads in areas severely affected by metropolitan airport noise, effective for purchase agreements signed after June 30, 1997. (The credit remains in effect for homeowners who qualified before that date.) Repeal will save an estimated $900,000 in FY 1998-99 and $7.2 million in FY 2000-01.

Provisions Affecting Corporations—

- C-corporations may claim state tax credits for hiring and retaining certain disadvantaged workers. The Department of Revenue will issue credit certificates to qualifying tax-exempt training programs, which will issue them to corporations that hire the graduates and pay training and retention fees. Employers also must pay the trainee at least $9/hour in the first year to qualify for an $8,000 hiring credit and pay and $10/hour or more to get a retention credit of $6,000 a year for the next two years of a trainee's employment. The maximum state cost is $1.2 million total, for corporate franchise tax credits in tax years 1997 through 2001 (FY 1998-2002).

- A technical law change requires corporations receiving refunds of a federal environmental tax to add back that amount to their Minnesota taxable income. This Governor's recommendation treats refunds of environmental tax the same as all other tax refunds, and raises an estimated $100,000 in FY 1997, and $800,000 in each of the next two fiscal biennia.

Sales and Use Taxes & Miscellaneous Provisions

Exemptions—

- **Manufacturing Replacement Capital Equipment**. Effective for purchases after June 30, 1998, replacement capital equipment and machinery, repair and replacement parts used for manufacturing, mining, refining and fabrication will be exempt from sales and use tax. This recommendation of the Sales Tax Advisory Council (STAC) is estimated to result in revenue losses of $3.1 million in FY 1998-99 and $7.3 million in FY 2000-01.

- **Used Farm Machinery** is permanently exempt from sales and use tax effective June 30, 1997 and the definition of "used" farm equipment is clarified, as recommended by the STAC. The revenue impact is a loss of $2.5 million in FY 1998-99 and $2.6 million in FY 2000-01.

- **Construction Materials for Correctional Facilities.** Building materials and supplies for construction or improvements to municipal juvenile or adult correctional facilities are exempt when the project is mandated by the state or the federal government. This exemption is estimated to result in revenue losses of $2.0 million in FY 1998-99 and $2.3 million in FY 2000-01.

- **"Inputs to taxable services."** Materials used or consumed in providing animal boarding, building cleaning and maintenance, car washing, detective services, laundry and cleaning, lawn care, massage, and pet grooming will be exempt from sales and use taxes effective July 1, 1999. This STAC recommendation parallels the exemption provided in current law for materials consumed in producing tangible personal property for resale. It is estimated to cost $15.8 million in FY 2000-01.

- **Non-aspirin pain relievers.** Three new categories of over-the-counter pain relief medications are exempt from the sales tax effective July 1, 1999. Extending the exemption to ketoprofen, naproxen and similar non-prescription pain relievers will result in an estimated revenue loss of $2.0 million in FY 2000-01.

Additional exemptions in the tax act primarily are targeted to specific economic development initiatives:

Table 8. **Fiscal Impacts, Miscellaneous Sales & Use Tax Provisions**	***$ in Thousands***		
	FY 1997	**FY 1998-99**	**FY 2000-01**
Exempt certain electronic surveillance services	--	($100.0)	(Min)
Exempt Lake Superior Center Materials	(Min)	($700.0)	$0.0
Exempt Science Museum Construction Materials	$0.0	($900.0)	$0.0
Exempt certain additional firefighter protective equipment	$0.0	(Min)	(Min)
Exempt certain nonprofit hospital	$0.0	($200.0)	($200.0)
Exempt copies of court transcripts to parties involved in case	$0.0	($1,200.0)	($1,500.0)
Exempt materials for Metro emergency radio system	$0.0	($1,000.0)	($2,700.0)
Exempt materials for alfalfa facility	$0.0	($500.0)	($400.0)
Exempt materials for wood waste facility	$0.0	$0.0	($300.0)
Exempt district heating & cooling system facility materials	$0.0	$0.0	($300.0)
Exempt construction materials for “business incubator”	$0.0	($100.0)	$0.0
Restore exemption (one yr.) for wind energy conversion systems	$0.0	($700.0)	$0.0
Exempt certain firewood	($172.0)	(Min)	--
Exempt gift of a vehicle to charitable org. from STMV	--	(Min)	(Min)
Provide for interest on purchaser-filed sales & use tax refunds, as if filed as a vendor claim (STAC recommendation)	--	(Min)	(Min)

Extensions of the sales tax, clarifications—

- **Prepared food and beverages** will be treated consistently for sales tax purposes, as recommended by the Governor. “Groceries” are exempt from state sales tax while “restaurant meals” are taxable. To carry out the distinction, all heated food and beverages were taxable while many ready-to-eat unheated items were exempt. So, for example, a heated serving of baked beans from the grocery store deli was taxed while the same serving sold unheated, was not. The new law clarifies that all food prepared for immediate consumption, single and individually-packaged servings of ice cream, most soft drinks, food sold from vending machines, lunch carts and at places where an admission is charged are taxable. Certain bakery purchases and groceries sold from home delivery vehicles remain exempt. This provision is estimated to raise $6.3 million in FY 1998-99 and $7.1 million in FY 2000-01.

- **Indoor plant care services** will be taxed in the same manner as lawn and garden care and related services, a Governor’s recommendation, estimated to raise $1.4 million in FY 1998-99 and $1.5 million in FY 2000-01.

- Purchasers of **prepaid long distance “calling cards”** will pay sales tax on the retail price. This simplifies tax administration for vendors and the state, and it is expected to raise $400,000 in FY 1998-99, and $700,000 in FY 2000-01.

- **Use tax temporary storage exclusion modified.** As recommended by the STAC, the act narrows and clarifies the use tax exemption for goods in interstate commerce brought into Minnesota by common carrier and temporarily stored here in transshipment. This provision is estimated to raise $2.5 million in FY 1998-99 and $2.6 million in FY 2000-01.

Sales and use tax policy provisions. These provisions do not have a fiscal impact:

- **Local sales taxes** will be made consistent under a set of **uniform rules**, as recommended in the 1997 STAC report. The law applies to all new local sales taxes authorized by the Legislature and, effective January 1, 2000, to existing local sales taxes.
- The act directs the Revisor of Statutes to prepare a bill for recodification of the state sales and use tax statute, *M.S. 297A*.
- The act clarifies legislative intent regarding the sales tax status of coin-operated machines and amusement devices, goods purchased to be given away as prizes, and equipment and machinery used in taxable amusement services.

Highway fuel tax and sales tax provisions.

Fuel used by state and local emergency rescue vehicles and fire trucks is exempted from sales and use tax (beyond the highway fuels tax exemption under prior law). This Governor's recommendation will result General Fund revenue losses of $200,000 in FY 1998-99 and $300,000 in FY 2000-01.

Fuel used by "Power Take-Off" Units such as cement mixers, lifts, pumps, and well-drilling equipment is exempt from the highway fuels tax and subject instead to the sales and use tax, effective July 1, 1997.This Governor's recommendation will cost the Trunk Highway Fund $900,000 in FY 1998-99 and $1.0 million in FY 2000-01, and a result in a corresponding gain to the General Fund of $400,000 in each biennium.

Bulk farm gasoline refund. The 1997 act restores a distributors' refund for gasoline sold to farmers who store the fuel on-farm in bulk storage tanks. This corrects a 1996 law change intended to apply only to diesel fuels. Because of the 1997 clarification, farmers can buy gas in bulk for agricultural use, tax-free up front. There is no revenue impact.

Tribal Compacts — County Revenue Sharing .

Counties that have tribal casinos and that either have per capita personal income below 80 percent of the state average or at least 30 percent of their tax base exempt from property taxation, are entitled to share in the state's revenues under tax agreements with Indian tribes. Eligible counties will get 10 percent of state revenues derived from a tax compact in that county. There is a $1.1 million annual maximum appropriation, so the percentage rate will be reduced to come under the cap if revenues increase substantially in the future. The provision is estimated to cost $1.0 million in FY 1998-99, and the same amount in the FY 2000-01 biennium.

Waste Management Taxes and Environmental Taxes

Solid Waste Management Taxes Merged. A new solid waste tax was created to replace the old "SCORE tax" on garbage collection, and the Solid Waste Generator Assessment (SWGA) on residential, commercial, industrial and medical waste and construction debris. Effective January 1, 1998, the SCORE tax (6.5 percent sales tax on mixed municipal solid waste management services) and the SWGA fee ($2 per household per year, $0.60 per uncompacted cubic yard for commercial waste) are replaced with a new “Solid Waste Management Tax.” The new tax is intended to fund the same programs historically funded by the SCORE and SWGA fees (recycling, waste reduction, landfill clean up). The new tax is designed to be revenue neutral.

In addition, the law contains a partial moratorium that prohibits the Department of Revenue from initiating or continuing any action to either collect underpayment or issue refunds for overpayment of *Use* Tax(but *not* Sales Tax) owed or remitted by political subdivisions between January 1, 1990 through December 31, 1996. The Department of Revenue is preparing guidelines to help local units of government in determining any outstanding Sales Tax liability from the SCORE tax.

Funding for Brownfields Cleanup and Redevelopment. The Legislature authorized Hennepin and Ramsey Counties to impose an additional 0.01 percent tax on mortgage registrations and deed recordings.

The tax revenue must be deposited in a fund which those counties may use—

- To acquire polluted or contaminated properties;
- To indemnify purchasers of properties for liability related to pollution;
- To clean up polluted or contaminated land; or
- To develop the acquired or cleaned up property, whether for private or public uses.

The first priorities for the Hennepin County fund are cleanup of the NL Industries/Tara Corporation/Golden Auto site in St. Louis Park and to acquire adequate railroad right-of-way to replace the 29th Street line in Minneapolis. First priority for the Ramsey County fund is cleanup of the Dale Street Shops and Maxson Steel site or other blighted sites at or near rail lines.

Appropriations

The act provides several appropriations, primarily to the Department of Revenue (DOR), for the costs of administering the Omnibus Tax Act: processing the one-time property tax rebate; establishing the new senior property tax deferral program; setting up a process for the registration of third-party bulk filers of withholding taxes; implementing the new low-income housing classifications; and $50,000 for legislative studies of emerging issues in business taxation and electronic and telecommunications commerce.

The act also appropriates $16.6 million to pay the remaining claims under the Cambridge Bank case, which will result in $19.75 million interest savings for the state.

Table 8 on page 55 shows the tax act appropriations in detail.

Table 8. Adiminstrative Appropriations in the Omnibus Tax Act of 1997

$ in Millions

	FY 1998	FY 1999	FY 1998-99
Administration of the act (DOR)	$2.132	$0.0	$2.558
Low-income housing reform (MHFA)	$0.450	$0.0	$0.450
Truth-in-Taxation administration (Counties)	$0.0	$1.0	$1.0
Business tax studies (LCC)	$0.050	$0.000	$0.050

Administrative Appropriations Subtotal:	*$3.008*	*$1.000*	*$4.058*
Appropriation for cash payment of Cambridge Bank claims	($16,600.000)	$0.000	($16,600.000)
Interest savings from cash payment of Cambridge Bank claims	$19,750.000	$0.000	$19,750.000

Tax fiscal provisions in other legislation.

As noted above, the Omnibus Tax Act, and the K-12 Education Finance Act of the 1997 special session, worked together to increase the state's share of public education funding. The 16K-12 Education Act also contained income tax reductions for families with children totaling an estimated $80 million in FY 1998-99 and $172 million in FY 2000-01. The Higher Education Finance Act created the 19EdVest program of income tax sheltered savings for higher education costs. The MinnesotaCare Omnibus Act reduced the rate of the 23health care providers taxes and created new exemptions from MnCare taxes.

For more information: on property taxes, local government aid & property tax reform, contact Matt Shands, (612) 296-4162; on Tax Increment Finance (TIF) and tax incentives for economic development, contact Bill Connors, (612) 296-5813; on individual and corporate taxes, sales & use taxes and miscellaneous state taxes contact M.J. Hedstrom at (612) 296-1237.

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