

Fiscal Analysis Department

Minnesota House of Representatives



A SUMMARY OF THE FISCAL ACTIONS OF THE 2018 LEGISLATURE

Money Matters 18.02
July 2018

This paper provides a summary of 2018 legislation with fiscal implications. Part One is the summary section. Part Two provides details organized according to the House fiscal committee structure. Two tax bills and a supplemental budget bill were passed by the legislature but vetoed by the governor. This summary includes a general overview of those bills and a detailed summary of the fiscal legislation that was enacted.

The capital investment bill is summarized in a separate document.

The Overall Budget Picture1-8

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Overview – Budget Changes – 2018 Session

Background

The November 2017 general fund budget forecast projected negative balances for both the FY 2018-19 biennium and for the FY 2020-21 biennium. However, that outlook changed in the February 2018 general fund budget forecast with positive balances being projected for both biennia.

The November 2017 budget forecast projected a general fund balance of negative \$188.3 million for the FY 2018-19 biennium. For FY 2020-21, that general fund deficit would increase another \$397.8 million to a cumulative negative \$586.1 million.

The February 2018 budget forecast improved \$517.6 million for FY 2018-19 for a projected positive balance of \$329.3 million. The projected FY 2020-21 balance was \$579.8 million (which included the \$329.3 million carried forward). The cash flow account was at \$350 million and the budget reserve was at \$1,608,364,000.

The chart below shows the projected balances and change between forecasts.

Table 1 General Fund Forecast Changes for FY 2018-19 Biennium (dollars in millions)	
Projected General Fund Balance – November 2017 Forecast	-\$188.3
Change in February 2018 Forecast	+\$517.6
Projected General Fund Balance – February 2018 Forecast	+\$329.3

The February 2018 forecast projected a general fund structural balance for the next biennium, FY 2020-21, of \$313.1 million. That is the amount that projected revenues for FY 2020-21 exceeded projected spending for FY 2020-21. The spending projection includes no amount for general inflationary increases in program appropriations. It does include funding for inflationary increases when those increases are required by law.

Legislation passed by the House and Senate during the 2018 session reduced the projected FY 2018-19 balance of \$313.7 million to \$15.7 million. That change included \$271.6 million of spending changes, \$135.8 million of tax revenue reductions, and \$93.8 million of non-tax revenue increases.

However, a supplemental budget bill and two versions of a tax bill were vetoed. In the end, enacted legislation resulted in the FY 2018-19 budget balance being reduced \$41.3 million to \$288.0 million. The change includes \$66.4 million of spending and \$25.1 million of non-tax revenue. Of that non-tax revenue change, \$25 million is a transfer from the budget reserve to the general fund.

Table 2 shows the general fund budget changes in legislation passed by the House and Senate and the changes that were enacted into law in the 2018 legislative session. The first two columns show the enacted legislation by biennium and the second two columns show the effect of legislation passed by the legislature but not necessarily enacted into law.

With the legislation enacted in the 2018 session, the state’s general fund is projected to have a \$288.0 million balance at the end of the FY 2018-19 biennium and a \$419.1 million balance at the end of the FY 2020-21 biennium. The FY 2020-21 balance is cumulative, it includes the \$288.0 million carried forward from FY 2018-19 into FY 2020-21.

Table 2 2018 Session General Fund Budget - Summary of Changes Changes from Feb. 2018 Forecast				
	Enacted Legislation		Bills Passed by Legislature	
	FY 2018-19	FY 2020-21	FY 2018-19	FY 2020-21
Balance Available (Feb. 2018 Forecast)	329,280	538,582	329,280	266,277
Spending Changes	66,421	120,064	271,648	197,568
Tax Revenue Changes	0	0	-135,780	-42,099
Non-Tax Revenue Changes	25,159	710	93,861	2,335
Net Change	41,262	119,354	313,567	237,332
Balance After Changes	288,018	419,228	15,713	28,945

Table 3 shows the information for bills passed by the Legislature and bills enacted into law for each House fiscal committee.

Table 3
2018 Session General Fund Budget - Summary of Changes
Changes from Feb. 2018 Forecast

	FY 2018	FY 2019	FY 2018-19	FY 2020	FY 2021	FY 2020-21	FY 2018	FY 2019	FY 2018-19	FY 2020	FY 2021	FY 2020-21
Education												
Spending	0	0	0	0	0	0	-1,741	29,760	28,019	15,735	14,187	29,922
Revenue Change	0	0	0	0	0	0	0	0	0	0	0	0
Education Total	0	0	0	0	0	0	-1,741	29,760	28,019	15,735	14,187	29,922
Higher Education												
Spending	0	0	0	0	0	0	-1,000	4,000	3,000	0	0	0
Revenue Change	0	0	0	0	0	0	0	0	0	0	0	0
Higher Education Total	0	0	0	0	0	0	-1,000	4,000	3,000	0	0	0
Health & Human Services												
Spending	0	0	0	0	0	0	0	37,371	37,371	14,427	19,097	33,524
Revenue Change	0	0	0	0	0	0	18,624	3	18,627	1,112	-97	1,015
Health & Human Services Total	0	0	0	0	0	0	-18,624	37,368	18,744	13,315	19,194	32,509
Environment												
Spending	0	0	0	0	0	0	0	0	0	0	0	0
Revenue Change	0	0	0	0	0	0	0	0	0	0	0	0
Environment	0	0	0	0	0	0	0	0	0	0	0	0
Agriculture												
Spending	0	0	0	0	0	0	0	-3	-3	-3	-3	-6
Revenue Change	0	0	0	0	0	0	0	-3	-3	-3	-3	-6
Agriculture Total	0	0	0	0	0	0	0	0	0	0	0	0
Public Safety												
Spending	0	0	0	0	0	0	0	10,000	10,000	4,298	5,702	10,000
Revenue Change	0	0	0	0	0	0	0	0	0	0	0	0
Public Safety Total	0	0	0	0	0	0	0	10,000	10,000	4,298	5,702	10,000
Transportation												
Spending	0	0	0	0	0	0	0	57,790	57,790	2,600	0	2,600
Revenue Change	0	0	0	0	0	0	0	80	80	300	300	600
Transportation Total	0	0	0	0	0	0	0	57,710	57,710	2,300	-300	2,000
Jobs & Energy												
Spending	0	0	0	0	0	0	0	15,000	15,000	0	0	0
Revenue Change	0	0	0	0	0	0	0	0	0	0	0	0
Jobs & Energy Total	0	0	0	0	0	0	0	15,000	15,000	0	0	0
State Government												
Spending	0	0	0	0	0	0	129	-39	90	0	0	0
Revenue Change	0	0	0	0	0	0	0	-2	-2	-2	-2	-4
State Government Total	0	0	0	0	0	0	129	-37	92	2	2	4
Subtotals for Supplemental Appropriations Bill												
Spending	0	0	0	0	0	0	-2,612	153,879	151,267	37,057	38,983	76,040
Revenue	0	0	0	0	0	0	18,624	78	18,702	1,407	198	1,605
SF 3656 & SF 799 Total	0	0	0	0	0	0	-21,236	153,801	132,565	35,650	38,785	74,435
Capital Investment												
Debt Service Spending	0	393	393	1,115	1,837	2,952	0	393	393	1,114	1,838	2,952
Capital Projects Spending	0	38,450	38,450	0	3,200	3,200	0	38,450	38,450	500	3,700	4,200
Capital Related Revenue	0	25,000	25,000	0	0	0	0	25,000	25,000	0	0	0
Total Capital Investment	0	13,843	13,843	1,115	5,037	6,152	0	13,843	13,843	1,614	5,538	7,152
Taxes												
Spending	0	0	0	0	0	0	1,977	51,983	53,960	-30	495	465
Revenue Change	0	0	0	0	0	0	-47,630	-88,150	-135,780	3,496	-45,595	-42,099
Non-Tax Revenue Change	0	0	0	0	0	0	0	50,000	50,000	0	0	0
Total Taxes	0	0	0	0	0	0	49,607	90,133	139,740	-3,526	46,090	42,564
Other Bills - Spending												
SF 2620 - Pensions	0	27,316	27,316	47,018	66,894	113,911	0	27,316	27,316	47,018	66,894	113,911
HF 4157 - Claims	0	262	262	0	0	0	0	262	262	0	0	0
Other Bills - Total Spending Change	0	27,578	27,578	47,018	66,894	113,912	0	27,578	27,578	47,018	66,894	113,912
Other Bills - Revenue Change												
Pensions - SF 2620	0	159	159	314	396	710	0	159	159	314	396	710
Other Bills - Total Revenue Change	0	159	159	314	396	710	0	159	159	314	396	710
Other Bills - Net Change	0	27,419	27,419	46,704	66,498	113,202	0	27,419	27,419	46,704	66,498	113,202

General Fund Budget Changes by Year and Biennium

Tables 4 and 5 illustrate the budget changes as enacted in the 2018 session for fiscal years 2018 through 2021. Table 4 shows changes by fiscal year. Table 5 shows changes by biennium.

Both charts show revenues and expenditures as projected in the February 2018 state budget forecast (base) and then show changes in revenue and expenditures enacted in the 2018 session. The charts also show percentage changes in revenue and spending across years or biennia before and after the 2018 session changes.

In Table 4 the annual revenue change increases from 4.9 to 5.0 percent between FY 2018 and FY 2019, then decreases from 2.9 to 2.8 percent in between FY 2019 and FY 2020, and then shows no change between FY 2020 and FY 2021. The revenue change in FY 2019 is almost all due to a \$25 million transfer from the budget reserve to the general fund.

Table 4							
k Summary by Fiscal Year - FY 2018-2021							
Enacted Budget, Change from February 2018 Forecast Base							
(dollars in millions)							
	FY 2018	FY 2019	Percent Change	FY 2020	Percent Change	FY 2021	Percent Change
Revenue - Base	21,867	22,934	4.9%	23,611	2.9%	24,525	3.9%
Revenue - Change	0	25		0		0	
Total - Current Revenue	21,867	22,959	5.0%	23,611	2.8%	24,525	3.9%
Spending - Base	22,695	23,094	1.8%	23,745	2.8%	24,078	1.4%
Spending - Change	0	66		48		72	
Total - Current Spending	22,695	23,160	2.0%	23,793	2.7%	24,150	1.5%

Annual spending change in Table 4 increases from 1.8 to 2.0 percent between FY 2018 and FY 2019 with the 2018 session changes. The end of session spending change between FY 2019 and FY 2020 is one tenth of one percentage point less than in the February forecast and one tenth of one percentage point more in FY 2021 over FY 2020.

Table 5 shows changes on a biennial basis. After 2018 enacted legislation, the revenue increase in FY 2018-19 over FY 2016-17 stays at 5.5 percent. The revenue change in FY 2020-21 compared to FY 2018-19 is also the same percentage as in the February forecast.

The biennial spending change in FY 2018-19 compared to FY 2016-17 is 11.2 percent after the 2018 enacted legislation as compared to 11.0 percent in the February 2018 forecast. The spending change in FY 2020-21 compared to FY 2018-19 is 4.6 percent after 2018 enacted legislation. It was 4.4 percent in the February forecast.

Table 5					
General Fund Summary by Biennium, FY 2016-17 - FY 2020-21					
Enacted Budget, Change from February 2018 Forecast Base					
(dollars in millions)					
	FY 2016-17	FY 2018-19	Percent Change	FY 2020-21	Percent Change
Revenue - Base	42,485	44,801	5.5%	48,136	7.4%
Revenue - Change		25		1	
Total - Current Revenue	42,485	44,826	5.5%	48,136	7.4%
Spending - Base	41,255	45,789	11.0%	47,823	4.4%
Spending - Change		66		120	
Total - Current Spending	41,255	45,855	11.2%	47,943	4.6%

Budget Changes in Several Bills

Budget changes were enacted in several bills during the 2018 session. Table 6 lists those bills. Only four of those bills had changes that affected the general fund.

Table 6		
Enacted 2018 Legislation with Budget Changes		
Chapter	Subject	Fund
100	House and Senate Funding	General Fund
101	Driver and Vehicle Licensing Systems (MNLARS)	Special Revenue Fund
131	Claims	General Fund
155	Energy - PACE Program	Special Revenue Fund
185	Worker's Compensation	Worker's Compensation Fund
186	Lands	Natural Resources Fund
198	Taconite Funds	Various Taconite Related Funds
204	3M Settlement	Remediation Fund
207	Office of Higher Education Accounts	Special Revenue Fund
208	Outdoor Heritage Appropriations	Outdoor Heritage Fund
211	Pensions	General Fund/ Other Funds
214	Capital Investment	General Fund/Bond Fund

Chapter 100, enacted early in the 2018 session, provided appropriations for the House and Senate. This bill replaced appropriations that were vetoed following the 2017 session. Chapter 100 was enacted prior to the February forecast so its effect was included in the forecast numbers. Chapter 131 – claims, chapter 211 – pensions, and chapter 214 – capital expenditures also had general fund impacts. The general fund impacts of these bills are shown in Table 3.

The 2018 Legislature passed a number of bills with budget changes that were vetoed. Table 7 lists those bills.

Table 7 Budget Bills Passed by the House and Senate but Vetoed		
Chapter	Subject	Fund
126	Wild Rice Waters	Game & Fish Fund
172	Taxes	General Fund/Other Funds
178	Deputy Registrar Reimbursement	Special Revenue Fund
201	Supplemental Budget Bill	General Fund/Other Funds
205	Taxes and Education	General Fund/Other Funds
206	Motor Vehicle Titling	Special Revenue Fund
210	Wild Rice Waters	Game & Fish Fund
212	Supplemental Budget Bill, Additional Items	General Fund/Other Funds

The two tax bills and the supplemental budget bill were the most substantial of the vetoed bills.

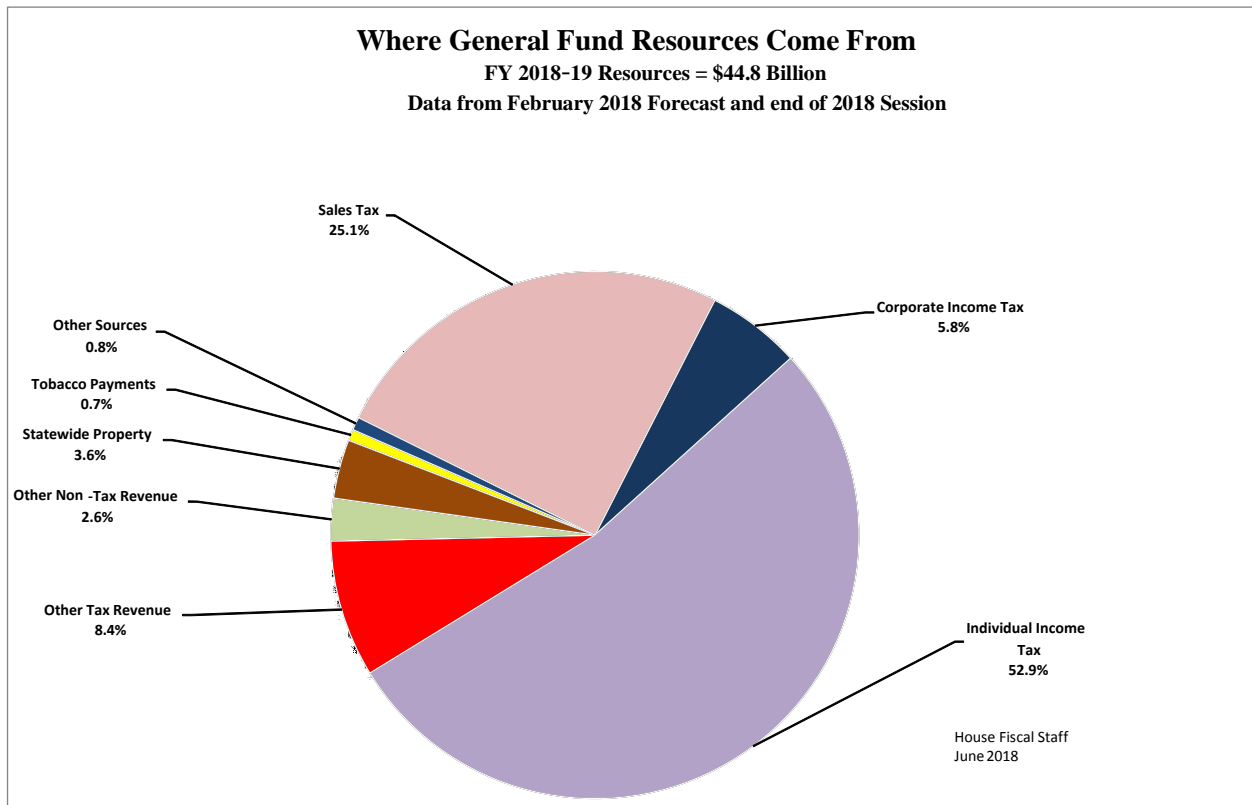
Budget Reserve

Chapter 214, the capital expenditure bill, transferred \$25 million from the budget reserve to the general fund. This \$25 million covered the cost of an appropriation for school safety grants. After the transfer, the budget reserve is at \$1,583,364,000.

General Fund Resources

During the FY 2018-19 biennium 78 percent of general fund revenue is projected to be from the individual income tax and the sales tax. Table 8 is a pie chart showing general fund revenue sources for the biennium. Revenues from the income tax and sales tax in FY 2018-19 are projected to total \$35.0 billion, about \$2.7 billion more or 8.4 percent more than in the FY 2016-2017 biennium. With revenues from those two sources making up 78 percent of total general fund revenues, all other sources account for only 22 percent of the total.

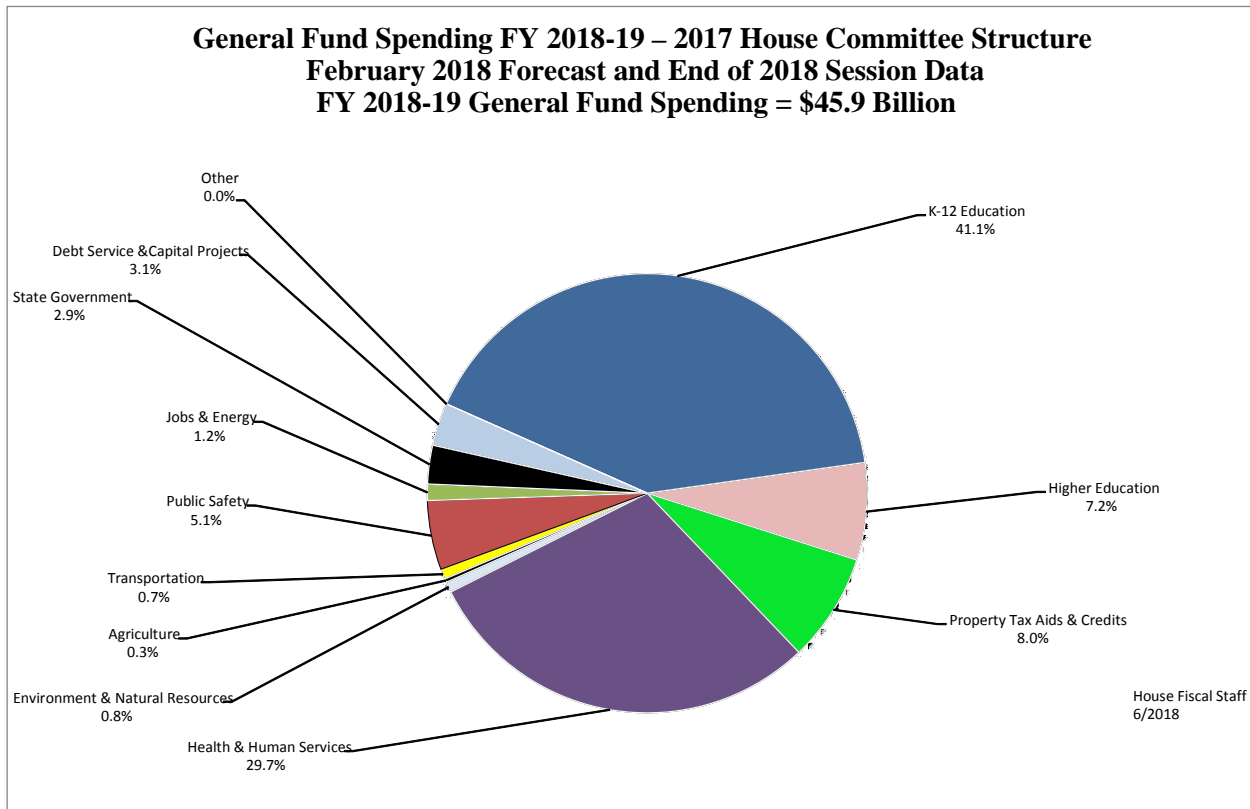
Table 8



General Fund Spending

Almost 71 percent of general fund spending in the FY 2018-19biennium is spent in the K-12 Education (41.1 percent) and Health and Human Services (29.7 percent) areas. In addition, if the amounts spent for Property Tax Aids and Credits (8.0 percent) and Higher Education (7.2 percent) are added, 86.0 percent of general fund spending is accounted for. That leaves only 13.0 percent for all the other areas. Table 9 shows the major areas of general fund spending.

Table 9



Changes in Fees, Fines, and Charges

No changes in fees or fines were enacted in the 2018 session.

Because the Department of Commerce and the Public Utilities Commission are required by law to assess a portion of operating expenses on those they regulate, increased employer pension contributions in the pension bill will result in the Public Utilities Commission assessment increasing \$13,000 in FY 2019 and the Department of Commerce Assessment increasing \$14,000 in FY 2019. Those assessment increases will each be \$28,000 beginning in FY 2020.

The increased employer contribution required in the pension bill will also result in the Department of Human Services increasing charges to counties by \$132,000 in FY 2019, \$258,000 in FY 2020, and \$340,000 in FY 2021 and after for providing services at State Operated Service programs.

The following sections summarize 2018 legislation in each committee area and the pension bill.

For additional information, contact Bill Marx at 296-7176 or bill.marx@house.mn.

Agriculture Finance

Several agriculture finance changes were included in the supplemental omnibus budget bill which was vetoed by the governor. No agriculture related fiscal provisions were enacted during the 2018 session. The two most significant agriculture finance issues included in the vetoed chapter 201 were:

- \$217,000 in additional funding for the rural mental health program in the Department of Agriculture. Currently, this program only employs one staff person who provides mental health coverage for the entire state.
- \$30,000 in additional funding for the Farm Advocates Program to help farmers navigate complex legal and financial issues associated with farming.

To see a complete conference committee report spreadsheet of vetoed provisions for Agriculture Finance or other areas of state government visit:

<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

For further information on agriculture finance issues, contact Ken Savary, Fiscal Analyst, at ken.savary@house.mn or 651-296-7171.

Education Finance

The 2018 Legislature passed two bills with changes to the current and upcoming biennial education budgets, but both were ultimately vetoed by the governor.

Chapter 201 included several spending items for the Department of Education, and the biggest changes included the following items:

- \$5.1 million annually for school-linked mental health grants.
- \$1 million in FY 2019 for audits of the physical security of public schools.
- Almost \$20 million in FY 2019 for Safe Schools Aid, which could be used for any of the purposes listed in Minnesota Statutes 126C.44.

Chapter 205 had both education and tax provisions. The items pertaining to education included:

- A \$50 million transfer from the budget reserve to the general fund, and a onetime payment of \$50 million to the Department of Education. The funding would be distributed as a school aid payment of \$57.73 per pupil, to be used for school safety purposes listed in Minnesota Statutes, section 126C.44.
- For FY 2019 only, authorization for school boards to reduce or eliminate the required 2 percent set-aside of general education revenue for staff development.
- School districts allowed to transfer money from their community education revenue account to their general fund account on the last day of FY 2018 and FY 2019 only.

The omnibus pension bill was signed into law by the governor and included funding for the Department of Education. Chapter 201 provides almost \$11 million in FY 2019 for increased contributions to the Teachers Retirement Association and the St. Paul Teachers Retirement Fund Association. More information regarding chapter 201 can be found in the pension bill summary.

The bonding bill—chapter 214—was signed into law and appropriated nearly \$48 million for the Department of Education, Minnesota State Academies, and the Perpich Center for Arts Education. For more detail, please see Enacted 2018 Capital Budget Summary.

For further information on education finance issues contact Emily Adriaens, Fiscal Analyst, at emily.adriaens@house.mn or 651-296-4178.

Environment and Natural Resources Finance

A few bills passed in 2018 separate from the omnibus supplemental bill which contained fiscal provisions in the environment and natural resources jurisdiction. They are:

- Chapter 186, is the omnibus lands bill. This bill primarily has land sales benefitting counties. The bill does include state owned parcels anticipated to result in \$61,000 of revenue to the land acquisition account in the natural resources fund.
- Chapter 204, relates to the creation of the account to manage the 3M settlement entered into in February of 2018. This account receives \$725 million dollars from the \$850 million settlement and appropriates the resources in the account the DNR and the PCA for the purposes of the settlement agreement.

The majority of the environment and natural resources finance provisions were contained in the omnibus budget bill which was vetoed. The vetoed provisions can be found in chapter 201, articles 19 to 21. The provisions which were included were general fund neutral. A few of the provisions are listed below.

- The bill provided \$1.3 million in combination from the general fund and the heritage enhancement account for chronic wasting disease work.
- \$1.4 million from dedicated funds for various trail projects.
- Appropriations were included for items such as: online feedlot training, aggregate mapping, mining research, and AIS grants.

To see a complete conference committee report spreadsheet of vetoed provisions for environment and natural resources finance or other areas of state government visit:

<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

For information on appropriations from the environment and natural resources trust fund, see the Enacted 2018 Capital Budget Summary document.

For further information on environment and natural resources finance issues, contact Brad Hagemeyer, Fiscal Analyst, at brad.hagemeyer@house.mn or 651-296-7165.

Health and Human Services Finance

For the 2018 legislative session, all appropriation changes related to health and human services (HHS) were contained in chapter 201 (S.F. 3656, article 45) and were vetoed by the governor. Chapter 201, article 45 included total general fund appropriations of \$18.744 million in the FY 2018-19 biennium and \$32.508 million in the FY 2020-21 biennium. No other changes to appropriations for HHS were enacted. Major HHS items contained in chapter 201 included the following:

- Appropriations of \$16 million from FY 2019 and FY 2021 for various initiatives related to opioid addiction. The largest of these items was an increase in Medical Assistance rates for chemical dependency counseling.
- Appropriations of \$60.1 million from FY 2019 to FY 2021 to allow providers under the Disability Waiver Rate System (DWRS) to continue to receive a 7 percent rate increase that was disapproved by the Centers for Medicare and Medicaid Services (CMS) and which ends on June 30, 2018.
- Appropriations of \$10.5 million from FY 2019 to FY 2021 to address elder abuse in long-term care settings.

In addition, chapter 201 made several changes to reduce spending, comply with federal requirements that could have an effect on federal funding, or both.

- Changes to the administration of the Consolidated Chemical Dependency Treatment Fund (CCDTF) were projected to reduce costs by \$17.4 million from FY 2019 to FY 2021.
- Enacting Electronic Visit Verification (EVV), in compliance with the federal 21st Century Cures act, was projected to save \$10.5 million from FY 2019 to FY 2021. Failure to implement EVV by January 1, 2019, will trigger a financial penalty in federal reimbursement. The amount of this penalty is not known at this time but will be estimated in the November 2018 state budget forecast.
- Chapter 201 also included statutory changes to comply with federal requirements for both Child Care Development Block Grants and pharmacy dispensing fees in the Medical Assistance program. Federal sanctions affecting reimbursement are possible, but not certain, for not being in compliance in these two areas.

To see a complete conference committee report spreadsheet of vetoed provisions for health and human services finance or other areas of state government visit:

<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

For further information about health and human services finance, contact Doug Berg, Fiscal Analyst, at doug.berg@house.mn or 651-296-5346.

Higher Education Finance

Several higher education finance changes were included in the supplemental omnibus budget bill which was vetoed by the governor. No higher education related fiscal provisions were enacted during the 2018 session. The most significant higher education finance issues included in the vetoed chapter 201 were:

- \$3 million in additional funding for campus support for Minnesota State;
- \$150,000 in additional funding for the agricultural educators loan forgiveness program and student loan debt counseling program; and
- \$300,000 in additional funding for the Minnesota State Grant Program (Office of Higher Education).

The vetoed bill did not allocate any new resources to the University of Minnesota or the Mayo Foundation.

To see a complete conference committee report spreadsheet of vetoed provisions for Agriculture Finance or other areas of state government visit:

<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

For further information on higher education finance issues, contact Ken Savary, Fiscal Analyst, at ken.savary@house.mn or 651-296-7171.

Jobs, Energy, Housing, and Commerce Finance

Budget changes for jobs, energy, housing, and commerce finance are were included in the supplemental budget bill, S.F. 3656 or chapter 201, articles 5 through 9. That bill was vetoed. Below is a brief summary of the fiscal provisions in that bill.

General Fund – the legislature increased the total general fund appropriation for the job growth and energy affordability policy area by \$15 million in FY 2019. This amount was intended for the Office of Broadband Development at the Department of Employment and Economic Development. The bill also contained a grant to the Centers for Independent Living for \$1.5 million paid for by an equal cut to the job creation fund. Finally, the legislature earmarked \$1 million for a paper mill in Duluth and \$1 million for a grant to Natureworks, both from the Minnesota investment fund.

Renewable Development Account – the legislature appropriated \$40.2 million from the renewable development account for compensation loss claims due to the closure of the Benson biomass energy production facility. The legislature also appropriated \$40 million to the Prairie Island Community to be paid out over six years for the net zero emissions project while also capping Xcel Energy’s spent nuclear fuel dry cask storage obligation to \$23 million in fiscal year 2019, \$28 million in fiscal years 2020 and 2021, and \$20 million per year and onward starting in fiscal year 2022.

Table 1 summarizes general fund changes adopted by the legislature in the 2018 legislative session.

Table 1 Job Growth and Energy Affordability Policy and Finance Committee Total General Fund Spending (all dollars in thousands)					
	Forecast Base	Ch. 201 Change	Ch. 201 Change	Total with Change	Enacted*
	FY 2018-19	Dollars	Percent	FY 2018-19	FY 2018-19
Department of Employment and Economic Development	216,676	15,000	6.9%	231,676	216,676
Minnesota Housing Finance Agency	107,596	0	0	107,596	107,596
Department of Labor and Industry	3,566	0	0	3,566	3,566
Bureau of Mediation Services	4,968	0	0	4,968	4,968
Department of Commerce	46,779	0	0	46,779	46,779
2017, Ch. 13 Transfer Out	142,000	0	0	142,000	142,000
Public Utilities Commission	14,930	0	0	14,930	14,930
Public Facilities Authority	1,800	0	0	1,800	1,800
Iron Range Resource and Rehabilitation Board	4,995	0	0	4,995	4,995

	Forecast Base	Ch. 201 Change	Ch. 201 Change	Total with Change	Enacted*
	FY 2018-19	Dollars	Percent	FY 2018-19	FY 2018-19
General Fund Revenue Changes	0	0	0	0	0
Net General Fund Total	552,504	15,000	2.7%	567,504	552,504

*The governor vetoed Laws of 2018, chapter 201 on May 23, 2018.

To see a complete conference committee report spreadsheet of vetoed provisions for Jobs, Energy, Housing and Commerce Finance or other areas of state government visit:

<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

For further information on jobs, energy, housing and commerce finance issues, contact Chris Zempel, Fiscal Analyst, at chris.zempel@house.mn 651-296-4162.

Legacy Finance

The 2018 Legislature made second year appropriations from the outdoor heritage fund. The outdoor heritage fund is the only fund out of the four legacy funds that typically has annual appropriations instead of biennial appropriations. Some supplemental years will have additional appropriations out of the three other legacy funds at a much smaller level based on the availability of funds. Appropriations from the outdoor heritage fund are included in chapter 208. In total, there were 47 projects funded for a total of \$113.293 million. On the next page is a chart containing the specific projects and the amounts appropriated.

1 Outdoor Heritage Fund		Agency/Organization	ML 2018, Chapter 208		
2 <i>all \$ in thousands</i>					
3			FY 2018	FY 2019	FY 2019
4 Prairies					
5	DNR WMA and SNA Acquisition-Phase X	MN DNR	-	2,786	2,786
6	Accelerating Wildlife Management Area Acquisition-Phase X	Pheasants Forever	-	5,740	5,740
7	MN Prairie Recovery Project-Phase VIII	The Nature Conservancy	-	2,001	2,001
8	Northern Tallgrass Prairie NWR Land Acquisition-Phase IX	The Nature Conservancy	-	1,893	1,893
9	Cannon River Headwaters Habitat Complex-Phase VIII	The Trust for Public Land	-	1,345	1,345
10	Accelerated Native Prairie Bank Protection-Phase VII	MN DNR	-	1,490	1,490
11	Reinvest in Minnesota (RIM) Buffers for Wildlife and Water- Phase VIII	BWSR	-	5,000	5,000
12	Prairie Chicken Habitat Partnership of the Southern Red River Valley-Phase IV	MN Prairie Chicken Society	-	1,162	1,162
13	Marlin County DNR WMA Acquisition-Phase II	Fox Lake Conservation League	-	2,447	2,447
14	Protect and Restore MN IBA's within the Tallgrass Aspend Parklands-Phase II	Audubon Minnesota	-	829	829
15	Grassland Conservation Partnership-Phase III	The Conservation Fund	-	1,468	1,468
16	Accelerating the USFWS Habitat Conservation Easement Program	Ducks Unlimited	-	2,960	2,960
17	DNR Grasslands-Phase X	MN DNR	-	4,007	4,007
18	Enhanced Public Land-Grasslands-Phase III	Pheasants Forever	-	2,160	2,160
19	Subtotal		-	35,288	35,288
20					
21 Forests					
22	Camp Ripley Sentinel Landscape ACUB Protection Program	Morrison SWCD	-	1,229	1,229
23	Southeast Minnesota Protection and Restoration-Phase VI	The Nature Conservancy	-	2,142	2,142
24	Minnesota Forests for the Future-Phase VI	MN DNR	-	1,473	1,473
25	State Forest Acquisitions Richard J. Dorer Memorial Forest-Phase V	MN DNR	-	1,255	1,255
26	Critical Shoreland Habitat Protection Program-Phase IV	Minnesota Land Trust	-	1,094	1,094
27	Minnesota Moose Habitat Collaborative-Phase III	MN Deer Hunters Association	-	1,938	1,938
28	Subtotal		-	9,131	9,131
29					
30 Wetlands					
31	Accelerating the WPA Acquisition-Phase X	Pheasants Forever	-	5,061	5,061
32	Shallow Lake and Wetland Protection Program-Phase VII	Ducks Unlimited	-	4,770	4,770
33	RIM Wetlands Partnership- Phase IX	BWSR	-	10,000	10,000
34	Wetland Habitat Protection and Restoration Program-Phase III	Minnesota Land Trust	-	1,786	1,786
35	Accelerating Shallow Lakes and Wetlands Enhancement-Phase X	MN DNR	-	2,759	2,759
36	Living Shallow Lake Enhancement & Wetland Restoration Initiative - Phase VII	Ducks Unlimited	-	3,740	3,740
37	Subtotal		-	28,116	28,116
38					
39 Habitats					
40	Metro Big Rivers-Phase VIII	MN Valley Trust	-	2,630	2,630
41	Mississippi Headwaters Habitat Corridor Partnership-Phase IV	Mississippi Headwaters Board	-	2,073	2,073
42	<i>Board of Water and Soil Resources (in addition the \$2,073,000 listed above)</i>		-	925	925
43	Fisheries Habitat Protection on Strategic North Central Minnesota Lakes-Phase IV	Leech Lake Area Watershed Foundatio	-	2,801	2,801
44	DNR Trout Stream Conservation Easements	MN DNR	-	642	642
45	Metro Wildlife Management Areas	The Conservation Fund	-	1,174	1,174
46	Dakota County Habitat Protection and Restoration-Phase VI	Dakota County	-	2,288	2,288
47	Hennepin County Habitat Conservation Program	Hennepin County	-	1,514	1,514
48	Minnesota Trout Unlimited Coldwater Fish Habitat Enhancement and Restoration-Phase X	Minnesota Trout Unlimited	-	2,291	2,291
49	Lower Mississippi River Habitat Partnership (Phase IV)-Upper Pool 9 Backwater Enhancement and Floodplain Forest Resto	MN DNR	-	1,555	1,555
50	St. Louis River Restoration Initiative-Phase V	MN DNR	-	2,013	2,013
51	Knife River Habitat Rehabilitation-Phase III	Lake Superior Steelhead Association	-	927	927
52	Shell Rock River Watershed Habitat Restoration Program-Phase VII	Shell Rock River Watershed District	-	1,421	1,421
53	Lake George Dam and Rum River Erosion	Anoka County Parks	-	539	539
54	Buffalo River Watershed Stream Habitat Program	Buffalo-Red River Watershed District	-	1,195	1,195
55	Two Rivers Fish Passage Restoration and Habitat Enhancement	City of Hallock	-	2,000	2,000
56	Six Mile Creek-Halstead Bad Habitat Restoration	Minnehaha Creek Watershed District	-	567	567
57	DNR Aquatic Habitat Restoration and Enhancement	MN DNR	-	2,834	2,834
58	Conservation Partners Legacy Grant Program: Statewide and Metro Habitat-Phase VIII	MN DNR	-	11,589	11,589
59	Subtotal		-	40,978	40,978
60					
61 Administration					
62	Contract Management	MN DNR	-	210	210
63	Technical Evaluation Panel	MN DNR	-	150	150
64	DNR High Priority Transactions	MN DNR	-	50	50
65	Subtotal		-	410	410
66					
67	TOTAL		-	113,923	113,923

To see a more detailed legislative tracking spreadsheet for legacy finance provisions or other areas of state government visit:

<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

To see more detailed project descriptions please visit the Lessard-Sams Outdoor Heritage Council webpage at: <https://www.lsohc.leg.mn/>

For further information on legacy finance issues, contact Brad Hagemeyer, Fiscal Analyst, at brad.hagemeyer@house.mn or 651-296-7165; and for arts fund issues, contact John Walz, Fiscal Analyst, at john.walz@house.mn or 651-296-8236.

Public Safety and Security Finance

Public safety and security finance changes were included in the supplemental omnibus budget bill which was vetoed in its entirety. As a result no fiscal provisions were enacted during the 2018 session. The public safety and security finance provisions were contained in article 21 of the conference report on Senate File 3656 (chapter 201). The bill contained several small provisions dealing with the courts, the Department of Public Safety, and the Department of Corrections. Most provisions were minor changes to policy or criminal statutes, but also included the veto of two larger provisions of note. Those provisions include:

- \$6.6 million dollars from the general fund to the Department of Corrections for a shortfall in funding for offender health care.
- \$2.9 million for additional staffing at the Guardian Ad Litem.

To see a complete conference committee report spreadsheet of vetoed provisions for public safety and security finance or other areas of state government visit:

<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

The 2018 legislative session did, however, include the passage of a claims bill. The claims bill is a piece of legislation that includes the payment of small claim legal settlements as an alternative to proceeding through the courts. The claims bill was signed into law as Laws of 2018, chapter 131 and included:

- \$234,000 to three individuals eligible under the Imprisonment and Exoneration Remedies Act.
- \$14,000 to two inmates at the Department of Corrections who suffered minor injuries performing jobs at the department or performing community service work.

For further information on public safety and security finance issues, contact John Walz, Fiscal Analyst, at john.walz@house.mn or 651-296-8236.

State Government Finance

Chapter 100 restored the appropriations to the House and Senate that were vetoed by the governor following the 2017 session (see Laws 2017, First Special Session chapter 4). The appropriations totaled \$129.2 million. The appropriations supersede and replace funding that had been ordered by the Second Judicial Court during the legislature’s appeal of the governor’s veto.

Legislature: General Fund Appropriations			
<i>(dollars in thousands)</i>			
	FY 2018	FY 2019	FY 2018-19
House	32,383	32,383	64,766
Senate	32,299	32,105	64,404
Total Chapter 100:	64,682	64,488	129,170
LCC Funding in 2017 Session - Not Vetoed	17,383	17,553	34,936
Total General Fund Appropriations for Legislature	82,065	82,041	164,106

Chapter 201, the vetoed 2018 omnibus spending bill, included total net general fund appropriations of \$90,000 in the FY 2018-19 biennium. State government related items contained in chapter 201, article 1 included:

- \$90,000 to restore funding to the Office of the Revisor that was reduced in the 2017 session in anticipation of the office moving from private rented space to the State Office Building (SOB). The move did not occur because the governor’s veto of the House and Senate appropriation delayed any action on renovation of space in the SOB.
- \$1.534 million from the Help America Vote Act account to the Secretary of State for election equipment cyber security upgrades. Without this appropriation, the Secretary of State cannot spend the federal funds allocated to the state for this purpose.
- \$269,000 operating reduction to the Office of the State Auditor.
- \$140,000 in one-time funds to reimburse Wright and Becker counties for litigation costs from the State Auditor’s legal challenge of the 2015 law allowing counties to choose private audit firms.
- \$129,094 in FY 2018 is for a payment to the city of Austin for its 2016 fire state aid payment and supplemental aid payment.

To see a complete conference committee report spreadsheet of vetoed provisions for State Government Finance or other areas of state government visit:

<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

For further information on state government finance issues, contact Helen Roberts, Fiscal Analyst, at helen.roberts@house.mn or 651-296-4117.

Pensions

Chapter 211, the omnibus pension bill, includes several benefit reforms, actuarial assumption changes, employee and employer contribution increases, and direct state aids that are intended to improve the funding status of Minnesota’s public pension plans.

Chapter 211 increases net general fund spending by \$27.2 million in FY 2019. The general fund tails are \$46.7 million in FY 2020 and \$66.5 million in FY 2021. Appropriations for non-general fund employer contributions are \$6.6 million in FY 2019, with tails of \$12.9 million in FY 2020 and \$14.4 million in FY 2021.

Chapter 211, 2018 Omnibus Pension Bill

(dollars in thousands)

	FY 2019	FY 2018-19	FY 2020	FY 2021	FY 2020-21
General Fund					
MSRS Employer Contributions	7,142	7,142	14,071	18,007	32,078
TRA Employer Contributions	33	33	65	97	162
Direct Aid to St. Paul Teachers	5,000	5,000	5,000	5,000	10,000
Direct Aid to PERA Police & Fire	4,500	4,500	4,500	9,000	13,500
General Education Pension Adjustment	10,863	10,863	23,818	35,365	59,183
Total General Fund Appropriations	27,538	27,538	47,454	67,469	114,923
General Fund Revenues					
DHS offsets, FFP, Commerce & PUC	381	381	750	971	1,721
Total General Fund Net Spending:	27,157	27,157	46,704	66,498	113,202
Non-General Fund					
MSRS Employer Contributions	6,569	6,569	12,873	14,352	27,225
Total Net Spending All Funds	33,726	33,726	59,577	80,850	140,427

Note: General fund Revenues include Department of Human Services (DHS) charges for Direct Care & Treatment services, Federal Financial Participation at DHS, and assessments at the Department of Commerce and the Public Utilities Commission.

The appropriations in Chapter 211 are found in the following articles:

- Article 8 provides direct state aids to the Saint Paul Teachers plan of \$5 million each year. This aid is in addition to the \$9.8 million in direct aid already authorized in law.
- Article 8 also provides \$4.5 million in direct aid to the PERA police and fire plan. This amount is adjusted upwards to \$9 million per year beginning in FY 2021.
- Article 20 amends the General Education Pension adjustment to provide additional K-12 education funding for teacher pensions.

- Article 21 appropriates funding to reimburse employers for the MSRS and TRA employer contribution increases contained in the bill.

For full information on the omnibus pension bill, including detailed summaries, please see the Legislative Commission on Pensions and Retirement website at: <https://www.lcpr.leg.mn/>.

Transportation Finance

Four bills that passed the legislature contained transportation finance provisions in the 2018 session. Chapter 201 (S.F. 3656), the omnibus supplemental finance bill, contained most finance and policy changes related to transportation, but was vetoed by the governor after session adjourned. Chapter 206 (H.F. 178) appropriated \$9 million for deputy registrars and was vetoed by the governor. Chapter 101 (S.F. 3133), which was signed by the governor March 22nd, pertained to the Department of Public Safety for the Minnesota Licensing and Registration System or MNLARS. Chapter 214 (H.F. 4425), the omnibus capital investment bill, also contained a number of transportation related borrowing and appropriations. Below is a summary of transportation fiscal impacts of chapter 101. For transportation items in the capital investment bill, see the summary of the capital investment bill.

- Chapter 101 appropriated \$9.65 million in FY 2018 from driver and vehicle services accounts in the special revenue fund to the Department of Public Safety for development and repair of MNLARS. The appropriation was specific to technology and contractor costs for the MNLARS project and could not be used on other staffing in the agency. This was a one-time appropriation.
- Chapter 101 appropriated \$100,000 in FY 2018 and \$250,000 in FY 2019 from the driver and vehicle services accounts in the special revenue fund to the Office of the Legislative Auditor for information technology audit activity. This was a one-time appropriation.

The vetoed chapter 201 transportation articles and chapter 206 made several appropriations and funding reductions. Below is a summary by agency:

- Chapter 201 would have appropriated funds for the Department of Transportation (MnDOT) for an airport project, a number of trunk highway projects, local road projects, and aid, all on a one time basis. Chapter 201 would have used the general fund, trunk highway fund, and aeronautics for the MnDOT appropriations.
- Chapter 201 would have appropriated \$2.1 million from the general fund to the Metropolitan Council for the suburban transit providers. This would have been a one-time appropriation.
- Chapter 201 would have appropriated \$13.73 million from the general fund and the driver and vehicle services accounts in the special revenue fund to the Department of Public Safety for further development and repair of MNLARS in FY 2019, with a \$5.5 million base for MNLARS in FY 2020. Chapter 201 would have eliminated an appropriation from the highway user tax distribution fund (HUTD) for public safety support activities.

- Chapter 206 would have appropriated \$9 million in FY 2018 from the driver and vehicle services accounts in the special revenue fund to reimburse deputy registrars for costs associated with the rollout of MNLARS for vehicle transactions in 2017. This bill was vetoed.

To see a complete conference committee report spreadsheet of vetoed provisions for transportation finance or other areas of state government go to:

<http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

For further information about transportation or capital investment, contact Andrew Lee, Fiscal Analyst, at 651-296-4181 or andrew.lee@house.mn.

Tax Revenue and Tax Aids, Credits, and Refunds

The 2018 Legislature passed two tax acts. The first tax act, H.F. 4385, the fourth engrossment, is referred to as regular session chapter 172. Regular session, chapter 172 contained numerous Minnesota tax law changes in response to federal legislation enacted through March 31, 2018, and it also contained other tax reductions and expenditures. In total, chapter 172 authorized net general fund tax reductions of \$140.0 million in the FY 2018-19 biennium and \$43.124 million in the FY 2020-21 biennium.

The second tax act, H.F.947, referred to as regular session chapter 205, is fiscally similar to the first tax act. Chapter 205, however, has fewer tax reduction provisions and includes a one-time transfer from the budget reserve to the general fund for one-time education expenditures. With these changes, chapter 205 makes less total revenue reductions with total net general fund reductions of \$139.740 million and \$42.544 million in the FY 2018-19 biennium and FY 2020-21 biennium respectively.

Both omnibus bills, chapter 172 and chapter 205, were vetoed by the governor.¹ A high-level fiscal overview of the major tax revenue increases and tax revenue reductions (and expenditures) contained in each vetoed bill follows:

Tax Revenue Increases

Chapter 172 contained tax provisions that raised revenue and reduced revenue. On the revenue increase side, the Minnesota tax law changes to individual income tax and corporate franchise tax in response to Tax Cuts and Jobs Act (TCJA) within chapter 172 are estimated to increase general fund revenue by \$77.340 million in the FY 2018-19 biennium and \$454.740 million in the FY 2020-21 biennium. At the federal level, TCJA restructured the definition of federal taxable income by modifying (increasing) the standard deduction and by also modifying or repealing other exemptions and exclusions.² These changes directly affected the definition of federal taxable income and the Minnesota tax base for income and corporate franchise taxes. In response to these federal TCJA law changes, the major Minnesota tax law conformity changes in chapter 172 effective starting in tax year 2018 (unless otherwise noted) include:

- changing the starting point for calculating individual income taxes for individuals from federal taxable income (FTI) to federal adjusted gross income (FAGI);

¹ The 2018 claims bill, chapter 131, contained a general fund appropriation of \$12,305.67 in FY 2019 to reimburse a taxpayer in Wilmar, Minnesota for business taxes erroneously paid to Minnesota for transactions taking place in South Dakota.

² [The 2018 February Forecast Budget and Economic Forecast Summary](#) published by Minnesota Management and Budget (MMB) included a forecast adjustment to increase income tax revenues by \$137.0 million and \$227.0 million in the FY 2018-19 and FY 2020-21 biennia respectively as a result of the taxpayer response to federal law changes in TCJA (page 4). MMB made a similar forecast adjustment to increase corporate tax revenues by \$19.0 million and \$23.0 million in the FY 2018-19 and FY 2020-21 biennia respectively as a result of taxpayer response to TCJA (page 5 and 36).

- creating a Minnesota personal and dependent exemption of \$4,140 for the taxpayer, spouse, and each dependent with the amount of the exemption determined by Minnesota rather than federal law;
- adopting Minnesota itemized deductions that are the same as the itemized deductions under TCJA;
- changing the way inflation is measured for income and corporate tax brackets and other thresholds from CPI-U to chained CPI-U to match the way the federal law is measuring inflation; and
- authorizing deemed repatriation by allowing the federal preferred rate deduction and the Minnesota dividend received deduction (DRD). These deductions are allowed before computing the revenue apportioned to Minnesota that is subject to the Minnesota corporate tax rate.

In total, the Minnesota tax law changes in response to TCJA are estimated to increase the income tax general fund revenue base by 0.55 percent and the corporate tax general fund revenue base by 7.27 percent in the budget forecast period. It is for this reason that federal conformity to TCJA results in a net general fund revenue gain in both biennia.³

Chapter 205 contains the same tax revenue raisers as Chapter 172 except Chapter 205 also contains a one-time transfer of \$50.0 million from the budget reserve to the General Fund.

Tax Revenue Reductions and Expenditures

The revenue gain from federal conformity tax law changes to TCJA are offset by the general fund tax reductions and expenditures of \$217.340 million and \$497.864 million in the FY 2018-19 and FY 2020-21 biennia respectively. Of the total general fund tax reductions (revenue loss and expenditures) in chapter 172, the largest share of the total reduction is attributed to rate reductions with a smaller share of the total attributed to tax reductions from extending expiring federal conformity provisions.

- Phased-in tax rate reductions for income tax and corporate tax comprised 73.4 percent and 93.0 percent of the total general fund revenue reduction impact. These rate reductions are effective starting in tax year 2018 with the lower rates fully phased in by tax year 2020 (FY 2021). The sum of the income and corporate tax rate reductions are estimated to reduce general fund revenue by \$159.6 million in the FY 2018-19 biennium and by \$463.2 million in the FY 2020-21 biennium.
- Other federal tax conformity provisions constituted 9.5 percent of the total general fund reductions. The extension of tax deductions in the Bipartisan Budget Act of 2018 are estimated to reduce general fund revenue by \$20.6 million in the FY 2018-19 biennium but

³ [The fiscal impact of adopting to federal tax conformity provisions in the TCJA with no corresponding tax policy changes has been estimated by the Minnesota Department of Revenue.](#) Using that estimate and the 2018 February forecast, the impact of TCJA on the income tax base and corporate tax base can be estimated.

increase general fund revenue by \$435,000 in the FY 2020-21 biennium. Many of the extended provisions affected tax year 2017.

- Property tax, aids, and credit expenditures reflected less than 2 percent of the total general fund reduction in the FY 2018-19 biennium. An appropriation to the Minnesota Department of Revenue to administer this act is the largest share of the total general fund total expenditure for property tax, aids, and credits.

In comparison to chapter 172, chapter 205 also authorizes mostly the same tax revenue reductions and expenditures as chapter 172 with some exceptions. Unlike chapter 172, chapter 205 does not include the sales tax exemption for bullion on the tax revenue side. On the expenditure side, chapter 205 also includes a one-time appropriation of \$50 million to the Commissioner of Education for student and school safety aid. In addition to this one-time aid, school districts are also provided authority to waive the staff development reserve and allow districts to transfer surplus funds from their community education reserves to the general fund. For more information about student and school safety expenditures, see the education finance summary.

To see a complete conference committee report spreadsheet of vetoed tax provisions in chapter 172 and chapter 205, please visit: <http://www.house.leg.state.mn.us/Fiscal/Home/TrackingSheets>

For more information about state tax issues in this summary, please contact Cynthia Templin, Fiscal Analyst, at cynthia.templin@house.mn or 651-297-8405.

For information about property tax, aids and credit expenditures in this summary, please contact, Fiscal Analyst, Katherine Schill at katherine.schill@house.mn or 651-295-5384.