MINNESOTA Management & Budget

2011 Report of Fastest Growing Expenditures

Based on November 2010 Forecast

January 19, 2011

Fastest Growing Expenditures

Reporting Requirement

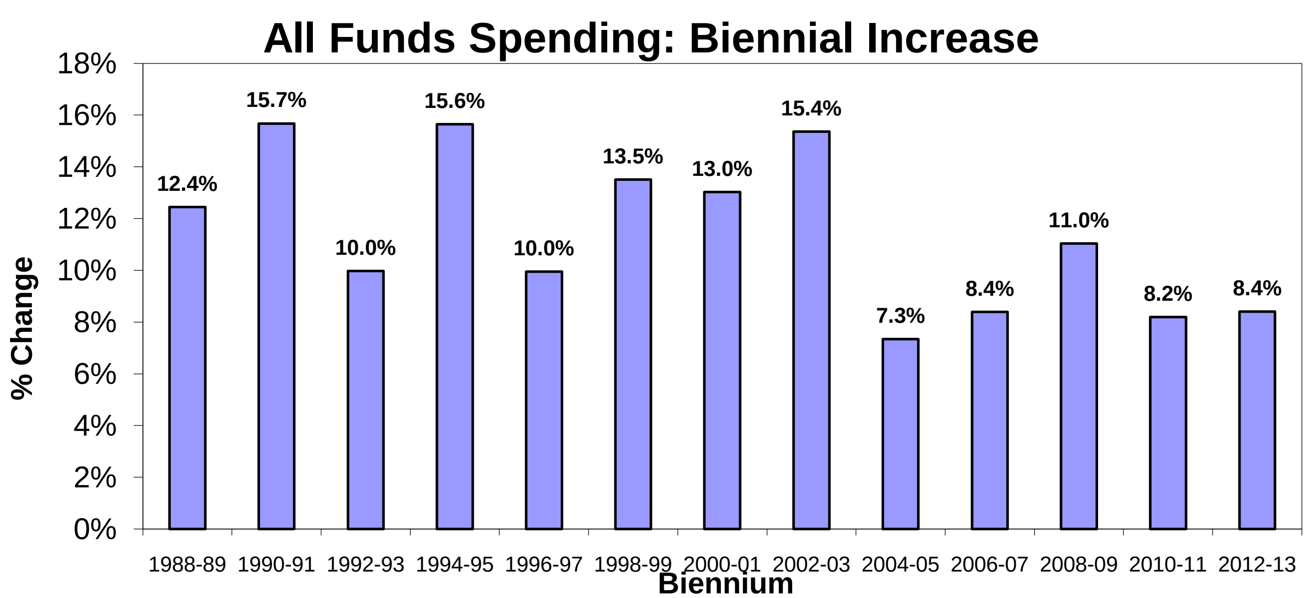
This report identifies the fastest growing elements in Minnesota's state budget and reviews factors that have led to the growth. Information is based on the November, 2010 economic and budget forecast.

"Fastest Growing Expenditures" is required under Minnesota statutes 16A.103, subdivision 4, first enacted in the 2005 legislative session.

> *Subd. 4.* ***Report on expenditure increases.*** *By January 10 of an odd-numbered year, the commissioner of management and budget must report on those programs or components of programs for which expenditures for the next biennium according to the forecast issued the previous November are projected to increase more than 15 percent over the expenditures for that program in the current biennium. The report must include an analysis of the factors that are causing the increases in expenditures.*

Background

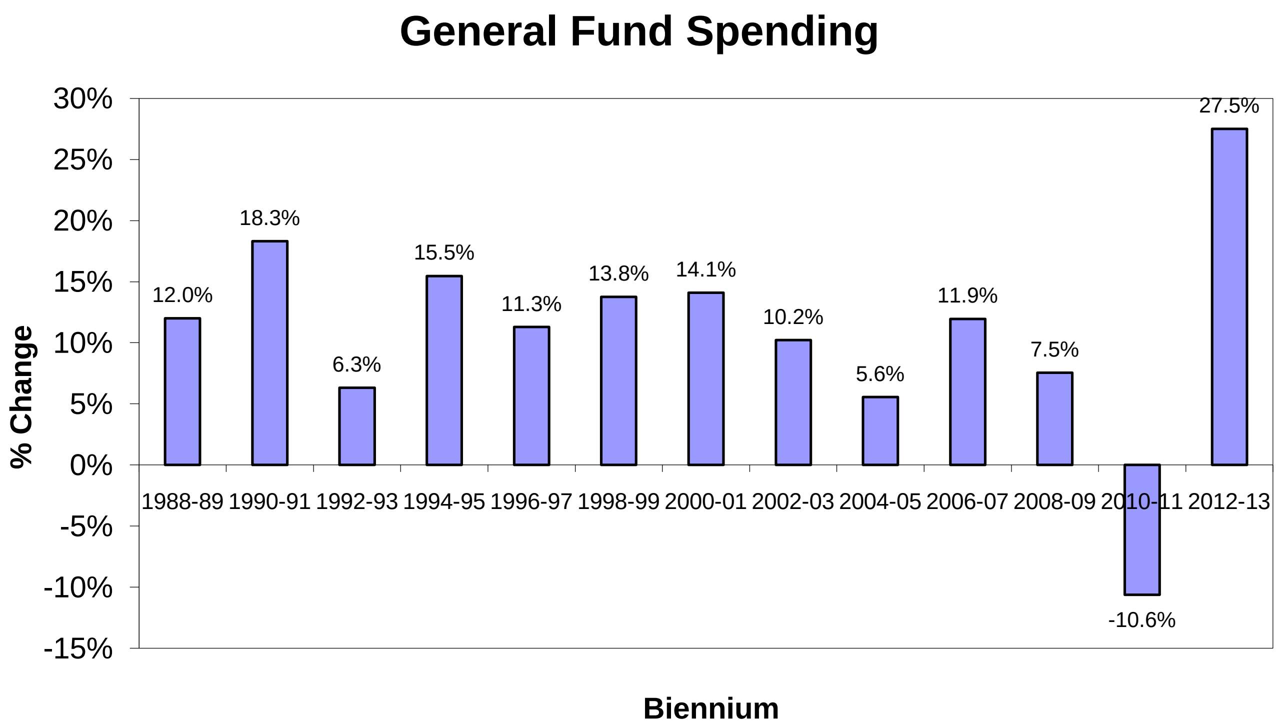
The current forecast for the budget for the current biennium (FY 2010-11) reflects an 8.2 percent increase over the previous biennium, while projected all funds spending for the upcoming biennium (FY 20012-13) will increase 8.4 percent over the current biennium. Over the last decade, the growth in state spending has averaged 10.0 percent per biennium, and 11.2 percent over the last twenty years.



Many factors can contribute to growth in spending. In the last decade human services program costs have been among the most prominent - driven largely by health care enrollment growth and increasing medical costs. Legislative budget decisions to spend more on particular programs are another primary factor. Increases in other areas may be less apparent, often representing a much smaller share of the overall budget.

Biennial Increases in General Fund Spending

It is important to note that compared to any historical measure, the growth projected for some major general programs for the upcoming biennium is unusually large. The current forecast for general fund spending for the current biennium (FY 2010-11) reflects a 10.6 percent decrease from the previous biennium, while projected general fund spending for the upcoming biennium (FY 20012-13) will increase 27.6 percent over the current biennium. Over the last decade, the growth in general fund spending has averaged 4.6 percent per biennium, and 8.3 percent over the last twenty years.



One-time resources and actions relied upon in balancing the FY 2010-11 budget cause current law spending to grow significantly faster in FY 2012-13 than in any previous biennium. One-time federal stimulus monies that directly reduced general fund state spending in FY 2010-11, savings associated with school payment shifts, and one-time reductions and savings in the current biennium disappear in FY 2012-13.

As a result, the projected 27.5 percent growth in general fund spending is unusually large. Nearly three-quarters, about $6.3 billion of an $8.3 billion of the growth shown in projected spending occurs as a result of one-time federal stimulus resources, education payment shifts, and one-time budget actions that occur in FY 2010-11 that do not continue into the next biennium.

The major components of these include:

- $2.3 billion in federal stimulus funding used to reduce general fund spending in FY 2010-11; including $1.456 billion from a higher federal matching rate for Medical Assistance and $816 million in state fiscal stabilization funding.
- $1.9 billion of K-12 education payment shifts that reduced FY 2010-11 spending.
- $1.4 billion in increased FY 2012 spending for the K-12 payment shift buyback required in current law.
- $660 million in one-time reductions made in FY 2010-11 that are restored in current law. These occur primarily in higher education, local aids and credits and human services' programs.

The remaining $2 billion of the biennial growth shown in spending represents forecast program growth. If the significant one-time impacts are excluded, this growth would be about 6.6 percent. The underlying growth is driven by increases in health and human services, K-12 education, and debt service due to expected changes in eligibility, enrollment and changes in forecasted costs for these major areas.

Timing and Reporting Period

For this report, the biennial comparison includes FY 2010-11 and FY 2012-13 current law projections as shown in the November 2010 expenditure forecast.

"Fastest growing" items were identified if the change in expenditures was 15 percent or more, biennium to biennium. This should not be confused with 15% *annual* increases. For a program to grow 15% biennium to biennium, its average annual growth rates would be closer to seven or eight percent.

Program Identification and Selection Criteria

Total state spending, excluding federal funds, involves approximately 4,300 separate appropriation accounts, of which 1,050 are general fund. Generally, this report represents program-level spending authorizations, which may include multiple appropriations. To identify initial data on expenditure increases, information from the state budget system on actual spending for FY 2010 and budgeted spending for FY 2011 was used and compared to budgeted spending for FY 2012-13.

The following criteria were applied:

- All state operating funds – excluding federal accounts - were included.
- Program or components to be reported were determined by information available in the enacted appropriation, the statewide accounting and budgeting systems, and budgetary-based fund statements.

- All programs were initially reviewed – this report covers forecast and non-forecast spending changes.
- Small items, those with biennial changes under $250,000, were excluded.

Please note that this report organizes data by specific programs and does not attempt to identify individual general cost items. Some specific expenditure categories may grow rapidly but are not reported because they are components of larger activities. For example, the cost of prescription drugs is included in the spending for health care programs, state operated services, and correctional facilities. While these costs contribute to overall program growth, they are not identified separately in this report.

Report Format

The report is divided into two parts:

Part One provides an analysis of 16 of the largest and fastest growing programs in the state budget. Each analysis identifies how much was spent and discusses some of the factors contributing to the growth, including economic, demographic and socio-economic factors, as well as policy choices.

Part Two is a listing of all remaining programs that met the initial threshold of 15 percent growth. Abbreviated comments are displayed that explain the nature of the unique factors contributing to the expenditure growth. For a significant number of instances, the explanation points to a one-time budget action, technical, or accounting issues that distorts underlying spending growth.

Additional Information

Information in this report has been prepared by the Budget Services Division, Minnesota Management and Budget (MMB). In some instances explanatory information and data presented is based on other state agency reports.

For further information, contact Jim King, ph. (651)201-8033 (jim.king@state.mn.us) for general queries or statewide information. For information on particular programs or items listed in the analysis an MMB executive budget officer is identified as a contact for specific program questions.

DEPARTMENT OF REVENUE

Targeted Property Tax Refunds

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$6,611	$10,010	51.4%

Spending for the targeted homeowners property tax refund program in FY 2012-2013 is expected to increase $3.4 million, or 51.4 percent, over expenditures for the program in the current biennium.

The targeted homeowner property tax refund program provides tax relief to homeowners whose property taxes have increased more than 12% over the previous year due to a combination of property tax levy increases and increases in property values.

The targeted property tax refund program is very volatile; the level of growth depends on how many local jurisdictions have levy increases. Due to a greater number of levy increases, more homeowners are expected to be eligible for the program in the coming biennium.

Future increases or decreases in the targeted homeowner's property tax refund program depend on whether or not the trend of increased local property tax levies continues.

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DEPARTMENT OF REVENUE

Forest Land Credit Program

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$12,701	$31,383	147.1%

Spending for the Sustainable Forest Incentive Act (SFIA) payment program in FY 2012-13 is expected to increase $18.7 million or 147 percent over spending levels in the current biennium.

The SFIA payment program allows annual payments to be made to enrolled owners of forested land as an incentive to practice long-term sustainable forest management.

The high growth factor in the SFIA payment program can be attributed to a 2009 legislative change to MS 290C.07. This change affected the average value per acre of class 2c managed forest land resulting in values eighty percent higher than the previous 2b timberland average value used in the SFIA payment rate calculation. The use of higher average acre values in SFIA incentive payment calculations resulted in significantly higher payment amounts.

Additionally, the 2011 spending was reduced by $7.9 million through unallotment and subsequent legislation that capped the maximum refund at $100,000 per taxpayer for FY 2011 only. Without this reduction the biennium-to-biennium increase in the program would have been roughly 52%.

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DEPARTMENT OF EDUCATION

General Education

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$9,121,786	$12,630,181	38.6%

The General Education revenue formula is the primary source of general operating funds for school districts. Statewide, approximately two-thirds of school districts' total revenue comes from the general education program. School districts and charter schools use general education revenue to pay for operating expenses including salaries, benefits, and supplies.

General Education revenue is comprised of several funding formulas. The majority of the revenue is generated from the basic education formula. Districts and charters receive the product of the formula allowance (currently $5,124) multiplied by the adjusted marginal cost pupil units for the school year. General Education revenue also includes revenue generated from extended time, compensatory, limited English proficiency, gifted and talented, sparsity, transportation sparsity, operating capital, equity, training and experience, alternative compensation (Q-Comp), and transition formulas.

The majority of growth in this program is due to repayment of the $1.154 billion Aid Payment Shift in FY 2012, and the one-time $500 million reduction in general education aid in FY 2010 offset by Federal Stabilization dollars. These account for $1.654 billion of the growth. The entitlements generated from the General Education formulas are only growing by $760 million or 7%. The entitlement growth is concentrated in the following formulas:

Entitlements ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
Compensatory	$775,430	$894,725	15.4%
Equity	$32,853	$39,208	19.3%
Transition	$8,261	$10,091	22.1%
Q Comp	$87,590	$116,397	32.9%
Referendum Revenue	$136,436	$169,394	24.2%
Online Learning	$1,956	$2,545	30.1%

Compensatory
Compensatory revenue is based on the number of students qualifying for free and reduced price meals and the concentration of those pupils. The number of students qualifying for free or reduced price meals has been increasing steadily for several years and is expected to continue to grow.

Q Comp
The number of school districts and charters applying to participate in Q Comp continues to grow. In FY 2011 32% of pupils were in Q Comp schools. It is estimated for the next biennium that 38% and 40% of pupils will be in Q Comp schools in FY 2012 and FY 2013 respectively.

Equity, Transition, and **Referendum Revenue**
The recent decline in property values has increased the state share of equalized aid/levy programs.

Online Learning

The formula for this aid is the adjusted online learning average daily membership for students times the pupil weight times the formula allowance. The increase is due to growing pupil participation in online programs.

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DEPARTMENT OF EDUCATION

Charter School Lease Aid

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$75,979	$112,883	48.6%

Charter School Lease Aid is expected to grow by 49 percent over the next biennium. Charter School Lease Aid is intended to help defray charter school lease costs. Charter Schools receive Charter School Lease Aid based on the lesser of 90 percent of approved lease costs, or the product of the number of pupil units times $1,200, or the allowance grandfathered in the 2002 legislative session for specific schools with high costs per pupil unit.

A large part ($9,973) of the expenditure growth in this program is due to the repayment of the Aid Payment Shift in FY 2012. By looking at the entitlements for FY 2010-11 and FY 2012-13, we can exclude the impact of the Aid Payment Shift and examine the other factors driving expenditure growth:

Entitlements ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$85,614	$105,008	22.7%

Charter School Lease Aid entitlements are forecasted to grow by 22.7 percent between FY 2010-11 and FY 2012-13. This is primarily due to projected growth in the number of students enrolled in charter schools. Total adjusted pupil units (APU) in charter schools are anticipated to grow from 42,915 in FY 2011 to 52,717 in FY 2013. The increase in expenditure growth is also due to a small inflationary increase in per pupil unit lease costs.

In FY 1998, there were just 27 charter schools in the state. By FY 2011, that number had reached more than 145. The growth of charter schools has slowed somewhat, but the total number is still increasing. For FY 2011, the average lease aid per pupil unit is estimated to be $1,040. Projections for future years include a small inflationary increase in lease costs. However, the growth in aid is primarily due to the total number of charter school pupil units increasing at a significant rate.

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DEPARTMENT OF EDUCATION

Interdistrict Desegregation Transportation

Expenditures ($000s)	**2010-2011**	**2012-2013**	**% Change FY 12-13 vs. FY 10-11**
General Fund	$26,085	$32,338	24.0%

Interdistrict Desegregation Transportation Aid is forecasted to grow 24 percent in the next biennium. This program provides transportation to students who participate in interdistrict desegregation, such as "The Choice is Yours" Program in Minneapolis, or other integration programs. Transportation is provided between the student's home or school and the interdistrict program.

Increases in local district costs and growth in student participation are the primary factors in the rising cost of this program. For the FY 2012-13 biennium, the estimated total number of transported students increases by 2,352 or 12 percent. Transportation costs are estimated to increase 23 percent including costs of additional bus routes needed to transport the additional students.

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DEPARTMENT OF EDUCATION

Special Education - Regular

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$1,358,251	$1,850,772	36.3%

Special Education – Regular is forecasted to grow 36.3 percent in the next biennium. Schools receive state aid to fund a portion of the additional costs of providing required services to students with a disability. The special education revenue formula includes 68% of the salaries of eligible special education teachers and related staff, 47% of equipment, supplies and materials, and 52% of the difference between the general education basic allowance and the cost to a resident district for special education services provided by contract with agencies other than school districts. Combined district aid cannot exceed the state total special education aid which is defined in statute as the aid for the previous year multiplied by the program growth factor times the greater of one, or the ratio of the state total average daily membership (ADM) in the previous year to ADM in the current year.

A large part of the expenditure growth ($165,584) in this program is due to the repayment of the Aid Payment Shift in FY 2012. By looking at the entitlements for FY 2010-11 and FY 2012-13, we can exclude the impact of the Aid Payment Shift and look at the other factors driving expenditure growth:

Entitlements ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$1,522,279	$1,702,227	11.8%

Special Education – Regular entitlements are forecasted to grow 11.8 percent from FY 2010-11 to 2012-13. Two factors drive this increase; the reestablishment of an annual inflation factor and an increase in the number of pupils. Prior to fiscal year 2004, the statewide special education revenue amount was increased yearly by an inflation factor called the program growth factor. The 2003 Legislature eliminated the program growth factor. However, beginning in fiscal year 2012, the annual program growth factor of 1.046 is reestablished. In addition to the increase related to the program growth factor, the number of resident ADMs will grow from 820,766 in FY 2011 to 833,822 in FY 2013 which increases the revenue.

The reestablishment of the program growth factor, as well as the increase in the number of students, are the primary factors driving the increase in this program.

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DEPARTMENT OF EDUCATION

Debt Service Equalization

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$14,811	$32,405	118.8%

School districts may issue general obligation bonds to finance capital improvements. The issuance of bonds must be approved by a majority of the voters in the referendum. The district must then levy each year an amount necessary to meet its debt obligation. The amount of debt service revenue needed each year is equalized at varying rates in relation to the ratio of the amount of debt service revenue to the district's total adjusted net tax capacity.

Debt service levies are equalized at an equalizing factor of $3,200 for the amount of debt service that totals between 15% and 25% of the district's adjusted net tax capacity (ANTC), and $8,000 for the amount of debt service that exceeds 25% of the district's adjusted net tax capacity.

Part of the expenditure growth ($2,806) in this program is due to the repayment of the Aid Payment Shift in FY 2012. By looking at the entitlements for FY 2010-11 and FY 2012-13, we can exclude the impact of the Aid Payment Shift and look at the other factors driving expenditure growth.

Entitlements ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$16,564	$31,553	90.5%

The increase in debt service equalization aid is driven by a decrease in property values. The lower values change the ratio between debt service revenue and the district's total adjusted net tax capacity. The result of lower net tax capacities is more districts qualifying for equalization aid and the state funding a greater percentage of debt service revenue through debt service equalization aid. There are three school districts that currently receive 70% of the debt service equalization aid. The ANTC for these districts dropped an average of 8.4% from 2009 to 2010. The 2009 ANTC is used in the calculation of FY 2011 debt service aid and the 2010 ANTC in the calculation of FY 2012 debt service aid.

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DEPARTMENT OF HUMAN SERVICES

Medical Assistance (MA)

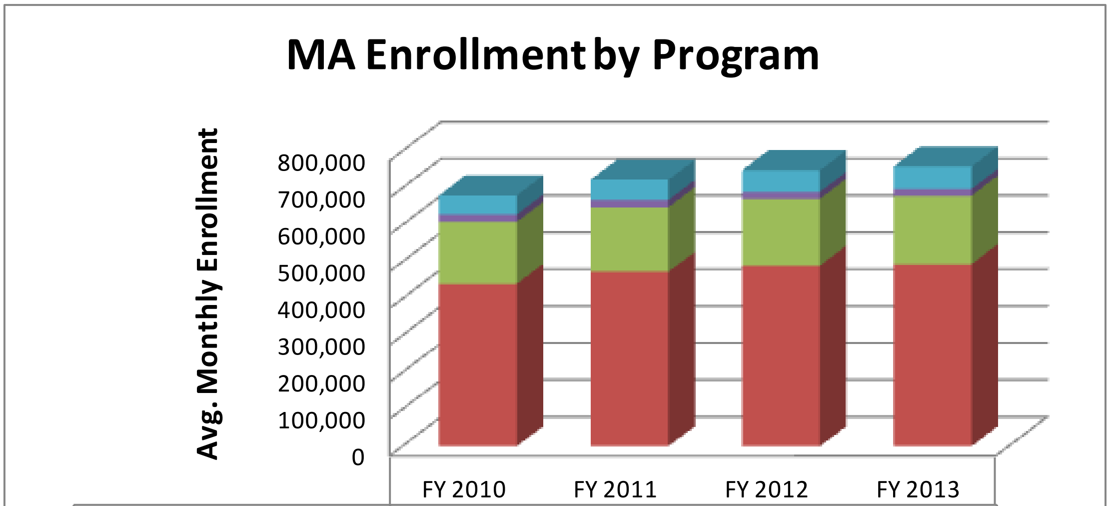
Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$5,889,985	$8,689,748	47.5%
Health Care Access Fund	$0	$9,491	NA

Medical Assistance (MA) is Minnesota's Medicaid program, which provides health care coverage for low-income individuals. Eligibility for coverage in MA programs is determined by demographics, level of income, and asset tests in certain circumstances. Recipients are determined to be in one of four categories: Basic Care for Families and Children, Basic Care for Elderly and Disabled, Long Term Care Waivers and Home-Based Care, or Long Term Care Facilities.

As of the November 2010 forecast, $26 million in FY 2010-11 and $384 million in FY 2012-13 is reserved in the general fund to fund the cost of an early expansion of MA for adults without children, a newly covered group in Medicaid under the federal Affordable Care Act of 2010. These costs are in addition to the 48 percent growth in the other MA categories.

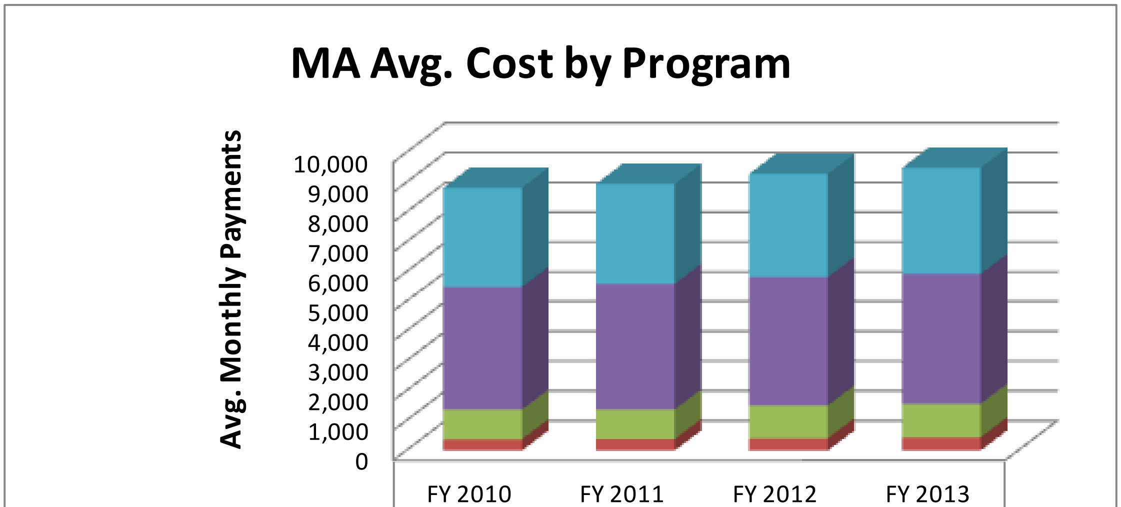
Of the total $2.8 million growth in spending in MA between FY 2010-11 and FY 2012-13, $1.456 million (52 percent) is due to the end of increased federal matching rates under the federal stimulus. The remaining projected costs in MA are driven primarily by changes in enrollment and average costs. Between FY 2010-11 and FY 2012-13, total spending growth in MA can be attributed approximately equally across categories, with Families and Kids contributing about 31 percent, Elderly and Disabled contributing about 33 percent, and LTC Waivers and Home-Based Care contributing about 29 percent. LTC Facilities contributes the smallest total growth at 7 percent, which is primarily related to increased average costs for nursing facilities.

Of the total enrollees in MA, the majority are in the MA Families and Children program at 65 percent of the total enrollment on average. Enrollment in MA Elderly and Disabled is the second highest category at about 25 percent of the total. The following chart represents the annual average monthly enrollment by program between FY 2010 and FY 2013:



	FY 2010	FY 2011	FY 2012	FY 2013
LTC Waivers & Home Care	51,533	55,177	58,583	61,268
LTC Facilities	20,185	19,735	18,992	18,202
MA Elderly and Disabled	168,077	175,019	180,792	185,287
MA Families & Children	440,574	473,057	490,329	494,110

The following chart represents the annual monthly average cost by program between FY 2010 and FY 2013. Average Costs are driven by Long Term Care Facilities, Waivers, and Home-Based Care, which make up about 85 percent of the total costs in MA.



	FY 2010	FY 2011	FY 2012	FY 2013
LTC Waivers & Home Care	3,320	3,349	3,457	3,559
LTC Facilities	4,132	4,228	4,322	4,367
MA Elderly and Disabled	992	991	1,096	1,122
MA Families & Children	382	384	414	445

The increase of $9.5 million in the health care access fund is related to current law which provides two additional bridge months for children who lose their MA eligibility due to an increase in income as well as providing automatic MinnesotaCare eligibility until their next renewal. Federal waiver approval has not been received to date, so the funding is delayed until FY 2012.

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DEPARTMENT OF HUMAN SERVICES

Chemical Dependency Entitlement Grants

Expenditures ($000s)	**2010-2011**	**2012-2013**	**% Change FY 12-13 vs. FY 10-11**
General Fund	$191,647	$236,113	23.2%

Chemical Dependency (CD) Entitlement Grants provides treatment to eligible people who have been assessed as in need of treatment for chemical abuse or dependency. CD treatment services are provided to eligible individuals who have established a clinical need of care and a financial need for assistance, unless the needed services are to be provided by a managed care organization in which the person is enrolled. CD treatment provides residential and outpatient addiction services. Funding for CD treatment is a joint responsibility of the state, counties, and tribes.

CD entitlement grants expenditures are forecasted to be $236 million in FY 2012-13, up $44 million or 23 percent from the current biennium. The main cost driver is an increasing number of placements, which are expected to rise by 14 percent (approximately 8,100 individuals). This coupled with a slight increase (4 percent) in the average placement costs and a minor uptick in administration costs for counties adds $50.3 million to this program's spending in FY 2012-13. These increases are offset by higher revenue and collections, which consist of the county share and federal match for Medical Assistance-eligible recipients—both of which rise (and fall) in tandem with program payments.

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DEPARTMENT OF HUMAN SERVICES

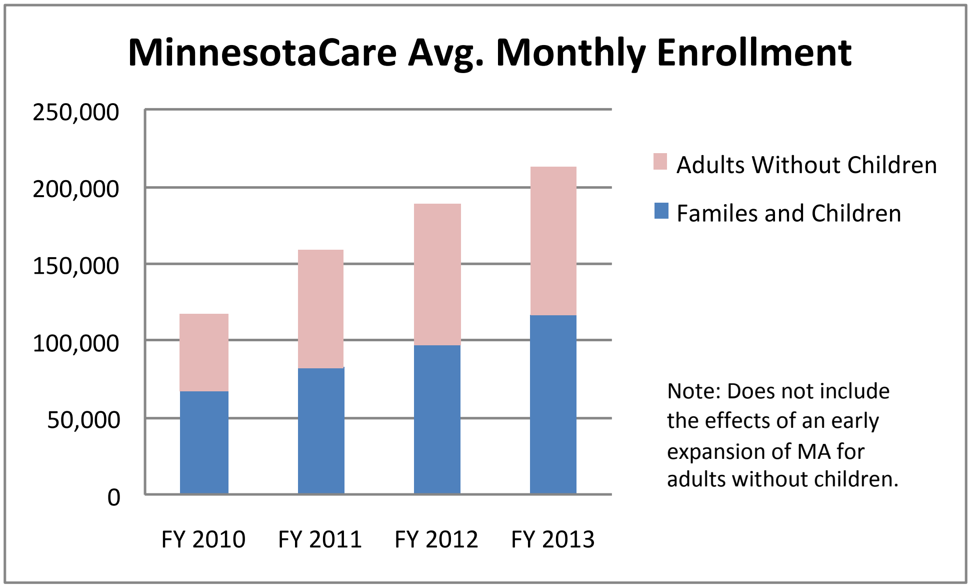
MinnesotaCare

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
Health Care Access Fund (HCAF)	$1,032,153	$1,760,137	70.5%
HCAF – MA Early Expansion	($137,192)	($889,856)	
HCAF - Net MA Expansion (Reflects Adults Without Children Transitioned to MA)	**$894,961**	**$870,281**	**(2.8%)**
Special Revenue Fund	**$59,083**	**$81,135**	**37.3%**

MinnesotaCare baseline spending is estimated to reach $1.7 billion in FY 2012-13, up 71 percent over FY 2010-11. However, as of the November 2010 forecast, savings of $137 million in FY 2011 and $891 million in FY 2012-13 is estimated to occur in MinnesotaCare given an early expansion of Medical Assistance for adults without children. The federal Patient Protection and Affordable Care Act of 2010 allows Minnesota to begin receiving federal Medicaid matching funds for covering adults without children in the Medical Assistance program. The MinnesotaCare program currently serves approximately 13,000 average monthly enrollees in FY 2011 and 52,000 average monthly enrollees in FY 2012 and FY 2013 who will be newly eligible for MA under this provision. MinnesotaCare savings are expected to occur when this population transitions to MA and the state share of their coverage is subsequently funded from the general fund. Assuming the early expansion of MA, there is actually an estimated biennial decrease in MinnesotaCare expenditures of 2.8 percent. (November forecast estimates assumed an effective date for the MA expansion of January 1, 2001; savings will depend on the actual implementation date of the program.)

Recent increasing growth in MinnesotaCare enrollment of adults without children is primarily related to the end of the Transitional MinnesotaCare program, formerly a bridge program for those on General Assistance Medical Care, moving to MinnesotaCare. Also in the 2010 legislative session, the General Assistance Medical Care program was redesigned from an entitlement program to a capped program, limiting the number of adults without children receiving coverage under this program. After these recent changes in law, enrollment in MinnesotaCare through the counties has increased much faster than previously expected. Growth in MinnesotaCare is also driven by an expected 42 percent increase in families and children average monthly enrollment between FY 2010-11 and FY 2012-13. Recent data reflects that individuals in this group are remaining on the program longer and increased applications from the counties have added participants to the program. Future enrollment increases are also driven by eligibility expansions primarily affecting children that are scheduled to begin in 2012, assuming federal approval.

The 37 percent increase in the special revenue fund is from premium revenues collected from MinnesotaCare recipients, which is dedicated to the cost of the MinnesotaCare program. Premiums are primarily paid by groups in higher income categories than the adults without children affected by the early expansion of MA.



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DEPARTMENT OF HUMAN SERVICES

Aging & Adult Services Grants

Expenditures ($000s)	**2010-2011**	**2012-2013**	**% Change FY 12-13 vs. FY 10-11**
General Fund	$21,313	$44,844	110.4%

Aging and Adult Services Grants provide non-medical social services and supports for older Minnesotans and their families to enable them to stay in their own homes and avoid placement in nursing homes or other residential settings. To be eligible for most of the services paid through these grants, people must be age 60 or older. Although not means-tested, services are targeted to people with the greatest social and economic needs.

Spending in this program will increase by $22.3 million (110 percent) in the 2012-13 biennium. Two law changes enacted during the 2009 session account for this increase. The largest portion of this growth relates to increased funding for Essential Community Service Grants, which takes effect January 1, 2011. These grants provide up to $400 annually to individuals who require fewer than four *activities of daily living*. Examples of *activities of daily living* include (but are not limited to) assistance with bathing, eating, or changing one's clothes. These grants are intended to help offset an eligibility change in Medical Assistance that increased the coverage threshold from one *activity of daily living* to four effective January 2011.

The other law change created a new grant program called Return to Community Grants. Effective January 2011, these grants provide support for individuals who move into community-based living arrangements from nursing facilities. These grants purchase supports for residents returning to the community such as assessment, care planning, service coordination, placement, and ongoing monitoring of care in the community. Increased spending in this budget activity is offset by savings in the Medical Assistance Long Term Care Facilities Grants area, as individuals move from higher cost institutional care to lower cost community-based settings.

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DEPARTMENT OF NATURAL RESOURCES

Lands and Minerals Program

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$7,463	$59,287	694.4%

The general fund expenditure growth in DNR's lands and minerals program is due to the Payment in Lieu of Taxes (PILT) program. PILT are state payments to local governments intended to offset losses in property taxes due to non-taxable state lands within their boundaries. DNR receives an open appropriation for PILT, which means it is included in the agency's FY 2012-13 budget. However, DNR does not actually spend PILT money, and does not show it as expenditure in previous fiscal years. This gives the impression that the lands and mineral's general fund spending is increasing 700% between FY 2010-11 and FY 2012-13. However, when PILT payments are removed from the land and minerals program's FY 2012-13 budget, their general fund expenditure is expected to actually decrease 20%, from $7,447 thousand in FY 2010-11 to $5,964 in FY 2012-13.

The PILT program itself is expected to grow 19%, from $43 million in FY 2010-11 to $53 million in FY 2012-13. This projected increase is due, in part, to an upcoming land reappraisal. Beginning in 1995, the legislature tied PILT payments to the land's appraised value, with reappraisals conducted every five years. The appraisals have increased PILT payments each time they have been conducted. Inflation adjustments added to PILT in 2000 and any additional land acquisitions may also add to PILT payments in FY 2012-13.

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METROPOLITAN COUNCIL

Transit

Expenditures ($000s)	**2010-2011**	**2012-2013**	**% Change FY 12-13 vs. FY 10-11**
Transit Assistance Fund	$310,231	$405,216	30.6%

The Metropolitan Council operates the metropolitan transit system, which includes bus, light rail, and commuter rail systems. State funding for the metro area transit program has traditionally come from the general fund, but when the legislature dedicated the sales tax from the sale of motor vehicles in 2007, it allocated an increasing percent of this revenue to the Metropolitan Council.

The table below shows how the MVST funds are allocated over the five year transition period. The increase from the current biennium to the next identified above is the result of the increased portion of total MVST dedicated to the Metropolitan Council.

It should be noted that as the MVST funding has increased, the legislature has decreased the Council's general fund appropriation. In the 2010-2011 biennium the general fund appropriation was $133.8 million, and for the 2011-2012 biennium, it will be reduced to $88 million.

Phase-In of Motor Vehicle Sales Tax (MVST)
(allocation changes over time)

	2008	**2009**	**2010**	**2011**	**2012**
HUTDF	38.25%	44.25%	47.50%	54.50%	60.00%
MetC	24.00%	27.75%	31.50%	35.25%	36.00%
GM Transit	1.50%	1.75%	4.75%	4.00%	4.00%
Gen. Fund	36.25%	26.25%	16.25%	6.25%	0.00%

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MINNESOTA MANAGEMENT & BUDGET

Statewide Insurance Programs

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
State Employees Insurance Fund	$1,415,173	$1,662,888	17.5%

As the fund for state employee health care benefits, expenditures from the States Employee Insurance Fund are projected to rise 17.5 percent in the next biennium. While the health program for state employees continues to operate below local and national medical trends, medical inflation continues to put pressure on the program and is the primary reason for the expenditure increase. In its annual Behind the Numbers: Medical Costs Trends for 2011 report, PricewaterhouseCoopers said that U.S. employers can expect medical costs to increase by 9 percent in 2011. While the State Employee Group Insurance Plan (SEGIP) continues to innovate in plan design and program features, larger medical cost trends outside the scope of the program continue to be the largest cost drivers in health care. Much of the increase can be found in key areas of the health care system: cost shifting from Medicare to private payers and employers; the increasing consolidation of providers, giving providers greater bargaining power with health plans; increased spending by hospitals for electronic health record (EHR) systems; and changes to health care as mandated by state and federal law. While some of these changes may bring cost savings in future years, the changes are largely expected to increase short term costs for health plans.

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MINNESOTA MANAGEMENT & BUDGET

Debt Service Transfer

Expenditures ($000s)	2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
General Fund	$830,388	$1,159,094	39.6%

Debt service payments on general obligation (GO) bonds must be transferred from the state's general fund. These transfers are projected to grow rapidly in the next biennium as depicted in the table above.

In producing debt service cost estimates for GO bonds, MMB factors in three specific categories of GO bonds:

- bonds that have already been authorized and sold,
- bonds that have been authorized but will be sold in the future, and
- bonds that will be both authorized and sold in the future.

For the first group, interest rates charged, premiums received and repayment terms are set. For the other two groups, assumptions must be made about size and timing of GO bond sales, interest rates charged, and bond premiums received.
The debt service transfer to pay for GO bonds is anticipated to grow rapidly in the next few years for four primary reasons:

- bond authorizations in recent years have been greater than forecasted,
- the state now anticipates higher interest costs on future bond sales,
- the state also anticipates a reduction in premiums received on future in bond sales, and
- the state does not foresee any additional refunding bond opportunities.

Other factors such as project timing, bond sale timing issues of how much and when to sell, and interest earnings on balances in the debt service and bond proceeds funds, and account balances also have an impact, but only the four above will be discussed below.

Future GO bond authorizations are estimated by looking at the most recent ten-year history of bond authorizations. In November of 2007, the on-going biennial GO bond authorization assumption was $765 million. By the November 2010 forecast that number had grown by 21.6% to $915 million.

Another primary factor driving debt service estimates is interest rate assumptions. Recent history shows the state selling its GO bonds between 3.3% and 3.5%. With the turmoil and uncertainty in the credit markets, MMB projects that beginning in FY 2013, interest rates associated with GO bond sales will exceed 4.2 %. This expectation of increased interest rates also drives up the estimated cost of future debt service.

The third factor – premiums – is related to interest rates. Premiums are received on bond sales when interest rates are lower than five percent. When bonds carry a coupon rate (interest rate) of less than 5%, they are less attractive to investors. In these cases, the state is offered bond premiums – upfront payments representing prepaid interest. Investment banks paying premiums make their offering more attractive to the market. In recent bond sales, the state of Minnesota has been the beneficiary of significant bond premiums, which by law are directed to the debt service account. Bond premiums going toward debt service reduce the amount of general fund money needed to pay debt service. With future state GO bond offerings receiving higher interest rates, the resulting premiums are greatly reduced for the expected bond sales beginning in FY 2012 and beyond. The impact of this lost revenue will increase the amount required from the general fund for debt service payments.

The final driving factor is related to sale of refunding bonds to reduce future debt service expenditures. Over the last several years the state has maximized its savings of potential refunding bonds. We do not anticipate additional refunding bond opportunities in the foreseeable future. The impact of this loss of refunding savings will increase the amount required from the general fund for debt service payments.

Debt Service Cost Factors ($000's)

Fiscal Year	General Fund Bond Authorizations	Biennial Total	% Change	Debt Service Transfer	Biennial Total	% Change	Bond Interest Rate	Premium Received	Biennial Total	% Change	Biennial Refunding Savings
2004	0			265,706			4.0%	22,036			
2005	885,892	885,892	17%	323,453	589,159	-22%	3.9%	33,918	55,954	8.1%	56,547
2006	948,637			352,447			3.8%	23,902			
2007	56,255	1,004,892	13%	399,651	752,098	28%	4.1%	35,335	59,237	5.9%	16,303
2008	882,500			409,276			4.3%	42,261			
2009	227,765	1,110,265	10%	452,855	862,131	15%	3.5%	16,410	58,671	-1.0%	22,716
2010	732,139			429,123			3.3%	99,293			
2011	140,000	872,139	-21%	401,265	830,388	-4%	3.2%	88,679	187,972	220.4%	135,527
2012	775,000			573,020			3.3%	44,840			
2013	140,000	915,000	5%	586,074	1,159,094	40%	4.2%	93,389	138,229	-26.5%	0

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MINNESOTA MANAGEMENT & BUDGET AND DEPARTMENT OF REVENUE

Debt Service (on other than State GO Bonds)

- Capital Projects (MMB)
- State Accounting System Replacement (MMB)
- Integrated Tax System Project (DOR)

Expenditures ($000s)		2010-2011	2012-2013	% Change FY 12-13 vs. FY 10-11
Capital Projects	General Fund	$22,898	$45,219	97.5%
State Accounting System Replacement	General Fund	$5,892	$17,937	204.4%
Integrated Tax System Project	General Fund	$1,419	$4,502	217.3%

Capital project appropriations are general fund appropriations or transfers that are used to support bonds sold by entities other than Minnesota Management and Budget. Three separate capital projects are supported this way.

- TCF stadium where the University of Minnesota sold the bonds, but the state general fund supplies additional appropriations identified in statute to support the debt service on those bonds. There is no growth in that expenditure which continues at $20.5 million per biennium.
- The University of Minnesota Bioscience Authority, where the University sells the bonds but the state provides specific debt service, identified in statute, to help support the debt service on those bonds. This appropriation grows from $0 in FY 2010-11 (delay in cash need) to $19.9 million in FY 2012-13 and it will continue to grow in FY 2014-15.
- The Housing Finance Agency has the authority to sell its own bonds that are not bound by all of the regulations of state GO bonds. This makes it easier and cheaper for them to implement certain housing projects. Again, the state general fund provides specific debt service, identified in statute, to help support the debt service on those bonds. Activity in this program grows from $2.4 million in FY 2010-11 to $4.8 million in FY2012-13, a 100 percent increase. This program is expected to stabilize going forward.

In order to spread out the high up-front cost for technology system development, the state recently funded two major system projects using technology development lease purchase financing authorized in M.S. 16A.81. These two projects are:

- The replacement of the statewide accounting and procurement system at MMB. Appropriations for this activity are growing from $5.9 million in FY 2010-11 to $18.0 million in FY 2012-13, a 204.4 percent increase, because the debt service payments were structured to be lower in the first biennium (FY 2010-11), and then be level in the remaining biennia (FY 2012-13 through FY 2018-19).

- The completion of the Integrated Tax System project at Department of Revenue. Appropriations for this activity are growing from $1.4 million in FY 2010-11 to $4.5 million in FY 2012-13, a 217.3 percent increase, because the debt service payments were structured to be lower in the first biennium (FY 2010-11), and then be level in the remaining biennia (FY 2012-13 through FY 2018-19).

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Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13		Additional Comments
Local Aids and Credits ($000s)												
RENTERS CREDIT	REV COLLECT & LOCAL GOVT AID	GENERAL	185,800	145,200	331,000	199,900	203,100	403,000	72,000	21.8%	One-time Cut Driven	The underlying growth in this program is $19.7 million or 5.1%. The remaining growth is due to one-time FY 2011 cuts reverting back to previous levels in FY 2012 and beyond.
AID TO LOCAL GOVERNMENT	REV COLLECT & LOCAL GOVT AID	GENERAL	481,479	426,438	907,917	527,101	527,101	1,054,202	146,285	16.1%	One-time Cut Driven	Growth in this program is due to one-time cuts in FY 2011 partially reverting back to previous levels in FY 2012 and beyond.
DISPARITY REDUCTION AID	OTHER GENERAL EDUCATION	GENERAL	6,567	7,693	14,260	9,552	7,966	17,518	3,258	22.8%	School Shift Driven	The underlying growth in this program is $25,000 or 0.2% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
BORDER CITY CREDIT	OTHER GENERAL EDUCATION	GENERAL	811	900	1,711	1,188	1,019	2,207	496	29.0%	School Shift Driven	The underlying growth in this program is $117,000 or 6.1% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
RESIDENTIAL HMSTD MV CREDIT	OTHER GENERAL EDUCATION	GENERAL	45,175	55,429	100,604	68,241	56,860	125,101	24,497	24.3%	School Shift Driven	There is no underlying growth in this program. The 24.35% growth is entirely due to the Aid Payment Shift repayment.
RESIDENTIAL HMSTD MV CREDIT	REV COLLECT & LOCAL GOVT AID	GENERAL	193,313	95,573	288,886	196,681	198,547	395,228	106,342	36.8%	One-time Cut Driven	The underlying growth in this program is $9.1 million or 2.4%. The remaining growth is due to one-time FY 2011 cuts reverting back to previous levels in FY 2012 and beyond.
AGRIC HMSTD MV CREDIT	OTHER GENERAL EDUCATION	GENERAL	4,683	5,349	10,032	6,555	5,459	12,014	1,982	19.8%	School Shift Driven	There is no underlying growth in this program. The 19.8% growth is entirely due to the Aid Payment Shift repayment.
SENIOR DEFERRAL REPLACEMENT	REV COLLECT & LOCAL GOVT AID	GENERAL	647	838	1485	1048	1310	2358	873	58.8%		Growth is due to increased participation rates in the program.
REPLACEMENT TACONITE PRODUCTION TAX	REV COLLECT & LOCAL GOVT AID	GENERAL	4409	6750	11159	6590	7545	14135	2976	26.7%		Spending in this program was abnormally low in FY 2010 resulting from a very low taconite production that year. Growth in the current year is due to taconite production returning to normal levels.
POLITICAL CONTRIBUTION REFUNDS	REV COLLECT & LOCAL GOVT AID	GENERAL	1,720	0	1,720	5,400	6,400	11,800	10,080	586.0%	One-time Cut Driven	There is no underlying growth in this program. Growth in this program is due to one-time cuts in FY 2010 and 2011 reverting back to previous levels in FY 2012 and beyond.

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13		Additional Comments
E-12 Education ($000s)												
DEPT OF EDUCATION	NONPUBLIC PUPIL	GENERAL	13,023	16,256	29,279	20,602	17,580	38,182	8,903	30.4%	School Shift Driven	The underlying growth in this program is $1,588,000 or 4.8% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	NONPUBLIC TRANSPORTATION	GENERAL	17,198	19,681	36,879	24,358	20,509	44,867	7,988	21.7%	School Shift Driven	The underlying growth in this program is $43,000 or 0.1% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	ABATEMENT REVENUE	GENERAL	1,000	1,127	2,127	1,334	1,121	2,455	328	15.4%	School Shift Driven	This program has an underlying reduction of $112,000 or 4.8% of the entitlement. The growth is entirely due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	INTEGRATION REVENUE	GENERAL	50,263	61,387	111,650	79,014	67,585	146,599	34,949	31.3%	School Shift Driven	The underlying growth in this program is about $9 million or 7.2% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	TRIBAL CONTRACT SCHOOLS	GENERAL	1,546	1,900	3,446	2,506	2,198	4,704	1,258	36.5%	School Shift Driven	The underlying growth in this program is $469,000 or 12.2% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	SUCCESS FOR THE FUTURE	GENERAL	1,766	2,072	3,838	2,565	2,137	4,702	864	22.5%	School Shift Driven	There is no underlying growth in this program. The 22.5% growth is entirely due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	SPECIAL ED - EXCESS COST	GENERAL	96,926	108,410	205,336	129,252	116,076	245,328	39,992	19.5%	School Shift Driven	The underlying growth in this program is about $9.3 million or 4.2% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	ALTERNATIVE FACILITIES	GENERAL	16,008	18,708	34,716	23,143	19,286	42,429	7,713	22.2%	School Shift Driven	There is no underlying growth in this program. The 22.2% growth is entirely due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	DEFERRED MAINTENANCE	GENERAL	1,950	2,179	4,129	2,954	2,552	5,506	1,377	33.3%	School Shift Driven	The underlying growth in this program is $562,000 or 12.4% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	BASIC SUPPORT	GENERAL	11,264	13,162	24,426	16,284	13,570	29,854	5,428	22.2%	School Shift Driven	There is no underlying growth in this program. The 22.2% growth is entirely due to the Aid Payment Shift repayment.

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13		Additional Comments
E-12 Education (Cont.) ($000s)												
DEPT OF EDUCATION	REG LIBRARY TELECOMMUNICATION	GENERAL	1,909	2,231	4,140	2,760	2,300	5,060	920	22.2%	School Shift Driven	There is no underlying growth in this program. The 22.2% growth is entirely due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	MULTICOUNTY MULTITYPE	GENERAL	1,079	1,261	2,340	1,560	1,300	2,860	520	22.2%	School Shift Driven	There is no underlying growth in this program. The 22.2% growth is entirely due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	EARLY CHILD FAMILY ED	GENERAL	19,005	21,453	40,458	27,118	23,168	50,286	9,828	24.3%	School Shift Driven	The underlying growth in this program is $1,849,000 or 4.2% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	SCHOOL READINESS	GENERAL	8,373	9,792	18,165	12,114	10,095	22,209	4,044	22.3%	School Shift Driven	There is no underlying growth in this program. The 22.3% growth is entirely due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	HEALTH & DEVELOPMENTAL SCREEN	GENERAL	2,922	3,477	6,399	4,358	3,627	7,985	1,586	24.8%	School Shift Driven	The underlying growth in this program is $145,000 or 2.0% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	ADULTS W DISABILITIES	GENERAL	588	688	1,276	852	710	1,562	286	22.4%	School Shift Driven	There is no underlying growth in this program. The 22.4% growth is entirely due to the Aid Payment Shift repayment.
DEPT OF EDUCATION	ADULT BASIC EDUCATION	GENERAL	35,671	42,829	78,500	54,537	46,981	101,518	23,018	29.3%	School Shift Driven	The underlying growth in this program is $5,186 or 5.91% of the entitlement. The remaining growth is due to the Aid Payment Shift repayment.
PERPICH CENTER FOR ARTS EDUC	CENTER FOR ARTS EDUC	MISCELLA-NEOUS SPECIAL REVENUE	652	934	1,586	963	957	1,920	334	21.1%		The increase is primarily due to a budgeted increase in Residential Dorm fees starting in FY 2012.

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13		Additional Comments
Health and Human Services ($000s)												
HUMAN SERVICES DEPT	MFIP CHILD CARE ASSISTANCE GR	GENERAL	53,339	44,943	98,282	70,147	68,274	138,421	40,139	40.8%	ARRA Replacement Driven	This increase is largely explained by changes in the 2009 and 2010 legislative sessions that replaced general fund expenditures with TANF federal stimulus funds to achieve one-time savings in FY 2010-11. Total state and federal costs for this program are expected to increase by less than 2% in FY 2012-13.
HUMAN SERVICES DEPT	CHILDREN & COMMUNITY SERVICES	GENERAL	50,763	49,292	100,055	64,301	64,301	128,602	28,547	28.5%	One-time Cut Driven	There is no underlying growth in this activity. One-time reductions in FY 2010-11 cause this biennial difference.
HUMAN SERVICES DEPT	BSF CHILD CARE ASSIST GRANTS	GENERAL	40,100	37,592	77,692	44,835	44,835	89,670	11,978	15.4%	ARRA Replacement Driven	There is little underlying growth in this area. Shifting expenditures to federal stimulus funds account for biennial differences.
HUMAN SERVICES DEPT	CHILD SUPPORT ENFORCEMENT GR	GENERAL	300	2,106	2,406	3,405	3,405	6,810	4,404	183.0%	One-time Cut Driven	There is no underlying growth in this program. One-time reductions totaled $4.6 million in FY 2010-11. Funding returns to base level in FY 2012.
HUMAN SERVICES DEPT	MINNESOTA SECURITY HOSPITAL	GENERAL	6,944	69,718	76,662	69,582	69,582	139,164	62,502	81.5%	ARRA Replacement Driven	When ARRA replacement funds of $76.7 million are added to the FY 10-11 biennium, this program declines about 9% in the FY 12-13 biennium. This is due to the restructuring of state operated services for mentally ill persons, which is expected to lead to lower costs in the FY 12-13 biennium.
HUMAN SERVICES DEPT	SEX OFFENDER PROGRAM	GENERAL	31,952	70,165	102,117	67,570	67,570	135,140	33,023	32.3%	ARRA Replacement Driven	When ARRA replacement funds of $26.5 million are added to the FY 10-11 appropriations, the biennial increase is about 5%. The sex offender population served by this program continues to grow.
HUMAN SERVICES DEPT	CHEMICAL & MENTAL HEALTH	MISCELLA-NEOUS SPECIAL REVENUE	645	2,150	2,795	2,102	2,401	4,503	1,708	61.1%		Increased expenditures relate to new responsibilities for reforming rates and conducting family drug surveys.

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13	Additional Comments
Health and Human Services (Cont.) ($000s)											
HUMAN SERVICES DEPT	MFIP/DWP GRANTS	MISCELLA-NEOUS SPECIAL REVENUE	1,172	3,100	4,272	3,100	3,100	6,200	1,928	45.1%	There is no underlying growth in this area. The differences are caused by actual recoveries being lower than estimated in FY10.
HEALTH DEPT	COMMUNITY & FAMILY HLTH PROMO	GENERAL	34,645	32,254	66,899	42,617	37,920	80,537	13,638	20.4%	The 2009 Laws shifted a portion of the FY 2011 funding for Local Public Health grants into FY 2012 and increased funding for FY 2013 by $5 million.
HEALTH DEPT	COMPLIANCE MONITORING	GENERAL	2,338	5,205	7,543	10,998	10,998	21,996	14,453	191.6%	Biennial increases are caused by additional funding for Federally Qualified Health Centers authorized in Laws of 2008. This activity was funded out of the Health Care Access Fund in FY 2010-11 and moves to the General Fund in FY 2012.
HEALTH DEPT	ADMINISTRATIVE SERVICES	GENERAL	5,648	6,137	11,785	7,703	7,751	15,454	3,669	31.1%	There is no underlying growth in this program. Increases relate to allowable internal reallocation of programs.
HEALTH DEPT	HEALTH POLICY	MISCELLA-NEOUS SPECIAL REVENUE	3,699	3,590	7,289	11,771	11,771	23,542	16,253	223.0%	There is no underlying growth in this program. The biennial change relates to technical difference of how transfers show in budget system compared to accounting system.
HEALTH DEPT	COMPLIANCE MONITORING	STATE GOVERN-MENT SPEC REVENUE	6,111	9,128	15,239	9,685	9,649	19,334	4,095	26.9%	There is no underlying growth in this program. The biennial change relates to technical difference of how transfers show in budget system compared to accounting system.
MEDICAL PRACTICE BOARD	MEDICAL PRACTICE, BOARD OF	STATE GOVERN-MENT SPEC REVENUE	2,451	3,707	6,158	3,722	3,722	7,444	1,286	20.9%	This is a combination of a lower Attorney General bill than originally anticipated and balance forward of funds from the first year to the second year of the FY 10-11 biennium.

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13	Additional Comments
Agriculture, Environment, Natural Resources and Economic Development ($000s)											
AGRICULTURE DEPT	ADMIN & FINANCIAL ASSIST	AGRICULTU RE FUND	237	257	494	802	802	1,604	1,110	224.7%	Statute sets the base for grants for fertilizer research at $800,000, but the actual amount appropriated must not exceed 57% of the inspection fee revenue in the fertilizer account. Thus, amounts much lower than $800,000 were appropriated in 2010 and 2011.
AGRICULTURE DEPT	PROMOTION & MARKETING	CLEAN WATER REVOLVING FUND	2,246	5,105	7,351	5,105	5,105	10,210	2,859	38.9%	MDA received $1 million of the PFA's federal clean water grant from the EPA in 2010 for its revolving Ag loans to farmers. It did not previously receive this funding. MDA intends to carry forward unused funds to be granted in the out years.
PUBLIC FACILITIES AUTHORITY	PUBLIC FACILITIES AUTHORITY	DRINKING WATER REVOLVING FUND	57,227	127,037	184,264	110,514	109,989	220,503	36,239	19.7%	PFA is budgeting for increases in loan disbursements, and debt service costs. Increases in federal funds for the drinking water grant program are budgeted for FY 2012-13 based on higher than usual federal funding in FY 2011.
POLLUTION CONTROL AGENCY	LAND	GENERAL	0	0	0	435	435	870	870	N/A	There is no underlying growth in this program. MPCA's land program receives a pass-through appropriation for the Department of Health to support environmental health monitoring. The Department of Health reports this expenditure in the current and past fiscal years, but it is included in MPCA's budget for FY 2012-13.
WATER & SOIL RESOURCES BOARD	RESOURCE PROTECTION RULES/LAWS	GENERAL	2,402	2,018	4,420	5,327	5,327	10,654	6,234	141.0%	This expenditure growth is due to a coding issue, rather than actual program growth. BWSR changed its program structure for FY 2012-13, and appropriations are assigned to different programs across the biennia.

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13		Additional Comments
Agriculture, Environment, Natural Resources and Economic Development (Cont.) ($000s)												
AGRICULTURE DEPT	VALUE-ADDED PRODUCTS	GENERAL	9,948	9,948	19,896	14,718	14,718	29,436	9,540	47.9%	One-time Cut Driven	The growth in this program is due to one-time cuts in FY 2010 and FY 2011 to ethanol producer payments, reverting back to previous levels in FY 2012 and beyond.
HOUSING FINANCE AGENCY	DEVELOPMENT AND REDEVELOPMENT	GENERAL	0	0	0	9,393	9,393	18,786	18,786	N/A		Technical accounting issue- Minnesota Housing receives general fund appropriations that are transferred at the beginning of the fiscal year and spent in the housing development fund throughout the fiscal year.
HOUSING FINANCE AGENCY	HOMELESS PREVENT AND SUPPORTIV	GENERAL	0	0	0	18,658	18,658	37,316	37,316	N/A		Technical accounting issue- Minnesota Housing receives general fund appropriations that are transferred at the beginning of the fiscal year and spent in the housing development fund throughout the fiscal year.
HOUSING FINANCE AGENCY	HOMEOWNERSHIP ASSISTANCE	GENERAL	0	0	0	885	885	1,770	1,770	N/A		Technical accounting issue- Minnesota Housing receives general fund appropriations that are transferred at the beginning of the fiscal year and spent in the housing development fund throughout the fiscal year.
HOUSING FINANCE AGENCY	PRESERVATION	GENERAL	0	0	0	10,577	10,577	21,154	21,154	N/A		Technical accounting issue- Minnesota Housing receives general fund appropriations that are transferred at the beginning of the fiscal year and spent in the housing development fund throughout the fiscal year.
HOUSING FINANCE AGENCY	RESIDENT AND ORGANIZATION SUPP	GENERAL	0	0	0	1,115	1,115	2,230	2,230	N/A		Technical accounting issue- Minnesota Housing receives general fund appropriations that are transferred at the beginning of the fiscal year and spent in the housing development fund throughout the fiscal year.

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13	Additional Comments
Agriculture, Environment, Natural Resources and Economic Development (Cont.) ($000s)											
COSMETOLOGIST EXAMINERS BOARD	COSMETOLOGY	GENERAL	550	1,187	1,737	1,046	1,046	2,092	355	20.4%	2010 legislation increased licensure fees and appropriated an additional $395,000 each year starting in FY 2011
HISTORICAL SOCIETY	HISTORIC PRESERVATION	GENERAL	0	548	548	4,526	5,772	10,298	9,750	1779.2%	2010 legislation enacted the historic structure rehabilitation tax credit and grant program. The Historical Society received an open appropriation to fund all grant payments; therefore, the increases are due to the Society's estimates of future grant expenditures.
IRON RANGE RESOURCES & REHAB	ADMINISTRATIVE SERVICES	IRON RANGE RESOURCES & REHAB	1,528	2,084	3,612	2,084	2,084	4,168	556	15.4%	IRR has budgeted for several improvements to their Eveleth Office building. Other increases include statewide indirect costs and new VoIP system for Giants Ridge
IRON RANGE RESOURCES & REHAB	PASS-THROUGH FUNDING	IRON RANGE RESOURCES & REHAB	8,694	4,029	12,723	11,504	11,504	23,008	10,285	80.8%	Due to increases in the taconite production for 2010-11 production years (FY 2012-13), IRR will receive additional resources for the Taconite Economic Development Fund (TEDF) pursuant to M.S. 298.28, subdivision 9a.
IRON RANGE RESOURCES & REHAB	COMMUNITY DEVELOPMENT	IRON RANGE RESOURCES & REHAB	359	511	870	989	989	1,978	1,108	127.4%	Technical accounting issue- the budget for Mining and Mineland Reclamation program changed from IRR's business development program to their community development program
WATER & SOIL RESOURCES BOARD	RESOURCE PROTECTION RULES/LAWS	MISCELLANEOUS SPECIAL REVENUE	16	4,747	4,763	3,862	3,862	7,724	2,961	62.2%	This expenditure growth is due to a coding issue, rather than actual program growth. BWSR changed its program structure for FY 2012-13, and appropriations are assigned to different programs across the biennia.
WATER & SOIL RESOURCES BOARD	BOARD ADMIN & AGENCY OPS	MISCELLANEOUS SPECIAL REVENUE	288	43	331	527	527	1,054	723	218.4%	This expenditure growth is due to a coding issue, rather than actual program growth. BWSR changed its program structure for FY 2012-13, and appropriations are assigned to different programs across the biennia.

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13	Additional Comments
Agriculture, Environment, Natural Resources and Economic Development (Cont.) ($000s)											
AGRICULTURE DEPT	PROTECTION SERVICE	MISCELLANEOUS SPECIAL REVENUE	685	1,057	1,742	1,023	988	2,011	269	15.4%	Activity levels increased between FY 2010 and FY 2011 and are then projected to be relatively level through the end of the FY 2012-13 biennium.
EMPLOYMENT AND ECONOMIC DEVEL	UNEMPLOYMENT INSURANCE	MISCELLANEOUS SPECIAL REVENUE	713	1,562	2,275	7,350	7,350	14,700	12,425	546.2%	2009 legislation required all unemployment insurance FY 2010-11 revenue related to penalties and interest to be transferred to the workforce development fund and general fund. These transfers were one-time.
COMMERCE DEPT	ADMINISTRATIVE SERVICES	MISCELLANEOUS SPECIAL REVENUE	972	1,010	1,982	1,210	1,210	2,420	438	22.1%	Increase in FY 2012-13 is due to the funding of an additional 3 FTE from Commerce's indirect cost account.
NATURAL RESOURCES DEPT	FISH AND WILDLIFE MANAGEMENT	REINVEST IN MINNESOTA	2,590	2,229	4,819	3,478	3,479	6,957	2,138	44.4%	The Reinvest In Minnesota (RIM) fund at DNR receives two sources of funding: charitable gifts and RIM license plate sales revenue. Increases in this program are due to charitable gifts carried forward from the previous year and projected license plate sales.
Transportation and Transit ($000s)											
TRANSPORTATION DEPT	LOCAL ROADS	COUNTY STATE AID HIGHWAY	458,989	544,498	1,003,487	587,971	604,793	1,192,764	189,277	18.9%	The apparent growth is due to how transfers between funds are incorporated into this report, but it is not related to underlying expenditure changes

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13	Additional Comments
State Government ($000s)											
ENTERPRISE TECHNOLOGY OFFICE	TECHNOLOGY DEVELOPMENT	ENTERPRISE TECHNOLOGIES	2,778	16,211	18,989	15,897	16,362	32,259	13,270	69.9%	The increase shown reflects a technical issue due to a reorganization of the agency.
ENTERPRISE TECHNOLOGY OFFICE	SECURITY MANAGEMENT	ENTERPRISE TECHNOLOGIES	2,337	2,395	4,732	3,352	2,898	6,250	1,518	32.1%	The increase shown reflects a technical issue due to a reorganization of the agency.
ENTERPRISE TECHNOLOGY OFFICE	CUSTOMER & SERVICE MANAGEMENT	ENTERPRISE TECHNOLOGIES	806	7,450	8,256	7,271	7,447	14,718	6,462	78.3%	The increase shown reflects a technical issue due to a reorganization of the agency.
CAMPAIGN FIN & PUB DISCL BD	CAMPAIGN FINANCE & PUBL DISC	GENERAL	677	782	1,459	875	3,280	4,155	2,696	184.8%	The apparent growth is due to how transfers between funds are incorporated into this report, but it is not related to underlying expenditure changes.
MPLS PENSIONS/ RETIREMENT	MPLS EMPLOYEE RETIREMENT	GENERAL	9,000	9,000	18,000	22,750	22,750	45,500	27,500	152.8%	The 2010 legislature increased the annual direct aid appropriation to the Minneapolis Employee Retirement Fund (MERF) by $13.75 million beginning in FY 2012 to help pay off the fund's unfunded liability. The legislation also closed MERF and moved its administration to the Public Employee's Retirement Association (PERA).
ENTERPRISE TECHNOLOGY OFFICE	PLANNING & MANAGEMENT	MASTER LEASE	1,401	3,000	4,401	5,500	5,500	11,000	6,599	149.9%	Increased spending relates to projected increases in equipment purchase through the master lease program and projected increases in agency purchased services.
ADMINISTRATION DEPT	GOVT AND CITIZEN SERVICES	MASTER LEASE	5,903	10,600	16,503	10,600	10,600	21,200	4,697	28.5%	Spending estimates for FY 2012-13 based on FY 2011 demand for agency vehicles. Better estimates for FY 2012-13 will be available when the next demand survey is completed at the end of the FY.

State Government (Cont.)

($000s)

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13	Additional Comments
ADMINISTRATION DEPT	GOVT AND CITIZEN SERVICES	MATERIALS DISTRIBUTION	11,318	13,771	25,089	14,564	14,942	29,506	4,417	17.6%	Increases are based on expanded use of cooperative purchasing programs, which generates contract fees used to fund a mult-state pharmaceutical program and offset state procurement costs.
ATTORNEY GENERAL	ATTORNEY GENERAL	MISCELLANEOUS SPECIAL REVENUE	166	8,676	8,842	6,391	6,391	12,782	3,940	44.6%	Increase is a result of legislatively directed transfer of account from general fund to special revenue fund.
MINNESOTA MANAGEMENT & BUDGET	STATEWIDE SERVICES	MISCELLANEOUS SPECIAL REVENUE	6,613	7,421	14,034	11,684	12,114	23,798	9,764	69.6%	Projected increase in spending is related to contingent costs associated with maintaining the current statewide accounting system to complete fiscal year close and contingent costs which may arise with the new system.
MILITARY AFFAIRS DEPT	MAINT TRAINING FACILITIES	MISCELLANEOUS SPECIAL REVENUE	735	1,184	1,919	1,210	1,187	2,397	478	24.9%	DMA anticipates increased use of Camp Ripley to prepare troops for deployment. The main driver of these costs is the billet salaries for soldiers that are lodged at Camp Ripley and are responsible for maintaining the facilities.
MILITARY AFFAIRS DEPT	GENERAL SUPPORT	MISCELLANEOUS SPECIAL REVENUE	260	934	1,194	989	1,004	1,993	799	66.9%	Growth due to DMA budgeting $150,000 for the sale of armories each year, but very rarely does it sell one. Also, growth driven by expenditures that are based on estimated timber sale receipts. DMA enters into multi-year timber cutting contracts that are "prepaid" by the entity doing the harvesting. In some instances, DMA is required to reimburse the entity if they do not harvest as much as contracted.

Public Safety and Courts
($000s)

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13	Additional Comments
PUBLIC SAFETY DEPT	ADMIN & RELATED SERVICES	GENERAL	3,894	4,140	8,034	4,809	4,809	9,618	1,584	19.7%	The apparent growth is due to how transfers between funds are incorporated into this report, but it is not related to underlying expenditure changes
GUARDIAN AD LITEM BOARD	GAL	GENERAL	0	12,367	12,367	12,367	12,367	24,734	12,367	100.0%	The Guardian Ad Litem Board is a new agency created in FY 11, although funding was previously provided for the same activity within the trial courts. The expenditures are continued into the FY 12-13 biennium.
PUBLIC SAFETY DEPT	ADMIN & RELATED SERVICES	HIGHWAY USERS TAX DISTRIBUTION	47	71	118	1,385	1,385	2,770	2,652	2247.5%	The apparent growth is due to how transfers between funds are incorporated into this report, but it is not related to underlying expenditure changes
PUBLIC SAFETY DEPT	STATE PATROL	HIGHWAY USERS TAX DISTRIBUTION	78	285	363	785	785	1,570	1,207	332.5%	The increase reflects the new Vehicle Crimes Unit created by the 2010 legislature.
PUBLIC SAFETY DEPT	HOMELAND SECURITY & EMERG MGMT	MISCELLANEOUS SPECIAL REVENUE	3,359	4,448	7,807	5,069	5,048	10,117	2,310	29.6%	Increased federal training requirements will cause higer costs. DPS bills the utilities for actual costs.
PUBLIC SAFETY DEPT	FIRE MARSHAL	MISCELLANEOUS SPECIAL REVENUE	5,078	6,944	12,022	8,352	8,352	16,704	4,682	38.9%	The apparent growth is due to how transfers between funds are incorporated into this report, but it is not related to underlying expenditure changes
PUBLIC SAFETY DEPT	GAMBLING & ALCOHOL ENFORCEMENT	MISCELLANEOUS SPECIAL REVENUE	831	1,092	1,923	1,473	1,481	2,954	1,031	53.6%	$1 M of the apparent growth is due to how transfers between funds are incorporated into this report, but it is not related to underlying expenditure changes. Spending down $300K of a one-time forfeiture receipt and increased spending of dedicated receipts accounts for the rest.

Department	Program Name	Fund Name	2010 Actual	2011 Budgeted	2010-2011	2012 Base Budget	2013 Base Budget	2012-13	$ Change 10-11 to 12-13	Percent Change 10-11 to 12-13	Additional Comments
Public Safety and Courts (Cont.) ($000s)											
PUBLIC SAFETY DEPT	PIPELINE SAFETY	MISCELLANEOUS SPECIAL REVENUE	987	1,395	2,382	1,400	1,400	2,800	418	17.5%	Positions that were vacant in FY 2010 were filled in FY 2011. DPS bills out actual costs to regulated companies.
PUBLIC SAFETY DEPT	OFFICE OF JUSTICE PROGRAMS	MISCELLANEOUS SPECIAL REVENUE	614	1,241	1,855	1,154	1,118	2,272	417	22.5%	Spending in these accounts reflect increased restitution payments. These receipts are paid out to crime victims.
LEGAL PROFESSIONS BOARDS	LAWYERS BOARD	MISCELLANEOUS SPECIAL REVENUE	5,277	6,047	11,324	6,614	6,761	13,375	2,051	18.1%	The largest of the six boards included in this program, the Lawyers Professional Responsibility Board, is projecting a significant increase in its activities in the FY 2012-13 biennium.
TRIAL COURTS	TRIAL COURTS	MISCELLANEOUS SPECIAL REVENUE	527	686	1,213	731	739	1,470	257	21.2%	This category includes various miscellaneous revenues, such as convenience fees and inter-agency agreements for drug courts. Cumulatively, these expenditures are expected to increase more than 20% between the biennia.
GUARDIAN AD LITEM BOARD	GAL	MISCELLANEOUS SPECIAL REVENUE	0	1,614	1,614	1,215	1,100	2,315	701	43.4%	These are dedicated revenues collected to fund the Guardian Ad Litem Bd., newly created in FY 2011.
PUBLIC SAFETY DEPT	EMERGENCY COMM NETWORKS	STATE GOVERNMENT SPEC REVENUE	31,908	48,231	80,139	66,708	63,743	130,451	50,312	62.8%	The apparent growth is due to how transfers between funds are incorporated into this report, but it is not related to underlying expenditure changes.. A one-time approp of $10M for ARMER grants to local govt accounts for the rest.