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Ending the shutdown

Special session ends with compromise that no one really likes

By Nick Busse

One night's work in the House and Senate chambers: that's all it took to end a crisis six months in the making.

Lawmakers convened for a special session on the afternoon of July 19, to pass a dozen spending and tax bills to fund state government for the next two years. By the next morning, Gov. Mark Dayton had signed all 12 bills into law.

The budget compromise between Dayton

and the Republican-led Legislature is almost universally disliked, but it ended an unprecedented state government shutdown and put Minnesota back to work.

"I'm not really happy with this budget that I've signed into law. It's not what I wanted. But it's the best option that is available," Dayton said.

Technically, the budget will spend \$34 billion from the General Fund in fiscal years 2012 and 2013. However, that amount



Representing the Welfare Rights Committee, Angel Buechner of Minneapolis waits for legislators after being among the first to enter the Capitol July 19, 2011. Doors to the building had been locked since the state government shutdown began July 1.

does not include the one-time solutions. Throw in the K-12 school aid payment shift, tobacco revenue bonds and cash flow account transfer, and the budget reaches a total of \$35.7 billion.

The deal effectively closed a projected \$5 billion budget gap predicted by Minnesota Management & Budget in February. Dayton had hoped to raise income taxes on the state's wealthiest residents to help erase the deficit, while Republicans planned to

Shutdown continued on next page



PHOTOS BY ANDREW VONBANK

Senate Majority Leader Amy Koch, from left, Gov. Mark Dayton and House Speaker Kurt Zellers emerge from budget talks July 14 to report the framework of an agreement had been reached to end the state government shutdown.

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hold the budget steady at \$34 billion and use cuts alone to trim forecasted growth in spending. The two sides clashed for months and were unable to reach a deal in time to avert a shutdown.

In the end, House Speaker Kurt Zellers (R-Maple Grove) said the compromise included some major reforms that would “change our state for a generation.”

“We have worked very closely, very long into the night many times to come up with an agreement that I think will not only change the way Minnesota operates, but it will position our state for a great future,” Zellers said.

“We didn’t get everything we wanted,” said Senate Majority Leader Amy Koch (R-Buffalo). “We were really excited about the (vetoed) budget that we passed, but there are some very exciting reforms that are in these bills.”

DFL lawmakers, who were largely shut out of final budget talks and who put up very few votes in favor of the final budget, have a much less favorable view of the final agreement.

“Republicans refused every single attempt at a fair budget, forcing this borrow-and-spend non-solution on the people of Minnesota in order to end a painful government shutdown,” House Minority Leader Paul Thissen (DFL-Mpls) said in a press release.

Lawmakers are scheduled to convene again at noon on Tuesday, Jan. 24, 2012. 🗽



PHOTOS BY ANDREW VONBANK

A stack of budget bill spreadsheets wait for distribution on the House floor during the July 19 special session.



Rep. Lyndon Carlson Sr. speaks about the omnibus tax bill during the July 19 special session.

Shovel-ready and ready for jobs

Higher education facilities benefit from bonding law

By LEE ANN SCHUTZ

No capital investment bill made it past the House floor during the 2011 regular session, but at the end of the special session, there was a \$498 million law, which had been negotiated as part of the overall budget settlement for the 2012-2013 biennium.

Rep. Larry Howes (R-Walker), who sponsors the law with Sen. David Senjem (R-Rochester), said the law contains projects that are “shovel-ready and will put a lot of people to work and protect our assets.” It is effective July 21, 2011.

While the DFL had preferred a larger bonding bill to help create more jobs in the state, the bill received the OK from Rep. Alice Hausman (DFL-St. Paul), the DFL lead on the House Capital Investment Committee.

“The (law) is a product of good bipartisan work, shaping the (law) together, and the outcome is positive. It’s a very good (law),” she said.

Higher education receives a good share of the appropriations at \$220 million, with the University of Minnesota to receive \$88.8 million, including \$51.3 million toward a new physics and nanotechnology building on the Minneapolis campus. The law also provides the university with \$12.5 million to help mitigate placement of the Central Corridor light rail line on the campus.

The Minnesota State Colleges and Universities system will receive more than \$131.5 million for repairs, maintenance, building renovations and new buildings. Of the amount, St. Cloud State University will receive \$42.33 million for a new science and engineering laboratory facility and Normandale Community College in

Bloomington will receive \$21.98 million for a new academic partnership center and student services building.

Under the new law, money not spent by the institutions for projects should be used to address asset preservation. It also requires a biennial report to the Legislature on that activity.

Of the \$55.9 million focused on transportation projects, \$33 million will go for local bridge replacement and rehabilitation; \$10 million for grants under the local roads of state or regional significance program and rural road safety program; \$3 million is for railroad warning device replacement; and \$2.5 million is for grants to pay up to 80 percent of nonfederal share for Greater Minnesota transit projects.

The state has seen persistent flooding in recent years, and the law provides \$50 million for flood mitigation projects. Moorhead could see up to \$16.5 million, Roseau up to \$6 million, Georgetown up to \$3 million, and New Ulm \$1 million. Clay County can use up to \$1 million for its local share for property acquisitions. New levees, whenever possible, will need to meet the state standard of 3 feet above the 100-year flood elevation.

In the area of environment and natural resources, supporters say \$16 million for renovations to the Coon Rapids Dam are needed to stop the influx of Asian carp to

During the 2011 regular session the House Capital Investment Committee looked closely to defund projects bonded in previous years, but had yet to start construction. Howes said this would free up money for projects that are ready to go. In this law, several projects are defunded, including the Minnesota Planetarium, which was approved at \$22 million in 2005.

the state’s waterways. Design-build can be used on the project. The newly created Lake Vermilion State Park receives a kick-start toward development with an \$8 million allocation.

Several locations in the state have been considered over the past few years for a new veterans cemetery. The law directs the commissioner of veterans affairs to give priority consideration to land owned and proposed for donation by Fillmore County. Previous law designated Redwood County for prioritization.

Other funding in the law includes:

- \$20 million for the wastewater infrastructure funding program;
- \$19 million for asset preservation at Corrections Department facilities;
- \$7 million to renovate a building at the Minnesota Sex Offender Program treatment facility in St. Peter;
- \$4.7 million to Hennepin County for a regional 911 emergency communications center;
- \$4 million for asset preservation at the Minnesota Zoo;
- \$1 million for a Minnesota African American History and Cultural Center; and
- \$300,000 for grave markers or memorials on public land with unmarked graves of deceased residents of state hospitals or regional treatment centers.

2011 Special Session: HF23*/SF9/CH12



Withholding state funds from schools

Education finance law keeps \$780 million for other General Fund spending

By MIKE COOK

Republicans call it a good law for the state's children, while DFLers say the moving of money is a poor way to balance the state's budget.

No matter what it's called, a \$780 million shift in school aid payments is included in the \$14.5 billion omnibus education finance law.

Under the funding shift, schools will receive 60 percent of their anticipated funding during the first year of the biennium with the rest bought back when the economy recovers and state revenues increase enough to build up a budget surplus. The remaining 40 percent will go into the state's General Fund.

"The good news is that unlike previous shifts in previous years, we're actually paying the school districts for this," said Rep. Pat Garofalo (R-Farmington), who sponsors the law with Sen. Gen Olson (R-Minnetrista). "We're giving them additional money to help finance those costs: a \$50 increase in the per pupil funding formula the first year, a \$100 per pupil increase in the second year."

Critics orated it is the second straight biennium that education shifts have been used to balance the state budget: a 70-30 shift was used last year. Before this the ratio had been 90-10. While the shift helps the state balance its budget, critics say it will force school districts to scramble to make up for the lost revenue and that many school districts have already resorted to short-term borrowing to meet cash-flow needs because of last year's shift.

Rep. Mindy Greiling (DFL-Roseville) said the law brings the total amount owed to schools to more than \$3 billion, with no plan to pay the money back.

"We're borrowing from junior to deal

with adult's issues," said Rep. Carlos Mariani (DFL-St. Paul). "I really worry greatly about the long-term future of public education in our state by doing these borrowing schemes. I think it's beneath us."

The law contains \$4 million in early childhood scholarships.

"We believe that low-income parents have the same right and access to quality preschool education just like wealthy people do," Garofalo said.

The law calls for a 5 percent funding reduction to the Department of Education each year. The same will be true for the Perpich Center for the Arts Education. The original House bill sought to eliminate the center as a state agency.

An integration funding program — which helps districts comply with state desegregation laws — will be eliminated at the end of fiscal year 2013, replaced with a statement that Minnesota "does not condone separating school children of different socioeconomic, demographic, ethnic, or racial backgrounds into distinct public schools. Instead, the state's interest lies in offering children a diverse and nondiscriminatory educational experience." A commission will be convened with legislative and executive appointments to decide how to better spend the program money to improve student performance.

Other provisions in the law include:

- a restatement of a goal that the Legislature seeks to have every child reading at or

above grade level by the end of third grade, requiring districts to provide reading intervention to accelerate student growth;

- requiring local districts and the state to develop teacher evaluation plans where at least 35 percent of a teacher's evaluation depends on student performance;
- extending by two years the relief from requiring local districts to spend 2 percent of their basic revenue on staff development;
- repealing the state's authority to borrow from school districts with reserves during a fiscal year;
- districts are to develop and implement a performance-based system for annually evaluating school principals;
- repealing a law that financially penalized school districts for not reaching a contract deal with its teachers by Jan. 15; and
- the Board of Teaching and the commissioner of education must jointly convene and facilitate an advisory task force to develop recommendations for a statewide tiered teacher licensure system.

A plan to provide vouchers for poor families at low-performing Twin Cities' schools so students could attend private schools did not make it into law. A special education funding cap and a plan to grade schools A-F were also left from the final product.

"We have provisions in this (law) that will empower parents, we have in this (law) provisions that will improve teaching, provisions that will improve principals and we have provisions that will improve learning, increase achievement and hopefully close our achievement gap," said Rep. Sondra Erickson (R-Princeton). "This is a great day for the children of Minnesota, for the parents of Minnesota and for our teachers and principals because we're moving forward."

2011 Special Session: HF26*/ SF11/CH11



Less money for jobs, housing

Law preserves funding for disabled and key jobs programs

By Nick Busse

The budget deal between Republican legislators and Gov. Mark Dayton will leave less money for jobs, housing and economic development in the 2012-2013 biennium. However, it will preserve and even boost funding for a handful of programs for the disabled and small businesses.

Sponsored by Rep. Bob Gunther (R-Fairmont) and Sen. Geoff Michel (R-Edina), a new law reduces General Fund spending on jobs and economic development by 8.5 percent. The Housing Finance Agency, Department of Employment and Economic Development, Department of Labor and Industry and a number of smaller agencies are funded by the law.

An earlier bill proposed a much deeper overall cut of 17.8 percent. Dayton vetoed that bill May 24, arguing many of the program reductions were too onerous.

In total, \$250.8 million would be spent over the two-year biennium, with \$169.4 million coming from the General Fund. A pair of one-time transfers from special unemployment insurance accounts would reduce the net General Fund impact to \$154 million. The vetoed version of the bill would have spent \$138.2 million.

The law will provide one-time funding increases for the Minnesota Investment Fund (\$3 million), the redevelopment grant program (\$2 million) and Enterprise Minnesota (\$500,000). To help leverage federal funding, one-time appropriations are also made to Vocational Rehabilitation

Services (\$4 million) and State Services for the Blind (\$300,000).

Extended Employment, the Minnesota Youth Program and YouthBuild are all spared from cuts included in the vetoed bill. Several grant programs funded through DEED will see reduced appropriations, however, as will a handful of housing programs.

Rep. Karen Clark (DFL-Mpls) said the law is better than the original bill, but said it still cuts funding for valuable programs like contaminated site cleanup grants.

Many of the law's reductions are tied to a plan to reform the way grant money is distributed through DEED. The department currently serves as a pass-through agency for grant money that lawmakers set aside for certain nonprofit organizations that perform workforce and economic development-related services.

Under the law's provisions, beginning in fiscal year 2013, the current system of earmarking grant money in law would end. In its place, a series of three new competitive grant programs would be established: one for business development, one for adult workforce development, and another for

youth workforce development.

In part, the move toward a competitive grant process is intended to address concerns raised in a 2010 Office of the Legislative Auditor report on the state's workforce programs. Among other key findings, the report stated that workforce grant recipients should be selected through a competitive process.

The law also includes provisions to encourage lending to small businesses. Under the proposal, the state will guarantee up to 70 percent of loans made by qualified gap lenders — organizations that provide subordinate loans in conjunction with larger loans made by commercial financial institutions. The total guarantee amount would be capped at \$1.5 million per loan.

The law establishes a loan guarantee trust fund for these purposes; however, no funding is provided for the program. The language is intended as a placeholder until more money is available.

Other selected provisions in the law include:

- authorizing DEED to retain up to 5 percent of the money appropriated for pass-through grants to monitor programs and services funded with the grant money;
 - changing inspection requirements for manufactured homes and establishing a \$1 million cap on manufactured home park owner payments into the manufactured home relocation trust fund; and
 - making numerous technical changes to continuing education requirements for construction codes and licensing.
- 2011 Special Session: HF3/SF2*/CH4



Meeting halfway

Environment and energy law packs policy changes

By Nick Busse

A new law splits the difference between Republican lawmakers' and Gov. Mark Dayton's respective spending proposals on environment and energy programs.

The omnibus environment, energy and natural resources finance law appropriates \$237.9 million from the General Fund in the 2012-2013 biennium. That represents a nearly 19 percent cut from the forecasted base. Dayton called for \$276.9 million and the Legislature originally proposed \$201.5 million.

"This is the environment bill that will get the state parks up and running and open," said Rep. Denny McNamara (R-Hastings), who sponsors the law with Sen. Bill Ingebrigtsen (R-Alexandria).

The law provides funding for the Department of Natural Resources, the Pollution Control Agency, the Commerce Department and several other agencies. It also includes the policy provisions from the omnibus game and fish bill and appropriations recommended by the Legislative-Citizen Commission on Minnesota Resources.

To help balance the budget, the law relies on a number of one-time accounting transfers. These include a \$13.7 million transfer to the General Fund from the workers' compensation assigned risk plan and a \$3.4 million transfer from the special revenue fund. For the PCA, a \$42 million transfer is authorized from the environmental fund to the remediation fund.

One of the session's hot-button issues — the impact of sulfate pollution from mining on the state's natural wild rice beds — is addressed through a study to be commissioned by the PCA. The law directs the agency to consult with stakeholder groups and then contract with "appropriate scientific experts" to determine whether current discharge limits should be modified. The PCA can then initiate a rulemaking process and enforce any new standards it sees fit to adopt.

Other studies authorized by the law include:

- a report on purpose, rates and adequacy of current funding for payment in lieu of taxes (PILT) for state natural resource lands;
- a report on a long-term plan to restructure the state's tree nursery program; and
- a report on opportunities to streamline, strengthen and improve sustainable water management rules and statutes.

The law also establishes a 10-member advisory committee under the Office of Enterprise Technology to review technology accessibility standards and develop proposals to fund captioning of webcasts and other technologies. The goal is to make state government multimedia more accessible to persons with disabilities.

Game and fish

The law includes dozens of game and fish provisions, including some that were included in a vetoed game and fish omnibus bill from 2010. Selected provisions include:

- allowing disabled and combat-wounded veterans to receive preference in receiving hunting and fishing licenses and permits;
- giving drivers whose vehicles have collided with and killed a deer on a public road priority to receive a permit to keep the deer;
- allowing private landowners to use drums to bait bears on their own land;
- requiring that frozen or dead fish bait be certified as disease-free;
- requiring certain fish farms to complete an annual health inspection to test for viral hemorrhagic septicemia (VHS);
- allowing ice fishing without a license in state parks;
- making pastures and fences eligible for compensation due to damage by elk;
- adding sandhill cranes, gray wolves and Eurasian collared doves to the list of animals defined as game and unprotected species in statute;
- making hunting big game while prohibited from obtaining a license a gross misdemeanor;
- increasing the penalty to owners of dogs that mortally wound big game to \$500;
- allowing someone to transfer a hunting or fishing license to a person with a severe disability or critical illness under certain conditions;
- adding certified nurse practitioners and certified physician assistants to the list of those eligible to verify medical evidence for the purpose of granting certain hunting permits; and
- removing height restrictions for permanent deer stands.

2011 Special Session: HF5/SF3*/CH2



Reform measures draw support

Health and human services reductions draw sharp DFL rebuke

BY LEE ANN SCHUTZ

One of the largest pieces of the state budget is health and human services, and for the 2012-2013 biennium, the law comes in at \$11.3 billion, about 8 percent below the forecast base. However, according to the law's sponsor, Rep. Jim Abeler (R-Anoka), the reform proposed puts health and human services on the road to sustainability.

Referring to the 2011 session omnibus bill vetoed by the governor, Abeler said, "If you contrast the choices, this (law) is superior in many ways. Who knew you can do reform with no money and save money." The law reduces spending about \$1.04 billion in the biennium and creates a growth rate of 4.8 percent in the out years, he said.

Sen. David Hann (R-Eden Prairie) is the Senate sponsor.

Rep. Steve Gottwalt (R-St. Cloud) said the law reduces growth in state spending from 22 percent to 11 percent in the first biennium.

However, Rep. Thomas Huntley (DFL-Duluth) said it "basically stinks." He pointed to the cuts to hospitals and nursing home funding, saying this will force some out of business. He acknowledged some of the reform measures, particularly Medicaid early enrollment, but added that this was part of the federal Patient Protection and Affordable Care Act.

Provider tax not provided

The law provides the Department of Human Services with a General Fund appropriation of \$11.4 billion over the 2012-2013 biennium and the Department of Health \$143.2 million over the same period.

According to a nonpartisan House Research Department report, Minnesota imposes a series of taxes on various types of providers of health care goods and services. Revenues collected under these taxes are used to pay for the MinnesotaCare program,

which provides state-subsidized health care coverage for low-income individuals. Under the new law, a phase out of the so-called provider tax will begin with complete elimination by 2020.

Some small rural nursing homes and rural pharmacies benefit from the law with a 15 percent and 4 percent rate increase, respectively.

The law also recognizes the increasing number of Alzheimer's disease patients and those suffering from dementia. Beginning July 1, 2012, the commissioner of health is to develop measures for improving assessment and care related to these diagnoses.

Human services spending

The law saves more than \$3.3 billion over the biennium by reducing or eliminating grants, including \$826 million in child care development grants and child care facility grants, and \$410 million by eliminating the University Special Kids Intensive Care Management grant.

The state's managed elderly waiver program is cut by \$20.4 million over the biennium, and there is a reduction to certain congregate living rates.

Reforms include changes for those using the EBT (electronic benefits card) program for cash and food assistance. The law spells out more clearly what the card can or cannot be used for, such as no alcohol or tobacco. It

also requires liquor stores, tobacco stores, gambling establishments and tattoo parlors to negotiate with their third-party processors to block EBT cash transactions at their places of business and withdrawals of cash at ATMs located in their places of business.

Child care assistance provisions are tightened. The new law reduces the maximum rate of assistance that can be paid for the at-home infant child care program from 90 percent to 68 percent of the rate that is paid for licensed family child care assistance. Additionally, the law prohibits, under most circumstances, child care assistance funds from being used for services provided by a person who employs either the parent of the child or a person who resides with the child.

There are several eligibility changes to General Assistance and Minnesota Family Investment Program (MFIP):

- limiting recipients to one emergency General Assistance grant in any 12-month period. It establishes a floor of \$1,000 per fiscal year for county emergency General Assistance;
- prohibits counties from negotiating supplementary services rates with providers that do not enforce a policy of sobriety;
- reducing the MFIP vehicle asset limit from \$15,000 to \$10,000; and
- excluding activities done for political purposes as work activities.

Counties administer most of the state's health and human service programs. The new law begins the road toward giving counties more flexibility and fewer mandates.

The law creates three task forces related to:

- reducing prematurity and improving premature infant health care in the state;
- improving awareness, early diagnosis and care of those with an autism spectrum disorder; and
- eliminating the purchase of tobacco and alcoholic beverages by recipients of the cash and food assistance programs.

2011 Special Session: HF25*/SF10/CH9



System funding decreases

Higher education law cuts \$351 million from base funding

By MIKE COOK

Given the opportunity for a retake, the Legislature adopted — and Gov. Mark Dayton gave a passing grade to — an omnibus higher education finance law that contains double-digit percentage reductions for the state's public institutions of higher learning.

The nearly \$2.57 billion law is \$60 million greater than what the Legislature proposed in May, but still about \$351 million below base funding. Dayton's initial plan called for a \$170.9 million base reduction. It is effective retroactively to July 1, 2011.

"Fifty million (dollars) was added to the appropriation for the University of Minnesota, \$9.7 million was added to the appropriation for the Minnesota State Colleges and Universities system and \$257,000 was added to the Office of Higher Education funding," said Rep. Bud Nornes (R-Fergus Falls), who sponsors the law with Senate President Michelle Fischbach (R-Paynesville).

Overall, the total higher education spending is reduced 8.8 percent from the previous biennium. Both the university and MnSCU will receive approximately \$1.09 billion from the General Fund: a 15.1 percent reduction from forecast base for the university and 13.5 percent for MnSCU. In terms of reductions from the 2010-2011 biennium, it is 10.4 percent for the university and 10.6 percent for MnSCU.

One percent of fiscal year 2013 university and MnSCU funding will be contingent on meeting three of five specific criteria, including MnSCU increasing the enrollment of students of color by at least 10 percent compared to fiscal year 2010 and increasing persistence and completion rates for students entering in the fall of 2009 and 2010.

The university criteria includes increasing institutional financial aid so it is greater in fiscal year 2012 than it was in fiscal year 2010 and producing at least 13,500 degrees on all campuses in fiscal year 2012.

The state grant program will see an additional \$21 million, a 7.3 percent increase. The House initially proposed increasing base funding for the state grant program by \$27.1 million; the Senate \$7.2 million and the governor kept state grant funding at base levels. There is a 3.1 percent increase in work-study programs, and stable funding is provided for child care assistance grants that help students who have children to continue their education.

Rep. Terry Morrow (DFL-St. Peter) noted that studies indicate 85 percent of Minnesota's workforce in 2020 will need to be college educated. He said this bill could price college at an unattainable level for many Minnesotans who come from cash-strapped families.

For example, he said a university undergraduate could face a \$1,300 tuition increase under this bill. "Not only are you threatening to price out students, and price out their families by making historically large cuts, we're also cancelling thousands and thousands and thousands of classes, cutting faculty and staff."

Proposed tuition increase caps did not make the final product, except for the MnSCU community and technical colleges,

which cannot increase tuition by more than 4 percent in the 2012-2013 academic year.

"The governor refused to have comprehensive tuition restraint in this bill, so there are no tuition caps for the four-year universities," Nornes said. "We were able to convince the governor, however, that Minnesota's two-year technical colleges need to become a little more competitive."

The MnSCU Board of Trustees and university's Board of Regents are encouraged to offer an optional tuition plan for undergraduate Minnesota students with the goal of holding tuition constant at the rate charged in the first semester.

Prohibiting the use of state or federal funds for state programs to support human cloning, or for expenses incidental to human cloning, was removed in negotiations between the governor and legislative leaders.

"It is imperative for Minnesota's biomedical future that both the University of Minnesota and the Mayo Clinic approve of any language affecting this vital area of research, which has the potential to bring thousands of jobs to Minnesota and save many thousands more lives," Dayton wrote when vetoing the bill presented him during the regular session.

Other finance and policy provisions in the bill include:

- eliminating the state-funded matching grant for low- and middle-income families who participate in the Minnesota College Savings Plan;
- lowering of the eligibility age for the senior citizen higher education program from 66 to 62;
- requiring the Office of Higher Education to study the state's for-profit graduate education sector and report its findings and recommendations for improving graduate education in the area to the Legislature by Jan. 15, 2013; and
- repealing the requirement that public institutions sell American-made clothing and apparel in their bookstores to the extent possible.

2011 Special Session: HF4*/SF5/CH5 

Legacy bill brought back to life

More than \$449 million appropriated from voter-approved sales tax increase

By LEE ANN SCHUTZ

The 2011 regular session ended with debate but no legislative action on the Legacy funding bill. But its provisions came together as part of the budget agreement between Gov. Mark Dayton and Republican legislative leaders.

The original bill stalled on the House floor the last night of session over concerns about a provision exempting the Lessard-Sams Outdoor Heritage Council from the state's Open Meeting Law. The council is responsible for the \$86 million in allocations from the Outdoor Heritage Fund contained in the nearly \$449.8 million law. Funds are collected through the 2008 voter-approved constitutional amendment increasing the state sales tax by three-eighths of 1 percent to pay for outdoors and cultural projects.

Funding provisions in the new law are almost identical to those in the previous bill. A major change, however is that the Lessard-Sams Outdoor Heritage Council will remain subject to the Open Meeting Law, ensuring transparency to the allocation process.

Sponsored by Rep. Dean Urdahl (R-Grove City) and Sen. Bill Ingebrigtsen (R-Alexandria), the new law also allocates:

- \$179.43 million for the Clean Water Fund for wastewater treatment, water quality monitoring and the AgBMP Loan Program to address runoff from feedlots and farm fields;
- \$105.31 million for Arts and Cultural Heritage funding, including grants to arts and arts access initiatives; cultural heritage programming; the Minnesota Historical Society; Minnesota public television and public radio; Minnesota, Como and Lake Superior zoos; children's museums and veterans camps;

- \$86.95 million to the Outdoor Heritage Fund for shoreland protection, prairie restoration, wildlife management land acquisition and conservation programs; and
- \$78.1 million for the Parks and Trails Fund with grants for metro parks and trails, state and regional parks and recreation areas.

Rep. Jean Wagenius (DFL-Mpls) called the law unfair to the Twin Cities metropolitan area. The metropolitan area contributes "about 64 percent of the money" in the law, she said, but that 92 percent of the Outdoor Heritage Fund appropriations and about 72 percent of the Clean Water Fund money go to Greater Minnesota. "We took a huge step backwards in fairness," she said.

The law changes fund distribution for some appropriations to a competitive grant process, including public radio and the state councils of color.

A 22-member State Capitol Preservation Commission is established through the law to develop a comprehensive pre-design plan to restore and preserve the State Capitol.

Additionally, the law extends the sunset date for the Dakota and Ojibwe language

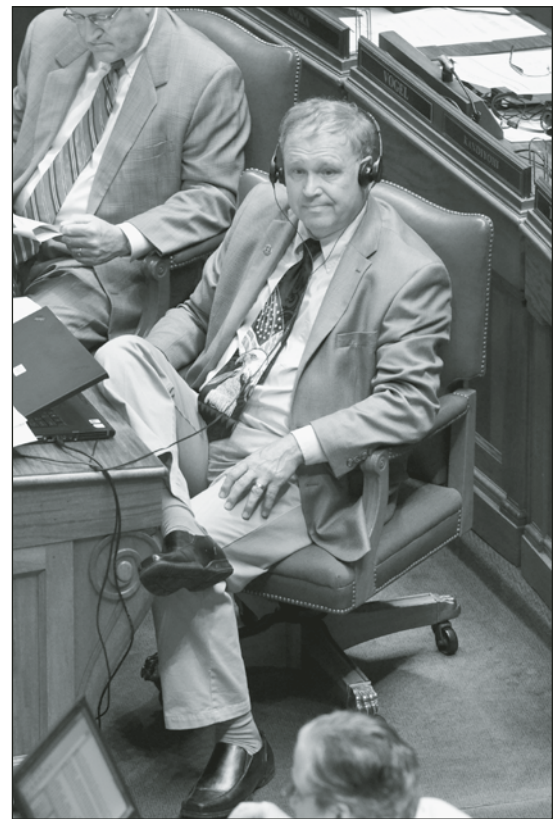


PHOTO BY ANDREW VONBANK

Rep. Dean Urdahl listens to debate on the Legacy funding law during the July 19 special session.

preservation working group to Feb. 16, 2013.

Most of the law's provisions are retroactive to July 1, 2011.

2011 Special Session: HF6/ SF6*/CH6



Pension changes now law

Local employee plans to join statewide plan

By Nick Busse

A new law will allow a pair of Minneapolis public employee pension plans to merge and be incorporated into a statewide plan.

Sponsored by Rep. Morrie Lanning (R-Moorhead) and Sen. Julie Rosen (R-Fairmont), the omnibus retirement law enacts the recommendations of the bipartisan Legislative Commission on Pensions and Retirement.

Lanning said the law is smaller than

typical omnibus retirement legislation.

“This is nowhere near the kind of bill that we passed last year, but nonetheless it has some important provisions,” he said.


The law authorizes — but does not require — the consolidation of the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association pension plans into the Public Employees Retirement Association’s police and fire plan.

The law also revises the salary scale and

payroll growth rate assumptions used by the state’s major retirement plans. The revisions are based on the results of recent actuarial experience studies.

Selected other provisions in the law include:

- providing lower post-retirement increases for members of the St. Paul Teachers Retirement Fund Association until greater funding ratios are achieved;
- changing filing deadlines for volunteer firefighter relief associations in Hibbing, Makinen and Mapleview to allow them to qualify for 2010 state fire aid; and
- several changes relating to public employees in Red Wing and Duluth.

2011 Special Session: HF14*/SF7/CH8 

WAITING FOR THE GOVERNOR



PHOTO BY ANDREW VONBANK

A stack of budget bills await Gov. Mark Dayton’s signature July 20.

Keeping the courts adequately funded

Public safety finance law doesn't gut Human Rights Department

By MIKE COOK

The omnibus public safety budget law contains reductions for some areas of courts and corrections, but not nearly as steep as those proposed by the Legislature during its regular session.

Sponsored by Rep. Tony Cornish (R-Good Thunder) and Sen. Warren Limmer (R-Maple Grove), the law, effective retroactively to July 1, 2011, contains \$1.8 billion in General Fund spending on corrections, courts and law enforcement programs, nearly \$29 million more than a conference committee report that was vetoed by Gov. Mark Dayton in May.

"Public safety has been secure in the commissioner's mind," Limmer said. "By keeping an adequate funding for our courts, I believe we can sustain the protection of civil liberties with this budget."

Rep. Steve Smith (R-Mound) said the law increases overall court funding by 1.2 percent: the Tax Court will see a 4.4 percent increase, district courts 1.3 percent, Court of Appeals 1 percent and the Supreme Court 0.8 percent. All increases are over base funding.

Also receiving increases are the Board on Judicial Standards (3.2 percent) and the Public Defense Board (1.9 percent) with the latter's funding increase directed, in part, "to alleviate caseloads by hiring additional public defenders." The Sentencing Guidelines Commission and Uniform Laws Commission are to be held at base levels.

Civil Legal Services received a 6.8 percent base reduction (\$1.6 million) and the Guardian ad Litem Board 2.4 percent (\$600,000).

The Office of Justice Programs will be cut \$2.66 million (the vetoed bill had a

\$12 million cut) and language in the vetoed bill that would have limited reductions to domestic abuse shelters to 5 percent and would have prohibited cutting grants to youth intervention programs is not in the law.

The biggest gainer in the updated budget agreement is the Department of Human Rights, which ended up with just a 5 percent funding reduction. The initial bill vetoed by Dayton called for a 65 percent decrease. Language prohibiting the department from using state funds for education and outreach programs has been eliminated, as has language increasing contract compliance thresholds.

A \$10 million proposed reduction to the Department of Corrections has been reduced to \$3.33 million, and the proposed reduction to the Bureau of Criminal Apprehension has been sliced from \$1 million to \$500,000.

Other fiscal aspects of the bill include reducing an \$8.5 million transfer from the state's Fire Safety Account to the General Fund to \$3.7 million.

"We're leaving a considerable amount, which is a great relief to many of our fire chiefs," Limmer said. "We're still going to continue what's the best use of this funding and how can we protect it in the future."

The money, garnered through a 0.65 percent surcharge on homeowner and commercial fire insurance policies, is used for the Minnesota Board of Firefighter Training and Education, staffing and operations of

the State Fire Marshal Division and fire-related regional response teams and other fire service programs that have the potential for statewide impact.

Some of the account balance has been used to help fund the state's deficit in recent years. In fiscal year 2010, \$6.9 million was transferred to the General Fund and \$3.6 million in fiscal year 2011.

Gone in this law is a provision to transfer \$5.2 million from a 911 emergency system account to the General Fund.

Under the vetoed bill, offenders with 60 days or less remaining in their sentences would have been required to serve that time in a county jail or workhouse. That provision is not in the final agreement. Nor is a requirement for the state to participate in the Department of Homeland Security's Secure Communities Initiative.

An inmate health co-payment of at least \$5 can be imposed for each inmate visit to a health care provider, under the law, and counties will be allowed to reimburse costs of medical services to local prisoners at the Medical Assistance rate rather than the negotiated provider rate. This should save counties considerable money.

The law also aims to address sexually exploited youth by creating a safe harbor policy to protect juveniles involved in prostitution and sex trafficking.

Effective Aug. 1, 2014, it provides that a juvenile under age 16 cannot be prosecuted for a prostitution offense under the state's delinquency code. A 16- or 17-year-old alleged to have committed a first-time prostitution offense will be referred to diversion or child protection with an opportunity for the case to be dismissed. The law increases penalty assessments on patrons of prostitution and dedicates 40 percent of those fines to victim's services for sexually exploited youth.

2011 Special Session: HF1/SF1*/CH4 

Small budget, big changes

State government finance law includes plans for government reform

By Nick Busse

Republicans had hoped to pack this year's omnibus state government finance law with significant budget cuts and ambitious reforms. In part, they succeeded.

Gov. Mark Dayton signed a new law that cuts spending on core state government services by 1 percent. The net spending reduction rises to 10.3 percent when the impact of new revenues are included. Both figures are modest compared to the 32.3 percent cut that Republican lawmakers sent to Dayton earlier this year, but the law includes a number of measures aimed at making government more efficient and accountable.

Sponsored by Rep. Morrie Lanning (R-Moorhead) and Sen. Mike Parry (R-Waseca), the law provides funding for Minnesota Management & Budget, the Revenue Department, the Legislature and more than two-dozen other agencies and constitutional offices for the 2012-2013 biennium.

Cuts to state agencies have been dramatically reduced from the proposals in the original bill, which Dayton vetoed. Most agencies will receive a 5 percent cut in their operating budgets, rather than the 10 or 15 percent reductions called for in the first version. Only three agencies — the Veterans, Military Affairs and Revenue departments — will see budget increases (of 2.5 percent, 7.7 percent and 3.5 percent, respectively).

The law appropriates \$905 million from the General Fund. A tax analytics and compliance initiative is expected to bring in \$82.3 million, and an expanded federal offset program another \$4.3 million, leaving a net General Fund impact of \$818.9 million.

Though it covers a relatively small area of total state spending, the law serves as a vehicle for many of the Republican majority's government reform proposals.

Beginning Oct. 1, 2011, all of the state's information technology operations and staff will fall under the control of the Office of Enterprise Technology. The office will also assume control of any money appropriated for IT operations or improvements beginning July 1, 2013. The goal is to save money, streamline services and improve the security and stability of critical IT infrastructure.

The law sets up a Sunset Advisory Commission to explore opportunities to eliminate, combine or reorganize state agencies. A rotating 12-year schedule will be established for the commission to review each agency's operations. A proposed requirement that all agencies expire automatically unless lawmakers take action was amended to exempt major, cabinet-level agencies. This part of the law is collectively referred to as the "Minnesota Sunset Act."

Selected other policy provisions in the law include:

- authorizing a \$10 million pilot program using bonds to pay nonprofits for services based on demonstrable return on investment to the state;
- requiring the Department of Administration to issue requests for proposals for vehicle fleet consolidation, building efficiency improvements and strategic sourcing;

- requiring an audit to verify the eligibility of dependents claimed by state employees in the State Employee Group Insurance Program;
- establishing an employee gain-sharing system to reward state workers for finding ways to cut costs; and
- expanding the membership of the Legislative Commission on Pensions and Retirement and adding more minority party members from the House and Senate.

A controversial requirement to reduce the state's workforce 15 percent by 2015 was dropped from the proposal as part of the final budget agreement. Also left on the chopping block was a plan to shift \$90 million of the total cost of state employees' health insurance premiums off of the state and on to workers, as well as a \$94.9 million general reduction to be spread out across all state agencies.

The law provides some relief and exceptions for individuals and businesses affected by the state government shutdown. Provisions include:

- providing that state employees who were laid off during that time receive service credit and credited salary in their pension plans;
- instructing the Minnesota Racing Commission to waive racing day requirements to the extent that the shutdown restricted racetracks' ability to meet them; and
- allowing state agencies to waive late fees or penalties when the lateness of a permit, registration or other document was due to the agency's inability to operate during the shutdown.

2011 Special Session: HF27/SF12*/CH10



New spending hinged on 'tobacco bonds'

Tax law highlights include flood relief and new science and technology initiative

By LEE ANN SCHUTZ

New money for spending hinged on passage of two bills during the special session — the omnibus education finance bill, containing the \$700 million shift in school aid payment, and the omnibus tax bill. The latter provides language for the state to raise \$640 million by issuing state bonds against future tobacco revenues.

Gov. Mark Dayton reluctantly agreed to what many called “kicking the can down the road,” as a means to put an end to the 20-day government shutdown. He gave up his call for raising taxes on Minnesota’s wealthiest residents in favor of the borrowing and shifts proposed by the Republicans.

Discussion on the House floor showcased the party differences to solving the budget deficit.

“We sent a bill to our kids. We are making promises we can’t keep with money we don’t have,” said Rep. Paul Marquart (DFL-Dilworth). “I can’t support the bill because it raises the debt for our kids. Even in this bill with all the borrowing gimmicks, next year, this Republican tax bill gives us a \$2 billion deficit in the next biennium. And that doesn’t include the school shifts.”

House Majority Leader Matt Dean (R-Dellwood) chastised Democrats for “mocking” them for wanting to rein in spending. “Guilty as charged,” he said, adding that the DFL had a preoccupation with raising taxes.

Rep. Greg Davids (R-Preston), who sponsors the law with Sen. Julianne Ortman (R-Chanhassen), defended the final product, and praised the governor for his willingness to compromise. “I wanted to avoid all the back stuff. The governor stepped up and is leading. We can play this game all day long.

We’ve done some good things in this bill.”

The law appropriates \$9 million for fiscal year 2012 to pay the state and local match for federal disaster relief for spring floods in southwestern and western Minnesota, the May 22, 2011, tornado in Minneapolis and Anoka County, and July 1 storms and tornados.

Cities receiving local government aid had the governor’s assurance from the start of the session that it would not be cut. The law retains local government aid at 2010 levels.

The law saves \$632.63 million during the 2012-2013 biennium, down approximately \$292.6 million from the vetoed bill, largely by softening the reductions to local government aid and by nixing the statewide property tax reduction the Legislature proposed.

Republicans had wanted to use \$60 million from the Douglas J. Johnson Fund, an Iron Range economic development fund, to help balance the budget. That fund remains intact.

Credits in the law include:

- a \$75 increase of the maximum homeowner property tax refund from \$2,460, and the income rate at which the maximum applies is also increased;
- a reduction to the percentage of rent constituting property taxes for renter property tax refund claims from 19 percent to 17 percent starting with fiscal year 2013; and

- extending the suspension of the political contribution refund program for two years.

The market value valuation exclusion for disabled veterans to a family caregiver under certain circumstances is expanded, as is the benefit to the surviving spouse from two years to five years. Surviving spouses of service personnel killed in action also qualify for the benefit for five years.

A new Minnesota Science and Technology Authority will receive \$500,000 to provide grants for research projects developed by a college or nonprofit organization or a qualified science and technology company.

The law adopts several federal tax changes enacted in 2010. It also modifies the phase-out range for married joint filers in the working family credit to correspond to the expanded phase-out range in effect for the federal earned income tax credit for tax year 2011 only.

Now that Wisconsin has paid the state the nearly \$60 million it owed in back income tax reciprocity payments, Minnesota is ready to move toward a new agreement.

Since 1968, residents crossing state lines for work were able to file their income tax return in their state of residence. However, in 2010, the agreement was nixed because the state lost money and because of the delay in receiving any payment.

The new law authorizes the commissioner of revenue to begin negotiations with Wisconsin with the goal of restoring income tax reciprocity effective for tax year 2012.

Several cities received authorization for a new local sales tax. However, the law prohibits a local government from spending money to promote a local sales tax referendum, and it is limited to spending money only on the vote.

2011 Special Session: HF20*/SF8/CH7



Agreement lessens transit cuts

Metro Transit funding kept whole; Greater Minnesota transit hours reduced

By MIKE COOK

Users of Metro Transit bus and rail service are not expected to pay more to get around the Twin Cities metropolitan area; but those who rely on Greater Minnesota transit should have fewer transportation options.

These are two results of the omnibus transportation finance law.

Sponsored by Rep. Michael Beard (R-Shakopee) and Sen. Joe Gimse (R-Willmar), the proposal checks in at \$4.74 billion in total spending, although just \$125.66 million will come from the General Fund. It is about \$63 million more than Republicans originally sought and \$55 million less than Dayton's initial recommendation. User fees and taxes make up much of the remaining funds.

The legislation, effective retroactively to July 1, 2011, includes a \$51.7 million General Fund reduction to the Metropolitan Council for transit operations and a \$2.7 million reduction to Greater Minnesota transit. The proposal vetoed by Dayton in May called for \$109.44 million and \$7.62 million reductions, respectively.

Metro Transit officials warned the larger cuts could result in sizeable fare increases, significant route reductions and the laying off of hundreds of employees.

Instead, Gimse said, the council came forward with eight different provisions to make up the difference, including shifting some local sales tax revenue intended mainly for transit development to pay for train and bus operation.

Permissive language is included to permit about \$15.3 million from the Counties Transit Improvement Board be transferred to the Metropolitan Council for certain transitway operations. The board is funded

with a quarter-percent sales tax in five Twin Cities metropolitan area counties. Beard previously said the assistance is not unprecedented, noting when the board was authorized in 2008 — its first \$30 million went to the council to help with an operating deficit.

Additionally, the council can reduce grants to suburban transit providers, the so-called "opt-outs" that operate their own public bus service.

"This all helps Met Council put their plan together in such a way that they should have minimum disruption to their service," Beard said.

Rep. Frank Hornstein (DFL-Mpls) called the plan "an irresponsible budgeting approach" that takes Minnesota in the wrong direction and is a missed opportunity to build a 21st century transportation system to help grow the state's economy.

"We still have a \$51.7 million cut. Yes, we backfill that mostly with other dollars, dollars that are not meant for the purpose of backfilling Metropolitan Council local bus operation," he said. "We beg from the Met Council in terms of rearranging a whole bunch of their administrative operations, we borrow from suburban bus lines and we steal from counties their local sales taxes."

Rep. Terry Morrow (DFL-St. Peter) said the bill will result in upwards of 40,000 fewer hours of transit service in Greater Minnesota. "A tough economy is not the time when you fail to provide people rides. A

tough economy is not the time you tell almost half the people needing a ride in Greater Minnesota, 'You're not going to get there.'"

Other changes to the 2012-2013 appropriations include:

- an additional \$127 million from the Trunk Highway Fund is appropriated for state highway improvements as part of the Better Roads for Minnesota program;
- a \$66 million increase in state road construction funding from the Trunk Highway Fund due to anticipated federal aid increases;
- an additional nearly \$1.78 million from the state airports fund is appropriated in fiscal year 2013 for airport development grants; and
- state planning and research funding from the Trunk Highway Fund is increased by \$1.42 million for the biennium due to anticipated federal aid increases.

A Republican plan to prohibit the Department of Transportation from expending funds for commuter and intercity passenger rail planning unless there are special circumstances did not make the final product.

With no money allocated for passenger rail activities, the provision would likely have resulted in the closing of MnDOT's Passenger Rail Office, thereby relinquishing federal funding for rail activity. In order to receive federal funding, the office must administer existing agreements to ensure federal grant requirements are met.

To fund a new IT system operated by the Driver and Vehicle Services Division of the Department of Public Safety, the law extends until June 30, 2016, and reduces by 75 cents a temporary technology surcharge applied to vehicle registration renewals, various title transactions and driver's license and state identification card applications. On or after July 1, 2012, a \$7.1 million transfer from two DVS operating accounts will also be used for the system.

2011 Special Session: HF2*/SF4/CH3 

BILL INTRODUCTIONS

JULY 19, 2011

SPECIAL SESSION HOUSE FILES 1 - 27

Tuesday, July 19

HF1-Cornish (R)

Special Session Public Safety/Judiciary bill.

HF2-Beard (R)

Special Session Transportation bill.

HF3-Gunther (R)

Special Session Jobs bill.

HF4-Nornes (R)

Special Session Higher Education bill.

HF5-McNamara (R)

Special Session Environment bill.

HF6-Urdahl (R)

Special Session Legacy bill.

HF7-Laine (DFL)

Nonprofit health plan companies maximum financial surplus specified.

HF8-Clark (DFL)

Heart of the Earth Interpretive Center, Minneapolis funding provided, bonds issued and money appropriated.

HF9-Clark (DFL)

Alcohol judicial and health impact fund established to provide property tax relief, and alcohol judicial and health impact fee imposed.

HF10-Clark (DFL)

Minneapolis; Phillips Community Centers swimming pool funding provided, bonds issued and money appropriated.

HF11-Clark (DFL)

Minneapolis; Minnesota African American History Museum funding provided, bonds issued and money appropriated.

HF12-Kriesel (R)

Lottery facility games established; tax imposed on and providing for facility revenues; powers and duties provided to the director; and clarifying, conforming and technical changes made.

HF13-Greiling (DFL)

Budget negotiations required to be open to the public.

HF14-Lanning (R)

Special Session Pensions bill.

HF15-Champion (DFL)

Minneapolis; storm and tornado damaged areas within FEMA-1990-DR assistance provided, spending authorized to acquire and better public land and buildings and other improvements of a capital nature, bonds issued and money appropriated.

HF16-Winkler (DFL)

Officers of major political parties prohibited from being employed by the Legislature.

HF17-Winkler (DFL)

State use of appropriation bonds prohibited and constitutional amendment proposed.

HF18-Hackbarth (R)

State lottery director authorized to establish gaming machines, fee imposed on gaming machine revenue and power and duties to the director provided.

HF19-Gunther (R)

State lottery director authorized to establish gaming machines, gaming machine revenue fee imposed and powers and duties provided to the director.

HF20-Davids (R)

Special Session Tax bill.

HF21-Cornish (R)

Legislators prohibited from receiving compensation during a period of government shutdown.

HF22-Cornish (R)

Civil and criminal penalties and citations prohibited for certain conduct when state agencies were not issuing required licenses and permits.

HF23-Howes (R)

Special Session Bonding bill.

HF24-Abeler (R)

Special Session Health and Human Services bill.

HF25-Abeler (R)

Special Session Health and Human Services budget bill.

HF26-Garofalo (R)

Special Session Education bill.

HF27-Lanning (R)

Special Session State Government Finance bill.

KEEPING TABS



PHOTO BY ANDREW VONBANK

Lobbyists and members of the public watch the special session proceedings on a television monitor in the Capitol July 19.

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