

Fiscal Analysis Department
Minnesota House of Representatives



**A SUMMARY OF
THE FISCAL ACTIONS
OF THE
2010 LEGISLATURE**

Money Matters 10.06
October 2010

This paper provides a summary of 2010 legislation with fiscal implications. Part one is the summary section. Part two provides details organized according to the jurisdictions of the House of Representatives' fiscal committees and divisions.

The Overall Budget Picture 1

The Budget in Detail

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Overview - Budget Changes – 2010 Session

Background

The February 2010 general fund forecast projected a \$994.4 million budget deficit for the FY 2010-11 biennium. Dealing with this deficit was the focus early in the 2010 legislative session.

Also, the February 2010 forecast projected a \$5.789 billion deficit for the FY 2012-13 biennium. That projection includes no amount for general inflationary increases in program appropriations. The Legislature did not need to balance the FY 2012-13 budget in the 2010 session but any changes that reduced that deficit would reduce the FY 2012-13 budget problem facing the Legislature in the 2011 session.

After one vetoed bill legislation was enacted in late March (Chapter 200) to replace the general assistance medical care (GAMC) programⁱ. That bill had the effect of reducing the general fund deficit for FY 2010-11 by \$146.9 million but increased the projected FY 2012-13 budget problem by an additional \$176.4 million.

Also, in late March the first budget balancing bill was enacted. This bill, Chapter 215, reduced the FY 2010-11 budget deficit by \$312 million. Chapter 215 made changes in most budget areas but did not include any changes in Health and Human Services or K-12 and Early Childhood Education. Chapter 215 made reductions in appropriations of aid to local governments but made no changes in tax revenue law.

At the time the Legislature recessed the 2010 session for almost a week for a Passover and Easter break the FY 2010-11 budget problem had been reduced to \$535 million.

However, on May 5, the Minnesota Supreme Court released a ruling that affirmed a Ramsey County District ruling that the executive branch exceeded its authority in current law (called unallotment) by using the unallotment law to balance the budget before the budget-making process for the biennium was completed in 2009. While the Court did not specifically rule that each unallotment was invalid, the ruling provided the basis for any unallotment to be overturned.

Adding the unallotment amounts brought into question by the Supreme Court ruling to the deficit projected in the February forecast increased the budget problem by \$2.43 billionⁱⁱ. The total FY 2010-11 budget problem would have been \$3.425 billion. Given the bills already enacted at that time (early May) the still unresolved budget problem was \$2.962 billion.

Table 1 shows the general fund budget problems as defined by the February 2010 budget forecast and again after consideration of the Supreme Court ruling on unallotment.

Table 1		
Budget Problem		
Dollars in Millions		
	<u>FY 2010-11</u>	<u>FY 2012-13</u>
Budget Problem - February 2010 Forecast	-\$994	-\$5,789
Change Assuming July 2009 Unallotments are Invalid	-\$2,430	\$1,228
Redefined Budget Problem	-\$3,425	-\$4,561

Summary

Table 2 illustrates the general categories of changes enacted to resolve the FY 2010-11 budget problem.

Table 2		
2010 Session Budget Summary - Types of Budget Changes		
Dollars in Millions		
	FY 2010-11	FY 2012-13
Budget Problem	-\$3,425	-\$4,561
Spending Reductions	-\$1,318	-\$1,102
Spending Reductions (shifts to be repaid later)	-\$2,002	\$1,317
Spending Increases	\$529	\$1,378
Revenue Increases	-\$224	\$13
Revenue Decreases	\$35	\$85
Transfers In From Other Funds	-\$452	-\$486
Net Changes	-\$3,431	\$1,205
Balance	\$6	-\$5,766

Reductions in appropriations made up the largest category of budget changes to resolve the FY 2010-11 budget deficit. Spending reductions are split into two categories in this chart; those reductions where spending is cut with no expectation that it will be repaid and reductions in FY 2010-11 spending where there is an expectation that the amount reduced will be repaid at some future time. Almost all of the cuts that were made with an expectation of repayment are in K-12 Education.

Most of the spending increases are in Health and Human Services and are for the implementation of early entry into Medical Assistance. The transfers from other funds include a variety of transfers into the general fund but the largest transfers would be from the health care access fund to the general fund and are also related to the implementation of early entry into Medical Assistance.

The end of session numbers assume that Minnesota will participate in the early expansion of Medicaid for adults without children as authorized in the federal Patient Protection and Affordable Care Act, Public Law 111-152. Under the enacted law Minnesota will only participate if a Governor (current Governor or a new Governor elected in the November 2010 election) elects to participate by January 15, 2011. For fund balance purposes the assumption is made that the state will participate. Relevant figures will be adjusted in the February 2011 budget forecast to reflect decisions made by that time.

After all the changes a \$6 million balance is now projected for the FY 2010-11 biennium and a deficit of \$5.766 billion is projected for the FY 2012-13 biennium.

Budget Changes in Various Bills

General fund budget changes were enacted in a variety of bills during the 2010 session. Table 3 summarizes, by program area, those budget changes. Spending changes are listed for each program area and revenue changes are listed for those areas with changes in revenue. (This program areas in this chart are the structure used for conference committee and do not necessarily line up with the House fiscal committee structure.) Chapter 215 was the first general budget balancing bill enacted in late March, Chapter 1 enacted in the First Special Session was the second general budget balancing bill.

The largest amount of budget changes occurred in the K-12 Education area. Those changes totaled \$1.949 billion almost all in appropriation reductions that are expected to be repaid at some future time.

Changes in the Tax area for FY 2010-11 totaled \$668 million. Most of this change is from reductions in aid to cities and counties and in the renter's credit. Another major portion is in a delay in paying refunds of sales taxes and corporate taxes.

Table 3						
General Fund Changes by Program Area - 2010 Enactments						
Changes from Forecast Amounts with July 2009 Unallotments Restored						
A positive spending number is a cost, a positive revenue number is a revenue gain.						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
K-12 Education						
Spending Change - SS Ch. 1 - Budget	-805	-1,142	-1,947	-1,140	-1,140	-2,280
Spending Change (Shifts) - SS Ch. 1 - Budget	-1,056,808	-890,531	-1,947,339	1,318,666	-58,132	1,260,534
K-12 Education Total	-1,057,613	-891,673	-1,949,286	1,317,526	-59,272	1,258,254
Higher Education						
Spending Change - Ch. 215 - Budget	1,427	-48,427	-47,000	-35,005	-35,005	-70,010
Spending Change - SS Ch. 1 - Budget	-77	-100,077	-100,154	-19,540	-19,540	-39,080
Higher Education Total	1,350	-148,504	-147,154	-54,545	-54,545	-109,090
Health & Human Services						
Spending Change - Ch. 200 - GAMC	9,306	31,444	40,750	110,585	112,684	223,269
Spending Change - SS Ch. 1 - Budget	-81,390	-93,820	-175,210	121,650	-41,355	80,295
Subtotal - Health & Human Services Spending Changes	-72,084	-62,376	-134,460	232,235	71,329	303,564
Revenue Change - Ch. 200 - GAMC	47,344	130,282	177,626	25,781	21,133	46,914
Revenue Change - SS Ch. 1 - Budget	21,072	62,879	83,951	36,128	38,676	74,804
Subtotal - Health & Human Services Revenue Changes	68,416	193,161	261,577	61,909	59,809	121,718
Health & Human Services Total	-140,500	-255,537	-396,037	170,326	11,520	181,846
Environment						
Spending Change - Ch. 215 - Budget	-4,629	-8,128	-12,757	-7,046	-7,046	-14,092
Spending Change - SS Ch. 1 - Budget	-1,571	-1,564	-3,135	-1,564	-1,564	-3,128
Subtotal - Environment Spending Changes	-6,200	-9,692	-15,892	-8,610	-8,610	-17,220
Revenue Change - Ch. 215 - Budget	1,326	9,967	11,293	358	358	716
Revenue Change - SS Ch. 1 - Budget	99	40,097	40,196	0	0	0
Subtotal - Environment Revenue Changes	1,425	50,064	51,489	358	358	716
Environment Total	-7,625	-59,756	-67,381	-8,968	-8,968	-17,936
Energy						
Spending Change - Ch. 215 - Budget	-890	-322	-1,212	-322	-322	-644
Spending Change - Ch. 347 - Commerce	0	523	523	377	388	765
Spending Change - SS Ch. 1 - Budget	-247	-209	-456	-247	-247	-494
Subtotal - Energy Spending Changes	-1,137	-8	-1,145	-192	-181	-373
Revenue Change - Ch. 215 - Budget	18,993	3,514	22,507	89	89	178
Revenue Change - Ch. 347 - Commerce	0	607	607	286	268	554
Revenue Change - Ch. 326 - Commerce Health Plans	0	50	50	0	0	0
Revenue Change - SS Ch. 1 - Budget	0	50	50	0	0	0
Subtotal - Energy Revenue Changes	18,993	4,221	23,214	375	357	732
Energy Total	-20,130	-4,229	-24,359	-567	-538	-1,105
Agriculture & Veterans						
Spending Change - Ch. 215 - Budget	-2,780	-3,174	-5,954	-1,604	-1,604	-3,208
Spending Change - SS Ch. 1 - Budget	-493	-492	-985	-492	-492	-984
Subtotal - Agriculture & Veterans Spending Changes	-3,273	-3,666	-6,939	-2,096	-2,096	-4,192
Revenue Change - Ch. 215 - Budget	0	1,046	1,046	0	2,092	2,092
Revenue Change - Ch. 333 - Agriculture	0	6	6	6	6	12
Subtotal - Agriculture & Veterans Revenue Changes	0	1,052	1,052	6	2,098	2,104
Agriculture & Veterans Total	-3,273	-4,718	-7,991	-2,102	-4,194	-6,296
Economic Development						
Spending Change - Ch. 215 - Budget	-2,373	-4,747	-7,120	-4,695	-4,695	-9,390
Spending Change - SS Ch. 1 - Budget	-489	-745	-1,234	-745	-745	-1,490
Subtotal - Economic Development Spending Changes	-2,862	-5,492	-8,354	-5,440	-5,440	-10,880
Revenue Change - Ch. 215 - Budget	6,226	2,964	9,190	464	464	928
Revenue Change - SS Ch. 1 - Budget	256	0	256	0	0	0
Subtotal - Economic Development Revenue Changes	6,482	2,964	9,446	464	464	928
Economic Development Total	-9,344	-8,456	-17,800	-5,904	-5,904	-11,808

Table 3 - Continued						
General Fund Changes by Program Area - 2010 Enactments						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Transportation						
Spending Change - Ch. 215 - Budget	0	-14,650	-14,650	-6,650	-6,650	-13,300
Spending Change - SS Ch. 1 - Budget	-1,649	-11,649	-13,298	-1,649	-1,649	-3,298
Spending Change - Ch. 388 - Transportation	0	12	12	0	0	0
Subtotal - Transportation Spending Changes	-1,649	-26,287	-27,936	-8,299	-8,299	-16,598
Revenue Change - Ch. 215 - Budget	0	-150	-150	-150	-150	-300
Revenue Change - Ch. 377 - Disaster Assistance	0	13	13	0	0	0
Subtotal - Transportation Revenue Changes	0	-137	-137	-150	-150	-300
Transportation Total	-1,649	-26,150	-27,799	-8,149	-8,149	-16,298
Public Safety						
Spending Change - Ch. 215 - Budget	-8,043	-14,608	-22,651	-16,208	-16,208	-32,416
Spending Change - SS Ch. 1 - Budget	-79	-79	-158	-497	-497	-994
Spending Change - Ch 377 - Disaster Assistance	3,691	0	3,691	0	0	0
Spending Change - Ch 322 - Claims	0	92	92	0	0	0
Subtotal - Public Safety Spending Changes	-4,431	-14,595	-19,026	-16,705	-16,705	-33,410
Revenue Change - Ch. 215 - Budget	7,683	5,089	12,772	17	17	34
Revenue Change - Ch. 391 - Forfeiture	0	45	45	45	45	90
Subtotal - Public Safety Revenue Changes	7,683	5,134	12,817	62	62	124
Public Safety Total	-12,114	-19,729	-31,843	-16,767	-16,767	-33,534
State Government						
Spending Change - Ch. 215 - Budget	-3,545	-2,345	-5,890	-1,714	-1,714	-3,428
Spending Change - SS Ch. 1 - Budget	-1,694	-1,820	-3,514	-1,820	-1,820	-3,640
Spending Change - Ch. 347	0	65	65	0	0	0
Spending Change - Ch. 216	0	0	0	0	100	100
Spending Change - Ch. 359 - Pensions	0	0	0	13,750	13,750	27,500
Subtotal - State Government Spending Changes	-5,239	-4,100	-9,339	10,216	10,316	20,532
Revenue Change - Ch. 215 - Budget	254	-12	242	-115	-115	-230
Revenue Change - Ch 215 - Tax Compliance	0	26,865	26,865	26,865	26,865	53,730
Revenue Change - Ch 379 - Secretary of State	0	-2	-2	-2	-2	-4
Revenue Change - SS Ch. 1 - Budget	162	0	162	0	0	0
Subtotal - State Government Revenue Changes	416	26,851	27,267	26,748	26,748	53,496
State Government Total	-5,655	-30,951	-36,606	-16,532	-16,432	-32,964
Capital Bill - Debt Service						
Spending Change/Total - Ch. 189 - Capital	0	-350	-350	-1,375	-2,907	-4,282
Taxes						
Spending Change - Ch. 215 - Budget	0	-105,000	-105,000	-98,620	-102,400	-201,020
Spending Change - SS Ch. 1 - Budget	-103,986	-259,564	-363,550	6,462	880	7,342
Spending Change (Shifts) - SS Ch. 1 - Budget	-11,540	-2,164	-13,704	14,332	0	14,332
Spending Change - Ch. 216 - Taxes	0	-153	-153	-441	-775	-1,216
Spending Change - Ch. 389 - Taxes	0	346	346	1,103	1,043	2,146
Spending Change - Ch 215 & SS1 - Spec Timing Acct	0	-10,149	-10,149	10,149	0	10,149
Subtotal - Taxes Spending Changes	-115,526	-376,684	-492,210	-67,015	-101,252	-168,267
Revenue Change - Ch. 187 - Haiti Relief	-80	70	-10	0	0	0
Revenue Change - Ch. 215 Budget	0	0	0	-6,540	-2,660	-9,200
Revenue Change - Ch. 216	0	-1,535	-1,535	-1,370	-2,970	-4,340
Revenue Change - Ch. 249	187	820	1,007	975	560	1,535
Revenue Change - Ch. 389 - Taxes	-75	1,125	1,050	1,170	1,170	2,340
Revenue Change - SS Ch 1 - Budget	0	149,061	149,061	-158,193	-1,000	-159,193
Subtotal - Tax Revenue Changes	32	149,541	149,573	-163,958	-4,900	-168,858
Taxes Total	-115,558	-526,225	-641,783	96,943	-96,352	591
Others						
Spending Change - SS 1 - Move Accounts to Other Funds	0	-1,189	-1,189	-1,189	-1,189	-2,378
Revenue Change - SS1 - Move Accounts to Other Funds	0	-2,671	-2,671	-2,671	-2,671	-5,342
Subtotal - Spending Changes	-1,268,664	-1,544,616	-2,813,280	1,394,511	-178,851	1,215,660
Subtotal - Revenue Changes	103,447	430,180	533,627	-76,857	82,175	5,318
Total Changes	-1,372,111	-1,974,796	-3,346,907	1,471,368	-261,026	1,210,342

General Fund Budget Changes

Tables 4 and 5 illustrate the general fund budget changes by fiscal year (Table 4) and by biennium (Table 5).

	FY 2009	FY 2010	Percent Change	FY 2011	Percent Change	FY 2012	Percent Change	FY 2013	Percent Change
Revenue - Base	15,388.3	14,590.2	-5.2%	15,413.9	5.6%	15,846.7	2.8%	17,055.3	7.6%
Revenue - Change		103.4		430.2		-76.9		82.2	
Total Current Revenue	15,388.3	14,693.7	-4.5%	15,844.0	7.8%	15,769.8	-0.5%	17,137.4	8.7%
Expenditure - Base (a)	16,861.4	16,067.4	-4.7%	17,458.9	8.7%	18,468.5	5.8%	18,994.6	2.8%
Expenditure - Change		-1,268.8		-1,544.5		1,394.4		-178.8	
Total Current Expenditures	16,861.4	14,798.6	-12.2%	15,914.4	7.5%	19,862.9	24.8%	18,815.8	-5.3%

(a) Expenditure Base is with July 2009 unallotments not included.

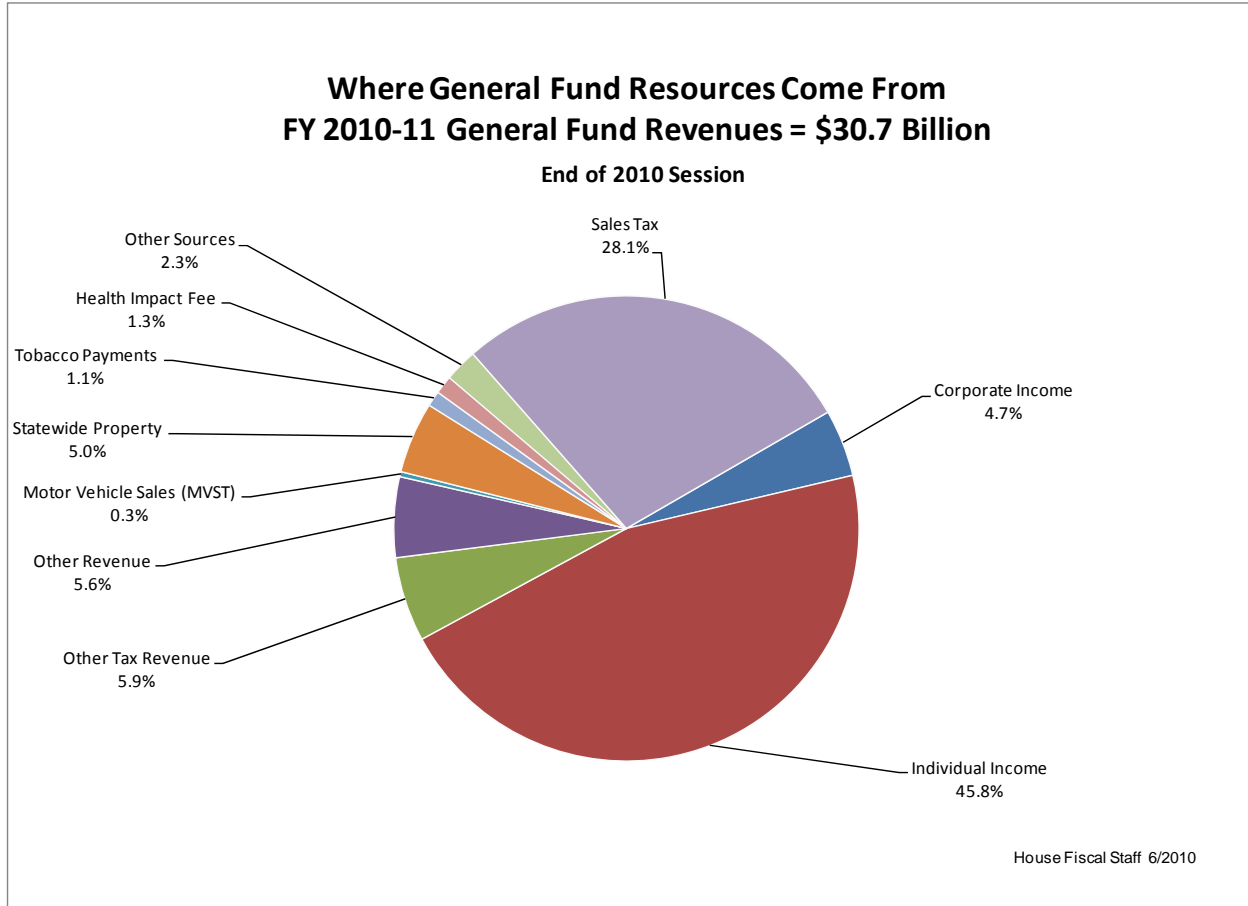
Both charts show revenues and expenditures as projected by the February 2010 forecast and then show changes in revenue and expenditures as enacted during the 2010 session (The expenditure base for these charts does not include the July 2009 unallotments.) The charts also show the percentage changes in revenues and spending across years (Table 4) or biennia (Table 5) before and after the 2010 session changes.

	FY 2008-09	FY 2010-11	Percent Change	FY 2012-13	Percent Change
Revenue - Base	32,068.4	30,004.1	-6.4%	32,902.0	9.7%
Revenue - Change		533.6		5.3	
Total Current Revenue	32,068.4	30,537.7	-4.8%	32,907.3	7.8%
Expenditure - Base (a)	33,866.4	33,526.3	-1.0%	37,463.1	11.7%
Expenditure - Change		-2,813.3		1,215.7	
Total Current Expenditures	33,866.4	30,713.1	-9.3%	38,678.7	25.9%

(a) Expenditure Base is with July 2009 unallotments not included.

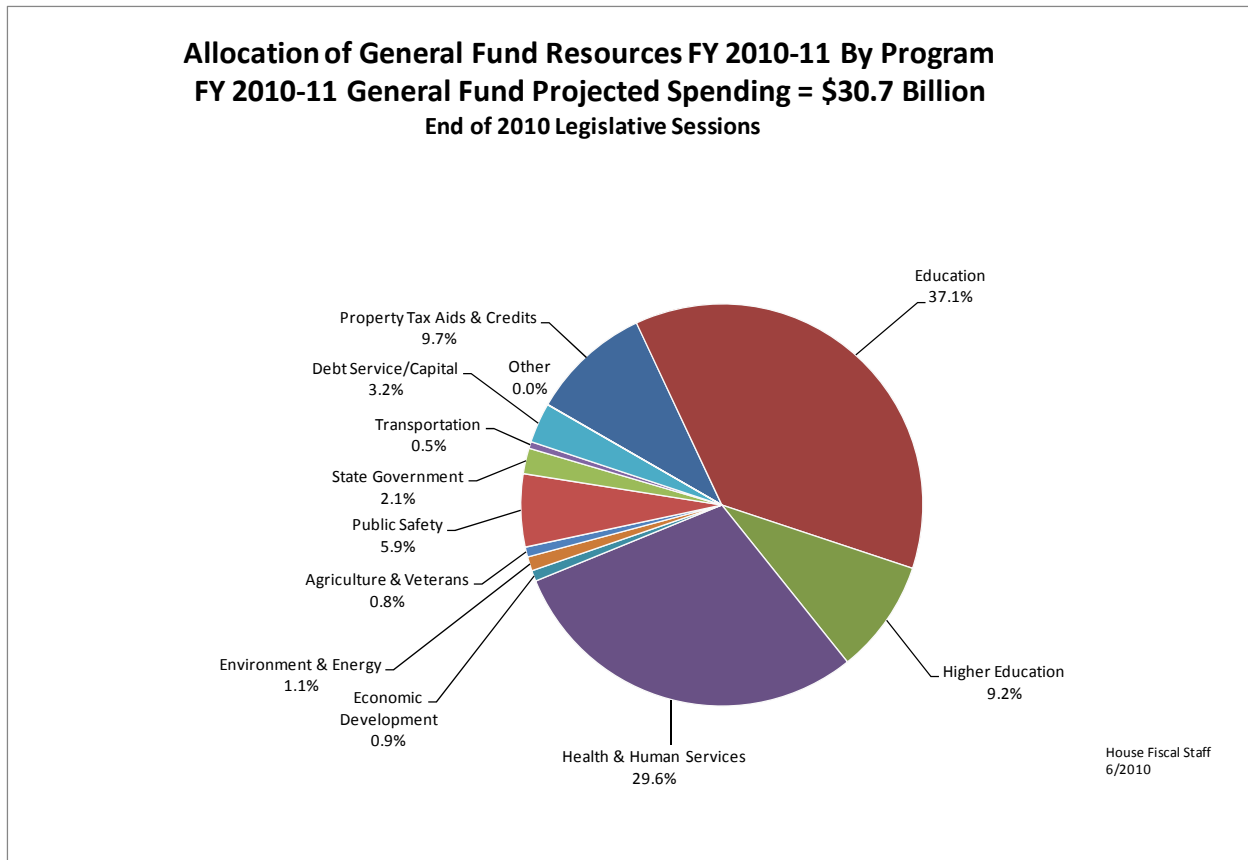
General Fund Revenues

Almost two thirds of general fund revenue during the FY 2010-11 biennium is from the individual income tax and the sales tax. Table 6 shows the major revenue sources. FY 2010-11 revenue from individual income taxes and sales taxes totals \$22.7 billion, about \$1 billion less or four percent less than in the FY 2008-09 biennium.



General Fund Spending

Two thirds of the general fund budget is spent in K-12 Education and Health and Human Services. In addition, a little over nine percent goes each for Property Tax Aids and Credits and for High Education. The chart in Table 7 shows the major areas of general fund spending by budget program.



Fees, Fines and Surcharges

Fees, fines and surcharge changes totaling \$7million for FY 2010-11 were enacted during the 2010 session. \$5.3 million of this amount was in the general fund.

In FY 2012-13, changes enacted during the 2010 session are projected to raise \$9.9 million of which \$8.9 million will be in the general fund.

Three of the FY 2011 fee changes exceeded \$1 million; a \$2.5 million increase from a \$10 increase in the birth records surcharge, \$1.225 million from a constructions codes one year license surcharge, and \$1.26 million from a tax payment plan agreement fee in the Department of Revenue.

Table 8 lists the fee increases included in enacted 2010 legislation.

Table 8 - Fees								
Changes in Fees, Fines and Surcharges - 2010 Legislative Enactments								
Dollars in thousands								
Fee Description	Agency	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13	Fund
Agricultural Land Report	Agriculture	0	6	6	6	6	12	GF
Data Practices Compliance	Admin Hearings	0	20	20	20	20	40	Admin Hr
Barber License Fee Increase	Barber Bd	0	69	69	69	69	138	GF
Cosmetologist License Fee Increase	Cosmetology Bd	0	395	395	395	395	790	GF
Federal Licensing-SAFE Act	Commerce	0	400	400	0	0	0	GF
Notice Filing Fee	Commerce	0	100	100	100	100	200	GF
Retroactive Continuing Education Fee Change	Commerce	0	-11	-11	-11	-11	-22	GF
Mortgage Orientation Fee	Commerce	0	311	311	136	136	272	GF
Appraisal Management Co. Fee	Commerce	0	250	250	125	125	250	GF
Portable Electronics Insurance Regulation Fee	Commerce	0	46	46	25	7	32	GF
Health Plans - Chemo Coverage	Commerce	0	50	50	0	0	0	GF
Private Health Coverage-Private Duty Nursing	Commerce	0	50	50	0	0	0	GF
Birth Center Fee	Health	0	9	9	7	7	14	SGSR
Youth Camp Fee Clarification	Health	0	-12	-12	-12	-12	-24	SGSR
Birth Records Surcharge from \$3 to \$13	Health	0	2,500	2,500	2,500	2,500	5,000	GF
Body Art License Fee	Health	0	125	125	85	85	170	SGSR
School Concession Stands	Health	0	-35	-35	-35	-35	-70	SGSR
Electronic Health Records	Health	0	91	91	102	105	207	SGSR
Private College Registration Fee	OHE	0	74	74	74	74	148	SR
PELL Grant Accreditation Fee	OHE	0	7	7	7	7	14	SR
Construction Code Fund - 1 Year Surcharge	DOLI	0	1,225	1,225			0	CCF
Elevator Provisions	DOLI	0	47	47	47	47	94	CCF
Construction Codes	DOLI	30	20	50	30	20	50	CCF
Inflatable Amusement Equipment Registration Fee	DOLI	0	4	4	2	6	8	CCF
Code & Licensing Fee Modifications	DOLI	25	-4	21	-17	20	3	CCF
Homeowner Warranty Dispute Resolution Fee	DOLI	0	13	13	13	13	26	CCF
Utility Crossing Fee	DNR	0	3	3	3	3	6	NR
Cross Country Ski Pass	DNR	0	71	71	71	71	142	NR
Aquatic Vegetation Fee Reduction	DNR	0	-8	-8	-28	0	-28	NR
Tribal Gvt Licensee Exemptions	DNR	0	-3	-3	-3	-3	-6	NR
Enhanced Driver's License Fee	DPS	0	0	0	0	120	120	SR
Vertical Motorcycle License Plate Fee	DPS	0	2	2	3	3	6	SR
Veterans License Plate Fees	DPS	0	124	124	73	73	146	SR
Proud to be Vet License Plate Fee	DPS	0	7	7	8	8	16	SR
Impaired Driver Victim License Plate Fee	DPS	0	4	4	5	5	10	SR
Tax Payment Plan Agreement Fee	Revenue	0	1,260	1,260	1,260	1,260	2,520	GF
Declaration of Trust Fee	Sec of State	0	-2	-2	-2	-2	-4	GF
Hazmat Registration Repeal	MnDOT	0	-150	-150	-150	-150	-300	GF
Hazmat Registration Repeal	MnDOT	0	-80	-80	-80	-80	-160	THF
Over Dimensional Load Permit Fee	MnDOT	0	18	18	4	4	8	THF
Implements of Husbandry Permit Fee	MnDOT	0	24	24	24	24	48	THF
Special Unit Vehicle Permit Fee	MnDOT	0	-1	-1	-1	-1	-2	THF
Milk Hauling Permit Fee	MnDOT	0	6	6	6	0	6	THF
All Funds Total		55	7,025	7,080	4,861	5,019	9,880	
General Fund Subtotal		0	5,274	5,274	4,453	4,435	8,888	
Other Funds Subtotal		55	1,751	1,806	408	584	992	

Fund Codes:
 GF = General Fund
 SR = Special Revenue Fund
 SGSR = State Government Special Revenue Fund
 CC = Construction Codes Fund
 HUTDF = Highway User Tax Distribution Fund
 THF = Trunk Highway Fund
 NR = Natural Resources Fund

For more information on the overall budget, contact Bill Marx, Chief Fiscal Analyst, 651-296-7176 or bill.marx@house.mn

ⁱ The GAMC program's FY 2011 funding had been vetoed by the Governor and program funding for the last three months of FY 2010 had been unallotted.

ⁱⁱ The budget problem at the end of the 2009 session that the Governor addressed through unallotment and administrative actions was \$2.676 billion. The actions to end Minnesota-Wisconsin income tax reciprocity and to delay certain tax refunds were not put in place under the unallotment authority but rather by administrative actions available under other laws. These administrative changes represented \$216 million in payment delays and changes. These changes and delays were not affected by the unallotment ruling.

Agriculture, Rural Economies & Veterans Affairs

The Agriculture, Rural Economies and Veterans Affairs budget provides funding for the state activity related to the agricultural sector of the economy, and for the delivery of veterans services. Agencies funded by this House finance division include the Department of Veterans Affairs, the Agriculture Department, the Animal Health Board, and the Agriculture Utilization Research Institute. This summary includes the changes enacted in Laws 2010, Chapter 215, Chapter 333 and Laws 2010, 1st Special Session, chapter 1. These chapters of law make changes in expenditures, revenues and inter-fund transfers that result in a net effect General Fund reduction of \$7.991 million in the FY 2010-11 biennium. The net effect by agency is summarized in the table below. Details of the changes are outlined by agency.

Agriculture, Rural Economies and Veterans Affairs Finance - Supplemental Budget <i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
Minnesota Department of Agriculture	(3,086)	(3,625)	(6,711)	(1,855)	(1,855)	(3,710)
Board of Animal Health	(87)	(141)	(228)	(141)	(141)	(282)
Agriculture Utilization Research Institute	(100)	(100)	(200)	(100)	(100)	(200)
Minnesota Veterans Affairs Department	0	200	200	0	0	0
Subtotal Expenditure Changes:	(3,273)	(3,666)	(6,939)	(2,096)	(2,096)	(4,192)
General Fund Revenue Changes						
MDA-Transfer from the Agriculture Fund to General Fund	0	1,046	1,046	0	2,092	2,092
MDA-Fee Increase	0	6	6	6	6	12
Subtotal Revenue Changes:	0	1,052	1,052	6	2,098	2,104
Net General Fund Change:	(3,273)	(4,718)	(7,991)	(2,102)	(4,194)	(6,296)

Department of Agriculture (MDA)

The 2010 enacted budget changes total a net General Fund spending reduction of \$6.711 million for the agency. Specific appropriation items changed include:

- A reduction in the Protection Services Program operations budget of \$1.2 million dollars.
- The Agriculture Marketing and Development Program budget is reduced by \$386,000.
- The Dairy Development activity is reduced by \$210,000.
- Numerous small grants made by the department are reduced by \$45,000.
- Ethanol Producer Payments are reduced by \$4.440 million dollars over the biennium.
- The agency administration funding was reduced by a total of \$398,000.
- The agency received an appropriation of \$40,000 from the Special Revenue fund for use in completing a study on the capacity of propane and anhydrous terminals in the agriculture area of the state.
- Chapter 215 requires that \$1.046 million dollars be transferred from the Agriculture Fund to the General Fund in the FY 2010-11 biennium.

Animal Health Board (AHB)

The enacted laws in the 2010 session reduced the General Fund biennial appropriation for the AHB by a total of \$228,000. The reductions would result in reduced testing for avian pneumovirus, delays in planned software updates, and reductions in staffing.

Agriculture Utilization Research Institute (AURI)

The General fund appropriation for AURI was reduced by \$200,000 for the FY 2010-11 biennium.

Minnesota Department of Veterans Affairs (MDVA)

The General fund appropriation to the MDVA for the biennium was increased by \$200,000. Specific items of change enacted were:

- An increase in \$100,000 for the grant to the Minnesota Assistance Council for Veterans. The council provides services to homeless veterans.
- An increase of \$100,000 in the General fund appropriation used to make payments to military funeral honor guards.

For more information, contact Jim Reinholdz, Fiscal Analyst, 651-296-4281 or jim.reinholdz@house.mn

Capital Investment

The 2010 Legislature passed Chapters 189 and 399, which were related to the state's capital budget and impacted the general fund. Chapter 399 modified previous appropriations and did not have fiscal implications. Chapter 189, on the other hand, included appropriations totaling \$735.1 million. This includes \$695.3 million in general obligation bonds supported by the general fund for new projects. In addition, approximately \$9 million in projects were cancelled, for a total general obligation bond impact of \$686.3 million. Since the February 2010 forecast assumed a total of \$725 million in new general obligation bonds, the general fund is expected to see a savings of approximately \$350,000 in debt service payments for the FY 2010-11 biennium and \$4.3 million in the FY 2012-13 biennium with the passage of Chapter 189. The table below outlines the general fund debt service savings by fiscal year.

Capital Investment Finance Division

(Dollars in thousands)

	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
Debt Service	0	(350)	(350)	(1,375)	(2,907)	(4,282)
subtotal expenditure changes:	0	(350)	(350)	(1,375)	(2,907)	(4,282)
General Fund Revenue Changes	0	0	0	0	0	0
Net General Fund Change:	0	(350)	(350)	(1,375)	(2,907)	(4,282)

Trunk highway bonds and cash as well as user financed bonds were also authorized in Chapter 189. Additional information on the trunk highway bonds and cash authorized can be found in the transportation section of this summary. User financed bonds totaled \$18.1 million in Chapter 189 and funded one-third of most of the Minnesota State Colleges and Universities System projects. For additional information on the 2010 Capital Budget, please see the 2010 Capital Budget Summary, which provides information on each of the authorized projects in Chapter 189.

For further information on capital budget issues contact Koryn Zewers, House Fiscal Analysis Department at 651-296-4178 or Koryn.Zewers@house.mn.

Economic Development Finance

Budgetary actions by the 2010 Legislature affecting economic development agencies combined to decrease the General Fund deficit by \$17.8 million in FY 2010-11 biennium. The decrease in the FY 2012-13 biennium is \$11.808 million.

The General Fund appropriation and revenue changes for the fiscal years 2010 through 2013 are shown in the table below. The changes are contained in Chapters 215 and 347 enacted in the 2010 regular legislative session, and Chapter 1, 2010 first special session.

Economic Development Finance						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Employment & Econ. Development	(1,928)	(1,867)	(3,795)	(1,679)	(1,679)	(3,358)
Public Facilities Authority	(11)	(7)	(18)	(7)	(7)	(14)
Housing Finance Authority	0	(2,412)	(2,412)	(2,706)	(2,706)	(5,412)
Explore Minnesota Tourism	(253)	(302)	(555)	(302)	(302)	(604)
Historical Society	(378)	(658)	(1,036)	(658)	(658)	(1,316)
Arts Board	(259)	(284)	(543)	(284)	(284)	(568)
Humanities Center	0	0	0	0	0	0
Public Broadcasting	(66)	(83)	(149)	(83)	(83)	(166)
Labor & Industry	(20)	(20)	(40)	(20)	(20)	(40)
Bureau of Mediation Services	(66)	(99)	(165)	(99)	(99)	(198)
Accountancy Board	(15)	(25)	(40)	(25)	(25)	(50)
Arch, Engineering et al. Board	(24)	(41)	(65)	(41)	(41)	(82)
Cosmetologist Examiners Board	0	395	395	395	395	790
Barber Examiners Board	0	69	69	69	69	138
Combative Sports Commission	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total General Fund Expenditure Changes:	(3,020)	(5,334)	(8,354)	(5,440)	(5,440)	(10,880)
General Fund Revenue Changes						
U.I. Admin – Transfer In	80	0	80	0	0	0
Capital Access Prog. – Trans In	160	0	160	0	0	0
Contam Cleanup – Transfer In	2,500	2,500	5,000	0	0	0
Housing Dev Fund – Transfer In	2,317	0	2,317	0	0	0
Cosmetologist Fees	0	395	395	395	395	790
Barber Fees	0	69	69	69	69	138
Assigned Risk Grants – Trnsfr In	<u>1,425</u>	<u>0</u>	<u>1,425</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total General Fund Revenue Changes:	6,482	2,964	9,446	464	464	928

Department of Employment & Economic Development

The combination of Chapter 215, Chapter 347, and Chapter 1, 2010 special session, reduce the General Fund appropriations within the DEED as shown in the table. The biennial total reductions are \$3.795 million in FY 2010-11, and \$3.358 million in FY 2012-2013.

EMPLOYMENT & ECONOMIC DEVELOPMENT – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Business/Community Dvlp. (BCD) – Grants		(350)	(350)	(350)
BCD – Operating Reduction	(157)	(157)	(157)	(157)
Office of Science & Technology	(6)	(10)		
BioBusiness Alliance	(15)	(25)	(25)	(25)
Enterprise Minnesota	(15)	(25)		
MN Inventors’ Congress		(15)	(15)	(15)
Extended Employment (EE) – Program		(353)	(200)	(200)
EE– Operating Reduction	(22)	(22)	(22)	(22)
Independent Living Services – State	(71)	(119)	(119)	(119)
Job Skills Partnership – Program	(250)	(250)	(250)	(250)
Mentally Ill Supported Employ – Program	(41)	(47)	(47)	(47)
Services for the Blind – Operating Reduction		(119)	(119)	(119)
Administration – Operating Reduction	(35)	(90)	(90)	(90)
General Fund Carryforward – Job Skills	(1,000)			
General Fund Carryforward – LeSuer Co.	(31)			
Total Chapter 215 Appropriations	(1,643)	(1,582)	(1,394)	(1,394)
Chapter 347				
MMB: MN Sc. & Tech Auth. [Transfer]		[(297)]	[(107)]	[107]
Total Chapter 347 Appropriations				
Chapter 1, 2010 1st Special Session				
Operating Budget Reductions	(285)	(285)	(285)	(285)
Total Appropriations – All Chapters	(1,928)	(1,867)	(1,679)	(1,679)

Chapter 215 also provided new General Fund revenues through transfers from DEED non-General Fund accounts to the General Fund. The revenue amounts are \$2.74 million in FY 2010, and \$2.5 million in FY 2011.

EMPLOYMENT & ECONOMIC DEVELOPMENT – Revenues				
Chapter 215	FY 10	FY11	FY12	FY13
U. I. Administration.–Transfer In	80			
Capital Access Program–Transfer In	160			
Petro Fund – Transfer In	2,500	2,500		
Total Revenues – All Chapters	2,740	2,500		

The combined General Fund impact for all appropriations and revenues within DEED is shown below. The total impacts are \$9,035,000 in FY 2010-11 and \$3,358,000 in FY 2012-13

EMPLOYMENT & ECONOMIC DEVELOPMENT – General Fund Impact				
	<i>FY 10</i>	<i>FY11</i>	<i>FY12</i>	<i>FY13</i>
Total Appropriations – All Chapters	(1,928)	(1,802)	(1,679)	(1,679)
Total Revenues – All Chapters	2,740	2,500		
Total General Fund Impact – All Chapters	(4,668)	(4,302)	(1,679)	(1,679)

Public Facilities Authority

The Public Facilities Authority's (PFA) General Fund budget is decreased by \$11,000 in fiscal year 2010 and by \$7,000 in fiscal year 2011 and beyond.

PUBLIC FACILITIES AUTHORITY – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Small Communities Wastewater Treatment	(11)	(7)	(7)	(7)

The reduction is in the Small Communities Wastewater Treatment technical assistance program, which is the only program within the PFA that receives a direct General Fund appropriation.

Minnesota Housing Finance Authority

The combination of Chapter 215, and Chapter 1, 2010 special session, reduce the General Fund appropriations within MHFA as shown in the table. The biennial total reductions are \$2.412 million in FY 2010-11, and \$5.412 million in FY 2012-2013.

HOUSING FINANCE AUTHORITY – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Rehabilitation Loan Program		(1,000)	(1,000)	(1,000)
Preservation of Affordable Rental Housing		(1,156)	(1,450)	(1,450)
Total Chapter 215 Appropriations		(2,156)	(2,450)	(2,450)
Chapter 1, 2010 1st Special Session				
Budget Reduction		(256)	(256)	(256)
Total Appropriations – All Chapters		(2,412)	(2,706)	(2,706)

Chapter 215 and Chapter 1, 1st Special Session also provide new General Fund revenues through transfers from MHFA program accounts within the Housing Development Fund to the General Fund. The revenue transfers total \$2.317 million in FY 2010.

HOUSING FINANCE AUTHORITY – Revenues				
Chapter 215	FY 10	FY11	FY12	FY13
Preservation of Affordable Rental Housing	2,061			
Chapter 1, 2010 1st Special Session				
Housing Development Fund Transfer	256			
Total Revenues – All Chapters	2,317			

The combined General Fund impact for all appropriations changes and revenue transfers within MHFA are \$4,729,000 in FY 2010-11 and \$5,412,000 in FY 2012-13.

HOUSING FINANCE AUTHORITY – Total General Fund Impact				
	FY 10	FY11	FY12	FY13
Total Appropriations – All Chapters		(2,412)	(2,706)	(2,706)
Total Revenues – All Chapters	2,317			
Total General Fund Impact – All Chapters	(2,317)	(2,412)	(2,706)	(2,706)

Explore Minnesota Tourism

Explore Minnesota Tourism General Fund budget is decreased by \$555,000 in the 2010-11 biennium, and by \$604,000 in the 2012-2013 biennium. The enacted budget reductions are summarized below.

EXPLORE MINNESOTA TOURISM – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Tourism Operating Budget Reduction	(238)	(300)	(300)	(300)
Tourism Carryforward Reduction	(13)			
Eliminate Innovative Grants Program	(2)	(2)	(2)	(2)
Total Explore Minnesota Tourism	(253)	(302)	(302)	(302)

Historical Society

The Minnesota Historical Society's General Fund budget is decreased by \$1,036,000 in the 2010-11 biennium and by \$1,316,000 in the 2012-2013 biennium under the Legislature's enacted budget changes. The reductions are summarized below.

MINNESOTA HISTORICAL SOCIETY – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Education & Outreach Operating Budget	(120)	(280)	(280)	(280)
Preservation & Access Operating Budget	(90)	(210)	(210)	(210)
Chapter 1, 2010 1st Special Session				
Operating Budget Reductions	(168)	(168)	(168)	(168)
Total Appropriations – All Chapters	(378)	(658)	(658)	(658)

Arts Board

The Legislature did not enact the Governor's recommendation to have the Minnesota Arts Board transition into a self-supporting nonprofit organization by reducing the Board's General Fund budget by one-third from current levels in each fiscal year 2011 through 2013. Rather, Chapter 215, as enacted, reduces the Board's annual appropriations, and the Arts Board will continue as a state agency. The appropriations reductions include:

MINNESOTA ARTS BOARD – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Operations & Services	(20)	(21)	(21)	(21)
Grants Program	(165)	(182)	(182)	(182)
Regional Arts Councils	(74)	(81)	(81)	(81)
Total Minnesota Arts Board	(259)	(284)	(284)	(284)

Humanities Center

The Legislature also did not enact the Governor’s recommendation that General Fund support for the Minnesota Humanities Center be eliminated beginning in fiscal year 2011. The Humanities Center will continue to receive \$250,000 in annual state support.

MINNESOTA HUMANITIES CENTER – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
General Fund Appropriation Changes	-0-	-0-	-0-	-0-

Public Broadcasting

The Governor recommended eliminating \$2.015 million in state General Fund appropriations for the various media under the public broadcasting umbrella beginning in fiscal year 2011 and continuing forward. The Legislature rejected his recommendation, and opted to reduce the media entities’ appropriations as are summarized below:

PUBLIC BROADCASTING – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Public Television Matching Grants	(38)	(48)	(48)	(48)
Public Television Equipment Grants	(7)	(10)	(10)	(10)
Twin Cities Regional Cable Channel Grant	(1)	(1)	(1)	(1)
AMPERS Public Radio Comm. Ser. Grants	(9)	(9)	(9)	(9)
AMPERS Public Radio Equipment Grants	(3)	(3)	(3)	(3)
MN Public Radio Equipment Grants	(8)	(12)	(12)	(12)
Total Public Broadcasting	(66)	(83)	(83)	(83)

Department of Labor & Industry

The Legislature made one change to the General Fund appropriations for the Department of Labor & Industry. The change, contained in Chapter 1, 2010 special session, is shown below.

LABOR & INDUSTRY – Appropriations				
Chapter 1, 2010 1st Special Session	FY 10	FY11	FY12	FY13
Operating Budget Reduction	(20)	(20)	(20)	(20)

The other fiscal action with General Fund implications for DOLI was the transfer of \$1.425 million in fiscal year 2010 from the assigned risk safety grants account to the General Fund. This has the impact of reducing the General Fund deficit by a like amount.

LABOR & INDUSTRY – Revenues				
Chapter 215	FY 10	FY11	FY12	FY13
Assigned Risk Safety Grants – Transfer In	1,425			
Total Revenues	1,425			

Taken together, the net General Fund impact within DOLI from 2010 Legislative actions is \$1,445,000 in fiscal year 2010, and \$20,000 per fiscal year ongoing.

LABOR & INDUSTRY – Total General Fund Impact				
	FY 10	FY11	FY12	FY13
Total Appropriations – All Chapters	(20)	(20)	(20)	(20)
Total Revenues – All Chapters	1,425			
Total General Fund Impact – All Chapters	(1,445)	(20)	(20)	(20)

Three additional actions in non-general fund supported functions within the Department include:

- Major revamp of Code and Licensing fee scheduled. The revamp is expected to be revenue neutral.
- One-year surcharge in fiscal year 2011 on construction and code regulated entities. The surcharge is \$4.50 per licensees and permits. It is estimated the surcharge will raise \$1.225 million in FY 2011. The money will be used to eliminate inspection backlogs.
- Safety regulation of inflatable amusement equipment was enacted.

Bureau of Mediation Services

The Bureau of Mediation Services' General Fund budget is decreased by \$66,000 in fiscal year 2010 and by \$99,000 in fiscal year 2011 and going forward.

BUREAU OF MEDIATION SERVICES – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Operating Budget Reductions	(50)	(83)	(83)	(83)
Chapter 1, 2010 1st Special Session				
Budget Reductions	(16)	(16)	(16)	(16)
Total Appropriations – All Chapters	(66)	(99)	(99)	(99)

Accountancy Board

The Board of Accountants' General Fund budget is decreased by \$15,000 in fiscal year 2010 and by \$25,000 per fiscal year ongoing.

BOARD OF ACCOUNTANCY – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Operating Budget Reduction	(15)	(25)	(25)	(25)

Architecture, Engineering, Surveying, Landscaping Board

The Board of Architecture, Engineering, Surveying, Landscaping, *et.al.*'s General Fund budget is decreased by \$24,000 in fiscal year 2010 and by \$41,000 in fiscal year 2011 and going forward.

BOARD OF ARCHITECTURE, ENGINEERING – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Operating Budget Reduction	(24)	(41)	(41)	(41)

Cosmetologist Examiners Board

The Board of Cosmetologist Examiners' General Fund budget is increased by \$395,000 in fiscal year 2011 and beyond. To fund this increase the Legislature approved fee increases for various licenses regulated by the Board. The fees are estimated to raise \$395,000, making the appropriation increase revenue neutral in its General Fund impact.

BD OF COSMETOLOGIST EXAMINERS– Appropriations & Revenues				
Chapter 215	FY 10	FY11	FY12	FY13
Operating Budget Increase		395	395	395
Fees Increase - Revenue		395	395	395
Net General Fund Impact		-0-	-0-	-0-

Barber Examiners Board

The Board of Barber Examiners' General Fund budget is increased by \$69,000 in fiscal year 2011 and beyond. To fund this increase the Legislature approved fee increases for various licenses regulated by the Board. The fees are estimated to raise \$69,000, making the appropriation increase revenue neutral in its General Fund impact.

BOARD OF BARBER EXAMINERS– Appropriations & Revenues				
Chapter 215	FY 10	FY11	FY12	FY13
Operating Budget Increase		69	69	69
Fees Increase - Revenue		69	69	69
Net General Fund Impact		-0-	-0-	-0-

For further information contact Ron Soderberg, House Fiscal Analysis Department at 651-296-4162 or Ron.Soderberg@house.mn

Energy Finance

Actions by the 2010 Legislature relating to the two agencies within the budget jurisdiction of the Energy Finance division combined to decrease the General Fund deficit by \$24.359 million in FY 2010-11 biennium. The deficit decrease in the FY 2012-13 biennium is \$1.105 million.

The General Fund appropriation and revenue changes for the fiscal years 2010 through 2013 are shown in the table below. The changes are contained in Chapters 215, 326 and 347 enacted in the 2010 regular legislative session, and Chapter 1, 2010 first special session.

Energy Finance <i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 10-11	FY 2012	FY 2013	FY 12-13
General Fund Expenditure Changes						
Department of Commerce	(1,137)	(8)	(1,145)	(192)	(181)	(373)
Public Utilities Commission	0	0	0	0	0	0
Total General Fund Expenditure Changes:	(1,137)	(8)	(1,145)	(192)	(181)	(373)
General Fund Revenue Changes						
Petro Tank Release Cleanup	1,969	1,032	3,001	0	0	0
Special Revenue Fund	3,024	1,993	5,017	0	0	0
WC Assigned Risk Plan	14,000	0	14,000	0	0	0
Combined Fees & Assessments	0	1,196	1,196	375	357	732
Total General Fund Revenue Changes:	18,993	4,221	23,214	375	357	732

Department of Commerce

The combination of Chapter 215, Chapter 347, and Chapter 1, 2010 special session, reduce the General Fund appropriations within the Department of Commerce as shown in the table. The biennial total reductions are \$3.73 million in FY 2010-11, and \$3.358 million in FY 2012-2013.

Department of Commerce – Appropriations				
Chapter 215	FY 10	FY11	FY12	FY13
Administrative Services	(66)	(126)	(126)	(126)
Market Assurance			(196)	(196)
	(124)	(196)		
Federal Licensing System Access	400			
E-85 Cost Share Grants	(450)			
Renewable Hydrogen Initiative	(650)			
Total Chapter 215 Appropriations	(890)	(322)	(322)	(322)
Chapter 347				
Mortgage Origination Regulation		261	138	142
Appraisal Mgmt Company Regulation		223	199	205
Portable Electronic Insurance Regulation		39	40	41
Total Chapter 347 Appropriations		523	377	388
Chapter 1, 2010 1st Special Session				
Operating Budget Reductions	(247)	(247)	(247)	(247)
Health Plan Filings		38		
Total Appropriations – All Chapters	(1,137)	(8)	(192)	(181)

Chapters 215, 326, and 347 also provided new General Fund revenues through transfers from Commerce’s non-General Fund accounts to the General Fund, and select fees and assessments. The revenue amounts are \$4.993 million in FY 2010, \$18.171 million in FY 2011. The out-biennium revenues are \$375,000 in FY 2012 and \$357,000 in FY 2013.

DEPARTMENT OF COMMERCE – Revenues				
Chapter 215	FY 10	FY11	FY12	FY13
Transfer – Petro Tank Release Cleanup Fund	1,969	1,032		
Transfers From Special Revenue Fund	3,024	1,993		
Transfer From WC Assigned Risk Plan	14,000	0		
Federal Licensing System Access Assessment		400		
Notice Filing Fee		100	100	100
Retroactive Continuing Education		(11)	(11)	(11)
Total Chapter 215	18,993	3,514	89	89

Chapter 326				
Health Plans Chemotherapy Medications		50		
Chapter 347				
Mortgage Origination Regulation		311	136	136
Appraisal Mgmt Company Regulation		250	125	125
Portable Electronic Insurance Regulation		46	25	7
Total Chapter 347		607	286	268
Chapter 1, 2010 1st Special Session				
Health Plan Filings		50		
Total Revenues – All Chapters	18,993	4,221	375	357

The General Fund impact for the combined appropriations and revenues changes within the Department of Commerce is shown below. The total impacts are \$20,130 million in FY 2010 and \$4,229 million in FY 2011. The fiscal year 2012 and 2013 impact is \$567,000 and \$538,000 respectively. All of these General Fund impacts are negative.

DEPARTMENT OF COMMERCE – Total General Fund Impact				
	<i>FY 10</i>	<i>FY11</i>	<i>FY12</i>	<i>FY13</i>
Total Appropriations – All Chapters	(1,137)	(8)	(192)	(181)
Total Revenues – All Chapters	18,993	4,221	375	357
Total General Fund Impact – All Chapters	(20,130)	(4,229)	(567)	(538)

In Chapter 361, the Legislature enacted a new Solar Rebate Program. The program is funded by the Renewable Development Fund at Xcel Energy. The yearly funding amounts for this program are \$2 million in FY 2011, \$4 million in FY 2012, and \$5 million each year in FY 2013 through FY 2015. Xcel Energy will administer this program.

The Governor vetoed one Commerce provision that the Legislature approved in Chapter 361. The provision was for a \$90,000 grant to the city of Minneapolis for a Neighborhood Energy Reduction Report. The grant would have been funded with a transfer from the Renewable Development Fund at Xcel Energy.

Public Utilities Commission

One budget change item that Legislature approved for the Public Utilities Commission was vetoed by the Governor. The change increased funding for PUC staffing by \$800,000. The cost of this item would have been recovered from increased assessments on regulated industries.

PUBLIC UTILITIES COMMISSION – Appropriations				
Chapter 361	FY 10	FY11	FY12	FY13
Staffing Increase ◀Vetoed▶		◀800▶	◀800▶	◀800▶

For further information contact Ron Soderberg, House Fiscal Analysis Department at 651-296-4162 or Ron.Soderberg@house.mn

Environment and Natural Resources Finance

The Environment and Natural Resource budget provides funding for the management, protection and enhancement of the natural resources of the state. Agencies and programs funded include the Pollution Control Agency, the Department of Natural Resources, the Minnesota Conservation Corps, the Metropolitan Council parks, the Board of Water and Soil Resources, and the recommendations of the Legislative Citizens Committee on Minnesota Resources. Legislation from the 2010 session affecting these agencies and programs included Chapter 215, the environment supplemental appropriations bill; Chapter 361, the environment policy bill; and 1st Special Session, Chapter 1, the budget balancing bill. The provisions in these acts make changes in expenditures, revenues and inter-fund transfers that result in a net effect General Fund reduction of \$67.4 million dollars in the current biennium. The following chart and agency narrative provides details on the changes.

Environment & Natural Resources Finance - Supplemental Budget						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
Pollution Control Agency	(471)	(1,254)	(1,725)	(1,263)	(1,263)	(2,526)
Department of Natural Resources	(3,718)	(5,818)	(9,536)	(5,407)	(5,407)	(10,814)
Board of Water and Soil Resources	(1,800)	(1,957)	(3,757)	(1,363)	(1,363)	(2,726)
Minnesota Zoo	(125)	(337)	(462)	(337)	(337)	(674)
Metropolitan Council-Parks	(86)	(326)	(412)	(240)	(251)	(491)
subtotal expenditure changes:	(6,200)	(9,692)	(15,892)	(8,610)	(8,621)	(17,231)
General Fund Revenue Changes						
PCA-Transfers from Closed Landfill Investment Fund	0	48,000	48,000	0	0	0
PCA-Transfer from Special Revenue fund	328	462	790	0	0	0
DNR-Transfers from Special Revenue Fund	197	1,292	1,489	48	48	96
DNR-Transfer from Game and Fish Fund	900	0	900	0	0	0
BWSR-Transfer from Special Revenue Fund		310	310	310	310	620
subtotal revenue changes:	1,425	50,064	51,489	358	358	716
Net General Fund Change:	(7,625)	(59,756)	(67,381)	(8,968)	(8,979)	(17,947)

Pollution Control Agency (PCA)

The agency received a General Fund spending reduction of \$1.725 million. Specific appropriation item changes include:

- A reduction in the general water program operations budget of \$523,000.
- A \$98,000 reduction in funding for development of design standards for urban storm-water runoff.
- The environmental health tracking activities of the agency is reduced by \$30,000.
- A reduction of \$258,000 for clean water partnership grants.
- A reduction of \$276,000 for county feedlot program grants.
- A reduction of \$100,000 for storm-water management grants.

- The agency is directed to collect reimbursement for attorney general costs related to the water program permits and regulatory activity.
- Funding for the multimedia program in the agency is reduced by \$172,000.
- Administrative activity funding was reduced by \$188,000.
- The legislation directs a one-time transfer of \$48 million from the Closed Landfill Cleanup fund to the General fund. The fund was established to be used for the future maintenance expenses of closed landfills. The legislation requires that the fund be reimbursed in fiscal years 2014 - 2017.

Department of Natural Resources (DNR)

The enacted budget changes result in a total net General Fund spending reduction of \$9.5 million dollars to the agency. Specific items changed include:

- A \$452,000 reduction in the General Fund appropriation for the lands and minerals management activity.
- A reduction of \$164,000 for iron ore and minerals coop research project funding.
- Water resources management activity funding was reduced by \$1.1 million for the biennium.
- A reduction in the funding of Red River flood damage grants of \$165,000.
- The grant for the Mississippi Headwaters board was reduced by \$7,000.
- The Division of Forestry General fund appropriation was reduced by \$2.45 million. Activities affected include forest road maintenance, private forestland stewardship plans, the FORIST system, fire fighting and the funding of the Forest Resources Council.
- A \$250,000 appropriation was made from the heritage enhancement account to be used for the ecological classification program on state forest lands.
- In the Division of Parks and Trails the General fund appropriation was reduced by \$2.242 million. Reductions will result in reduced level of service in parks and on state trails.
- As a partial offset to the General fund reductions for parks and trail activity, the appropriation from the lottery in lieu account was increased by \$300,000.
- A \$60,000 appropriation from the water recreation account was made to be used for marking state water trails and developing river access and facilities.
- \$100,000 was appropriated from the all-terrain vehicle account to be used to upgrade the Moose Trail to a dual usage trail.
- A \$225,000 reduction to the Fish and Wildlife Division will result in reduced surveillance work for bovine tuberculosis.
- The grassland/wetlands activity of the agency is reduced by \$530,000.
- Ecological Resources Division appropriation from the General Fund will be reduced by \$531,000. Activities affected include non-game programs, invasive species enforcement and control.

- A General Fund reduction in the Enforcement Division of \$940,000 would result in reduced hours of activity for conservation officers.
- The operations support activity of the agency is reduced by \$433,000 for the biennium.
- \$335,000 of a FY2008 appropriation for flood damage repair was cancelled.

There were several cancellations and one-time transfers to the General Fund from other funds, including:

- The DNR is required to transfer \$1 million dollars from the internal fleet management account to the General Fund.
- \$900,000 was transferred to the General Fund from the court surcharge account in the Game and Fish Fund.
- The stream loan program account balance and current revenue of \$489,000 was transferred to the General Fund.

Board of Water and Soil Resources (BWSR)

The General Fund budget of the BWSR was reduced by \$1.954 million for the biennium. Included in the reductions are the following items. An additional \$1.8 million was cancelled from previous biennium appropriations and carry-forward amounts.

- Agency operational funding is reduced by \$332,000.
- Natural resources grants to counties are reduced by \$534,000.
- The basic grants to soil and water conservation districts are reduced by \$450,000.
- Base cost share, feedlot cost share, drainage assistance cost share, and vegetative buffer cost share grants are reduced by a total of \$616,000.
- The joint powers board grants to the red river basin board was reduced by \$6,000.
- The flood plain management grants were reduced by \$10,000.
- The MN river joint powers board grant was reduced by \$6,000.

Minnesota Zoological Gardens

The biennial appropriation to the Zoo from the general fund was reduced by \$462,000.

Metropolitan Council Parks

The Metro Council parks general fund appropriation for the biennium is reduced by \$412,000. A partial offset in this reduction was made by increasing the lottery-in-lieu account funding by \$300,000.

Legislative- Citizens Commission on Minnesota Resources (LCCMR)

The commission recommendations were adopted with one additional recommendation added by the legislature and one item that was vetoed by the governor. Total appropriations were made of \$26.144 million dollars from the Environment and Natural Resources Trust fund. Detailed listing and description of the 48 funded projects may be found at the commission web site, <http://www.lccmr.leg.mn/lccmr.htm>.

For more information, contact Jim Reinholdz, Fiscal Analyst, 651-296-4281 or jim.reinholdz@house.mn

Public Health Finance

The Public Health budget provides funding for activities in the Minnesota Department of Health (MDH), the Emergency Medical Services Board, the Council on Disability, the Ombudsman for Mental Health and Developmental Disabilities, and the Ombudsperson for Families. There are a number of health-related boards financed in this area and they include:

- | | |
|--|--|
| <ul style="list-style-type: none"> ✓ Behavioral Health & Therapy Board ✓ Board of Chiropractic Examiners ✓ Board of Dentistry ✓ Board of Dietetics & Nutrition Practice ✓ Board of Marriage & Family Therapy ✓ Board of Medical Practice ✓ Board of Nursing | <ul style="list-style-type: none"> ✓ Board of Nursing Home Administrators ✓ Board of Optometry ✓ Board of Pharmacy ✓ Board of Physical Therapy ✓ Board of Podiatry ✓ Board of Psychology ✓ Board of Social Work ✓ Board of Veterinary Medicine |
|--|--|

Most changes these agencies and boards were in First Special Session Laws, Chapter 1, the budget balancing bill. The following chart and agency narrative provides details on the changes.

Health Finance <i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
Health Department	(2,392)	(1,187)	(3,579)	(1,647)	(1,103)	(2,750)
Emergency Medical Services Board	247	(382)	(135)	(382)	(382)	(764)
Disability Council	0	0	0	0	0	0
Families Ombudsman	0	0	0	0	0	0
Mental Health & Developmental Disabilities Ombudsman	0	0	0	0	0	0
Subtotal - Expenditure Changes:	(2,145)	(1,569)	(3,714)	(2,029)	(1,485)	(3,514)
General Fund Revenue Changes						
MDH - Birth Records Surcharge		2,500	2,500	2,500	2,500	5,000
Subtotal - Revenue Changes:	0	2,500	2,500	2,500	2,500	5,000
Net General Fund Change:	(2,145)	(4,069)	(6,214)	(4,529)	(3,985)	(8,514)
State Government Special Revenue Fund Changes						
Marriage & Family Therapy Board	47	22	69	22	22	44
Board of Nursing Home Administrators	51	61	112	61	61	122
Pharmacy Board	0	517	517	356	356	712
Podiatry Board	15	15	30	15	15	30
Subtotal - Expenditure Changes:	113	615	728	454	454	908
State Government Special Revenue Fund Revenue Changes						
MDH - Youth Camp Fee Clarification		12	12	12	12	24
Subtotal - Revenue Changes:	0	12	12	12	12	24
Net State Government Special Revenue Fund Change:	113	603	716	442	442	884

Minnesota Department of Health (MDH)

The Legislature appropriates to four different program areas within MDH: (1) Community and Family Health Promotion; (2) Health Policy; (3) Health Protection; and (4) Administrative Services. The agency overall received a General Fund spending reduction of \$3.828 million in FY 2010-11 and a reduction of \$2.774 in FY 2012-13. Major appropriation item changes include:

- A reduction of \$1.755 million in FY 2010 to the rural hospital capital improvement grants.
- An increase of \$377,000 in FY 2011 and to the future year's base in the comprehensive advanced life support program. This program was transferred to the Health Department from the Emergency Medical Services Board so that Board's appropriation is reduced by a similar amount.
- Eliminating funding of \$25,000 each year for the lead-safe housing grant program.
- An increase of \$965,000 in FY 2011 for the birth defect information system. The base for FY 2012 is \$1.533 million and FY 2013 is \$2.077 million. The birth record surcharge is increased \$10 to fund this program. The surcharge is expected to raise \$2.5 million a year.
- A reduction of \$612,000 in FY 2010 and \$327,000 in FY 2011 to the agency operation budget. The base reduction is \$593,000 per year.

Health-Related Boards

The Health Related Boards are funded from fee revenue through the State Government Special Revenue Fund. Changes were made to appropriations for the following boards:

Marriage and Family Therapy – an increase of \$47,000 in FY 2010 and \$22,000 in FY 2011. \$22,000 of this change each year was for operating costs, \$25,000 in FY 2010 was for rule making.

Nursing Home Administrators – an increase of \$51,000 in FY 2010 and \$61,000 in FY 2011. This is for operations.

Pharmacy – an increase of \$517,000 in FY 2011 for an electronic reporting system. The base in future fiscal years is increased by \$356,000.

Podiatry – an increase of \$15,000 per year for insurance costs and disciplinary hearings.

Emergency Medical Services Board (EMS)

The general fund appropriation for the EMS Board was increased by \$247,000 in fiscal year 2010 to correct an error in a previous appropriation. The Board's general fund appropriation was reduced by \$382,000 in FY 2011 and the base for FY 2012 was reduced by the same amount.

However, this FY 2011 reduction reflected the transfer of the comprehensive advanced life support program to the Health Department.

Council on Disability

No changes were made to the council's appropriation.

Ombudsman for Mental Health & Developmental Disabilities

No changes were made to the council's appropriation.

Ombudsperson for Families

No changes were made to the council's appropriation.

For more information, contact Emily Adriaens, Fiscal Analyst, 651-296-7171 or emily.adriaens@house.mn

Human Services Finance

Department of Human Services (DHS)

The final budget for the Health and Human Services spending is a complicated one, mainly due to the uncertainty of Minnesota's participation in Medical Assistance for Adults Without Children. A provision was included in Laws of 2010 First Special Session Chapter 1 which would allow the Governor the authority to opt into the new federal program. The authority to opt in applies to the current Governor and to the Governor elected in November 2010 and then expires on January 15, 2011. Because the option to launch this new health care program will have an impact on the continuation or elimination of the new GAMC (General Assistance Medical Care) program, and enrollments in the MinnesotaCare program, the true effect of Health and Human services spending may not be known until January 15, 2011.

Health and Human Services Finance - Governor's Supplemental Recommendations						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
GAMC	9,306	31,444	40,750	110,585	112,684	223,269
Omnibus Supplemental Budget Bill	(80,392)	(157,127)	(237,519)	(83,533)	(195,741)	(279,274)
Early MA Contingency	(998)	70,807	69,809	205,183	154,386	359,569
Subtotal Expenditure Changes:	(72,084)	(54,876)	(126,960)	232,235	71,329	303,564
General Fund Revenue Changes						
GAMC	47,344	130,282	177,626	25,781	21,133	46,914
Omnibus Supplemental Budget Bill	21,072	62,879	83,951	36,128	38,676	74,804
Subtotal Revenue Changes:	68,416	193,161	261,577	61,909	59,809	121,718
Net General Fund Change:	(140,500)	(248,037)	(388,537)	170,326	11,520	181,846
Non-General Fund Changes						
Health Care Access Fund						
GAMC Reduction in Enrollment	(47,792)	(211,621)	(259,413)	(186,035)	(189,517)	(375,552)
Omnibus Supplemental Budget Bill	0	(51,316)	(51,316)	(56,037)	(60,941)	(116,978)
Early MA Contingency	998	31,380	32,378	(167,389)	(105,614)	(273,003)
Net HCAF Changes:	(46,794)	(231,557)	(278,351)	(409,461)	(356,072)	(765,533)

Legislative action in Health and Human Services began early in the session with passage of the new GAMC program.

GAMC

With the signing of the fiscal 2010-11 budget in 2009, Governor Pawlenty line-item vetoed the entire 2011 program budget for GAMC, essentially ending the program. The Governor cited the budget deficit and the rapidly growing cost, and his desire to reform the program. The veto wiped a nearly \$400 million annual program from state obligations.

The consequence of this decision would have driven many of the nearly 40,000 enrollees to MinnesotaCare if they wished to continue to receive state subsidized health care and if they paid the required premiums. MinnesotaCare, which had several provisions to expand eligibility just two years prior, was dealing with the potential for future deficits because the program was beginning to spend more than the dedicated sources were projected to provide. The veto of GAMC, and the prospect of over 30,000 new enrollees into the MNCare program produced a projected deficit of \$844 million in the Health Care Access Fund by the end of FY 2013. In addition, because of a statutory mandate that the general fund was to keep the fund solvent through the end of fiscal 2011 the health care access fund would need an infusion of \$99 million from the general fund in FY 2010-11.

With the prospect of an increase in the number of uninsured, and the projected deficit in the health care access fund, the legislature took action to create a replacement for GAMC that could serve the affected population and take the strain of the dedicated source of MNCare funding.

With a general fund deficit looming, reinstatement of the original program at its previous level of funding was not possible. The legislature and the governor settled on a package that would restore some funding to the population served by GAMC and prevent a massive influx of new enrollees into the financially strapped MinnesotaCare program.

The agreement reached (after the veto of the first GAMC replacement bill) was to set a network of “CCO’s” or Coordinated Care Organizations that would be the backbone of the new GAMC system. These coordinated care organizations would be hospitals in population centers around the state that would provide the care for the GAMC population and could be compensated by the program. It was intended that up to 17 CCO’s would participate (as of this writing only four hospitals have signed up) and be eligible to derive funding from the program.

The legislation set aside \$28 million for a temporary bridge program to continue the original GAMC for an extra month beyond its planned end at reduced payment rates. At the end of the bridge program, the new program would have a coordinated care pool of funding that would compensate the CCO’s for the care they provided, as well as a drug payment pool to cover pharmaceutical costs. The coordinated care pool was fixed at an annual rate of \$65.5 million and the drug payments were fixed at \$41.5 million annually. The previous GAMC program was a forecasted program and dollars were provided to meet the costs of care provided. The new program provides a fixed amount to be shared by providers to the extent of the appropriation, and the unmet payments become uncompensated care at a cost to the provider. The fixed appropriations of the new GAMC program would be roughly equal to one quarter of the forecasted funding for the former GAMC program, and no growth in expenditures would occur unless the legislature specifically were to provide increase in future legislative sessions. The ongoing cost of the new program is a net \$98.7 million annually from the general fund after forecasted drug rebates.

The passage of the new program also had a direct impact on the general fund for the current biennium. Because the new program prevented a migration of enrollees from GAMC to MinnesotaCare, the general fund was to benefit by \$147 million in FY 2010-11. This was due to the fact that the health care access fund would stay in positive territory through the FY 2010-

11 biennium (due to GAMC enrollees staying in a GAMC program and not transitioning to MNCare) and would not require the transfer in of \$99 million from the general fund to keep it solvent, as well as having enough funding to complete the annual transfer of \$48 million from the health care access fund to the general fund as required by statute. The health care access fund, however, is still projected to go into deficit in FY 2012 and have an over \$500 million deficit at the end of FY 2013 if the legislature does not make changes to the MNCare program or if the next governor does not opt into the new Medicaid program.

Un-Allotment Ratification

During the 2009 legislative session, budget negotiations between the governor and the legislature had reached an impasse. At the time, the legislature had passed a series of budget bills that made several budget reductions and a tax package to solve the projected deficit. The governor used his authority to sign the legislative budget bills, veto the tax bill and call upon his presumed statutory authority to “un-allot” or unilaterally make budget reductions to solve the remaining deficit gap.

The approach the governor had used to make the budget reductions had not been tried before and was eventually challenged in court when a target of one of the reductions filed suit. The lawsuit would put in doubt the legitimacy of over \$2.4 billion in budget reductions, and while the matter was tied up in court, the governor put into his 2010 budget a request that the legislature ratify his un-allotment actions. The legislature did not immediately move on ratifying the actions and waited for the court to deliver a ruling.

The state Supreme Court eventually ruled against the governor’s 2009 actions. The legislature then acted to pass into law most of the un-allotments in a negotiated budget deal with the governor.

In the area of Health and Human Services, the legislature adopted a package of one-time reductions and payment delays that would reduce spending by \$165 million for the biennium. Of the total, \$5 million would come from reductions to the agency, \$30 million would be the result of one-time payment delays or budget “shifts” and the balance would be short term programmatic changes that would reduce services. The largest of which was a reduction of \$18.4 million in pass through money for Children and Community Services grants.

The Omnibus Budget Bill

The Health and Humans Services budget provisions for the remainder of the fiscal 2010-2011 biennium can be found in Laws of 2010 First Special Session, Chapter 1. As it currently stands, the provisions for Health and Human Services will show up in end of session budget documents as having reduced \$44 million dollars of general funds spending (excluding the un-allotment article) but that does not tell the whole story. The real affect of the legislation on the state’s budget will not be known until January of 2011 when the new governor decides whether the state should begin a new health care program for single adults under special federal legislative provisions, or wait to begin the program at a later date. That decision will have a large impact on the general fund as well as the health care access fund.

The New Medical Assistance (MA) Program, Adults Without Children

Medical Assistance is a federal program that provides health care for low income people. The program, however, did not cover all low income persons. In order to qualify for Medicaid services, a person had to be low income and disabled, elderly, a child or the parent of a child. An adult who was able bodied and did not have a child, did not qualify for benefits. With the passage of federal health care reform MA has been expanded to allow for adults without children to qualify for health coverage up to 133percent of the federal poverty guidelines.

The new coverage for adults without children begins nationwide in January 2014, but the passage of the federal health care reform legislation also included a provision that several states could opt into this new MA for Adults Without Children several years earlier. As one of the states included in the legislation allowed to begin the program early, the Minnesota legislature sought ways to cover single adults up to 75 percent of the federal poverty guidelines and begin the program in July of 2010. Covering adults up to 75 percent of federal poverty levels (\$8,122 of annual income or less for a single adult) would include the entire population in the new GAMC program as well as several thousand persons currently enrolled in MinnesotaCare.

The new program would potentially bring in hundreds of millions in federal dollars to support public health care in Minnesota over the next few years, but it would not be without additional cost to the state. States that qualified for an early launch of the new program would not get enhanced federal participation (FMAP) on the new Medicaid program, but would get the rate their state typically qualifies for. In Minnesota, Medicaid programs are a 50/50 split, and the state would pick up 50 percent of the new program through the end of calendar 2013.

While most of those eligible for the new coverage are currently covered by GAMC and MinnesotaCare, switching to MA coverage would provide some benefit. Those currently covered by MinnesotaCare, a program paid for almost entirely with state dollars, would switch to a program where the federal government picks up half the cost and would provide relief to a health care access fund that will soon fall into deficit. For those in the new GAMC program, switching to MA would provide more comprehensive coverage as well as better reimbursement to health care providers in this state, but the coverage would also increase the cost to the state's general fund over the cost of the GAMC program.

Had Minnesota opted into the program at the time of legislative passage, the added net cost to the general fund would have been \$188 million between now and the start of the nationwide roll out in 2014. Governor Pawlenty chose not to opt in but the option still exists for a new governor to use the authority in law to do opt in until January 15, 2011. While it is unclear what exact figures will be in the next forecast, opting in to the program in January will add close to \$100 million or more in general fund expenditures but may resolve the health care access fund deficit problem by moving many enrollees out of MNCare. Projections of the original costs of the program are subject to revision in upcoming forecasts.

Other Omnibus Bill Provisions

It is once again difficult to quantify the effect on the general fund from the Health and Human Services Omnibus bill without knowing whether or not the next governor will choose to launch

Medical Assistance for Adults Without Children in January. All estimates and assumptions were for launching the new MA program were based on a July 1, 2010 start date and will be adjusted upward or downward in future forecasts. If the next governor chooses to opt in, the net effect of the bill on the general fund is a savings of \$54 million in the FY 2010-11 biennium, and a reduction of \$68 million in FY 2012-13. It would also result in a positive balance in the health care access fund. Without an early launch for the new MA program, the general fund savings for FY 2010-2011 would be \$123 million, with an additional reduction of \$427 million in FY 2012-13. But this choice would also leave the health care access fund with a projected deficit of over \$240 million by the end of fiscal year 2013. The choice to move ahead with the new MA program involves over 80,000 publicly funded health care enrollees and millions of dollars from different funding sources. The net difference between opting in and not opting (estimates based on a July 1, 2010 start date) is an increase of general fund spending of \$188 million.

There were various funding adjustments made to human service programs, but the legislature was able to avoid reductions to nursing homes and other long term care providers.

Highlights of Human Services funding adjustments include:

- Reductions in mental health funding of \$4.5 million for the FY 2010-11 biennium. Includes \$3.3 million in housing supports overspending reduction and small grant reductions for crisis intervention, cultural specific treatment, and children's mental health specialty care.
- A five percent reduction in the rates paid to providers of chemical dependency treatment for a savings in the current biennium of \$2.4 million.
- Elimination of the work participation cash bonus in the MFIP program. The change saves \$1.5 million in FY 2011.
- A refinance of \$7.5 million in unused Basic Sliding Fee money from Temporary Assistance for Needy Families.
- A cut to Children and Community Service grants to counties of \$16.75 million in FY 2011.
- A rate cut to medical specialty care providers yielded \$5.8 million in the FY 2010-11 biennium.
- An increase of \$463,000 to food shelves for FY 2010-11.
- Reducing the caps on Disabilities Waiver growth saves a projected \$2 million for the biennium.
- Increasing the managed care withhold (payment delay) by 2 percent saved an estimated \$5.9 million in FY 2011.
- Adjusting Medicaid rates down to be equal to Medicare rates whenever the Medicare rate was lower saved an additional \$5 million in FY 2011.
- The legislature implemented a 1.96 percent rate cut to inpatient hospital stays beginning in the FY 2012-13 biennium.
- Ending Minnesota Disability Health Options (MNDHO) early saved \$2.3 million in FY 2011.

- Cuts to the Critical Access Dental Program will save \$2.4 million in FY 2011.
- A 15 percent rate cut paid to HMO's for MNCare Adults without children saves \$22 million in health care access fund in FY 2011.
- Cuts to managed care organization capitation rates of three percent yielded a savings of \$28 million general fund and \$13 million from the health care access fund in FY 2011.
- The legislature postponed hospital rebasing (automatic inflationary rate increases) until beyond to FY 2012-13 biennium. The provision saves the general fund nearly \$104 million over a three year period, and \$9.2 million in the current biennium.
- The legislature provided \$8.1 million dollars to prevent the department from a plan to close State Operated Services beds in facilities throughout the state. The move will keep additional capacity in facilities in Mankato, Eveleth, Wadena, and Willmar.
- The Department of Human Services will also receive a cut of \$2.5 million to the central office. This reduction will only net a \$1.5 million dollar savings after the loss of federal match and likely result in some layoffs in the department.

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

Higher Education

The Higher Education budget provides funding for public institutions of higher education and for student financial aid and related programs. Agencies/accounts with changes in this area include the Minnesota State Colleges and Universities, the Office of Higher Education and the University of Minnesota. This summary includes the changes enacted in Laws 2010, Chapter 215 and Laws 2010, 1st Special Session, chapter 1. These chapters of law make changes in expenditures that result in net General Fund reductions of \$147.154 million in the FY 2010-11 biennium and \$109.090 million in the FY 2012-13 biennium. Changes by agency/account are summarized in the table below. Details of the changes are outlined by agency.

Higher Education Finance-2010 Supplemental Budget <i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
Minnesota State Colleges and Universities	0	(60,467)	(60,467)	(24,536)	(24,536)	(49,072)
Office of Higher Education	1,350	(1,917)	(567)	(2,158)	(2,158)	(4,316)
University of Minnesota	0	(86,120)	(86,120)	(27,851)	(27,851)	(55,702)
Subtotal Expenditure Changes:	1,350	(148,504)	(147,154)	(54,545)	(54,545)	(109,090)
General Fund Revenue Changes						
Subtotal Revenue Changes:	0	0	0	0	0	0
Net General Fund Change:	1,350	(148,504)	(147,154)	(54,545)	(54,545)	(109,090)
Non-General Fund Changes						
Special Revenue Fund						
Office of Higher Education-Private College Registration Fee Increase	0	74	74	74	74	148
Office of Higher Education-Pell Grant Accreditation Requirement Fee	0	7	7	7	7	14
Net Fund Changes:	0	81	81	81	81	162
Higher Education Services Office SELF Loan Fund						
SELF Loan Program Changes/SELF V financing	0	10,000	10,000	15,000	15,000	30,000
Net Fund Changes:	0	10,000	10,000	15,000	15,000	30,000

Minnesota State Colleges and Universities (MnSCU)

The 2010 enacted budget reduces General Fund expenditures for MnSCU by \$60.467 million for FY 2010-11 and \$49.072 million in FY 2012-13. Within these totals specific reductions are:

- The central office appropriation is reduced by \$2.579 million in FY 2011 and in each year of the FY 2012-13 biennium.
- The system operations and maintenance appropriation is reduced by \$57.888 million in FY 2011 and by \$21.957 million each year in the FY 2012-13 biennium.

The reduction in FY 2010-11 for MnSCU and the U of M combined represent the maximum reduction possible for the two higher education systems under federal maintenance of effort requirements in the American Recovery and Reinvestment Act (the federal stimulus bill).

Office of Higher Education (OHE)

The 2010 enacted budget reduces General Fund expenditures for OHE by \$567,000 for FY 2010-11 and \$4.3 million in FY 2012-13. Within these totals specific reductions are:

- The agency administrative appropriation is reduced by \$295,000 in FY 2010-11 and by \$316,000 each year in the FY 2012-13.
- The MINITEX/MNLINK electronic library program is reduced by \$205,000 in FY 2011. This is a one-time reduction.
- The Work Study program is reduced by \$1.768 million in FY 2011. This is a one-time reduction.
- The Interstate Tuition Reciprocity program is increased by \$1.751 million for FY 2010-11. This is a one-time appropriation.
- The Technical College/Community College Emergency Grant pilot program is reduced in FY 2011 by \$50,000. The program is one-time only.
- The base of the Achieve Scholarship program is reduced by \$2 million each year in the 2012-13 biennium.

University of Minnesota (U of M)

The 2010 enacted budget reduces General Fund expenditures for the U of M by \$86.12 million for FY 2010-11 and \$55.702 million in FY 2012-13. Within these totals specific reductions are:

- The system operations and maintenance appropriation is reduced by \$76.829 million in FY 2011 and by \$18.560 million each year in the FY 2012-13 biennium.
- The Agriculture and Extension Service special appropriation is reduced by \$2.787 million in FY 2011 and by an additional \$3.858 million each year in the FY 2012-13 biennium.
- The Health Sciences special appropriation is reduced by \$281,000 in FY 2011 and by an additional \$389,000 each year in the FY 2012-13 biennium.
- The Institute of Technology special appropriation is reduced by \$74,000 in FY 2011 and by an additional \$102,000 each year in the FY 2012-13 biennium.
- The System special appropriation is reduced by \$328,000 in FY 2011 and by an additional \$454,000 each year in the FY 2012-13 biennium.

- The University-Mayo Partnership Genomics special appropriation is reduced by \$427,000 in FY 2011 and by an additional \$591,000 each year in the FY 2012-13 biennium.

The reduction in FY 2010-11 for the U of M and MnSCU combined represent the maximum reduction possible for the two higher education systems under federal maintenance of effort requirements in the American Recovery and Reinvestment Act (the federal stimulus bill).

For more information, contact Doug Berg, Fiscal Analyst, 651-296-5346 or doug.berg@house.mn

K-12 Education Finance

The 2010 Legislature passed a budget that was enacted by Governor Tim Pawlenty that included \$1.96 billion in general fund savings in K-12 education programs for the 2010-11 biennium, and \$1.27 billion in general fund costs for the FY 2012-13 biennium. These changes come primarily in the form of changing the schedule for payments of state aid to school districts, not in actual revenue reductions for the districts.

K-12 Finance - Governor's Supplemental Recommendations						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
MDE - Agency Operating Budget Reduction	(795)	(1,132)	(1,927)	(1,132)	(1,132)	(2,264)
Subtotal Expenditure Changes:	(795)	(1,132)	(1,927)	(1,132)	(1,132)	(2,264)
Net General Fund Change, excluding shifts:	(795)	(1,132)	(1,927)	(1,132)	(1,132)	(2,264)
General Fund Shift savings						
MDE - Property Tax Recognition Adjustment Shift Set at 48.6%	0	(576,193)	(576,193)	(52,480)	(58,132)	(110,612)
MDE - School Aid Payment Percentage at 70% / 30%	(1,056,808)	(314,338)	(1,371,146)	1,371,146	0	1,371,146
MDE - School Aid Payment Percentage at 70% / 30% (Aid/Credits)	(11,750)	(2,164)	(13,914)	13,914	0	13,914
Subtotal Shift Changes:	(1,068,558)	(892,695)	(1,961,253)	1,332,580	(58,132)	1,274,448
Net K-12 (excl. Aid/Credit) General Fund Change, including shifts:	(1,057,603)	(891,663)	(1,949,266)	1,317,534	(59,264)	1,258,270
Net General Fund Change, including shifts:	(1,069,353)	(893,827)	(1,963,180)	1,331,448	(59,264)	1,272,184

The changes (for the FY 2010-11 general fund budget unless otherwise noted) include:

Minnesota Department of Education

\$1.4 billion in savings in K-12 education programs and \$13.9 million in savings in property tax aids and credits from changing the payment schedule for payment of state aid to school districts. Under current law, districts are paid 90 percent of their current year's aid in the current state fiscal year, and 10 percent in the subsequent year. This payment percentage is changed to 73 percent / 27 percent for FY 2010 and 70 percent / 30 percent for FY 2011. This change moves, on a one-time basis, a portion of the payments due to districts into a later fiscal year, resulting in one-time state aid savings. For FY 2012, the payment percentage is changed back to 90 percent / 10 percent, which will require additional state aid payments of \$1.4 billion in K-12 education programs and \$13.9 million in property tax aids and credits. These additional payments in FY 2012 are equal to the savings in FY 2010 and FY 2011.

\$576.2 million in savings from an ongoing change in when school districts recognize their property tax receipts as revenue. Under current law, school districts recognize all property tax payments made in a calendar year as revenue for the fiscal year that starts in June of that calendar year. (For example, May and October 2011 property tax payments are recognized as revenue for FY 2012.) This change requires that districts recognize 48.6 percent of payments made in a calendar year (or an amount almost equivalent to the May payment) as revenue for the

fiscal year that is ENDING in that calendar year. So, for example, most of the May 2011 payment will be recognized as revenue for FY 2011 instead of for FY 2012. Because this additional property tax revenue is counted as revenue for a different fiscal year, the state can reduce its aid payments in the first year of the institution of that shift by the amount of additional property tax revenue recognized by the district, resulting in state aid savings.

\$938,000 in savings from a three percent reduction in the agency's unspent operating funds.

Non-Appropriation Changes

Under current law (M.S. 127A.46), the Commissioner of Management and Budget is required to delay payments to school districts with fund balances greater than \$150 per pupil within a fiscal year (and only the amount above \$150 per student) if delaying those payments will prevent the state from having to enter into short term cash flow borrowing. This provision is changed so that the Commissioner may delay (but is not required to delay) payments to districts, and can only delay payments to those with fund balances greater than \$700 per pupil, and only the amount above \$700 per pupil.

Implications

School districts use accrual accounting, so all revenues DUE in a fiscal year count as revenue for that year, regardless of when they are received. As a result, all of the revenue "lost" due to the state shifting payments from one fiscal year to the subsequent fiscal year through aid payment or property tax shifts is actually still counted in school districts' books as revenue for the year it is obligated to the school districts. However, while school districts can count the revenue, since they don't actually have the money, these changes can create cash flow issues for them. As a result, districts incur interest costs as they are forced to spend out of their fund balances, which results in lost interest earnings, or borrow money to cover their cash flow, which carries and interest cost. The change to Minnesota Statutes, Section 127A.46 does have the potential result of reducing districts' cash flow problems, in that the state is not required to delay payments to districts within a fiscal year, as happened in FY 2010, and if payments are delayed, the amounts should be lower.

For additional in-depth discussion of aid payment shifts and property tax recognition shifts for Minnesota Schools, please review the House Fiscal Analysis paper *State Education Funding Accounting Shifts*, available at <http://www.house.leg.state.mn.us/fiscal/files/09edshifts.pdf>

For more information, contact Greg Crowe, Fiscal Analyst, 651-296-7165 or greg.crowe@house.mn

Public Safety Finance

The 2010 Legislature approved an overall reduction in criminal justice spending of \$22.651 million for FY 2010-11 and \$32.416 million in FY 2012-13. It also recommends \$12.772 million in revenue transfers to the general fund. The total impact on the general fund of this is \$35.423 million. Actions of the 2010 session changing the funding of these activities were enacted in Laws 2010, Chapter 215 Article 11. The net effect by agency is summarized in the table below. Details of the changes are outlined by agency.

Public Safety Finance - 2010 General Fund Supplemental Budget						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
Supreme Court	(479)	(972)	(1,451)	(972)	(972)	(1,944)
Court of Appeals	(107)	(217)	(324)	(217)	(217)	(434)
District Courts	(2,732)	(5,549)	(8,281)	(5,549)	(5,549)	(11,098)
Tax Court	(12)	(25)	(37)	(25)	(25)	(50)
Uniform Laws Commission		(2)	(2)	(2)	(2)	(4)
Board of Judicial Standards	(10)	(14)	(24)	(14)	(14)	(28)
Public Defense Board	(591)	(1,302)	(1,893)	(1,302)	(1,302)	(2,604)
Department of Public Safety	(1,038)	(483)	(1,521)	(2,083)	(2,083)	(4,166)
Private Detective Board	(2)	(3)	(5)	(3)	(3)	(6)
Human Rights Department	(59)	(103)	(162)	(103)	(103)	(206)
Department of Corrections	(3,002)	(5,920)	(8,922)	(5,920)	(5,920)	(11,840)
Sentencing Guidelines	(11)	(18)	(29)	(18)	(18)	(36)
Subtotal Expenditure Changes:	(8,043)	(14,608)	(22,651)	(16,208)	(16,208)	(32,416)
General Fund Revenue Changes						
GF transfer in from MINNICOR Program	574	1,170	1,744	0	0	0
GF transfer in from DOC Special Revenue Fund	201	402	603	0	0	0
GF transfer in from Fire Safety Account	6,900	3,600	10,500	0	0	0
GF transfer in from POST BD Sepcial Revenue Account	8	(83)	(75)	17	17	34
Subtotal Revenue Changes:	7,683	5,089	12,772	17	17	34
Net General Fund Change:	(15,726)	(19,697)	(35,423)	(16,225)	(16,225)	(32,450)

Supreme Court

Funding was decreased by \$1.451 million for FY 2010-11 and \$1.944 million for FY 2012-13. This is broken down as follows:

- \$1.027 million in FY 2010-11 and \$1.376 million in FY 2012-13 for operating reductions.
- \$424,000 in FY 2010-11 and \$568,000 in FY 2012-13 for a reduction in grants for civil legal services.

Court of Appeals

Funding was decreased \$324,000 for FY 2010-11 and \$434,000 for FY 2012-13.

District Courts

Funding was decreased by \$8.281 million for FY 2010-11 and \$11.098 million for FY 2012-13.

Tax Court

Funding was decreased by \$37,000 for FY 2010-11 and \$50,000 for FY 2012-13.

Uniforms Law Commission

Funding was decreased by \$2,000 for FY 2010-11 and \$4,000 for FY 2012-13.

Board of Judicial Standards

Funding was decreased by \$24,000 for FY 2010-11 and \$28,000 for FY 2012-13.

Public Defense Board

Funding was decreased by \$1.893 million for FY 2010-11 and \$2.604 million for FY 2012-13.

Department of Public Safety

General fund appropriations were reduced by \$1.521 million for FY 2010-11 and \$4.166 million for FY 2012-13, and \$10.7 million was transferred from the Fire Safety Account in the Special Revenue Fund to the General Fund. The following is a breakdown of the changes:

- A one- time appropriation of \$1.6 million in FY 2011 for the state and local share for disaster assistance.
- A one- time appropriation of \$3.691 million in FY 2011 for the state and local share for disaster assistance for the 2010 floods (this is found in chapter 377).
- A decrease in funding for Homeland Security and Emergency Management of \$86,000 for FY 2010-11 and \$114,000 for FY 2012-13.
- A decrease in funding to the Bureau of Criminal Apprehension of \$1.614 million for FY 2010-11 and \$2.15 million for FY 2012-13.
- A decrease in funding to the Gambling and Alcohol Enforcement Program of \$74,000 for FY 2010-11 and \$98,000 for FY 2012-13.
- A decrease in funding to the Office of Justice Programs of \$1.347 million for FY 2010-11 and \$1.8 million for FY 2012-13.
- An increase in funding to the Fire Marshal Division of \$2 million from the fire safety account in FY 2011 for fire safety purposes
- A transfer of \$10.7 million for FY 2010-11 from the fire safety account to the general fund. This is a one-time transfer.

POST Board

- A decrease in funding operations support of \$25,000 for FY 2010-11 and \$34,000 for FY 2012-13.
- A onetime increase in training funds of \$100,000 in FY 2011.

Private Detective Board

Funding was reduced by \$5,000 for FY 2010-11 and \$6,000 for FY 2012-13.

Human Rights Department

Funding was reduced by \$162,000 for FY 2010-11 and \$206,000 for FY 2012-13.

Department of Corrections

Funding was reduced by \$8.922 million for FY 2010-11 and \$11.840 million for FY 2012-13. The following is a description of the change items:

- State funding for the Sentencing-to-Service program was reduced by \$2.298 million in FY 2010-11 and \$3.064 million in FY 2012-13.
- An agency-wide reduction of \$6.624 million in FY 2010-11 and \$8.776 million in FY 2012-13.
- A transfer of \$1.744 million in FY 2010-11 from the department's prison industry program to the general fund. This is a one- time transfer.
- A transfer of \$603,000 in FY 2010-11 from the department's special revenue fund to the general fund. This is a one -time transfer.

Sentencing Guidelines Commission

Funding was reduced by \$29,000 for FY 2010-11 and \$36,000 for FY 2012-13.

For further information contact Gary Karger at 651-296-4181 or gary.karger@house.mn.

State Government

The supplemental budget for the State Government Finance Division decreased the General Fund deficit by a net change of \$36.6 million in FY 2010-11 biennium.

State Government Finance - Supplemental Appropriations						
<i>(Dollars in thousands)</i>						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
Administration	(100)	(619)	(719)	(650)	(650)	(1,300)
Administrative Hearings	(8)	(8)	(16)	(8)	(8)	(16)
Attorney General	(436)	(954)	(1,390)	(954)	(954)	(1,908)
Campaign Finance & Public Disclosure Board	(28)	(8)	(36)	(22)	(22)	(44)
Capitol Area Architect Board	(6)	(11)	(17)	(11)	(11)	(22)
Councils:						
Asian-Pacific Minnesotans	(5)	(8)	(13)	(8)	(8)	(16)
Black-Minnesotans	(5)	(9)	(14)	(9)	(9)	(18)
Chicano-Latino Affairs	(6)	(9)	(15)	(9)	(9)	(18)
Indian Affairs	(9)	(14)	(23)	(14)	(14)	(28)
Enterprise Technology Office	(241)	(299)	(540)	(299)	(299)	(598)
Governor's Office	(145)	(227)	(372)	(227)	(227)	(454)
Investment Board	(2)	(5)	(7)	(5)	(5)	(10)
Legislature	(821)	(1,963)	(2,784)	(1,352)	(1,352)	(2,704)
Minnesota Management & Budget (MMB)	(845)	(1,058)	(1,903)	(1,058)	(1,058)	(2,116)
MMB Non-Operating: ARRA Contingency	(750)		(750)			0
MN Amateur Sports Commission (MASC)	(4)	(9)	(13)	(9)	(9)	(18)
Revenue Department	(1,692)	4,429	2,737	4,429	4,529	8,958
Secretary of State	(104)	(250)	(354)	(250)	(250)	(500)
State Auditor	(32)	(78)	(110)	(78)	(78)	(156)
All Agencies: Additional Operating Budget Reduction	0	(3,000)	(3,000)	(3,000)	(3,000)	(6,000)
Mpls. Employees Retirement (MERF) - Additional Aid				13,750	13,750	27,500
Subtotal Expenditure Changes:	(5,239)	(4,100)	(9,339)	10,216	10,316	20,532
General Fund Revenue Changes (positive # is a revenue gain)						
Administration - Transfer of Contributed Capital (Central Stores)	371	31	402	0	0	0
Administration - Transfer from Special Revenue	7		7	0	0	0
Administration - Recycling Revenue Loss	0	(115)	(115)	(115)	(115)	(230)
Secretary of State - Fee Loss	0	(2)	(2)	(2)	(2)	(4)
Governor's Office - Transfer from Special Revenue	10	32	42	0	0	0
MN Management & Budget - Transfer from Special Revenue	9	11	20	0	0	0
Racing Commission - Transfer from Special Revenue Fund	19	29	48	0	0	0
Revenue: Additional Tax Compliance		26,865	26,865	26,865	26,865	53,730
Subtotal Revenue Changes:	416	26,851	27,267	26,748	26,748	53,496
Net General Fund Change:	(5,655)	(30,951)	(36,606)	(16,532)	(16,432)	(32,964)
Non-General Fund Changes						
Special Revenue Fund						
Transfers to General Fund from Various Agencies	(45)	(72)	(117)	0	0	0
Net Special Revenue Changes:	(45)	(72)	(117)	0	0	0
Central Stores						
Contributed Capital Transferred to General Fund	(371)	(31)	(402)	0	0	0

This change includes expenditure reductions of \$9.3 million, and net revenue increases of \$27.3 million. The recommended net decrease in the General Fund deficit in the FY 2012-13 biennium is \$32.96 million, with expenditure cuts of \$20.5 million and new revenues of \$53.5 million. Most change affecting State Government Finance programs were included in 2010 Laws, Chapter 215.

Legislature

Chapter 215 includes a total reduction of \$2.8 million in FY 2010-11, and \$2.7 million for FY 2012-13. Of the cut for FY 2010-11, \$4.1 million is an operating budget reduction, and \$536,000 is a cancellation from carryforward accounts.

Chapter 215 includes the following reductions:

Legislature: General Fund Reductions		
<i>(\$ in thousands)</i>		
	<u>FY 2010-11</u>	<u>FY 2012-13</u>
Operating Budget Reduction		
House	(1,796)	(2,602)
Senate	(1,336)	(1,962)
Leg. Coordinating Commission	(924)	(1,306)
Carryforward Reductions (one-time)		
House	(305)	
Senate	(126)	
Legislative Coordinating Commission	<u>(105)</u>	
Total Legislature	(4,592)	(5,870)

Constitutional Offices

Governor

A total General Fund reduction to the Governor's office of \$210,000 in FY 2010-11, and \$454,000 in FY 2012-13 was approved. The special revenue account expenditures for his office, which consist of state agency contributions towards the Governor's government relations staff, are also reduced by 3 percent for a total of \$42,000 in FY 2010-11. These special revenue fund savings are transferred to the General Fund.

Attorney General

The Attorney General's office received a General Fund reduction of \$1.39 million for FY 2010-11, and \$1.9 million for FY 2012-13.

Secretary of State

The Secretary of State's budget was reduced by \$354,000 for FY 2010-11, and \$500,000 for FY 2012-13. Because the SOS must meet federal maintenance of effort (MOE) requirements for its election activities, most reductions must be allocated to the business services program. In

anticipation of additional budget cuts, the SOS has chosen to not fill 4 business service specialist positions and has also held several administrative positions open.

State Auditor

The State Auditor received a General Fund reduction of \$110,000 for FY 2010-11, and \$156,000 for FY 2012-13. The reductions are calculated as a three percent cut against the State Auditor's non-reimbursable activities.

State Agencies

Administration

The Governor recommends a total General Fund reduction of \$335,000 for FY 2010-11, and \$1.1 million for FY 2012-13:

- \$327,000 each year beginning in FY 2011 is a cut to the Resource Recovery (recycling) program, leaving a balance of \$134,000 for this program. The department plans to solicit competitive bids for these services, hoping to find a lower cost way to provide recycling services to agencies. If the cut is enacted, most costs for the recycling services will be passed onto customer agencies.
- \$216,000 is a one-time transfer of contributed capital from the closed office supply connection internal service fund. A balance of \$265,000 in contributed capital would be held in reserve in the fund until all closing expenses have been covered.
- \$7,000 in FY 2010 is a one-time transfer from various special revenue accounts, including the balance from the closed commuter van program.

Administrative Hearings Office (OAH)

OAH received a three percent per year operating budget reduction, totaling \$16,000 for each biennium.

Campaign Finance & Public Disclosure Board

The Legislature approved a total reduction of \$36,000 in FY 2010-11, and \$44,000 for the FY 2012-13 biennium.

Capitol Area Architecture & Planning Board (CAAPB)

The enacted cut for the CAAPB is \$17,000 for FY 2010-11, and \$22,000 for FY 2012-13.

Minnesota Management & Budget (MMB, formerly Finance Dept.)

Total cuts of \$985,000 in FY 2010-11, and \$2.1 million for FY 2012-13. MMB will address these operating budget reductions by not filling all vacancies left by staff moved to project funding for the accounting / procurement system replacement project (SWIFT).

The Legislature also approved \$20,000 in one-time transfers from special revenue accounts for the combined charities campaign and an account for internal technology services.

MMB Non-Operating:

- **ARRA Contingency:** Chapter xx includes cancellation of \$750,000 in one-time funds provided as matching funds for American Recovery and Restoration Act appropriations.
- **Governor-Elect transition costs:** \$162,000 is provided from the general fund contingency account to MMB for expenses of the governor-elect. Previous law (MS 4.51) requires that an amount equal to 1.5 percent of the Governor’s office appropriation be transferred from the contingent account for these expenses. At current budget levels, this transfer would be approximately \$54,000, so the new law is a \$108,000 increase over current law for the new Governor’s transition. Because these funds come from an existing appropriation to the contingent account, this change did not require new appropriations.

Additional Operation Budget Reduction – All Executive Branch Agencies

MMB will work with the Department of Administration and Office of Enterprise Technology to look for “enterprise-wide actions” to identify savings opportunities. Some ideas include consolidation of information technology functions, improved space utilization, and reductions in professional / technical or other contracts.

If these enterprise-wide savings cannot be achieved, any amount short of the \$3 million each year would be allocated as additional reductions to individual agency operating budgets.

Office of Enterprise Technology (OET)

The Legislature approved a total General Fund reduction of \$280,000 for FY 2010-11, and \$598,000 for FY 2012-13. The majority of OET’s funding is provided through the OET internal service fund, so these reductions are targeted to the two general fund programs:

- Enterprise Planning and Management – \$280,000 for FY 2010-11 and \$530,000 in FY 2012-13. This reduction will be managed through salary savings from unfilled management and student worker positions. In addition, the office will cut back on consulting costs for enterprise initiatives and take reductions in other operating expenses as necessary.
- Enterprise IT Security – \$68,000 for FY 2012-13. This reduction will be managed by not filling a planned position dedicated to serve as the vulnerability and threat management liaison for small and mid-sized agencies.

Racing Commission

The Legislature approved a transfer \$19,000 in FY 2010, and \$29,000 in FY 2011, from the board’s special revenue account to the General fund.

Revenue Department

The Legislature approved a total increase of \$2.7 million for FY 2010-11, and \$8.95 million for FY 2012-13. This increase is the net impact of operating reductions to the compliance support functions, and new funding for continuation of tax compliance initiative funded in the 2009 session:

Operating Reductions and Unallotment Ratification: Reductions of \$2.04 million for FY 2010-11, and \$4.44 million for FY 2012-13 were enacted. These cuts will result in a reduction of 22 positions in the non-compliance program areas of the department. The impacts from both of these items include:

- Slight delays in the processing of paper filed state tax returns, payments and refunds.
- Cancellation of planned investments in technology and upgrades to outdated systems.
- Scaling back of some support services, including: taxpayer and employee informational services and instructional services to local government officials, taxpayers and tax practitioners.

Tax Preparer E-File Requirements change: Administrative savings of \$78,000 each year, beginning in FY 2011. This proposal would require tax preparers to file electronically if they prepare more than 10 income tax returns.

Compliance Initiative:

\$6.7 million per year, beginning in FY 2011, would be added to the tax compliance initiative funded by the 2009 legislature. This initiative is projected to bring in an additional \$26.87 million per year in revenue, for a net gain of \$20.1 million each year.

Department of Revenue: Expanded Compliance Initiative		
	FY 10-11	FY 12-13
New expenditures	6,727	\$13,454
New revenues	26,865	53,730
Net General Fund change	20,138	40,276

Approximately 70 FTE would be added, mostly comprised of Revenue Tax Specialists and Revenue Collection Officers. For every 13 FTEs in this number, there would be an additional one supervisory position. The department may face some challenges in finding space for these additional FTEs. It is examining several options, from converting file room usage to office space, “hoteling” employees (employees share cubes), expanding the use of telecommuting for employees, and looking at space in other state buildings.

State Board of Investment (SBI)

The Legislature approved a cut of \$7,000 in FY 2010-11, and \$10,000 in FY 2012-13 to the General Fund portion of the SBI’s budget. This represents a three percent reduction to the portion of the SBI’s budget that is directly related to the board’s investment of the General Fund. The majority of the SBI’s biennial budget - \$4.9 million for FY 2010-11 – is paid directly from the other funds invested by the board.

For more information, contact Helen Roberts, Fiscal Analyst, 651-296-4117 or helen.roberts@house.mn

Transportation

The Legislature passed a number of laws during the 2010 session affecting appropriations for transportation-related programs and activities. These laws included the following: Chapter 189 (capital budget); Chapter 215, Article 10 (first supplemental budget); Chapter 351 (omnibus transportation policy bill); First Special Session, Chapter 1, Article 10 (second supplemental budget); and, Chapter 388 (additional trunk highway bonding). In addition, Chapters 215, 311, 316, 320, 351, 366, and 388 affected general fund, highway user tax distribution fund, transit assistance fund, trunk highway fund, special revenue fund, and federal fund revenues.

Expenditure and revenue changes had a net positive impact on the general fund of \$27.8 million for the FY 2010-11 biennium and \$16.3 million for the 2012-13 biennium. Summary information on the impact by agency and revenue source is included in the table below and additional details on expenditure and revenue changes by agency are included later in this summary.

Table I: Transportation Finance and Policy Division - Supplemental Budget

(Dollars in thousands)

	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Expenditure Changes						
Department of Transportation	(\$24)	(\$3,128)	(\$3,152)	(\$953)	(\$953)	(\$1,906)
Metropolitan Council	(\$1,625)	(\$23,171)	(\$24,796)	(\$7,346)	(\$7,346)	(\$14,692)
Department of Public Safety	\$0	\$12	\$12	\$0	\$0	\$0
subtotal expenditure changes:	(\$1,649)	(\$26,287)	(\$27,936)	(\$8,299)	(\$8,299)	(\$16,598)
General Fund Revenue Changes						
Hazmat Reg. Program Repeal	\$0	(\$150)	(\$150)	(\$150)	(\$150)	(\$300)
Vehicle Crimes Unit	\$0	\$13	\$13	\$0	\$0	\$0
subtotal revenue changes:	\$0	(\$137)	(\$137)	(\$150)	(\$150)	(\$300)
Net General Fund Change:	(\$1,649)	(\$26,150)	(\$27,799)	(\$8,149)	(\$8,149)	(\$16,298)

As noted above, expenditure and revenue changes relative to the trunk highway fund, special revenue fund, highway user tax distribution fund, transit assistance fund, and federal fund were also enacted. Within the transportation area, the trunk highway fund had the highest net impact of any fund for each biennium. Expenditures from the trunk highway fund will increase by \$142.8 million in the FY 2010-11 biennium and by \$41.6 million in the FY 2012-13 biennium. Table II highlights expenditure and revenue changes enacted during the 2010 legislative session by fund (non-general fund changes only).

Table II: Transportation Finance and Policy Division - Supplemental Budget (Other Funds)

(Dollars in thousands)

	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Trunk Highway Fund Expenditure Changes						
MnDOT / State Road Construction	\$0	\$112,000	\$112,000	\$0	\$0	\$0
MnDOT / Federal Emergency Relief Account	\$0	\$5,000	\$5,000	\$0	\$0	\$0
MnDOT / Debt Service	\$0	\$3,215	\$3,215	\$13,626	\$27,990	\$41,616
MnDOT / Building Projects	\$22,800	\$0	\$22,800	\$0	\$0	\$0
DPS / Patrolling Highways	\$0	(\$191)	(\$191)	\$0	\$0	\$0
subtotal expenditure changes:	\$22,800	\$120,024	\$142,824	\$13,626	\$27,990	\$41,616
Trunk Highway Fund Revenue Changes						
Hazmat Registration Program Repeal	\$0	(\$80)	(\$80)	(\$80)	(\$80)	(\$160)
Grade Crossing Safety Account	\$0	(\$400)	(\$400)	(\$400)	(\$400)	(\$800)
State Road Construction – Federal Revenues	\$0	\$112,000	\$112,000	\$0	\$0	\$0
Truck Weights and Permits	\$0	\$29	\$29	\$29	\$23	\$52
Over Dimensional Load	\$0	\$18	\$18	\$4	\$4	\$8
subtotal revenue changes:	\$0	\$111,567	\$111,567	(\$447)	(\$453)	(\$900)
Net Trunk Highway Fund changes:	\$22,800	\$8,457	\$31,257	\$14,073	\$28,443	\$42,516
Special Revenue Fund Expenditure Changes						
MnDOT / Vehicle Crimes Unit	\$0	\$50	\$50	\$50	\$50	\$100
subtotal expenditure changes:	\$0	\$50	\$0	\$50	\$50	\$100
Special Revenue Fund Revenue Changes						
Grade Crossing Safety Account	\$0	\$400	\$400	\$400	\$400	\$800
Enhanced Driver's License	\$0	\$0	\$0	\$0	\$120	\$120
Special License Plates	\$0	\$137	\$137	\$89	\$89	\$178
subtotal revenue changes:	\$0	\$537	\$537	\$489	\$609	\$1,098
Net Special Revenue Fund changes:	\$0	(\$487)	\$0	(\$439)	(\$559)	(\$998)
Highway User Tax Distribution Fund						
DPS / Vehicle Crimes Unit – Expend. Change	\$0	\$179	\$179	\$693	\$693	\$1,386
Vehicle Crimes Unit - Revenue Change	\$0	\$114	\$114	\$484	\$484	\$968
Net Highway User Fund changes:	\$0	\$65	\$65	\$209	\$209	\$418
Transit Assistance Fund						
Vehicle Crimes Unit - Revenue Change	\$0	\$75	\$75	\$323	\$323	\$646
Net Transit Assistance Fund changes:	\$0	(\$75)	(\$75)	(\$323)	(\$323)	(\$646)
Federal Fund						
DPS / Ignition Interlock – Expend. Change	\$0	\$113	\$113	\$101	\$101	\$202
DPS / Ignition Interlock - Revenue Change	\$0	\$113	\$113	\$101	\$101	\$202
Net Federal Fund changes:	\$0	\$0	\$0	\$0	\$0	\$0

The legislature also passed a number of provisions requiring the Department of Transportation, Metropolitan Council, and Department of Public Safety to spend previously enacted appropriations in new ways; the new requirements will need to be done with no additional resources. The table below highlights these new requirements by agency and the amount agencies anticipate spending on these activities.

Table III: Transportation Finance and Policy - Other Enacted Finance Provisions*(Dollars in thousands)*

	FY 2010	FY 2011	FY 2010- 11	FY 2012	FY 2013	FY 2012- 13
Department of Transportation						
Bridge Insp. Quality Assurance Report (THF)	\$0	\$12	\$12	\$0	\$12	\$12
Guideway Investment (GEN or TAF)	\$0	\$0	\$0	\$3	\$0	\$3
MnDOT Mgmt Changes Report (THF)	\$0	\$19	\$19	\$0	\$0	\$0
Ped/Bike Accom. on TH Bridges (TH Bonds)	\$0	\$0	\$0	\$1,500	\$1,500	\$3,000
Greater MN Transit Finance (GEN or TAF)	\$0	\$10	\$10	\$10	\$10	\$20
Complete Streets Policy and Reports (THF)	\$0	\$6	\$6	\$19	\$0	\$19
Complete Streets Policy and Reports (CSAH)	\$0	\$4	\$4	\$9	\$0	\$9
Complete Streets Policy and Reports (MSAS)	\$0	\$1	\$1	\$3	\$0	\$3
Railroad Safety Technology Grants (GEN)	\$0	\$3	\$3	\$0	\$0	\$0
Grants to Nonprofit Job Training Centers (THF)	\$0	\$200	\$200	\$200	\$200	\$400
Operating Costs for Bus Service* (THF)	\$0	\$0	\$0	\$0	\$0	\$0
Stillwater Bridge Feasibility Study (THF)	\$0	\$80	\$80	\$0	\$0	\$0
Department of Transportation Total	\$0	\$335	\$335	\$1,744	\$1,722	\$3,466
Metropolitan Council						
Guideway Investment (GEN or TAF)	\$0	\$0	\$0	\$50	\$0	\$50
Department of Public Safety						
Over Dimensional Load (THF)	\$0	\$18	\$18	\$4	\$4	\$8
Enhanced Driver's License (SRF)	\$0	\$0	\$0	\$0	\$19	\$19
Special License Plates (SRF)	\$0	\$142	\$142	\$83	\$83	\$166
Department of Public Safety Total	\$0	\$160	\$160	\$87	\$106	\$193

* Up to \$250,000 was designated for this activity for FY 2011 from the State Road Construction appropriation.

Acronyms:

THF - Trunk Highway Fund

GEN - General Fund

MSAS - Municipal State-Aid Street Fund

SRF - Special Revenue Fund

TH Bonds - Trunk Highway Bonds

CSAH - County State-Aid Highway Fund

TAF - Transit Assistance Fund

Because there are a number of items in each of the three tables that are interrelated, it is important to examine the fiscal effect of entire provisions and how they relate to agency budgets. As an example, the repeal of the hazardous materials program impacts general fund revenues, trunk highway fund revenues, and the general fund appropriation for freight. Additional details by agency on each of the items highlighted in the above three tables follows.

Department of Transportation

- **Greater Minnesota Transit:** \$3.1 million reduction in the general fund appropriation for the FY 2010-11 biennium and \$1.8 million reduction for the FY 2012-13 biennium. This includes:
 1. An ongoing reduction of \$9,000 per fiscal year beginning in FY 2010 to ratify the Governor's unallotment actions;
 2. A \$2.2 million one-time reduction in fiscal year 2011 to assist with balancing the FY 2010-11 biennial budget. Of this reduction, \$1.5 million was included in First Special Session, Chapter 1 and \$725,000 was included in Laws 2010, Chapter 215;
 3. An ongoing reduction of \$960,000 per fiscal year beginning in FY 2011 to assist with the budget deficit in the FY 2012-13 biennium; and
 4. An increase of \$81,000 to assist with the administration of the Council on Transportation Access; a corresponding decrease can be found in the Metropolitan Council section of this document.
- **Freight:** \$50,000 ongoing decrease in the general fund appropriation beginning in FY 2011. This decrease is related to the hazardous materials repealer discussed below.
- **Commuter and Passenger Rail:** \$9,000 ongoing reduction in the general fund appropriation beginning in FY 2010 to ratify the Governor's unallotment actions.
- **State Roads and Related Building Projects:** \$143.0 million increase in state road appropriations from the trunk highway fund for the FY 2010-11 biennium and a \$41.6 million increase for the FY 2012-13 biennium. In addition, the general fund appropriation for the Electronic Communications budget activity was reduced by \$6,000 per fiscal year beginning in FY 2010. Below is a summary of the trunk highway fund changes:
 1. \$112.0 million increase in the FY 2011 appropriation from the trunk highway fund based on anticipated federal funds and additional advanced construction financing.
 2. Authorization of a \$5 million deposit into a new account titled the federal emergency relief account from the trunk highway fund in FY 2011. The new account was added to state statute. Along with the transfer of the \$5 million, Federal Highway Administration emergency relief reimbursements will be deposited into the new account. All funds within the account will be statutorily appropriated to the commissioner for approved emergency relief costs, and appropriations will not cancel.
 3. \$26.4 million in additional trunk highway bonds were authorized in Ch. 189 for a number of building projects, which resulted in \$118,000 in additional debt service costs in the FY 2010-11 biennium and \$1.3 million in the FY 2012-13 biennium.
 4. Advancement of \$200 million in trunk highway bonds from fiscal years 2017 and 2018 (\$100 million each year) to fiscal years 2011 and 2012. This resulted in \$1.6 million in additional debt service costs for the FY 2010-11 biennium and \$24.6 million in additional costs for the FY 2012-13 biennium.

5. \$22.8 million in trunk highway appropriations in FY 2010 for construction of the Maple Grove and Little Falls truck stations, Maplewood bridge crew building, and design fees related to the Willmar headquarters and Plymouth truck station.
 6. \$100.1 million in additional trunk highway bonds were authorized for road and interchange projects in Chapter 388 resulting in \$1.5 million in additional debt service costs in the FY 2010-11 biennium and \$15.8 million in the FY 2012-13 biennium.
- **Hazardous Materials Registration Program Repeal:** \$150,000 reduction in general fund receipts and \$80,000 reduction in trunk highway fund receipts by repealing the hazardous materials registration program. The Department spent approximately \$125,000 of the general fund freight appropriation administering this program. With a reduction of \$50,000 to the freight budget, discussed above, the freight activity will have approximately \$75,000 in additional funds per fiscal year.
 - **Grade Crossing Safety Account:** Chapter 351 increases the amount deposited in the Minnesota grade crossing safety account from \$600,000 to \$1.0 million beginning in FY 2011. The \$400,000 change will yield a decrease in trunk highway fund revenues. Revenues associated with this change are generated by traffic fines and forfeited bail money.
 - **Other Finance Provisions:** Chapters 311 and 320 included provisions impacting trunk highway fund revenues. The provisions relate to over dimensional loads, implements of husbandry, special-unit vehicles, and milk hauling permits. MnDOT estimated trunk highway fund revenues will increase by approximately \$47,000 in the FY 2010-11 biennium and \$59,000 in the FY 2012-13 biennium.

Chapters 311, 350, and 351 include requirements for MnDOT that necessitate the expenditure of additional funds. The following requirements will need to be done within existing appropriations. This includes the following:

1. **Stillwater Bridge Feasibility Study:** MnDOT expects it will cost the department \$80,000 in trunk highway fund resources in FY 2011 to conduct this study.
2. **Operating Costs for Bus Service:** Chapter 351 appropriates up to \$250,000 of the state road construction appropriation from the trunk highway fund for FY 2011 for the operating costs of bus service between Hastings and the Twin Cities. The appropriation for the state road construction budget activity was not increased by this amount, but rather, less funding will be available for other state road construction activities.
3. **Grants to Nonprofit Job Training Centers:** Chapter 351 designates \$200,000 of the infrastructure investment support appropriation for FY 2011 for grants to nonprofit job training centers. The appropriation for the infrastructure investment support budget activity was not increased by this amount.
4. **Railroad Safety Technology Grants:** MnDOT estimated that it will spend approximately \$3,000 of its general fund appropriation for FY 2011 setting up a grant program for railroad safety technology. This grant program was established in Chapter 351.

5. **Complete Streets Policy and Reports:** Chapter 351 also requires MnDOT to complete three reports related to MnDOT's complete streets initiatives. The department estimated it would cost \$11,000 in FY 2011 and \$31,000 in FY 2012 to complete the reports, and the funding would come from existing trunk highway, county state aid highway, and municipal state aid street appropriations.
6. **Greater Minnesota Transit Finance:** Chapter 351 requires MnDOT to provide some additional analysis on the federal aid program and includes additional requirements for the annual transit report. Additional funding is not provided for MnDOT to follow through on these provisions, which are expected to take approximately 200 hours of staff time (approximately \$10,000 general fund cost per year).
7. **Bike and Pedestrian Accommodations on Bridges:** MnDOT estimated that the inclusion of bike and pedestrian accommodations on trunk highway bridges would cost approximately \$1.5 million per fiscal year beginning in FY 2012. Funding for these accommodations would come from existing trunk highway bond appropriations unless an additional appropriation for the bonds is made in the 2011 or 2012 legislative sessions.
8. **Report on MnDOT Management Changes:** Chapter 351 requires that MnDOT complete a report on its management changes. The department will complete the report by using existing trunk highway fund resources. The department estimates it will cost approximately \$19,000 in FY 2011 to do this work.
9. **Report on Guideway Investment:** MnDOT, along with the Metropolitan Council, is required to submit a report to the Legislature on the status of guideway projects. Chapter 350 defines guideway as, "...a form of transportation service provided to the public on a regular and ongoing basis, that operates on exclusive or controlled rights-of-way or rails in whole or in part, and includes each line for intercity passenger rail, commuter rail, light rail transit, streetcars, and bus rapid transit." MnDOT estimates it will cost approximately \$3,000 to complete each report, which is due November 15 of every odd numbered year. A change in the base for fiscal year 2012 was not made for this activity, so MnDOT will need to complete this additional report within its current budget if there is not an additional appropriation in the FY 2012-13 biennium.
10. **Report on Bridge Inspection Quality:** Chapter 350 also requires MnDOT to complete a report on bridge inspection quality. The report will cost MnDOT approximately \$12,000 to complete and funding for this activity will come from existing trunk highway fund resources.

Metropolitan Council

- **General Fund Budget for Bus and Rail Operations:** \$24.8 million reduction in the general fund appropriation to Metropolitan Council Transit for the FY 2010-11 biennium and \$14.7 million reduction for the FY 2012-13 biennium. The reductions were made in three chapters of law: Chapter 215; Chapter 351; and First Special Session, Chapter 1. Reductions include a one-time reduction in FY 2011 of \$15.8 million to assist with the FY 2010-11

budget deficit. The Chapters also included a number of on-going reductions, including: a \$1.5 million reduction beginning in FY 2010 to ratify the Governor's unallotment actions related to bus operations; a \$5.6 million on-going reduction beginning in FY 2011 to assist with balancing the FY 2010-11 biennial budget and to reduce the anticipated deficit for the FY 2012-13 biennium; an \$81,000 reduction related to the Council on Transportation Access beginning in FY 2011; and, a \$119,000 on-going reduction beginning in FY 2010 to ratify the Governor's unallotment actions related to rail operations.

- **Report on Guideway Investment:** Metropolitan Council, along with MnDOT, is required to submit a report to the Legislature on the status of guideway projects. The Metropolitan Council estimates it will cost approximately \$50,000 to complete the first report and \$20,000 for each subsequent report, which are due November 15 of every odd numbered year. A change in the base for fiscal year 2012 was not made for this activity, so the Met Council will need to complete this additional report within its current budget if there is not an additional appropriation in the FY 2012-13 biennium.

Department of Public Safety

The Department of Public Safety did not receive any general fund reductions related to transportation. However, there were a number of laws passed during the 2010 legislative session that had costs and savings for the department. Unlike MnDOT, each of the spending provisions was accompanied by revenue changes, but appropriations were not necessarily increased to cover the increase in costs. Below is a brief summary of each.

- **Vehicle Crimes Unit:** Chapter 388, Article 3 includes a new unit within the state patrol titled the Vehicle Crimes Unit. The new unit is charged with investigating registration tax, motor vehicle sales tax, title, and other vehicle crimes related to tax compliance. The unit is funded beginning in FY 2011 with \$12,000 of the FY 2011 appropriation coming from the general fund and \$179,000 coming from the highway user tax distribution fund. Beginning in FY 2012, the entire appropriation for the unit will be from the highway user tax distribution fund at \$693,000 per fiscal year. The \$191,000 in FY 2011 will fund two troopers, and the \$693,000 in FY 2012 will fund approximately eight troopers. In addition to the appropriation to the state patrol, the vehicle services appropriation from the special revenue fund will increase by \$50,000 per fiscal year beginning in FY 2011. The vehicle services division will assist the vehicle crimes unit with research related to their work. Also, the appropriation for the state patrol, patrolling highways, will decrease by \$191,000 for FY 2011 only. The \$191,000 represents the two troopers that will be moving to the vehicle crimes unit for FY 2011 only; in FY 2012, the appropriation for patrolling highways will increase to its FY 2010 levels. The Vehicle Crimes Unit is expected to generate \$202,000 in additional motor vehicle sales tax revenues in FY 2011 and \$807,000 in motor vehicle sales tax revenues in subsequent years.
- **Enhanced Driver's License:** Chapter 316 includes new provisions related to enhanced driver's licenses, which will allow Minnesotans to purchase a new drivers license that can also be used for entering and exiting Canada from/to Minnesota. The enhanced driver's license will cost \$15.00 more than a traditional classified driver's license and will be available after January 1, 2013. This is expected to result in an additional \$120,000 in revenue for the special revenue fund in FY 2013. The Department expects their costs related

to issuing a new card to be about \$19,000 in FY 2013; a base change for FY 2013 was not enacted to conduct this work.

- **License Plate Provisions:** Chapters 351 and 388 include provisions related to special license plates. Chapter 351 creates a vertical motorcycle plate and establishes a fee of \$100 for the new plate. The department estimated the provisions related to vertical motorcycle plates would generate \$2,000 to \$3,000 in revenues for the special revenue fund each year and would cost about \$3,000 to implement per year. Chapter 351 also includes provisions related to veterans' plates. These provisions generate approximately \$131,000 in revenue for the special revenue fund in FY 2011 and \$81,000 in subsequent years. Implementing these provisions will cost the department approximately \$130,000 in FY 2011 and \$75,000 in subsequent years, therefore, providing an increase in revenue for the special revenue fund. Lastly, Chapter 388 creates a new special plate titled the remembering victims of impaired drivers plate. This plate is expected to cost approximately \$5,000 more in FY 2011 than it generates in revenue for the special revenue fund. However, in subsequent years, the department estimates the costs and revenues will be equal. Appropriations were not made to cover the department's costs for the new special plates.
- **Ignition Interlock:** Chapter 366 creates the ignition interlock program, which will require Driver and Vehicle Services to hire 1.5 additional staff to monitor the program at a cost of approximately \$100,000 per year beginning in FY 2011. In addition, \$13,000 will be required in FY 2011 for equipment. The Department of Public Safety anticipates federal funds will cover the costs of this program.

For further information on Transportation finance issues contact Koryn Zewers, House Fiscal Analysis Department at 651-296-4178 or Koryn.Zewers@house.mn.

Taxes

Overview

The 2010 Session produced five chapters with significant changes to Minnesota laws governing state taxes, property taxes and local aids. Table 1 below provides a brief description of the net revenue changes in each chapter enacted this year.

Table 1. 2010 Tax and Non Tax Revenue Change Summary

2010 Regular Session and Special Session		Net <u>Revenue</u> Changes	
Chapter	Description	FY 2009-10 biennium	FY 11-12 biennium
187	<i>Conforms Minnesota law to federal law allowing individuals and C corporations to deduct cash donations to Haiti earthquake relief efforts on either their 2009 and 2010 income tax return.</i>	-\$0.010 million	
215	<i>Reduces aids to local governments by \$105 million each year in FY 2011, FY 2012, and FY 2013. (The amount listed in this table shows the income tax interaction impact with the reduction in governmental aid to local governments, total budget reductions are not shown in this table.)</i>		-\$9.200 million
216	<i>Provides business tax incentives to promote economic development and job creation. Also conforms Minnesota laws to federal acts.</i>	-\$1.535 million	-\$4.340 million
389	<i>Omnibus Tax Act</i>	\$1.050 million	\$2.340 million
1, 1 st SS	<i>Provides additional budget reductions to local governments and authorized tax refund delays in FY 2011 to FY 2012. (The amount listed in this table shows only the sum of the income tax interaction impact and the tax refunds delays, not the total budget reductions).</i>	\$149.061 million	-\$159.193 million
Total		\$148.566 million	-\$170.393 million

Note: Positive numbers show revenue gain and negative numbers show a revenue loss.

As shown in table 1, these chapters of law make changes to tax and non tax revenues and tax refunds that result in a net general fund revenue gain of \$148.5 million in the FY 10-11 biennium and a revenue loss of \$170.3 million in the FY 2012-13 biennium. The net effect to tax revenue is summarized below by chapter. A discussion of general fund expenditure changes for tax aids and credits follows this section.

Chapter 187 - - “Haiti Earthquake Relief Federal Update”

Chapter 187 conforms Minnesota law to federal law (Public Law 111-126) allowing individuals and C corporations to deduct cash donations to Haiti earthquake relief efforts on either their 2009 and 2010 income tax returns.¹ The 2010 Governor’s supplemental budget also recommended conformity to this provision

A key tax benefit with Minnesota conformity to this federal law is that it allows accelerated tax benefits for cash contributions that were made after January 11, 2010 and before March 1, 2010. Such contributions are to be treated as if made on December 31, 2009 and may be applied on the 2009 Minnesota tax return. In other words, Minnesota income and corporate taxpayers may elect to deduct Haitian earthquake relief contributions on either their 2009 or 2010 state tax returns. This accelerated tax benefit applies to both charitable contributions claimed as itemized deductions at the federal level and to contributions claimed under Minnesota’s charitable contribution subtraction for non itemizers. Without conformity to this federal act, Minnesota taxpayers would be required to add-back to Minnesota taxable income for any contributions to Haiti earthquake relief on their 2009 Minnesota tax returns and then deduct them from their Minnesota taxable income on their 2010 state tax return.

In terms of revenue impact, in FY 2010, the general fund revenue loss is \$0.080 million with a revenue gain of \$0.070 million in FY 2011 for a total net revenue loss of \$0.010 million within the FY 2010-11 biennium. The differential revenue impact between the two fiscal years is due to the revenue estimate assumption that taxpayers will select the most favorable tax year to claim the deduction for the charitable contribution. The revenue estimate adds 15 percent to the total revenue loss in FY 2010 to adjust for taxpayers that may receive a larger tax benefit from taking the deduction in 2009 due to their specific tax situation. This federal conformity provision has zero revenue change to the general fund in the FY 2012-13 biennium.

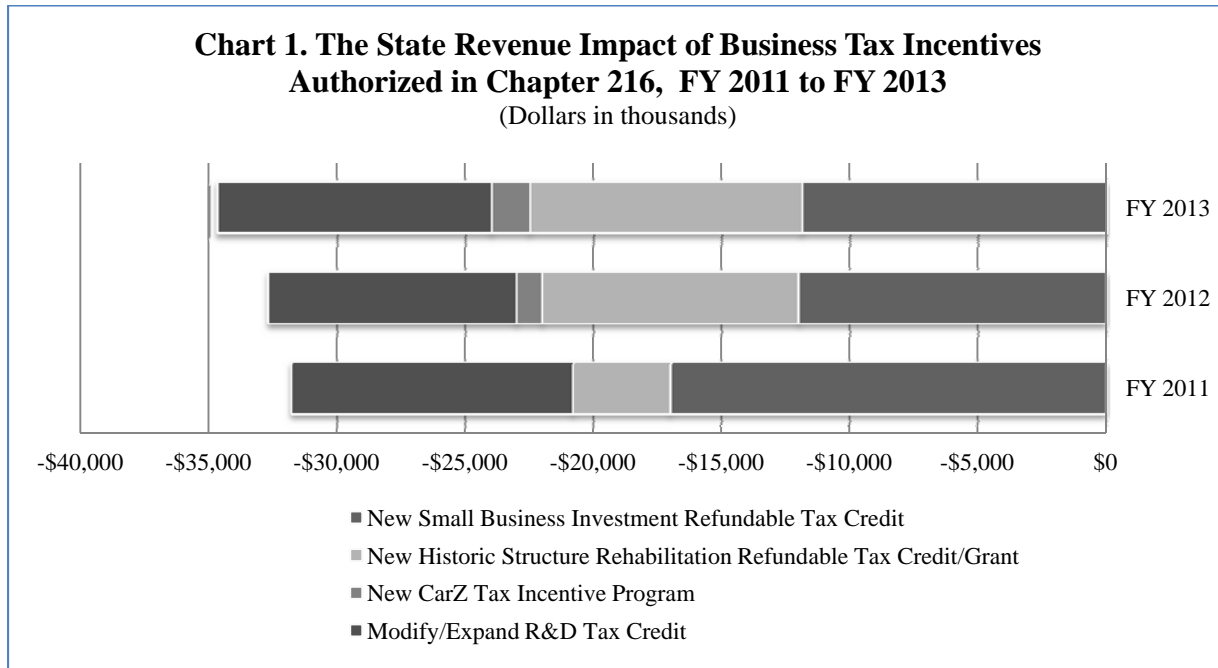
Chapter 216 – “Business Tax Incentives for Job Creation & Federal Update”

Chapter 216 contains over \$30 million in business tax incentives starting in FY 2011. The Research and Development (R&D) Tax Credit was modified and expanded and three new tax credits were authorized for individual income, corporate franchise taxpayers and insurance premium taxpayers. In addition, this act has *other* tax provisions such a repeal of the lower income motor fuels tax credit in tax year 2010, a partial charter school property tax exemption and a federal update to individual income and corporate franchise tax laws. In total, the net revenue reduction to the general fund from both the business tax incentives and other tax provisions in Chapter 216 is \$1.535 million in the FY 2010-11 biennium and \$4.340 million in the FY 2012-13 biennium.²

¹ Charitable contributions that apply to the relief of victims of the January 12,2010 earthquake in Haiti.

² The total for Chapter 216 is -\$1.382 million in the FY 10-11 biennium and -\$3.224 million if the savings from the partial charter school property tax exemption and the PTR impact are *excluded* from the total.

Chart 1 shows the cumulative revenue impact of the business tax incentives in this act from FY 2011 to FY 2013. Each business tax incentive is described in the next section.



Note: Positive numbers show revenue gain and negative numbers show a revenue loss.

Research and Development (R&D) Credit Modified and Expanded. Chapter 216 authorizes the expansion of the R&D Tax Credit in three substantive ways starting in tax year 2010:

- First, the R&D two tiered tax credit system is modified. The tax credit percentage in the first tier is increased from 5 percent to 10 percent on qualified R&D expenditures of less than \$2 million. The tax credit percentage for the second tier for R&D expenditures of more than \$2 million would remain at 2.5 percent. The Governor recommended a similar provision to change the two tiered tax credit rate system to a one tiered system by increasing the second tier from 2.5 percent to 5 percent.³
- Second, the R&D tax credit is extended to individual income taxpayers provided that the credit is received from a pass-through entity such as a partnership, S corporation or limited liability company (LLC). The Governor recommended an identical provision in his supplemental budget.
- Third, the R&D tax credit is refundable. If the R&D tax credit exceeds the taxpayer's liability, the excess tax credit is paid to the taxpayer in a refund. The Governor recommended an identical provision in his supplemental budget.

³ The Governor's supplemental budget recommendations for the R&D tax credit were effective for tax year 2012.

In the current biennium, these changes to the R&D tax credit are estimated to reduce general fund revenue by \$11 million in FY 2011 and by \$20.4 million in the FY 2012-13 biennium. The new refundable feature of the R&D credit that was added in the chapter represents about 50 percent of the total revenue reduction each year.

Create a Small Business Refundable Tax Credit for “Angel” Type Venture Capital Investments. Starting in tax year 2010, Chapter 216 authorizes the creation of a refundable 25 percent tax credit against individual income and corporate franchise tax for investments made in a qualified business by qualified individuals or investment funds.⁴ A similar *non refundable* tax credit was recommended by the Governor in his supplemental budget. Earlier proposals from the Governor for this tax credit, required a holding period for investments before awarding tax credits for investments made. This small business investment tax credit has no holding period and can be claimed in the year of investment but there is a full revocation of credits for investors and funds that fail to meet a three-year holding requirement. There is also full or partial revocation of credits for businesses that do not retain the 51percent requirement of their payroll and employees in Minnesota for five years after receiving an investment that qualified for the credit.

The enactment of this small business investment tax credit has both state administrative cost impact and general fund revenue impact. First in terms of state administrative costs, an administrative account in the special revenue fund is created for the deposit of application and filing fees. The Minnesota Department of Employment and Economic Development (DEED) is authorized to use the fees from this account for the administration of this tax credit. For the overall tax credit, the revenue impact to the general fund is capped at \$11 million available for credits in FY 2011 and \$12 million per year for credits in FY 2012 to FY 2013.⁵ The authorization for these tax credits and its funding expire in tax year 2014.

Create a Historic Structure Rehabilitation Tax Credit. Chapter 216 provides for refundable credit or grant in lieu of credit for historic structure rehabilitation for tax year 2010 for both individual and corporate franchise taxpayers. Insurance companies are also allowed to claim the credit against the insurance premium tax. The state tax credit is equal to 100 percent of the federal historic structure rehabilitation tax credit which allows taxpayers to claim a credit equal to 20 percent of cost to rehabilitate the building. Taxpayers would also be able to qualify for a grant in-lieu of the credit or a combination of tax credit and a grant.

Also in terms of state administration of this new tax credit, an account for historic credit administration in the special revenue fund will be established by the State Historic Preservation Office. Application fees will be deposited into this account for state administration of this program. The total estimated revenue reduction to the state general fund from this tax credit is estimated to be \$3.8 million in FY 2011 and \$20.6 million in the FY 2012-13 biennium. The

⁴ A summary of the requirements for minimum investments by qualified investors and maximum credit by type of filer can be found in the House Research Summary of Chapter 216 on pages 1-3 at this hyperlink: <http://www.house.leg.state.mn.us/hrd/as/86/as216.html>

⁵ The tax year 2013 allocation of \$12 million for credits is reduced by \$100,000 for program evaluation report.

revenue impact of these provisions is uncapped but the authorization for these credits and its funding expire in FY 2016.

Extending the Job Opportunity Zone Tax Benefits to A Create an Automotive Recovery Zone (CARZ). The Governor's 2010 budget also recommended the extension of these tax benefits to a CARZ. As authorized in Chapter 216, the tax benefits provided to a CARZ are the same as the tax benefits provided to businesses with JOBZ subsidy agreements but the jobs tax credit options for CARZ are more generous.⁶ An alternative CARZ jobs tax credit is allowed equal to \$2,500 for each full-time equivalent employee plus an additional credit of \$1,000 or \$3,500 tax credit per full-time equivalent employee for the number of employees at the site exceeding 750. The alternative CARZ jobs tax credit is also refundable. Similar to JOBZ, the tax benefits for CARZ are authorized for 12 years from the date of the designation of the zone and only one CARZ may be designated by the commissioner of the Minnesota Department of Employment and Economic Development (DEED).⁷

In the FY 2012-13 biennium, the total general fund revenue reduction from CARZ tax benefits is estimated to be \$2.5 million. Of that estimated total, \$1.6 million of the revenue impact is from exempting sales and use tax and \$0.900 million is from the alternative CARZ jobs tax credit. There is also a non general fund revenue reduction of \$080.0 million to the natural resources and arts funds in the FY 2012-2013 biennium.

The revenue impacts of the other tax provisions included in this act are described in this section:

Lower Income Motor Fuels Tax Credit is repealed in tax year 2010. The lower income motor fuels tax credit provided a refundable credit of up to \$25 to taxpayers based on their adjusted Minnesota taxable income.⁸ First enacted in Laws of 2008, Chapter 152, the lower income motor fuels tax credit was included in a transportation finance bill and was funded with the general fund revenues from the sales tax on motor vehicle leases. Any excess general fund tax revenue from the sales tax on motor vehicle leases (after paying for the cost of the lower income motor fuels tax credit) is transferred out of the general fund to the Minnesota Transit Fund and the County State-Aid Highway fund. The official revenue analysis for this tax credit estimated that 1.2 million taxpayers would claim this credit in tax year 2009⁹. The repeal of this tax credit generates about \$30 million in general fund savings each year and holds the funding transferred

⁶ Job Opportunity Zone tax benefits include exemptions from corporate franchise tax, individual income tax, sales and use tax, motor vehicle sales tax, some property taxes and a jobs tax credit for a maximum of 12 years.

⁷ A summary of the conditions that must be met to qualify for a CARZ designation (Ford Motor Company Site in St. Paul) can be found in the House Research Summary of Chapter 216 on page 11 at this hyperlink: <http://www.house.leg.state.mn.us/hrd/as/86/as216.html>

⁸ To qualify for this credit in tax year 2009, a taxpayer must have been 18 years or older and not claimed as a dependent on another person's income tax return and have taxable income that does not exceed the maximum amount for the lowest tax bracket in a tax year. The taxable income threshold for the first income bracket is \$33,220 for married joint filers (two dependents), \$16,610 for married filing separate, \$22,730 for single and \$27,980 for head of household(one dependent).

⁹ [The revenue analysis for the lower income motor fuels credit enacted by MN Laws of 2008, Chapter 152 \(HF 2800\)](#)

from the general fund to the Minnesota Transit Fund and the County State-Aid Highway Fund harmless based on 2010 the February Forecast.

Partial Charter School Property Tax Exemption provided for taxes payable in 2011. The intent of this provision is to accomplish two things: (1) help improve the lack of uniformity in the treatment of property that is leased or rented to charter schools; and (2) provide general fund savings from a reduction in lease aid payments of \$0.153 million in FY 2011 and \$0.656 million in the FY 2012-13 biennium.

As authorized in Chapter 216, charter schools that meet specific requirements such as being a non profit would be exempt from property tax. This provision is similar to a proposal recommended in the Governor's 2010 supplemental budget recommendations except the provision in Chapter 216 is limited to non profits and would exempt \$6.6 million in property tax on charter schools. In contrast, the Governor's recommendation for charter schools would exempt \$10.8 million in property and has fewer limitations.

This exemption in Chapter 216 generates general fund savings of state paid lease aid to charter schools starting in FY 2011 due to the reduction in building lease costs.¹⁰ The general fund savings of \$1.919 million from FY 2011 to FY 2013 are offset by \$1.110 million in interaction impact in FY 2012 and FY 2013 with the property tax refund (PTR) and income taxes. In terms of interaction impact, one assumption included in the estimate of this provision is that a property tax exemption causes a property tax shift onto other properties. This shift increases state paid property tax refunds. A second assumption incorporated into this revenue estimate is that income tax and corporate tax receipts will be reduced because the exemption will shift more tax to other properties owned by businesses and individuals. These businesses and individuals will have more tax deductions as a result of this exemption and will pay less income and corporate franchise taxes than under current law.

Update to Federal Tax Law. Minnesota tax calculations (for both individuals and corporate tax) start with federal taxable income (FTI). Any changes to federal law that change the definition of FTI requires that Minnesota either conform to the federal change or add a line on the Minnesota tax return to add back the difference.

Chapter 216 authorized federal conformity to *most* provisions in these federal law changes enacted from March 31, 2009 to March 18, 2010:¹¹

- The Consumer Assistance to Recycle and Save Act of 2009 (Title 13 of Public Law 111-32)
- The Worker, Homeownership, and Business Assistance Act of 2009 (Public Law 111-92)
- The Military Spouses Residency Relief Act (Public Law 111-97)

¹⁰ The [revenue estimate for SF 2833](#) (published on March 25, 2010) is revised to show the FY 2012-13 savings under the current law 90/10 payment plan.

¹¹ The Governor's 2010 supplemental budget also recommended Minnesota conformity with these provisions authorized in Chapter 216 with one exception. The Hiring Incentives to Restore Employment act of 2010 was not included in the Governor's 2010 budget recommendations. This public act was enacted by Congress *after* the Governor's supplemental 2010 budget recommendations were released.

- The Hiring Incentives to Restore Employment Act of 2010 (Public Law 111-147)

Of these federal laws, the provisions with revenue impact include:

An Income Tax Exemption for Consumer Assistance to Recycle and Save (CARS.) This provision is commonly referred to as the “Cash for Clunkers” program which provided a voucher to the purchaser if a vehicle was traded-in for another new or used vehicle. The revenue estimate for this provision reports that only a small number of transactions would involve reportable income. In most cases, the individual purchased the vehicle for more than the total amount of the voucher so there would be no reportable income. It is for this reason that the state revenue impact of this exemption is estimated to be negligible.

An Income Tax Exclusion of Certain Military Base Realignment/Closure Payments. These military base realignment payments provided by the Department of Defense Homeowners Assistance Program (HAP) are intended to offset adverse effects on housing prices resulting from base closures and are now exempt from taxable income in both state and federal law.

This provision should allow certain employees and members of the armed forces close to \$5,000 in tax benefits each year. The revenue reduction to the state general fund with the enactment of this law is expected to be negligible or \$5,000 or less each year.

An update to the Internal Revenue Code extending the expansion of the new federal limits for Section 179 expensing for tax year 2010. In 2005, 2006, and 2008, the Legislature did not authorize full conformity to Section 179 expensing and instead required that Minnesota taxpayers add-back 80 percent of the additional amount of expensing allowed at the federal level in the first year the property is placed in service and then deduct one-fifth of the amount added back in each of the five following tax years. For those years, the maximum state deduction of \$25,000 with a \$200,000 phase-out for section 179 expensing on the state return was allowed. In tax year 2010, the deduction and phase-out amounts are not changed and Minnesota’s partial conformity approach for expensing to take place over 6 years (versus regular depreciation over 10 years) will continue with the update to the internal reference code for tax year 2010. For small businesses, the partial conformity approach to Section 179 expensing shifts depreciation toward the early years of asset life which is expected to result in net tax savings to the businesses relative to the time value depreciation. In terms of revenue impact to the state’s bottom-line, this approach raises \$0.685 million in general fund revenue from FY 2011 to FY 2013.

Due to budget constraints, Minnesota would not conform to a federal provision that allows a 5-year carry back of 2008 and 2009 net operating losses (NOLs).¹²

¹² The [revenue estimate for HF 2704](#) shows that this the 5-year Carry back of 2008 and 2009 NOLs would reduce general fund revenue by \$5.7 million in FY 2010 and FY \$1.7 million in FY 2011 but revenues would increase by \$1.4 million and \$1.1 million in FY 2012 and FY 2013 (2010 Session).

Chapter 389 - - “2010 Omnibus Tax Act”

Chapter 389, Minnesota Laws of 2010, (the 2010 Omnibus Tax Act) consists of narrow and limited tax and non tax revenue changes. As summarized in table 2, in the current biennium, this tax act increases general fund revenue by \$1.050 million in the FY 2010-11 biennium and by \$2.340 million in the FY 2012-13 biennium. This revenue gain is generated from the imposition of a new (and on-going) general fund fee. The total revenue gain from the new fee is slightly offset by two authorized sales tax exemptions this biennium.

Table 2 – Minnesota Laws of 2010, Chapter 389

Tax & Non-Tax Revenue - Omnibus Tax Bil						
Note: Positive numbers show revenue gain and negative numbers show a revenue loss.						
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
General Fund Tax Revenue Changes						
Sales Tax Exemption for Construction Materials on Low-Income Housing Extended to Limited Liability Companies (LLC)	0	(80)	(80)	(90)	(90)	(180)
Sales Tax Exemption for Hydroelectric Generating Facility	(75)	(55)	(130)	0	0	0
Subtotal Tax Revenue:	(75)	(135)	(210)	(90)	(90)	(180)
General Fund Non Tax Revenue Changes						
Impose \$50 Collection Payment Plan Fee on Tax Returns	0	1,260	1,260	1,260	1,260	2,520
Subtotal Non Tax Revenue:	0	1,260	1,260	1,260	1,260	2,520
Net General Fund Change:	(75)	1,125	1,050	1,170	1,170	2,340
Non-General Fund Changes						
Natural Resources & Arts Funds						
Sales Tax Exemption for Construction Materials on Low-Income Housing Extended to Limited Liability Companies	0	(5)	(5)	(5)	(5)	(10)
Sales Tax Exemption for Hydroelectric Generating Facility (Crown Hydro)	(5)	(5)	(10)	0	0	0
DOR Technical Bill: Increase Sales Tax Rate on Sale of Manufactured Homes from 6.5% to 6.875%	0	50	50	40	30	70
Subtotal Natural Resources & Arts Funding:	(5)	40	35	35	25	60
Net Non-General Fund Changes:	(5)	40	35	0	0	0

Impose a new \$50 fee for the set-up of a collection payment plan by the Minnesota Department of Revenue. This new fee is similar to a federal fee charged by the Internal Revenue Service (IRS) for the set-up of an installment plan, except the federal fee is \$105¹³. The Governor’s 2010 supplemental budget also recommended a similar fee at \$25 per collection plan starting in FY 2011.

¹³ The \$105 federal fee is reduced to \$52 if the taxpayer agrees to make the payments by direct-debit. <http://www.irs.gov/faqs/faq/0,,id=199555,00.html>

It is estimated that the new \$50 state fee on collection payment plans will affect about 25,200 payments that will be entered into, or renegotiated and that 75 percent of these payment plans will be imposed on individual income taxpayers. This new \$50 collection payment plan set-up fee is estimated to generate about \$1.260 million in FY 2011 and each year thereafter.

Exempt sales tax for construction materials on low-income housing extended to a Limited Liability Company (LLC). In 2008, a similar exemption was enacted. The 2008 provision extended the exemption to include construction of low-income housing by limited partnerships in which the sole general partner is a nonprofit entity¹⁴. Chapter 389 extends the exemption to include a LLC which is a wholly-owned subsidiary of a qualifying nonprofit entity and to a limited partnership in which the sole or managing general partner is this type of Limited Liability Corporation. This expansion of the exemption is needed because many of these low-income housing projects are financed as a LLC to reduce liability for the entire nonprofit. The estimated revenue loss from this exemption affects both the general fund and the natural and arts resources fund. In FY11, the revenue loss is \$.080 million and \$.005 million to the general fund and the natural resources and arts fund respectively.¹⁵ This exemption is on-going.

Extend sales tax exemption for Hydroelectric Generating Facility by one year through December 31, 2010. In 2006, a sales tax exemption was enacted for a hydroelectric generating facility for the materials and supplies used or consumed in the construction of a 10.3 megawatt run-of-the river hydroelectric generating facility.¹⁶ This exemption expired on December 31, 2009. Chapter 389 extends this exemption allowing a sales tax exemption for the remaining \$2 million in contract construction costs. The estimated revenue loss from this exemption to the general fund and the natural resources and arts fund is \$.075 million and \$.005 million in FY 2011 and \$.055 million and \$.005 million in FY 2012 respectively.¹⁷ This provision has no revenue impact in the FY 2012-13 biennium.

Exempt sales tax for materials and supplies used or consumed in, capital equipment incorporated into the construction, improvement or expansion of an aerospace defense manufacturing facility.¹⁸ This exemption is administered as a refund. A refund by the state may not be issued until the following requirements are met:

- The Minnesota Department of Employment and Economic Development (DEED) has certified that the aerospace facility has no fewer than 1,653 full-time equivalent worker residents; and

¹⁴ Laws of 2008, Chapter 366

¹⁵ In the 2010 Tax Expenditure Budget Report, there is an existing sales tax exemption to particular purchasers. The sales tax exemption for construction materials for low-income housing (item 4.61) allowed under Minnesota Statutes, Section 297A. subd. 23 shows an estimated revenue loss of \$1.8 million to \$1.9 million from FY 2010 to FY 2013. The exemption in chapter 389 expands this existing exemption.

¹⁶ Laws of 2006, Chapter 259.

¹⁷ The Tax Expenditure Report published in February 2010 show the estimated revenue loss from the current sales tax exemption enacted in 2006 for a hydro electric generating facility (item 4.69) that was scheduled to expire on December 31, 2009.

¹⁸ This aerospace facility is Goodrich Corporation located in the City of Burnsville.

- A total capital investment of \$59 million has been made by the aerospace facility in Minnesota.

The refund may be paid out at a rate of 25 percent of the total allowable refund to the owner of the aerospace facility for each year these requirements have been met until all the refund has been paid out. The revenue impact of this exemption is delayed until FY 2014 because the owner of the aerospace facility may only apply to DEED for certification no later than one year from the final completion date of construction of the expansion of the facility. The estimated total revenue loss to the general fund after FY 2014 from the exemption is about \$60 million in construction materials and \$4.1 million in supplies.

Clarifies that the combined sales and use tax rate of 6.875 percent applies to the sale of manufactured homes, effective July 1, 2010. This clarification is needed with the voter approval of the constitutional sales tax rate increase of 0.375 percent in the 2008 general election. This tax rate increase is in addition to the general sales tax rate of 6.5 percent. The additional 0.375 percent sales tax rate expires on FY 2035 as mandated by our State's Constitution. With this clarification in the total sales tax rate on manufactured homes, the tax revenues to the Natural Resources and Arts Funds are estimated to increase by \$.050 million starting in FY 2011. The state general fund sales tax rate and sales tax revenues are not affected by this provision.

First Special Session, Chapter 1 - - "Budget Balancing #2"

First Special Session, Laws of 2010, Chapter 1 enacts a second budget balancing compromise agreement. Within this agreement, there are two tax revenue provisions in Chapter 1 including \$152 million sales and corporate tax refund delays and sales tax remittance date changes for cash flow purposes.

Delay \$111 million in sales tax refunds in FY 2011 (Article 13). Businesses generally pay sales tax when they buy or lease capital equipment, but they can apply for a full refund of any tax paid on purchases of qualified capital equipment.¹⁹ Businesses also receive refunds for any overpayment of taxes. To help balance the FY 2010-11 budget, there is a provision to temporarily delay \$111 million in sales tax refund payments to realize \$111 million in savings for FY 2011. Refunds would be delayed no more than 6 months and would be immediately released in the next fiscal year.²⁰ This shift will be paid back in FY 2012 with interest.

With this provision, sales tax refunds scheduled to be paid after January 1, 2011 would be delayed until July 1, 2011 (and paid FY 2012). Minnesota is also statutorily required to pay interest on tax refunds that are delayed more than 90 days. As such, the additional interest

¹⁹ Business machinery and equipment that is exempt from sales tax at the time of sale include farm machinery, logging equipment, telecommunication equipment, accessory tools and special tooling, air flight equipment sold to airlines and ski area equipment.

²⁰ This tax refund delay will likely affect tax refunds to be paid in January to March 2011.

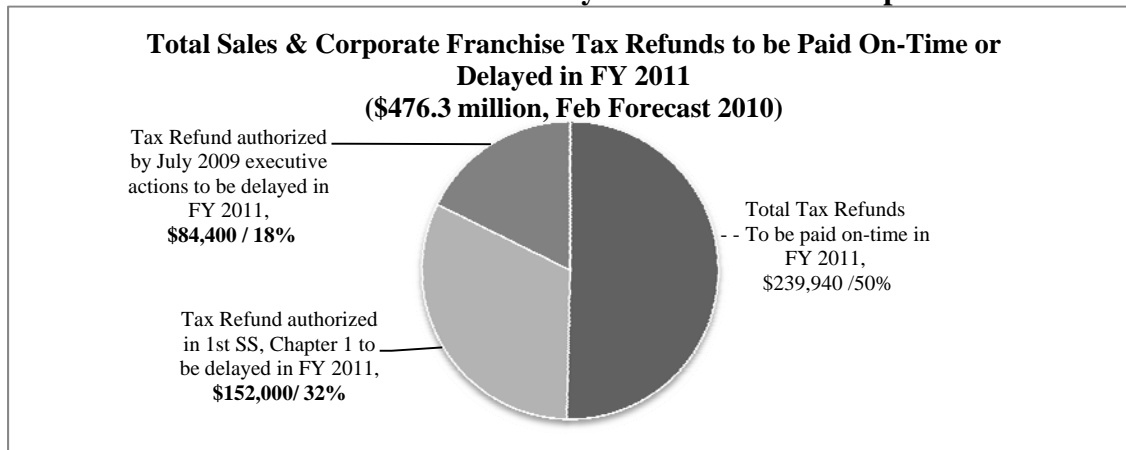
accrued due to the delay is estimated to be \$0.550 million based on a 3 percent interest rate. So in total by FY 2012, \$111 million in delayed sales tax refunds plus \$0.550 million in additional interest to sales tax vendors will be paid out in FY 2012.²¹

In terms of the magnitude of this delay, the total sales tax refunds scheduled to be delayed based on the February forecast in the FY 11 biennium is \$253 million. The total sales tax refund delays scheduled authorized in First Special Session, Chapter 1 is \$111 million or 44 percent of the total sales tax refunds in FY 2011. The total sales tax refund delays scheduled with the July 2009 executive action and the delays authorized in Chapter 1, the total is \$168 million or 66 percent of the total sales and use tax refunds in FY 2011.

Delay \$41 million in Corporate Franchise Tax Refunds in FY 2011 (Article 13). Chapter 1 temporarily delays \$41 million in corporate franchise tax refunds to realize a \$41 million in savings for FY 2011. Refunds would be delayed no more than 6 months and would immediately be released in the next fiscal year. This shift is to be paid back with additional interest for the refunds delayed more than 90 days.

Based on the 2010 February Forecast, \$223.3 million in corporate tax refunds is scheduled to be paid in FY 2011. The total corporate tax refund delays scheduled authorized in Chapter 1 is \$41 million or 18 percent of the total corporate tax refunds in FY 2011. The total corporate tax refund delays with the July 2009 executive action and the amount authorized in Chapter 1, the total is \$68 million or 30 percent of the total corporate and use tax refunds in FY 2011. Chart 2 summarizes the total tax refund delays for both sales and corporate tax that are scheduled in FY 2011 based on the actions of the both the Governor and the Legislature.

Chart 2. Scheduled Tax Refunds Delays for Sales and Corporate Taxes in FY 2011.



²¹ This tax refund delay in Chapter 1 is in addition to the \$57 million in sales tax capital equipment refunds delays and \$27.4 million in corporate franchise tax refund delays incorporated into the 2010 February Forecast in FY 2011 by July 2009 executive action. These tax refunds authorized by executive action affect sales and corporate tax refunds to be paid from April to June 2011.

Temporarily requires vendors who collect and remit \$120,000 or more annually in sales tax to remit monthly payments on an earlier schedule to help improve the state's general fund cash flow situation (Article 2). This temporary change in payment remittance has zero general fund tax revenue impact on the bottom-line but instead temporarily changes the timing of when the state's general fund sales tax revenues are remitted and received. Under current law, vendors remitting monthly sales tax returns are required to make a payment on the 20th day of the month following the month in which a sale is made. With the enactment of this early payment provision, sales tax vendors have two options starting in September 2010:

- Remit 90 percent of their liability on the 14th of the month after it was collected with the remainder due on the 20th of the month; or
- Remit a percent of the current month's liability in the month in which the taxable sales occurs with the remainder due on the 20th of the following month.

An underpayment penalty and a safe harbor to avoid the penalty provision are also enacted for vendors. An estimated 4,600 vendors will be affected by this early payment provision (the payment dates for accelerated June payments are not affected). Finally, this provision sunsets when the cash flow account and the budget reserve reach the levels outlined in 16A. 152, subdivision 2.²²

For more information about changes in tax revenues, please contact Cynthia Templin at Cynthia.templin@house.mn or at 651-297-8405.

²² MN Statute 16A. 162, Subdivision 2, shows that the budget reserve is \$653 million and the cash flow account is \$350 million.

Tax Aids & Credits - Changes in General Fund Expenditures

Overview

Multiple actions of the 2010 legislative session contributed to major but much-anticipated reductions in planned spending for the Tax Aids and Credits budget. A total of \$487.15 million was eliminated from the \$3.46 billion FY 2010-11 budget and \$176.5 million was cut from the \$3.63 billion FY 2012-13 budget. Revised appropriations are now \$2.97 billion for FY 2010-11 and \$3.45 billion for FY 2012-13.

Table 3 provides an update of general fund expenditures for each biennium as modified by all five acts of the 2010 Legislature and the May 5th Minnesota Supreme Court decision that nullified the Governor's 2009 unallotments. The bulk of reductions in the FY 2010-11 biennium are attributable to the Omnibus Budget Reductions Act (Chapter 1, 1st Special Session), which reaffirmed the Governor's July 2009 unallotments of \$379.2 million for Tax Aids and Credits. The majority of reductions in the FY 12-13 biennium are attributable to the Reductions in Aids act (Chapter 215), which cut aids to local governments by \$201.0 million.

Table 3
2010 Session Tax Aids & Credits - Governor vs. End of Session
February 2010 Forecast with 2010 Legislative Actions
(Dollars in Thousands)

General Fund Expenditures ¹	Feb 10 Forecast w Mar Gov		End 2010 Session	
	FY2010-11	FY2012-13	FY2010-11	FY2012-13
February 2010 Forecast Tax Aids & Credits	\$3,082,686	\$3,651,723	\$3,082,686	\$3,651,723
Add-back Unallotment - May 2010			\$379,247	(\$22,289)
Governor March 2010 Budget Recommendations	(\$250,289)	(\$1,030,456)		
Chapter 215 - Reductions in Aids w/o Special Timing account			(\$105,000)	(\$201,025)
Chapter 216 - Nonprofit Charter School Property Taxes			(\$153)	(\$1,216)
Chapter 249 - Refund Interest Rates			(\$1,007)	(\$1,535)
Chapter 389 - Omnibus Tax Act			\$346	\$2,146
Chapter 1, SS1 - Omnibus budget reductions - aid reductions, K-12 shift, tax refund interest ²			(\$381,334)	\$25,126
Subtotal - All changes w/o Spec Timing Acct	(\$250,289)	(\$1,030,456)	(\$487,148)	(\$176,504)
<i>% Change to Feb 10 Forecast + Unallotment add</i>	<i>-8.1%</i>	<i>-28.2%</i>	<i>-14.1%</i>	<i>-4.9%</i>
Property Tax Aids and Credits, GF Total	\$2,832,397	\$2,621,267	\$2,974,785	\$3,452,930
¹ Positive numbers represent spending or revenue losses to the general fund; negative numbers represent a cost savings or revenue gains to the general fund.				
² The K-12 shift impact (90/10 to 70/30) totals (\$13.914 million) in the FY 10-11 biennium, while the Governor's executive action K-12 shift impact (90/10 to 73/27) was \$11.827 million for the same period.				

While these end of session budget reductions are notable (a 14.1 percent reduction in FY 2010-11 and a 4.9 percent reduction in FY 2012-13), the Governor's March 2010 budget

recommendations would have cut more deeply—by \$250 million per year in aids for local governments and \$200 million in permanent unallotments—resulting in greater savings that would have reached over one billion dollars in FY 2012-13.

Table 4 gives a brief description, by chapter, of the budget activities and net general fund expenditure changes contained in each bill:

				(000s) ¹	
Chapter	House File	Description	Budget Activity	FY 2010-11	FY 2012-13
215	1671, Art. 13	Reduction in Aids to Local Governments	LGA, CPA, MVC, PTR interactions, Special Timing Account	(\$111,279)	(\$194,745)
216	2695, Art. 5, 12-15	Jobs and Tax Credits	Charter School Property Taxes and Small Business Investment Program Evaluation (DEED)	(\$153)	(\$1,216)
249	3085	Refund interest rates	Tax Refund interest	(\$1,007)	(\$1,535)
389	3729	Omnibus Tax Act	Various	\$346	\$2,146
1, 1st SS	1, Art. 13	Omnibus budget reductions	PCR, Renter PTR, SFIA, LGA, CPA, MVC, PTR interactions, Special Timing Account, Tax refund interest	(\$381,334)	\$25,126
Total General Fund Expenditure Changes - Tax Aids & Credits including Special Timing Account				(\$493,427)	(\$170,124)

¹ Positive numbers represent additional spending or revenue losses to the general fund; negative numbers represent a cost savings or revenue gains to the general fund.

Analysis by Chapter

Chapter 215 – Reductions in Aids to Local Governments

Chapter 215, Article 13, Tax Aids and Credits, makes significant, permanent spending cuts to four local government aid programs and one special general fund account, as shown in Table 5. For FY 2011, a reduction of \$105 million in local aids and credits is split evenly between cities and counties. Beginning in FY 2012, the reduction continues among jurisdictions as follows: cities 53.8 percent, counties 41.7 percent and towns 4.5 percent. The act also eliminates the Special Timing Account intended to address costs associated with federal conformity actions of the 2009 Legislature. The net impact of these changes will save the general fund a total of \$111.3 million in FY 2011, \$92.3 million in FY 2012 and \$102.4 million in FY 2013, as shown in Table 2.

	Chapter 215 - HF 1671					
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Property Tax Aids & Credits						
Reductions in Aids to Local Governments						
Local Government Aid (LGA) <i>Spending Change</i>	0	(7,752)	(7,752)	(31,038)	(31,038)	(62,075)
Residential Market Value Credit - Cities <i>Spending Change</i>	0	(44,715)	(44,715)	(25,316)	(25,320)	(50,636)
Agricultural Market Value Credit - Cities <i>Spending Change</i>	0	(33)	(33)	(151)	(151)	(302)
Subtotal - City Reductions	0	(52,500)	(52,500)	(56,505)	(56,509)	(113,013)
County Program Aid (CPA) <i>Spending Change</i>	0	(48)	(48)	(43,768)	(43,768)	(87,537)
Residential Market Value Credit - Counties <i>Spending Change</i>	0	(52,448)	(52,448)	0	0	0
Agricultural Market Value Credit - Counties <i>Spending Change</i>	0	(4)	(4)	0	0	0
Subtotal -County Reductions	0	(52,500)	(52,500)	(43,768)	(43,768)	(87,537)
Residential Market Value Credit - Towns <i>Spending Change</i>	0	0	0	(4,548)	(4,548)	(9,096)
Agricultural Market Value Credit - Towns <i>Spending Change</i>	0	0	0	(179)	(179)	(358)
Subtotal -Town Reductions	0	0	0	(4,727)	(4,727)	(9,454)
Subtotal - Reductions in LGA, CPA and MVC to Local Gov'ts	0	(105,000)	(105,000)	(105,000)	(105,004)	(210,004)
Local Property Tax Aid Reduction Interaction ²						
-Related Property Tax Refund Program Impact	0	0	0	6,380	2,600	8,980
Eliminate Special Timing Account (Dedicated Revenue Expenditure)	0	(6,279)	(6,279)	6,279	0	6,279
Total Chapter 215 Tax Aids & Credits Spending Changes:	0	(111,279)	(111,279)	(92,341)	(102,404)	(194,745)
¹ Positive numbers represent additional spending or revenue losses to the general fund; negative numbers represent a cost savings or revenue gains to the general fund.						
² Impact for related income tax interactions (\$9.2 million in FY 12-13) can be found in the Revenue analysis of this section .						

Chapter 216 – HF 2695, Jobs & Tax Credits Act

While focusing on tax incentives for business investment and job creation (initiatives impacting tax revenues), the Jobs and Tax Credits Act (Chapter 216) included two provisions that change appropriations in two agency budgets. The Nonprofit Charter School Property Tax Exemption reduces lease aid appropriations in the Department of Education (MDE) but increases Property Tax Refund payments in the Department of Revenue budget. The Small Business Investment Program Evaluation Report also increases spending in the Department of Revenue budget. This combination of changes, as shown in Table 6, will save the general fund a total of \$153,000 in FY 2011, \$441,000 in FY 2012 and \$675,000 in FY 2013.

Table 6 Chapter 216, Tax Aids & Credits General Fund Spending Changes ¹ <i>(Dollars in thousands)</i>						
	Chapter 216 (HF 2695)					
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Appropriations:						
Nonprofit Charter School Property Tax Exemption - Lease Aid Savings (MDE)	-	(153)	(153)	(711)	(1,055)	(1,766)
Property Tax Refund Impact of exemption (DOR) ²	-	-	-	270	280	550
Small Business Investment Program Evaluation Report (DOR)	-	-	-	-	100	100
Total Chapter 216 Tax Aids and Credits Spending changes	0	(153)	(153)	(441)	(675)	(1,116)

¹ Positive numbers represent additional spending or revenue losses to the general fund; negative numbers represent a cost savings or revenue gains to the general fund.
² Impact for related income tax interactions (\$560,000 in FY 12-13) can be found in the Revenue analysis of this summary .

Chapter 249 – SF 2722/ HF 3085, Refund Interest Rates

Chapter 249 is a single provision act that exempts the state and its political subdivisions from increased interest rates on certain judgments and awards. The calculation of penalty interest is modified to be based on either the treasury bill rate or four percent, whichever is greater. This act is estimated to save the general fund a total of \$187,000 in FY 2010, \$820,000 in FY 2011, \$975,000 in FY 2012 and \$560,000 in FY 2013.

Table 7 Chapter 249, Tax Refund Interest General Fund Spending Changes <i>(Dollars in thousands)</i>						
	Chapter 249 (SF 2722 / HF 3085)					
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Tax Refund Interest						
Calculation of Penalty interest rates, the greater of treasury bill rate or 4%	(187)	(820)	(1,007)	(975)	(560)	(1,535)
Total Chapter 249 Tax Aids and Credits Spending changes	(187)	(820)	(1,007)	(975)	(560)	(1,535)

¹ Positive numbers represent additional spending or revenue losses to the general fund; negative numbers represent a cost savings or revenue gains to the general fund.

Chapter 389 – HF 3729, Omnibus Tax Act

The Omnibus Tax Act of 2010 (Chapter 389) makes modest changes to the Tax Aids and Credits budget, as shown in Table 8. For FY 2010-11, spending is increased by \$346,000, most of which will aid local governments impacted by fire or flood. A portion of these funds will also support two Department of Revenue studies, one on tax expenditures and the other on fiscal disparities. For FY 2012-13, appropriations are increased by \$2.15 million, most of which will provide additional aid to cities and counties for their participation in programs overseen by the newly created Council on Local Results and Innovation. Annual funding for a new payment-in-lieu-of-taxes (PILT) provision will begin in FY 2012.

	Chapter 389 (HF3729)					
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Local Aids and Credits						
Council on Local Results & Innovation						
County per capita aid	0	0	0	410	390	800
City per capita aid	0	0	0	530	490	1,020
City of St. Charles disaster assistance	0	50	50	0	0	0
Ottertail County Road & Infrastructure Repair for Flooding	0	200	200	0	0	0
Lake Vermilion /Soudan State Parks - Payment in Lieu of Taxes	0	0	0	122	122	244
Subtotal Local Aids and Credits GF	0	250	250	1,062	1,002	2,064
Property Tax Changes						
Valuation of Agricultural Property in Green Acres	0	0	0	0	unknown	unknown
Homestead classification extended to certain LLC's with ties to existing agricultural property	0	0	0	unknown	unknown	unknown
Manufactured Home Parkland Modification	0	0	0	negligible	negligible	negligible
Exempts non-commercial seasonal recreational lands (federal only) from property taxation	0	0	0	14	14	28
Modify Marina rate reduction (4c Class)	0	0	0	negligible	negligible	negligible
Modify Thief River Falls Airport Levy authority	0	0	0	unknown	unknown	unknown
Subtotal Local Aids and Credits GF	0	0	0	14	14	28
Administration						
Council on Local Results - State Auditor administration	0	6	6	2	2	4
Property Tax System Benchmarks DOR admin	0	30	30	25	25	50
Tax forfeited land management/conditional use deeds						
Special Revenue - revenue	0	(14)	(14)	(14)	(14)	(28)
Special Revenue- appropriation	0	14	14	14	14	28
Subtotal Local Aids and Credits GF	0	36	36	27	27	54
Subtotal Local Aids and Credits SR	0	0	0	0	0	0
Appropriations						
MN Dept of Revenue -Study Tax Expenditures	0	60	60	0	0	0
Fiscal Disparities Study -	0					
Transfer from FD levy to GF	0	(50)	(50)	(50)	0	(50)
GF appropriation to DOR	0	50	50	50	0	50
Subtotal Local Aids and Credits GF	0	60	60	0	0	0
Total Chapter 389 - Tax Aids and Credit Spending Changes						
General Fund Total	0	346	346	1,103	1,043	2,146
Special Revenue Total	0	0	0	0	0	0

¹ Positive numbers represent additional spending or revenue losses to the general fund; negative numbers represent a cost savings or revenue gains to the general fund.

Chapter 1, 1st Special Session – HF 1, Omnibus Budget Reductions

Generally speaking, Chapter 1, Article 13, Tax Aids and Credits, makes spending cuts that reflect the intent of the Governor’s July 2009 unallotments, plus one additional action--the delay in paying certain tax refunds. On July 1, 2009, the Governor unallotted \$375.3 million (or about 10.9 percent) in funding for local tax aids and credits for the FY 2010-2011 biennium. Updated figures (April 2010) for these changes, presented in seven budget items and three adjustments, total \$377.5 million in reduced spending. For fiscal years 2010 and 2011, appropriation reductions are as follows: aids to local governments are reduced by \$299.3 million (or -15 percent), other tax aids are reduced by \$78.2 million (or -22 percent average), and other actions are reduced by \$3.9 million. In fiscal years 2011 and 2012, biennial appropriations increase by \$25.1 million, illustrating the residual impacts of FY 2011 actions including property tax refund interactions, K-12 timing shifts and payment delays.

	Chapter 1, SS1 (HF 1)					
	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Aids to Local Government						
Local Government Aid	(44,620)	(102,384)	(147,004)	0	0	0
County Program Aid	(33,000)	(67,000)	(100,000)	0	0	0
Residential Market Value Credit	(21,946)	(29,859)	(51,805)	0	0	0
Agricultural Market Value Credit	(120)	(330)	(450)	0	0	0
Subtotal Local Government Aids and Credits	(99,686)	(199,573)	(299,259)	0	0	0
Other Aids and Credits						
Property Tax Refund Interactions	0	2,757	2,757	5,712	880	6,592
Political Contribution Refunds	(4,300)	(6,100)	(10,400)	0	0	0
Renters Refund from 19% to 15%	0	(52,300)	(52,300)	0	0	0
Sustainable Forest Investment Payments	0	(4,348)	(4,348)	0	0	0
K-12 shift impacts ²	(11,750)	(2,164)	(13,914)	13,914	0	13,914
Subtotal Other Aids and Credits	(16,050)	(62,155)	(78,205)	19,626	880	20,506
Subtotal Local Government + Other Aids and Credits	(115,736)	(261,728)	(377,464)	19,626	880	20,506
Other						
Special Timing Account	0	(3,870)	(3,870)	3,870	0	3,870
Tax Refund Delays Interest	0	0	0	750	0	750
Subtotal Other Aids and Credits	0	(3,870)	(3,870)	4,620	0	4,620
Total Chapter 1,SS - Tax Aids and Credit Spending Changes	(115,736)	(265,598)	(381,334)	24,246	880	25,126

¹ Positive numbers represent additional spending or revenue losses to the general fund; negative numbers represent a cost savings or revenue gains to the general fund.
² The K-12 shift impact (90/10 to 70/30) reflects calculations for Tax Aids and Credits found in the Education budget. The 2010 February Forecast, which contained the Governor's executive action to shift to 73/27, included an impact of \$11.827 million.

For more information about changes in general fund spending for tax aids and credit programs, please contact Katherine Schill at Katherine.Schill@house.mn at 651-296-5384.