



March 16, 2018

Rep. Kurt Daudt, Speaker of the House
463 State Office Building
St. Paul, MN 55155

Sen. Paul Gazelka, Senate Majority Leader
3113 Minnesota Senate Building
St. Paul, MN 55155

Rep. Melissa Hortman, House Minority Leader
267 State Office Building
St. Paul, MN 55155

Sen. Tom Bakk, Senate Minority Leader
2221 Minnesota Senate Building
St. Paul, MN 55155

RE: Governor's FY 2018-19 Supplemental Budget

Dear Senators and Representatives:

The purpose of this letter is to officially transmit Governor Dayton's proposed supplemental budget for FY 2018-19. The Governor's general fund recommendations are based upon the February 2018 forecast that projects \$329 million available general fund balance for the end of the current biennium. The Governor is proposing general fund budget changes that total \$206 million.

FY 2018-19 Biennium

The Governor's number one priority with this budget proposal is to maintain the fiscal integrity of the state. The proposed supplemental budget maintains structural balance for the current biennium and the next. FY 2018-19 recommended changes include \$20 million in tax reductions, credits and other revenues changes and a \$227 million increase in general fund spending. The remaining budgetary balance is \$123 million.

FY 2018-19 General Fund Recommendations (\$ in millions)¹

Forecast Balance	\$329
Tax and Revenue Change	20
Spending Change	<u>227</u>
<i>Total – Recommended Changes</i>	<i>\$206</i>
Remaining Budgetary Balance	\$123

Next Biennium

¹ Numbers in table do not add due to rounding.

The Governor's recommendations impact the projected balance in the FY 2020-21 biennium. Expenditures increases for the next biennium total \$555 million while revenues under the Governor's supplemental budget would be \$580 million higher. These changes, combined with \$123 million remaining from the current biennium would leave a projected balance in the next biennium of \$398 million before inflation and other potential spending pressures are considered. When combined with the \$1.6 billion in the budget reserve, the Governor is leaving over \$2 billion to cushion against risk in our forecast.

Budget Priorities

The Governor's recommendations prioritize restoring the state's infrastructure, protecting our senior and vulnerable adult population, and responding to the opioid crisis:

- \$13 million to respond to the opioid crisis through prevention, treatment, law enforcement, and emergency response activities;
- \$12 million to protect senior and vulnerable adults from abuse, including bolstering oversight of facilities where they live and increasing communication with their families;
- \$37 million for debt service and capital investments that improve our community institutions, replace outdated testing equipment in the Agriculture and Health Departments' laboratory, and secure the State Capitol and its surrounding buildings.

The Governor is also proposing \$78 million in funding for education, including:

- \$16 million for safe and secure schools and an additional \$5 million for school linked mental health grants
- \$17 million for increases to special education
- Ongoing funding for Pre-Kindergarten programming in FY 2020-21
- \$4 million for the Homework Starts with Home program, serving students who are homeless or at risk of homelessness
- \$11 million in pension aid to school districts to fully fund the increases in employer pension contributions
- \$20 million for campus support and tuition relief at Minnesota State and the University of Minnesota

Finally, the Governor is also proposing tax changes including:

- Responding to the federal tax bill by disconnecting the state individual income tax system from the definition of federal taxable income to maintain Minnesota's control over our tax laws and state budget.
- Providing \$319 million in tax relief for Minnesota families through a new Personal and Dependent Credit and the expansion of the Working Family Credit.
- Conforming to many corporate tax provisions in the federal tax bill, including full Section 179 conformity.
- Addressing changes made in the 2017 state tax bill, including reinstating the inflator on the state general levy, reinstating the inflator on tobacco taxes, restoring the taxes on premium cigars, and limiting the estate tax exclusion to \$2.4 million.

Supplemental Budget Materials

Supporting material detailing the Governor's supplemental budget recommendations are posted to the MMB website (mn.gov/mmb). Attached are fund balance comparisons showing recommended general fund revenues and expenditures compared to the February 2018 forecast for both the current biennium and the planning estimates. Also attached are detailed budget changes with descriptions of individual proposals provided for all changes by agency, item and fund.

I expect that supplemental budget bills and any pieces of legislation necessary to implement the Governor's plan will begin to be delivered later this month. Individual agency commissioners and staff, as well as MMB executive budget officers, are prepared to answer any questions you may have on the recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Myron Frans", written in a cursive style.

Myron Frans
Commissioner

cc: Senator Julie Rosen, Senate Finance Chair
Representative Jim Knoblach, House Ways and Means Chair
Senator Richard Cohen
Representative Lyndon Carlson
Eric Nauman, Senate Chief Fiscal Analyst
Bill Marx, House Chief Fiscal Analyst