Fiscal Analysis Department
Minnesota House of Representatives

A SUMMARY OF THE FISCAL ACTIONS OF THE 2013 LEGISLATURE

Money Matters 13.03
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This paper provides a summary of 2013 legislation with fiscal implications. Part one is the summary section. Part two provides details organized according to the jurisdictions of the Conference Committees that finalized the budget proposals.

The first part of this document is an overall summary of the budget actions. That summary is followed by summaries for each of the budget areas as organized by 2012 session conference committees. At the end of each summary is contact information for the fiscal analyst who wrote that summary.

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The Overall Budget Picture

The 2013 Legislature faced a mixed budget deficit as it assembled a budget for the upcoming FY 2014-15biennium. The February 2013 state budget forecast projected that general fund expenditures for the FY 2014-15biennium would exceed available resources by $627 million. However, the February forecast projected a balance of $783 million for the following biennium – FY 2016-17.

For the FY 2014-15 biennium, the February 2013 budget forecast projected available revenue of $36.116 billion and spending, based on current law, of $36.743 billion. For FY 2012-13, the February forecast projected a balanced budget. The forecast initially projected a positive balacne for the end of the FY 212-13 biennium so, under current law, that balance was appropriated to make additional aid payments to school districts to reduce delays in education aid payments. Table 1 illustrates the general fund budget situation as presented in the February 2013 budget forecast for the FY 2014-15 biennia.

Table 1
General Fund Budget Situation – February 2013 Forecast
Dollars in Millions

	FY 2012-13	FY 2014-15	FY 2016-17
Beginning Balance	1,014	0	0
Revenue/Other Resources	35,161	36,117	39,295
Total Resources Available	36,175	36,117	39,295
Expenditures	35,442	36,743	38,512
Change in Reserves	733	0	0
Balance	0	-627	783

The 2013 Legislature made some changes to FY 2013 revenue but those changes were made prior to the February 2013 forecast and included in that forecast. Those changes involved conformity to some federal tax changes for tax year 2012.

Bills passed during the 2013 legislative session resulted in a balance budget for the FY 2014-15 biennium and for the FY 2016-17biennium.

General fund revenue was increased by $2.306 billion for FY 2014-15. General fund spending was increased by $1.606 billion. The difference, $700 million, offset the projected $627 million deficit, added $28 million to a Vikings Stadium reserve and left a $46 million budget balance.

Of the $2.3 billion in revenue increases, $1.119 billion comes from a new higher income tax bracket and $436 million was in cigarette and tobacco tax changes.

Of the $1.6 billion in spending increases, $485 million was in the K-12 Education area and $435 million was in the Tax Aids and Credits area.

Table 2 compares the budget for the FY 2014-15 biennium as projected in the February 2013 budget forecast and at the end of the 2013 session. The percent change in Table 2 shows the change in revenue and in spending in the end of session numbers compared to the numbers from the February 2013 forecast (the base).

Table 2

Budget Comparisons - FY 2014-15 Biennium - February Forecast versus End of Session

Dollars in Thousands

	Feb. 2013 Forecast	End of Session	Percent Change
FY 2014-15			
Forecasted Revenues	36,115,665	36,115,665	
Revenue Changes	0	2,306,371	
Net Revenue	36,115,665	38,422,036	6.4%
Forecasted Spending	36,743,658	36,743,658	
Spending Changes	0	1,605,732	
Net Spending	36,743,658	38,349,390	4.4%
Changes in Reserves	-1,307	27,807	
Balance	-626,686	46,146	

For the next biennium, FY 2016-17, the February forecast projected that revenue would exceed spending by $783 million. In the end of 2013 session projections this amount changed to $735million. Table 3 illustrates the revenue and spending information for FY 2016-17.

Table 3 **Budget Comparisons - FY 2016 - 2017 Biennium - February Forecast versus End of Session** Dollars in Thousands			
FY 2016-17	Feb. 2013 Forecast	End of 2013 Session	Percent Change
Forecasted Resources Available	39,295,046	39,295,046	
Revenue Changes		2,165,089	
Net Resources After Changes	39,295,046	41,460,135	5.5%
Projected Spending	38,512,487	38,512,487	
Spending Changes		2,212,192	
Net Spending	38,512,487	40,724,679	5.7%
Projected Balance - End of FY 2016-17 Biennium	782,559	735,456	

Table 4 illustrates the changes in revenue and spending from biennium to biennium after 2013 legislative changes. General fund revenue increases 8.4 percent in FY 2014-15 over FY 2012-13. Spending is projected to increase 8.2 percent over the same period.

Both spending and revenue are projected to increase at lower percentages in FY 2016-17 over FY 2014-15 than similar comparisons a biennium earlier. These changes result in a projected balance of $735 million in the FY 2016-17 biennium.

Table 4 **General Fund Biennial Budget Summary and Comparisons - Biennial Change** Dollars in Thousands					
	FY 2012-13	FY 2014-15	Percent Change	FY 2016-17	Percent Change
Balance Forward	280,895	0			
Revenue - Base	35,160,859	36,115,665		39,295,046	
Revenue - Change		2,306,371		2,165,089	
Total Current Revenues	35,160,859	38,422,036	10.8%	41,460,135	7.9%
Total Available Resources	35,441,754	38,422,036		41,460,135	
Expenditures - Base	35,441,754	36,743,658		38,512,487	
Expenditures - Changes		1,605,732		2,212,192	
Total Expenditures	35,441,754	38,349,390	13.8%	70,724,679	6.2%
Balance Before Reserve Changes	0	73,953		-735,456	
Change in Reserves	0	26,500		0	
Balance After Reserves	0	46,146		735,456	

General Fund revenue for the FY 2014-15 biennium is projected to be $38.422 billion, $2.306 billion higher than was projected in the February 2013 forecast.

Of the $2.306 billion increase in revenues, $1.118 billion is from a new income tax bracket on higher income levels and an increase in the tax on cigarettes and other tobacco products, that together with the elimination of the health impact fee, raises $435.5 million.

Table 5 illustrates the major general fund revenue sources and shows the dollar amounts and percentage of the general fund total revenues for each of those major revenue sources.

Table 5
General Fund Revenue - FY 2014 – 15 Biennium
Based on February 2013 Forecast and 2013 Session Changes
Dollars in Millions

Revenue Type	Total Dollars	Percent of Total	Change from Forecast
Individual Income Tax	18,876.0	49.1%	1,143.3
Corporate Income Tax	2,421.7	6.3%	73.8
Sales Tax	10,149.2	26.4%	420.9
Statewide Property Tax	1,685.3	4.4%	0.0
Estate Tax	407.8	1.1%	78.0
Liquor, Wine & Beer Taxes	171.0	0.4%	-0.8
Cigarette & Tobacco Products Taxes*	1,195.4	3.1%	812.0
Mortgage Registry Tax	189.8	0.5%	0.0
Deed Transfer Tax	180.1	0.5%	0.0
Insurance Gross Earnings & Fire Marshall	632.8	1.6%	0.0
Lawful Gambling Taxes	134.8	0.4%	0.0
Medical Assistance Surcharges	605.2	1.6%	83.5
Lottery Revenue	126.0	0.3%	0.0
Tobacco Settlements	325.2	0.8%	0.0
Fees - Departmental Earnings	515.2	1.3%	5.1
DHS State Operated Service Collections	104.2	0.3%	8.2
Fines & Surcharges	177.4	0.5%	0.0
Other Revenue Including Refunds	179.5	0.5%	22.0
Transfers Into General Fund*	295.4	0.8%	-337.6
Prior Year Adjustments	50.0	0.1%	0.0
Total	38,422.0	100.0%	2,306,4

*$376.4 million of the reduction in "Transfers" is due to the repeal of the health impact fee on cigarettes and tobacco products.

Individual income tax and the general sales tax make up 75.5 percent of general fund revenue.

Some changes were made in fees and other charges in the 2013 session. Those changes are incorporated into the amounts listed in Table 5. A list of all 2013 session fee and other changes (general fund as well as other funds) is included in Appendix 1. Appendix 1 shows estimated change information for each of the four years in the FY 2014-15 and FY 2106-17 biennia. The FY 2014-15 changes total $129.6 million, $107.8 million of that amount is in the general fund. The fee only change (excluding surcharges and other charges) is $35.1 million, $13.5 million of it in the general fund.

Table 6 shows all general fund revenue changes totaling $2.3 billion for FY 2014-15 by program area. In addition to tax and fee changes, Table 6 includes transfers from other funds to the general fund.

Table 6
General Fund Revenue Changes - By Program Area
Dollars in thousands
(A positive number is a gain to the general fund)

	FY 2014-15	FY 2106-17
K-12 Education	0	0
Higher Education	0	0
Taxes	2,148,787	2,130,125
Health & Human Services	126,320	39,994
Environment & Agriculture	-127	-254
Transportation	585	-27
Public Safety & Judiciary	2,439	-106
Jobs & Economic Development	41,285	8,405
State Government	-12,918	-13,048
Totals	2,306,371	2,165,089

Total General Fund Spending for FY 2014-15 is $1.606 Higher than Forecasted Spending for This Biennium

Total enacted FY 2014-15 general fund spending is $38.349 billion, $1.606 billion or 4.3 percent higher than the base budget for FY 2014-15. Table 7 (on the next page) shows general fund spending in the enacted budget for the FY 2014-15 biennium by program area. Table 7 also compares the FY 2014-15 enacted expenditures to spending in the previous biennium (FY 2012-13). The FY 2014-15 spending of $38.349 billion is a $2.907 billion or 8.2 percent increase over the general fund spending in the previous biennium.

The largest dollar increase in spending over the base level is in K-12 Education at $485 million. Spending in that Tax Aids and Credits area is $435 million above the FY 2014-15 base level.

Spending for Jobs, Economic Development, Housing and Commerce is $130 million above the base level.

The general fund appropriation for K-12 Education in FY 2012-13 is high because education aid payment delays implemented in FY 2010-11 are being repaid in FY 2013. The general fund appropriation for transportation in FY 2012-13 is low because funds from other sources were used on a one-time basis to fund transit. The general fund appropriation for debt service is low in FY 2012-13 because the proceeds of appropriations bonds (initially tobacco securitization bonds) were used in make a one-time reduction in the general fund debt service appropriation.

Table 7

General Fund Spending - Enacted Budget - By Budget Committee FY 2014-15

Dollars in thousands

Program	Feb.13 Forecast FY 2012-13	Base FY 2014-15	Enacted FY 2014-15	% Change Enacted versus FY 12-13	% Change Enacted vs. Base FY 14-15
K-12 Education	15,500,138	15,177,280	15,662,010	1.0%	3.2%
Higher Education	2,568,830	2,565,262	2,813,761	9.5%	9.7%
Tax Aids & Credits	2,794,155	2,710,851	3,145,740	12.6%	16.0%
Health & Human Services	10,654,459	11,362,473	11,440,795	7.4%	0.7%
Environment & Agriculture	305,683	287,731	312,604	2.3%	8.6%
Transportation	126,125	180.050	238,405	89.5%	32.7%
Public Safety & Judiciary	1,855,421	1,825,379	1,932,313	4.1%	5.9%
Jobs, Econ Devlpt & Housing	277,639	238,484	368,767	32.8%	54.6%
State Government	899,032	895,368	940,982	4.7%	5.1%
Debt Service	414,640	1,287,517	1,280,165	208.7%	-0.6%
Capital Projects	45,162	233,073	233,073	416.1%	0.0%
Others	470	-19,810	-19,810	-----	0.0%
Totals	35,441,754	36,743,658	38,349,390	8.2%	4.4%

Table 7 spending numbers include the amounts for the omnibus finance bill for each area plus. Other bills are also included in the numbers based on which committees took primary action on those bills or which agencies are affect. Those bills and the omnibus bill areas in which they are included are listed in Chart 8.

Table 8 Other Fiscal Bills – Committee Area	
Chapter 15 – Workers Comp Reinsurance Ass	State Government
Chapter 51 – Hospital Staffing Study	Health & Human Services
Chapter 111 – Pensions	State Government
Chapter 122 – Claims	Public Safety & Judiciary
Chapter 128 – Child Care & PCA Workers	Health & Human Services
Chapter 131 – Elections	State Government
Chapter 140 - Public Safety Appropriations	Public Safety & Judiciary
Chapter 141 – Disaster Match	Public Safety & Judiciary

Table 7 presents general fund spending information as that spending was authorized in the 2013 session budget bills. Some of the budget bills made appropriations that affect other budget areas. For example, the Tax Bill made state appropriations to reduce local property taxes, some of which were for aid to school districts. Those school district appropriations will be included in the K-12 Education spending area in later budget statements and forecasts. Table 9 presents the FY 2014-15 spending information organized so that all spending is included in the area where it will be tracked in the future. Several budget areas are affected but the primary differences from Table 7 are in K-12 Education and Taxes.

Table 9

General Fund Spending - Enacted Budget - By Program Area FY 2014-15

Dollars in thousands

Program	Feb.13 Forecast FY 2012-13	Enacted FY 2014-15	% Change Enacted versus FY 12-13	% of Total FY 14-15
K-12 Education	15,500,138	15,783,763	1.8%	41.2%
Higher Education	2,568,830	2,813,761	9.5%	7.3%
Tax Aids & Credits	2,794,155	3,015,977	7.9%	7.9%
Health & Human Services	10,654,459	11,440,266	7.4%	29.8%
Environment & Agriculture	305,683	312,604	2.3%	0.8%
Transportation	126,125	239,085	89.6%	0.6%
Public Safety & Judiciary	1,855,421	1,932,313	4.1%	5.0%
Jobs, Econ Devlpt & Housing	277,639	370,876	33.6%	1.0%
State Government	899,032	947,427	5.4%	2.5%
Debt Service	414,640	1,280,165	208.7%	3.3%
Capital Projects	45,162	233,073	416.1%	0.6%
Others	470	-19,920	-------	-0.1%
Totals	35,441,754	38,349,390	8.2%	100.0%

The detailed summaries for each program area that follow provide more specific information on the fiscal actions of the 2013 regular session in those areas.

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

Capital Investment

Minnesota Laws 2013, Chapter 136 authorized an additional $ 177 million in state bonding, $156 million of which is General Obligation (GO) bonding, and $23 million of which is user financed bonding. There was also $2 million in GO bonding authorization that was canceled from a past bonding project, making the effective new GO borrowing amount $154 million. Below is a comparison summary of the capital budget for the end of session versus the February 2013 forecast.

Capital Investment Committee Total General Fund Spending (all dollars in thousands)						
	February Forecast (Base)			**End of Session Estimates**		
	FY 2012-13	**FY 2014-15**	**FY 2016-17**	**FY 2012-13**	**FY 2014-15**	**FY 2016-17**
Debt Service (1)	413,383	1,287,517	1,425,442	413,383	1,280,165	1,412,476
Capital Projects	45,162	233,073	261,859	45,162	233,073	261,859
Line of Credit	1,257	-	-	1,257	-	-
Net GF Total	**459,802**	**1,520,590**	**1,687,301**	**459,802**	**1,513,238**	**1,674,335**

(1) 2011 Tobacco Bond proceeds paid down debt service for FY 12-13 Biennium by $636 million from what would have been $ 1.049 billion in GO debt service spending.

Chapter 136 authorized additional GO bonding, yet end the of session debt service estimates on GO bonds were lower than the base budget. The base budget in the February 2013 budget forecast includes a debt service amount that is adequate to fund bonding equal to the average GO bonding authorized in odd numbered year legislative sessions over the past 10 years. The debt service in the February 2013 forecast was adequate to fund a $225 million GO bonding bill in the 2013 session. Because the $154 million in new GO was $72 million less than the $225 million of bonding assumed in the forecast, general fund debt service is $7.4 million lower in FY 2014-15 then the amount assumed in the forecast and $12.9 million lower in FY 2016-17.

No additional capital projects were authorized in Chapter 136. The large increase in capital project debt service spending between FY 2012-13 and FY 2014-15 is the result of the previously authorized statutory appropriations including the State General Fund Refinancing bonds (refinancing of tobacco securitization bonds), and the Vikings Stadium Appropriation Bonds being issued in FY 2014.

Estimated Debt Service and Statutory Appropriation Payments by Biennium (dollars in thousands)			
	FY 2012-13 (1)	FY 2014-15	FY 2016-17
Prior Authorizations	1,095,546	1,497,254	1,646,144
Chapter 136 Authorizations	-	*15,984*	*28,191*
Total	**1,095,546**	**1,513,238**	**1,674,335**
% Change *(biennium over biennium)*		38%	11%

(1)FY 2012-13 Biennial debt service includes the onetime $635,744 million Tobacco bond proceeds which partly substituted for General Fund debt service. Without the tobacco bonds the debt service amount spent by the General Fund would have been $459,802 for FY 2012-13.

Capital Budget Highlights

The $109 million renovation of the State Capitol building, granted to the Department of Administration, was the largest GO bond authorization, accounting for about 71 percent of the total GO bond authorization in chapter 136. The Department of Administration was also authorized to bond for two new $22.7 million parking facilities for the State Capitol area, with the debt service paid for by users of all Capitol Complex parking facilities. Three smaller GO bond authorizations were included in Chapter 136. The Department of Natural Recourses will administer $20 million in flood hazard mitigation grants. The Department of Veterans Affairs will use $18.9 million for the demolition and renovation of parts of the Minneapolis Veterans Home. The Public Facilities Authority received $8 million in GO bond authorization to match Federal grants for the clean water and drinking water revolving loan funds. Minnesota Management and Budget (MMB) was authorized $180,000 for bond sale expenses. The single cancelation in Chapter 136 was a 2009 $2 million GO bond authorization for an aircraft surveillance facility in Alexandria MN that failed to meet bond financing standards of ownership of the facility, and the cost of the project grew larger than the available financing.

In addition to the Capitol Renovation GO bond authorization $1.86 million in General Fund cash for Capitol Renovation agency relocation costs, was appropriated in the Omnibus Tax bill (Chapter 143) in FY 2014 and $2.34 million in General Fund cash is programmed for the same purpose for the FY 2016-17 biennium. The Omnibus Tax bill also had an appropriation of $3 million from the State General Fund for pre-design and design of a new Legislative Office Building to the north of the State Capitol. The construction cost for the new Legislative Office Building will be paid for by a lease-purchase agreement between the Department of Administration and MMB, details of which are being worked out by agencies after session. A lease-purchase agreement for a new building will have an impact on the debt management guidelines. For more information on Capital Investment provisions in the Omnibus Tax bill please see the House Fiscal summary for Taxes.

Capital Projects Authorized in Chapter 136

Agency / Project	Authorization
Department of Natural Resources	
Flood Hazard Mitigation - GO	$ 20,000
Department of Administration	
State Capitol Renovation - GO	$ 109,000
State Capitol Campus Parking Ramp - UF	$ 22,680
Total Department of Administration	$ 131,680
Department of Veterans Affairs	
Minneapolis Veterans Home - GO	$ 18,935
Public Facilities Authority	
Match for Federal Clean Water Grants - GO	$ 8,000
Minnesota Management and Budget	
Bond Sale Expenses - GO	$ 180
Department of Transportation - Cancelation	
Alexandria Aircraft Surveillance Facility - GO	$ (2,000)
Total General Obligation Bonds - GO	**$ 154,115**
Total User Financing - UF	**$ 22,680**
Bond Authorization Total	**$ 176,795**

Debt Management Guideline Implications

There are two state debt management Guidelines that limit the amount of debt the state can issue based on the amount of principal borrowed for GO bonds, statutory appropriations, and other state obligations, as a percentage of total state personal income. The debt management guidelines are not binding or written into state statute because volatility in the bond market or an economic crisis could put the state over the guideline limits without over issuing bonds. Exceeding the guidelines could reflect poorly on the state's credit rating. A third debt management guideline directs MMB to structure bonds such that 40 percent of GO bonds are paid off in five years and 70 percent are paid off in ten years.

The first Debt Management Guideline restricts the total issued principal debt of the state to less than 3.25 percent of state personal income. As of the February 2013 forecast there was about $6.9 billion outstanding principal debt and an estimated $252 billion in combined state personal income, leaving about $1.3 billion left in Guideline One capacity. MMB will likely have a bond sale in August or September to issue about $1 billion in previously authorized GO various purpose, Trunk Highway bonds, and an undetermined amount of statutory appropriations for the Vikings Stadium, the Minnesota Housing Finance Agency, and for the University of Minnesota Bio-Sciences Facilities. The principal amount of that issued debt will decrease the debt capacity in Guideline One, while at the time personal income growth and the principal amount of debt being paid off will increase the debt capacity in Guideline One.

The second debt management guideline accounts for total principal debt outstanding as well as authorized but unissued debt, and Minnesota Housing Finance Agency (MHFA) moral obligation debt and equipment leases, and is 6 percent of state personal income. All of the debt in Guideline Two, the principal outstanding, is also in guideline Two. There is currently $3.57 billion in remaining capacity in Guideline Two. The bonding authorized in Chapter 136 will move $154 million into Guideline Two by the time of the November 2013 Forecast, and an undetermined amount into Guideline One, depending on the cash flow needs of the authorized projects.

If you have further questions on Capital Investment issues, please contact Andrew Lee at 651-296-4181 or e-mail at andrew.lee@house.mn.

Education Finance

For the FY 2014-15 biennium, the 2013 Legislature passed a budget signed by Governor Mark Dayton that includes $15.6 billion in general fund state aid for Early Childhood and K-12 education (Laws of Minnesota 2013, Chapter 116). This compares with the February forecast of current law FY 2013-14 spending of $15.2 billion, for a total increase of $485 million, or 3.2 percent compared to current law. For the FY 2016-17 biennium, the adopted budget recommendations set the appropriations base at $16.5 billion, an increase of $803 million from the February forecast appropriations, or 5.1 percent.

In addition to the Omnibus Education Finance bill, the 2013 omnibus tax bill (Laws of Minnesota for 2013, Chapter 143) included provisions that directly impact E-12 funding, including:

- Establishment of location equity revenue as a new component of general education revenue beginning in 2015.
- Authorization for a school district to convert up to $300 per adjusted pupil unit of referendum authority from voter approved to board approved by a board vote.
- Enhanced referendum revenue equalization aid.
- Funding for the levy portion of the new Achievement and Integration Revenue program.

The costs of these provisions included in the omnibus tax bill are not included in the chart and descriptions noted below. For more detailed explanation of these provisions see the section titled "Chapter 143 (Omnibus Tax Bill) Provisions Related To E-12 Education" on page 19.

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

	February Forecast FY 2012-13	Forecast Base FY 2014-15	Appropriations Chapter 116 FY 2014-15	Percentage Change Enacted FY 2014-15 vs. FY 2012-13	Percentage Change Enacted vs. Base FY 2014-15
Education Aids	15,425,714	15,102,926	15,585,685	1.04%	3.20%
Education Aids, Excluding Shifts	15,244,776	15,229,280	15,727,729	3.17%	3.27%
Minnesota Department of Education	37,770	37,716	39,366	4.23%	4.37%
Minnesota State Academies	23,193	23,182	23,413	0.95%	1.00%
Perpich Center for Arts Education	13,461	13,456	13,546	0.63%	0.67%
Net General Fund Total:	**15,500,138**	**15,177,280**	**15,662,010**	**1.04%**	**3.19%**

School district property tax levies under the enacted E-12 bill net to $0 change compared to current law for Tax Year 2014, Pay 2015 levies. However, provisions in the omnibus tax bill will have a significant impact on overall school district property tax levies.

The following summarizes the changes enacted this year, with the cost (or savings) expressed as a biennial total for FY 2014-15 from the general fund, unless otherwise noted:

General Education

- $238.2 million for an increase in the basic formula allowance of $78 per pupil in FY 2014 and $80 per pupil in FY 2015. Under current law, the formula allowance for both FY 2014 and FY 2015 is $5,224. The increases result in formula allowances of $5,302 in FY 2014 and $5,382 in FY 2015. However, due to pupil weighting changes that take effect in FY 2015, the actual formula rate in the second year is increased to $5,806 in order to offset the overall reduction in weighted student count.

- $133.9 million beginning in FY 2015 for full funding of optional All Day Kindergarten. Under current law, Kindergarten pupils are weighted at a .612 value. Beginning in FY 2015 all kindergarten pupils enrolled in a full-time program will be counted at 1.0, a value the same as pupils in Grades 1 through 6 under the new pupil weighting changes that go into effect in the same year. Kindergarten students who enroll in a half day program will receive a pupil weight of .55.

- $2.9 million in savings due to clarification of Kindergarten early entrance requirements. Districts with policies that allow children under the age of 5 to enter Kindergarten must establish a comprehensive evaluation tool that clearly identifies what measures will be used to make early entrance decisions.

- $2.5 million in savings due to changes in grade level acceleration changes. This eliminates the ability of a school district to use learning year program revenue (under the extended time statute) to accelerate grade level advancement.

- $10.0 million for continuation of the compensatory revenue pilot grant program. This program awards districts with the twenty largest enrollments additional compensatory revenue if their current compensatory revenue does not exceed $1,400 per pupil.

- $415,000 in net savings due to repeal of the Early Graduation Incentive program. Under existing law, students who graduate early are eligible to receive a scholarship of up to $5,000 that may be used for higher education tuition, or provide students who leave early for military service a bonus check for their early graduation.

- $59.2 million in savings from roll-out of the Alternative Compensation (Q-Comp) program from the General Education Program. An off-setting increase of $59.2 million is included to account for this stand alone categorical funding program going forward. (See Education Excellence below).

- $500,000 to extend eligibility for small schools revenue to small high schools in geographically isolated school districts, beginning in FY 2015.

- $77,000 for additional cost generated due to an increase in the age of compulsory education from 16 to 17.

- $1.4 million in additional formula aid for Non-public Revenue and Non-public Pupil Transportation Revenue. This increase occurs because funding of these programs' formulas is linked to increases in the basic formula allowance.

- $20 million levy increase for re-establishment of the General Education levy, on a limited basis. Prior to 2001, the basic general education formula was "equalized" – the state paid in aid the difference between what was raised by the "General Education" levy and the formula allowance times the number of pupil units. After 2001, the state "took over" the General Education levy and provided all basic general education dollars through state aid. Action in the 2013 legislative session re-established an "equalized" levy for a very small part of the basic general education revenue dollars starting in Tax Year 2014, for Fiscal Year 2015. A statewide "gen ed" tax rate will be established to raise $20 million of basic general education dollars through local school property tax levies.

- $23.6 million reduction in the Operating Capital levy, with a corresponding increase in equalization aid for this funding category.

Education Excellence

- $88,000 for additional formula aid for Tribal Contract Schools. This program's funding formula is linked to increases in the basic formula allowance. It acts in the same manner as the formulas increases for Nonpublic Revenue and Nonpublic Transportation Revenue noted above.

- $5.83 million to implement a new suite of student assessments, a part of which will replace the GRAD test.

- $500,000 in additional funding for the Collaborative Urban Educator (CUE) Program. Adds Augsburg College's East African teacher educator program to the list of local colleges and universities eligible for funding. The CUE program trains individuals from diverse populations who want to become teachers in urban school districts.

- $683,000 for Teacher Development and Evaluation Pilot Grants for FY 2014.

- $600,000 for a grant to the Minneapolis Urban League for education and employment solutions for young adults.

- $500,000 in funding for the Minnesota Math Corps program. The program provides trained math tutors for students grades four through eight.

- $200,000 for the Site Decision Making Grant Program for FY 2014. An education site having a written achievement contract agreed to by the school board and the education site, may apply to the Commissioner of Education for a two-year grant not to exceed $10 per resident pupil unit. Sites participating in the grant program must submit annual reports to the Commissioner outlining their progress and success in meeting it's achievement contract goals.

- $250,000 for Civics Education grants. The grants fund the Minnesota Civic Education Coalition: Kids Voting St. Paul, Learning Law and Democracy Foundation, and YMCA Youth in Government.

- $59.2 million for Alternative Compensation (Q-Comp) Roll-Out. Alternative Compensation is now a standalone categorical program. It was previously a part of the General Education formula.

- $1 million for Starbase MN. Starbase MN is a science, technology, engineering, and math (STEM) program providing students in grades 4-6 with a hands-on curriculum in an aerospace environment. State funds for this program are intended to partially “backfill” federal dollars that were cut due to sequestration.

- $10 million for Career and Technical Aid. Career and Technical Revenue now consists of an aid component, in addition to the existing levy component.

Special Education

- $40 million for special education cross subsidy aid.

- Beginning in FY 2015, requires the serving school district to cover 10 percent of unfunded special education costs, reducing the amount bourn by the resident district from 100 percent to 90 percent. Intermediate districts, cooperatives and charter schools where at least 70 percent of students are eligible for special education services are exempt from this provision.

- In FY 2014 and FY 2015 begins to transition to a census-based method of special education funding. Districts will receive a portion of their funding based on number of students served by type of disability. Three cost categories are established to better match the cost of delivery of services to the type of student served.

Facilities and Technology

- $3.5 million in additional levy authority for the Safe Schools Program. This equates to $4 per pupil in additional funding for school safety measures.

Early Childhood and Family Support

- $46.0 million, beginning in FY 2014, to expand an early childhood education scholarship program. Eligible families with children between the ages of 3 and 5 would qualify for a scholarship averaging $5,000 per child to a public or private early childhood preschool program of the parent’s choosing.

Self-sufficiency and Lifelong Learning

- $201,000 beginning in FY 2015 for an increase in the annual growth factor for Adult Basic Education aid. Currently, Adult Basic Education aid grows by 2 percent per year. The growth factor will now increase to 3 percent per year.

Minnesota Department of Education

- $400,000 for an agency base budget adjustment.

- $500,000 for the financial reporting operations of the Department.

- $1 million for the School Climate Center. However, the authorizing language for the School Climate Center was in a separate bill that was *not* enacted.

- $2 million for Regional Centers of Excellence. The department currently operates three sites, funded with federal grant dollars. The Department hopes to add one or more additional sites. The Centers are used to develop partnerships, share best practices and support school districts in implementing state and federal initiatives.

- $1.76 million to implement a Special Education Paperwork Reduction initiative.

- $750,000 for administration of the Teacher Development and Evaluation Pilot Grants in FY 2014.

Minnesota State Academies for the Deaf and Blind

- $146,000 for an agency base budget adjustment.

- $85,000 for kitchen upgrades.

Perpich Center for Arts Education

- $90,000 for an agency base budget adjustment.

Other Relevant Provisions Without State General Fund Impacts

- Pupil unit weighing changes beginning in FY 2015. While not a cost, changing pupil weights alters the distribution of general education dollars based on the number of students at each grade level. Dollars per pupil for most funding formulas will increase as a result of pupil weighting changes. The table below shows the existing and new pupil weights by grade:

	Existing Law	New Law
Kindergarten	.612	.55 (half day) / 1.0 (full day)
Grades 1 – 3	1.115	1.0
Grades 4 - 6	1.06	1.0
Grades 7 – 12	1.30	1.2

- Marginal cost pupil units are eliminated and replaced with new declining enrollment revenue at 28 percent of basic revenue.

- The school year must be at least 165 days, unless the commissioner has approved an alternative calendar for the district.

- The requirement that 2 percent of the basic formula revenue be reserved for staff development purposes is reinstated. The allowable use of the funds is expanded to include teacher evaluation activities.

- Districts are allowed to transfer balances from one fund or account to another for FY 2014 and FY 2015, with the approval of the Commissioner of Education of a school board resolution authorizing the transfer. The transfer cannot be made from the food service or community service funds, and will not be allowed if doing so increases state aid obligations or local property taxes.

Implications

For FY 2014, total funding on a per student basis increases compared with February 2013 forecast base revenue, primarily as a result of the basic formula increase, by $129 per headcount, unweighted student. For FY 2015, the increase averages $518 per student.

State Education Funding Accounting Shifts Update

Minnesota Statutes 16A.152 requires that any balance for the current biennium at the time of a state budget forecast must be used to repay the school aid payment shift and reverse the school property tax recognition shift. The November 2012 Forecast indicated that the State had revenues in excess of end of session projections of $1.3 billion. This amount was automatically used to "buy down" the shift balance to $1.1 billion. The February 2013 State Budget Forecast indicated revenues were in excess of November Forecast figures by $285 million. This triggered an additional buy down of the school shift balance to $801 million.

Chapter 116, Article 7, Section 20 contained a provision that accelerates repayment of education shifts if any positive budgetary general fund balance existed at the close of fiscal year 2013, ending June 30, 2013. It requires the commissioner of management and budget to estimate the closing balance by September 30, 2013. The July 2013 Economic Update indicated that FY 2013 revenue exceeded the forecast amount by $463 million. (The final estimate will incorporate year end expenditures versus forecast as well). The final estimated balance will be used to eliminate the remaining aid payment shift and reduce the property tax recognition shift.

Addition shift payments will be distributed to the districts on October 15, as part of their regular aid metering schedule.

Chapter 143 (Omnibus Tax Bill) Provisions Related To E-12 Education

Article 3 of the omnibus tax bill contains four significant provisions that impact E-12 funding. These include:

1.) Location Equity Revenue. Beginning in FY 2015, Location Equity revenue is established as new revenue category within the general education formula. This revenue stream is intended to address labor cost differentials among school districts throughout the state. School districts located within the seven-county metropolitan area are eligible to receive up to $424 per adjusted pupil unit in Location Equity Revenue, while school districts located in regional centers (with student populations greater than 2,000) are eligible to receive $212 per adjusted pupil unit in Location Equity Revenue.

Location Equity Revenue has an equalized levy component that is spread on referendum market value (RMV) with an equalizing factor of $510,000 per resident pupil unit. (Districts with lower than average property value per pupil will receive more of the revenue in the form of state aid than a district with higher property value per pupil). For districts receiving Location Equity Revenue, the location equity allowance is subtracted off of the referendum allowance otherwise authorized for the district. Districts may choose not to participate in the location equity revenue program, by board vote. The decision not to participate must be acted on, on an annual basis.

2.) Conversion of Existing Referendum Authority to Board Approved Levy. Beginning in FY 2015 (Pay 2014) school boards statewide may elect to convert up to $300 per adjusted pupil unit from existing voter approved referendum levy authority to board approved levy authority. The decision to convert this authority requires board action, and the board approved authority can remain in effect for up to 5 years. The board may subsequently reauthorize the authority in increments up to 5 years.

This provision guarantees that all school districts will have access to at least $300 per adjusted pupil unit in referendum revenue authority. For districts that do not currently have referendum authority or who have less than $300 per pupil in authority, this will result in new revenue. For districts with existing referendum authority, it does not result in new revenue, it simply changes who is eligible to authorize the revenue.

3.) Enhanced referendum equalization aid. A key component of both the Location Equity Revenue program and the option to convert up to $300 per adjusted pupil unit to board approved levy was significant enhancement of the equalization factors for referendum revenue. There are now three tiers of equalization aid as follows:

- **Tier 1 –** First $300 of referendum authority is equalized at $880,000 of referendum market value per resident pupil unit.
- **Tier 2 –** Referendum authority of between $300 - $760 per pupil is equalized at $510,000 of referendum market value per resident pupil.
- **Tier 3 –** Referendum authority up to the cap, minus the sum of the first and second tier allowance, and is equalized at $290,000 of referendum market value per resident pupil unit.

In order to contain the potential behavioral effects of districts seeking additional referendum authority as a result of this legislation, a one year operating referendum election "freeze" was instituted. A significant exception was allowed, however, if a school board adopted a resolution prior to June 30, 2013 stating their intent to conduct a referendum election during the fall of 2013.

In order to clarify the order in which the Education Advancement and Location Equity Revenue provisions will be implemented, the Department of Education sent a memo to school districts on June 13, 2013. The Department intends to first subtract the location equity allowance (for eligible districts) off the district's referendum allowance *before* determining eligibility for the $300 board approved levy conversion (Education Advancement Revenue). This order of calculation is known as "stacked" policy implementation; as districts may be qualify for both provisions, versus, districts opting for the greater of the two.

3.) Reinstatement of the Integration Levy. As a result of legislation passed in 2011, the integration levy for FY 2015 was not built into the budget forecast base. The omnibus tax bill included language to reinstate levy authority for integration related purposes. The name of the program was changed to Achievement and Integration Revenue (AIM). Significant programmatic changes were implemented as well, as a result of recommendations made by the Integration Revenue Replacement Taskforce work.

For further information on Education Finance related issues contact Melissa Johnson at (651) 296-4178 or melissa.johnson@house.mn

Environment, Natural Resources & Agriculture

Chapter 114 as enacted in 2013 appropriates money for the environment, natural resources and agricultural activities of the state. Agencies and programs funded include the Pollution Control Agency, Department of Natural Resources, Minnesota Conservation Corps, Metropolitan Council Parks, Minnesota Zoo, Board of Water and Soil Resources, Minnesota Department of Agriculture, Board of Animal Health and Agricultural Utilization and Research Institute. Chapter 114 enacts total General Fund appropriations of $312.604 million for the 2014-15 biennium; there is also $127,000 in lost General Fund revenue which needs to be included when discussing total General Fund impact. The amount appropriated, including lost revenue, is $25 million over base level funding or an increase of about nine percent. The following chart and agency narrative provides details on the appropriations.

Environment, Natural Resources and Agricultural Finance Committee
Total General Fund Spending
(all dollars in thousands)

	February Forecast FY 2012-13	Forecast Base FY 2014-15	Enacted FY 2014-15	Percentage Change Enacted FY 2014-15 vs. FY 2012-13	Percentage Change Enacted vs. Base FY 2014-15
Department of Agriculture	62,619	62,600	63,140	0.8%	0.9%
Board of Animal Health	9,680	9,674	9,674	-0.1%	0.0%
Agricultural Utilization and Research Institute	5,286	5,286	5,286	0.0%	0.0%
Pollution Control Agency	9,868	9,594	9,527	-3.5%	-0.7%
Transfer to Closed Landfill Investment Fund	0	12,100	10,000		-17.4%
Department of Natural Resources	111,160	102,598	128,022	15.2%	24.8%
DNR Open Appropriations	52,537	44,173	44,173	-15.9%	0.0%
Revenue Changes	0	0	-127		
Board of Water and Soil Resources	37,325	25,116	25,282	-32.3%	0.7%
Metropolitan Council Parks	5,740	5,740	5,740	0.0%	0.0%
Conservation Corps of Minnesota	612	0	910	48.7%	
Minnesota Zoo	10,856	10,850	10,850	-0.1%	0.0%
Net GF Total	**305,683**	**287,731**	**312,731**	2.3%	8.7%

Department of Agriculture

The Department of Agriculture received $63.14 million over the biennium in direct General Fund appropriations in Chapter 114. The total biennial direct appropriation from all funds is $66.396 million.

Protection Services:
The biennial total direct appropriation from the General fund for the Protection Services Division is $23.96 million, with the total direct appropriations from all funds being $25.616 million. There were a number of changes in the General Fund and the Agricultural Fund that contributed to the total appropriation.

- A biennial appropriation of $670,000 to increase lab operations and provide better quality control was paid for by a General Fund appropriation of $490,000 and an Agricultural Fund appropriation of $180,000.
- An increase in funding to food handler inspections of $450,000 for the biennium from the general fund will allow the agency to increase the number of completed inspections.
- A reduction of $100,000 for the biennium from the General Fund was made to the appropriation for destroyed or crippled animals due to wolves. With expanded management options for wolves the appropriation could be lowered to meet the anticipated claims.
- There were three new appropriations from the Agricultural Fund. The first of which is a one-time appropriation of $100,000 per year to monitor pesticides and pesticide degradates in surface and groundwater in areas vulnerable to impairments and degradation. The data collected will be used to improve pesticide use practices. The second appropriation of $100,000 per year is to update and modify applicator education and training manuals. The last of these three appropriations is a one-time appropriation of $150,000 per year to develop and use best management practices to protect pollinators and pollinator habitat.
- Changes to the Commercial Animal Waste Technician (CAWT) license contributed $38,000 annually in increased revenue to the Agricultural Fund that was also appropriated to the Agency.

Promotion and Marketing:
The total General Fund appropriation for this division is $6.124 million for the biennium. This is the only direct appropriation the division receives and no changes were made from the base.

Value-Added Products:
The General Fund appropriation for the division is $20.47 million for the biennium. The total amount appropriated did not change from the base. However, of the appropriation $1 million per year will be directed to county fairs.

Administration and Financial Assistance:
Direct biennial appropriations for the division included $12.586 million from the General Fund and $1.6 million from the Agricultural Fund. The only change made to the division base was a reduction of $300,000 from the General Fund.

Board of Animal Health

The Board of Animal Health received a General Fund Appropriation of $9.674 million for the biennium from the General Fund. There were no changes made from the base amount.

Agricultural Utilization and Research Institute (AURI)

A General Fund Appropriation of $5.286 million for the biennium was made to AURI and is the base amount.

Pollution Control Agency (PCA)

Chapter 114 appropriates General Fund spending of $9.527 million for the PCA. Total direct appropriations from all funds are $168.487 million. A number of changes were made within the agency programs as listed below.

Water Program:
The total General Fund Appropriation for the PCA's Water Program is $7.474 million. The direct appropriation from all funds is $50.907 million. Funding changes that were made in the Water Program all came from the Environmental Fund. These changes include:

- A Water Program appropriation increase of $1.5 million per year will allow the agency to replace its aging database system, develop online tools for permitting and improve permitting and compliance efforts with the current increases in permit applications.
- An appropriation of $105,000 per year for wastewater laboratory quality assurance and quality control will allow the agency to streamline certification requirements, assure data quality, and reduce costs for laboratories.
- A biennial appropriation of $1.826 million is for Biomonitoring of Perfluorocarbons (PFC's), of which $313,000 will come from existing appropriations. $1.624 million of this will be transferred to the Department of Health.

Air Program:
PCA's Air Program does not receive any General Fund appropriations. The direct appropriation for the Air Program comes from the Environmental Fund; this appropriation totaled $30.232 million. The change items for the Air Program are through the Environmental Fund and are:

- An air program appropriation increase of $1.5 million per year will allow the agency to maintain staffing levels, decrease the permitting backlog, replace the aging database system and develop online permitting system tools to help with the increasing permitting demands the agency is seeing.
- Revenue from air emissions fees allow for an appropriation increase of $165,000 in FY14 and $335,000 in FY15. This will allow the agency to maintain the same level of service to industrial and municipal emissions sources.
- To improve air quality by reducing emissions from nonpoint sources $690,000 per year was appropriated.

- Localized air monitoring efforts will receive $210,000 per year. This will be used to systematically measure and analyze local ambient air quality and determine where significant differences occur.

Land Program:
The Land Program within PCA does not receive General Fund Appropriations. The total direct appropriations from the Environmental Fund and the Remediation Fund are $34.824 million. There were no changes made to the base funding of the Land Program.

Environmental Assistance and Crossmedia:
General Fund appropriations for this program are $2.053 million. Total direct appropriations from all funds are $52.524 million. There are a number of different changes in several different funds.

- The Environmental Quality Board will see an increase in funding. Previously the Board was funded through a General Fund transfer of $302,000. The Board will now receive a direct appropriation of $624,000 from the General fund and $376,000 from the Environmental Fund.
- The Environmental Quality Board will also oversee an interagency Silica Sand Technical Assistance Team. The appropriation for the Technical Assistance Team is $1 million from the General Fund with a portion available to be transferred to the commissioners of the agencies involved. There is also a one-time appropriation in the Department of Natural Resources for Rulemaking associated with silica sand mining.
- $125,000 is from the Environmental Fund from fees collected for the creation of Sanitary Districts.
- $111,000 is from the special revenue fund from fees collected by the agency to oversee a product stewardship plan for architectural paint.
- The Pollution Control Agency will have a base adjustment of -$949,000 from the General Fund.

Administrative Support Program:
The administrative support program will not receive any direct appropriations for FY 2014-15. This is the result of one change item which removed the base funding from the General Fund:

- A base adjustment of -$742,000 from the General Fund was enacted.

Department of Natural Resources (DNR)

Chapter 114 enacts a General Fund appropriation of $172.195 million to the department for the biennium, of this amount $128.022 million are direct appropriations with the remainder coming from the five open appropriations the agency oversees. Total agency spending from all sources is $669.591 million for the biennium. Specific changes from the base budget to each division include:

Land and Minerals Management:
The division will receive $2.728 million from direct General Fund appropriations; there is an additional $38,000 from the General Fund as an open appropriation for the Consolidated Conservation Areas. Direct biennial appropriations from all funds totaled $12.974 million for the division.

- General Fund support for real estate, mining and minerals activities will be reduced by $1.564 million per year.
- A utility crossing fee exemption will start in fiscal year 2015. This exemption results in a $400,000 per year (starting in FY15) reduction in the Natural Resource Fund revenue which is currently collected from the fee. The loss is replaced by a $400,000 per year (starting in FY15) appropriation from the General Fund. There is also lost revenue to the General Fund of $127,000 per year starting in FY15.

Ecological and Water Resources:
The General Fund appropriation for the division is $28.934 million. Total direct appropriations from all funds are $58.764 million for the biennium. A number of changes were made in this division relating to the General Fund, Natural Resource Fund and the Game and Fish Fund.

- Management of Aquatic Invasive Species will see an increase from the General Fund of $2.35 million in FY14 and $2.65 million in FY15. An additional increase from the Natural Resource Fund will add $800,000 in FY14 and $500,000 in FY15.
- General Fund appropriations for water management activities will increase $1.6 million in FY14 and $6 million in FY15. Of this amount $600,000 the first year is for silica sand rulemaking. These funds are intended to increase groundwater and surface water monitoring and analysis, provide increased and integrated information, and improve the permitting process.
- Increased Game and Fish Fund appropriations, as a result of the license fee increase passed in 2012, will add $150,000 per year for the division.
- Two appropriation increases will help to implement the comprehensive plan for the Upper Mississippi River. The Mississippi Headwater Board will see an increase of $50,000 per year from the general Fund. The Board's total general fund appropriation is $103,000 per year. The Leech Lake Band of Chippewa Indians will see their general fund support increase from $5,000 per year to $10,000 per year.

Forest Management:
The Forestry Division's direct General Fund appropriation is $48.85 million for the biennium. An additional open appropriation of $26 million for the biennium from the General Fund for firefighting is accounted for in the division. Total direct appropriations from all funds will be $73.670 million.

- An appropriation of $1 million per year from the Heritage Enhancement Account within the Game and Fish Fund will help provide scientific management tools for sustainable forestry. These funds will be used to: 1) accelerate native plant community mapping, 2) continue to develop silvicultural interpretations for management based on the maps, and 3) advance invasive species management work.
- General Fund appropriations for forest management will increase $5.05 million per year. These funds will be used to manage state forest lands, including timber harvest, forest inventory, reforestation, and forest road maintenance.

- Appropriations from the Forest Management Investment Account in the Natural Resources Fund were reduced $2.5 million per year in order to reflect actual resources available in the fund.
- Planning for the State Forest Nurseries will receive $50,000 in FY 14 from the General Fund. This appropriation will be used to provide recommendations on how the state forest nurseries can provide long-term availability of ecologically appropriate and genetically diverse native forest seeds and seedlings.

Parks and Trails:
The Parks and Trails Division was appropriated $39.56 million from the General Fund for the biennium. The total direct appropriations for the division are $135.604 million. Changes include:

- A General Fund increase of $2.25 million per year was appropriated to support operations and customer service.
- An appropriation for a change in the State Parks and Trails reservation system of $500,000 per year from the Natural Resource Fund will allow the agency to improve and sustain the system.
- A Natural Resource Fund appropriation from the Land and Water Conservation Account (LAWCON) of $250,000 per year will be for eligible state projects and administrative planning. This appropriation was previously in a different bill.
- State cross country ski trail grooming and maintenance will increase $75,000 per year; this appropriation is from the cross country ski account in the Natural Resource Fund.
- Local and Regional Trail Grants from the Lottery-in-lieu account in the Natural Resources fund are increased by $200,000 per year.

Fish and Wildlife Management:
The division receives no direct general fund appropriations. The general fund open appropriations accounted for in the division total $18.135 million. Total direct appropriations for the division are $125.55 million which come from the Game and Fish Fund and the Natural Resource Fund. Changes include:

- A Game and Fish Fund appropriation increase of $3.02 million per year was made in order to improve the health of fish and wildlife populations as well as improve habitat. This increase in funding is associated with the revenues from the license fee increases passed in the 2012 session.
- A General Fund reduction of $199,000 per year reduced the general fund appropriation to $0 for the division.
- An appropriation reduction of $100,000 per year from the Natural Resources Fund for Grey Wolf management was made in order to reflect the change in status from a nongame species to a game species.

Enforcement:
The General Fund appropriation for the Enforcement Division is $7.95 million for the biennium. Total direct appropriations are $71.036 million.

- The Enforcement Division will receive a Game and Fish Fund increase of $470,000 per year. This is associated with the increases made in the Ecological and Water Resources Division as well as the Fish and Wildlife Division from the revenue collected from the increased license fees passed in 2012.

- In order to recruit conservation officers with a diverse educational background funding was appropriated to provide wage and educational benefits to candidates who already hold a four year degree in a different field. The appropriation is $250,000 per year, of which $187,000 per year is from the Game and Fish Fund and $63,000 per year is from accounts within the Natural Resource Fund.
- A General Fund appropriation increase of $600,000 per year will provide for enforcement efforts related to the management of aquatic invasive species.
- A records management system capable of providing real-time data will be developed and implemented with an appropriation of $720,000 per year, half of this appropriation is from the Aquatic Invasive Species account in the Natural Resources Fund and half of the appropriation is from the Game and Fish Fund.

Operations Support:
The General Fund appropriation for the division is $640,000 for the biennium; this is the only direct appropriation the division receives. Most of the work of the Operations Support Division is internally billed, to the other divisions, for the services provided to those divisions.

- An appropriation of $300,000 per year will go towards Data Analytics and Decision Tools. The total appropriation will be accounted for from multiple funds and divisions. The funding will be used to: 1) Improve data integration 2) link financial tracking, program administration, and outcomes reporting systems and 3) increase access to data and decision support tools.

Board of Water and Soil Resources (BWSR)

The General Fund budget appropriated to the Board of Water and Soil Resources in Chapter 114 is $25.282 million for the biennium.

- A General Fund Appropriation of $125,000 per year will allow the Board of Water and Soil Resources to hire one FTE to work on internal control compliance. This will allow the BWSR to comply with current policies and best management practices related to programs and budgeting.
- Funding for the Minnesota River Board from the General Fund was cut by $42,000 per year. This cut is the entire amount of state funding the board received.

Metropolitan Council Parks

The Metro Council parks appropriation as enacted in Chapter 114 is $5.74 million from the General Fund. Metropolitan Council Parks also receives an appropriation of $11.34 million from the Natural Resources Fund.

MN Conservation Corp

The Minnesota Conservation Corp has an appropriation of $910,000 from the General Fund and $980,000 from the Natural Resources Fund. During the FY12-FY13 biennium the General Fund appropriation was $612,000 but the base for FY14-FY15 was zero, this results in the $910,000 appropriation showing up as a change item.

Minnesota Zoo

The General Fund appropriation to the Zoo is $10.85 million for the biennium. There is an additional $320,000 appropriation from the Natural Resources Fund. Total expenditures for the zoo are anticipated to be $46.357 million with the non-direct expenditures coming from the Special Revenue Fund and the Gift Fund.

Legislative Citizen Commission on Minnesota Resources

In addition to the appropriations made in Minnesota Law 2013 Chapter 114, appropriations for the Environment and Natural Resources Trust Fund were made in Minnesota Law Chapter 52. The appropriations made totaled $38.16 million, of which $33.81 million are in FY14 and $4.35 million are in FY15.

Detailed funding and project descriptions can be found at the Commissions web site: http://www.lccmr.leg.mn/

For additional information on Environment, Natural Resources and Agricultural Finance issues, contact Brad Hagemeier at 651.296.7165 or email: brad.hagemeier@house.mn.

Health and Human Services

The Health and Human Services (HHS) budget for FY 2014-15 is enacted by several pieces of legislation that passed during the 2013 Legislative session, primarily the HHS omnibus finance bill, Laws of Minnesota 2013, Chapter 108. The sum of the legislation has a net impact on the general fund of $11,314,525,000 for the biennium. This represents a ($47.9) million decrease, or (.4) percent, from the FY 2014-15 budget base. On a biennium to biennium basis, the enacted FY 2014-15 general fund budget is an increase of $660.1 million, or 6 percent, compared to forecast FY 2012-13 spending. In the out biennium, FY 2016-17, the enacted HHS budget increases by $1.001 billion, or 8.8 percent, which represents an increase of $4.1 million from the forecast base. The increase is because of the ongoing costs for Chapter 128.

Health and Human Services Finance Committee
Total General Fund Spending
(all dollars in thousands)

APPROPRIATIONS	February Forecast FY 12-13	Forecast Base FY 14-15	Chapter 108 & Other FY 14-15	Chapter 108 & Other FY 16-17	% Change vs. Forecast FY 12-13	% Change vs. Base FY 14-15
Chapter 108						
Human Services Dept.	10,509,019	11,252,880	11,332,223	12,252,754	8%	1%
Health Dept.	144,371	148,721	153,732	148,512	6%	3%
Emergency Medical Services Board	5,637	5,482	5,482	5,482	-3%	0%
Council on Disability	1,049	1,048	1,228	1,228	17%	17%
Ombudsman for Families	530	530	667	668	26%	26%
Ombudsman for Mental Health/DD	3,359	3,308	3,308	3,308	-2%	0%
Board of Nursing Home Admin.	10	20				
Other Bills						
Chapter 51 - MDH- Nurse Staffing			252			
Chapter 128 - DHS - Collective Bargaining			1,900	3,930		
Chapter 128 - MMB - Collective Bargaining			470	236		
Chapter 128 - BMS - Collective Bargaining			59			
Total Appropriations	**10,663,975**	**11,411,989**	**11,499,321**	**12,416,118**	8%	1%
REVENUES						
Federal Financial Participation (FFP)	(49,516)	(49,516)	(57,846)	(59,091)		
Chapter 128 FFP			(630)			
Transfer to HCAF	40,000					
Inmate MA Costs (interagency transfer)			(2,668)	(4,579)		
Realign Hospital Surcharge			(36,611)	(4,136)		
HMO Surcharge Reform			(39,774)	(3,977)		
ICF/DD Surcharge			(8,971)	(8,655)		
6 Mo Nursing Bed Layaway			281	422		
NF Closure Rate Authority			1,591	3,977		
TEFRA Fee Reduction			2,163	2,392		
Match Supportive Service Expenditures			(8,800)	(8,800)		
One-time Reduction in CCDTF			(18,188)			
County Share Anoka RTC			(1,892)	(1,892)		
County Share Security Hospital			(6,292)	(6,292)		
County Share MSOP			(2,590)	(3,334)		
Child Care Investigations & Data Analytics			(749)	(1,299)		
Expand Surveillance & Integrity Review			(1,500)	(1,500)		
MA Provider Recoveries			(1,000)	(1,000)		
Newborn Screening Fee - MDH			(1,320)	(1,320)		
Total Revenues	**-9,516**	**-49,516**	**-184,796**	**-99,084**		
Net General Fund Impact	**10,654,459**	**11,362,473**	**11,314,525**	**12,317,034**	6%	-0.4%

Note – the table above includes all appropriations for Chapter 128 in the HHS budget area. MMB's fund balance analysis for the general fund counts the appropriations in Chapter 128 for Minnesota Management & Budget and the Bureau of Mediation Services in the State Government and Economic Development areas respectively.

Overview

Because of the many issues surrounding implementation of the Patient Protection and Affordable Care Act (ACA), the 2013 legislative session was an complex one in the area of health and human services with three major and several minor bills being enacted. In February, Laws of MN 2013, Chapter 1 (HF 9) was enacted, expanding Medical Assistance (MA) eligibility to 138 percent of the federal poverty level. This expansion was enacted prior to the February forecast, in part, to prevent a negative forecast impact that would have occurred without expansion. Because many of the individuals who became eligible for MA under this bill had previously been eligible for Minnesota Care the impact of this expansion was to increase general fund MA spending and decrease Minnesota Care spending. Individually, general fund MA spending increased by $63.6 million in FY 2014-15 while Minnesota Care spending in the health care access fund (HCAF) decreased by $193 million for the same period. The bill transfers up to $63.6 million from the HCAF to the general fund in FY 2014-15 causing a net fiscal impact of zero in the general fund and net savings to the HCAF of $129.4 million for the biennium.

In March, Laws of MN 2013, Chapter 9 (HF5) was enacted creating the Minnesota Insurance Marketplace, the state's health insurance exchange, now known as MnSure. The exchange legislation itself accounted for no direct general fund impact either in the upcoming biennium or in the future. However, because the exchange will serve as the entrance portal and eligibility screening tool for many MA and Minnesota Care applicants, there is a portion of the total exchange cost that is allocated back to the Department of Human Services and paid by state and federal MA expenditures, appropriated through the human services omnibus finance bill. Exchange operations not allocated to MA or Minnesota Care are funded though a withhold on premium revenue of policies sold through the exchange (not on public programs). The bill places limits on both the maximum percentage that can be withheld and the total revenue that may be collected based on a percentage of total 2012 Minnesota Comprehensive Health Association (MCHA) assessments which were $168 million. Prior to January 1, 2015, the withhold is set at 1.5 percent of premiums with a total withhold of no more than 25 percent of CY 2012 MCHA assessments. For CY 2015 the withhold can be up to 3.5 percent of premium revenues up to a total of no more than 50 percent of CY 2012 MCHA assessments and for January 1, 2016 and after, the withhold can be up to 3.5 percent with a total of no more than 100 percent of CY 2012 MCHA assessments. In addition, for FY 2014-15, the Commissioner of MMB is authorized to loan the exchange up to $20 million from the Special Revenue Fund or the general fund. The loan must be repaid with interest by June 30, 2015.

Several minor bills passed which had an impact on the health and human services budget. Laws of MN 2013, Chapter 51 makes a one-time appropriation of $252,000 to the Minnesota Department of Health to conduct a study of nurse staffing ratios in hospitals. Also, Laws of MN 2013, Chapter 128 authorizes activities related to collective bargaining for child care workers and personal care assistants and makes general fund appropriations in FY 2014-15 of $1.9 million to the Department of Human Services and $470,000 to Minnesota Management and Budget. Both of these are ongoing appropriations with tails of $3.9 million and $236,000 respectively in FY 2016-17. Chapter 128 also makes a one-time appropriation of $59,000 to the Bureau of Mediation Services.

As noted above, the omnibus health and human services finance bill, Laws of MN 2013, Chapter 108 (HF 1233) passed in May. The specific appropriation information from all bills for each account and department are detailed below.

Department of Human Services

Total general fund appropriations to the department from all bills are $11.334 billion for the FY 2014-15 biennium. This includes $11.332 billion in the omnibus appropriations bill, Chapter 108, and $1.9 million in Chapter 128 for labor organization issues for family child care workers and personal care assistants (PCA's). This funding level represents an increase of 1 percent from the FY 2014-15 base and 8 percent from FY 2012-13 funding and includes $183.5 million in general fund revenue changes. In addition, $242.3 million is appropriated to the department from the health care access fund for the FY 2014-15 biennium.

Agency Administrative
The final legislation included several items in the administrative area of the department. There is a savings of $735,000 for the biennium from a reduction of six full-time equivalents (FTE's) at the department. Five of these FTE's are in the operations area and one is in State Operated Services.

$1.03 million is appropriated in FY 2014-15 to start a county performance management system.

Chapter 108 also includes funds to begin modernization of the various computer systems used by the department. The main appropriations Article in the bill (Article 14) includes systems modernization appropriations of $17.3 million. Of that amount, $4.3 million is for a new Medical Assistance enrollment tool as part of the new state health insurance exchange, MNsure. This module will serve as the front door for enrollment and eligibility purposes for people eligible for MA. There is an additional, contingent appropriation of $11.6 million for systems modernization in Article 15 of the bill (see contingent appropriations below).

Children and Family Services Grants
Chapter 108 includes $187,000 for the biennium to extend eligibility for childcare assistance to disabled adoptive caretakers with an employed spouse

The law includes a version of the North Star Care for Children program changes proposed by the Governor. This provision will spend $3.2 million for the biennium to increase adoption assistance rates and to bring multiple rates into one. Importantly, the none of the rates will decrease in order to increase the rates for the hardest to place cases.

$4.5 million is allocated for the biennium to expand statewide the parent support outreach program which involves early intervention work with families to prevent child maltreatment.

Various changes affect the Minnesota Family Investment Program (MFIP). $1.8 million in FY 2015 from the general fund will go to repeal the "family cap" in the MFIP program that limits the number of dependents in a family that are recognized by the program. Also in the MFIP program there is a general fund expenditure of $6.7 million for the biennium for the Governor's rebuilding an effective MFIP Program initiative which includes various family and work supports. Finally, Chapter 108 allocates $46 million in Temporary Assistance for Needy Families (TANF) money in FY 2016-17 for a new housing assistance grant program.

An additional $750,000 was appropriated to statewide food shelf programs. The language in the bill specifies that none of the money may go for administrative costs to run food shelves or distribute the money.

The law includes several initiatives in the area of housing and homelessness. It provides $4 million for the biennium to fund the state homeless youth act. It also includes $2 million for the biennium for long-term homeless supportive services. An additional $500,000 for the biennium is allocated for transitional housing programs as well as an additional $500,000 for emergency services grants for homeless individuals. Finally in the area of housing, $1 million was allocated for the biennium for the Safe Harbor for Sexually Exploited Youth program.

Child Care Programs

Child care programs were increased by nearly $20 million for the biennium through a variety of measures. The law provides $19.4 million for the Governor's initiative to expand access to high quality child care for high needs children. $2.8 million is allocated to return the absent days provision in statute, which had been reduced to 10 days in prior budgets, to the 25 days but with no medical exemption that would effectively extend the absent days beyond 25. Also, in total, $2.1 million was appropriated for several changes to child care accreditation, licensure and investigations.

The Legislature also captured basic sliding fee under spending of $5 million and moved it to the general fund. Also see below in regard to Chapter 128, child care provider labor organization.

Grants

Several pass through grants were included in Chapter 108 which included:

- $200,000 to an organization that works with high risk adults.
- $360,000 for a Fetal Alcohol Syndrome program.
- $429,000 for a clinic in Olmstead County for a Mental Health Pilot Project.
- $310,000 for Advocating Change Together
- $500,000 for the Family Assets for Independence (FAIM) program.
- $1.25 million for a text based suicide prevention program.

Continuing Care

The Governor's budget included the Reform 2020 proposal which was all contingent on federal waiver approval. In the enacted budget, several pieces of the Reform 2020 proposal were enacted in the main funding article and are not contingent, while other parts are in a separate contingent funding article (see below). An initiative to improve access to home and community based services for persons age 65 and over on ventilators had no net cost and was included in the main budget article. Also, several items which saved money were included as part of the initial budget. A change to add Individual Community Living Supports in the elderly waiver and alternative care programs will save $3.6 million. An initiative on crisis diversion and discharge planning will save $843,000 and Community First Services and Supports will save $15.6 million, mainly in long-term care waivers.

There was a great deal of work on the issue of autism in the 2013 legislative session with several items being enacted. The main initiative spends $12.7 million for the biennium to set up a new autism treatment benefit in the MA program. In addition, parent fees under the TEFRA program were eliminated for families at or below 275 percent of the federal poverty level. This will help lower income families who do have private health insurance and a family member with autism. In addition, the state is required to add an autism treatment benefit to the state employee insurance program in the next round of contracts. A final piece requires large employers to offer an autism treatment benefit in their employee health plans.

The final legislation also includes $8.2 million for the biennium for an initiative to improve transitions to waivered services for targeted populations.

Rate increases for nursing homes and home and community based services were also a major focus in Chapter 108. Nursing facilities will see a total rate increase of 5 percent on September 1 of 2013 and an additional 3.2 percent on October 1 of 2015. As part of the Governor's focus on improved quality a portion of each rate increase available to nursing facilities based on quality measures. The law also includes $25.8 million in FY 2014-15 and $78 million in FY 2016-17 to increase rates for HCBS providers. These increases represent 1 percent in FY 2014 and a 1 percent quality add-on for FY 2016-17.

The bill includes $961,000 for positive practice and behavior safeguards and supports. This is training for providers on the appropriated use of restraints and isolation with certain populations and is in compliance with the legal settlement with the department over the Metro Extended Treatment Options (METO) program.

Chapter 108 also appropriates $2.1 million for a quality initiative on waiver provider standards and for waiver management improvements.

$2.2 million is appropriated for state-only funded HCBS and nursing facility services for individuals eligible for emergency medical assistance.

Finally, Chapter 108 allocates $12.8 million to repeal a 1.67 percent rate reduction on various long-term care providers enacted in 2011 legislative session. This reduction was put in place for FY 2013 and the first six months of FY 2014. The 2012 legislative session repealed the initial

12 months of the cut and paid for it with a one-month payment shift, from June to July of calendar 2013, on these same providers. Chapter 108 repeals the remaining six month reduction that would have occurred from July 1 through December 31 of 2013.

Health Care Programs

Because of the implementation of the Affordable Care Act (ACA) there was a great deal of legislation which effected Medical Assistance (MA) and MN Care. As mentioned above, prior to passage of the omnibus finance bill, separate legislation passed which expanded eligibility for MA up to 138 percent of federal poverty level (FPL). It had previously been at 100 percent for most groups and 75 percent for some others. In addition, legislation to set up a state health insurance exchange was also passed separately. Those bills had no net impact on the state general fund and causes net savings in the health care access fund projected at $129.4 million for the biennium. Chapter 108 makes several other large sets of changes related to the ACA.

The first major set of changes involves lining up our MA eligibility and enrollment statutes with the new federal requirements. These are changes like eliminating asset tests, recognizing estimated new enrollment and adopting spousal impoverishment rules. In all, this group of changes will cost the general fund an estimated $136.2 million for the biennium.

The second major change related to the ACA program is to expand MA eligibility to continue coverage for pregnant women and children up to age 20. Coverage for these groups had previously come primarily through MN Care. This expansion of MA cost the general fund an estimated $28 million if FY 2014-15.

The third major piece connected to the ACA was a redesign of the MN Care program to be the states early step in creating a Basic Health Plan (BHP). Effectively, the final legislation changes MN Care eligibility to cover individuals above 138 percent of federal poverty level up to 200 percent. Persons above 200 percent of FPL would need to purchase insurance through the exchange where they may be eligible for advance premium tax credits from the federal government.

Several smaller items are related to ACA implementation as well. $601,000 is for a screening program for health care providers who plan to serve eligible patients. $1.27 million for the biennium is to add hearing officers at the department to process eligibility determination appeals under the ACA and $4.6 million for the biennium is for administration and systems related to all the health care coverage expansions.

Chapter 108 also recognizes ($20.12) million in savings from a federal increase in primary care rates under the ACA legislation.

Finally, a provision in Chapter 108 provides that up to $403.4 million in MA costs be paid directly by the health care access fund. The language in the bill requires the department and MMB to reassess estimates of costs for various populations paid from the HCAF and limit expenditures from the fund to the actual cost of those populations up to the limit.

Other health care provisions include $3.1 million for the biennium to continue Emergency Medical Assistance grants for cancer and dialysis.

The bill appropriates $187,000 for the biennium to extend MA coverage to doula services. It also includes $500,000 to cover certain durable medical equipment.

$224,000 for the biennium covers the cost of allowing separate medical encounters (multiple provider visits) on the same day. This will allow for better coordination of medical services for MA recipients with multiple medical issues.

The Medical Education and Research Costs (MERC) program is allocated an additional $12.8 million to restore it to the spending level it was at prior to reductions in FY 2012-13. An additional $1 million from the health care access fund is also transferred to the MERC fund to alter the formula for certain sites in the program.

Various provider categories receive rate increases in the legislation. $10.6 million is appropriated to increase basic care rates 3 percent, primary care rates 5 percent, clinic based family planning services 5 percent and dental rates 5 percent. All these increases take effect on September 1, 2014 except the dental rate change which occurs on January 1, 2014.

Two other dental provisions were included. $986,000 is appropriated to restore sedation services and home visits for some disabled individuals and $4.5 million is appropriated to increase the critical access dental rate by 5 percent to a total of 35 percent above the regular MA dental rate.

The legislation recognizes various savings items: $524,000 in savings comes from bulk purchase of diabetic test strips, $47,000 in savings from establishing state allowable maximum costs for various drug codes, $941,000 in savings from not covering child and teen vaccinations through MA that can be covered under the MDH free vaccination program, $694,000 in savings from establishing a clinical care coordination benefit in MA, and $4.8 million in savings is realized through making rules uniform statewide under the federal 340B drug reimbursement program. Under the new legislation the state will receive most, but not all, of the savings which are currently realized by various other entities.

There is one revenue item which accrues to the health care access fund rather than the general fund. $2.2 million will go to the HCAF from the state requesting additional Disproportionate Share Hospital (DSH) payments for legal non-citizens.

Two fiscal items are related to the newborn screening fee increase referred to below in the MDH section. $496,000 for the biennium is the MA impact of the general fee increase and $285,000 is the cost of the deaf and hard of hearing services portion of the increase.

Finally, $1.74 million is appropriated for the biennium to help transition into a new fee schedule for home and community (HCBS) based providers. The state funding allows for a multi-year change in the new fee schedule so that new fees will hit providers more gradually.

Mental Health and Chemical Dependency

The legislation includes $7.4 million to expand the School-linked mental health grants program that helps school districts get students and their families in contact with mental health programs and services.

$1.5 million is appropriated to expand mental health crisis response services and $600,000 is allocated to a training program for doctors to help them recognize substance abuse issues in their patients and know where to refer them.

In the MA program, $250,000 is appropriated to create mental health certified family peer specialists. There are also several no-cost provisions which allow coverage for psychiatric consultation in the MA program, allow mental health treatment in foster care and establish a family psycho-educational benefit in MA. A previously enacted rate cut for low needs individuals in congregate care situations is eliminated in instances where the facility get mental health certification.

The legislation recognizes $5.3 million in savings from elimination of a transition grants program that provided funding to community hospitals for patients transitioning from, or who would otherwise have been in, Regional Treatment Centers or other state facilities.

Chapter 108 provides for Willmar Community Based Health Hospital (CBHH) to remain open permanently. The facility had been slated to close in several previous funding bills but the closure was delayed and is now permanently repealed.

Minnesota Sex Offender Program (MSOP)

Chapter 108 appropriates an increase in the sex offender program budget of $7.8 million over the next two years to cover the cost of projected caseload increases. Total appropriations for MSOP for the FY 2014-15 biennium are $156.5 million. Legislation to add less restrictive treatment options to the program, which would have created some additional costs, failed to pass. However, the state is likely to have to deal with these costs and changes eventually due to challenges to the program's legality in its current form.

Reform 2020 Contingent Appropriations

Chapter 108 includes a second appropriations article (Article 15) that includes appropriations changes dependent on federal approval of various waiver requests. As a package this was initiative was labeled Reform 2020 by the department. This initiative includes various changes in the continuing care areas of the department, some of which cost money, but most of which create savings. In addition, this initiative includes a substantial investment in modernizing DHS computer systems. In total, the appropriations in Article 15 have a net zero impact on the general fund for FY 2014-15 and savings of $36 million in FY 2016-17. As of the end of session, the department had written indication for the federal department of Health and Human Services that approval would be granted for the requested waivers. Specific changes included in Article 15 Reform 2020 appropriations are:

- $8.5 million to enhance protection of vulnerable adults.
- $21.6 million in savings from federal financial participation in the Alternative Care and Essential Community Supports programs.
- A cost neutral item to give access to Home and Community Based Services (HCBS) for people 65 and older who are on ventilators.
- $445,000 for the First Contact initiative surrounding simplification, access, and transition supports for persons in the continuing care system.
- $4.3 million for an HCBS critical access study and service development.
- $399,000 for an initiative to encourage/enable work for continuing care populations.
- $3.7 million in savings for a housing stability services demonstration project.
- $11.6 million for modernization of DHS technology systems.

Revenues

Chapter 108 includes a net increase of $184.8 million in general fund revenues for the biennium. There are many changes within that amount both positive and negative. Specific changes include:

- $58.5 million gain in new Federal Financial Participation funds (FFP) from all bills.
- $36.6 million gain from acceleration of hospital surcharge payment schedule.
- $39.8 million gain from acceleration of HMO surcharge payment schedule.
- $9 million gain from an increase in the ICF/DD surcharge.
- $281,000 loss for a six month nursing bed lay away program.
- $1.6 million loss to restore nursing facility closure authority
- $2.2 million loss to eliminate parent TEFRA fees for families at 275 percent of federal poverty level and below.
- $8.8 million gain in new federal matching funds for the Supportive Services program.
- $18.2 million gain from a one-time transfer of surplus funds from the Consolidated Chemical Dependency Treatment Fund (CCDTF).
- $1.9 million gain from raising the county share of costs for placements at the Anoka Regional Treatment Center.
- $6.3 million gain from raising the county share of costs for placements at the Minnesota Security Hospital.
- $2.9 million gain from higher collections from counties in the Minnesota Sex Offender Program. This is due to higher numbers in the program rather than a change in county share.
- $3.25 million gain in recoveries from child care, MA and other providers.
- $1.3 million gain from increased newborn screening fees.

Other Legislation - Child Care/Personal Care Assistant Labor Organization

As mentioned above, in addition to the appropriations in Chapter 108 there are also human services appropriations in Laws of MN 2013, Chapter 128. This Act sets requirements and conditions for an organizing vote by family child care providers who are funded in any part through the state child care assistance program (CCAP). It also establishes a self directed work force council within DHS to negotiate Personal Care Assistant (PCA) labor issues. Chapter 128 appropriates $1.9 million in FY 2014-15 to DHS as well as $470,000 to Minnesota Management & Budget and $59,000 to the Bureau of Mediation Services to cover the requirements of the legislation. Chapter 128 includes tails of $3.93 million at DHS and $236,000 at MMB for FY 2016-17 which assumes a successful organizing vote would occur during the FY 2014-15 biennium.

Department of Health

The department has four program areas that receive state general fund and/or health care access fund appropriations: Health Improvement; Policy, Quality and Compliance; Health Protection; and Administrative Services. Total general fund appropriations to the department from all bills are $153.98 million for the FY 2014-15 biennium. This includes $153. 7 million in the omnibus appropriations bill, Chapter 108, and $252,000 for a study of nurse staffing in hospitals appropriated in Chapter 51. This funding level represents an increase of 3 percent from the FY 2014-15 base and 6 percent from FY 2012-13 funding and includes $1.3 million in new general fund revenues generated by an increase in the newborn screening fee. In addition, $98.2 million is appropriated to the department from the health care access fund for the biennium including $35 million for the Statewide Health Improvement Program (SHIP).

Health Improvement

Chapter 108 appropriates $100.5 million from the general fund and $35 million from the health care access fund for this program in the FY2014-15 biennium, and includes the following changes (general fund unless noted):

Statewide Health Improvement Plan (SHIP) – $17.5 million each year is appropriated from the HCAF for the biennium. This funding is on-going.

Minnesota Poison information Center - $500,000 each year. This funding is on-going.

Deaf and Hard of Hearing Services - $529,000 in FY 2014 and $505,000 in FY 2015. The base for this appropriation is $505,000 per year in FY 2016-17.

Safe Harbor for Sexually Exploited Youth - $1 million for the biennium to the Director of Child Sex Trafficking Prevention, six regional navigators and an evaluation. The base for this appropriation is $500,000 per year in FY 2016-17.

Maternal Depression Reduction Plan – $177,000 for the biennium. The base for this appropriation is $87,000 per year in FY 2016-17.

Core Public Health Activities - $350,000 each year to develop and implement a new cancer reporting system. This is an on-going appropriation.

Policy, Quality & Compliance
Chapter 108 appropriates $18.8 million from the general fund and $23.9 million from the health care access fund for this program in the FY2014-15 biennium, and includes the following changes:

MERC Grants - $1 million each year is appropriated from the HCAF for transfer to the MERC fund. This is an on-going appropriation.

Criminal Background Checks - The State Government Special Revenue Fund appropriation is increased for FY 2017 to initiate background checks on various health professionals licensed by MDH.

As mentioned above, Chapter 51 appropriates $252,000, one-time, for a nurse staffing study through this program area of the department.

Health Protection
Chapter 108 appropriates $18.4 million from the general fund for this program in the FY2014-15 biennium, and includes the following changes:

Core Public Health Activities - $300,000 each year to increase the capacity of the Infectious Disease Laboratory and for lead poisoning prevention.

Administrative Support Service
Chapter 108 appropriates $16 million from the general fund for this program in the FY2014-15 biennium, and includes the following changes:

Core Public Health Activities - $350,000 each year to maintain MDH regional staffing to help support local health departments.

Ombudsman for Mental Health and Developmental Disabilities

No changes were made to the budget for this agency. Chapter 108 appropriates the forecast base of $1.654 million per year from the general fund for FY 2014-15.

Ombudsperson for Families

Chapter 108 appropriates an additional $68,000 above base in FY 2014 and $69,000 above base in FY 2015 to add an office manager position for the agency. The total general fund appropriation for the Ombudsman for Families is $667,000 for FY 2014-15.

Disability Council

Chapter 108 appropriates an additional $90,000 above base each year for an emergency preparedness initiative at the agency. The total general fund appropriation for the Disability Council is $1.228 million for FY 2014-15.

Emergency Medical Services Board

No changes were made to the budget for this agency. Chapter 108 appropriates the forecast base of $2.741 million per year from the general fund for FY 2014-15.

Health-Related Boards

There are 15 health-related boards under the jurisdiction of the Health and Human Services Finance Committee. These boards are funded from professional license fees through the State Government Special Revenue (SGSR) fund.

Policy and funding changes which affect specific boards for the FY 2014-15 biennium are detailed below. All changes are in the SGSR unless otherwise noted:

- **Board of Behavioral Health and Therapy -** an additional $106,000 was appropriated for staffing.
- **Board of Chiropractic Examiners** – an additional $58,000 was appropriated for staffing, IT and space needs and for a LEAN evaluation.
- **Board of Dentistry** – an additional $475,000 was appropriated for salary adjustments, staffing, IT, office and contracted services costs. The funding also includes increases for the Health Professionals Services Program which is housed at the Board of Dentistry.
- **Board of Marriage and Family Therapy** – an additional $144,000 was appropriated for rulemaking and staffing costs. Also, some fees collected through the Board were reduced.
- **Board of Nursing Home Administrators** – This board serves as the home of the Administrative Services Unit (ASU) which handles administrative functions for all the health related boards. An additional $3.554 million was appropriated for rulemaking, security staffing, vehicle leasing, consolidation of retirement costs, upfront costs related to background checks for all licensees, IT services, shared office space and a shared licensing and discipline case management system.
- **Board of Pharmacy** – an additional $420,000 was appropriated for staffing.
- **Board of Physical Therapy** – an additional $44,000 was appropriated for rulemaking.

- **Board of Psychology** – an additional $90,000 was appropriated for continuing education, public education and education program development.

- **Board of Social Work** – an additional $111,000 was appropriated for staffing.

- **Board of Veterinary Medicine -** an additional $58,000 was appropriated for staffing.

For questions relating to Human Services issues, contact Doug Berg, House Fiscal Analyst at (651)296-5346 or doug.berg@house.mn

Higher Education

The 2013 Higher Education finance bill (Laws of Minnesota 2013, Chapter 99) includes total General Fund appropriations of $2.8 billion for the Mayo Medical School and Family Practice Residency Program, the Minnesota State Colleges and Universities, the Office of Higher Education and the University of Minnesota.

The enacted General Fund budget is $249 million, or 10 percent, above the February 2013 forecast base funding levels for FY 2014-15 for these accounts in total. Compared to forecast spending in the prior biennium (FY2012-13) this represents a General Fund increase of $244.9 million, or 10 percent. The following table summarizes Chapter 99 General Fund appropriations by account.

Higher Education Finance and Policy					
Total General Fund Spending					
(all dollars in thousands)					
				Percentage Change	Percentage Change
	February Forecast	Forecast Base	Enacted	Enacted FY 2014-15 vs.	Enacted vs. Base
	FY 2012-13	FY 2014-15	FY 2014-15	FY 2012-13	FY 2014-15
Office of Higher Education	384,252	381,142	450,103	17%	18%
Mayo Foundation	2,702	2,702	2,702	0%	0%
MN State Colleges & Universities	1,091,188	1,090,730	1,193,058	9%	9%
University of MN	1,090,688	1,090,688	1,167,898	7%	7%
Net GF Total	**2,568,830**	**2,565,262**	**2,813,761**	10%	10%

Mayo Foundation

The Mayo Foundation receives a General Fund appropriation of $2.702 million for the Medical School capitation grant program and the Family Practice Residency program. This is the full General Fund base level for FY 2014-15 and represents no change over the FY 2012-13 biennium.

Minnesota State Colleges and Universities (MnSCU)

For the Minnesota State Colleges and Universities Chapter 99 appropriates a general fund total of $1.193 billion for the FY 2014-15 biennium. This represents an increase of $102.3 million (9 percent) from the FY 2014-15 General Fund forecast base. Compared to forecast spending in the prior biennium (FY 2012-13) this represents a General Fund increase of $101.87 million or 9 percent.

The specific spending provisions that were agreed to in conference committee include:

- ✓ Tuition relief for undergraduate students in the MnSCU system in the form of a two year freeze on tuition for the FY 2014-15 biennium only with $25.5 million of the appropriation designated to cover the tuition freeze cost in FY 2014 and $52.5 million designated for that purpose in FY 2015. Funding of $105 million is built into the 2016-17 biennium base to continue tuition relief efforts.
- ✓ One-time funding of $17 million to aid in the retention of quality faculty and staff.
- ✓ Annual funding for leveraged equipment to be used for instructional purposes - $7.278 million in FY 2015 and $14.556 million in FY 2016-17.
- ✓ One-time funding of $50,000 to convene a mental health issues summit.
- ✓ Included in the Operations & Maintenance appropriation for MnSCU is authorization for an annual transfer of $18,000 to the Cook County Higher Education Board, in addition to the amount the project currently receives

In addition to the appropriation changes noted above, Chapter 99 includes a language provision that holds back five percent of the Board's FY 2015 operations and maintenance appropriation ($28.4 million) until the Board of Trustees demonstrates to the Commissioner of Management and Budget that they have achieved at least three of the following performance goals:

- ✓ Increase the number of degrees, diplomas and certificates conferred in FY 2013 by at least four percent over FY 2010
- ✓ Increase the 2013 fall persistence/completion rate for 2012 fall entering students by at least one percent over the fall persistence/completion rate in 2010 for 2009 fall entering students
- ✓ Increase the employment rate in FY 2013 for 2012 graduates by four percent compared to the 2011 rate for 2010 graduates
- ✓ By 2014, collect data on the number of Open Educational Resources tools and services offered, then come up with plan to reduce instructional expenses by one percent
- ✓ Reallocate $22 million made available by expense realignment in FY 2014

Office of Higher Education (OHE)

For the Office of Higher Education, Chapter 99 includes General Fund appropriations of $450.1 million for the FY 2014-15 biennium. This represents an increase of $68.96 million (18 percent) over the FY 2014-15 General Fund forecast base. Compared to forecast spending in the prior biennium (FY 2012-13) this represents a General Fund increase of $65.85 million or 17 percent.

The bulk of the new spending for the Office of Higher Education (OHE) will be used for changes in eligibility for the state grant program. The cost of all the changes to the grant program in the FY 2014-15 biennium is $74.956 million, and there is $460,000 additional unallocated one-time funding for the program as well. The changes in eligibility include:

- ✓ Assigned student responsibility (ASR) increase - from 46 percent to 50 percent of the student contribution.
- ✓ Increase in the 4-year program tuition and fee cap - from $10,488 to $13,000.
- ✓ The living and miscellaneous expense (LME) allowance is increased from $7,000 to $7,900 each year.
- ✓ Reduction in assigned family responsibility (AFR) for independent students who do not have dependents - from 68 percent to 50 percent of the student contribution.
- ✓ A pilot program to prorate the AFR for FY 2014-15 only.

OHE was able to realize one time savings for the state grant program due to the two year freeze on tuition at MnSCU along with federal changes made to the Pell Grant program. These savings are estimated to be $28.744 million in the 2014-15 biennium.

Additional funding was provided to OHE for the following non-grant program initiatives:

- ✓ $1.25 million annually to help reduce the waiting list for American Indian scholarships.
- ✓ An additional $7.7 million each year for tuition reciprocity payments to North Dakota.
- ✓ The MNLink/MINITEX program will receive an additional $300,000 each year.
- ✓ The SLEDS (Statewide Longitudinal Data System) program will receive $882,000 in annual state funding.
- ✓ $100,000 each year for High School to College developmental transition program grants.
- ✓ $150,000 annually for Tribal College grants.
- ✓ One-time funding of $100,000 in FY 2014 for information technology costs associated with implementing the Prosperity Act.
- ✓ $1.29 million each biennium to be transferred to Hennepin County Medical Center (HCMC) for graduate family medical education programs - previously, this transfer went through the University of Minnesota.

The conference committee did agree to spending $750,000 each year for a Teach for America initiative, but this appropriation was vetoed by the Governor.

University of Minnesota (U of M)

For the University of Minnesota Chapter 99 appropriates a General Fund total of $1.168 billion for the FY 2014-15 biennium. This represents a General Fund increase of $77.2 million (7 percent) from the FY 2014-15 General Fund forecast base. Compared to forecast spending in the prior biennium (FY 2012-13) this represents the same General Fund increase of $77.2 million or 7 percent.

The specifics of the appropriation changes noted above from Chapter 99 include the following:

- ✓ Funding for tuition relief for undergraduate, in-state students in the form of a tuition freeze for the two years of the FY 2014-15 biennium only with $14.2 million of the appropriation designated to cover the tuition freeze cost in FY 2014 and $28.4 million designated for that purpose in FY 2015. This funding continues into the FY 2016-17 biennium at $56.8 million in order to continue to offset tuition costs
- ✓ $17.7 million in FY 2014 and then $17.8 million each year thereafter for the Minnesota Discovery, Research and InnoVation Economy (MnDRIVE) program
- ✓ As stated above, the University will no longer have the responsibility of transferring $1.29 million each biennium to the HCMC - that transaction will now occur under OHE
- ✓ An additional $125,000 each year for the Labor Education Services program, which is housed in the Carlson School of Management

Similar to the agreed-upon language for MnSCU, a rider holds back five percent of the U of M's FY2015 operations and maintenance appropriation ($26.5 million) until the Board of Regents demonstrates to the Commissioner of Management and Budget that they have achieved at least three of the following performance goals:

- ✓ Increase the Twin Cities campus undergraduate graduation rates (three year average) for low-income students reported in fall 2014 over fall 2012 by one percent
- ✓ Increase by three percent the amount of undergraduate STEM degrees (three year average) conferred by the U of M Twin Cities campus reported in FY 2014 over FY 2012
- ✓ Increase the graduation rates by one percent (three years average) at the University of Minnesota reported in fall 2014 over fall 2012
- ✓ Decrease administrative costs by $15 million in FY 2014
- ✓ Increase invention disclosures by three percent for FY 2014 over FY 2013

If you have any questions on higher education finance issues, please contact Emily Adriaens at 296-7171 or emily.adriaens@house.mn.

Jobs & Economic Development, Housing & Commerce Finance

The Legislature's enacted FY 2014-15 budgets in the areas of Jobs & Economic Development, Housing and Commerce are contained in Laws of 2013, Chapter 85. The approved legislation appropriates $327.482 million from the General Fund. This represents a $130.283 million increase from the agencies' FY 2014-15 budget base funding, a 54.6 percent increase. On a biennium to biennium basis, the Legislature's enacted FY 2014-15 General Fund budget is an increase of $ 91.128 million, or 32.8 percent compared to the agencies' forecasted FY 2012-2013 spending.

The enacted budget also increases FY 2014-15 General Fund revenues by $41.285 million. Taken together, the combined FY 2014-15 enacted appropriations and revenues have net General fund impact of $327.482 million.

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

APPROPRIATIONS	**November Forecast FY 12-13**	**Forecast Base FY 14-15**	**Chapter FY 14-15**	**% Change vs. Forecast FY 12-13**	**% Change vs. Base FY 14-15**
Jobs & Economic Development					
Employment & Economic Development	$103,196	$78,810	$162,736	57.7%	106.5%
Labor & Industry	1,633	1,632	2,132	30.6%	30.6%
Explore Minnesota Tourism	18,385	16,776	27,976	52.2%	66.8%
Mediation Services Bureau	3,169	3,168	4,162	31.3%	31.4%
Bd. of Accountancy	960	960	1,323	37.8%	37.8%
Bd. of Architecture, Engineering, et al.	1,548	1,548	1,548	0.0%	0.0%
Bd. of Cosmetologist Examiners	2,092	2,092	2,692	28.7%	28.7%
Bd. of Barber Examiners	514	514	634	23.3%	23.3%
Science & Technology Authority	714	214	0	-100.0%	-100.0%
Region 3-Occupation Tax	912	912	912	0.0%	0.0%
Iron Range Resources (non GF only)	N/A	N/A	N/A	N/A	N/A
W. C. Court of Appeals (non GF only)	N/A	N/A	N/A	N/A	N/A
Housing					
Housing Finance Agency	88,816	76,096	101,496	14.3%	33.4%
Commerce					
Commerce	43,915	43,406	50,258	14.4%	15.8%
Public Utilities Commission	11,875	12,356	12,898	8.6%	4.4%
Total Appropriations	**$277,729**	**$238,484**	**$368,767**	**32.8%**	**54.6%**

REVENUES					
Jobs & Economic Development					
DEED - UI Contingent Account Transfer			$15,000		
MHFA - 2012 Flood Bill Cancelation			3,000		
Accountancy Fees			474		
Cosmetologist Fees/Penalties			1,400		
Barbers Fees			62		
Housing					
MHFA - 2012 Flood Bill Cancelation			3,000		
Commerce					
Comm - Appointment Fee Increase			9,900		
Comm - Assigned Risk Plan Transfer			10,000		
Comm - Petro Fee Dedication Change			(552)		
Comm - 30% Weights & Measures Inc.			660		
Comm - Bullion Coin Dealers Regulation			1,335		
Comm - Energy Policy Bill Assessments			464		
PUC - Energy Policy Bill Assessments			542		
Other					
RiverCentre Payment Forgiven			(1,000)		
Total Revenues			**$41,285**		
Net General Fund Impact	**$277,729**	**$238,484**	**$327,482**		**37.3%**

One item of note on the revenue side is that the amount will fall off significantly going forward into the FY 2016-2017 biennium. The reason for the reduction is that the $25 million in transfers from the UI Contingent Account and the Assigned Risk Plan are one-time only in FY 2014-15, and the revenue loss from payment forgiveness for the RiverCentre will increase more eightfold, going from $1 million in FY 2014-15 to $8.5 million in FY 2016-17.

Department of Employment and Economic Development (DEED)

The enacted total General Fund budget for DEED is $162.736 million. The dollar and percent increases from current law base are $84.6 million and 108.3 percent respectively.

Three major appropriations account for over 75 percent of the Department's FY 14-15 budget increase. Together, these appropriations total $64 million.

- $30 million appropriation for the Minnesota Investment Fund,
- $24 million appropriation for the new Minnesota Jobs Creation Fund, and,
- $10 million appropriation for the Minnesota Film & TV Board's Film's Jobs Production Program.

Listed in the table are the major DEED programs, their FY 14-15 General Fund biennial base funding, enacted changes (if any) and the resulting FY 14-15 biennial funding for each.

Department of Employment and Economic Development **FY 2014-15 General Fund Appropriations** *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Changes**	**FY 14-15 Funding**
Business Development	$3,338		$3,338
Community Development	832		832
Entrepreneurship & Small Business.	2,146		2,146
JOBZ & Business Finance	1,120		1,120
Job Skills Partnership Program	8,390		8,390
Contaminated Sites Cleanup Grants	2,544		2,544
Business Dev Competitive Grant Program	1,514	1,336	2,850
Adult Workforce Dev Competitive Grants	1,660	418	2,078
General Support Services	2,036		2,036
Minnesota Trade Office	2,984		2,984
Trade Offices Expansion		540	540
State Trade & Export Promotion (STEP) Grants		630	630
Invest Minnesota Marketing Initiative		360	360
Trade Policy Advisory Group		100	100
Vocational Rehabilitation Service	21,600		21,600
Extended Employment	10,490	1,000	11,490
Mental Illness - Support Employment (onetime)	3,110	1,000	4,110
Independent Living Services	4,522		4,522
Services for the Blind	11,850		11,850
Minnesota Investment Fund		30,000	30,000
Minnesota Job Creation Fund		24,000	24,000
Redevelopment Grant Program (onetime)		6,000	6,000
Distressed City Economic Initiative Program(onetime)		1,235	1,235
Host Community Economic Development Program		1,750	1,750
Energy Efficiency Improvements Grant (onetime)		750	750
Enterprise MN – Small Bus Growth Acceleration (onetime)		750	750
So. and S.W. MN Initiative Foundation Pilot (onetime)		320	320
Center for Rural Policy & Development (onetime)		200	200
Broadband Development Office		500	500
St. Paul Neighborhood Stabilization Program (onetime)		250	250
Upper Minnesota Film Board (transferred from Tourism)		24	24
MN Film & TV Board - Operating (transferred from Tourism)		650	650
Minnesota Film & TV Board — Jobs Production Fund		10,000	10,000
Labor Market Information Study		1,000	1,000
Job-Based Education & Apprenticeship Pilot (onetime)		987	987
Little Earth YouthBuild Program Pilot (one-time)		500	500
Annual Cost-of-Living Study		300	300
Total DEED General Fund	**$78,136**	**84,600**	**$162,736**

The Legislature also enacted a DEED related provision that increases FY 14-15 biennium General Fund revenues. The provision transfers $7.5 million each year of the biennium ($15 million total) from the Unemployment Insurance Contingent Account to the General Fund.

The Legislature increased DEED's appropriations from the Workforce Development Fund by $7.518 million to $40.362 million in total. These increases are shown in the following table.

Department of Employment and Economic Development
FY 2014-15 Workforce Development Fund Appropriations
(dollars in thousands, numbers are biennial)

Program	FY 14-15 Base	Enacted Changes	FY 14-15 Funding
Minnesota Youth Program	$7,000		$7,000
Youth Build	2,000		2,000
Extended Employment	13,660		13,660
Adult Workforce Dev Competitive Grants	3,810	678	4,488
Youth Workforce Dev Competitive Grants	5,696		5,696
MN Alliance of Boys & Girls Clubs		1,500	1,500
MN Diversified Industries		400	400
Big Brothers-Big Sisters		250	250
Opportunities Industrialization Centers		1,000	1,000
FastTRAC		3,000	3,000
MN High Tech Assoc SciTechsperience (onetime)		850	850
Foreign-Trained Health Care Prof Grants (onetime)		450	450
Autism Spectrum Disorder Pilot Project (onetime)		68	68
Business Development Competitive Grants	678	(678)	0
Total DEED Workforce Development Fund	**$32,844**	**$7,518**	**$40,362**

One additional major provision enacted in the 2013 session is the reduction of employers' Unemployment Insurance taxes by an estimated total of $346.42 million. The reductions will occur in employers' calendar years 2014 and 2015 payments.

Department of Labor & Industry

The Department of Labor and Industry is appropriated $2.132 million from the General Fund for the FY 2014-2015 biennium. This represents a $500,000 increase from the Departments base. The percent increase is 30.6 percent.

Department of Labor & Industry **FY 2014-15 General Fund Appropriations** *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Changes**	**FY 14-15 Funding**
Labor Standards & Apprenticeship Division	1,632		1,632
Child Labor Safety and Investigations		300	300
Wage Enforcement		200	200
Total DOLI General Fund	**1,632**	**500**	**2,132**

The Legislature adopted no change in funding for three DOLI programs funded from the Workforce Development Fund. Together the three programs receive biennial appropriations of $2.058 million.

Department of Labor and Industry **FY 2014-15 Workforce Development Fund Appropriations** *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Changes**	**FY 14-15 Funding**
Apprenticeship Program	$ 1,558		$ 1,558
Labor Education & Advance Program Grants	200		200
Prevailing Wage Enforcement	300		300
Total DOLI Workforce Development Fund	**2,058**		**2,058**

Likewise, the Legislature adopted appropriations for three DOLI programs directly funded from the Workers Compensation Special Fund with no change in funding. Together, the three programs receive biennial appropriations of $41.742 million

Department of Labor and Industry **FY 2014-15 Workers Compensation Special Fund Appropriations** *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Changes**	**FY 14-15 Funding**
Workers Compensation Operations	$ 21,356		$ 21,356
Workplace Safety	8,308		8,308
General Support Division	12,078		12,078
Total DOLI Workers Compensation Funs	**41,742**		**41,742**

Bureau of Mediation Services

The Legislature adopted FY 2014-2015 General Fund appropriations of $4.162 million. This represents a $994,000 increase from the Bureau's FY 2014-2015 forecast base. The percent increase is 31.4 percent. The respective program funding within Bureau are:

Bureau of Mediation Services FY 2014-15 General Fund Appropriations *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Changes**	**FY 14-15 Funding**
Bureau Operations	$ 3,168		$ 3,168
Supplement Mediation Staff		382	382
Case &Document Management System Replacement		100	100
Office of Collaboration & Dispute Resolution		512	512
Total BMS General Fund	**3,168**	**994**	**4,162**

Board of Accountancy

The Legislature adopted FY 2014-15 General Fund appropriations of $1.323 million for the Board. This represents an increase of $363,000 from the Board's FY 2014-2015 forecast base.

Board of Accountancy FY 2014-15 General Fund Appropriations *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Change**	**FY 14-15 Funding**
Operating Budget	$ 960	$ 363	$ 1,323

To pay for the increase in Board's funding, the Legislature increased the various Board licensing fees by $474,000 for the biennium.

Board of Architecture and Engineering

The Legislature adopted FY 2014-15 General Fund appropriations of $1.548 million for the Board. This represents no increase from the Board's FY 2014-2015 forecast base.

Board of Architecture and Engineering **2012-13 General Fund Appropriations** *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Change**	**FY 14-15 Funding**
Operating Budget	$ 1,548	$ 0	$ 1,548

Board of Cosmetologist Examiners

The Legislature adopted General Fund appropriations of $2.692 million for the Board, an increase of $600,000 from the Board's FY 2014-2015 forecast base.

Board of Cosmetologist Examiners **FY 2014-15 General Fund Appropriations** *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Change**	**FY 14-15 Funding**
Operating Budget	$ 2,092	$ 600	$ 2,692

The Legislature increased Board licensing fees and compliance penalties by $1,400,000 for the biennium.

Board of Barber Examiners

The Board will receive a general fund appropriation of $634,000 in the FY 2014-2015 biennium. This represents an increase of $120,000 from the Board's FY 2014-2015 forecast base.

Board of Barber Examiners **FY 2014-15 General Fund Appropriations** *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Change**	**FY 14-15 Funding**
Operating Budget	$ 514	$ 120	$ 634

The Legislature increased the various Board licensing fees by $62,000 for the biennium.

Science & Technology Authority

The Legislature approved the Governor's recommendation to eliminate in the Science & Technology Authority. This action will result in a $214,000 general fund saving during FY 2014-15 biennium.

Science & Technology Authority **FY 2014-15 General Fund Appropriation** *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Change**	**FY 14-15 Funding**
Authority Eliminated	*$ 214*	$ (214)	$ 0

Iron Range Resources and Rehabilitation (IRRR)

The Legislature adopted no changes for FY 2014-2015 to the forecast base of $99.410 million of statutory appropriations to the Iron Range Resources and Rehabilitation agency. The appropriations are made from the Iron Range Resources and Rehabilitation Fund, the Giants Ridge Golf and Ski Resort Fund, and the Northeast Minnesota Economic Protection Fund. The agency receives no General Fund appropriations.

Iron Range Resources & Rehabilitation **FY 2014-15 Statutory Appropriations** *(dollars in thousands, numbers are biennial*			
Program	**FY 14-15 Base**	**Enacted Change**	**FY 14-15 Funding**
Various Programs	$ 99,410	$ 0	$ 99,410

Region 3 Occupation Tax

The Legislature enacted no changes to this appropriation.

The Iron Range Resources and Rehabilitation serves as the fiscal agent for the Region 3 Occupation Tax general fund appropriation. The IRRR does not spend this money, but only serves as the fiscal agent to distribute this appropriation to the counties specified by state law as qualifying recipients. Currently, Carlton and Koochiching County receive funds from this appropriation.

Region 3 Occupation Tax FY 2014-15 General Fund Appropriation *(dollars in thousands, numbers are biennial)*			
Program	**FY 14-15 Base**	**Enacted Change**	**FY 14-15 Funding**
Tax Distribution	$ 912	$ 0	$ 912

Workers Compensation Court of Appeals

This court receives no General Fund appropriation. The Legislature adopted FY 2014-2015 appropriations of $3.616 million from the Workers Compensation Special Fund. This represents a onetime $210,000 increase from the Court's forecast base. The increase will support technology enhancements and court personnel retirement costs.

Workers Comp Court of Appeals FY 2014-15 Workers Comp Fund Appropriation			
Program	**FY 14-15 Base**	**Enacted Change**	**FY 14-15 Funding**
Operating Budget (onetime increase)	$ 3,406	$ 210	$ 3,616

Minnesota Housing Finance Agency (MHFA)

The Legislature adopted FY 2014-2015 General Fund appropriations for MHFA totaling $101.496 million. This represents an increase of $25.4 million (33.4 percent) from MHFA's FY 2014-2015 General Fund base. Compared to the forecasted MHFA spending in the FY12-13 biennium, the increase is 14.3 percent.

Minnesota Housing Finance Agency
FY 2014-15 General Fund Appropriations
(dollars in thousands, numbers are biennial)

Program	FY 14-15 Base	Enacted Changes	FY 14-15 Funding
Ec. Dev. & Housing Challenge Program	$ 13,910	$ 4,496	$ 18,406
Housing and Job Growth Initiative (onetime)		10,000	10,000
Housing Trust Fund	19,110	1,442	20,552
Rental Assistance for Highly Mobile Students (onetime)		2,000	2,000
Re-Entry Rental Assistance Initiative (onetime)		500	500
High-Risk Adults Housing Demo Project (onetime)		500	500
Rental Assistance for Mentally Ill	5,276	400	5,676
Family Homeless Prevention Assistance	14,930	794	15,724
Home Ownership Assistance Fund	1,594	66	1,660
Affordable Rental Investment Fund (reallocation)	14,626	(6,190)	8,436
Rehabilitation Program: Rental Housing	4,898	1,378	6,276
Rehabilitation Program: Owner–Occupied Housing		5,544	5,544
Rehabilitation Program: 2012 Flood Area (onetime)		3,000	3,000
Homeownership Ed, Counseling & Training	1,502	80	1,582
Capacity Building Grants	250	500	750
Open Access Connection		140	140
East African Women in Minnesota Program		350	350
HOME Line		400	400
Total General Fund MHFA	**$76,096**	**$25,400**	**$101,496**

To pay for the increase to the Rehabilitation Program for the 2012 flood area, the Legislature canceled and reallocated $3 million included in the 2012 flood relief bill for MHFA's Quick Start program

Department of Commerce

The Legislature appropriated $50.258 million for the Department's FY 2014-15 General Fund operations. This is a $6.852 million increase over the Department's current law base for the biennium. The percentage increase is 15.8 percent

Department of Commerce **FY 2014-15 General Fund Appropriations** *(dollars in thousands, numbers are biennial)*			
Program	**Current Base**	**Enacted Change**	**FY 14-15 Funding**
Financial Institutions	$ 9,590	$ 180	$ 9,770
Administrative Services	12,300	730	13,030
Broadband Development Support		200	200
Telecommunications	2,018		2,018
Enforcement/Market Assurance	6,990	970	9,248
Bullion Coin Dealers Regulation		1,288	1,288
Weatherization Assistance Programs (onetime)		2,000	2,000
Energy Resources	6,324	180	6,504
Energy Policy Bill		464	464
Low Income Weatherization Grants		300	300
Insurance	6,184	540	6,724
Total General Fund Commerce	**$ 43,406**	**$ 6,852**	**$ 50,258**

The Legislature also increased the revenues to the General Fund from the Department Commerce by $21.855 million. The increases include transfers from fund balances, fee increases and regulatory cost recovery assessments.

Department of Commerce **FY 2014-15 General Fund Revenues** *(dollars in thousands, numbers are biennial)*			
Revenue Source			
Commerce - Appointment Fee Increase			9,900
Commerce - Assigned Risk Plan Transfer			10,000
Commerce - Petro Fee Dedication Change			(552)
Commerce - Bullion Coin Dealers Regulation			1,335
Commerce - 30% Weights and Measures Increase			660
Commerce - Energy Policy Bill Assessments			542
Total General Fund Revenue			**$21,885**

Public Utilities Commission

The Legislature approved General Fund funding of $12.898 million for the Commission in the FY 20014-15 biennium. The dollar change is $542,000, representing a 4.4 percent increase.

Public Utilities Commission
FY 2014-15 General Fund Appropriations
(dollars in thousands, numbers are biennial)

Program	**Current Base**	**Enacted Change**	**FY 14-15 Funding**
Commission Operations	12,356		12,356
Energy Policy Bill		542	542
Total General Fund PUC	**12,356**	**542**	**12,898**

The Commission recovers the Legislative approved funding increases through cost assessments which will increase by $542,000 in the upcoming biennium.

FY 2016-2017 Biennium Tails

Chapter 85 sets the general fund FY 2016-2017 biennium tails for the areas of Jobs & Economic Development, Housing and Commerce at $344.277 million. This is $24.490 million less than the FY 2014-2015 biennium general fund appropriations. The reason for the difference is onetime appropriations in FY 2014-15 which are not carried forward into the FY 2016-2017 biennium.

If you have any questions on Jobs and Economic Development Finance Committee related issues, please contact Ron Soderberg at 296-4162 or ron.soderberg@house.mn.

Legacy Funds

Chapter 137 of Minnesota Laws 2013 appropriates $486.8 million in fiscal years 2014-15 from the four Funds established under the Constitutional Amendment passed by voters in November 2008. The total appropriations by fund and fiscal year are shown below.

Minnesota Law 2013 Chapter 137
Clean Water, Land and Legacy Constitutional Amendment
(Dollars in Thousands)

	FY 2014	FY 2015	Total
Outdoor Heritage Fund	$ 90,750	$ 0	$ 90,750
Clean Water Fund	97,301	97,680	194,981
Parks & Trails Fund	42,509	42,596	85,105
Arts & Cultural Heritage Fund	58,309	57,659	115,968
Total	**$288,869**	**$197,935**	**$486,804**

Outdoor Heritage Fund

Chapter 137 provides appropriations totaling $90.75 million from the Outdoor Heritage Fund. The appropriations fall into five categories consistent with the constitutional language creating the fund.

- ***Prairies*** $27,730,000 37.8%
- ***Forests*** $ 7,130,000 16.6%
- ***Wetlands*** $ 31,150,000 18.3%
- ***Habitat*** $23,987,000 26.5%
- ***Administration & Other*** $ 753,000 0.8%

The following table shows the Legislative appropriations by agency, category and project description. The Outdoor Heritage Fund is the only fund out of the four funds that makes appropriations for one year at a time. Appropriations for FY 2015 will be made by the 2014 Legislature. The Legislature receives recommendations from the Lessard-Sams Outdoor Heritage Council and will receive FY2015 recommendations by January of 2014. This year the Governor line item vetoed two Outdoor Heritage Fund appropriations that were passed by the Legislature. The two items that were vetoed were $3 million to protect aquatic habitat from aquatic invasive species and $6.3 million for Metropolitan Regional Parks Wildlife Habitat Protection and Restoration.

Outdoor Heritage Fund: 2014 Appropriations
(Dollars in Thousands)

Agency/Program	FY 2014	FY 2015
Department of Natural Resources		
Prairies		
Accelerating Wildlife Management Area Acquisition-Phase V	7,960	-
WMA, SNA and Prairie Bank Easement Acquisition-Phase V	4,940	-
Minnesota Prairie Recovery Project-Phase IV	5,310	-
Cannon River Headwaters Habitat Complex-Phase III	1,780	-
Accelerated Prairie Restoration-Phase V	2,220	-
Total DNR Prairies	**22,210**	-
Forests		
Young Forest Conservation-WMA Acquisitions	1,180	-
Camp Ripley Partnership (DNR)-Phase III	300	-
N.E .MN Sharp-tailed Grouse Habitat Partnership-Phase IV	1,180	-
Protect Key Forest Habitat Lands in Cass County-Phase IV	500	-
Critical Shoreline Habitat Protection-Phase II	820	-
Minnesota Moose Habitat Collaborative-Phase II	2,000	-
Total DNR Forests	**5,980**	-
Wetlands		
Accelerating the Waterfowl Production Area-Phase V	6,830	-
Living Shallow Lakes and Wetlands Initiative-Phase III	3,530	-
Wetland Habitat Protection Program	1,980	-
Accelerated Shallow Lakes & Wetlands Restore & Enhanc-Phase V	1,790	-
Pelican Lake Enhancement	2,000	-
Total DNR Wetlands	**16,130**	-
Habitat		
Aquatic Habitat Program-Phase V	5,250	-
Dakota County Habitat Protection- Phase IV	4,100	-
Root River Protection and Restoration	2,750	-
Metro Big Rivers Habitat-Phase IV	1,720	-
Lower Mississippi River Habitat Restoration-Phase III	1,710	-
Coldwater Fish Habitat Enhancement Program	2,470	-
Shell Rock River Habitat & Restoration	1,127	-
Outdoor Heritage Conservation Partners Program	3,860	-
Total DNR Habitat	**22,987**	-

Outdoor Heritage Fund: 2014 Appropriations *(Dollars in Thousands)*		
Agency/Program	**FY 2014**	**FY 2015**
Administration & Other		
Technical Assistance Panel	45	-
Contract Management	175	-
Pre-Transaction Service Acceleration	50	-
Total DNR Administration & Other	**270**	-
Total Department of Natural Resources	**67,577**	-
Board of Water and Soil Resources		
Prairies		
Grasslands for the Future-Easements	2,000	-
MN Buffers for Wildlife & Water-Phase III	3,520	-
Total BWSR Prairies	**5,520**	-
Forests		
Camp Ripley Partnership-Phase III	1,150	-
Total BWSR Forests	**1,150**	-
Wetlands		
RIM Wetlands Reserve Acquisition. & Restoration Partnership	13,390	-
Wild Rice Shoreland Protection-Phase II	1,630	-
Total BWSR Wetlands	**15,020**	-
Total Board of Water and Soil Resources	**21,690**	-
University of Minnesota		
MN Landscape Arboretum	1,000	-
Total University of Minnesota	**1,000**	-
Legislative Coordinating Commission		
Legacy Website	15	-
LSOHC Administrative Support and Council Expenses	468	-
Total Legislative Coordinating Commission	**483**	-
Total Enacted Outdoor Heritage Appropriations	**90,750**	-

The fund balance percentage at the end of fiscal year 2014 is estimated to be $11.4 million, or approximately 11.1 percent of the Outdoor Heritage Fund's forecasted revenue in FY 2014.

Clean Water Fund

The 2013 Legislature appropriated $97.3 million in FY 2014 and $97.7 million in FY 2015 from the Clean Water Fund. The appropriations by agencies and programs are summarized in the table.

Clean Water Fund: 2014-2015 Appropriations
(Dollars in Thousands)

Agency/Program	FY 2014	FY 2015
Department of Agriculture		
Pesticide Monitoring and Assessment	350	350
Nitrate Monitoring in Groundwater	2,500	2,500
Agriculture BMP Loan Program	200	200
Research & Evaluation –Nonpoint	1,500	1,500
Research & Evaluation –BMP's	1,000	1,100
Research & Evaluation –Database	100	150
Agricultural Water Quality Certification	1,500	1,500
Manure Applicator Education	50	50
Irrigation Water Quality Specialist	110	110
Total Department of Agriculture	**7,310**	**7,460**
Board of Water and Soil Resources		
Surface and Drinking Water Grants	9,705	10,756
Grants to Watersheds with Multiyear Plans	5,000	7,000
Targeted Local Resource Protection and Enhancement	3,500	4,500
Measures, Results, and Accountability	950	950
Targeted Nonpoint Restoration Tech Assistance	1,700	1,700
Riparian Buffer Easements	6,500	6,500
Wellhead Protection Areas	1,300	1,300
Community Partners Clean Water Program	1,500	1,500
Restoration Audits; Technical Assistance	84	84
Watershed Management Transition	450	450
Total Board of Water and Soil Resources	**30,689**	**34,740**
Department of Health		
Drinking Water Contaminants	1,150	1,150

Clean Water Fund: 2014-2015 Appropriations
(Dollars in Thousands)

Agency/Program	FY 2014	FY 2015
Source Water Protection	1,615	1,615
County Well Index & Well Water Risk Evaluation	390	390
Private Well Water Supply Planning	325	325
Lake Superior Beach Monitoring	105	105
Well Sealing Cost Share	250	250
Groundwater Virus Monitoring Plan	800	800
Total Department of Health	**4,635**	**4,635**
Metropolitan Council		
Inflow and Infiltration Reduction Programs	500	500
Investigation of Groundwater and Surface Water Interaction in and Around White Bear Lake	537	-
Metropolitan Regional Groundwater Planning	1,000	1,000
Total Metropolitan Council	**2,037**	**1,500**
Department of Natural Resources		
Stream Flow Monitoring	2,000	2,000
Lake Index of Biological Integrity Assessments	1,300	1,300
Assessing Mercury Contamination in Fish	135	135
TMDL Development & Implementation Impaired Waters	1,850	1,850
Water Supply Planning, Protection & Monitoring	1,375	1,375
Non-Point Source Restoration and Protection	1,000	1,000
Applied Research Tools (LIDAR & BMP's)	675	675
County Geological Atlas	615	615
Design Water Access Site Best Management Practices	85	-
Development and Designation of Groundwater Mgmt Areas	3,000	-
Grants to Local Units of Govt. to Restore & Enhance Riparian Areas	500	500
DNR Rulemaking	100	-
Total Department of Natural Resources	**12,635**	**9,450**
Pollution Control Agency		
Water Quality Assessment & Monitoring	7,000	7,000
Expanded Contaminants of New Concern	500	500
Red River Watch Program	100	100
TMDL Development	9,400	9,400
Groundwater Assessment & Protection	1,125	1,125
St. Louis River/Duluth Harbor Cleanup	750	750

Clean Water Fund: 2014-2015 Appropriations *(Dollars in Thousands)*		
Agency/Program	**FY 2014**	**FY 2015**
Clean Water Partnership Grants	1,000	2,000
Storm Water Research & Guidance	275	275
TMDL Research & Database	1,150	1,150
Interagency Water Data Portal	1,000	1,000
National Pollutant Discharge System	900	900
Drinking Water Protection; SSTS	3,250	3,650
Voyageurs National Park Wastewater Project	1,500	-
Wastewater Treatment System Design, Practice, &Technical Assistance	375	375
Clean Water Council Administrative Costs	40	40
Total Pollution Control Agency	**28,365**	**28,265**
	-	
Public Facilities Authority		
TMDL Grants Program	9,000	9,000
Small Community Wastewater Treatment	2,000	2,000
Total Public Facilities Authority	**11,000**	**11,000**
University of Minnesota		
County Geological Atlas Survey	615	615
Total University of Minnesota	**615**	**615**
	-	
Total Legislative Coordinating Commission		
Public Information Website	15	15
Total Legislative Coordinating Commission	**15**	**15**
Total Enacted Clean Water Appropriations	**97,301**	**97,680**

The fund balance percentage at the end of FY 2015 is estimated to be $2.3 million, or approximately 2.4 percent of the Clean Water Fund's forecasted collections in FY 2015.

Parks and Trails Fund

The 2013 Legislature appropriated $42.5 million in FY 2014 and $42.6 million in FY 2015 from the Parks and Trails Fund. The respective fiscal year appropriations by agencies and programs are summarized in the following table.

Parks and Trails Fund: 2014-2015 Appropriations
(Dollars in Thousands)

Agency/Program	FY 2014	FY 2015
Department of Natural Resources		
Investing in Our State Parks & Trails Legacy	16,821	16,953
Grants to Parks and Trails of Regional Significance	3,533	4,078
Grants to Parks and Trails of Regional Significance (listed below)	[4,877]	[4,399]
<Swedish Immigrant Trail>	1,338	-
<Sunrise Prairie Trail>	-	75
<Duluth, Lowell to Lakewalk Trail>	250	250
<Mesabi Trail>	125	1,125
<Rocori Trail>	-	920
<Lake Wobegon Trail>	1,000	-
<Beaver Bay Trailhead>	100	-
<City of Hermantown Trail Connections>	75	-
<St. Louis County>	530	-
<City of Bemidji>	-	750
<City of Moorehead>	275	-
<Crow Wing County>	-	279
<Mississippi River Parks and Water Trail>	184	-
<Sauk River Regional Park>	500	500
<Restoration of Parks and Trails in Duluth Impacted by 2012 Flood>	500	500
Parks and Trails Collaboration Advisory Committee	100	104
Greater Minnesota Parks and Trails Capacity Building	100	103
Total Department of Natural Resources	**25,431**	**25,637**
Metropolitan Council		
Parks & Trails Legacy Grants (as specified below)	[16,821]	[16,953]
Anoka County	1,443	1,455
City of Bloomington	289	292
Carver County	294	297
Dakota County	1,174	1,183

Parks and Trails Fund: 2014-2015 Appropriations *(Dollars in Thousands)*		
Agency/Program	**FY 2014**	**FY 2015**
Minneapolis Parks and Recreation Board	3,221	3,246
Ramsey County	1,299	1,309
City of Saint Paul	2,378	2,397
Scott County	550	554
Three Rivers Park District	3,669	3,697
Washington County	821	827
Acquisition Opportunity Grants	1,682	1,695
Total Metropolitan Council	**16,820**	**16,952**
Legislative Coordinating Commission		
Public Information Website	7	6
Total Legislative Coordinating Commission	**7**	**6**
University of Minnesota		
Parks Framework and Inventory	250	-
Total University of Minnesota	**250**	**-**
Total Enacted Parks and Trails Appropriations	**42,508**	**42,595**

The fund balance percentage at the end of fiscal year 2015 is estimated to be $1.02 million, or approximately 2.4 percent of the Parks and Trails Fund's forecasted collections in FY 2015.

Arts and Cultural Heritage Fund

The 2013 Legislature appropriated $53.3 million in FY 2014 and $57.7 million in FY 2015 from the Arts & Cultural Heritage Fund**.** The appropriations by agencies and programs are summarized in the table.

Arts & Cultural Heritage Fund: FY 2014-2015 Appropriations *(Dollars in Thousands)*		
Agency/Program	**FY 2014**	**FY 2015**
Arts Board		
Arts & Arts Access Initiatives	21,325	21,325
Arts Education Collaborations	3,760	3,760
Arts & Cultural Heritage	1,590	1,590
Total Arts Board	**26,675**	**26,675**
MN Historical Society		
Statewide Historic & Cultural Grants	5,525	5,675
Statewide History Programs	5,525	5,675
History Partnership Grants	2,000	2,000
Statewide Survey Historical & Archaeological Site	300	300
Minnesota Digital Library	300	300
Civil War & Dakota Conflict: 150 Year	25	-
Civics Education Competitive Grants	125	125
Total MN Historical Society	**13,800**	**14,075**
Department of Education		
Grants to Regional Libraries	3,000	3,000
Minnesota Zoo		
Program Development	1,750	1,750
Humanities Center		
Program Development	425	425
Children's Museums:		
MN Children's Museum	600	400
Duluth Children's Museum	200	200
Grand Rapids Children's Museum	100	200
Southern MN Children's Museum	200	100
MN Council on Disabilities, 25th Anniversary of ADA	200	200
Total Humanities Center	**1,725**	**1,525**
Department of Administration		
Minnesota Public Television	3,950	3,950
Minnesota Public Radio	1,500	1,500
Assoc. of MN Public Education Radio (AMPERS)	1,650	1,650
Como Zoo	500	500
Lake Superior Zoo	150	150

Arts & Cultural Heritage Fund: FY 2014-2015 Appropriations *(Dollars in Thousands)*		
Agency/Program	**FY 2014**	**FY 2015**
Lake Superior Aquarium: Shipwrecks Exhibit	200	-
Science Museum of Minnesota	1,100	1,100
MN African American Museum	400	-
Small Theater Grants	75	75
Veterans Memorials in Parks	80	0
Total Department of Administration	**9,605**	**8,925**
Perpich Center for the Arts		
Arts Education & Access	795	750
Indian Affairs Council		
Language Preservation & Education	475	475
Competitive Grants for Language Immersion Schools	225	225
Language Immersion: Niigaane Ojiibwe	125	125
Language Immersion: Wicoie Nandagikendan Urban Project	125	125
Total Indian Affairs Council	**950**	**950**
Legislative Coordinating Commission		
Legacy Website	**9**	**9**
Total Enacted Arts & Cultural Heritage Appropriations	**52,600**	**52,714**

The fund balance percentage at the end of fiscal year 2015 is estimated to be $1.1 million, or approximately 1.9 percent of the Arts & Cultural Heritage Fund's forecasted collections in FY 2015.

All Funds Provisions:

Article 5 of Chapter 137 requires the commissioner of management and budget to determine if sufficient funds are available in the four legacy funds to allow payment of all appropriations made by the legislature. If the commissioner determines that there will be a shortfall in available revenues, the commissioner must withhold payment of each appropriation in an "equal or equitable amount" as needed to balance the available revenue with expenditures. The language does not specify the timeframe for the commissioner to make this determination.

For additional information on the Outdoor Heritage Fund, Clean Water Fund and Parks and Trails Fund, contact Brad Hagemeier at 296-7165 or brad.hagemeier @house.mn

For additional information on the Arts & Cultural Heritage Fund, contact Helen Roberts at 296-4117 or helen.roberts @house.mn

Public Safety & Judiciary Finance

Minnesota Laws of 2013, Chapter 86 included increase of $105 million over forecast base to programs in the Judiciary and Public Safety area of the state budget. The legislation will set budgets for several agencies for the fiscal 2014-15 biennium which begins July 1 2013. The summaries below detail the budget priorities of the conference committee and policy changes made by the omnibus bill.

Judiciary and Public Safety Finance
Total General Fund Spending
(all dollars in thousands)

	February Forecast FY 2012-13	Forecast Base FY 2014-15	Enacted FY 2014-15	Percentage Change Enacted FY 2014-15 vs. FY 2012-13	Percentage Change Enacted vs. Base FY 2014-15
Supreme Court	83,249	83,550	89,739	7.8%	7.4%
Court of Appeals	20,334	20,456	21,676	6.6%	6.0%
District Courts	470,339	473,656	504,081	7.2%	6.4%
Guardian ad Litem	24,134	24,134	25,170	4.3%	4.3%
Tax Court	1,650	1,650	2,058	24.7%	24.7%
Uniform Laws Commission	98	98	231	135.7%	135.7%
Board on Judicial Standards	1,202	912	1,212	0.8%	32.9%
Board of Public Defense	132,920	131,952	144,310	8.6%	9.4%
Department of Public Safety	200,711	153,326	164,985	-17.8%	7.6%
Private Detectives Board	240	240	240	0.0%	0.0%
Human Right Commission	6,339	6,336	6,594	4.0%	4.1%
Department of Corrections	913,033	927,897	968,774	6.1%	4.4%
Sentencing Guidelines	1,172	1,172	1,472	25.6%	25.6%
Net GF Total	**1,855,421**	**1,825,379**	**1,930,542**	4.0%	5.8%

Supreme Court

Funding for the Supreme Court was increased by $6.1 million for the biennium, most of which will be used for employee compensation increase and health insurance costs. Employees will receive a three percent increase in each year of the biennium. Judges will receive the same but in addition to the annual salary increases, the judges will receive an additional one percent the first year of the biennium to cover increased pension costs. In order to bring the judges retirement plan closer to fully funded, the judges must contribute an additional one percent of their salary to the plan and the legislature supplied the judges with a larger increase to keep them whole. The same salary increase was given to judges in the district courts and appeal court as well.

In addition to salary supplements, the Supreme Court was appropriated $1 million for a data integration project. The money will be used to provide accurate data to the National Criminal Background Check System on civil commitments ordered in by the courts from 1995-2012. The

intent is to provide more accurate information for background checks by providing required data that is absent from the system.
A $1.25 million annual increase was provided to Civil Legal Services to hire additional staff and reduce caseloads for those assisting the indigent with legal issues. The majority of the money will be used for increased assistance with family law matters.

The legislature created a $2 Court Technology Fee on civil court filings for five years. The fee will raise nearly $4.5 million over the five years for upgrades to court technology. The revenue will be shared for technology purchases between the Courts, prosecuting authorities, Public Defenders, the Department of Corrections, and Civil Legal Services.

Court of Appeals

The Court of Appeals staff and judges received the same budgetary increase for salary as the Supreme Court. Employees will receive a three percent increase in each year of the biennium. Judges will receive the same but in addition to the annual salary increases, the judges will receive an additional one percent the first year of the biennium to cover increased pension costs. The cost of the salary supplement was $370,000 for the biennium. The Court of Appeals was also granted an additional $800,000 for the biennium to deal with health insurance cost increase and the state's share of increased deposits into the judicial pension plan.

Also included in the Court of Appeals budget was the addition of $112,000 for the biennium for court of appeals judge expense reimbursement. The court currently provides reimbursement for mileage and living expenses for newly appointed judges for the first two years of their term on the court if they reside more than 50 miles from the permanent chambers. The provision, originally contained in House File 330, would continue the reimbursement beyond two years, for an additional five years when the provision sunsets and funding disappears. The courts have stated the trial of the extension will allow them to study the issue and determine if the policy should continue permanently.

District Courts

The budget for the district courts contained similar provisions for pension, salary, and health insurance costs as the other courts. Employees will receive a three percent increase in each year of the biennium. Judges will receive the same but in addition to the annual salary increases, the judges will receive an additional one percent the first year of the biennium to cover increased pension costs. Additional funds were made available for health insurance costs and the state's share of additional pension liability. Total cost of these employee related items is $28.6 million for the biennium.

The district courts were also granted an additional $875,000 annually for Specialty Courts. The funding will supplement existing funds and supplant some federal funds due to expire. It is estimated that the funding will allow two additional specialty courts to begin operation in the state. Specialty Courts, sometimes referred to as "problem solving courts", are institutions that have a narrow focus and deal with issues and people who make frequent appearances before the court. Drug courts, veteran's courts, and mental health courts are examples of specialty courts that deal with people who may have chronic ongoing issues that may bring them before the judiciary more frequently than the average person. The specialty courts focus on giving more support, attention and expertise at dealing with these specific issues in an attempt to achieve better long term outcomes for the individual and the public.

Tax Court

The budget for the Tax Court contained similar provisions for pension, salary, and health insurance costs as the other courts. Employees will receive a 3 percent increase in each year of the biennium. Judges will receive the same but in addition to the annual salary increases, the judges will receive an additional 1 percent the first year of the biennium to cover increased pension costs. Additional funds were made available for health insurance costs and the state's share of additional pension liability. Total cost of these employee related items is $358,000 million for the biennium.
The Tax Court was also granted $25,000 per year for ongoing case management system support costs.

Guardian Ad Litem Board

The Guardian Ad Litem Board was appropriated an additional $1.04 million for the biennium to cover employee salary a health insurance cost increases.

Uniform Laws Commission

The Uniform Laws Commission was budgeted an additional $133,000 over forecast base for the biennium to pay back dues to the national conference and increases in ongoing costs.

Board on Judicial Standards

The board on Judicial Standards received a one time increase of $300,000 over base in fiscal year 2014 for costs relating to a disability matter and one judicial disciplinary investigation.

Board of Public Defense

The Board of Public Defense was budgeted an additional $1.9 million per year to retain personnel. A temporary fee of $75 per law license was set to expire and the $1.9 million it raised per year funded 25 public defender positions statewide. The general fund addition will supplant this lost funding and retain those 25 attorneys for the board.
Public Defense was also appropriated an additional $8.6 million for employee salary and health care cost increases.

Department of Public Safety

The Department of Public Safety was appropriated an additional $17.3 million from various funds over forecast base for several programs and projects. The first of which was $860,000 from the general fund for a Minnesota School Safety Center. The center will employ professionals who will assist school districts with emergency planning and programs to reduce incidents of school violence.

As a division of DPS, the Bureau of Criminal Apprehension was seeking funds during the legislative session for staffing and technology. The legislature provided $10.35 million to meet these requests.

The top priority for the Bureau was to replace aging data collection and reporting systems. The legislature appropriated $5.6 million for the Criminal History system. This system keeps data on the criminal records of people in the state and the data is used by police departments and for various criminal background checks. The project is estimated to take three years for complete replacement of the existing system.

In addition, the Bureau also received $2.7 million to replace the Criminal Reporting system. This aging computer system reports criminal incidents to the federal government and the reporting is required by federal law. The current system is over 20 years old and obsolete. The project will also take three years to implement the complete replacement of the old system.

The BCA also found itself falling behind with a backlog of laboratory work and outdated equipment. The Bureau requested and was granted four new lab technicians at $400,000 per year and $500,000 per year to replace aging lab equipment. These requests will be funded half from the general fund and half from the trunk highway fund. Trunk highway fund dollars have customarily been used at the BCA due to the large amount of lab work required doing toxicology work for DWI cases and other work generated by the State Patrol.

The BCA also received $699,000 for the biennium to enter into a maintenance contract for upkeep of the statewide network of LiveScan finger print machines scattered throughout the state. The machine's original warranties are due to expire and the machines scan fingerprints and make them available electronically to law enforcement throughout the state.

The Office of Justice Programs (OJP) was appropriated and increase of $6.1 million from the general fund for the biennium to increase funding for several programs. The first increase was of $1.5 million per year for Crime Victim Assistance Grants. The other major increase was an additional $1 million per year for Youth Intervention Grants.

Several other smaller increases to OJP programs were also included. Community Safety De-escalation Grants, which will be used to train law enforcement to better respond in encounters with veterans who may be dealing with post traumatic stress, was appropriated $50,000 per year. An offender community re-entry program in Duluth was provided with $100,000 per year for two years.

Post Board

The Peace Officer Standards and Training Board received an increase of $100,000 per year for increased reimbursement to local government for peace officer training costs.

Human Rights Department

The Human Rights Department requested and was granted two additional enforcement officers to deal with contract compliance. The additional positions will cost a total of $129,000 per year from the general fund.

Minnesota Department of Corrections

The Department of Corrections was appropriated an additional $38 million for the biennium to deal with employee related expenses. The Department had run into problems due to increasing health insurance, pension and salary costs and while undergoing budget reductions the past several years. Corrections had originally requested from the Governor over $50 million to cover these costs. Without additional funding as many as 273 positions would have to be eliminated. The $38 million level the department received will retain all of the current complement but will create an increased vacancy rate and require longer periods of salary savings after an employee leaves before the replacement can be hired. The appropriated funds should keep Corrections free from any layoffs through the biennium, but will most likely have some structural salary issues that will need to be addressed again with funding next biennium.

Corrections will likely see financial benefit from language contained in the Health and Human Services Finance bill this past session, Laws of 2013 Chapter 108. The new legislation will allow the state and counties to enroll inmates into Medicaid for inpatient treatment that occurs outside of correctional institutions for stays of more than 24 hours. This occurs for extended treatments for surgeries, cancer treatment, heart attacks and other medical emergencies. Medicaid reimbursement can cover anywhere between 50 to 90 percent of the treatment cost where the state and counties had previously been paying the entire bill. The current legislation estimated a savings for Corrections of $3 million for the biennium, which will be retained by the department to improve health services and other treatment needs.

The DOC was additionally appropriated $1.5 million per year for up to 100 additional chemical dependency and sex offender treatment beds. Due to budget cutbacks, the number of treatment beds had decreased in recent years and the funding will be used for an additional 100 beds for either increased chemical dependency or sex offender treatment to be determined by the department based on needs, programming and available space at the facilities.

And lastly, the legislature provided dollars for some probation pass through programs. The Community Corrections Act formula counties received an additional $1.025 million put into the formula each year to be spread throughout the state, and an additional $200,000 per year was provided to county probation officers.

Sentencing Guidelines Commission

The legislature provided $300,000 in fiscal year 2014 only, for redesign of the sentencing guidelines electronic worksheet.

For questions regarding Judiciary and Public Safety Finance issues, contact John Walz at (651)296-8236 or john.walz@house.mn

State Government Finance

The omnibus State Government Finance bill (Laws 2013, Chapter 142) authorized net General Fund spending totaling $927.7 million. This amount is an increase of $32.3 million, or four percent, from the forecast base.

State Government Finance: Total General Fund Spending in Chapter 142
(all dollars in thousands)

	Feb Forecast FY 12-13	Forecast Base FY 14-15	Enacted FY 14-15	% Change FY 14-15 vs. FY 12-13	% Change Enacted vs. Base FY 14-15
Chapter 142					
Legislature	129,437	126,162	138,184	7%	10%
Governor	6,388	6,386	6,706	5%	5%
Attorney General	42,034	42,142	44,250	5%	5%
Secretary of State	10,945	10,940	12,521	14%	14%
State Auditor	17,131	17,278	4,195	-76%	-76%
Agencies:					
Administration Dept.	38,995	38,050	38,918	0%	2%
Administrative Hearings	638	638	738	16%	16%
Amateur Sports Commission	496	496	532	7%	7%
Arts Board	15,013	15,012	15,028	0%	0%
Asian Pacific Council	508	508	708	39%	39%
Black Minnesotans Council	584	584	784	34%	34%
Campaign Finance Board	1,471	1,378	2,000	36%	45%
Public Subsidy	3,085	3,154	3,154	2%	0%
CAAP Board	650	650	670	3%	3%
Chicano Latino Affairs Council	550	550	750	36%	36%
Historical Society	41,640	41,370	43,432	4%	5%
Historic Preservation Grants	11,962	8,541	8,541	-29%	0%
Humanities Commission	474	474	542	14%	14%
Indian Affairs Council	924	924	1,124	22%	22%
Investment Board (SBI)	278	278	278	0%	0%
MN Management & Budget	37,283	36,488	48,513	30%	33%
MMB Non-Operating	23,063	30,340	30,340	32%	0%
Office of Enterprise Technology	11,960	11,958	4,862	-59%	-59%
Public Broadcasting	3,586	3,586	5,538	54%	54%
Revenue Department	277,903	280,838	276,190	-1%	-2%

State Government Finance: Total General Fund Spending in Chapter 142 (all dollars in thousands)					
	Feb Forecast FY 12-13	Forecast Base FY 14-15	Enacted FY 14-15	% Change FY 14-15 vs. FY 12-13	% Change Enacted vs. Base FY 14-15
Science Museum	2,136	2,136	2,158	1%	1%
Pension Aids	90,196	93,109	93,109	3%	0%
Indirect Costs Receipts	-32,347	-39,306	-39,306	22%	0%
Military Affairs	45,498	39,464	39,464	-13%	0%
Veterans Affairs	116,551	121,240	130,665	12%	8%
Total Expenditures:	**899,032**	**895,368**	**914,588**	**2%**	**2%**
Revenue Changes:			**-13,118**		
Net GF Total, Chapter 142:	**899,032**	**895,368**	**927,706**	**0**	**3.6%**

Other Bills

Several separate bills passed during the 2013 session also had a fiscal impact on the agencies in the State Government Finance committee. Added to the appropriations in the omnibus bill, the total net General Fund impact is $953.9 million.

Other Bills : State Government Agencies General Fund Impact *(dollars in thousands)*	
Chapter 15, WCRA	56
Chapter 131, Elections	
Legislative Coordinating Commission	21
Secretary of State	222
Total Chapter 131:	**243**
Chapter 111, Pensions	
St. Paul Teachers - one-time additional aid	14,000
Duluth Teachers - one-time additional state aid	12,000
Public Safety Employer contribution increase	95
Total Pension Bill:	**26,095**
Chapter 74, Same-Sex Marriage	
MMB, Increased license revenues	(200)
Totals Added to Chapter 142 Impact:	
Total Expenditures All Bills:	940,982

Revenue Changes:	-12,918
Net Change:	**953,900**

Constitutional Offices

Attorney General's Office (AGO)

The Attorney General's Office (AGO) received $44.2 million in direct appropriations from the General Fund, an increase of $2.1 million, or five percent, from base.

In addition to the direct General Fund appropriation for the AGO, the office also receives funding through partner agreements with state agencies. Total budgeted expenditures for partner agencies are estimated at $19.2 million for the biennium.

Other Funds
$3.6 million is appropriated from the State Government Special Revenue Fund for services provided to health related licensing boards, a three percent increase over base. The AGO also received $290,000 from the Environmental Trust Fund and $500,000 from the Remediation Fund for investigating and prosecuting environmental crime and for responsibilities associated with insurance claims settlements and recovery associated with landfills in the landfill cleanup program.

Governor's Office

The Governor received $6.7 million to fund his own office, a total increase of $320,000 or five percent, from the FY 2012-13 base level funding.

The Governor's Office also receives contributions from executive branch agencies for personnel costs incurred by certain activities of the office. This includes several policy advisors in the Governor's office that have a portion of their salary paid by other executive branch agencies. Estimated expenditures for FY 2014 from these agency contributions are $895,000.

Secretary of State

The Secretary of State (SOS) received $12.5 million in direct appropriations from the General Fund for the biennium, a $1.6 million or fourteen percent increase from base level funding. This funding level included the following changes:

- $1 million per year beginning in FY 2015 to replace federal Help America Vote Act (HAVA) funds. Chapter 142 also appropriates the remaining HAVA funds to the SOS, estimated at $1 million for FY 2014.
- $546,000 for an operating fund increase.
- $355,000 one-time appropriation for attorney's fees for a redistricting lawsuit.

- $320,000 reduction to the business services program for operating efficiencies.

The SOS also received funding in the omnibus elections bill, discussed at the end of this section.

State Auditor (OSA)

The funding for the majority of the State Auditor's office was restructured from a direct General Fund appropriation to a new revolving fund, with revenues collected from Audit Practice activities now statutorily appropriated to the OSA's revolving fund. Under the previous funding mechanism, revenues were deposited in the General Fund and audit activities were funded through a direct General fund appropriation.

As a result of this change, the OSA's General Fund appropriation is reduced by $13.1 million from base, which is offset by the loss of revenues, for a net zero impact to the General Fund. The OSA's new revolving fund is expected to result in revenues and expenditures of $14.5 million for the biennium for the audit practice activities. The increase over the base is due to planned increases in audit recoveries to cover staff retention costs.

Audit Practice Changes (dollars in thousands)	
Expenditures Moved to Revolving Fund	13,121
Increase for Staff Retention	1,361
Total New Revolving Fund:	**14,482**

Functions of the office that are not reimbursable – including the government information division, pension oversight and the special investigations activities – are still funded through a direct General Fund appropriation. The amount authorized for these activities is $4.2 million for the biennium.

Other changes authorized for the State Auditor include:

- $156,000 General Fund reduction from the transfer of the JOBZ oversight function to the Legislative Auditor.
- $250,000 revenue impact for the Small Cities & Town Accounting System.

Legislature

Chapter 142 appropriates a total of $138.2 million for the operations of the Legislature. This is an increase of $12 million, or ten percent, from the FY 2014-15 base.

Chapter 142 also repeals the Minnesota Sunset Commission Act, with an accompanying reduction of $278,000 to the LCC budget. The Legislative Commission on Planning and Fiscal Policy is directed to compile a list of executive branch advisory groups. The commission may review and make recommendations on the continuing need for these groups.

In addition, $256,000 is appropriated from the Health Care Access Fund to the LCC for expenses of the Health Care Access Commission.

Legislature: 2014-15 General Fund Appropriations (dollars in thousands)				
Program	**Base**	**Chapter 142 Appropriation**	**$ Change**	**% Change**
House	55,748	61,048	5,300	9.5%
Senate	41,466	45,766	4,300	10.4%
Leg. Coordinating Cmsn. (LCC)	28,948	31,370	2,422	8.4%
Total Legislature	**126,162**	**138,184**	**12,022**	**10%**

State Agencies

Department of Administration

The department's total authorized general fund spending is $44.5 million for the biennium. This is an increase of $2.8 million, or seven percent, from base. Funding for the operations of the department totals $35.2 million. The remaining general fund amounts are for grants to Public Broadcasting and for the state's Workers Compensation Reinsurance Premium (WCRA).

The majority of the funding for the department's activities comes from non-general fund activities of its major internal service and enterprise funds.

Government & Citizen Services

Chapter 142 authorizes total direct general fund spending of $15.4 million, a net increase of $618,000 from base. This program includes the State Architect's office, Plant Management, Real Estate Management, Travel Management, the Information Policy Analysis office, the State Demographer, and the State Archaeologist.

Funding changes for this program include:

- $520,000 to expand the LEAN program to at total of $790,000 for the biennium.
- $302,000 reduction for the transfer of the staff and functions of the Environmental Quality Board to the Pollution Control Agency
- $370,000 increase to add 2 FTEs to the Small Agency Resource Team (SmART), bringing total funding to $866,000 for the biennium.
- $30,000 for a bust of Nellie Stone Johnson to be placed in the Capitol.

Non-General Fund activities:

In addition to these General Fund activities, significant non-general fund accounts include seven internal service and enterprise funds:

Internal Service Fund	Purpose	Projected FY 14-15
Fleet Services	Provides long-term rental vehicles and support services	$40.4 million
Surplus Property	Manages the disposal of state and federal surplus property	$5.2 million
Cooperative Purchasing	Makes various state contracts available to local government units	$59.9 million
MN Bookstore	Centralized publishing for state agency materials, and operation of the MN mailing list service	$3.1 million
Plant Management	Building and grounds operations for buildings under the custodial control of the department	$159.7 million
Central Mail	Metering and processing of mail in the Capitol complex	$22.8 million
Risk Management	Self-insurance company for the state's property and casualty insurance coverage	$61 million

Strategic Management Services
The Legislature approved total General Fund spending of $3.5 million, an increase of $250,000, or eight percent, from base. This program includes the executive support, financial management and human resources functions for the department. The increased funding is to re-establish an internal audit function within the department.

Fiscal Agent
This program includes both the In-Lieu-of-Rent activity, and Public Broadcasting grants.

The In-Lieu-of-Rent appropriation funds space costs for the Legislature, Governor's residence, Veterans Services organizations, and ceremonial spaces in the Capitol and the Capitol mall. Chapter 142 appropriates $16.3 million for this activity. The omnibus Tax bill (Chapter 143, see tax summary) also includes funding for rent loss and relocation costs related to the Capitol restoration project. These expenditures will show up in the In-Lieu-of-Rent activity in future years.

Public Broadcasting
State grant funds for Public Broadcasting are administered by the Department of Administration. Chapter 142 appropriate $10.2 million for these grants, which is an increase of $3.4 million, or 54 percent, from base.

Public Broadcasting: 2014-15 General Fund Appropriations (dollars in thousands)				
Program	**Base**	**Appropriation**	**$ Change**	**% Change**
Public TV Matching Grants	2,114	3,100	986	47%
Public TV Equipment Grants	380	500	120	32%
total Public TV:	**2,494**	**3,600**	**1,106**	**44%**
AMPERS Public Radio Community Grants	528	784	256	48%
AMPERS Public Radio Equipment Grants	184	234	50	27%
total AMPERS	**712**	**1,018**	**306**	**43%**
MN Public Radio Equipment Grants	380	920	540	142%
Total Public Broadcasting:	**3,586**	**5,538**	**1,952**	**54%**

Minnesota Historical Society

Chapter 142 authorizes total direct General Fund appropriations of $43.4 million, a five percent increase from base. The Historical Society also will administer and estimated $8.5 million for the new grant-in-lieu-of credit program for preserving historic structures.

Minnesota Historical Society: 2014-15 General Fund Appropriations (dollars in thousands)				
Program	**Base**	**Appropriation**	**$ Change**	**% Change**
Operations & Programs	40,822	42,670	1,848	5%
Fiscal Agents	548	762	214	39%
Historic Structure Grants (open)	8,541	8,541	0	0%
Total General Fund	**49,911**	**51,973**	**2,062**	**4%**

MN State Arts Board

Chapter 142 appropriates $15 million from the general fund to the State Arts Board. This is a $16,000 increase from base.

Minnesota Arts Board: 2014-15 General Fund Appropriations (dollars in thousands)				
Program	**Base**	**Appropriation**	**$ Change**	**% Change**
Operations & Services	1,134	1,150	16	1%
Grants Program	9,600	9,600	0	0%
Regional Arts Council	4,278	4,278	0	0%
Total Arts Board	**15,012**	**15,028**	**16**	**0%**

MN.IT Services (formerly the Office of Enterprise Technology)

Chapter 142 authorizes a direct General Fund appropriation of $4.9 million for this office, a reduction of $7.1 million or 59 percent, from the office's general fund base. Reductions were made to the security leadership and services, to recognize efficiencies gained through IT consolidation.

Non-General Fund activities
The majority of MN.IT's funding is from the Enterprise Technology Fund. As a result of the consolidation mandated by the 2011 legislature, all information technology services for the executive branch are now provided by MN.IT (formerly OET). These centrally provided services are funded through the Enterprise Technology Fund, with revenues coming from charge-backs to agency IT budgets. Estimated expenditures for the FY 2014-15 biennium are $846.7 million for these central services.

The 2013 legislature also approved the agency's "E-Government and Innovation Partnership" allowing MN.IT to enter into public-private partnerships for the development of new e-government online services. These partnerships are expected to generate $4 million in new revenues beginning in FY 2015 from fees applied to electronic transactions. The revenues will be used to develop additional online services and to support a revamped state web portal.

MN.IT is authorized to seek cash flow assistance of up to $110 million from the special revenue fund or other statutory general funds, in order to manage the revenue and expenditure differences during the continued implementation of IT consolidation. Any funds used must be repaid with interest by the end of the biennium.

Minnesota Management & Budget (MMB)

MMB received a direct general fund appropriation of $48.5 million for the biennium, an increase of $12 million or 33 percent, from current law. Funding for four new initiatives was approved:

- $5.2 million to continue development of the statewide budget systems, including the capital budget system and a new fiscal note system. The funds will also be used to support further development and functionality of the new Budget Planning and Analysis System (BPAS).
- $1 million for a Results Management initiative to provide enterprise-wide results management coordination and reporting.
- $1.8 million to improve enterprise human resources capacity. 9 positions will be added to help MMB update and improve the state's human resources practices, policies and systems.
- $4 million to develop and implement an "Enterprise Talent Management System" to replace the state's current electronic tool for managing applications for state jobs.

Department of Revenue

Chapter 142 includes a direct general fund appropriation of $272.3 million for the biennium, a reduction of $4.6 million, or two percent, from the base. Changes include:

- $4.9 million reduction due to tax system savings. Initiatives contributing to these savings include automated collection notices, centralized printing and return mail processing, and replacement of paper check refunds with debit card issued refunds.
- $448,000 savings from requiring electronic wage payments and disclosures for businesses, state and local employers, and 3rd party filers.
- $400,000 increase to Taxpayer Assistance grants which are awarded to non-profit organizations that assist elderly and low-income people file their state and federal tax returns. With this increase, total funding for the grants is $800,000 for the biennium.
- $300,000 in one-time funding for Property Tax technical grants to counties to offset a portion of the cost of converting tax data submissions to a more efficient system.

Department of Military Affairs

The Legislature approved a direct General Fund appropriation of $38.7 million for the biennium, which is base level funding.

In addition to this direct General Fund appropriation, the Department has an open and standing appropriation for emergency services. Planned expenditures from this appropriation are $728,000 for the biennium.

Department of Military Affairs: 2014-15 General Fund Appropriations
(dollars in thousands)

Program	Base	Appropriation	$ Change	% Change
Maintenance - Training Facilities	13,322	13,322	0	0%
General Support	4,718	4,718	0	0%
Enlistment Incentives	20,696	20,696	0	0%
Emergency Services / Active Duty	728	728	0	0%
Total Military Affairs	**39,464**	**39,464**	**0**	**0%**

Department of Veterans Affairs

The Legislature approved a direct General Fund appropriation of $126.3 million for this department, an increase of $8.7 million, or seven percent, over base. Forecast spending for the Minnesota GI bill is $4.5 million, bringing total spending to $130.8 million.

Department of Veterans Affairs: 2014-15 General Fund Appropriations (dollars in thousands)				
Program	**Base**	**Appropriation**	**$ Change**	**% Change**
Veterans Services	27,556	32,291	4,735	17%
Veterans Health Care (Homes)	89,970	93,970	4,000	4%
MN GI Bill (open GF)	3,714	4,514	800	22%
Total Veterans Affairs	**121,240**	**130,775**	**9,535**	**8%**

Approved increases include:

- $850,000 for operating costs for the Southeast Minnesota Veterans Cemetery in Fillmore County, which is expected to open in FY 15. Federal funds will be used to design and build the cemetery, while the state funds will provide the start-up and ongoing operational costs.
- $400,000 for permanent funding for reimbursements to Honor Guards at veterans funerals.
- $1 million to expand eligibility for the MN GI Bill to all generations of veterans. Under previous law, only veterans service on or after September 11, 2001 were eligible for these education and training benefits.
- $2 million to increase grants for the County Veterans Service Officers (CVSO) from $190,000 to $2.2 million for the biennium. Each county is now eligible for an annual grant of $7,500, plus additional grants based on the size of the county's veteran population.
- $200,000 to replace federal funding for the Gold Star Program, which supports the families of service members who lost their lives in combat.
- $500,000 increase to the MN Assistance Council for Veterans (MACV), bringing total funding to $1.5 million for the biennium.
- $5 million to improve and modernize the department's information technology infrastructure.

Small Agencies/ Boards

Office of Administrative Hearings (OAH)

This agency is supported mainly by the Workers' Compensation Special Fund and revolving fund revenues. Chapter 142 includes direct appropriations of $14.5 million for the biennium from the Workers Compensation Fund.

OAH also receives general fund appropriations for two smaller activities. The Legislature authorized $738,000 for activities, a $100,000 or sixteen percent increase from base. This funding level includes:

- $508,000 for the Municipal Boundaries Adjustment unit.
- $130,000 for Fair Campaign complaint hearings. In addition, $60,000 in one-time funding was appropriated to cover a FY 2013 deficiency in this program.
- $36,000 in one-time funds to cover a FY 2013 deficiency in the costs of data practices

hearings.

Campaign Finance and Public Disclosure Board

The Legislature approved a General Fund operating budget of $2 million, which is an increase of $622,000, or 45 percent, from base funding.

Public Subsidy Program:
The Legislature did not make any changes to this program. Estimated funding for this program is $3.2 million for the biennium.

Capitol Area Architectural Planning Board (CAAPB)

Chapter 142 includes a direct appropriation of $670,000 for the CAAPB in the FY 2014-2015 biennium. This is a three percent increase to the Board's base funding.

Contingent Accounts

The Legislature approved $500,000 for the General Fund portion of the contingent accounts. The contingent accounts are appropriations made to provide supplemental funding to state agencies in emergencies or for unexpected deficiencies. The Governor may approve expenditures from the accounts only after consulting with the Legislative Advisory Commission (LAC). However, the Governor can release funds even if the LAC recommends against the expenditure.

In addition to the General Fund appropriation, Chapter 142 also authorizes contingent appropriations of $800,000 from the State Government Special Revenue Fund, and $200,000 from the Workers Compensation Special Fund.

Humanities Commission

The Humanities Commission received $542,000 from the general fund for the biennium. This is a $68,000, or 14 percent increase from base level funding.

MN Amateur Sports Commission (MASC)

The MASC received $532,000 for the biennium, which is a seven percent increase from base funding.

Public Facilities Authority

The Public Facility Authority is funded exclusively by non-general fund statutory appropriations. PFA’s administrative expenses come from fees on loan repayments and set-asides from federal funds.

Science Museum of Minnesota

Chapter 142 authorizes a $2.2 million grant to the Science Museum of Minnesota. This is $22,000, or one percent, increase from base.

State Board of Investment (SBI)

The SBI is primarily funded through charges to each retirement plan for its share of the Board's operations. The expected expenditures for this activity are $6.6 million for the biennium. A small general fund appropriation ($278,000) is used to fund the Board's investment activities directly related to the General Fund itself.

Minority Councils

Chapter 142 includes $3.4 million from the General Fund for the four minority councils.

Minority Councils: 2014-15 General Fund Appropriations (dollars in thousands)				
Program	**Base**	**Appropriation**	**$ Change**	**% Change**
Asian-Pacific Affairs	508	708	200	39%
Black Minnesotans	584	784	200	34%
Chicano-Latino Affairs	550	750	200	36%
Indian Affairs	924	1,124	200	22%
Total General Fund	**2,566**	**3,366**	**800**	**31%**

Gambling Related Agencies

Lawful Gambling Control Board

The Gambling Control Board received a direct Special Revenue fund appropriation of $7.9 million for the biennium. This is base level funding. The Board's activities are funded from a percentage (0.1 percent) of gross receipts on charitable gambling, and license/permit fees for manufacturers and distributors.

Lottery

The Legislature approved total operating expenses for the Lottery of $61 million for the biennium, with net proceeds estimated at $170.9 million. Total state proceeds are projected to be $264.9 million for the biennium, with $144.3 million in estimated General Fund revenues. These total revenues include the net proceeds, in-lieu-of-sales tax, and unclaimed prizes.

Lottery: FY 2014-15 Budget *(dollars in thousands)*	
Gross Revenue	**1,038,452**
Direct Costs	809,000
Operating Expense	58,580
Net Proceeds	**170,872**

Minnesota Racing Commission

Chapter 142 includes a direct Special Revenue fund appropriation of $1.8 million for the biennium. The Commission's activities are directly funded through racetrack, racing, and occupational license fees, as well as reimbursements from the Canterbury Downs Racetrack for the cost of stewards, veterinarians, and laboratory services.

Public-Local Employees Retirement

Three public retirement programs under the State Government Finance committee's jurisdiction receive either direct or open General Fund appropriations. The appropriations in Chapter 142 are:

- MN State Retirement System - $7.9 million for benefits paid to former legislators and elected officials.
- First Class City Teachers State Aid - a $37.25 million appropriation to reduce the unfunded liabilities of the St. Paul & Duluth teachers retirement funds and to the Teachers Retirement Association TRA) for the assumed liabilities of the Minneapolis Teachers Retirement Association.
- Public Employees Retirement Fund (PERA): The Minneapolis Employees Retirement Fund (MERF) - $48 million to reduce the plan's unfunded liability.

Omnibus Pension Bill (Chapter 111)

In addition to the appropriations in Chapter 142, the omnibus pension bill (Chapter 111) includes $26 million in additional one-time aid for the St. Paul and Duluth teachers' retirement funds. These appropriations are intended to provide some help towards the plans' funding deficiencies. The boards of the three teachers' retirement plans are also directed to study the feasibility and financial requirements to consolidate the Duluth and St. Paul plans into the statewide Teacher's Retirement plan.

Chapter 111 also increases the contribution rates and vesting periods for the State Patrol Retirement Plan. A total of $649,000 is appropriated in FY 2015 to the Department of Public Safety to cover the increased employer contribution costs. Of this amount, $95,000 is from the General Fund.

Chapter 111, Omnibus Pension Bill: Appropriations
(dollars in thousands)

	FY 14	FY 15	FY 14-15
One-time Appropriations: General Fund			
Duluth Teachers Retirement	6,000	6,000	12,000
St. Paul Teachers Retirement	7,000	7,000	14,000
Total One-Time appropriations:	13,000	13,000	26,000
Appropriations for Employer Contribution Increase: Various Funds			
Public Safety - State Patrol			
General Fund		95	95
Trunk Highway		546	546
Highway User Tax Distribution		8	8
Total All Funds, On-going Increases:		649	649

Omnibus Elections Bill (Chapter 131)

The elections bill (Laws 2013, Chapter 131) includes several appropriations for the Secretary of State totaling $222,000:

- $60,000 in one-time funds to develop statewide voter registration system functionality to process and track mail ballots.
- $95,000 in on-going funding for programming and transfer of data from the department of Corrections on individuals on probation for felony offenses resulting in the loss of voting rights. The SOS will contract with the department to provide this data.
- $67,000 in one-time funds to implement an electronic roster pilot program.

$21,000 is appropriated to the Legislative Coordinating Commission for the expenses of the Electronic Roster Task Force, which is established to research various issues related to the use of electronic rosters.

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

Transportation

Minnesota Laws 2013, Chapters 117 and 140 appropriates money from the State General Fund, Trunk Highway Fund, Highway User Tax Distribution Fund, Airports Fund, Municipal and County State Aid Funds, and special revenue funds for transportation over the FY 2014-15 biennium. Chapters 117 and 140 also contained various provisions that do not appropriate money but do have a fiscal impact on various funds that are not directly appropriated, such as the Transit Assistance Fund. Below is a summary table of State General Fund spending in the Transportation Finance Committee area. For more detail on State General Fund and other fund spending please see the House session tracking sheet for Transportation at: http://www.house.leg.state.mn.us/fiscal/files/transpo13.pdf .

Transportation Finance Committee
Total General Fund Spending
(all dollars in thousands)

	February Forecast (Base)			End of Session Estimates		
	FY 2012-13	FY 2014-15	FY 2016-17	FY 2012-13	FY 2014-15	FY 2016-17
Department of Transportation	31,673	34,291	34,210	31,673	35,547	35,066
Metropolitan Council	78,076	129,859	129,940	78,076	184,859	153,372
Department of Public Safety (1)	16,376	15,900	15,900	16,376	18,679	18,868
Net GF Total	**126,125**	**180,050**	**136,224**	**126,125**	**239,085**	**207,306**

(1) Includes a $95,000 increase for State Patrol Pensions in FY 2015 and FY 2016 and $189,000 in FY 2017. The measure was carried in the Omnibus Pensions Bill, Chapter 111.

The enacted FY 2014-15 transportation budget represents a 90 percent increase in State General Fund spending above the FY 2012-13 budget, and a 33 percent increase from the FY 2014-15 forecast base. Much of the increase in State General Fund spending occurred because the Metropolitan Council's transit operating base the FY 2014-15 biennial base was 40 percent higher than in the appropriation for the FY 2012-13 biennium. The Metropolitan Council also received $37 million in a onetime appropriation for SouthWest light rail transit construction, and $18 million FY 2014-15 increase for trainsitway operating costs. On the following page is a chart that shows the changes in the level of State General Fund for the three agencies in the Transportation Finance Committee purview.

Transportation Finance Committee Total General Fund Spending Change (all dollars in thousands)					
				Percent Change	
	February Forecast FY 2012-13	Forecast Base FY 2014-15	Enacted FY 2014-15	FY 2012-13 vs. 2014-15	Enacted vs. Base FY 2014-15
Department of Transportation	31,673	34,291	35,547	12%	4%
Metropolitan Council	78,076	129,859	184,859	137%	42%
Department of Public Safety (1)	16,376	15,900	18,679	14%	17%
Net GF Total	**126,125**	**180,050**	**239,085**	**90%**	**33%**
(1) Includes a $95,000 increase for State Patrol Pensions in FY 2015 and FY 2016 and $189,000 in FY 2017. The measure was carried in the Omnibus Pensions Bill, Chapter 111.					

Transportation Budget Highlights

The following narrative will highlight the change items enacted in Chapters 117 and 140. Spending items that did not change from the forecast base budget can be seen on the Transportation Tracking sheet linked to above. Change items fall into two general categories:

1. **Appropriation Changes**, which raise or lower a base spending amount, or create a new item for one time or ongoing spending.
2. **Revenue Items** are items that increase or lower fees or taxes but do not necessarily result in spending changes.

Department of Transportation

Appropriation Changes

Aeronautics

1. The base for Airport Development and Assistance will decrease by $650,000 a year or $1.3 million over the FY 2014-15 biennium out of the State Airports Fund. The reduction is only for one biennium and will mean fewer grants for airports and for navigational aids. The reduction was needed to bring State Airports Fund spending in line with lower than expected revenue for the State Airports Fund.

2. The base for the Trunk Highway Fund portion of the Aviation Support and Services will increase by $526,000 over the FY 2014-15 biennium and continue in FY 2016-17, there is a corresponding reduction in the Truck Highway appropriation from Program Planning and Delivery. This Trunk Highway portion of the airports appropriation is used for aircraft services needed for state business.

Transit / Multimodal / Freight

3. Two change items increased the State General Fund base for Transit (MnDOT's office of transit mostly assists transit systems located outside the Twin Cities Metropolitan Area). The first change item increases the State General Fund appropriation by $78,000 a year to backfill lower transit fare box revenue from discounted wounded veteran transit passes. The second change item increases the State General Fund appropriation for transit by $100,000 a year starting in FY 2015 and continuing into FY 2016-17 to continue funding the Minnesota Council on Transportation Access.

4. A new base is being set for a program previously funded by the Federal Government called Safe Routes to School. The Federal funding for Safe Routes to School was part of the previous Federal Surface Transportation Act and the funding will expire in federal fiscal year 2015. The State General Fund is set to appropriate $250,000, a year for Safe Routes to School this biennium and the same amount next biennium.

5. MnDOT's Freight Office will have a onetime $500,000 State General Fund appropriation in FY 2014 for the cleanup of contaminated state owned rail bank land in Koochiching County.

State Roads

6. MnDOT's State Roads Operations and Maintenance Trunk Highway Fund appropriation base will be increased by $5 million a year on an ongoing basis, to pay for increased commodities costs.

7. MnDOT's Program Planning and Delivery appropriation will be increased by two change items. This first change item is $250,000 a year from the Trunk Highway Fund to operate a Joint Program Office for public-private partnerships. The second change item is a onetime $75,000 payment from the Highway User Tax Distribution Fund for a study at the Humphrey School on Telework.

8. MnDOT's State Road Construction appropriation will have a significant increase because of four change items that were enacted in chapter 117. The first change item for State Road Construction spends $263 million from the Trunk Highway Fund over the FY 2014-15 biennium, as the result of Federal funds made available by the Federal Surface Transportation Authorization called MAP 21 (Moving Ahead for Progress in the 21st Century). The second change item is a $75 million onetime Trunk Highway Fund appropriation in FY 2014 that spends down the Trunk Highway Fund balance for ADA compliance projects, the Better Roads Program, and the Corridors Investment

Management Strategy. The third change item spends $1 million from the Trunk Highway Fund a year from FY 2014 to FY 2016 as the result of Federal Stimulus money made available to the state. The final change item is an ongoing $10 million a year appropriation out of the Trunk Highway Fund for the Transportation Economic Development Program (TED) which improves roadway infrastructure in conjuncture with economic development projects.

Trunk Highway Bonding

Chapter 117 authorizes an additional $300 million in Trunk Highway bonding to the already authorized but unissued approximately $1 billion in Trunk Highway bonding authority. The $300 million in new bond authorization can only be used for the Corridors of Commerce Program and starting in FY 2015. Since the new bonding authorization can only be used starting in FY 2015 no change to the debt service account in was needed in FY 2014 and 2015 appropriation. In addition to the new trunk highway bonding authorization, chapter 117 reauthorizes Trunk Highway bond sale expenses from the 2008 Trunk Highway bonding authorization. The reauthorized amount needed for the bond sale is $1.4 million.

Revenue Items

1. An exemption for overweight trucks servicing a warehouse and distribution center in Frazee Minnesota will increase permit revenue for the MnDOT Bridge Inspection Account by an estimated $13,000 in FY 2016 and $20,000 in FY 2017.

2. A change in the distribution formula for the Motor Vehicle Lease Tax will cap the amount of lease tax revenue for the five metropolitan counties (Anoka, Carver, Dakota, Scott, and Washington) CSAH accounts, and distribute the remainder to MnDOT for Greater MN Transit. The change is estimated to generate an additional $10.8 million over the FY 2014-15 biennium, with $4.5 million in FY 2014, and $6.3 million in FY 2015. The change is only for the FY 2014-15 biennium, after which the distribution formula will split lease tax revenue above $32 million half for Greater MN Transit and half for the five metropolitan counties' CSAH accounts.

3. A change in the Motor Vehicle Sales Tax that will increase the flat sales tax on collector vehicles from $90 to $150, and a narrowing of the motor vehicle sales tax exemption to family, will increase resources distributed by the Highway User Tax Distribution Fund. The Trunk Highway Fund will receive an estimated additional $389,000 a year, the County State Aid Highway (CSAH) Fund will receive an estimated additional $215,000 a year, and the Municipal State Aid System (MSAS) will receive an estimated additional $56,000 a year, all starting in FY 2014. Greater MN Transit will also receive an estimated additional $44,000 a year with the change.

4. Session Law 2013, Chapter 93, will distribute an estimated $645,000 into the State General Fund from the Trunk Highway Fund as the result of the sale of remnant steel from the collapsed I-35W bridge. MnDOT had previously assumed the sale

proceeds would be deposited into the Trunk Highway Fund, thus the change will generate a Trunk Highway cost.

Metropolitan Council

Appropriation Changes

1. The Metropolitan Council will receive a State General Fund increase to cover half of the cost of operating transitways (LRT, BRT, and Commuter Rail). In FY 2014 the increase will be $6 million, and in FY 2015 the increase will be $12 million to accommodate the Central Corridor or Green Line LRT starting operation in the summer of 2014. The total FY 2014-15 biennial increase for transit operations is $18 million, and the FY 2016-17 biennium increase is $23.4 million. The other share of transitway operating cost comes from the five county Transit Sales Tax.

2. The Metropolitan Council will also receive a onetime $37 million appropriation from the State General Fund in FY 2014 to pay part of the cost of the state's $118 million share of the $1.26 billion dollar SouthWest LRT construction cost.

Revenue Items

1. A change in the Motor Vehicle Sales Tax that will increase the flat sales tax on collector vehicles from $90 to $150, and a narrowing of the motor vehicle sales tax exemption to family, will increase Transit Assistance Fund revenue to the Metropolitan Council by an estimated $396,000 a year starting in FY 2014.

Department of Public Safety

Appropriation Changes

Department of Public Safety Administration

1. A shift in the State General Fund base appropriation to the Department of Public Safety within Administration and Related Services will decrease the appropriation to Technology and Support Services by $149,000 a year starting in FY 2014 to the Office of communications for $70,000, and add $79,000 a year for the Public Safety Support base. The shift in State General Fund appropriations will continue into FY 2016-17.

2. The base appropriation for reimbursing local police and State Patrol officers for the cost of replacing body armor will increase $79,000 a year out of the State General Fund and $100,000 a year out of the Trunk Highway Fund, both increases will start in FY 2014.

State Patrol

3. The State Patrol will receive an additional $1 million a year increase from the Trunk Highway Fund to cover increased fuel costs.

4. The Capitol Security State General Fund base appropriation will increase by $2.5 million over the FY 2014-15 biennium and continue into FY 2016-17 to cover the recommendations of the Capitol Security Taskforce.

Vehicle Services

5. Two change items will increase the Vehicle Services Account appropriation to Driver and Vehicle Services (DVS) by about $1.8 million over the FY 2014-15 biennium, and by $1.3 million over the FY 2016-17 biennium. The first change item is a onetime appropriation of $521,000 in FY 2015 for upgrading DVS's phone system. The second change item is an ongoing $650,000 a year increase for Vehicle Services to hire additional vehicle title transfer staff.

Driver Services

6. Four change items for Driver Services will increase the base appropriation out of the Drivers Services Account by $487,000 in the FY 2014-15 biennium and $210,000 in the FY 2016-17 biennium. The first change item is a onetime appropriation of $279,000 in FY 2015 out of the Driver Services Account for Driver Services' share of the DVS phone system upgrade. The second change item is an ongoing base increase of $71,000 starting in FY 2015 for additional staff to implement facial recognition of diver's license pictures. The third change item is a $67,000 increase in FY 2015, and $62,000 in FY 2016 and into the tales to hire additional staff for the Ignition Interlock program. The final change item for Driver Services is for additional staff for the Novice Drivers Education Task Force, with an appropriation increase of $37,000 in FY 2014, $33,000 in FY 2015, and $6,000 in FY 2016.

Revenue Items

1. A change in the threshold of a high value vehicle for salvage metal purposes will impact fee revenue starting in FY 2014 and is estimated to reduce State General Fund revenue by $30,000 a year and the Vehicle Services Account revenue by $23,000 a year.

2. An increase in the Drivers License Fee from $5 to $8 will generate an additional $750,000 in FY 2014 and $1.5 million in FY 2015 and ongoing for the Driver Services Account. Local deputy registrar will also receive increases in the fee for license transactions.

3. An increase in the fee for vehicle title transfers will generate an additional $33,000 year for the State General Fund and $16,000 a year for the Drivers Services Account, both staring in FY 2017.

Local Impact Change Items

Chapter 117 also contained two items that enable local jurisdictions to impose taxes for transportation purposes. After July 1st 2013 all Minnesota counties will be able to impose a wheelage tax of $10 per vehicle per year, and after January 1 2018 counties will be able to impose a wheelage tax of up to $20 per vehicle per year. Currently only metropolitan counties can levy a $5 per year wheelage tax, and Anoka, Carver, Dakota, Scott, and Washington counties do so. The wheelage tax rate in those five metropolitan counties will automatically go up from $5 to $10 per vehicle per year with the enacted legislation, unless a county board repeals its wheelage tax altogether. In addition to the wheelage tax chapter 117 also allows counties not currently participating in the Metropolitan Area Transit Sales Tax to levy, with a vote of the county board, a sales tax of up to one half of one percent and an excise tax on new motor vehicle sales of $20. The tax revenue must be used for transportation purposes. Previously imposing such a tax would have required a vote of the county board and a public referendum.

If you have further questions on Transportation issues, please contact Andrew Lee at 651-296-4181 or e-mail at andrew.lee@house.mn.

Taxes, State Revenue Changes

Tax law changes from the 2013 session contained in Chapter 143 are estimated to increase General Fund revenue by $2.1 billion or six percent for the FY 2014-2015.[1] Individual income taxes are increased by $1.1 billion with most of the estimated revenue coming from the addition of a fourth income tax rate of 9.85 percent ($1.118 billion) and bracket. Corporate franchise income taxes are increased by $424.9 million, primarily from the repeal of the foreign royalty deduction and repeal of special rules for foreign operating corporations (FOCs). Sales and use taxes were increased $74.1 million from base expansion provisions. Other tax changes include tax increases to cigarette and tobacco taxes. After transfers from the health impact fund and to the stadium reserve account, cigarette taxes are estimated to increase by $407.6 million with most of the estimated increase coming from the $1.60 per pack tax increase in the excise tax.

Table 1 shows the by major tax type the percentage changes with the enacted tax revenue changes in Chapter 143 for the FY 2014-2015 biennium compared to the forecasted tax revenue for the FY 2012-2013 biennium and FY 2014-2015 biennium. A more detailed review of the estimated biennial General Fund tax revenue changes for each provision by tax type follows this section.

Table 1: **2013 Session - Omnibus Tax Bill - Chapter 143**

Total General Fund Tax Revenue (Based on the February Forecast 2013)

(all dollars in thousands)

	Forecast Base FY 2012-13	Forecast Base FY 2014-15	Chapter 143 Enacted FY 2014-15	Percentage Change Ch. 143 FY14-15 vs. Base FY 12-13	Percentage Change Ch. 143 FY 14-15 vs. Base FY 14-15
Individual Income Tax	16,620,960	17,732,700	18,872,000	14%	6%
Corporate Franchise Tax	2,209,259	2,000,800	2,425,650	10%	21%
Statewide Property Tax	1,616,034	1,685,302	1,685,302	4%	0%
Sales & Use Tax	9,494,634	10,075,460	10,149,427	7%	1%
All Other Taxes	2,366,923	2,524,420	3,007,243	27%	19%
Net GF Total	**32,307,810**	**34,018,682**	**36,139,622**	12%	6%

Notes: (1) Positive numbers reflect revenue gain, negative number reflect revenue reduction.

(2) All Other Taxes includes but is not limited to lawful gambling taxes, estate taxes, cigarettte/tobacco taxes, alcohol beverage taxes, mortgage/deedregistry taxes, taconite occupation taxes, medical assistance surcharges, etc.

[1] The $2.1 billion is a net total increase after two transfers: (1) There is a negative transfer-in of $376.4 million from the Health Impact Fee (HIF) fund to the General Fund. The negative transfer-in is a result of the repeal of the HIF in Chapter 143 and the revenue from the HIF fee is effectively replaced in the same act with an equivalent tax. (2) There is also a negative transfer-out of $27.8 million from the General Fund to the Stadium reserve fund. The sum of these negative transfers to the General Fund is -$404.2 million in the FY 2014-15 biennium.

Individual Income Tax Changes

New Top Rate at 9.85 Percent

For tax year 2013, a fourth income tax tier rate and bracket have been added to the income tax structure. The 9.85 percent rate and bracket is set at $250,000 for married joint filers, $125,000 for married separate filers, $150,000 for single filers and $200,000 for head of household. This structural change to the income tax system is estimated to raise $1.1 billion and $1.1 billion to the General Fund for the FY 2014-2015 biennium and FY 2016-2017 biennium respectively. In the first year of enactment, an estimated 58,900 returns (2.3 percent of all full-year resident returns) will see an average increase in tax of $6,666 per return based on analysis from the Minnesota Department of Revenue (DOR).

Alternative Minimum Tax Increase (AMT) to 6.75 percent

For tax year 2013, the AMT rate is increased from 6.4 percent to 6.75 percent. This provision is estimated to raise $5.6 million and $5.7 million to the General Fund for the FY 2014-2015 biennium and FY 2016-2017 biennium respectively.

Research & Development (R&D) Tax Credit Modifications

For tax year 2013, the R&D tax credit becomes non refundable and the computation of the credit is based on the regular tax of all members of the unitary group. The credit is not allowed against the corporate alternative minimum tax (AMT) and the minimum fee. Furthermore, carry forward of the R&D tax credit is only authorized if the credit exceeds the regular tax. Since tax year 2010, this credit has been allowed to a partner and a shareholder in an S corporation and was refundable. The credit continues to be available to a partner and a shareholder in an S corporation but is no longer refundable. These modifications to the credit are estimated to increase General Fund tax revenue by $4.8 million and $4.2 million for the FY 2014-2015 biennium and FY 2016-2017 biennium respectively.

Historic Structure Tax Credit Modifications

This tax credit was enacted in 2010 and modifications were made this session extending the sunset date by six years (until FY 2021) and modifying the original effective date to be retroactive in order to “pick-up” certain qualifying projects. The estimated General Fund tax revenue reduction for these modifications is $4 million in FY 2014-2015 and $25.5 million in FY 2016-2017.

Greater MN Internship Program

Beginning in tax year 2013, a refundable business tax credit for employers participating in an internship program is available. The credit is equal to 40 percent of the compensation paid to each qualifying intern or up to $2,000 per intern. Participating interns must be hired for employment in greater Minnesota. From the General Fund, this tax credit is capped at $2 million per year starting in FY 2014 and an appropriation of $20,000 per year (equal to 1% of the tax credit allocation) to the Minnesota Department of Revenue and is transferred to the Office of Higher Education for administrative support of this tax credit.

Subtraction for Railroad Maintenance Expenditures

For tax year 2013 only, a subtraction equal to the credit awarded to Section 45G (a) of the Internal Revenue Code for qualified track maintenance expenditures. The federal credit is equal to 50 percent of the qualified maintenance expenditures, not to exceed $3,500 per mile of track owned or leased by the eligible taxpayer. This subtraction is available to shareholders of an S corporation or a partner in a partnership. This provision is estimated to reduce General Fund tax revenues by $120,000 in FY 2014. This federal credit expires on December 31, 2013 and has no state revenue impact after FY 2014.

2013 Session - Omnibus Tax Bill - Chapter 143
Total General Fund Individual Income Tax Revenue
(all dollars in thousands)

	Chapter 143 Enacted FY 2014-15	% of Total	Chapter 143 Enacted FY 2016-17	% of Total
Forecast Base	17,732,700	93.96%	20,106,800	94.67%
Changes:				
4th Income Tax Tier at $250,000 for MJ Filers	1,118,900	5.93%	1,144,600	5.39%
AMT Increase to 6.75%	5,600	0.03%	5,700	0.03%
R&D Tax Credit Non Refundable and Other	4,800	0.03%	4,200	0.02%
Fed. Conformity - 50% Bonus Depreciation/Sectio	11,100	0.06%	(5,100)	-0.02%
Historic Tax Credit Modifications	(4,000)	-0.02%	(25,500)	-0.12%
Greater MN Internship Program	(2,000)	-0.01%	(4,000)	-0.02%
Border City Allocation	(1,500)	-0.01%	0	0.00%
Subtraction for Railroad Maintenance Expenditures	(120)	0.00%	0	0.00%
Modifications to Credit for Past Military Service	(Negli.)		(Negli.)	
Interactions with the Property Tax System	6,520	0.03%	13,100	0.06%
Net General Fund Total	**18,872,000**	**100.00%**	**21,239,800**	**100.00%**

Note: Positive numbers reflect revenue gain, negative number reflect revenue reduction.

Corporate Franchise Tax

<u>Repeal Foreign Royalty Subtraction</u>
For tax year 2013, a subtraction of 80 percent of royalties received from foreign corporations is eliminated. This repeal is estimated to raise $189.2 million and $155.7 million to the General Fund in the FY 2014-2015 biennium and FY 2016-2017 biennium respectively.

<u>Repeal Foreign Operating Corporation (FOC) Deduction</u>
For tax year 2013, special rules for foreign operating corporations are repealed. In other words, the law that allows 80 percent of foreign operating corporation income to be claimed as a dividend received deduction is eliminated and FOC income is to be taxed on the same basis as other corporate income. This repeal is estimated to raise General Fund revenue of $48.0 million in the FY 2014-2015 biennium and $40.7 million in the 2016-2017 biennium.

Research & Development (R&D) Tax Credit Modifications
For tax year 2013, the R&D tax credit becomes non refundable and the computation of the credit is based on the regular tax of all members of the unitary group. The credit is not allowed against the corporate alternative minimum tax (AMT) and the minimum fee. Furthermore, carry forward of the R&D tax credit is only authorized if the credit exceeds the regular tax. These modifications to the credit are estimated to increase revenue by $90.5 million and $67.8 million to the General Fund for the FY 2014-2015 biennium and FY 2016-2017 biennium respectively.

Unitary Business Attribution
Starting in tax year 2013, all sales of a unitary business made within Minnesota (after nexus is established) must be included in the sales factor of a corporation that is a member of a unitary group and all Minnesota sales would be used to compute an apportionment percentage. This provision is estimated to increase General Fund tax revenue by $46.0 million and $40.0 million in the FY 2014-2015 biennium and FY 2016-17 biennium respectively.

Foreign Partnership Income Modifications
For tax year 2013, the treatment of flow through income of a foreign entity is taxed as a domestic entity. This modification also reverses a ruling in the *Manpower Inc.v. Commission of Revenue* court decision. From that case, the court decision has been interpreted to prohibit the flow through of income and losses from foreign entities to domestic corporations. These modifications are estimated to increase General Fund tax revenue by $12 million for the FY 2014-2015 biennium and $12 million for the FY 2016-2017 biennium.

Corporate Minimum Fees
Corporate tax minimum fees are paid by 85,000 entities (C corporations, S Corporations, and partnerships) based on the sum of their Minnesota property, payroll and sales. The current fee and brackets are modified in tax year 2013 to reflect inflation since the minimum fee was first imposed in tax year 1990. For this provision, tax year 2013 is the base year to measure the effects of inflation based on the Consumer Price Index (CPI). The table below compares the minimum fee and brackets under present law to the fee and brackets modifications in Chapter 143. The changes are estimated to raise $18.7 million and $19.4 million to the General Fund for the FY 2014-15 biennium and FY 2016-17 biennium respectively.

Present Law		**Chapter 143**	
Total MN Property, Payroll, and Sales	Minimum Fee	Total MN Property, Payroll, and Sales	Minimum Fee
Less than $5,000	$0	Less than $930,000	$0
$500,000 to $999,999	$100	$930,000 to $1,836,999	$190
$1,000,000 to $4,999,999	$300	$1,870,000 to $9,339,999	$560
$5,000,000 to $9,999,999	$1,000	$9,340,000 to $18,679,999	$1,870
$10,000,000 to $19,999,999	$2,000	$18,680,000 to $37,359,999	$3,740
$20,000,000 or more	$5,000	$37,360,000 or more	$9,340

Real Estate Investment Trusts (REIT)
Beginning in tax year 2013, the dividend received deduction is prohibited for REIT dividends in state law. With this change, both state and federal law would disallow the use of the dividend

received deduction for REIT dividends. This change is estimate to increase General Fund tax revenue by $2 million in both the FY 2014-15 and FY 2016-17 biennia respectively.

Subtraction for Railroad Maintenance Expenditures

For tax year 2013 only, a subtraction equal to the credit awarded to Section 45G (a) of the Internal Revenue Code for qualified track maintenance expenditures. The federal credit is equal to 50 percent of the qualified maintenance expenditures, not to exceed $3,500 per mile of track owned or leased by the eligible taxpayer This provision is estimated to reduce General Fund tax revenues by $80,000 in FY 2014. This federal credit expires on December 31, 2013 and has no state revenue impact after FY 2014.

2013 Session - Omnibus Tax Bill - Chapter 143

Total General Fund Corporate Franchise Income Tax Revenue

(all dollars in thousands)

	Chapter 143 Enacted FY 2014-15	% of Total	Chapter 143 Enacted FY 2016-17	% of Total
Forecast Base	2,000,800	82.49%	1,962,400	85.50%
Changes:				
Repeal Foreign Source Royalties	189,200	7.80%	155,700	6.78%
Repeal Foreign Operating Corporations with interaction	48,000	1.98%	40,700	1.77%
Make R&D Tax Credit Non Refundable & Other Changes	90,500	3.73%	67,800	2.95%
Unitary Business Attribution	46,000	1.90%	40,000	1.74%
Foreign Partnership Modifications	12,000	0.49%	12,000	0.52%
Corporate Tax Minimum Fee Increases	18,700	0.77%	19,400	0.85%
REIT Dividend Received Deduction	2,000	0.08%	2,000	0.09%
Subtraction for Railroad Maintenance Expenditures	(80)	0.00%	0	0.00%
Fed. Conformity - 50% Bonus Depreciation/Sect 179 expensing	16,550	0.68%	(8,950)	-0.39%
Interactions with the Property Tax System	1,980	0.08%	4,110	0.18%
Net General Fund Total	**2,425,650**	**100%**	**2,295,160**	**100.00%**

Note: Positive numbers reflect revenue gain, negative number reflect revenue reduction.

Update to Federal Law for Individual Income and Corporate Franchise Taxes

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 require that Minnesota either conform to the federal change or add a line on the Minnesota tax return to add back the difference.

Chapter 143 recognizes the federal extension of bonus depreciation and section 179 expensing for tax year 2013 in the Taxpayer Relief Act of 2012 (Public Law 112-240). Minnesota does not fully conform to the expansion of bonus depreciation or the expansion of the new federal limits for Section 179 expensing for tax year 2013. Instead, Chapter 143 authorizes a partial conformity approach that requires taxpayers to add-back 80 percent of the additional amount of expensing (or additional depreciation) allowed at the federal level in the first year and then deduct one-fifth of the amount added back in each of the five following fiscal years. This partial conformity approach allows Minnesota taxpayers to claim the full federal section 179 expensing and bonus depreciation amounts over six years versus in the first year only. Since 2005, Minnesota has not fully conformed to the increased federal amounts for section 179 expensing and bonus depreciation and has continued to enact this partial conformity that is estimated to raise General Fund tax revenue by $27.6 million and reduce General Fund tax revenue by $14.0 million for the FY 2014-15 biennium and the FY 2016-17 biennium respectively.[2]

TY 2012 Federal Conformity Update

During the early part of the 2013 session, a federal conformity update was enacted in chapter 3 for tax year 2012 only. The total fiscal impact of this update is estimated to reduce General Fund revenue by $18.5 million in the FY 2012-13 biennum with a smaller revenue impact in the FY 2014-15 and FY 2016-17 biennia.

Major provisions adopted in the American Taxpayer Relief Act of 2012 for tax year 2012 only include but are not limited to the following: (1) extension of the educator classroom expense deduction; (2) extension of the itemized deduction for mortgage insurance premiums; (3) extension of higher education tuition expense deduction; (4) extension of the authority for individuals age 70 ½ or older to transfer from an IRA or a Roth IRA to a qualified charity; and (5) increased section 179 expensing amounts and phase-out threshold with the 80 percent add-back and five year recovery approach requirement.

In the FAA Modernization and Reform Act, federal conformity to this act allows employees who received payments in airline bankruptcy cases, to roll over all or part of the payments to the individual retirement accounts (IRAs). With this federal update, taxpayers are allowed to file amended return to claim refunds of federal income taxes reflecting the reduction in taxable income resulting from the deduction of rolled –over amounts.

2013 Session - Federal Conformity Update Bill - Chapter 3
General Fund Impact
(all dollars in thousands)

	FY 2012-13	FY 2014-15	FY 2016-17
American Taxpayer Relief Act (Public Law 112-240)			
Individual Income Tax	-14,100	210	-1,355
Corporate Franchise Tax	-3,010	-240	-855
Total	-17,110	-30	-2,210
FAA Modernization and Reform Act (Public Law 112-95)			
Individual Income Tax	-1,400	-40	-40
Corporate Franchise Tax	0	0	0
Total	-1,400	-40	-40
Net General Fund Total	**-18,510**	**-70**	**-2,250**

[2] The estimated revenue reduction for federal conformity to all provisions after the enactment of chapter 3 is $3.5 million in FY 2013, $300.0 million in FY 2014-15, and $301.5 million in the FY 2016-17 biennium. Source: Federal update revenue estimate by the Minnesota Department of Revenue, February 21, 2013.

Sales & Use Tax

Base Expansion to Business Related Electronic & Commercial Equipment Repair and Maintenance

Starting in FY 2014, a sales and use tax is applied to business related electronic and precision repair and maintenance services and commercial and industrial machinery and equipment repair and maintenance services. This provision is estimated to increase General Fund tax revenue by $152.4 million in the FY 2014-15 biennium and by $182.7 million in the FY 2016-17 biennium.

Base Expansion to Business Related Warehousing & Storage Services

Effective April 1, 2014 (last three months of FY 2014), a sales and use tax is imposed on business related storage of tangible personal property with exemptions for the following: (1) storage of agricultural products, electronic data, and refrigerated storage; (2) warehouse and storage services provided by a parent company or affiliated group; (3) self-storage that purchasers cannot deduct as a business expense on its federal corporate or income tax return. Also, a digital storage service is not subject to this tax. This provision is estimated to increase General Fund revenue by $95.4 million in the FY 2014-15 biennium and $184.4 million in the FY 2016-17 biennium.

Repeal Telecommunication Industry Capital Equipment Exemption

Prior to July 1, 2013, machinery and equipment was exempt if it was purchased or leased for use directly by a telecommunications, cable television, or direct satellite services that are sold at retail.[3] Starting in FY 2014, capital equipment for the telecommunications industry and pay television are taxable. This provision is estimated to yield a General Fund revenue increase of $66.6 million in the FY 2014-15 biennium and $82.2 million in the FY 2016-17 biennium.

Solicitor Nexus Definition

Effective FY 2014, a definition of “solicitor” is provided in law. A “solicitor” in the state directly or indirectly refers potential customers to a retailer through an internet website for a commission. It is presumed that the retailer has nexus if the total receipts exceed $10,000 in the last 12-month period from Minnesota customers referred from the internet by the solicitor. Such retailers would be required to remit sales tax. This provision is estimated to raise General Fund tax revenue by $9.7 million and $12.4 million for the FY 2014-15 biennium and FY 2016-17 biennium respectively.

Base Expansion to Digital Products

Starting in FY 2014, sales and use taxes applies to specified digital products and other digital products transferred electronically on a temporary or permanent basis. Specified digital products include digital audiovisual works, digital audio works, and digital books transferred electronically to a customer. Other digital products include e-greeting cards, online video and computer games. This base expansion provision is estimate to yield an additional $5.1 million and $5.7 million in General Fund revenue for the FY 2014-15 biennium and FY 2016-17 biennium respectively.

[3] Source: Telecommunications, Pay Television and Related Services, Minnesota Department of Revenue Sales Tax Fact Sheet 119, page 3.

Motor Vehicle Paint and Materials
Effective July 1, 2013, a sale of motor vehicle repair paint and materials by a motor vehicle repair or body shop business would be a retail sale. On that retail sale, sales tax would be imposed on the gross receipts from the retail sale of the paint and materials. A method is defined in law that estimates the amount and value of the paint and repair materials. This provision is estimated to increase General Fund revenue by $5.1 million and $5.7 million for the FY 2014-15 biennium and FY 2016-17 biennium respectively.

Pay Television Services
In FY 2013, pay television services are taxable. Pay television services include cable television service and direct satellite service. This change is estimated to increase General Fund tax revenue by $5.1 million in the FY 2014-15 biennium and $5.7 million in the FY 2016-17 biennium.

Motor Vehicle Rental Tax Increase to 9.2 percent
Effective for temporary motor vehicle leases or rentals entered into on or after July 1, 2013 (FY 2014), the motor vehicle rental tax is increased from 6.2 percent to 9.2 percent.[4] The current law 5.0 percent fee imposed on charges to lease or rent vehicles is not changed. General Fund revenues from the tax rate increase are estimated to increase by $14.4 million in the FY 2014-2015 biennium and by $16.5 million in the FY 2016-17 biennium.

Sales and Use Tax Exemption for Counties and Cities
Cities and counties are exempt from sales tax starting January 1, 2014 (effective for the remaining six months of FY 2014). With this change, all local governments are exempt including townships.[5] One area that is not exempt for local governments is for the purchases of goods and services used as inputs to goods and services generally provided by the private sector such liquor stores, gas and electric utilities, golf courses and marinas. This exemption will affect the purchases of 87 counties and 853 cities and is estimated to reduce General Fund revenue by $172.0 million in the FY 2014-15 biennium and $254.1 million in the FY 2016-17 biennium.

Up-front Capital Equipment, Remove Refund Requirement
Effective for purchases after September 1, 2014 (FY 2015), business would have an up front exemption from this tax and would not have to go through the refund process as prescribed under prior law. The revenue impact for this provision includes the revenue reduction for the up front exemption and the payment of refunds to offset the tax paid in previous years. Businesses have three and one half years from the date of purchase or lease to file a claim. This provision is estimated to reduce General Fund tax revenue by $81.3 million and $101.3 million in the FY 2014-2015 and 2016-17 biennia respectively.

Multiple Points of Use
For FY 2014, business purchasers that buy electronically delivered goods or services that will be available for use in more than one taxing jurisdiction would have a multiple-points-of-use certificate. With this certificate, the seller is exempt from collecting the tax but the purchaser is responsible for remitting the tax in multiple jurisdictions using an apportionment method to

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[4] The period of the lease or rental agreement is less than 29 days.
[5] Townships were exempted from tax effective October 2011 in Chapter 7, Laws of 2011 First Special Session.

allocate the tax. The provision is estimated to reduce General Fund tax revenue by $1.3 and $1.5 million in the FY 2014-15 biennium and FY 2016-17 biennium respectively.

Expand Exemptions for Medical Devices Related to Medicare, Medicaid, and Modify other Exemptions
Effective for sales and purchases after June 30, 2013 (FY 2014), all medical device items purchased in transactions covered by Medicare, Medicaid or another health plan are exempt. Other modifications include exempting repair and replacement parts for single patient use and the definition of durable medical equipment is expanded to single patient use items. Finally, a new exemption is created for accessories and supplies. These exemption provisions are estimated to reduce General Fund revenue by $790,000 in the FY 2014-15 biennium and $920,000 in the FY 2016-17 biennium.

Exempt Critical Access Dental Care
Retroactively effective for purchases made after June 30, 2007 (FY 2008), critical access dental care providers are exempt. Critical access dental care providers are defined as having no more than 15 percent of its patients covered by private dental insurance in the previous calendar year. For these providers, the sale tax must be paid up-front and providers must apply for a refund. For the FY 2014-15 biennium, the estimated General Fund reduction from this exemption is $270,000 and a $60,000 reduction for the FY 2016-17 biennium.

Established Religious Orders
Retroactively effective for purchases made after June 30, 2012, the sale of lodging, food and beverages between an established religious order and an affiliated institution of higher education are exempt. This exemption applies to St. John's Abbey and St. Johns University and restores an exemption maintained in previous years before educational governance restructuring took place. This exemption is estimated to reduce General Fund revenue by $143,000 in FY 2014-15 and $105,000 in FY 2016-17.

Aircraft Labor and Parts & Airflight Equipment
Starting in FY 2014, there are two aviation provisions in chapter 143 affecting sales tax law. The first provision is an exemption for purchases of equipment and parts needed for the repair, upgrade and improvement of aircraft operated under Federal Aviation Regulations and their installation charges. This exemption is estimated to reduce General Fund revenue by $7.4 million and $8.1 million in the FY 2014-2015 biennium and FY 2016-17 biennium respectively.

The second provision dedicates any revenue collected from taxable aircraft purchases to the State Aircraft Fund (from the General Fund). This dedication is estimated to reduce General Fund revenue by an estimated $5.8 million in the FY 2014-15 biennium and $5.8 million in the FY 2016-17 biennium. See the non General fund section of this summary for a related provision affecting the State Airports fund.

Other Exemptions for Businesses
The list below shows exemptions or modifications to exemptions for businesses for the policy purpose of promoting jobs and investment in the state of Minnesota. These provisions are

estimated to reduce General Fund revenue by $11.5 million in the FY 2014-15 biennium and by $25.8 million in the FY 2016-17 biennium.

- Exemption for Greater MN Business Expansion
- Modifications to Qualifications for the Data Center Exemption
- Exemption for Construction Materials for a High and Low Intensity Research Facility
- Exemption for Construction Materials for an Industrial Measurement and Manufacturing & Control Facility
- Exemption for Construction Materials for a Biopharmeutical Manufacturing Facility
- Exemption for Construction Materials for a Medical Center Development in Rochester

2013 Session - Omnibus Tax Bill - Chapter 143
Total General Fund Sales & Use Tax Revenue
(all dollars in thousands)

	Chapter 143 Enacted FY 2014-15	% of Total	Chapter 143 Enacted FY 2016-17	% of Total
Forecast Base	10,075,460	99%	10,678,700	99%
Changes:				0%
Electronic & Commercial Equipment Repair & Maintenance	152,400	2%	182,700	2%
Warehousing & Storage Services	95,400	1%	184,400	2%
Telecommunications Equipment	66,600	1%	82,200	1%
Solicitor Nexus Definition	9,700	0%	12,460	0%
Digital Products	8,480	0%	10,140	0%
Motor Vehicle Paint and Materials	5,100	0%	5,700	0%
Parallel Taxation of Direct Satellite Services	2,460	0%	2,880	0%
MV Rental Tax Increase to 9.2%	14,400	0%	16,500	0%
Exemption for Cities and Counties	-172,000	-2%	-254,100	-2%
Up-Front Exemption for Capital Eqmnt, Remove Refund Reqmt.	-81,300	-1%	-101,300	-1%
Aircraft Parts & Labor	-7,400	0%	-8,100	0%
Exemption for Greater MN Business Expansion	-6,600	0%	-14,000	0%
Dedicate Sales Tax on Aircraft to Special Airports Fund	-5,800	0%	-5,800	0%
Modifications to Data Centers Exemption	-2,000	0%	-8,300	0%
Multiple Points of Use Certificate	-1,370	0%	-1,560	0%
Expand Exemption for Certain Medical Devices	-790	0%	-920	0%
Exempt a Religious Order and a Higher Education Institution	-143	0%	-105	0%
Exempt Critical Access Dental Clinics	-270	0%	-60	0%
Exempt Construction Materials for Research Facility	-2,900	0%	-1,000	0%
Exempt Const. Materials for an Industrial Measurement Manufacturing Facility	0	0%	-815	0%
Exempt Construction Materials for a Biopharmaceutical Manufacturing Facility		0%	-940	0%
Exempt Construction Materials for a Medical Center Development		0%	-715	0%
Net General Fund Total	**10,149,427**	**100%**	**10,777,965**	**100%**

Notes: (1) Positive numbers reflect revenue gain, negative number reflect revenue reduction.
(2) All change provisions listed above are effective July 1, 2013 except for: (a) Warehousing & Storage services are effective on April 1, 2013; (b) Up-Front Exemption for Capital Equipment is effective on September 1, 2014; (c) Critical Access Dental Care provider exemption is effectively retroactively for sales purchases made after 6/30/2007; (d) Religious Order and Higher Education Institution is effective retroactively for sales/purchases made after 6/30/2012; (e) Med Ctr Development exemption is effective for sales/purchases made after 6/30/2015 and before 7/1/2049; and (f) biopharmaceutical exemption is effective for capital investment made and jobs created after 12/31/2012 and before 7/1/2019.
(3) All change provisions listed above have a revenue impact to the Legacy funds. For details about the amount of legacy impact revenue for each provision, please refer to the following spreadsheet posted on the House Fiscal Analysis website at http://www.house.leg.state.mn.us/fiscal/files/tax13.pdf. See pages 19 and 20.

All Other Taxes

Impose Gift Tax & Include Certain Gifts in Estate
In tax year 2013, a 10 percent gift tax is imposed on taxable gifts. A "taxable gift" is a gift of property located in Minnesota made by an individual resident or non resident but this term is defined in greater detail in the gift tax chapter of the internal revenue code. Also, a lifetime credit of $100,000 is allowed against the gift tax. Similarly, taxable gifts made within three years of death are added to the taxable estate. The amount of Minnesota estate tax owed is reduced by the amount of Minnesota gift tax paid on any gifts included in the Minnesota adjusted taxable estate. These provisions are estimated to raise General Fund tax revenue by $41.4 million in the FY 2014-2015 biennium and by $65.2 million in the FY 2016-17 biennium.

Taxation of Nonresident Property Held in a Pass-Through Entity
In tax year 2013, the nexus rules are modified and expanded under the estate tax for non resident individuals who own pass-through entities with Minnesota real estate or tangible personal property[6]. Under prior law, ownership interest in pass through entities are treated as intangibles and would not be included in the Minnesota estate. The modification in chapter 143 assigns the situs of the real and tangible personal property as if the pass-through entity did not exist allowing the Minnesota real and tangible personal property owned by a pass through into the Minnesota estate of the decedent. Finally, the Minnesota estate tax due is reduced if an estate or inheritance tax is paid to another state for that property. These modifications are estimated to increase General Fund tax revenue by $12.8 million in the FY 2014-15 biennium and $15.3 million in the FY 2016-17 biennium.

Qualified Farm and Small Business
In tax year 2013, the requirements that allow executors of the estates of small businesses and farmers to deduct from the taxable estate up to $4 million for a qualified small business property or qualified farm property are clarified. The details about these modifications can be found in the House Research summary for the conference committee report for HF 677. These changes are estimated to increase General Fund revenue by $23.8 million in the FY 2014-15 biennium and $47.2 million in the FY 2016-17 biennium.

Cigarette Tax Increase and Other Modifications
For FY 2014, the cigarette tax is increased by $1.60 per pack from the current total tax and fee of $1.23 ($0.48 tax/per pack plus $0.75 fee per pack) to a total state tax of $2.83 per pack. The cigarette tax rate will be indexed based on the same methodology used for computing the in lieu sales tax rate. Also related to that change, the in lieu sales tax rate is increased from 6.5 percent to 6.875 percent ($0.493 per pack sales tax). In addition to the cigarette excise tax rate, in lieu sales tax rate increase and indexing, there is a floor stock tax on current inventories of $1.60 per pack and a non settlement fee increase from $0.35 per pack to $0.50 per pack. Offsetting a portion of these tax increases is the repeal of the Health Impact Fee (HIF) for cigarettes. After the HIF transfer, the estimated yield to the General Fund from these cigarette tax and fee

[6] Pass through entities include S corporations, partnerships, disregarded single-member LLCs and trusts.

Minnesota Vikings Stadium and Financing Backup

In addition to the lawful gambling revenue authorized during the 2012 session to pay for stadium related expenses. Chapter 143 authorizes a new source of one-time funding for the stadium reserve by directing the commissioner of revenue to deposit $26.5 million of the revenues from the cigarette floor stocks tax to the stadium reserve fund account. Chapter 143 also authorizes up to $20 million in new back-up revenue from corporate taxes to pay stadium related expenses in Minnesota Statutes 297E.021, subdivision 3.

modifications is $345.0 million in the FY 2014-15 biennium and $370.4 million in the FY 2016-17 biennium.

<u>Tobacco Products and other Modifications</u>
For FY 2014, the tobacco products excise tax increases from 70 percent of the wholesale price (35 percent of wholesale price for excise tax plus 35 percent of wholesale price for the HIF fee) to 95 percent of the wholesale price for the tax (with no fee). In addition to this increase, a minimum tax is created for moist snuff. This minimum tax for each container of moist snuff must be equal to the rate imposed on a pack of cigarettes[7]. Offsetting these tax increases is the repeal of the HIF for tobacco. After the HIF transfer, the estimated revenue gain to the General Fund from the tobacco tax increases and other modifications is $41.7 million in the FY 2014-15 biennium and $47.7 million in the FY 2016-17 biennium.

<u>Little Cigar Modifications</u>
Starting in FY 2014, little cigars are removed from the definition of tobacco products are inserted into the cigarette definition so that they can be taxed as cigarettes. This change is estimated to raise $20.2 million in General Fund revenue in the FY 2014-15 biennium and $20.5 million in the FY 2016-17 biennium.

<u>Premium Cigars</u>
For FY 2014, premium cigars are taxed at rate of the lesser of 95 percent of the wholesale price of $3.50 per cigar. This provision is estimated to reduce General Fund revenue by $900,000 in FY 2014-15 and by $1.0 million in the FY 2016-17 biennium.

<u>Brewer's Tax Credit</u>
Starting with calendar year 2012 production, the threshold for qualifying for the tax credit is modified from one manufacturing less than 100,000 barrels to one manufacturing less than 250,000 barrels. This change is estimated to reduce General Fund revenue by $840,000 in the FY 2014-2015 biennium and by $860,000 in the FY 2016-17 biennium.

[7] The minimum tax on moist snuff containers is effective January 1, 2014.

Occupation Tax Allocation

Starting with 2013 production year, the allocation of occupation tax revenues is modified. The General Fund share is reduced by 2.5 cents per taxable ton of taconite and redirected to a mining environmental and regulatory account in the Special Revenue fund and annually appropriated to the Department of Natural Resources for staffing for ferrous and nonferrous mining operations. This provision is estimated to reduce General Fund revenue by $1.9 million and $2.0 million in the FY 2014-15 biennium and FY 2016-17 biennium respectively.

2013 Session - Omnibus Tax Bill - Chapter 143
Total General Fund All Other Tax Revenue
(all dollars in thousands)

	Chapter 143 Enacted FY 2014-15	% of Total	Chapter 143 Enacted FY 2016-17	% of Total
Forecast Base	2,524,420	84%	2,655,090	82%
Changes:				
Impose Gift Tax & Include Certain Gifts in Estate	41,400	1%	65,200	2%
Non Resident Property Held in a Pass Through Entity	12,800	0%	15,300	0%
Small Business & Farm Deduction Modifications	23,800	1%	47,200	1%
Increase Cigarette Tax, Cigarette Floor Tax, Non Settlement Fee (Includes Health Impact Fee Transfer to the General Fund)	345,013	11%	370,420	12%
Increase Tobacco Excise Tax Rate, Minimum Tax on Moist Snuff (Includes Health Impact Fee Transfer to the General Fund)	41,700	1%	47,700	1%
Impose Cigarette Tax on Little Cigars & Other Modifications	22,000	1%	22,500	1%
Premium Cigar Minimum Tax	-900	0%	-1,000	0%
Small Brewers Tax Credit Threshold Increase	-840	0%	-860	0%
Reduction in Distribution to the General Fund of the Occupation Tax	-1,950	0%	-2,070	0%
Net General Fund Total	**3,007,443**	**100%**	**3,219,480**	**100%**

Notes: (1) Positive revenue reflects revenue gain, negative revenue reflects revenue reduction.
(2) In the FY 2014-2015 biennium, -$376.4 million is transferred from the HIF to the General Fund and -$391.1 million in the FY 2016-17 biennium.
(3) In the FY 2014-2015 biennium, -$27.807 million is transferred out from the General Fund tax revenues to the Stadium Reserve account.

Non General Fund Tax Law Changes

Legacy Funds

Chapter 143 contained several sales tax provisions that have fiscal impact to both the General Fund and the Legacy Funds. The Legacy Funds are estimated to increase with the sales tax provisions in chapter 143 by $3.8 million and $5.2 million in the FY 2014-2015 biennium and FY 2016-17 biennium respectively.

Health Impact Fund (HIF)
Starting in FY 2014, the HIF is repealed for cigarette and tobacco taxes. [8] Under prior law by April 30 of each fiscal year, the commissioner of human services had to certify the state share of tobacco use attributable costs for the previous fiscal year in Minnesota health care programs. The commissioner of management and budget then transfers from the Health Impact Fund to the General Fund an amount sufficient to offset the General Fund cost of the certified expenditures or the balance of the funds. This repeal of this fund will result in an estimated revenue reduction of $376.4 million in the FY 2014-15 biennium and $391.1 million in the FY 2016-17 biennium to the Health Impact Fund (which eventually after certification results in a reduction in revenue to the General Fund).

Special Revenue Fund
For the FY 2014-15 biennium, revenue to the Special Revenue Fund is estimated to increase by $6.4 million and by $9.0 million in the FY 2016-17 biennium. Of the estimated $6.4 million available in the FY 2014-15 biennium, $3.9 million is attributed to the extension of the E911 fee and telephone access Minnesota fee (TAM) to prepaid wireless customers with the fees collected at retail sale and remitted by the sellers in the same general manner as sales taxes. In addition to the revenue from E911 and TAM fee extension, $2.0 million of additional revenue is generated from the re-direction of General Fund revenue to the Agricultural Utilization Project Account in the Special Revenue Fund for the Agricultural Utilization Research Institute.

State Airports Fund
For the FY 2014-15 biennium, revenue to the State Airports Fund is estimated to increase by $3.9 million and by $2.5 million in the FY 2016-17 biennium. Of the estimated $3.9 million available in the FY 2014-15 biennium, $4.8 million is generated from the re-direction of General Fund revenue from the sales tax on general aviation aircraft purchases to the State Airports Fund. In addition to the dedication of General Fund revenue from the sales tax on general aviation aircraft purchases, $1.9 million in additional revenue is from increasing the special fuels tax to 15 cents per gallon for general aviation aircraft. The revenue gain in the State Airports Funds from these two sources is offset by a revenue reduction of $3.8 million to the fund from a reduction in the aircraft registration tax from a one percent of value to a flat tax based on price.

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[8] This fee is replaced with an equivalent excise tax for cigarettes and tobacco.

Taxes, Local Aids and Credits

Changes in General Fund Expenditures

Chapter 143 of the 2013 Session made numerous changes to Minnesota law governing property taxes and local aids. As shown in Table 1, general fund appropriations for Property Tax Aids and Credits total $3.146 billion in FY 2014-15, an increase of $434.9 million or +16.0 percent above the February 2013 forecast base of $2.711 billion. In FY 2016-17, appropriations grow to $3.581 billion, reflecting an increase of $360.5 million or +11.5 percent above FY 2014-15 levels and significantly above (28.5 percent) the forecasted amount of $2.786 billion.

Table 1: Summary of 2013 Tax Act Expenditures
General Fund Expenditure Changes – Aids & Credits

Dollars in 000's	FY 2014	FY 2015	FY14-15	FY 2016	FY 2017	FY16-17
February Forecast 2013	$1,345,939	$1,364,912	**$2,710,851**	$1,381,624	$1,404,176	**$2,785,800**
Total Tax Expenditure Changes Chapter 143 Omnibus Taxes - General Fund	78,300	356,589	$434,889	390,738	404,607	795,345
Total General Fund Forecast Plus Tax Expenditure Changes			**3,145,740**			**3,581,145**
Total % Change, Forecast Plus Expenditures Changes			**16.04%**			**28.55%**

Table 2 compares actual and anticipated spending for the six-year period, FY 2012-2017. Biennial appropriations of $3.146 billion in FY 2014-2015 reflect a 12.58 percent increase above FY 2012-2013 spending levels of $2.794 billion. Then appropriations see another boost of 11.5 percent – to $3.581 billion – in FY 2016-2017.

A closer look at categories of spending—Tax Refunds, Local Aids, Property Tax Credits, Taconite Tax Relief, Local Pensions, Other Expenditures and Appropriations—reveals both enhanced and curtailed FY 2014-2015 appropriation levels when compared to actual FY 2012-2013 spending. However, when FY 2014-2015 appropriations are compared to forecasted, base-level funding for the biennium, not one program was cut or eliminated. (Note: The Homestead Market Value Credit, the Bovine TB Property Tax Credit and the Wetlands Reimbursement Credit were all eliminated in FY 2013.) In fact, by category, most FY 2014-2015 appropriations grew between three and 15 percent. The outlier category, Other Expenditures & Appropriations, reflects unusually high appropriations, 265 percent above FY 2014-2015 base-level funding. As provided for in the following detailed analysis, many items within this category are usually included in the bills of other finance committees.

Table 2: Chapter 143 - Tax Aids, Credits and Other Expenditures
Dollars in Thousands

	February 2013 Forecast		Appropriations	% Change	% Change	Tails
	Spending in FY 2012-13	Base Funding FY 2014-15	Chapter 143 FY 2014-15	FY 2012-13 vs. C 143, FY 14-15	Base FY 14-15 vs C 143, FY 14-15	Chapter 143 FY 2016-17
Tax Refunds	**1,053,714**	**1,129,190**	**1,257,020**	**19.29%**	**11.32%**	**1,455,560**
Homestead Credit Property Tax Refund	612,756	672,400	780,830	27.43%	16.13%	929,810
Renter Property Tax Refund	388,844	399,100	414,600	6.62%	3.88%	461,900
Targeting Property Tax Refund	5,477	8,250	8,250	50.63%	0.00%	8,360
Sustainable Forest (SFIA) Payments	6,590	7,440	11,340	72.08%	52.42%	12,490
Political Contribution Refund	0	12,000	12,000	-	0.00%	12,000
Tax Refund Interst	40,047	30,000	30,000	-25.09%	0.00%	31,000
Local Aids	**1,216,857**	**1,227,107**	**1,359,467**	**11.72%**	**10.79%**	**1,494,038**
Local Government Aid (LGA)	850,579	854,013	935,173	9.95%	9.50%	1,020,696
County Program Aid (CPA)	322,212	332,495	372,495	15.61%	12.03%	412,336
Township Aid			10,000			20,000
Disparity Reduction Aid	37,871	36,787	36,787	-2.86%	0.00%	36,796
Other Local Aids	6,195	3,812	5,012	-19.10%	31.48%	4,210
Property Tax Credits	**242,505**	**63,875**	**65,955**	**-72.80%**	**3.26%**	**70,574**
Homestead Market Value Credit	175,827	0	0	-100.00%	-	0
Agricultural Market Value Credit	47,729	45,465	45,465	-4.74%	0.00%	45,436
Border City Disparity Credit	13,291	13,980	16,060	20.83%	14.88%	18,262
Other Credits	5,658	4,430	4,430	-21.70%	0.00%	6,876
Taconite Tax Relief Area	**26,420**	**29,318**	**29,318**	**10.97%**	**0.00%**	**30,529**
Local Pension Aids	**200,454**	**207,913**	**238,913**	**19.19%**	**14.91%**	**248,589**
Other Expenditures & Appropriations	**54,166**	**53,448**	**195,067**	**260.13%**	**264.97%**	**276,825**
PILT Payments - DNR	51,489	51,927	61,427	19.30%	18.29%	64,832
Council on Results Chp 389	1,092	970	970	-11.17%	--	988
SS2 Flood Local Opt Abtmt (non school)	1,373	351	351	-74.44%	--	128
SS2 Flood Local Opt Abtmt (school)	212	200	200	-5.66%	--	72
Hennepin Cty Disaster Abmt Reimburse	-	-	336	--	--	0
Moose Lake Assmt Reimbrsmt			2,000			0
Minneapolis debt service aid			-			7,400
Bloomington Infrast Proj FD approp.			-			12,000
Education-related tax changes	-	-	121,753			191,405
Grtr MN Expansion Incentive Prog			2,000			2,000
Leg Office Bldg/renovate moving costs			4,860			2,340
Admin costs of tax bill - various depts			1,170			690
Totals	**2,794,116**	**2,710,851**	**3,145,740**	**12.58%**	**16.04%**	**3,581,145**

Analysis Detail (Chapter 143)

Note: The numbers in the following section show state general fund cost changes for the FY 2014-15 biennium (first column) and FY 2016-17 (second column). The number reflects change from the base-level funding in the February 2013 forecast.

	Appropriation Change	
	FY 2014-15	**FY 2016-17**
TAX REFUNDS		
Modify the Homeowner Property Tax Refund		
Homestead Credit Refund	**$ 85.6 mil**	**$ 179.3 mil**
Notification of Potential Eligibility	**$ 34.0 mil**	**$ 71.0 mil**
Total	**$119.6 mil**	**$ 250.3 mil**

Homeowners in Minnesota may claim a property tax refund when their net property taxes are high relative to their income. Claimants' household income (tax year 2012, filed in calendar 2013) may not exceed $103,730 for filers with no dependents, up to $126,530 for households with five or more dependents, or $130,330 for senior or disabled homeowners with five or more dependents. The property tax refund is calculated using income, a threshold of property taxes as a percentage of income, and copayment factors, up to a maximum refund amount.
Effective for taxes payable in 2014 and beyond, Chapter 143 makes several changes in the homeowner property tax refund (PTR) by changing its name to the Homestead Credit Refund, decreasing the income threshold percentage for homeowners with annual income over $19,500, and modifying the definition of income to exclude $5,500 in retirement contributions, but include all distributions from retirement plans. As shown in Table 3, projections for FY 2015, based on approximately 410,000 claimants in the current year, show that the average taxes payable 2014 refund for most claimants would increase by about $219 and that over 112,000 homeowners would become eligible to claim refunds. However, individual circumstances will vary with income, property taxes, family circumstances and location of residence.

Table 3: Homestead Credit Property Tax Refund

Chapter 143 Changes

Decrease threshold percentage, modify definition of income to exclude retirement contributions

	Pay 2012 / FY 2013		Chp 143 - Pay 2014 / FY 2015			
	Feb 2013 Forecast # Claimants	Current Average $ Refund	FY 2015 Projected # Claimants	# Claimants with Increased Refund	% Claimants with Increased Refund	Average Increase $ Refund
Gross Income Range						
$0 to $10,000	17,600	$1,327	17,600	100	0.6%	$38
$10,000 to $20,000	42,400	$1,082	42,400	1,800	4.2%	$36
$20,000 to $30,000	59,900	$996	61,100	41,100	68.6%	$42
$30,000 to $40,000	65,500	$863	70,300	66,000	100.8%	$100
$40,000 to $50,000	64,600	$781	71,100	68,100	105.4%	$163
$50,000 to $60,000	54,600	$738	66,100	63,200	115.8%	$228
$60,000 to $70,000	41,000	$673	57,800	55,100	134.4%	$288
$70,000 to $80,000	27,000	$611	46,700	44,000	163.0%	$343
$80,000 to $90,000	17,600	$585	38,200	35,700	202.8%	$371
$90,000 to $100,000	11,500	$539	28,700	26,500	230.4%	$329
Above $100,000	8,400	$443	22,300	19,900	236.9%	$285
Total	410,100	$830	522,300	421,500	102.8%	$219
Claimant Category						
Senior/ Disabled	165,500	$874	188,100	139,900	84.5%	$186
Other	244,600	$801	334,200	281,600	115.1%	$236
Total	410,100	$830	522,300	421,500	102.8%	$219

Chapter 143 also requires the Commissioner of Revenue, prior to September 1, 2014, to notify homeowners who are potentially eligible for a homestead credit refund of at least $1,000, but who

have failed to participate in the program. The Commissioner must estimate the refund using current data from income tax returns and homestead property tax information from county auditors. A report on this outreach effort and its program outcomes is due to the Legislature on March 15, 2015 and again on February 1, 2016. The Department of Revenue estimates that if one-half of the 200,000 homeowners who are potentially eligible for a refund file, then the state cost would be $34 million in FY 2015, $35 million in FY 2016 and $36 million in 2017.
The total fiscal impact of all these program changes and notification is a general fund cost of $119.6 million in FY 2015 and $250.3 million in the FY 2016-17 biennium.

Property Tax Interactions with Homeowner Property Tax Refund

Homestead Credit Refund ($ 11.2 mil) ($ 22.1 mil)

Chapter 143 contains various changes in law that will impact property taxes for both taxpayers and local governments, including property tax aids, education aids and levies, levy limits on counties and cities, sales tax exemptions on purchases for counties and cities, and debt service aids. Generally speaking, when local governments receive an increase in aids (or a cost reduction on expenditures), it is assumed that there is a reduction in property tax levies. Lower levies reduce a homeowner's property tax burden and thus lower state-paid homeowner property tax refunds. Fourteen changes in law - described in various sections of this analysis - will trigger property tax reductions totaling $11.2 million in FY 2015, $11.9 million in FY 2016 and $10.2 million in FY 2017.

Modify the Renter Property Tax Refund (Renter's Credit) $ 15.5 mil $ 33.6 mil

Current law allows a renter to receive a property tax refund when annual rent paid and property taxes are high relative to their income. Claimants' household income (tax year 2012, filed in calendar year 2013) may not exceed $56,220 for filers with no dependents, or up to $79,020 for households with five or more dependents. The amount of rent constituting property taxes is 17 percent, which is used to calculate a refund of up to $1,600.

Effective for tax year 2014 and beyond, Chapter 143 makes several changes in the renter property tax refund (PTR) by decreasing the income threshold percentage for renters with annual income over $30,000 to align with homeowner thresholds, increasing maximum refunds across all income ranges up to $2,000, and modifying the definition of income to exclude $5,500 in retirement contributions, but include all distributions from retirement plans. As shown in Table 4, projections for FY 2015, based on the more than 334,000 claimants in the current year, estimate about 79,300 current filers would see their refund increase by an average amount of $152. An unknown number of renters – likely around 10,000 – would become eligible for the refund. However, individual circumstances will vary as shown in Table 4 below:

Table 4: Renter Property Tax Refund

Chapter 143 Changes

Decrease income threshold percentage, increase maximum refund amount, and modify definition of income to exclude retirement contributions

	Pay 2012 / FY 2013		Chp 143 - Pay 2014 / FY 2015		
	Feb 2013 Forecast # Claimants	Current Average $ Refund	# Claimants with Increased Refund	% Claimants with Increased Refund	Average $ Refund Increase
Gross Income Range					
$0 to $10,000	62,400	$547	3,000	4.8%	$185
$10,000 to $20,000	109,100	$643	8,300	7.6%	$126
$20,000 to $30,000	81,800	$673	11,200	13.7%	$67
$30,000 to $40,000	51,000	$591	30,300	59.4%	$108
$40,000 to $50,000	21,700	$491	18,700	86.2%	$225
Above $50,000	8,300	$404	7,800	94.0%	$285
Total	334,300	$609	79,300	23.7%	$152
Claimant Category					
Senior/ Disabled	94,500	$660	17,500	18.5%	$145
Other	239,800	$588	61,800	25.8%	$154
Total	334,300	$609	79,300	23.7%	$152

The fiscal impact of this program change is a general fund cost of $15.5 million in FY 2015 and $33.6 million in the FY 2016-17 biennium.

Sustainable Forest Incentive Act (SFIA) Payments **$3.9 mil** **$ 3.9 mil**

Since 2001, private landowners and businesses that participate in the long-term Sustainable Forest land management program (SFIA) receive annual payments for their enrollment. The current per-acre payment rate is $7.00 per acre with a maximum of $100,000 per land owner.

Effective for tax aids payable in FY 2014, Chapter 143 makes a number of changes to SFIA: it removes the $100,000 payment limit per land owner, it excludes land of over 60,000 acres that is subject to a single conservation easement and any land that becomes subject to a conservation easement after May 30, 2013, it requires claimants with more than 1,920 acres in the program to allow motorized access on established and maintained roads and trails unless temporarily closed, and it allows participants to withdraw from the program if changes are made to the payment formula.

In calendar year 2012, over 769,000 acres were enrolled in SFIA. About one-fourth of these lands will be removed due to the easement provision. However about 175,000 acres that were removed from the program in 2012 by landowners (affected by the $100,000 maximum payment cap) will likely be re-enrolled. The estimated impact of removing the $100,000 payment cap and disallowing easement acreage is about $730,000, and the re-enrolling of acreage is $1.22 million for a total of $1.95 million per year beginning in FY 2014.

LOCAL AIDS

Local Government Aid (LGA) $ 81.16 mil $ 167.8 mil

Local Government Aid (LGA) provides general-purpose funding annually to 729 of Minnesota's 853 cities. LGA has been funded by a standing appropriation, distributed according to "need factors" – measured differently for small cities (627 of which have a population less than 2,500 residents) versus large cities (226 cities with populations of 2,500 or more) - minus the "ability to pay" measured by cities' tax base.

Chapter 143, prompted by recommendations from the Mayors Advisory Group for Local Government Aid, makes significant changes to LGA provisions. First, the methodology for determining city aid is updated to reflect three groups of cities, based on population. Factors for "city revenue need" will be calculated for large cities (those with more than 10,000 residents), for medium cities (those with between 2,500 and 10,000 residents), and for small cities (those with less than 2,500 residents). Second, the formula for distributing city aid is modified for CY 2014/FY 2015 to be a city's CY 2013 certified aid plus a percentage of its unmet need. For CY 2015/FY 16 and beyond, formula aid will consist of a city's aid from the previous year plus a percentage of its unmet need. Third, beginning in CY 2014/FY 2015, the LGA appropriation is permanently increased by $80 million with a modified growth adjustment in each CY 2015/FY 2016 and CY 2016/FY 2017. Fourth, there are three aid adjustments from the formula:

- The City of Warroad will continue to receive an additional $150,000 per year for the next five years to compensate for a commercial property devaluation,
- The City of Mahnomen will receive an additional $160,000 per year to compensate for the loss in tax base due to a tribal casino, and
- The City of Red Wing will receive an additional $1,000,000 in CY 2014.

The aid adjustments for Mahnomen and Red Wing were added to the LGA total to avoid reductions in LGA payments to other cities. Finally, cities located in an area with a declared disaster event during April 2013 (severe winter ice storm) are eligible to receive their entire 2013 LGA payment on July 20, 2013. Thirty-eight cities in five counties in southwest Minnesota will receive this early payment, a total of $5.7 million. For all of these changes, the total impact (without property tax interactions) is $81.16 million in FY 2015, $82.66 million in FY 2016 and $85.16 million in FY 2017.

Table 5 (below) shows an extension of the enhanced LGA payment levels from CY 2013 into CY 2014 by city cluster within the Metro and Non-Metro regions. Note that in CY 2014/FY 2015, $171.6 million or 34 percent of LGA payments will be made to cities in the Metro while $334.8 million or 66 percent of LGA payments will be made to cities in Greater Minnesota.

Table 5: Local Government Aid (LGA)
Certified CY 2013, Forecasted CY 2014, and Chapter 143 CY 2014
by Region and City Cluster

	LGA 2013 Certified CY 13 / FY 14	LGA 2014 Forecasted CY 14 / FY 15	LGA 2014 Chp 143 CY 14 / FY 15	% State Total
Metro				
Center Cities	114,462,756	113,862,756	136,489,233	27%
Established Cities	5,471,054	7,058,865	10,719,231	
Large Cities	0	1,937,323	2,905,560	
Fast Growing Suburbs	844,921	1,343,732	2,102,666	
Growing High Income	876,453	2,213,087	3,254,456	
High Income Suburbs	0	0	10,454	
Small Residential	11,412,080	11,479,812	16,147,948	
Metro Region total	**133,067,264**	**137,895,575**	**171,629,548**	34%
Greater MN				
Major Cities	42,620,436	41,720,435	47,689,093	
Regional Centers	83,373,659	80,399,553	90,694,529	18%
Sub-Regional Centers	10,280,487	9,786,814	12,067,320	
Urban Fringe	3,966,822	6,750,628	7,502,229	
High Growth	4,849,076	4,767,357	6,162,984	
Residential Comm.	36,603,558	35,452,562	43,328,781	
Rural	99,293,487	96,657,765	112,559,564	22%
Cities < 500 ppl	13,439,852	13,004,323	14,803,965	
Greater MN Region total	**294,427,376**	**288,539,437**	**334,808,464**	66%
State Total	**$427,494,640**	**$426,435,012**	**$506,438,012**	100%
Change $ 2014 Forecast	→	→	**$80,003,000**	

Note: The new LGA formula distributes new money based on the gap between a city's unmet need and its aid in the previous year. Year-to-year volatility is also limited - see narrative for detail.

Source: LGA run HF677A1LGA, House Research, April 15, 2013

County Program Aid **$ 40.0 mil** **$ 80.0 mil**

County Program Aid (CPA) provides general purpose aid to Minnesota's 87 counties to reduce property tax levies, based on the needs of the populations they serve relative to the size of their tax bases. County Program Aid (CPA) is distributed through two formulas—the need aid formula and the tax base equalization formula—which are roughly equal in size.

Beginning in FY 2015, Chapter 143 permanently increases the appropriation for CPA by $40 million, shared equally between the need aid formula and the tax base equalization formula. Table 6 shows total FY 2015 CPA funding will reach $205.6 million, with $108.1 million (or 52.6 percent) going to counties in greater Minnesota and $97.5 million (or 47.4 percent) going to metropolitan counties.

Table 6: County Program Aid (LGA)
Certified CY 2013, Estimated CY 2014, and Chapter 143 CY 2014
by Region

	Certified 2013 CY 13 / FY 14	Estimated 2014 CY 14 / FY 15	Chp 143 CY 14 / FY 15	% Chg vs CY 13	% State Total
Metro[1] Counties	76,964,562	78,435,861	97,486,393	26.7%	47.4%
Greater MN Counties	88,605,300	87,134,005	108,083,467	22.0%	52.6%
State Total	**$165,569,862**	**$165,569,866**	**$205,569,860**	**24.2%**	**100.0%**
Change $ 2014 Forecast		→	**$39,999,994**		

[1] *Metro counties are Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington.*

Township Aid **$ 10.0 mil** **$ 20.0 mil**

Chapter 143 creates a general purpose aid for Minnesota's 1,785 towns that uses a formula for distribution based on agricultural property, township acreage and population. Beginning in CY 2014/FY 2015, the appropriation for Town Aid is $10 million per year.

Mahnomen Aid **$ 1.2 mil** **$ 1.2 mil**

Mahnomen Aid was created in 2006 to assist local governments in Mahnomen County with a loss in tax base due to the removal of a tribal casino from the tax rolls. Currently, the annual $600,000 payment is distributed as follows: $450,000 is for Mahnomen County, $80,000 for the City of Mahnomen, and $70,000 for Mahnomen Independent School District No. 432.

Beginning in CY 2013/FY 2014, Chapter 143 doubles the appropriation for Mahnomen Aid with an additional $600,000 per year, retaining current distribution proportions.

Minneapolis Debt Service Aid **$ 0** **$ 7.4 mil**

On or before November 1, 2016, Chapter 143 requires the Department of Revenue to pay to the City of Minneapolis an amount equal to 40 percent of the annual levy for the city's library referendum bonds for the following calendar year. The levy excludes any amount to pay bonds, other than refunding bonds, issued after May 1, 2013. An amount sufficient to pay the aid, approximately $3.7 million in each FY 2016 and FY 2017, is appropriated.

PROPERTY TAX CREDITS

Border City Disparity Reduction Credit **$ 2.1 mil** **$ 4.3 mil**

The Border City Disparity Reduction Credit provides reimbursements to cities for property tax credits issued to qualified commercial/industrial properties located in an enterprise zone of one of five designated border cities: Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville. In CY 2012/FY 2013, the credit reduced property taxes to 2.3 percent of the qualified property's market value, creating reimbursements totaling just over $7 million for the year.

For CY 2014/FY 2015 and beyond, Chapter 143 expands the credit by reducing the effective tax rate threshold from 2.3 percent to 1.9 percent. Reimbursements to cities are estimated to increase by $2.1 million annually.

Agricultural Market Value Credit **negligible** **negligible**

Chapter 143 makes permanent a special agricultural homestead provision for certain agricultural property owners in Marshall County that suffered property damage from flooding in 2009. With only a few property owners who continue to qualify, this provision will have a negligible impact.

Payments in Lieu of Taxes (PILT) **$ 9.4 mil** **$ 9.4 mil**

In an effort to support preservation of natural resources lands, counties receive payments for lost revenues attributable to the removal of tax-generating properties from their property tax inventories. These payments in-lieu of tax (PILT) payments, depending on eligible land type, are calculated using a per-acre rate, a percentage of the appraised land value or a portion of the gross receipts generated by the land.

On December 1, 2012, the PILT Advisory Group presented to the Legislature the 2012 PILT Report with findings and recommendations for improving PILT in Minnesota. Chapter 143, which includes some of the Advisory Group's recommendations, makes the following changes to the PILT law, effective for CY 2013/FY2014: 1) It reorganizes certain sections of PILT so that all provisions are administered by the Department of Revenue, 2) It increases the per acre payment rates for certain land types, thus simplifying the overall PILT rate structure (see Table 7), 3) It clarifies and streamlines the acquired land valuation process , and 4) It revises the distribution of state aid within the counties to provide a payment to townships equal to ten percent of the amount received by the county for acquired lands.

Table 7: Payment in Lieu of Taxes (PILT)
CY 2013/FY 2014 Payment Rates - February 2013 Forecast and Chapter 143

	Feb 13 Fcst		Chapter 143	
Land Type	$ per acre	3/4 of 1% MV	$ per acre	3/4 of 1% MV
Acquired lands	5.133	Yes	5.133	Yes
Transportation wetland (DOT-POLK)	5.133	Yes	5.133	Yes
County administration	1.283	-	***1.500***	-
Land Utilization Project (LUP)	1.283	-	***5.133***	-
DNR administration	0.642	-	***1.500***	-
Wildlife management land*	NA	Yes	NA	Yes
Military refuge land*	2.567	-	2.567	-
Local drainage assessments- New provision $300,000 regardless of acreage	-	-	-	-

**MS 97A.061 is repealed and moved to 477A (Dept of Revenue) with all other PILT provisions .*

Source: Dept of Revenue, modified by House Fiscal for Chapter 143 enactment.

For FY 2014 and beyond, the total cost of these changes is $4.75 million per year.

LOCAL PENSION AIDS

Police and Firefighter Retirement Aids **$ 31.0 mil** **$ 31.0 mil**

After six years of formula driven decline in police and fire state aids, a coalition of police and fire groups, working with various stakeholders, sought assistance to remedy a deficiency problem in the Public Employee Retirement Association (PERA) Fund and the Volunteer Firefighter Relief Association account. Chapter 143 provides supplemental state aid to certain police and fire pension accounts administered by the Department of Revenue. Beginning in calendar year 2013 (FY 2014), a supplemental annual appropriation of $15.5 million will be allocated as follows: $9.0 million to PERA Amortization Aid, $5.5 million to municipalities with a public employee and fire plan, and $1.0 million to the State Patrol Retirement Fund. (See Table 8.) By September 1 of each year, the Public Employees Retirement Association is to provide to the Department of Revenue information necessary to administer the state aid program, including making payments by October 1. The aid program will end when assets equal 90 percent of the accrued liabilities of each the State Patrol or the public employees police and fire retirement plans, whichever occurs last.

Table 8 : Supplemental Police and Firefighter Retirement Pension Aid
CY 2013/FY 2014 Payment Rates - Chapter 143

Retirement Program	Chapter 143	
	Allocation %	$ in Thousands
Public Employees Retirement Association (PERA) Amortization Aid	58.065	$9,000
Municipal Volunteer Firefighters	35.484	5,500
Minnesota State Retirement System (MSRS) State Patrol Retirement Fund	6.452	1,000
Total	100.001	$15,500

PROPERTY TAX CHANGES

Modifying the definition of market value/taxable market value $ 270,000 $ 540,000

When the 2011 Legislature converted the homestead market value credit to a homestead market value exclusion, supporting changes in related property tax provisions were not included. Article 14 of Chapter 143 makes changes to numerous property tax laws to clarify levy limit and other computations used by special taxing districts, e.g. economic development, watershed, port authority, regional railroad, and park museum districts.

These changes are expected to increase the levy authority for special taxing districts currently at their maximum legal levy. Beginning in FY 2015, higher property taxes would increase property tax refunds annually by $270,000.

City of St. Paul minor league ballpark property tax exemption $ -0- $ 110,000

The City of St. Paul is preparing for a new, $54 million ballpark in Lowertown for the St. Paul Saints, to be opened in the spring of 2015. Chapter 143 grants an exemption from property taxes (real or personal) to the City of St. Paul for a city-owned ball park and related parking facilities that is primarily used by a minor league team. The ball park remains subject to special assessments, and non-related residential, business or commercial uses are not exempt. The exemption also requires local approval. The exemption of this property is anticipated to impact the city's tax base and levy, and thus increase state-paid property tax refunds by $110,000 in FY 2017.

City of Minneapolis entertainment facility property tax exemption $ 160,000 $ 520,000

The Target Center is located in a downtown Minneapolis tax increment financing (TIF) district that is scheduled to decertify in 2014. Chapter 143 grants an exemption from property taxes (real or personal) to the City of Minneapolis for a city-owned arena with related administration and parking facilities that are primarily used by a professional basketball team. The arena and related facilities remain subject to special assessments, and non-related residential, business or commercial uses, including a restaurant open more than 200 days per year, are not exempt. The exemption also requires local approval.

The Target Center currently has a market value of $31 million, which will likely double to $62 million when renovations are finished. The exemption of this property is anticipated to impact the city's tax base and levy, and thus increase state-paid property tax refunds by $160,000 in FY 2015, $170,000 in FY 2016 and $350,000 in FY 2017.

City of Bloomington Mall of America TIFs $ 670,000 $ 1.4 mil

Chapter 143 changes several tax increment financing (TIF) provisions for the City of Bloomington. First, it allows the city and its port authority to transfer several parcels between Mall of America (MOA) TIF districts, resulting in a three-year extension in collecting increment from the parcels. Second, it allows the city to extend MOA TIF districts through 2034; however if improvements do not reach $100 million by January 1, 2021, then the provision will expire for taxes payable in 2024. Third, it provides a special fiscal disparities calculation that allows the city to retain its contribution levy through the extension period. These provisions require local approval by only the city and will not be effective unless the city enters into a binding agreement to rehabilitate or replace the Old Cedar Avenue Bridge. The changes in fiscal disparities provisions would lower the metro distribution levy by an estimated $9 million in 2014 and trigger levy increases for metro area taxpayers. Property tax refunds are estimated to increase by $670,000 in FY 2015, $700,000 in FY 2016 and by $740,000 in FY 2017.

Levy Limits ($ 1.1 mil) ($ 3.1 mil)

Chapter 143 establishes a one-year levy limit for taxes payable in 2014 for all counties with a population of over 5,000 residents and for cities with a population over 2,500 residents. The levy limit base is the certified levy plus county program aid (CPA) or local government aid (LGA) for taxes payable in 2012 or 2013, whichever is greater, increased by 3 percent. The levy limit is the levy limit base minus the certified CPA or LGA for 2014. The levy limit may not be less than the certified levy for taxes payable in 2012 or 2013, whichever is greater.

For taxes payable in 2014/ FY 2015, levy limits will reduce property tax levies on all property types, including homesteads. Property tax refunds are estimated to decrease by $1.1 million in FY 2015, $1.4 million in FY 2016 and $1.7 million in FY 2017.

Board of Water and Soil Resources (BWSR) levy authority $ -0- $ -0-

Chapter 143 expands the tax levy authority of a county, city or township to levy for implementation funds for a comprehensive watershed management plan. The law, among other things, also authorizes the use of county conservation fees as match for base grants awarded by BWSR and eliminates BWSR cost-share fund allocation requirements. While these changes will greatly facilitate a local government's ability to access BWSR grants, no impact on state funds is anticipated.

Personal property of electric generation facility exemption $ -0- unknown
Chapter 143 provides a property tax exemption for the attached machinery of an electric generation facility proposed to be built in the Cities of Anoka, Chaska, North St. Paul and Shakopee. The facilities shall be designed to utilize natural gas as a primary fuel and, among other things, is to have received approval of the governing body of the city and county for the exemption of personal property covered by this law change. Construction must begin after June 1, 2013, and before June 1, 2017.

Manufactured home as inventory of "limited" dealer unknown unknown

Chapter 143 expands the definition of licensed or limited dealer inventory for qualifying manufactured homes, resulting in an exemption from personal property taxes for up to five years. A manufactured home is considered dealer inventory if it is listed as inventory of a licensed or limited dealer, is unoccupied and is not available for rent: utility connection (whether temporary or permanent) is irrelevant when these conditions apply. An unknown number of real and personal property manufactured homes would become exempt, and thus reduce the tax base. Property taxes would increase, including homesteads. Property tax refunds would increase by an unknown amount.

Exemption for Indian tribal-owned nonprofit property negligible negligible

Chapter 143 creates a property tax exemption for certain property located in Minneapolis, owned by a federally recognized Indian tribe and used for tribal government activities and services. Up to two contiguous parcels may qualify for the exemption until pay 2024, so long as the property is used for noncommercial and nonresidential purposes.

Class 4d property (low-income housing) valuation limit unknown unknown

Currently, all class 4d property (low-income housing) is subject to class rate of 0.75 percent. Beginning with taxes assessed in 2014 and payable in 2015, Chapter 143 creates a new tier structure by providing a class rate of 0.25 percent for 4d property over $100,000 per unit and indexes the tier bracket based on the statewide average growth rate for apartment property values. The fiscal impact of this provision is unknown.

Property tax valuation criteria for conservation easements unknown unknown

Currently a county assessor may reduce the value of certain real property that is subject to a conservation restriction or easement. Beginning with taxes assessed in 2014 and payable in 2015, Chapter 143 prohibits this kind of value adjustment so long as the property is being used in accordance with the conservation restriction. Real property with easements for riparian buffers used for water quantity or easements granted by a county that has adopted a program to protect certain farmland and natural areas is not included in this provision. The fiscal impact of this provision is unknown.

Increase holding period for property held for economic development – **$ -0-** **unknown**

Currently, the holding period for property held by a governmental unit for economic development purposes (to be exempt from property taxes) is 9 years, or if the property is in a city of less than 5,000 residents located in a non-metro county, 15 years. Chapter 143 extends the holding period for most political subdivisions, including metro counties, from nine years to fifteen years. The number of additional properties to become exempt is unknown, making the fiscal impact of this change unknown.

City of Bloomington Infrastructure Projects fiscal disparities payment **$ -0-** **$ 12.0 mil**

For property taxes payable in 2015 through 2018, Chapter 143 forgives the balance of a loan made to the City of Bloomington from the fiscal disparities pool from 1988 to 1999, as part of the original Mall of America project. Instead, for the remaining four years, the Department of Revenue will pay the city's share of the obligation into the metropolitan fiscal disparities contribution pool. An amount of $6 million in each FY 2016 and FY 2017 is appropriated for this purpose.

Hennepin County Disaster Abatement Reimbursement **$ 336,000** **$ -0-**

Chapter 143 requires the Department of Revenue to reimburse taxing jurisdictions in Hennepin County for property tax abatements granted to homes that sustained a loss in value due to the May 22, 2011 tornadoes. Reimbursements must be certified by the Hennepin County Auditor. A total of $336,000 in FY 2014 is appropriated for this purpose.

Sales Tax Exemption for Cities and Counties **($ 3.6 mil)** **($ 7.5 mil)**

Beginning on January 1, 2014, Chapter 143 adds counties and cities to the list of purchasers exempt from the sales tax on qualifying purchases. This exemption does not extend to goods and services used as inputs generally provided by a private business, e.g. utilities, liquor stores, golf courses, marinas, health and fitness centers. In FY 2015, the estimated cost savings to cities is $76.5 million, and for counties, $51.7 million.

The reduction in sales tax paid by counties and cities is assumed to reduce property tax levies for a portion of the savings for all properties, including homesteads. Homeowner property tax refunds are estimated to decrease by $3.6 million in FY 2015, $3.7 million in FY 2016 and $3.8 million in FY 2017. *Note: For the sales tax impact and the corresponding income tax interaction of this provision, please see the State Tax Revenues Summary*.

PUBLIC FINANCE

Metro area transit/paratransit bonds **$ -0-** **$ 610,000**

Chapter 143 gives the Metropolitan Council authority to issue up to $35.8 million ($10.4 million in FY 2015 and the remainder in future years) in transit bonds or other obligations to pay for regional transit capital expenditures and related costs as prescribed in the current version of the 2030 Plan. This authority is in addition to any authority previously granted and is limited to the seven-county metropolitan area. Proceeds of these bonds will be used to purchase buses, as well as finance transit facilities.
Any bond principle and interest issued under this provision would be paid by increasing property tax levies in the seven-county metro area. Additional debt service levies would increase homeowner taxes payable in 2016. Property tax refunds are estimated to increase by $610,000 in FY 2017.

MINERALS

Taconite Production Tax Modifications – various
Taconite Payments to School Districts Modification **$ 1.1 mil** **$ 70,000**

Chapter 143 makes numerous modifications to the taconite production tax. First, it fixes the school share of the taconite production tax used for property tax relief to 95 percent of the total and directs the other 5 percent to cities and townships within that school district. Second, it requires taconite businesses to match dollar-for-dollar any fund received from the Taconite Economic Development Fund. Third, it increases the taconite production tax by 5 cents per ton, to $2.56 per ton, effective for production year 2013 (FY 2014). Fourth, it increases the production tax distribution to all school districts in the taconite area by nine cents per ton and provides for a supplemental distribution. Fifth, it reduces the production tax distribution to the fund that pays for the taconite homestead credit by nine cents per ton, thus offsetting the increased amounts to the schools. Sixth, it makes the 0.2 cents per ton distribution to the City of Eveleth for the Hockey Hall of Fame a permanent distribution. Seventh, it resets the escalator that applies to the rate of distribution to the taconite tax relief fund to 2015. Eighth, it modifies the one-time distributions of taconite production tax revenues passed in HF 729 to reduce the distribution to the City of Tower by five cents per ton and to provide an additional distribution of 5 cents per ton to the City of Grand Rapids for an economic development project.

When applied to an estimated taxable tonnage of over 39 million tons of taconite for production year 2013, the value of these changes will range from $78,096 to $3.9 million in local distributions. See Table 9 for details.

Of all these modifications, setting the school share at 95 percent of the taconite production tax is the only provision that triggers a state general fund cost. The gradual reduction in school district taconite receipts coupled with an increase in school district levy limits results in additional state general education aid to fill the gap. The increase in education aid totals $737,000 FY 2014, $327,000 in FY 15 and $70,000 in FY 16.

Table 9 : Taconite Production Tax Changes

2013 Production Year Estimated taxable tonnage: 39,048,000 tons

2012 Production Year Estimated taxable tonnage: 30,384,492 tons

	Chapter 143		
	Rate Change cents/ton	2013 Taxable tonnage	2013 Value of Change
Taconite Production Tax	$0.05	39,048,000	$1,952,400
Taconite Production Tax - school dist	$0.09	39,048,000	$3,514,320
Taconite Homestead Credit	-$0.09	39,048,000	($3,514,320)
School bonds	$0.10	39,048,000	$3,904,800
Additional School referendum aid	$0.08	39,048,000	$3,123,840
City of Eveleth - Hockey Hall of Fame	$0.002	39,048,000	$78,096
City of Tower	-$0.05	39,048,000	($1,952,400)
City of Grand Rapids - economic dev	$0.05	39,048,000	$1,952,400

IRRB Bonds Authorized

Chapter 143 authorizes the Iron Range Resources and Rehabilitation commissioner to issue bonds to make grants to school districts in the taconite tax relief areas for capital projects. Effective for distribution year 2014, the bonds would be paid by production tax distributions equal to ten cents per ton (or about $3.9 million), and would qualify for the credit enhancement program that applies to bonds directly issued by school districts.

Iron Range Fiscal Disparities Study – see Other Studies and Reports (below)

OTHER APPROPRIATIONS

Chapter 143 makes the following appropriations:

Moose Lake Assessment Reimbursement **$ 2.0 mil** **$ -0-**

Appropriates $2.0 million in FY 2014 to the Commissioner of Revenue for a grant to the City Moose Lake to reimburse costs related to the connection of state facilities to a sewer line.

Greater Minnesota Expansion Incentive Program **$ 2.0 mil** **$ 2.0 mil**

Appropriates $1 million per year to the Commissioner of Revenue to pay for refunds claimed by employers participating in the Greater Minnesota internship credit program.

Legislative Office Building **$ 3.0 mil** **$ -0-**

Appropriates $3.0 million in FY 2014 to the Commissioner of Administration for the pre-design and design phases of a new legislative office facility for senators and senate staff who do not have offices in the Capitol. The building will be located on the block north of the Capitol building. This appropriation is available for expenditure through June 30, 2015. In addition, the Commissioner of Management and Budget may issue lease revenue bonds or certificates of participation associated with a lease-purchase agreement of up to 25 years.

Capitol Renovations Moving Costs **$ 1.9 mil** **$ 2.3 mil**

Appropriates $1.84 million in FY 2014 to the Commissioner of Administration for rent loss and related expenses related to the Capitol renovation project and makes the appropriation available for expenditure through June 30, 2015. The base for the appropriation is $1.38 million in FY 2016, $960,000 in FY 2017 and zero thereafter

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DOR Reports and Studies

Tobacco Study **$ 100,000** **$ -0-**

In an effort to improve compliance with all tobacco tax programs, Chapter 143 requires the Commissioner of Revenue to study the tobacco tax collection system and to make recommendations to institute and implement a new system. The report is due to the legislature by February 15, 2014. A one-time appropriation of $100,000 in FY 2014 is provided for this purpose.

Target - Excel Center Coordination Study **$ 50,000** **$ -0-**

Requires the Cities of Minneapolis and St. Paul to study and report to the Legislature by February 1, 2014, on establishing a joint governing structure to be responsible for the joint administration, financing and operation of each city's arena facilities. The Commissioner of Administration will contract with a consultant to conduct the study, with study costs shared as follows: up to 50 percent will be paid by the state, and 50 percent shared equally by each city. A one-time appropriation of $50,000 in FY 2014 is provided for this purpose.

Agency Appropriations for Tax Bill related costs

Department of Revenue	**$ 950,000**	**$ 600,000**
Employment and Economic Development	**$ 50,000**	**$ 50,000**
Office of Higher Education	**$ 20,000**	**$ 40,000**

Makes various appropriations to state agencies to administer Chapter 143's tax related changes in law. Of the $950,000 to the commissioner of revenue, $350,000 is a one-time appropriation and $300,000 per year is added to the agency's base budget, mostly for gift and estate tax administrative changes. An appropriation of $25,000 per year to the Department of Employment and Economic Development (DEED) is for administration of the Destination Medical Center article. (See Other Noteworthy Provisions) And beginning in FY 2015, an appropriation of $20,000 per year (one percent of total annual, authorized credits) to the Office of Higher Education is for administration of the Greater Minnesota

Internship Program, in coordination with public and private nonprofit institutions, which provides tax credits to employers who hire interns.

EDUCATION AIDS AND LEVIES

Education Advancement provisions **\$ 89.6 mil** **\$ 149.2 mil**

Chapter 143 creates a third tier of operating referendum equalization for school districts and sets new allowance levels for each tier as follows:

First tier:	Lesser of the district's referendum allowance or \$300
Second tier:	Lesser of the district's referendum allowance or \$760
Third tier:	Lesser of the district's referendum allowance or 25 percent of the formula allowance, minus the sum of the district's first and second tier referendum equalization allowances.

Also included is a provision allowing the first tier of up to \$300 per pupil unit for all districts to be board-approved rather than voter-approved.

For FY 2015 and beyond, school districts' existing referendum revenues are reduced by \$300 per adjusted pupil unit (APU), providing that referendum revenue is greater than zero. This referendum reduction is offset by the new education enhancement revenue equal to \$300 APU. School districts with less than \$300 APU of referendum authority would gain revenue because education advancement receipts would be greater than the amount lost from referendum receipts.

The levy portion of education enhancement revenue would be significantly lower than the levy portion of referendum revenue, creating an overall decrease in levy and an increase in state equalization aid to school districts. The fiscal impact of these provisions are as follows: operating referendum equalization aid would increase by \$60.5 million in FY 2014-15 and \$157.0 million in the FY 2016-17 biennium, and the related property tax recognition shift would increase by \$29.2 million in FY 2014-15 and then decrease by \$7.8 million in the FY 2016-17 biennium. See Table 10 for details.

Location Equity provisions **\$ 31.0 mil** **\$ 42.1 mil**

Originating from a recommendation by the Commissioner's Education Finance Working Group, Chapter 143 establishes a new general education revenue category called location equity revenue. The Working Group noted a deficiency in the education funding formula to recognize the significantly higher cost of personnel faced by metropolitan and regional center school districts, and as a remedy, these school districts have funded the higher costs through voter approved operating referenda. Financing such a fundamental cost of operating a school district through voter-approved referenda was viewed as inequitable.

The new provision sets the location equity revenue amount equal to \$424 per adjusted pupil unit for any district located wholly or partially in the metropolitan area and \$212 per adjusted pupil

Table 10: 2013 Tax bill - Education-Related Changes

	Chapter 143 ($000's)					
	FY 14	FY 15	FY 14-15	FY 16	FY 17	FY 16-17
Education Advancement	**34,750**	**54,891**	**89,641**	**70,952**	**78,242**	**149,194**
Operating referendum equalization aid	0	60,480	60,480	74,840	82,130	156,970
Property tax recognition shift - Operating referendum equalization	34,750	(5,589)	29,161	(3,888)	(3,888)	(7,776)
Location Equity	**10,692**	**20,356**	**31,048**	**21,961**	**20,180**	**42,141**
Location Equity aid	0	20,306	20,306	22,686	20,616	43,302
Property tax recognition shift - Location Equity	10,692	50	10,742	(725)	(436)	(1,161)
Taconite Payment modification	**737**	**327**	**1,064**	**70**	**0**	**70**
Total Education Tax Changes	**$46,179**	**$75,574**	**$121,753**	**$92,983**	**$98,422**	**$191,405**

Note: To clarify the simultaneous implementation of both the Education Advancement and Location Equity provisions, on June 13, 2013, the Department of Education issued a memo to advise school districts on the computation of referendum authority for use in determining property tax levies payable in 2014. The Department will subtract the location equity allowance off of the referendum allowance before determining a district's eligibility for a board-approved increase in referendum authority.

unit for any other district that serves at least 2,000 students. It distributes the revenue through an equalized aid and levy using an equalizing factor of $510,000. The levy is spread on referendum market value. School districts may opt out of this program, but the decision must be made annually.

The fiscal impact of these provisions are as follows: location equity aid would increase by $20.3 million in FY 2014-15 and $43.3 million in the FY 2016-17 biennium, and the related property tax recognition shift would increase by $10.7 million in FY 2014-15 and then decrease by $1.2 million in the FY 2016-17 biennium. See Table 10 for details.

Achievement and Integration Revenue

Chapter 143 provides levy authority for achievement and integration (AIM) revenue, with the purpose of creating and sustaining opportunities for students to achieve improved education outcomes and thus, narrow the academic achievement gap. Derived from recommendations made by the Integration Revenue Replacement Task Force, the law also includes significant program changes. This levy is expected to total $28.3 million in the 2014-15 school year.

Taconite Payments to School Districts Modification – See Minerals section for detail.

OTHER STUDIES AND REPORTS (in addition to those listed under Other Appropriations)

Report on Class 4d (low-income housing) tier structure
Chapter 143 requires the Commissioner of Revenue and housing finance to report to the legislature by January 31, 2015, on the implementation and effect of the tier structure changes to class 4, low-income housing. (See Class 4d property valuation limit.)

Study and Report on Production Property
Chapter 143 requires the Commissioner of Revenue to study the assessment of property used in the production of biofuels and other industries using similar equipment (e.g. winery, brewery, distillery or dairy production) and to report findings to the legislature by February 1, 2014.

Property Tax Savings Report
Chapter 143 requires each county and each city with a population of over 500 residents to 1) include with the certification of its proposed levy the amount of sales and use tax paid in 2012, 2) include within the TNT notice a list of sales and use taxes certified by the county and cities, and 3) discuss at the TNT public hearing the savings associated with the local government sales tax exemption included in Chapter 143.

Iron Range Fiscal Disparities Study
Chapter 143 requires the Commissioner of Revenue to study the iron range tax relief area revenue distribution program (fiscal disparities) and to report findings to the legislature by February 1, 2014.

Homestead Credit Property Tax Refund Notification of Potential Eligibility – See Tax Refunds

OTHER NOTEWORTHY PROVISIONS

Mortgage Registry and Deed Transfer tax authorization extension

Chapter 143 extends the authority for Hennepin and Ramsey Counties to levy additional mortgage registry and deed transfer taxes for an additional 15 years, until 2028. The rates will be the same as the rates prior to expiration of this authority on January 1, 2013. Effective for all deeds and mortgages acknowledged on or after July 1, 2013, the revenue from these two taxes will be deposited into the counties' environmental response funds. There is no state impact from these provisions.

Destination Medical Center

Chapter 143 includes provisions for the financing of public infrastructure for the Destination Medical Center (DMC). The DMC is a nonprofit corporation created by the City of Rochester to help coordinate public infrastructure improvements with the Mayo Clinic's expansion plans. Chapter 143 authorizes the issuance of bonds without referendum to implement the development of the DMC to the City of Rochester. The city may pledge the financing tools authorized in chapter

143 to pay these bond obligations. Major financing tools include but are not limited to the following:

- City tax authority is provided to fund the city's share of public infrastructure for the DMC development plan. By ordinance, the city may impose a local lodging tax, food and beverage tax and admission/entertainment tax. The city may also choose to extend its existing local sales tax or increase its general local sales tax rate by up to an additional 0.25 percent. If imposed, these taxes are scheduled to sunset in law by December 31, 2049 or when sufficient funds are raised to meet the city's financial obligations for these projects.

- County (Olmsted) tax authority is provided to pay a portion of the transit infrastructure costs related to the DMC development plan. By resolution, up to a 0.25 percent general sales tax and/or up to a $10 per vehicle wheelage tax is authorized in chapter 143. If imposed, these taxes are also scheduled to sunset in law by December 31, 2049.

- State infrastructure aid is provided to fund infrastructure projects in the DMC development plan. This aid is triggered after $200 million in qualified expenditures by a medical business entity or by an individual or private entity on construction projects for the capital costs of the project. The amount of aid per year is equal to the sum of qualified expenditures in the prior year (after the $200 million threshold has been exceeded) times 2.75 percent. Any state aid paid to the city cannot exceed $30 million in any year and the total amount of aid cannot exceed the amount necessary to pay for the project which estimated to be $327 million with financing costs. To qualify for this aid, the city must make a qualifying local contribution to pay for the $128 million of the cost of public infrastructure projects the local city taxes authorized for this project. Based on the assumptions provided by the medical business entity, local matching requirements will be achieved by calendar year 2016 but the first payment by the state to the city is expected to occur by fiscal year 2018 (which is currently outside the forecast window) from an open and standing appropriation from the General Fund. The FY 2018 state aid payment is estimated to be $2.0 million and $6.0 million in FY 2019.

- State transit aid is also provided and is equal to the sum of qualified expenditures multiplied by 0.75 percent, reduced by the amount of the local contribution. The local contribution is the lesser of: (1) 40 percent of state transit aid; or (2) the amount that would be raised by a 0.15 sales tax imposed in the preceding year. The maximum amount of transit aid is limited to $7.5 million per year and the combined transit aid and revenues from the local match is limited to the amount of $116 million in transit costs. Based on current data, the transit aid payment is estimated to be $570,000 in FY 2018 and $1.6 million in FY 2019.

For additional information on property aids and credits, motor vehicle taxes and other taxes, contact Katherine Schill at 651-296-5384 or katherine.schill@house.mn .

Appendix 1 - Changes in Fees, Surcharges, and County Share Payments - 2013 Conference Bills

	FY 14	FY 15	FY 14-15	FY 16	FY 17	FY 16-17		
Education								
No fee changes								
Higher Education								
No fee changes								
Taxes								
Fee on Prepaid Wireless Telecommunications Services - 911	710	2,980	3,690	3,030	3,090	6,120	SR	Fee
Fee on Prepaid Wireless Telecommunications Services - TAM	50	220	270	220	240	460	SR	Fee
Fee Change on Historic Structure Rehabilition Application	240	240	480	240	240	480	SR	Fee
Fire Insurance Surchange								
Auto Insurance Surcharge								
Subtotal - Taxes	1,000	3,440	4,440	3,490	3,570	7,060		
Health & Human Services								
DHS - HMO Surcharge Reform	6,801	32,973	39,774	3,317	660	3,977	GF	Surcharge
DHS - Realign Hospital Surcharge	0	36,611	36,611	2,197	1,940	4,137	GF	Surcharge
DHS - ICF/DD Surcharge	4,525	4,446	8,971	4,367	4,288	8,655	GF	Surcharge
DHS - 6 Month NF Bed Layaway Option - Surcharge	-70	-211	-281	-211	-211	-422	GF	Surcharge
DHS - NF Surcharge Loss of Revenue	-397	-1,194	-1,591	-1,790	-2,187	-3,977	GF	Surcharge
DHS - Hospital Surcharge								
DHS - SOS - County Share of Cost - Anoka RTC	946	946	1,892	946	946	1,892	GF	County share
DHS - SOS - County Share of Cost - St. Peter Security Hospital	3,146	3,146	6,292	3,146	3,146	6,292	GF	County share
DHS - County Share of Sex Offender Program Growth	923	1,667	2,590	1,667	1,667	3,334	GF	County share
DHS - Base Adjustment County Share								
DHS - Eliminate TEFRA Fee Under 275% Poverty	-877	-1,286	-2,163	-1,196	-1,196	-2,392	GF	Fee
MDH - Core Public Health Activities	660	660	1,320	660	660	1,320	GF	Fee
DHS - Application Fee for Provider Screening	522	533	1,055	533	533	1,066	SR	Fee
DHS - HCBS New Fee Schedule	534	945	1,479	949	709	1,658	SGSR	
MDH - Abortion Facility Licensing Fees	0	0	0	0	0	0		
MDH- Health Care Facility Blueprint Review	390	390	780	390	390	780	SGSR	Fee
MDH - Home Care Licensing Reform	81	1,544	1,625	2,366	2,370	4,736	SGSR	Fee
MDH - Newborn Screening Program	2,300	2,450	4,750	2,460	2,504	4,964	SGSR	Fee
MDH - Cost Recovery for Lab Testing	-140	-140	-280	-140	-140	-280	SGSR	Fee
MDH - Cost Recovery for Lab Testing	300	300	600	300	300	600	Other	Fee
MDH - Cost Recovery for Geothermal Heat Systems	150	150	300	150	150	300	SGSR	Fee
MDH - Environmental Lab Assessment Program	290	290	580	290	275	565	SGSR	Fee
MDH - Mortuary Science Regulations	0	0	0	0	0	0		
NHABd - Background Study Fees	285	569	854	569	569	1,138	SR	Fee

Appendix 1 - Changes in Fees, Surcharges, and County Share Payments - 2013 Conference Bills (page 2)

Subtotal - Health & Human Services	20,369	84,789	105,158	20,970	17,373	38,343		
General Fund Subtotal	15,657	77,758	93,415	13,103	9,713	22,816	GF	
Other Funds Subtotal	4,712	7,031	11,743	7,867	7,660	15,527	Other	
Judiciary & Public Safety								
Courts - Count Technology Fee $2	761	913	1,674	913	913	1,826	SR	Fee
DHR - Compliance Fee $75 to 150	55	55	110	55	55	110	SR	Fee
DPS - Employee Background Checks	20	20	40	20	20	40	SR	Fee
Subtotal - Judiciary & Public Safety	836	988	1,824	988	988	1,976		
Other Funds Subtotal	836	988	1,824	988	988	1,976	Other	
Environment & Agriculture								
Agriculture - Animal Waste Technician Fees	36	38	74	38	38	76	Ag	Fee
PCA - Product Stewardship Program	52	59		59	59		Env	Fee
PCA - Wastewater Lab Quality Assurance	105	105	210	105	105	210	SR	Fee
PCA - Sanitary District Formation	50	50	100	50	50	100	Env	Fee
DNR - Utility Crossing Fee Exemption	0	-127	-127	-127	-127	-254	GF	Fee
DNR - Utility Crossing Fee Exemption	0	-10	-10	-10	-10	-20	SR	Fee
DNR - Utility Crossing Fee Exemption	0	-400	-400	-400	-400	-800	NR	Fee
DNR - Utility Crossing Fee Exemption	0	-164	-164	-164	-164	-328	PSF	Fee
Subtotal - Environment & Agriculture	243	-449	-206	-449	-449	-898		
General Fund Subtotal	0	-127	-127	-127	-127	-254	GF	
Other Funds Subtotal	243	-322	-79	-322	-322	-644	Other	
Game & Fish Bill - SF 796 - Youth Licenses, etc.	-15	-15	-30	-15	-15	-30	G&F	Fee
Subtotal - Game & Fish	-15	-15	-30	-15	-15	-30		
Transportation								
DPS - Salvage Title Fee Change	-30	-30	-60	-30	-30	-60	GF	Fee
DPS - Salvage Title Fee Change	-23	-23	-46	-23	-23	-46	SR	Fee
DPS - Vehicle Title Transaction Fee	0	0	0	0	33	33	GF	Fee
DPS - Vehicle Title Transaction Fee	0	0	0	0	16	16	SR	Fee
DPS - Driver License Fee Increase	750	1,500	2,250	1,500	1,500	3,000	SR	Fee
(This fee will also raise $1.95 million in FY 2014 and $3.9 million in FY 2015 and after for local deputy registrars. That is not included here.								
DOT - Special Freight Distribution Permit	0	0	0	13	20	33	SR	Fee
Subtotal - Transportation	697	1,447	2,144	1,460	1,516	2,976		
General Fund Subtotal	-30	-30	-60	-30	3	-27	GF	
Other Funds Subtotal	727	1,477	2,204	1,490	1,513	3,003	Other	
Jobs & Economic Development, Commerce, Energy & Housing								
Accountancy Fees	237	237	474	237	237	474	GF	Fee
Cosmetologist Fees	700	700	1,400	700	700	1,400	GF	Fee

Appendix 1 - Changes in Fees, Surcharges, and County Share Payments - 2013 Conference Bills (page 3)

Barber Fees	31	31	62	31	31	62	GF	Fee
Combative Sports	41	41	82	41	41	82	SR	Fee
Elevator Industry Employ Regulated	6	6	12	6	6	12	BC	Fee
Elevator Inspection Fee Adjustment	183	366	549	366	366	732	BC	Fee
Plumbing Inspection Fee Restructuring	254	254	508	254	254	508	BC	Fee
Plumbing Review Process	-229	-458	-687	-458	-458	-916	BC	Fee
Wind Turbine Inspection Fee Alternative	-26	-26	-52	-26	-26	-52	BC	Fee
Subtotal - Jobs & Economic Development	1,197	1,151	2,348	1,151	1,151	2,302		
General Fund Subtotal	968	968	1,936	968	968	1,936	GF	
Other Funds Subtotal	229	183	412	183	183	366	Other	
Commerce - HF 729								
Appointment Fee	4,950	4,950	9,900	4,950	4,950	9,900	GF	Fee
Petro Fee Dedication Change	-276	-276	-552	-276	-276	-552	GF	Fee shift
Weights & Measures	330	330	660	330	330	660	GF	Fee
Bullion Coin Dealers	668	667	1,335	668	668	1,336	GF	Fee
Petro Fee Dedication Change	276	276	552	276	276	552	SR	Fee shift
Assessments - Commerce Department	364	100	464	22	13	35	GF	Fee
Assessments - Public Utilities Commission	279	263	542	63	27	90	GF	Fee
Assessments - Commerce Department	375	0	375	0	0	0	SR	Fee
Subtotal - Commerce	6,966	6,310	13,276	6,033	5,988	12,021		
General Fund Subtotal	6,315	6,034	12,349	5,757	5,712	11,469	GF	
Other Funds Subtotal	651	276	927	276	276	552	Other	
State Government								
State Auditor - Rewrite Small Cities & Towns Accounting System	250	10	260	10	10	20	SR	Local Gvt Charge
Subtotal - State Government	250	10	260	10	10	20		
Marriage - HF 1054								
Marriage License/Marriage Dissolution Fee	190	49	239	49	49	98	GF	Fee
Marriage License/Marriage Dissolution Fee	147	7	154	7	7	14	SR	Fee
Subtotal - HF 1054	337	56	393	56	56	112		

	FY 14	FY 15	FY 14-15	FY 16	FY 17	FY 16-17	
Grand Totals - All Funds	**31,880**	**97,727**	**129,607**	**33,694**	**30,188**	**63,882**	
General Fund Changes	23,100	84,652	107,752	19,720	16,318	36,038	
Non-General Fund Changes	8,780	13,075	21,855	13,974	13,870	27,844	
Subtotals by Categories							
Total - Fee Changes	15,756	19,333	35,089	20,045	19,929	39,974	Fee
Total - Surcharge Changes	10,859	72,625	83,484	7,880	4,490	12,370	Surcharges
Total - County/Local Gvt Payment Changes	5,265	5,769	11,034	5,769	5,769	11,538	County Share