



AN OVERVIEW OF GOVERNOR MARK DAYTON'S FY 2012-13 BIENNIAL BUDGET RECOMMENDATIONS

Money Matters 11.04
February 2011

This paper provides an overall description and detail of Governor Mark Dayton's FY 2012-13 biennial budget recommendations. Part one is the summary section. Part two provides details organized according to the jurisdictions of the House of Representatives' fiscal committees and divisions.

| | |
|---|----------|
| The Overall Budget Picture | 1 |
| The Governor's Budget in Detail | |
| Agriculture & Rural Development | 7 |
| Capital Investment | 9 |
| Education Finance | 11 |
| Environment, Energy & Natural Resources | 15 |
| Legacy Funding Division | 19 |
| Health & Human Services | 27 |
| Higher Education | 37 |
| Jobs & Economic Development Finance | 40 |
| Judiciary Finance | 50 |
| Public Safety | 52 |
| State Government | 54 |
| Transportation | 66 |
| Taxes, Local Aids & Credits | 68 |

The Overall Budget Picture

The November 2010 state budget forecast projected that general fund spending in FY 2012 and 2013 would exceed general fund revenue by \$6.587 billion. \$399 million would carry forward from FY 2011 leaving a projected FY 2012-13 deficit of \$6.188 billion. That forecast projected general fund revenues of \$32.443 billion and general fund expenditures of \$39.03 billion.

As mentioned above the November 2010 forecast projected a \$399 million balance for the FY 2010-11 biennium. This balance largely resulted from the projected receipt of additional federal funds for federal matching assistance (FMAP) in the medical assistance program.

The state's budget reserve is at \$8.9 million and the cash flow account is at \$266 million.

These balance numbers do not include the effects of inflation in most of the expenditures in the budget.

The Governor's recommendations would result in general fund expenditures for FY 2012-13 of 37.030 billion, \$1.94 billion or 4.9 percent lower than the projected expenditure level in the November 2010 forecast. The Governor's recommendations would result in FY 2012-13 general fund expenditures being \$6.763 billion or 22.3 percent higher than in the FY 2010-11 biennium.

General fund revenues in FY 2012-13 in the Governor's recommendations would be \$36.572 billion or 12.7 percent higher than revenue projected in the November 2010 forecast. The Governor's recommendations would result in revenue being \$6.032 billion or 19.8 percent higher than in FY 2010-11. The Governor recommends reducing the cash flow account by \$136 million and makes no recommendations regarding the budget reserve.

Table 1 (on the following page) summarizes the general fund resources available and expenditure amounts for the current biennium, next biennium and the planning estimates for the FY 2014-15 biennium. The table shows both the base level, as projected in the November 2010 forecast under current law, and the changes that would occur with the Governor's recommendations. The rows labeled "Gov" show change from the base level in the Governor's recommendations

| Table 1 General Fund: Fiscal Years 2010 - 15 Governor's Recommendations, Change from Forecast Dollars in millions | | | | | | | |
|--|-----------------|-----------------|--------------------------|---------------------------|-----------------|--------------------------|---------------------------|
| | <u>FY 10-11</u> | <u>FY 12-13</u> | <u>Dollar Change</u> | <u>Percent Change</u> | <u>FY 14-15</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
| Balance Forward | 447 | \$660 | | | \$142 | | |
| Revenues (Base) | 30,565 | \$32,443 | | | \$34,595 | | |
| Revenue Changes (Gov) | -25 | \$4,129 | | | \$3,679 | | |
| Current Revenues | 30,540 | \$36,572 | \$6,032 | 19.8% | \$38,273 | \$1,701 | 4.7% |
| Total Resources Available | 30,987 | \$37,232 | | | \$38,416 | | |
| Expenditures & Transfers (Base) | 30,338 | \$39,030 | | | \$39,678 | | |
| Expenditure Change (Gov) | -11 | -\$1,940 | | | -\$267 | | |
| Total Expenditures | 30,327 | \$37,090 | \$6,763 | 22.3% | \$39,411 | \$2,320 | 6.3% |
| Balance | 660 | \$142 | | | -\$995 | | |
| Reserves | 275 | \$275 | | | \$139 | | |
| Change in Reserves | | -\$136 | | | | | |
| Balance After Reserves | 385 | \$4 | | | -\$1,133 | | |

The All Funds Budget

In looking at the general fund plus other operating funds, projected revenue in the all funds budget for FY 2012-13 were at \$58.7 billion in the November 2010 forecast. The Governor's budget recommendations would add \$5.2 billion of revenue to this amount for a total all funds revenue of \$63.8 billion.

Spending in the all funds budget was projected at \$64.7 billion in the November forecast. The Governor's recommendations would decrease this by \$0.7 billion to \$63.9 billion. In the Governor's recommendations, the general fund makes up 55.5 percent of the all funds spending. Table 2 summarizes the all funds numbers.

| Table 2 | | | | |
|--|-----------------|-----------------|------------------|-----------------|
| All Funds: Fiscal Years 2010 - 2013 | | | | |
| Governor's Recommendations, Change from Forecast | | | | |
| <i>Dollars in millions</i> | | | | |
| | <u>FY 10-11</u> | <u>FY 12-13</u> | <u>\$ Change</u> | <u>% Change</u> |
| Revenues (Base) | \$59,896 | \$58,664 | -\$1,232 | -2.1% |
| Revenue Changes (Gov., Est.) | \$77 | \$5,168 | | |
| Current Revenues | \$59,973 | \$63,832 | \$3,858 | 6.4% |
| Expenditures & Transfers (Base) | \$59,662 | \$64,680 | \$5,017 | 8.4% |
| Expenditure Change (Gov., Est.) | \$100 | -\$741 | | |
| Total Expenditures | \$59,762 | \$63,939 | \$4,177 | 7.0% |

Governor's Recommendations Include Some FY 2011 Changes

The Governor's recommendations include spending and revenue changes in FY 2011 that would reduce the general fund balance in FY 2011 by \$29.6 million. Two of those changes reduce revenue and the single largest item is a revenue reduction of \$23.2 million related to conforming to federal tax changes. The other changes are increases in spending for five specific items. These items are listed in Table 3 and are summarized in the specific summary sections.

| Table 3 | |
|--|---------------|
| Governor's Recommendations - FY 2011 | |
| <i>Dollars in Thousands</i> | |
| Department of Public Safety | |
| FEMA Disaster Match | 2,043 |
| Tax Court | |
| Deficiency | 38 |
| Judicial Standards Board | |
| Deficiency | 290 |
| Secretary of State | |
| Deficiency | 280 |
| Capital Projects | |
| New Projects | 1,600 |
| Taxes | |
| Federal Tax Conformity | 23,240 |
| Land Sale Requirement | |
| Repeal | 2,135 |
| Net General Fund Cost - FY 2011 Changes | 29,626 |

Spending Amounts Listed by Committee

Table 4 shows changes in the expenditures in the Governor’s recommendations by committee. Table 5 shows the changes proposed for FY 2012 and 2013 compared to both the spending level in FY 2010 and 2011 and to the base level expenditures for FY 2012 and 2013. The payment changes related to the education shifts are listed separately so that education payments can be evaluates separately from the amounts related to the shifts. Refer to the summaries of the specific committee areas for more information.

In some cases, amounts in Table 4 may not match the amounts in the charts in the committee summaries because of corrections and updates in the numbers.

| Table 4 | | | | | |
|--|--------------------------|-------------------|----------------------------|--|---|
| General Fund Expenditures - By Committee FY 2012-13 | | | | | |
| All dollars in thousands | | | | | |
| | Nov 10 Frct. FY 10-11 | Base FY 12-13 | Governor's Rec FY 12-13 | % Change Gov FY 12-13 vs. FY 10-11 | % Change Gov FY 12-13 vs. Bs FY 12-13 |
| K-12 Education | 13,327,079 | 14,345,827 | 15,753,503 | 18.2% | 9.8% |
| Education Shift Payments | -1,888,922 | 1,301,760 | -1,509,177 | | |
| Higher Education | 2,811,554 | 2,916,580 | 2,745,672 | -2.3% | -5.9% |
| Tax Aids & Credits | 3,018,425 | 3,522,237 | 3,507,934 | 16.2% | -0.4% |
| Health & Human Services | 8,740,796 | 12,346,069 | 11,997,581 | 37.3% | -2.8% |
| Environment, Energy & Natural Resources | 312,078 | 293,463 | 268,314 | -14.0% | -8.6% |
| Agriculture | 86,895 | 89,396 | 78,162 | -10.1% | -12.6% |
| Transportation | 167,036 | 181,742 | 163,804 | -1.9% | -9.9% |
| Judiciary | 734,849 | 726,816 | 740,465 | 0.8% | 1.9% |
| Public Safety | 1,085,276 | 1,055,834 | 1,081,523 | -0.3% | 2.4% |
| Jobs & Economic Development | 195,430 | 168,246 | 166,822 | -14.6% | -0.8% |
| State Government | 885,426 | 912,261 | 916,721 | 3.5% | 0.5% |
| Debt Service | 832,167 | 1,141,473 | 1,149,506 | 38.1% | 0.7% |
| Capital Projects | 22,898 | 45,219 | 46,019 | 101.0% | 1.8% |
| Dedicated Expenditures | 12,703 | 3,200 | 3,200 | -74.8% | 0.0% |
| Cancellations/Others | -5,837 | -20,000 | -20,000 | 242.6% | 0.0% |
| Total | 30,337,853 | 39,030,123 | 37,090,049 | 22.3% | -5.0% |

Table 5 shows the projected spending information for the base level spending and spending projections related to the Governor's budget recommendations for FY 2014-15. The numbers for FY 2014-15 reflect spending projections on laws that are in place or are recommended to be in place for FY 2012-13.

| Table 5 | | | |
|--|---------------------|-----------------------|---|
| General Fund Expenditures - By Committee FY 2014-15 | | | |
| All dollars in thousands | | | |
| | Base FY 14-15 | Gov's Rec FY 14-15 | % Change Gov FY 14-15 vs. Bs FY 14-15 |
| K-12 Education | \$14,873,588 | \$15,207,099 | 2.2% |
| Higher Education | \$2,916,680 | \$2,745,772 | -5.9% |
| Tax Aids & Credits | \$3,600,953 | \$3,603,495 | 0.1% |
| Health & Human Services | \$13,600,312 | \$13,106,343 | -3.6% |
| Environment, Energy & Natural Resources | \$305,660 | \$277,056 | -9.4% |
| Agriculture | \$89,396 | \$78,162 | -12.6% |
| Transportation | \$181,742 | \$163,804 | -9.9% |
| Judiciary | \$726,816 | \$744,708 | 2.5% |
| Public Safety | \$1,064,022 | \$1,087,262 | 2.2% |
| Jobs & Economic Development | \$168,246 | \$162,222 | -3.6% |
| State Government | \$923,268 | \$932,248 | 1.0% |
| Debt Service | \$1,188,351 | \$1,262,111 | 6.2% |
| Capital Projects | \$55,668 | \$57,268 | 2.9% |
| Dedicated Expenditures | \$3,000 | \$3,000 | 0.0% |
| Cancellations/Others | -\$20,000 | -\$20,000 | 0.0% |
| Total | \$39,677,702 | \$39,410,550 | -0.7% |

The Governor Recommends Substantial Revenue Increases

The Governor's recommendations include net revenue increases of \$4.129 billion for the FY 2012-13 biennium. The recommendations include major revenue increases in the tax and Health and Human Services areas. Recommendations in the Tax area include increases in income taxes and property taxes. Further information is in the Tax summary section. Recommendations in the Health and Human Services area include increases in Medical Assistance surcharges. Further information is in the Health and Human Services summary section. Other revenue changes are summarized in the summary sections for those areas.

| Table 6 General Fund Revenue Changes - By Committee Dollars in thousands (positive number indicates positive effect on the general fund) | | | |
|--|---------------------------------|---------------------------------|---------------------------------|
| | <u>Gov's Rec FY 2010-11</u> | <u>Gov's Rec FY 2012-13</u> | <u>Gov's Rec FY 2014-15</u> |
| K-12 Education | \$0 | \$0 | \$0 |
| Higher Education | \$0 | \$0 | \$0 |
| Tax Aids & Credits | -\$23,240 | \$3,308,030 | \$2,548,378 |
| Health & Human Services | \$0 | \$773,991 | \$1,068,480 |
| Environment, Energy & Natural Resources | -\$2,135 | -\$8,365 | -\$8,370 |
| Agriculture | \$0 | \$250 | \$250 |
| Transportation | \$0 | \$0 | \$0 |
| Judiciary | \$0 | \$0 | \$0 |
| Public Safety | \$0 | \$5,666 | \$5,666 |
| Jobs & Economic Development | \$0 | \$6,300 | \$6,300 |
| State Government | \$0 | \$43,626 | \$58,150 |
| Total | -\$25,375 | \$4,129,498 | \$3,678,854 |

NOTE: This document summarizes the Governor's budget recommendations as presented to the Legislature on February 15, 2011. It does not include any changes made after that time including changes in response to the new state budget forecast issued February 28, 2011.

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

Agriculture and Rural Development Finance

The Agriculture and Rural Development budget provides funding for the state activity related to the agricultural sector of the economy. Agencies funded are the Agriculture Department, the Animal Health Board, and the Agriculture Utilization Research Institute. The Governor recommends General Fund appropriations of \$77.9 million dollars in FY 2012-13 for this area of the budget.

| Agriculture and Rural Development Finance | | | | | |
|--|------------------------------|------------------------------|---------------------------|---|---|
| Total General Fund Spending | | | | | |
| (all dollars in thousands) | | | | | |
| | Nov. Forecast FY 10-11 | Forecast Base FY 12-13 | Gov's Recs FY 12-13 | % Change Gov's FY 12-13 vs. FY 10-11 | % Change Gov's FY 12-13 vs. Base |
| MN Department of Agriculture | 71,009 | 73,638 | 62,914 | -11% | -15% |
| Board of Animal Health | 10,320 | 10,192 | 9,682 | -6% | -5% |
| Agriculture Utilization Research Institute | 5,566 | 5,566 | 5,566 | 0% | 0% |
| Revenues | | | 250 | | |
| Net GF Total | 86,895 | 89,396 | 77,912 | -10% | -13% |

Department of Agriculture (MDA)

The Governor recommends a total Department of Agriculture budget of \$155.8 million dollars for the FY 2012-13 biennium, of which \$62.9 million is from the General Fund. This is a 15 percent decrease in General Fund appropriations from the biennial base. Changes recommended to the base budget by the Governor to the MDA include the following items.

- The Governor recommends a General Fund reduction of \$8.9 million dollars to the Agricultural Growth, Research and Innovation program.
- The Governor recommends that the operations budget of the MDA be reduced by \$1.0 million dollars each year.
- In the request the Governor recommends that food handler license fees be increased by 15 percent. This will raise new revenue of \$245,000 in each year. The additional funding will be used to hire additional inspectors needed to meet the increasing demand.
- The Governor recommends that the anhydrous ammonia inspection program institute a surcharge on sales of NH₃ of \$0.75 dollars per ton. The funds will be used to implement an increased hazard based inspection program. The new surcharge will raise \$222,000 a year. Funding will be used to increase inspections.

Animal Health Board

The Governor recommends a total Animal Health Board budget of \$11.9 million, of which \$9.7 million is General Fund appropriations. This recommendation is a General Fund reduction of \$510,000 from the agency base. The reduction will be to the Bovine TB program of the board.

Agriculture Utilization Research Institute (AURI)

The Governor recommends a General fund appropriation to AURI of \$3.1 million. This is the agency base for the biennium.

For additional information on Agriculture and Rural Development Finance issues, contact Jim Reinholdz at 651.296.4281 or email: jim.reinholdz@house.mn.

Capital Investment

The Governor recommended \$566.2 million in additional general obligation bonds, user financed bonds, and general fund cash for capital projects in his 2011 Capital Budget. In addition, the Governor recommended a statutory appropriation committing \$800,000 per year beginning in fiscal year 2013 and ending in fiscal year 2034 for a Minnesota Housing Finance Agency initiative. The Governor's Capital Budget proposal would increase spending on debt service and capital projects by \$1.6 million in fiscal year 2011, \$8.8 million in the 2012-13 biennium, and \$67.8 million in the 2014-15 biennium.

The Governor also proposed amending MN Statutes 16A.641, subdivision 7, to allow Minnesota Management and Budget to deposit general obligation bond premiums into the bond proceeds fund, which is expected to cost \$7.6 million in the 2014-15 biennium but is expected to produce a savings in the future. The table below provides an overview of the Governor's proposed general fund spending. Additional details on the Governor's Capital Budget and his proposed statutory changes follow.

| Capital Investment: Total General Fund Spending | | | | | |
|--|------------------------------------|-----------------------------|-----------------------------------|---|---|
| <i>(all dollars in thousands)</i> | | | | | |
| | November Forecast FY 2010-11 | Forecast Base FY 2012-13 | Governor's Recs FY 2012-13* | % Change Gov. FY 2012-13 vs. FY 2010-11 | % Change Gov. vs. Base FY 2012-13 |
| Debt Service | 830,388 | 1,141,473 | 1,149,506 | 38% | 1% |
| Line of Credit | 1,779 | 0 | 0 | -100% | 0% |
| Capital Projects | 22,898 | 45,219 | 47,619 | 108% | 5% |
| Net GF Total | 855,065 | 1,186,692 | 1,197,125 | | |
| * FY 2012-13 includes general fund appropriations in the Governor's proposed capital budget, which are counted in FY 2011 in the fund balance. | | | | | |

2011 Bonding Bill

The Governor proposed \$532.0 million in additional general fund-supported general obligation bonds in his 2011 proposed capital budget. The November forecast included debt service for a \$140 million general obligation bond package in the 2011 session. Therefore, under the Governor's proposal, the general fund debt service costs would be approximately \$8.0 million higher than the forecasted amount for the FY 2012-2013 biennium and approximately \$66.2 million higher in the 2014-2015 biennium.

In addition to the general fund-supported general obligation bonds, the Governor recommended \$32.5 million in user financed bonds and \$1.6 million in general fund appropriations for capital

projects for direct appropriations totaling \$566.2 million. The Governor also recommended a number of changes to previously enacted bonding bills; however, there was not a net cost/savings related to those proposed changes. Below is a brief summary of the direct appropriations included in the Governor's Capital Budget.

| Governor's Recommended Capital Budget Direct Appropriations (dollars in thousands) | |
|--|------------------------|
| Finance Area | Governor's Recs |
| Agriculture, Environment, & Natural Resources | \$85,450 |
| Education | \$2,260 |
| Health & Human Services | \$15,000 |
| Higher Education | \$226,454 |
| Jobs & Economic Development | \$108,750 |
| Public Safety | \$22,000 |
| State Government | \$46,646 |
| Transportation | \$59,600 |
| Total | \$566,160 |

The Governor also recommended expanding the Minnesota Housing Finance Agency's authority for issuing nonprofit supportive housing bonds. The new authority would allow the agency to issue an additional \$10.0 million in nonprofit housing bonds for 1) the acquisition, preservation, and rehabilitation of foreclosed property to be used for rental housing for lower and moderate income households; and 2) the acquisition by a community land trust of the land portion of foreclosed property for lease to lower and moderate income households. Along with this authority, the Governor proposed a statutory appropriation of \$800,000 per fiscal year beginning in fiscal year 2013 and ending in fiscal year 2034. Although these bonds would be considered appropriation bonds and not public debt, if authorized, the state's credit rating would be impacted if the statutory appropriation were reduced.

Recommendation on Use of General Obligation Bond Premium

The Governor recommended amending M.S. 16A.641, subdivision 7, to allow Minnesota Management and Budget to use premiums received on the sale of bonds to reduce the amount of the bonds issued. The state receives a premium payment when interest rates on bonds are low. Currently, Minnesota Management and Budget is required to deposit premiums in the state's debt service fund in order to defray the cost of the bonds. This proposal would cost \$7.6 million in the 2014-15 biennium. However, Minnesota Management and Budget expects this will produce a savings in the future.

If you have further questions on Capital Investment issues, please contact Koryn Zewers at 651-296-4178 or e-mail at koryn.zewers@house.mn.

Education Finance

For the FY 2012-13 biennium, the Governor recommends \$14.2 billion in general fund state aid for Early Childhood and K-12 education. This compares with the November forecast of current law FY 2012-13 spending of \$15.6 billion, for a total reduction of \$1.4 billion, or 9.0 percent compared to current law. For the FY 2014-15 biennium, the Governor's budget recommendations include total state appropriations of \$15.2 billion, an increase of \$333.5 million from the November forecast appropriations, or 2.9 percent. However, the Governor's budget includes an accounting shift change that obscures the actual funding changes for education in the Governor's budget. Excluding shifts, the Governor's FY 2012-13 funding recommendation is \$14.4 billion, a \$37.1 million (0.3 percent) increase compared to the November forecast base. For FY 2014-15, the Governor's recommendation is \$15.1 billion, an increase of \$98.2 million (0.7 percent) over the November forecast base.

| K-12 Education | | | | | |
|------------------------------------|-----------------------------|--------------------|--------------------------|-------------------|----------------------|
| Total General Fund Spending | | | | | |
| (all dollars in thousands) | | | | | |
| Program | Nov. Forecast FY 2010-11 | Base FY 2012-13 | Gov's Recs FY 2012-13 | % Change | % Change |
| | | | | vs. FY 2010-11 | vs. FY 12-13 Base |
| Education Aids | 11,360,187 | 15,569,967 | 14,169,306 | 25% | -9% |
| Education Aids, Excluding Shifts | 13,249,109 | 14,268,207 | 14,307,938 | 8% | 0% |
| Minnesota Dept. of Education | 39,973 | 39,622 | 37,640 | -6% | -5% |
| Minnesota State Academies | 23,824 | 23,824 | 23,206 | -3% | -3% |
| Perpich Center for Arts Education | 14,174 | 14,174 | 14,174 | 0% | 0% |
| Net GF Total | 11,438,158 | 15,647,587 | 14,244,326 | 25% | -9% |

School district property tax levies in the Governor's budget recommendations would decrease compared to current law for each year from FY 2013 to FY 2015. Compared to current law, the Governor's budget recommendations would decrease property taxes for FY 2013 by \$1.2 million, or 0.1 percent.

The following summarizes the Governor's budget initiatives, with the cost expressed as a biennial total for FY 2012-13 from the general fund, unless otherwise noted:

General Education Program

- \$33.1 million beginning in FY 2013 for all day, every day Kindergarten programs for low income students. This program would be optional for school districts. Districts and charter schools which participate will be eligible for state aid equal to the basic formula

allowance (\$5,124) times the number of kindergarten students eligible for free or reduced price lunches times an additional pupil weighting factor of .388 (the difference between a pupil weight of 1.0 and the current kindergarten weighting of .612). For FY 2014 and later, the cost of this initiative is approximately \$50 million per year.

- \$4.0 million in net aid savings from limiting Alternative Compensation (QComp) revenue to the schools which currently receive it (as of February 1, 2011). The base budget forecasts a certain amount of growth in Alternative Compensation revenue as additional schools qualify for the program. This reduction would be accomplished by not allowing any additional schools to qualify. Alternative Compensation revenue is a mix of aid and levy, so there is also a corresponding \$1.5 million reduction in projected property tax levies for taxes payable in 2012. The levy reduction, as noted in the shift savings section below, also introduces a “cost” as there is less property tax revenue recognition shift savings with lower levies. The \$4.0 million in net aid savings is a result of \$4.7 million of aid savings from the program cap, and a “cost” of \$0.7 million from lost shift savings due to reduced alternative compensation levies.
- \$17,000 from allowing the Minnesota State Academies for the Deaf and Blind to accept trial placements of students, allowing parents to determine if attendance at the Academies is appropriate for their child. This small cost is due to the fact that the additional general education aid paid to the Academies for the trial placed students is slightly larger than the corresponding reduction in general education aid for those same students to the resident school district.
- **SHIFT SAVINGS:** The Governor’s budget proposal includes \$1.44 billion in shift savings from two different sources. The shifts and related changes include:
 - School payment percentage shift: Under current law, for FY 2011, school districts receive aid payments split 70 percent in the current year and 30 percent in the next year. Current law calls for this schedule to revert to the pre-FY 2010 ratio of 90 percent current / 10 percent final for FY 2012 and later. The Governor’s budget recommends continuing the 70 percent / 30 percent payment schedule for FY 2012 and FY 2013, and then adding 2 percent to the current payment each year beginning in FY 2014 until the current payment is restored to 90 percent. Extending this shift saves \$1.43 billion in payments during the current biennium. Phasing the current year payment percent back to 90 percent reduces the shift savings each year by an additional \$150 million per year starting in FY 2014.
 - Property tax levy recognition shift: Under current law, school districts recognize 48.6 percent of their levy revenue each calendar year as revenue for the fiscal year ending that calendar June 30. The 48.6 percent is applied to district levies AFTER the levy is reduced by state property tax aids and credits. The Governor proposes calculating the 48.6 percent against levies BEFORE reductions for state aids and credits, resulting in additional property tax recognition shift savings of \$13.9 million.

Education Excellence

- \$11.9 million to create a new “Excellence in Education Award” program, a noncompetitive grant program that will provide awards to schools with high student achievement. The award recipients will be expected to share training and materials with other schools to help those schools improve their education outcomes. The ongoing cost of this program is \$7 million per year.
- \$5.1 million for a new “Achievement Gap Innovation Fund.” The fund will be used to award up to \$100,000 to approximately 30 projects related to innovative approaches to closing the educational achievement gap, with a focus on projects that use technology for this purpose.
- \$1.8 million in savings from reducing charter school lease aid. Currently, most charter schools are limited to a maximum of \$1,200 per pupil in charter school lease aid. This limit was established in FY 2004, but some charter schools with higher lease costs from a higher maximum in previous years were grandfathered in at the higher rate for purposes of calculating their lease aid. The Governor recommends eliminating the “grandfather” provision and holding all charter schools to the \$1,200 maximum.
- \$1.5 million in savings from eliminating charter school startup aid. For their first two years of operation, charter schools currently qualify for \$500 per pupil or \$50,000, whichever is greater. The Governor recommends eliminating this program.
- \$1.5 million in savings from eliminating magnet school grants. Magnet school grants were initially created to help school districts establish and maintain magnet schools for integration purposes.
- \$1.7 million in savings from elimination of state funding for the Explore and Plan Assessments (EPAS), which are intended to assess college readiness prior to the normal age of college entrance.

Early Childhood and Family Support

- \$2.0 million to create a Statewide Early Childhood Rating System. The funding would be used for classroom observation of teachers and feedback as part of a statewide early childhood quality rating and improvement system.

Self-sufficiency and Lifelong Learning

- \$1.1 million in savings from reducing the program growth factor for Adult Basic Education aid. Currently, Adult Basic Education aid grows annually by three percent per year. Under the Governor’s recommendation, the growth factor would be reduced to two percent per year.

Minnesota Department of Education

- \$2.0 million in savings from a reduction in the agency's base operating budget. The reduction is equal to five percent per year of the agency's general fund budget. This reduction includes a five percent reduction in the budgets of each of the boards and pass through agencies funded in the MDE appropriation, including the Board of Teaching, the Board of School Administrators, the Minnesota Children's Museum, the Duluth Children's Museum and the Academy of Science.

Minnesota State Academies for the Deaf and Blind

- \$618,000 in savings from a reduction in the agency's base operating budget, achieved through savings resulting from the Academies contracting for their resident student food service program. This initiative will also eliminate the need for the Minnesota State Academy for the Deaf to do capital renovation of their kitchen area and replace deteriorating kitchen equipment.

Implications

The reason that the State can accumulate savings using accounting shifts is that the State and school districts use different accounting methods. The State uses "cost" accounting, where obligations are counted in the year they are paid, not in the year in which they are due. School districts use an "accrual" method of accounting: regardless of when a payment toward their current year entitlement is received, they count the entitlement amount as their revenue for the current year. Because of this, from an accrual accounting standpoint, a district's revenue does not change with changes in the fiscal year the State payments are made but the State can record savings by moving payments out of a fiscal year. In reality, however, if payments are delayed, districts experience a fiscal impact. Districts receive state aid in 27 payments, but their expenditures may be less consistent than those receipts. So, if the State uses a shift to move money from one fiscal year to the next, school districts with low reserves may not have sufficient cash on hand in reserves to meet their day to day expenses, and have to engage in short term "aid anticipation" borrowing, which has an interest cost, to manage their cash flow. In addition, districts with sufficient reserves are forced to use those reserves, and lose the interest that they would have earned if they had not had to spend their fund balances.

For further information on Education Finance related issues contact Greg Crowe at (651) 296-7165 or greg.crowe@house.mn

Environment, Energy and Natural Resources Finance

The Environment, Energy and Natural Resource budget provides funding for the management, protection and enhancement of the natural resources of the state. Agencies and programs funded include the Pollution Control Agency, the Department of Natural Resources, the Minnesota Conservation Corps, the Metropolitan Council Parks, the Board of Water and Soil Resources, The Minnesota Department of Commerce, the Public Utilities Commission and the recommendations of the Legislative Citizens Committee on Minnesota Resources. The Governor is recommending a General Fund appropriation of \$268.314 million for the 2012-13 biennium. The following chart and agency narrative provides details on the request.

| Environment and Energy Finance | | | | | |
|---------------------------------------|------------------------------|------------------------------|---------------------------|---|---|
| Total General Fund Spending | | | | | |
| (all dollars in thousands) | | | | | |
| | Nov. Forecast FY 10-11 | Forecast Base FY 12-13 | Gov's Recs FY 12-13 | % Change Gov's FY 12-13 vs. FY 10-11 | % Change Gov's FY 12-13 vs. Base |
| Pollution Control Agency | 18,319 | 17,016 | 17,110 | -7% | 1% |
| Natural Resources Dept | 183,437 | 174,443 | 154,166 | -16% | -12% |
| Metro Council Parks | 7,208 | 7,140 | 4,284 | -41% | -40% |
| MN Conservation Corps | 910 | 910 | 910 | 0% | 0% |
| Water & Soil Resources Bd. | 32,832 | 27,960 | 25,484 | -22% | -9% |
| MN Zoo | 12,674 | 12,462 | 11,838 | -7% | -5% |
| Commerce Department | 45,832 | 42,668 | 42,158 | -8% | -1% |
| Public Utilities Commission | 10,866 | 10,864 | 12,364 | 14% | 14% |
| Revenues, adjustments, transfers | | | -8,365 | | |
| Net General Fund | 312,078 | 293,463 | 276,679 | -6% | -6% |

Pollution Control Agency (PCA)

The Governor is recommending General Fund spending of \$7.8 million. Total spending from all funds is recommended to be \$313.6 million. Items recommended for changes include:

- A reduction from the base in the agency operations General Fund budget of \$1.7 million.
- Extending the metropolitan solid waste landfill fee to solid waste generated in the metropolitan area but accepted at disposal facilities out the metropolitan area. The fee would collect \$1.5 million a year. Funds available would be appropriated to the agency to be used for landfill abatement activities.
- Air permit fees are recommended to be increased by \$166,000 in FY12 and \$335,000 in FY13. Funds would be used to maintain current level of Air Program services.

- The Environmental Quality Board is recommended to be moved from the Administration Department to the PCA. The general Fund appropriation recommended for the EQB is \$151,000 a year. In addition, an Environmental Fund appropriation of \$75,000 a year is recommended.
- The Governor recommends that the repealer date of the Petroleum Tank Release Cleanup Fund fee be extended for five additional years. This will continue the programs funding to cleanup sites polluted by petroleum spills. The PCA is appropriated \$9.4 million a year for the program.
- The appropriation from the Environmental Fund for the Voluntary Investigation and Cleanup program is recommended to be reduced by \$560,000 each year.
- The budget recommends new funding from the General Fund of \$1.5 million in FY2012 to be used to complete wild rice plant toxicity studies. The information is to be used in the decision regarding possible revision of the existing sulfate standards.

Department of Natural Resources (DNR)

The Governor is recommending a General Fund appropriation of \$154.2 million (excluding PILT payments). Total agency spending from all sources is recommended to be \$800.3 million. Specific changes from the base budget requested by the Governor include:

- A \$5.9 million reduction in each year in the General Fund appropriation for the agency operations. The reduction is distributed throughout much of the agency and includes reductions to specific pass through grants.
- The Governor recommends shifting the revenue from certain water use, permit and inspection fees from the General Fund to the Natural Resources Fund. This would move \$5 million a year of revenue and expenses to that fund.
- A General Fund appropriation of \$97,000 in each year of the biennium is requested to manage bovine TB, chronic wasting disease and wildlife health issues.
- The fee revenue and the expenditures for forest campgrounds is recommended to be removed from the General Fund and deposited to an account in the Natural Resources Fund. Annual revenue and expenditures are approximately \$200,000.
- Increases are recommended for the aquatic plant management program. The proposal would increase the fees for permits issued to lake shore property owners for control of aquatic plants. The fee increase would total \$700,000 a year. The request would also increase the program spending by the same amount.
- The agency and the Governor are proposing fee increases to hunting and fishing licenses. The total revenue increase per year when fully implemented would be \$14.5 million. The agency is requesting an increased annual appropriation of \$9.4 million. Funds would be used in the Fish and Wildlife division and the Enforcement division.
- The surcharge currently collected on boats and non-resident fishing licenses to fund invasive species prevention is recommended to be increased by \$5 to \$20 per license, depending on the type and size of boat. The increased fee revenue is

estimated to be \$4.4 million a year. The new revenue is requested to be appropriated to the agency for increased invasive control activity.

- An appropriation is requested from the Water Recreation Account of \$500,000 per year to be used for efforts to monitor and maintain lake levels and stream flows.
- Funding for the Enforcement division is recommended to be increased \$920,000 in 2012 and \$2.6 million in FY 2013. Funds are from the Natural Resources Fund and the Game and Fish Fund.
- A new account in the Game and Fish Fund is created to receive surcharges from certain violations that will then be appropriated to the agency for conservation officer training activity.
- A one-time appropriation is requested from the Game and Fish Fund to be used to purchase lands for the Lamprey Pass wildlife area. The purchase is to replace land use lost to a transportation easement.
- The agency is requesting an ongoing appropriation of \$200,000 per year from the ATV account in the Natural Resources Fund to be used for minimum maintenance road repairs.
- \$2 million is requested for the biennium from the Game and Fish Fund to be used to continue the agency's ecological classification system program activities on state forest lands.
- An increased appropriation of \$2 million a year is requested from the forest management investment account to be used for forestry activities.
- The Parks and Trails division is requesting an increase of \$400,000 a year from the ATV account in the Natural Resources Fund, to be used for the ATV trail program.
- The lottery in lieu appropriations to the agency are increased by \$100,000 per year for the local trail grants, and by \$300,000 per year for the agency.
- Funding of snowmobile trail program costs is requested to be increased by \$200,000 per year. The funding is from the dedicated snowmobile account.
- The water recreation program appropriation is recommended to be increased by \$1 million per year. Funds would be used to develop access site BMP's and to maintain water access sites.

Board of Water and Soil Resources (BWSR)

The General Fund budget of the BWSR is recommended by the Governor to be \$25.5 million for the biennium. Total spending from all sources is recommended to be \$89.3 million. Included in the recommendations are the following change items.

- Agency operational funding is recommended to be reduced by \$380,000.
- The cost share grant program is reduced by \$1.1 million.
- The grant to local boards is reduced by \$576,000.
- The Wetland conservation act activity is reduced by \$400,000 for the biennium.

Metropolitan Council Parks

The Metro Council parks appropriation for the biennium is recommended to be \$4.3 million. This is a reduction of 40 percent from the agency base amount.

MN Conservation Corp

The Minnesota Conservation Corp appropriation for the biennium is recommended to be the base amount of \$910,000.

Minnesota Zoo

The Governor recommends that the General Fund appropriation to the Zoo be reduced by five percent to \$11.8 million for the biennium. Total expenditures by the Zoo are expected to be \$45.5 million for the biennium.

Minnesota Department of Commerce (DOC)

The Governor recommends an appropriation of \$42.7 million from the General fund for the agency for the biennium. Total spending from all funds is forecasted to be \$556.2 million. Changes recommended to the base budget include the following:

- The General Fund operating budget is recommended to be reduced \$520,000 in each year of the biennium.
- An increase appropriation is requested for the Office of Energy Security of \$265,000 in each year. These funds will be recovered through increased assessment on regulated utilities.
- The Governor recommends that the Petroleum Tank Release Cleanup Fund program be extended for an additional five years. The program is currently set to expire in June 2012. Continuing the program will bring in revenue of \$26.3 million per year. The Governor recommends that \$18.1 million per year be spent by the DOC for the program.

Public Utilities Commission (PUC)

The Governor recommends a General Fund budget of \$12.4 million for the PUC. This is an increase of \$1.5 million from the agency base budget. The increased funding will be recovered in assessments to the regulated utilities.

For additional information on Environment, Energy and Natural Resources Finance issues, contact Jim Reinholdz at 651.296.4281 or email: jim.reinholdz@house.mn.

Legacy Funding Division

The Legacy Funding Division has jurisdiction for the four funds created when the Clean Water, Land and Legacy Constitutional Amendment was approved by Minnesota voters in November, 2008 general election. The amendment's passage increased the state sales and use tax rate by 3/8th of one percent. The increase will be in place until the year 2034.

The table lists the four Funds established under the Constitutional Amendment; the percent of sales and use tax collections designated for each Fund; the estimated resources that each Fund will have in FY 2012-13 based on the November, 2010 forecast; and the Governor's and Lessard-Sams Outdoor Heritage Council's recommended appropriations from each Fund for the 2012-2013 biennium.

| Governor's & Outdoor Heritage Council's FY 2012-13 Recommendations Clean Water, Land and Legacy Constitution Amendment <i>(Dollars in Thousands)</i> | | | |
|--|---------------------------------|--|--|
| | Fund Percentage of Total | Est. Resources including Carryforwad FY 12-13 | Gov/ Lessard-Sams Recommended Appropriations FY 12-13 |
| Outdoor Heritage Fund | 33.0% | \$184,606 | \$86,471 |
| Clean Water Fund | 33.0% | 181,376 | 180,977 |
| Parks & Trails Fund | 14.25% | 78,061 | 53,100 |
| Arts & Cultural Heritage Fund | 19.75% | 104,726 | NO RECs |
| Total | 100.0% | \$548,186 | \$171,325 |

The estimated resources in this table include the interactions with the Governor's sales tax recommendations. If enacted, the recommendations increase the estimated FY 12-13 resources for the Outdoor Heritage and Clean Water funds by \$583,000 each. For the Parks and trails fund, the increase is \$252,000. The Arts & Cultural Heritage fund increase is \$349,000

The Lessard-Sams' Outdoor Heritage Council's recommendations are for FY 2012 only. FY 2013 recommendations will be forwarded to the Legislature by January 15, 2012.

The Governor is not making any recommendations for appropriations from the Arts & Cultural Heritage Fund.

The reader is advised that the estimated receipts shown will change with the February 2011 Revenue Forecast. The extent of the change will depend on the differences in sales and use tax collections forecasted between the November 2010 and February 2011 forecasts. It is also important to remember that actual sales tax collections will likely differ from forecasted receipts.

Outdoor Heritage Fund

The Governor is not making any recommendations for appropriations from the Outdoor Heritage Fund, choosing to defer to the Lessard-Sams Outdoor Heritage Council's (LSOHC) recommendations.

The Legislature created the 12-member Lessard-Sams Outdoor Heritage Council. The Council is charged with making recommendations to the Legislature on appropriations of money from the Outdoor Heritage Fund. The table shows the shows the Council's recommendations for FY 2012. Recommendations for FY 2013 will be made by the Council by January 15, 2012.

The LSOHC is recommending \$86,471,000 be appropriated from the Outdoor Heritage Fund in Fiscal Year 2012. The recommendations fall into five categories:

| | | |
|-------------------------------------|--------------|-------|
| • Prairies | \$32,671,000 | 37.8% |
| • Forests | \$14,371,000 | 16.6% |
| • Wetlands | \$15,827,000 | 18.3% |
| • Habitat | \$22,914,000 | 26.5% |
| • Administration & Other | \$688,000 | 0.8% |

The following table shows the LSOHC's recommendation by agency, category and project description.

| Outdoor Heritage Fund 2012 Lessard-Sams' Recommended Appropriations (Dollars in Thousands) | |
|--|-------------------------------------|
| Agency/Program | Lessard-Sams' Recommendation |
| Department of Natural Resources | |
| <i>Prairies</i> | |
| • WMA, SNA, and Prairie Bank Easement Acquisition | 3,931 |
| • Accelerated Prairie Restoration and Enhancement | 1,652 |
| • Northern Tallgrass Prairie Nat'l Wildlife Refuge Land Acq. | 1,720 |
| • Minnesota Prairie Recovery Project | 4,500 |
| • Cannon River Headwaters Habitat Complex | 1,533 |
| • Accelerating the Wildlife Management Area Program | 5,500 |
| • Accelerating the Waterfowl Production Area Program | 9,815 |
| • The Green Corridor Legacy Program | 1,771 |
| <i>Forests</i> | |
| • Minnesota Forests for the Future | 5,409 |
| • La Salle Lake: Protecting Mississippi Headwaters Habitat | 4,632 |
| • Accelerated Forest Habitat Enhancement | 826 |
| • N.E .MN Sharp-tailed Grouse Habitat Partnership | 988 |
| • Lower Mississippi River Habitat Partnership | 707 |
| • Protect Key Forest Habitat Lands in Cass County | 604 |
| • State Forest Acquisition | 1,205 |

| | |
|---|---|
| <p>Wetlands</p> <ul style="list-style-type: none"> Accelerated Shallow Lakes & Wetlands Restore & Enhance Shallow Lake Shoreland Protection: Wild Rice Lakes <p>Habitat</p> <ul style="list-style-type: none"> Accelerated Aquatic Management Area Habitat Program Coldwater Fish Habitat Enhancement Program Land Addition to the Janet Johnson Memorial WMA Metro Big Rivers Habitat Protecting Sensitive Shore Lands in North Central MN Restore Native Habitat & Water Quality to Shell Rock River Outdoor Heritage Conservation Partners Program <p>Administration & Other</p> <ul style="list-style-type: none"> Technical Assistance Panel: Restoration Audit | <p>936</p> <p>1,891</p> <p>6,500</p> <p>1,533</p> <p>577</p> <p>5,000</p> <p>1,098</p> <p>2,577</p> <p>5,629</p> <p>42</p> <hr/> <p>70,576</p> |
| <p>Board of Water and Soil Resources</p> <p>Prairies</p> <ul style="list-style-type: none"> Minnesota Buffers for Wildlife & Water <p>Wetlands</p> <ul style="list-style-type: none"> RIM Wetlands Reserve Acq. & Restoration Partnership | <p>2,249</p> <p>13,000</p> <hr/> <p>15,249</p> |
| <p>Legislature</p> <p>Administration & Other</p> <ul style="list-style-type: none"> LCC: LSOHC Administrative Support & Council Expenses LCC: Pass-Through Contract Management to DNR | <p>471</p> <p>175</p> <hr/> <p>646</p> |
| <p>TOTAL LESSARD-SAMS' RECOMMENDATIONS</p> | <p>\$86,471</p> |
| <p>Estimated Outdoor Heritage Fund Resources</p> <ul style="list-style-type: none"> Estimated Collections, Investment Income & Carryforward Interaction with Governor's Sales Tax Recommendations | <p>97,021</p> <p>269</p> <hr/> <p>\$93,423</p> |
| <p>TOTAL ESTIMATED RESOURCES</p> | <p>\$93,423</p> |

| | |
|--------------------------------------|-----------------|
| OUTDOOR HERITAGE FUND BALANCE | \$10,819 |
|--------------------------------------|-----------------|

If the LSOHC' recommendations are enacted by the Legislature in combination with the Governor's recommended sales tax changes, the Outdoor Heritage Fund would have an estimated fund balance of \$10.819 million at the end of Fiscal Year 2012. The fund balance percentage of estimated Fiscal Year 2012 collections and investment income is approximately 12.7%.

If the Legislature does not enact the Governor's sales tax changes, the estimated fund balance will be \$10.55 million, and the fund balance percentage will be 12.4%.

Clean Water Fund

The Governor is recommending that \$180.977 million be appropriated from the Clean Water Fund in the 2012-2013 biennium. The recommendations are summarized in the table.

| Clean Water Fund 2012-13 Governor Recommended Appropriations (Dollars in Thousands) | | |
|--|----------------|----------------|
| Agency/Program | FY 2012 | FY 2013 |
| Department of Agriculture | | |
| • Agriculture Best Practices Loan Program | 3,625 | 5,625 |
| • Drinking Water Protection | 850 | 850 |
| • Pesticide Monitoring and Assessment | 350 | 350 |
| • Research, Evaluation & Assistance | 1,750 | 1,750 |
| Total Department of Agriculture | 6,575 | 8,575 |
| Board of Water & Soil Resources | | |
| • Accountability, Oversight & Training | 900 | 900 |
| • Community Partners Clean Water Program | 1,250 | 1,250 |
| • Conservation Drainage Management and Assistance | 1,000 | 1,000 |
| • Local Resources Protection Grants | 2,250 | 2,250 |
| • Permanent Resource Protection | 6,500 | 6,500 |
| • Restoration Evaluations project | 84 | 84 |
| • Surface & Drinking Water Protection | 12,500 | 12,500 |
| Total Board of Water & Soil Resources | 24,484 | 24,484 |

| | | |
|---|--|--|
| Department of Health <ul style="list-style-type: none"> • Contaminants Emerging Public Health Concern • Source Water Protection • County Well Index & Well Water Risk Evaluation • Well Sealing Cost Share • GPS Locating Wells/Arsenic Testing | 1,020 1,415 467 347 315 | 1,020 1,415 619 347 215 |
| Total Department of Health | 3,564 | 3,616 |
| Metropolitan Council <ul style="list-style-type: none"> • Inflow & Infiltration Grant Program • Metropolitan Water Supply Availability Analysis | 2,000 500 | 1,000 500 |
| Total Metropolitan Council | 2,500 | 1,500 |
| Department of Natural Resources <ul style="list-style-type: none"> • TMDL Technical Assistance: Restoration & Implementation • Water Quality Assessment and Monitoring • Non-point Source Restoration and Protection • Drinking Water Protection • High Resolution Elevation Data (LiDAR) Products | 1,720 3,417 1,650 2,035 2,700 | 1,720 3,687 1,650 2,035 |
| Total Department of Natural Resources | 11,522 | 9,092 |
| Pollution Control Agency <ul style="list-style-type: none"> • Surface Water Assessment and Monitoring • Watershed Restoration and Protection Strategy Development • Enhanced Data Base Development • Civil Engagement Technical Assistance • Enhanced County Inspections/SSTS Corrective Actions • Ground Water Assessment • St. Louis River & Duluth Harbor Restoration • Clean Water Partnership Grants • Stormwater Research and Guidance Development • NPDES/Stormwater & Wastewater TMDL Implementation | 7,500 9,500 1,000 150 3,750 1,125 750 2,500 825 940 | 7,500 9,600 1,000 150 3,750 1,125 750 750 |
| Total Pollution Control Agency | 28,040 | 24,625 |
| Public Facilities Authority <ul style="list-style-type: none"> • Small Community Wastewater Treatment • TMDL Grants Program • Phosphorous Reduction Grants | 11,200 4,000 1,000 | 11,200 4,000 1,000 |
| Total Public Facilities Authority | 16,200 | 16,200 |

| | | |
|--|------------------|------------------|
| | | |
| TOTAL GOVERNOR’S RECOMMENDATIONS | \$ 92,885 | \$ 88,092 |
| Estimated Clean Water Fund Resources | | |
| <ul style="list-style-type: none"> • Estimated Collections, Investment Income & Carryforward • Interaction with Governor’s Sales Tax Recommendations | 93,154 269 | 88,177 314 |
| TOTAL ESTIMATED RESOURCES | \$93,423 | \$88,491 |
| CLEAN WATER FUND BALANCE | \$538 | \$399 |

If the Governor’s recommendations are enacted by the Legislature in combination with the Governor’s recommended sales tax changes, the Clean Water Fund would have an estimated fund balance of \$399,000 at the end of 2012-2013 biennium. The fund balance percentage of estimated Fiscal Year 2013 collections and investment income is less than 0.5%.

If the Legislature does not enact the Governor’s sales tax changes, the estimated fund balance will be a negative \$184,000, and the fund balance percentage will be a negative 0.2%. Under this scenario, appropriations would have to be less than the total recommended by the Governor.

Parks and Trails Fund

The Governor is recommending that \$77.058 million be appropriated from the Parks and Trails Fund in the 2012-2013 biennium. The recommendations are summarized in the following table.

| Parks and Trails Fund 2012-13 Governors Recommended Appropriations (Dollars in Thousands) | | |
|---|-----------------|-----------------|
| Agency/Program | FY 2012 | FY 2013 |
| Department of Natural Resources | | |
| <ul style="list-style-type: none"> • Investing in Our State Parks & Trails Legacy • Grants to Parks and Trails of Regional Significance | 16,201 6,165 | 16,201 6,165 |
| Total Department of Natural Resources | 22,366 | 22,366 |
| Metropolitan Council | | |
| <ul style="list-style-type: none"> • Parks & Trails Legacy Grants | 16,163 | 16,163 |

| | | |
|--|------------------|------------------|
| TOTAL GOVERNOR'S RECOMMENDATIONS | \$ 38,529 | \$ 38,529 |
| Estimated Parks and Trails Fund Resources | | |
| <ul style="list-style-type: none"> • Estimated Collections, Investment Income & Carryforward • Interaction with Governor's Sales Tax Recommendations | 40,216 116 | 39,648 136 |
| TOTAL ESTIMATED RESOURCES | \$40,322 | \$39,784 |
| PARKS & TRAILS FUND BALANCE | \$1,803 | \$1,255 |

If the Governor's recommendations for appropriations and sales tax changes are enacted by the Legislature, the Parks and Trail Fund will have an estimated fund balance of \$1.255 million at the end of 2012-2013 biennium. The fund balance percentage of estimated Fiscal Year 2013 collections is approximately 3.3%.

If the Legislature does not enact the Governor's recommended sales tax changes, total Parks & Trails Fund resources would be \$252,000 less than shown. Under this scenario, the estimated fund balance at the end of Fiscal Year 2012 would be approximately \$1 million (2.7%) if appropriations are made at the Governor's recommended amounts.

Arts and Cultural Heritage Fund

The Governor is **not making any recommendations** for appropriations from the Arts and Cultural Heritage Fund. The estimated available Fund resources available for appropriations under the Governor's recommended budget for the 2012-2013 biennium are summarized in the table.

| Arts and Cultural Heritage Fund 2012-13 Estimated Resources (Dollars in Thousands) | |
|--|----------------|
| Estimated Resources | FY 2012-2013 |
| <ul style="list-style-type: none"> • Estimated Collections, Investment Income & Carryforward • Interaction with Governor's Sales Tax Recommendations | 104,746 349 |
| TOTAL ARTS & CULTURAL HERITAGE FUND RESOURCES | 105,075 |

The total estimated available resources for appropriation are \$105.075 million if the governor's sales tax recommendations are enacted. If the sales tax recommendations are not enacted, the total estimated available resources for appropriation are \$104.746 million.

For additional information on Legacy Finance issues, contact Ron Soderberg at 296-4162 or ron.soderberg@house.mn

Health and Human Services Finance

Governor Mark Dayton's budget proposal for Health and Human Services creates a net positive impact on the general fund of \$1.3 billion for the fiscal 2012-13 biennium compared to the projected base for that biennium. The proposal relies heavily on increases in Medicaid provider surcharges which generate \$877 million for the biennium, but also includes \$775 million in spending reductions. These positive effects on the state's \$6.2 billion deficit are then offset by an additional \$392 million in new spending proposed by the Governor. The majority of the new spending is in the form of Medicaid provider rate increase to mitigate the increased burden of higher surcharges on the providers.

Contained in the Governor's budget are over 60 policy changes to health care, economic assistance, long term care, child care and other programs implemented state wide. Contained below is a summary of Governor Dayton's recommendations and the impact on the state's budget.

| Health and Human Services Finance | | | | | |
|---|--------------------------------|--------------------------------|-----------------------------|---|---|
| Total General Fund Spending | | | | | |
| (all dollars in thousands) | | | | | |
| | Nov. Forecast FY 2010-11 | Forecast Base FY 2012-13 | Gov's Recs FY 2012-13 | % Change Gov's FY 12-13 vs. FY 2010-11 | % Change Gov's FY 12-13 vs. Base |
| Department of Human Services | 8,433,970 | 12,135,276 | 12,029,686 | 43% | -1% |
| Department of Health | 130,949 | 152,189 | 150,263 | 15% | -1% |
| Emergency Medical Services Board | 5,860 | 5,484 | 5,484 | -6% | 0% |
| Disability Council | 1,048 | 1,048 | 1,048 | 0% | 0% |
| Ombudsman for Families | 530 | 530 | 530 | 0% | 0% |
| Ombudsman for Mental Health & Dev. Disabilities | 3,310 | 3,310 | 3,310 | 0% | 0% |
| Net GF Total | 8,575,667 | 12,297,837 | 12,190,321 | 42% | -1% |

Department of Human Services

Agency Administrative

The Governor's proposals include a few proposals in the administrative area of the Department. Total savings from these items are just under \$8.5 million for the biennium. The first proposal includes a reduction of 27 FTE's (full time equivalents) in the Department's central office. This would be a reduction of \$4.6 million in spending but include a loss of \$1.6 million in federal match. Net savings to the general fund are estimated at \$3 million per year.

The reduction in staff will be compounded on other recent reductions in agency administrative cuts. Full time equivalents for DHS were 6,500 for state fiscal year 2010 and are projected to be around 6,200 in fiscal 2013 as a result of Governor Dayton's proposals.

The department also administers several licensing functions of many types of providers of government services. These licensing functions will be reduced and some license fees increased creating a net savings to the general fund of \$2.5 million for the biennium.

Children and Family Services Grants

The budget proposals included recommendations for increases in two programs. A \$12.8 million increase for adoption and relative custody assistance is requested to meet the estimated need. The program provides dollars to help families who adopt or take custody of children who have become wards of the state. The program gets a fixed appropriation and the request stems from a need for additional dollars to meet the expenses forecasted for the program.

And increase of \$740,000 is requested for the Minnesota Food Assistance Program. The program provides cash assistance for food purchases by legal non-citizens who do not otherwise qualify for federal food aid. This is also a program with a fixed base level of funding and the request is to meet the projected need.

The Governor suggests reducing Children and Community Development Grants by \$22 million for the biennium. These grants are provided to counties to provide protection services for children and vulnerable adults. The reductions are from a state general fund base level of \$63 million per year and when fully implemented will reduce general fund expenditures to \$51 million statewide.

Also included is a provision to reduce grants to counties to administer the Minnesota Family Investment Program or MFIP. These grants are passed on to counties through the MFIP Consolidated Fund and the proposed reduction is \$14 million in federal TANF per year statewide.

A recommendation to combine Emergency General Assistance and Emergency Minnesota Supplemental Aid and then trim the program by new combined program by 25 percent is included. The provision would save \$2.2 million per year and give counties the flexibility to use the dollars for either need as their budgeted allotment allows.

Community Action Grants and Child Support Enforcement Incentive Grants are eliminated in the Governor's budget. The elimination of these programs will save \$10.2 million over the biennium and discontinue payment to counties to process child support claims and end state funding for several smaller programs aimed at helping low income adults achieve self sufficiency.

Child Care Programs

Governor Dayton recommends several changes to child care assistance programs that save a total of \$11.7 million over the biennium. The proposals would eliminate non-standard hour differential and activity fee payments to providers in the basic sliding fee program. Changes to absent day policies and limits on maximum hours reimbursed also bring savings. Additional limits on payments to providers who are related to the child, or lives with the child receiving care produce additional savings.

The Governor also proposes capturing basic sliding fee underspending of \$5 million and moving it to the general fund.

Savings of TANF dollars from the MFIP Consolidated fund will be refinanced in MFIP child care, turning the TANF savings into general fund dollars.

Continuing Care

Governor Dayton recommends many changes to continuing care programs that will save the general fund over \$250 million in the biennium and also provide additional revenue. The revenue comes from an increase in the MA (Medical Assistance) surcharge placed on Nursing Home and ICF/DD facilities. Intermediate Care Facilities for the Developmentally Disabled (ICF/DD) would receive a staged increase of over \$3,200 per bed annually. Nursing homes would receive a staged surcharge increase of \$985 by the end of the biennium. It is estimated that the increase in surcharges will bring in \$68 million in revenue for the biennium.

To mitigate the impact of the surcharge increases the Governor recommends an increase in daily rates paid to the ICF/DD and nursing homes. When a surcharge is increased on a facility, revenue is generated by the state, the payment rate to that facility can then be increased to provide revenue to the facility with half of that payment coming from the state and half coming from the federal government. Rate increase paid to these facilities will total \$24 million over the biennium with an equal amount paid by the feds.

Several changes to waived programs are included in the recommendations. The first change removes the annual one percent developmental disabilities waiver acuity increase. The pool of dollars a county receives to pay for their DD waiver clients is increased by 1 percent per year to meet the increasing needs of the client base. This proposal suspends the increase for one year and saves \$8.9 million for the biennium.

The Governor also recommends extending the disability waiver caps for an additional biennium. The caps are a limit to the number of waiver "slots" or individuals that may come into the program each month. The caps have been used in previous years to limit the growth in spending and save dollars versus an unconstrained level of people entering the waived services. The proposal would limit new slots in the CADI, DD and TBI waiver programs, saving an estimated \$45.7 million in the next biennium.

A recommendation to decreasing payments for low need recipients in the elderly waiver and alternative care programs is also included. This change paired with expanding the case mix for the lowest need category will save the general fund \$26 million in the upcoming biennium.

A proposal is included that would decrease congregate living rates for the lowest need categories. The 10 percent cut would save an estimate \$12.3 million for the biennium. The change would affect housing for many clients in several disabled waiver programs.

The final change to waived services would be a recommendation to separate the elderly waived programs from automatic rate adjustments that are paid to nursing facilities. This change would save \$1.2 million for the biennium.

Nursing homes would be impacted by a proposed change to rates paid for low needs recipients. Patients with a case mix classification of PA1 or BC1 are considered of the lowest need for care and rates for these clients would be cut by 25 percent. The change would save an estimated \$17.3 million in the 2012-13 fiscal biennium.

Governor Dayton also recommends reducing payments to nursing homes that are not connected to the operating rate. These adjustments include things like bed close and single bed room incentives and would save an estimated \$16.8 million in the upcoming biennium.

The largest, and most likely controversial, proposal in the continuing care area is an across the board cut in payment rates to all continuing care grants, facility payment rates, and home and community based services. The proposal would cut home and community based services and continuing care grants by 4.5 percent. In addition, long term care facilities rates would be cut by two percent. The proposal would reduce general fund expenditures by \$144.5 million over the next biennium by reducing payments to all providers in continuing care.

Health Care Programs

In the health care area, the Governor Dayton again proposes Medicaid Surcharges to generate revenue. The Governor raises a projected \$498 million in revenue by increasing the hospital surcharge from 1.56 percent to 4.45 percent. Hospital reimbursement rates are then increased to mitigate the financial losses by hospitals. While the surcharges are permanent, the payment rate increases are temporary and in effect until the next rebasing cycle which will adjust rates to better reflect actual hospital costs. The temporary rate increases lower the collections of the increased surcharge by \$124 million, for a gain to the general fund of \$374 million in fiscal 2012-13.

An HMO surcharge is proposed as well and will raise the current surcharge from 0.6 percent to 4.3 percent. The increase is projected to bring \$310 million to the general fund in the next biennium. Once again rate increases to the HMOs will be used as a mechanism to mitigate the cost of the surcharge. Rate increases will reduce the net collections by \$103 million in the general fund and require an increase of \$14 million from the health care access fund for the Minnesota Care program costs.

While all of the rate increases coupled with MA surcharges help mitigate the increased burden of the surcharge, there are likely winners and losers in the overall plan. By federal law, taxes imposed on provider must be broad based and apply to all providers. Rate increases are paid back by increasing the rate on Medicaid business. Therefore, a provider with a lower MA patient load will recoup less from a MA rate increase than a provider with a high percentage of their overall business provided to MA clients.

The Governor tightens eligibility to participate in the critical access dental program. The change will save \$5.5 million in general fund and \$2.8 million in health care access fund dollars. The result of the change will allow few providers to participate and reduce access, and the savings result from less dental work being provided.

A MA rate limitation for Medicare crossover claims is projected to save \$43 million for the next biennium. The proposal impacts dual eligible persons who have claims paid in part by Medicare and partly by Medicaid. The provision would limit MA participation so that the payment for the claim does not exceed the MA rate when the two source of payment are combined.

The Governor proposes a further delay on hospital rebasing. Rebasing is a method for automatic inflationary increase in rate paid to hospitals. Hospital costs are measured on a periodic basis

and the rate is then adjusted to reflect actual costs. The change would suspend rebasing until July 1 of 2013, one day beyond the end of the state fiscal biennium. The delay would also save \$99 million of general fund dollars for the biennium.

A reduction of the transfer of the carve out for Medical Education and Research Cost program (MERC) will reduce state expenditure by \$25.5 million in 2012-13. The MERC program provides additional funds to hospitals that perform research and teaching functions to mitigate their higher cost of operation and keep them competitive with hospitals that don't.

The Governor proposes ending MinnesotaCare coverage for adults above 200 percent of poverty. The current limit for adults without children is 250 percent, and for adults with children 275 percent of poverty. The change in law would remove coverage for an estimated 7,150 people and save the health care access fund \$33 million for the biennium.

Several other changes to the MNCare program are included in the Governor's budget. This string of proposals repeals many of the benefit expansions from the health care reform bill the legislature passed in 2008. The Governor recommends repeal of the MA Bridge Program for Children, Rolling and Grace Month of eligibility, and continuing enrollment of children without renewal documents. The repeal of yet unimplemented policies will save an estimated \$33 million in health care access fund dollars in the upcoming biennium.

Many of the MNCare changes were meant to bring solvency to the health care access fund, which is projected to be in deficit. The final piece to bringing the health care access fund into balance under Dayton's plan is to reduce legislated transfers of funds to the general fund by \$115 million. Several transfers of funds from the health care access fund to the general fund were included with the adoption of the new Medicaid coverage for adults without children passed in the 2010 legislative session. Since many of the recipients of the new program would be exiting the MinnesotaCare program, the savings in the health care access fund were to be transferred to the general fund to help finance the new program for the first several years. The Governor's proposal reduces the transfer from the health care access fund enough to keep it in balance, and the looks for savings elsewhere in his budget to make up for the loss to the general fund.

The last health care related item suggests further delay of many proposals implemented in the last biennium to save money. With the passage of the American Recovery and Reinvestment Act, the federal government put in place requirements that in order to receive the generous temporary Medicaid assistance they were offering in the legislation, state's were required to not make changes to Medicaid that would reduce eligibility. Since the state was in a budget deficit, cuts to the MA program that effected eligibility were given an effective date after the federal restrictions were to expire. With the passage of the federal health care reform, the restrictions were extended indefinitely.

The extension of these requirements would require the money saving new policies to once again be put on hold and require additional expenditure above forecast. The Governor's budget includes \$59 million to delay the policy changes and comply with federal law. The issue of the MOE requirements has been a topic in many states experiencing budget deficits that feel their hands are tied by the federal government and are not able to manage programs within their budgets. At the time of this writing, a memo from the Center for Medicare and Medicaid Services (CMS) was sent to states clarifying the intent of the MOE requirements and opening the

door for state flexibility. It is not currently known if Minnesota will be able to implement the previously enacted money saving measures or if the \$59 million expenditure, in total or in part, will be required.

Mental Health and Chemical Dependency

The Governor's budget includes two provisions to reduce state costs of chemical dependency treatment. The first change would tighten the criteria for those who qualify for residential treatment. The change would provide only outpatient treatment for those affected and would save an estimated \$9 million for the biennium. The second change would increase the county share for treatment and reduce the state share. This proposal would save an estimated \$9.5 million in FY 2012-13.

In the mental health area, a proposal to close the Willmar subacute care program and shift patients to other facilities. This closure would save an estimated \$5.3 million.

Minnesota Sex Offender Program

The Governor requests additional funding for the Minnesota Sex Offender Program (MSOP) due to the increase in population. To deal with the growth in population in MSOP, Governor Dayton provides an additional \$7.8 million from the general fund. The population at the facility is projected to grow by over 100 offenders by the end of the biennium.

Public Health

The Public Health Finance budget provides funding for a number of agencies. This portion of the Health and Human Services committee covers the Minnesota Department of Health (MDH), and the Health-Related Boards. In addition to the 15 boards funded through the State Government Special Revenue fund, the committee appropriates General Funds to the Disability Council, Ombudsman for Mental Health and Developmental Disabilities, Ombudsperson for Families, and the Emergency Medical Services Board.

The Governor recommends General Fund appropriations of \$160.635 million dollars in FY 2012-13 for the Public Health portion of the Health & Human Services committee.

Department of Health

The agency has four main areas that are funded by the state: Community & Family Health; Policy, Quality and Compliance; Health Protection; and Administrative Services. The Governor recommends changes to the base funding in each of these program areas, with a total allowance of \$150.263 million in general funds for the FY 2012-13 biennium.

The Governor's budget includes an overall reduction of 5.5 percent to the operating budget, which amounts to \$1.303 million per year from the agency's general fund appropriation, and

\$203,000 annually from the Health Care Access Fund (HCAF) and Temporary Assistance for Needy Families (TANF). This \$1.536 million cut would result in a loss of 3.25 full-time employees.

- *Community & Family Health*

The Governor recommends an appropriation of \$96.619 million for this program in the 2012-13 biennium. This is an increase over the base – \$620,000 – and would be implemented through the following recommendations:

Statewide Health Improvement Plan (SHIP): This recommendation does not affect general fund appropriations for the department. Governor Dayton recommends an ongoing annual appropriation of \$20 million for SHIP, which was implemented FY 2008 and sunsets at the end of FY 2011. The funding for SHIP would come from the Health Care Access Fund (HCAF).

Fetal Alcohol Spectrum Disorders: An additional \$340,000 is recommended to expand this program and would bring total spending for prevention and support of individuals and families impacted by the disorders to \$2 million per year.

- *Policy, Quality & Compliance*

The Governor recommends a general fund appropriation of \$19.67 million for this program in FY 2012-13. This is a reduction of \$2.326 million from the base level. The changes in spending are shown in the following change items:

Health Care Reform: This is another change in the Governor's budget that does not impact general funds, but uses HCAF money. He recommends a continuation of funding for the changes made to Minnesota's health care program in 2008. The continuation of funds amounts to \$2.5 million per year and would be offset by \$2.8 million in unused state match money from the electronic health record system revolving account.

MERC Direct Grants: This part of the Governor's proposal is to eliminate any direct grants from the Medical and Educational Research Costs (MERC) program. The change would save the state \$4.613 million each year, starting in FY 2013.

MERC Transfer: In addition to the MERC grant elimination, the Governor recommends a transfer of any accumulation in the MERC fund to the general fund. This would provide a savings to the general fund of \$9.8 million in FY 2012.

FQHC Funding: The Governor's budget eliminates \$1 million in one-time funding from the HCAF that would have provided partial funding for Federally Qualified Health Centers (FQHCs). His recommendation includes continuation of \$2.5 million per year from the general fund for FQHC.

- *Health Protection*

The Governor recommends a general fund appropriation of \$18.57 million for this program in FY 2012-13. This is a decrease of \$170,000 from the base level. The changes in spending are shown in the following change items:

Tuberculosis Prevention and Control: The Governor recommends an increase in funding for this program of \$200,000 per year. This will be a permanent addition to the base and will provide funding for lab testing, treatment, and prevention.

- *Administrative Support Service*

The Governor recommends an appropriation of \$15.404 million for this program in FY 2012-13. This is a decrease from the base level, resulting in a general fund reduction of \$50,000 for the biennium.

Ombudsman for Mental Health and Developmental Disabilities

The Governor does not make any changes in his budget for the Ombudsperson for Mental Health and Developmental Disabilities appropriation. The total base budget for FY 2012-13 is \$3,310,000 from the general fund.

Ombudsperson for Families

The Governor does not make any changes in his budget for the Ombudsperson for Families appropriation. The total base budget for FY 2012-13 is \$530,000 from the general fund.

Disability Council

The Governor does not make any changes in his budget for the Disability Council appropriation. The total base budget for FY 2012-13 is \$1,048,000 from the general fund.

Emergency Medical Services Board

The Governor does not make any changes in his budget for the general fund portion of the Emergency Medical Services Board appropriation. The total base budget for FY 2012-13 is \$5,484,000.

Health-Related Boards

There are 15 health-related boards the Health and Human Services committee will oversee during the 2011 legislative session. These boards have historically received funding through the State Government Special Revenue (SGSR) fund.

The Governor recommends changing the appropriations for the boards from direct appropriations to statutory appropriations. The statutory appropriation would give each board the authority to spend its fee revenue and any accumulated balance. The base appropriation for the boards in FY 2012-13 totals \$28.6 million. Under the Governor's plan for the boards they would have authority to spend \$40.9 million in the FY 2012-13 biennium, an increase of 43 percent over the direct appropriation base.

There are also a few change items in the Governor's budget for fee changes and a program transfer:

- The Governor recommends implementing a fee for the registration and regulation of Animal Chiropractors, which is housed under the Chiropractic Examiners Board. The new fee would raise \$6,000 in revenue each year.

The Health Professionals Services Program (HPSP) is currently housed under the Emergency Medical Services (EMS) Board. The Governor recommends formally moving the HPSP from the jurisdiction of the EMS Board to the Dentistry Board – the administering board for the past two years. Funding for HPSP would continue at the base level of \$704,000 each year, and the Governor plans to allow for the same spending authority with dedicated funds as he recommended for the other health-related boards.

- The Governor recommends codifying the fee structure of the Marriage and Family Therapy Board, which would have no impact on current fee levels.
- Also included in the Governor's budget is a change in fees for the Nursing Board. He recommends a \$50 registration fee for nurses from bordering states; a repeal of late fees; and a repeal of temporary permits for graduate nurses. The net effect of these fee changes would be a loss of \$32,000 in revenue for the board annually.
- There is a recommendation for fee increases in the Pharmacy Board in order to meet increasing operating costs. The new fees would generate \$364,000 each year.

| Health-Related Boards | | | | | |
|---|---|----------------------------|----------------------------------|---|---|
| Governor's FY 2012-13 Spending Authority Recommendations | | | | | |
| (all dollars in thousands) | | | | | |
| Board | Nov. Forecast FY 2010-11 | Base FY 2012-13 | Gov's Recs FY 2012-13 | % Change Gov. vs. FY 10-11 | % Change Gov. vs. FY 12-13 |
| Behavioral Health & Therapy | 788 | 788 | 1,561 | 98% | 98% |
| Chiropractors | 994 | 894 | 1,517 | 53% | 70% |
| Dentistry | 2,128 | 2,030 | 3,349 | 57% | 65% |
| Dietetics & Nutrition | 225 | 210 | 209 | -7% | 0% |
| Marriage & Family Therapy | 354 | 318 | 879 | 148% | 176% |
| Medical Practice | 6,092 | 7,364 | 10,479 | 72% | 42% |
| Nursing Home Admin | 2,345 | 2,168 | 832 | -65% | -62% |
| Nursing | 6,591 | 6,578 | 10,767 | 63% | 64% |
| Optometry | 216 | 202 | 245 | 13% | 21% |
| Pharmacy | 3,302 | 3,488 | 3,982 | 21% | 14% |
| Physical Therapy | 590 | 590 | 1,043 | 77% | 77% |
| Podiatry | 149 | 142 | 204 | 37% | 44% |
| Psychology | 1,644 | 1,612 | 2,803 | 70% | 74% |
| Social Work | 1,842 | 1,842 | 2,389 | 30% | 30% |
| Veterinary Medicine | 390 | 390 | 710 | 82% | 82% |
| Total Expenditures: | 27,650 | 28,616 | 40,969 | 48% | 43% |

For questions relating to Human Services issues, contact John Walz, House Fiscal Analyst at (651)296-8236 or john.walz@house.mn

For questions relating to Public Health issues, contact Emily Adriaens, House Fiscal Analyst at (651)296-7171 or emily.adriaens@house.mn

Higher Education

The Governor recommends total FY 2012-13 General Fund appropriations for accounts under the jurisdiction of the Higher Education Finance Committee of \$2.746 billion. This is a decrease of \$ 68.6 million (-2 percent) from FY 2010-2011 expenditures and \$170.9 million (-6 percent) from the FY 2012-2013 forecast base. The following table summarizes the Governor's General Fund recommendations for each of the committee's accounts:

| Higher Education Finance Total General Fund Spending <i>(all dollars in thousands)</i> | | | | | |
|--|----------------------------------|------------------------------|--------------------------------|---|---|
| | November Forecast FY 10-11 | Forecast Base FY 12-13 | Governor's Recs FY 12-13 | Percent Change Gov. FY 12-13 vs. FY 10-11 | Percent Change Gov. vs. Base FY 12-13 |
| MnSCU | 1,219,663 | 1,260,702 | 1,185,060 | -3 | -6 |
| Mayo Medical | 2,651 | 2,702 | 2,702 | 2 | 0 |
| Office of Higher Education | 372,232 | 368,874 | 350,666 | -6 | -5 |
| University of Minnesota | 1,217,008 | 1,284,302 | 1,207,244 | -1 | -6 |
| Net GF Total | 2,811,554 | 2,916,580 | 2,745,672 | -2 | -6 |

Office of Higher Education (OHE)

The Governor recommends total FY 2012-13 General Fund appropriations for the Office of Higher Education of \$350.7 million. This is a decrease of \$21.6 million (-6 percent) from FY 2010-2011 expenditures and \$18.2 million (-5 percent) from the FY 2012-2013 forecast base. Specific recommendations within this funding level include:

- **Achieve Grants** – The Governor recommends elimination of this program. The FY 2012-2013 base for the program is \$2.35 million per year.
- **Agency Administration** – The Governor recommends a reduction of \$263,000 for the biennium (-10 percent) in the OHE administration program. Specific reductions are targeted for Communications, Fiscal Policy and Research and Accountability budget lines.
- **State Grants** – The Governor does not recommend any changes to the State Grant program. Projected demand for State Grants during the FY 2012-2013 biennium based on current law eligibility exceeds the program base by \$35 million. The Governor's budget would allow statutory proration of grants to close the gap between the program base and projected demand. Proration also occurred in FY 2011. The Governor does recommend rolling the \$100,000 per year base for the Safety Officer Survivor program into the State Grant Base for the same purpose.

- Work Study – The Governor recommends a decrease in funding of \$9.8 million (-33 percent) for the biennium.
- American Indian Scholarships – The Governor recommends a decrease in funding of \$200,000 (-5 percent) for the biennium for this scholarship program.
- Child Care Grants – The Governor recommends a decrease in funding of \$668,000 (-5 percent) for the biennium for need based child care grants.
- Mn College Savings Program – The Governor recommends a decrease in funding of \$1.05 million for the program in the FY 2012-2013 biennium. This recommendation would phase out all General Fund costs for the Savings Program. Account matching grants are reduced to \$350,000 in FY 2012 and eliminated in FY 2013. Administration costs are removed from the General Fund beginning in FY 2012.
- MINITEX and MnLINK – The Governor recommends a decrease in funding of \$562,000 (-10 percent) for the MINITEX inter-library loan system and \$80,000 (-5 percent) for the MnLINK electronic library gateway for the biennium.
- Student and Parent Information/Get Ready – The Governor recommends a decrease of \$31,000 (-4.3 percent) for the biennium.
- United Family Practice Residency – The Governor recommends elimination of this program. The FY 2012-2013 base for the program is \$467,000 per year.

Minnesota State Colleges and Universities (MnSCU)

The Governor recommends total FY 2012-2013 General Fund appropriations for the Minnesota State Colleges and Universities of \$1.185 billion. This is a decrease of \$34.6 million (-3 percent) from FY 2010-2011 appropriations and a decrease of \$75.64 million (-6 percent) from the FY 2012-2013 forecast base. The Governor's reductions are portioned between MnSCU's programs as follows

- Operations & Maintenance – The Governor recommends a decrease in funding of \$74.1 million for the biennium.
- Central Office and Shared Services Unit – The Governor recommends a decrease in funding of \$1 million for the biennium.
- Learning Network of Minnesota – The Governor recommends a decrease in funding of \$576,000 for the biennium.

University of Minnesota

The Governor recommends total FY 2012-2013 General Fund direct appropriations for the University of Minnesota of \$1.207 billion. This does not include \$40.4 million in statutory appropriations in support of bonds for a football stadium and bioscience facilities. The Governor's recommendation represents a decrease of \$9.7 million (-1 percent) from FY 2010-

2011 appropriations and \$77.1 million (-6 percent) from the FY 2012-2013 forecast base. The Governor's reductions are portioned between the University's programs as follows:

- Operations & Maintenance – The Governor recommends a decrease in funding of \$69.4 million for the biennium.
- University Specials – The Governor recommends:
 - Agriculture Special – A decrease of \$5.5 million for the biennium.
 - Health Sciences Special – A decrease of \$552,000 for the biennium.
 - Institute of Technology Special – A decrease of \$146,000 for the biennium.
 - System Special – A decrease of \$644,000 for the biennium.
 - Mayo Genomics Special – A decrease of \$838,000 for the biennium.

The Governor proposes current law biennial base funding of \$44.6 million from cigarette tax revenue through the Miscellaneous Special Revenue Fund to the Academic Health Center. The Governor also proposes that the current law biennial base funding of \$4.3 million in Health Care Access fund appropriations for primary care physician training continue at the same level.

Mayo Foundation

The Governor recommends FY 2012-2013 General Fund appropriations of \$2.702 million. This is the forecast base for the next biennium and represents an increase of \$51,000 (2 percent) over FY 2010-2011 expenditures.

Higher Education Facilities Authority

This agency receives no General Fund appropriations and pays for operations through fees charged to institutions receiving funds from bond issues. The Governor recommends no changes to the FY 2012-2013 statutory appropriations from the Miscellaneous Agency Fund at the forecast base of \$544,000.

If you have any further questions on higher education finance issues, please contact Doug Berg at 296-5346 or doug.berg@house.mn.

Jobs and Economic Development Finance

The Jobs and Economic Development Finance Committee has budget jurisdiction for 12 state departments, agencies and boards. The committee accounts deal with jobs, workforce training, economic development, housing and professional licensure.

The Governor is recommending FY 2012-13 changes which would have a net General Fund impact of a negative \$7.724 million. The impact is a combination of \$1.424 million in decreased General Fund appropriations, and \$6.3 million in additional General Fund revenues.

Looking at the biennium to biennium comparisons, the Governor's recommended FY 2012-13 General Fund budget is a decrease of \$ 28.608 million (14.6 percent) from the Jobs' agencies FY 2010-2011 forecasted expenditures. One-time appropriations, including flood relief, largely explains this difference.

Compared to the FY 2012-2013 forecast base, the Governor combined recommended appropriations for the Job and Economic Development Committee's agencies are 1.424 million (0.8 percent) less than base.

| Jobs & Economic Development Finance Division | | | | | |
|---|------------------------------------|--------------------------------|----------------------------------|--|---|
| Total General Fund Spending | | | | | |
| (all dollars in thousands) | | | | | |
| APPROPRIATIONS | November Forecast FY 2010-11 | Forecast Base FY 2012-13 | Governor's Recs FY 2012-13 | % Change Gov. FY12-13 vs. FY 10-11 | % Change Gov. vs. Base FY 2012-13 |
| Dep. of Employment & Economic Development | \$96,353 | \$75,882 | \$78,310 | -18.7% | 3.2% |
| Housing Finance Agency | 88,356 | 81,256 | 77,190 | -12.6% | -5.0% |
| Department of Labor & Industry | 1,720 | 1,720 | 1,634 | -5.0% | -5.0% |
| Mediation Services Bureau | 3,201 | 3,168 | 3,168 | -1.0% | 0.0% |
| Board of Accountancy | 970 | 960 | 1,110 | 14.4% | 15.6% |
| Board of Architecture, Engineering, et al. | 1,565 | 1,548 | 1,698 | 8.5% | 9.7% |
| Board of Barber Examiners | 450 | 514 | 514 | 14.2% | 0.0% |
| Board of Cosmetologist Examiners | 1,737 | 2,092 | 2,092 | 20.4% | 0.0% |
| Combative Sports Commission | 160 | 0 | 0 | -100.0% | N/A |
| Science & Technology Authority | 383 | 214 | 214 | -44.1% | 0.0% |
| Region 3 -- Occupation Tax (open appropriation) | 535 | 892 | 892 | 66.7% | 0.0% |
| Iron Range Resources (non GF only) | N/A | N/A | N/A | N/A | N/A |
| Workers Comp Court of Appeals (non GF only) | N/A | N/A | N/A | N/A | N/A |
| Total Appropriations | \$195,430 | \$168,246 | \$166,822 | -14.6% | -0.8% |
| REVENUES | | | | | |
| DEED - UI Contingent Account Transfer | | | \$6,300 | | |
| Total Revenues | | | \$6,300 | | |
| Total General Fund Impact (Spending & Rev) | | | \$160,522 | | |

Department of Employment and Economic Development (DEED)

The Governor recommends FY 2012-2013 General Fund appropriations of \$78.310 million. This is a decrease of \$18.043 million (18.7 percent) from DEED's FY 2010-2011 forecasted expenditures. Flood relief and other onetime appropriations in FY 2010-11 played significantly in these decreases.

| Department of Employment and Economic Development | | | |
|--|---------------------|-------------------------------|--------------------|
| FY 2012-13 General Fund Appropriations | | | |
| <i>(dollars in thousands, numbers are biennial)</i> | | | |
| Program | Current Base | Governor's Rec. Change | New Funding |
| Business & Community Development | \$10,960 | \$(376) | \$10,584 |
| BioBusiness Alliance | 950 | (238) | 712 |
| Metropolitan Economic Development Assn. | 210 | (52) | 158 |
| Women Venture | 400 | (100) | 300 |
| Minnesota Inventors Congress | 100 | (26) | 74 |
| Contaminated Sites Cleanup Grants | 2,544 | 0 | 2,544 |
| Job Skills Partnership Program | 8,834 | (442) | 8,392 |
| Rehabilitation Services (State) | 17,600 | 4,000 | 21,600 |
| Services for the Blind | 11,556 | 300 | 11,856 |
| Extended Employment | 10,810 | 0 | 10,810 |
| Mental Illness - Support Employment | 3,110 | 0 | 3,110 |
| Independent Living Services | 4,522 | 0 | 4,522 |
| Twin Cities Rise | 700 | (70) | 630 |
| Rise Inc. (EE Center for Deaf) | 290 | (30) | 260 |
| LifeTrack Resources | 200 | (20) | 180 |
| Advocating Change Together | 300 | (30) | 270 |
| MN Diversified Inc. | 350 | (350) | 0 |
| Northern Connections | 300 | (30) | 270 |
| General Support Services | 2146 | (108) | 2,038 |
| Total General Fund DEED | \$75,882 | \$2,428 | \$78.310 |
| FY 2012-13 General Fund Revenues | | | |
| Revenue Source | | | Amount |
| UI Contingent Account Transfer | | \$6,300 | \$6,300 |

| FY 2012-13 Net General Fund Impact | | | |
|---|-----------------|------------------|-----------------|
| Expenditures minus Revenues | | | Amount |
| UI Contingent Account Transfer | \$75,882 | (\$3,872) | \$72,010 |

Compared to the DEED's FY 2012-2013 General Fund forecast base, the Governor's recommended total appropriations are an increase of \$2.428 million (3.2 percent) over base. Additional recommended funding to match federal funds in the areas of Rehabilitation Services (\$4 million) and Services for the Blind (\$300,000) are the main reason for the increase.

Most other DEED program areas funded from the General Fund will see reduced funding under the Governor's budget. The recommended decreases range from 3.4 percent to 25.1 percent. Program areas recommended to see no changes in funding include contaminated sites cleanup grants, extended employment, mental illness - support employment and independent living services.

The Governor is also making one recommendation for General Fund revenue in DEED's budget. The proposal would transfer \$6.3 million from the Unemployment Insurance Contingent Account to the General Fund.

The Governor also recommends one major change in appropriations from the Workforce Development Fund. The change would increase the funding for the Dislocated Worker Program by \$6.6 million in the FY 12-13 biennium. To pay for this increase the Governor is recommending a \$6.6 million transfer from the Unemployment Insurance Contingent Account.

For the 16 programs which receive FY 2012-13 direct appropriations totaling \$32,844 from the Workforce development Fund, the Governor is recommending no changes to the current law base appropriations.

| Department of Employment and Economic Development | | | |
|---|---------------------|-------------------------------|---------------------------|
| FY 2012-13 Workforce Development Fund Appropriations | | | |
| <i>(dollars in thousands, numbers are biennial)</i> | | | |
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Statutory Appropriation | | | |
| Dislocated Worker Program | \$48,041 | \$6,600 | \$54,641 |
| Direct Appropriations | | | |
| Various Programs | 32,844 | 0 | 32,844 |
| Total WDF Appropriations | \$80,885 | \$6,600 | \$87,485 |
| New Revenue | | | |
| UI Contingent Account Transfer | | \$6,600 | |

The Governor is also recommending two statutory changes within DEED's FY 2012-13 budget.

| Department of Employment and Economic Development | | | |
|--|---------------------|-------------------------------|---------------------------|
| FY 2012-13 Statutory Appropriations | | | |
| <i>(dollars in thousands, numbers are biennial)</i> | | | |
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Monitoring Pass-Through Grant Recipients (5%) | | \$550 | \$550 |
| Contaminated Grants (Petro Fund Extension) | \$6,200 | \$6,200 | \$12,400 |

The \$550,000 recommendation, or \$275,000 each fiscal year, is for a new monitoring imitative of DEED pass-through grant recipients. The proposal would reduce each recipient's appropriation by 5%, and use the proceeds to monitor their grant. The effect of this proposal is to reduce the actual amount of money going to the respective pass-through by 5 percent, and is in addition to any other appropriation changes in the pass- through recipients' funding.

The second statutory appropriation change is a result of the Governor initiative to extend the Petrofund, which under current law would expire on June 30, 2012. This proposal would mean the Contaminated Grants within DEED would receive an additional \$6.2 million each year in Fiscal Year 2013 and beyond.

Minnesota Housing Finance Agency

The Governor recommends FY 2012-2013 General Fund appropriations of \$77.190 million. This is a decrease of \$4,066 million (5 percent) from the FY 2012-2013 forecast base. On an individual program level, however, the Governor's recommendations vary considerable. One MHFA program would be increased, two programs would receive no change, and six programs would be decreased from 3 to 23 percent. The individual program recommendations are shown in the table:

| Minnesota Housing Finance Agency FY 2012-13 General Fund Appropriations <i>(dollars in thousands, numbers are biennial)</i> | | | |
|---|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Econ Dev. & Housing Challenge Program | \$ 18,786 | \$ (4,468) | \$ 14,318 |
| Housing Trust Fund | 17,110 | 2,000 | 19,100 |
| Family Homeless Prevention | 14,930 | 0 | 14,930 |
| Rental Assistance for Mentally Ill (Bridges) | 5,276 | 0 | 5,276 |
| Homeownership Assistance Program | 1,770 | (54) | 1,716 |
| Affordable Rental Investment Fund | 15,092 | (454) | 14,638 |
| Housing Rehabilitation Program | 6,062 | (796) | 5,266 |
| Homeownership Ed., Counseling & Training | 1,730 | (228) | 1,502 |
| Non-Profit Capacity Building Grants | 500 | (66) | 434 |
| Total General Fund MHFA | \$ 81,256 | (\$4,066) | \$77,190 |

Department of Labor and Industry

The Governor recommends FY 2012-2013 General Fund appropriations of \$1.634 million. This is a decrease of \$86,000 (5 percent) from the FY 2012-2013 forecast base. The proposed reductions will come from the Labor Standards program at the agency.

| Department of Labor and Industry FY 2012-13 General Fund Appropriations <i>(dollars in thousands, numbers are biennial)</i> | | | |
|---|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Labor Standards Division | \$ 1,720 | \$ (86) | \$ 1,634 |

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

| FY 2012-13 Workforce Development Fund Appropriations <i>(dollars in thousands, numbers are biennial)</i> | | | |
|--|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Apprenticeship Program | \$ 1,558 | \$ 0 | \$ 1,558 |
| Labor Education & Advance Program Grants | 200 | 0 | 200 |
| Prevailing Wage Enforcement | 300 | 0 | 300 |
| Total WDF DOLI | 2,058 | 0 | 2,058 |

The Department's Construction Codes and Licensing Division would see a 6.823 million increase under the Governor's proposed budget. To fund this increase, the Governor is recommending that the \$5 fixed rate permit surcharge be extended two years, several fee adjustment be enacted in the construction program area, and further changes be made in the license consistency reforms that were enacted by the 2010 Legislature. The table below summarizes the Governor recommendation.

| FY 2012-13 Construction Code Fund Appropriations <i>(dollars in thousands, numbers are biennial)</i> | | | |
|--|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Construction Codes and Licensing Division | \$50,341 | \$6,823 | \$57,164 |
| FY 2012-13 Construction Code Fund Revenues | | | |
| Revenue Source | Amount | | |
| Extension of Fixed Rate Permit Surcharge (\$5.00 permit surcharge) | \$2,400 | | |
| Construction Program Fee Adjustments | \$4,528 | | |
| License Consistency - Continue 2010 Leg. | \$99 | | |
| Total Construction Code Fund Revenue | \$7,027 | | |

Bureau of Mediation Services

The Governor recommends FY 2012-2013 General Fund appropriations of \$3.168 million. This represents no change from the Bureau's FY 2012-2013 forecast base. The respective program funding within Bureau are:

| Bureau of Mediation Services FY 2012-13 General Fund Appropriations <i>(dollars in thousands, numbers are biennial)</i> | | | |
|---|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Representation/Mediation/LMC | \$3,032 | \$0 | \$3,032 |
| Labor Management Co-op Grants | 136 | 0 | 136 |
| Total General Fund BMS | \$3,168 | \$0 | \$3,168 |

Board of Accountancy

The Governor recommends FY 2012-13 General Fund appropriations of \$1.15 million. This represents an increase of \$150,000 from the Board's FY 2012-2013 forecast base. The recommended increase is one-time in Fiscal Year 2012 only, and funds linking the Board's existing data and web based services to the state's e-Licensing centralized one stop shopping system.

| Board of Accountancy FY 2012-13 General Fund Appropriations <i>(dollars in thousands, numbers are biennial)</i> | | | |
|---|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Operating Budget | \$ 960 | \$ 150 | \$1,100 |

Board of Architecture and Engineering

The Governor recommendation for FY 2012-13 General Fund appropriations to the Board of Architecture, Engineering et al. is similar to the Board of Accountancy. The Board would receive a one-time budget increase of \$150,000 in Fiscal Year 2012 to fund linking the Board's existing data and web based services to the state's e-Licensing centralized one stop shopping system.

| Board of Architecture and Engineering 2012-13 General Fund Appropriations <i>(dollars in thousands, numbers are biennial)</i> | | | |
|---|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Operating Budget | \$ 1,548 | \$ 150 | \$ 1,698 |

The funding for Board’s regular operating budget would be at forecast base for FY 2012-2013 biennium under the Governor’s proposed budget.

Board of Cosmetologist Examiners

The Governor is recommending no changes in the Board of Cosmetologist Examiners’ FY 2012-13 General Fund appropriations from forecast base. The board would receive a general fund appropriation of \$2.092 million in the biennium.

| Board of Cosmetologist Examiners FY 2012-13 General Fund Appropriations <i>(dollars in thousands, numbers are biennial)</i> | | | |
|---|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor’s Rec. Change | Governor's Funding |
| Operating Budget | \$ 2,092 | \$ 0 | \$ 2,092 |

Board of Barber Examiners

The funding for Board’s regular operating budget would be at forecast base for FY 2012-2013 biennium under the Governor’s proposed budget. The board would receive a general fund appropriation of \$514,000 in the biennium.

| Board of Barber Examiners FY 2012-13 General Fund Appropriations <i>(dollars in thousands, numbers are biennial)</i> | | | |
|--|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor’s Rec. Change | Governor's Funding |
| Operating Budget | \$ 514 | \$ 0 | \$ 514 |

Combative Sports Commission

In keeping with the Legislature directive that the Combative Sports Commission be self supported from license fees and event commissions, the Governor is recommending that the Commission not receive a general fund appropriation to support operations in the FY 2012-13 biennium. Rather, the Governor is recommending that fees and event revenues be increased by \$134,000 to fund the Commission’s \$380,000 biennial operating budget in FY 2012-2013.

| Combative Sports Commission | | | |
|---|---------------------|-------------------------------|---------------------------|
| FY 2012-13 General Fund Appropriations | | | |
| <i>(dollars in thousands, numbers are biennial)</i> | | | |
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Operating Budget | 0 | 0 | 0 |
| FY 2012-13 Non-General Fund Appropriations | | | |
| Statutory Appropriation | | | |
| Operating Budget | 380 | 0 | 380 |
| Revenue | | | |
| Fee Increases to Support Operations | 174 | 134 | 308 |

It is notable that even with the Governor's recommended fee increases that the Commission will not be fully self-supported since revenues will still be \$78,000 short for paying expenses. In the short-term, the deficiency will be covered with \$163,000 in carryover funds the Commission has accumulated from prior fiscal years. But within four years, fees may need to be increased again unless revenues prove to be more than estimated or expenses are less than anticipated.

Science & Technology Authority

The Governor is recommending no changes in the Science & Technology Authority's General Fund appropriations from forecast base. The authority would receive general fund appropriations of \$214,000 in the FY 2012-13 biennium.

| Science & Technology Authority | | | |
|---|---------------------|-------------------------------|---------------------------|
| FY 2012-13 General Fund Appropriation | | | |
| <i>(dollars in thousands, numbers are biennial)</i> | | | |
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Operating Budget | \$ 214 | \$ 0 | \$ 214 |

Iron Range Resources and Rehabilitation (IRRR)

The Governor recommends no changes for FY 2012-2013 to the forecast base of \$72.684 million of statutory appropriations to the Iron Range Resources and Rehabilitation agency. The appropriations are made from the Iron Range Resources and Rehabilitation Fund, the Giants Ridge Golf and Ski Resort Fund, and the Northeast Minnesota Economic Protection Fund. The agency receives no General Fund appropriations.

| Iron Range Resources & Rehabilitation FY 2012-13 Statutory Appropriations <i>(dollars in thousands, numbers are biennia)</i> | | | |
|--|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Various Programs | 72,684 | 0 | 72,684 |

Region 3 Occupation Tax

The Iron Range Resources and Rehabilitation serves as the fiscal agent for the Region 3 Occupation Tax general fund appropriation. The IRRR does not spend this money, but only serves as the fiscal agent to distribute this appropriation to that the counties specified by state law as qualifying recipients. Currently, Carlton and Koochiching County receive this appropriation. The Governor is recommending no changes to this appropriation.

| Region 3 Occupation Tax FY 2012-13 General Fund Appropriation <i>(dollars in thousands, numbers are biennial)</i> | | | |
|---|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Tax Distribution | \$ 892 | \$ 0 | \$ 892 |

The Governor is recommending no changes to this appropriation.

Workers Compensation Court of Appeals

This court receives no General Fund appropriation. The Governor recommends FY 2012-2013 appropriations of \$3.406 million from the Workers Compensation Special Fund. This represents no change from the Court's forecast base.

| Workers Comp Court of Appeals FY 2012-13 Workers Comp Fund Appropriation | | | |
|---|---------------------|-------------------------------|---------------------------|
| Program | Current Base | Governor's Rec. Change | Governor's Funding |
| Operating Budget | \$3,406 | \$0 | \$3,406 |

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

Judiciary Finance

The Governor's budget recommends a general fund appropriation of \$740.465 million for the FY 2012-13 biennium. This is an increase of \$5.606 million (or 0.7 percent) from the previous biennium, and a 1.8 percent increase from current law. The Judiciary budget accounts for approximately two percent of the Governor's proposed general fund budget for FY 2012-13. The following details on the Governor's recommendations pertain to the general fund unless otherwise noted (dollar amounts are for the biennium).

| Judiciary Finance | | | | | |
|------------------------------------|--------------------------------|--------------------------------|-----------------------------|--|--|
| Total General Fund Spending | | | | | |
| (all dollars in thousands) | | | | | |
| | Nov. Forecast FY 2010-11 | Forecast Base FY 2012-13 | Gov's Recs FY 2012-13 | Percentage Change Gov's FY 2012-13 vs. FY 2010-11 | Percentage Change Gov's FY 2012-13 vs. Base |
| Supreme Court | 85,675 | 84,360 | 84,849 | -1% | 1% |
| Court of Appeals | 20,246 | 20,136 | 20,334 | 0% | 1% |
| District Courts | 482,585 | 464,400 | 470,463 | -3% | 1% |
| Guardian Ad Litem Board | 12,367 | 24,734 | 25,063 | 103% | 1% |
| Tax Court | 1,599 | 1,580 | 1,650 | 3% | 4% |
| Uniform Laws Commission | 100 | 98 | 98 | -2% | 0% |
| Board of Judicial Standards | 935 | 884 | 912 | -2% | 3% |
| Public Defense Board | 130,163 | 129,452 | 135,924 | 4% | 5% |
| Sentencing Guidelines | 1,179 | 1,172 | 1,172 | -1% | 0% |
| Net GF Total | 734,849 | 726,816 | 740,465 | 1% | 2% |

Supreme Court

The Governor recommends a biennial appropriation of \$84.849 million, an increase of \$489,000 from the FY 2012-13 base. The increase fulfills a request from the courts to alleviate the increasing costs of health insurance and pension contributions for state employees. This increase is \$94,000 in FY 2012 and \$395,000 in FY 2013 and each year afterward.

The increase is for the Supreme Court and does not impact funding for Civil Legal Services, which would maintain its base-funding level of \$23.632 million for FY 2012-13 under the Governor's recommendation.

Court of Appeals

The Governor recommends a biennial appropriation of \$20.334 million, an increase of \$198,000 from the FY 2012-13 base. The annual increase amounts to \$160,000 each year, starting in FY 2013. Like the Supreme Court, this new funding is recommended as a result of increased costs related to state-paid health insurance and pension plans.

District Courts

The Governor recommends a biennial appropriation of \$470.463 million. This is a decrease from the previous biennium for the trial courts, but an increase of \$6.063 million from the FY 2012-13 base. The ongoing annual increase of \$4.841 million is recommended for increasing health insurance and pension costs.

Tax Court

The Governor recommends an annual increase of \$35,000, which would bring the FY 2012-13 biennium appropriation up to \$1.65 million. The funding is recommended to offset the increase in rent and salary obligations. In addition to the increase in future funding, the Governor also recommends fulfilling a deficiency request from the Tax Court for FY 2011. Due to reductions in funding, the Court had to close its doors for several weeks in the FY 2010. Its budget was overspent by \$3,000 and the immediate need for additional funding for rent and salary is recommended to be met with an additional \$38,000 in FY 2011.

Board of Judicial Standards

The Governor recommends additional funding along with satisfying a request for a FY 2011 deficiency request. The deficiency request was made to help manage the uncertainty of the number of cases the board sees in any given year. In FY 2011 the board has had an unusual number of cases to hear and investigate. Usually, the board gets one or two cases and currently there are five cases pending.

The deficiency request was granted in the Governor's recommendations at the amount of \$290,000 for FY 2011 only. The increase of \$14,000 per year starting in FY 2012 is recommended to restore a prior reduction to the board's funding for hearings and investigations. The biennial appropriation for FY 2012-13 is \$912,000 in the Governor's budget.

Public Defense Board

The Governor is recommending a biennial appropriation of \$135.924 million, which reflects an annual increase of \$3.236 million from the base funding. This increase is intended to help the Public Defense Board stave off the loss of public defenders and increase the efficiency of court operations. The additional funding represents a 5 percent increase in funding for the board.

Sentencing Guidelines

The Governor recommends a biennial appropriation of \$1.172 million, which is base funding.

Uniform Laws Commission

The Governor recommended a biennial appropriation of \$98,000, which is base funding.

For additional information on judiciary issues, contact Emily Adriaens at 296-7171 or emily.adriaens@house.mn.

Public Safety & Crime Prevention Finance

The Governor's budget recommends a general fund appropriation of \$1.082 billion for the FY 2012-13biennium. This is a \$2.4 million (0.22 percent) increase from the previous biennium, and a 2.38 percent increase from current law. The public safety budget makes up 2.9 percent of the Governor's proposed general fund budget for FY 2012-13. The following relate to the general fund unless otherwise noted (dollar amounts are for the biennium).

| Public Safety Finance | | | | | |
|------------------------------------|--------------------------------|--------------------------------|-----------------------------|--|--|
| Total General Fund Spending | | | | | |
| (all dollars in thousands) | | | | | |
| | Nov. Forecast FY 2010-11 | Forecast Base FY 2012-13 | Gov's Recs FY 2012-13 | Percentage Change Gov's FY 2012-13 vs. FY 2010-11 | Percentage Change Gov's FY 2012-13 vs. Base |
| Public Safety Department | 178,296 | 156,530 | 159,430 | -11% | 2% |
| Peace Officers Standards Bd | 8,123 | 7,990 | 7,590 | -7% | -5% |
| Private Detective Board | 241 | 240 | 240 | 0% | 0% |
| Human Rights Department | 6,728 | 6,682 | 6,682 | -1% | 0% |
| Corrections Department | 893,352 | 892,382 | 915,171 | 2% | 3% |
| Net GF Total | 1,086,740 | 1,063,824 | 1,089,113 | 0% | 2% |

Public Safety Department

The Public Safety Policy and Finance Committee is responsible for six programs in the Department of Public Safety (other programs in the agency are the responsibility of the Transportation Finance Committee). The Governor is recommending a biennial appropriation of \$159.43 million for these public safety programs. This is an increase of \$2.9 million from the FY 2012-13base. If all funds are included the direct appropriation is \$327.7 million. The Governor is recommending the following:

- A one-time appropriation of \$2.043 million in FY 2011 to serve as the state match for Federal Emergency Management Agency disaster assistance.
- A \$2.734 million transfer from the fire safety account in the special revenue fund to the general fund to fund the Health Insurance reimbursement program (MS 299A.465). This program funds the continued health insurance coverage for peace officers and firefighters disabled in the line of duty. This will be on-going funding.
- A \$5.266 million transfer from the fire safety account in the special revenue fund to the general fund. This will be an on-going transfer and will help to off-set the budget deficit.
- \$2.9 million in one-time funding in FY 2012 for a program called Network for Better Futures. This funding will complete and assess a five-year pilot project of providing

access to housing, employment, health care and community reengagement to high risk men.

- \$6.83 million for an increase in funding that will be used to operate and maintain the Allied Radio Matrix for Emergency Response (ARMER).

Private Detectives Board

The Governor is recommending a biennial appropriation of \$240,000, which is the base funding level.

POST Board

The Governor is recommending a biennial appropriation of \$7.59 million, which is a decrease of \$400,000 from the base funding. This funding is from the special revenue fund and the Governor is recommending the following:

- \$114,000 reduction for operations.
- \$286,000 reduction in funding provided to local governments for peace officer training.

Department of Corrections

The Governor is recommending a biennial appropriation of \$915.171 million, which is an increase of \$22.789 million from the FY 2012-13 base. The Governor is recommending the following:

- \$26.947 million increase to maintain funding for core prison operations. This increase restores the general fund budget base that was reduced as a result of one-time federal stimulus funding the agency received for FY 2010.
- \$1.35 million increase to fund the continuation of the chemical dependency treatment to offenders at the correctional facility in Faribault. This program was funded by a federal grant is expiring and this appropriation would continue the program.
- \$2.102 million reduction in the operations support budget, which is spread out among the three programs.
- \$3.13 million reduction for offender supervision programs.
- \$276,000 reduction for the elimination of a grant for enhanced sex offender supervision and programming for three counties.
-

Human Rights Department

The Governor is recommending a biennial appropriation of \$6.682 million, which is base funding.

For additional information on public safety issues, contact Gary Karger at 296-4181 or gary.karger@house.mn.

State Government Finance

The Governor recommends total General Fund appropriations of \$917.3 million for the state agencies and programs under the jurisdiction of the State Government Finance committee. This recommended amount is an increase of \$4.4 million, or 0.5 percent, from the forecasted base for FY 2012-13. The Governor also recommends new General Fund revenues totaling \$43.6 million, bringing the net recommendation for this committee to \$873.65 million.

| State Government Finance: Total General Fund Spending | | | | | |
|--|------------------------------|------------------|------------------------|--|---------------------------------------|
| (all dollars in thousands) | | | | | |
| | Feb. Forecast FY 10-11 | Base FY 12-13 | Gov's Recs FY 12-13 | % Change Gov. FY 12-13 vs. FY 10-11 | % Change Gov. vs. Base FY 12-13 |
| Legislature | 137,349 | 132,510 | 125,884 | -8% | -5% |
| Governor | 6,807 | 6,726 | 6,390 | -6% | -5% |
| Attorney General | 47,225 | 44,408 | 42,188 | -11% | -5% |
| Secretary of State | 11,466 | 11,318 | 11,318 | -1% | 0% |
| State Auditor | 18,531 | 18,204 | 18,204 | -2% | 0% |
| <u>Agencies:</u> | | | | | |
| Administration Dept. | 42,507 | 41,119 | 40,192 | -5% | -2% |
| Administrative Hearings | 663 | 664 | 664 | 0% | 0% |
| Amateur Sports Commission | 527 | 522 | 522 | -1% | 0% |
| Arts Board | 16,705 | 16,680 | 15,846 | -5% | -5% |
| Asian Pacific Council | 537 | 534 | 534 | -1% | 0% |
| Black Minnesotans Council | 618 | 614 | 614 | -1% | 0% |
| Campaign Finance Board | 1,459 | 1,450 | 1,450 | -1% | 0% |
| Public Subsidy | 3,552 | 3,520 | 3,520 | -1% | 0% |
| CAAP Board | 690 | 684 | 684 | -1% | 0% |
| Chicano Latino Affairs Council | 581 | 578 | 578 | -1% | 0% |
| Explore MN Tourism | 20,950 | 18,376 | 18,856 | -10% | 3% |
| 1% Rental Card Tax | | | 5,600 | | |
| Dedication | | | 5,600 | | |
| Historical Society | 45,042 | 44,642 | 43,034 | -4% | -4% |
| Historic Preservation Grants | 548 | 10,553 | 10,553 | 1826% | 0% |
| Humanities Commission | 500 | 500 | 500 | 0% | 0% |
| Indian Affairs Council | 977 | 972 | 972 | -1% | 0% |
| Investment Board (SBI) | 295 | 292 | 292 | -1% | 0% |
| MN Management & Budget | 45,609 | 56,215 | 54,851 | 20% | -2% |
| MMB Non-Operating | 9,181 | 9,554 | 9,554 | 4% | 0% |
| Office of Enterprise | 10,971 | 10,908 | 10,362 | -6% | -5% |

| State Government Finance: Total General Fund Spending | | | | | |
|--|------------------------------|------------------|------------------------|--|---------------------------------------|
| (all dollars in thousands) | | | | | |
| | Feb. Forecast FY 10-11 | Base FY 12-13 | Gov's Recs FY 12-13 | % Change Gov. FY 12-13 vs. FY 10-11 | % Change Gov. vs. Base FY 12-13 |
| Technology | | | | | |
| Public Broadcasting | 3,881 | 3,864 | 3,864 | 0% | 0% |
| Public Facilities Authority | 213 | 172 | 172 | -19% | 0% |
| Revenue Department | 259,791 | 273,098 | 280,103 | 8% | 3% |
| Science Museum | 2,374 | 2,374 | 2,314 | -3% | -3% |
| Pension Aids | 60,879 | 89,061 | 89,061 | 46% | 0% |
| Indirect Costs Receipts | -27,169 | -42,350 | -42,350 | 56% | 0% |
| Military Affairs | 44,064 | 39,002 | 42,002 | -5% | 8% |
| Veterans Affairs | 119,670 | 116,158 | 118,948 | -1% | 2% |
| total expenditures: | 886,993 | 912,922 | 917,276 | | |
| Revenue Changes: | | | 43,626 | | |
| Net GF Total | 886,993 | 912,922 | 873,650 | 0 | -4.3% |

Constitutional Offices

Because of the separation of branches of government and constitutional offices, the Governor acknowledged the right of these offices to present their budgets directly to the legislature for consideration. The Governor does not comment on any specific initiatives requested by constitutional offices or the Legislature. However, the Governor's Budget does include recommended overall spending levels for each office.

| Constitutional Offices Budget Requests | | | |
|---|--------------------------|----------------------------------|--------------------------------------|
| (dollars in thousands) | | | |
| | February Forecast | Governor's Recommendation | Constitutional Office Request |
| Attorney General | 44,408 | 42,188 | 44,408 |
| Governor | 6,726 | 6,390 | 6,390 |
| Secretary of State | 11,318 | 11,318 | 11,318 |
| State Auditor | 18,204 | 18,204 | 20,156 |

Attorney General's Office (AGO)

The Attorney General's Office (AGO) requests \$44.4 million in direct appropriations from the General Fund for the biennium, which is base level funding.

The Governor's recommended direct General Fund spending level for the AGO is \$42.2 million, a cut of \$2.2 million, or 5 percent, from the projected FY 2012-13 base.

In addition to the direct General Fund appropriation for the AGO, the office also receives funding through partner agreements with state agencies. Total budgeted general fund expenditures for partner agencies are \$15.9 million for the biennium. Non-general fund expenditures for partner agreements are planned at \$1.3 million.

Other Funds

The AGO requests \$3.8 million from the State Government Special Revenue Fund for services provided to health related licensing boards, a three percent increase over base. The Governor is recommending changing funding for the health boards from a direct appropriation to the AGO to dedicated funding directed to the boards. The Attorney General would continue to provide services to the boards through a partner-agency agreement with the boards.

The AGO also requests \$290,000 from the Environmental Trust Fund and \$500,000 from the Remediation Fund for investigating and prosecuting environmental crime and for responsibilities associated with insurance claims settlements and recovery associated with landfills in the landfill cleanup program.

Governor's Office

The Governor requests \$6.4 million to fund his own office, a total decrease of \$336,000 or five percent, from the FY 2012-13 base level funding.

The Governor's Office also plans to spend \$1.3 million from the Special Revenue fund for staff that are paid for from inter-agency agreements with executive branch agencies.

Secretary of State

The Secretary of State (SOS) requests \$11.3 million in direct appropriations from the General Fund for the biennium, which is base level funding for FY 2012-13. The Governor's recommendation is the same amount.

The SOS also has requested \$322,000 in FY 2011 to reimburse counties for costs incurred in the automatic recount of the 2010 Governor's race.

The Governor has also recommended \$148,375 for a FY 2011 deficiency for court ordered payment of legal fees in the case of American Broadcasting Companies, Inc. et al v. Mark Ritchie.

State Auditor

The State Auditor's office requests \$20.2 million, an increase of \$809,000 over FY 2012-13 base funding. The Auditor's request includes one change item:

- \$809,000 for the biennium to help retain current staff and to cover increases in salary and health care costs. Approximately 98 percent of this general fund increase would be offset by reimbursements from audit clients, reducing the net general fund cost to \$19,000 for the biennium.

The Governor's recommended spending for this office is \$18.2 million, base funding level.

Legislature

The Legislature does not participate in the executive agency budget process. Legislative budget requests will be available after their approval by House and Senate leadership.

The Governor recommends a total of \$125.9 million for the Legislature, a reduction of \$6.6 million, or five percent, from the FY 2012-13 base.

| Legislature: Governor's Recommended Funding | | | |
|--|------------------------------|----------------------------|------------------|
| <i>General Fund only, \$ in thousands</i> | | | |
| | February Forecast | Governor's Rec. | \$ Change |
| House | 58,682 | 55,748 | -2,934 |
| Senate | 43,648 | 41,466 | -2,182 |
| Legislative Coordinating Commission | <u>30,180</u> | <u>28,670</u> | <u>-1,510</u> |
| Totals: | 132,510 | 125,884 | -6,626 |

State Agencies

Department of Administration

The Governor recommends General Fund spending of \$40.1 million for the biennium. This is a decrease of \$927,000, or two percent, from the 2012-13 base.

Government & Citizen Services

The Governor recommends total direct general fund spending of \$32.8 million, a net reduction of \$927,000 from base. This program includes the State Architect's office, Plant Management, Real Estate Management, and the In-Lieu-of-Rent activity, which funds space costs for the Legislature, Governor's residence, Veterans Services organizations, and ceremonial spaces in the Capitol and the Capitol mall.

Other activities include Travel Management, the Information Policy Analysis office, the State Demographer, Land Management Information Center (LMIC), the Environmental Quality Board, and the State Archaeologist.

Recommended funding increases include:

- \$290,000 for the Small Agency Resource Team (SmART) bringing total recommended funding for this activity to \$496,000 for the biennium. This group provides human resources and financial management services to small agencies and boards that are unable to perform these functions with existing personnel, or may need assistance in understanding policy and legal requirements.

This funding increase would be offset by operating reductions totaling \$1.2 million:

- \$1.1 million reduction to Administration Department's budget for the Environmental Quality Board (EQB). The Governor also recommends transferring the staff and functions of the EQB to the Minnesota Pollution Control Agency, along with a portion of the budget (\$151,000 per year).
- \$45,000 reduction in FY 2013 for the Enterprise Real Property System operating costs.
- \$70,000 cut to the State Demographer.

Non-General Fund activities:

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

| Internal Service Fund | Purpose | Projected FY 12-13 Expenditures |
|------------------------------|---|--|
| Central Motor Pool | Provides long-term rental vehicles and support services | \$35.8 million |
| Surplus Services | Manages the disposal of state and federal surplus property | \$2.85 million |
| Cooperative Purchasing | Makes various state contracts available to local government units | \$26.7 million |
| Bookstore | Centralized publishing for state agency materials, and operation of the MN mailing list service | \$2.8 million |
| Plant Management | Building and grounds operations for buildings under the custodial control of the department | \$94.3 million |
| Central Mail | Metering and processing of mail in the Capitol complex | \$18.4 million |
| Risk Management | Self-insurance company for the state's property and casualty insurance coverage | \$26 million |

Administrative / Management Services

The Governor recommends total General Fund spending of \$3.4 million, which is base level

funding.

Public Broadcasting

State grant funds for Public Broadcasting are administered by the Department of Administration. The Governor recommends \$3.8 million for these grants, which is base level funding.

| Public Broadcasting: General Fund Appropriations (dollars in thousands) | | | |
|---|--------------|-------------------|-------------------|
| Program | Base | Gov's Chg. | Gov's Rec. |
| Public TV Matching Grants | 2,226 | | 2,226 |
| Public TV Equipment Grants | <u>380</u> | - | <u>380</u> |
| total Public TV | 2,606 | | 2,606 |
| AMPERS Public Radio Community Grants | 556 | | 556 |
| AMPERS Public Radio Equipment Grants | <u>194</u> | - | <u>194</u> |
| total AMPERS | 750 | | 750 |
| MN Public Radio Equipment Grants | 476 | | 476 |
| Twin Cities Regional Cable Channel | 32 | | 32 |

Explore Minnesota Tourism

The Governor recommends a direct General Fund appropriation of \$18.86 million for Explore Minnesota Tourism, a three percent increase. This includes two changes:

- \$520,000 operating budget reduction
- \$1 million in one-time funding for the “Snowbate” film jobs production program.

The Governor is also recommending a one percent increase in the Car Rental tax (discussed in further detail in the tax section). The increased revenues, totaling \$5.6 million for the biennium, would be dedicated to promoting and marketing Minnesota tourism.

Minnesota Historical Society

The Governor recommends total direct General Fund appropriations of \$43 million, a four percent reduction from base. This recommendation includes a five percent reduction to the operating budget for the Education & Outreach and Preservation & Access programs. The funding level also includes \$10.6 million for the new grant-in-lieu-of credit program for preserving historic structures.

| Minnesota Historical Society 2012-13 General Fund Appropriations (dollars in thousands) | | | |
|---|---------------|-------------------|-------------------|
| Program | Base | Gov's Chg. | Gov's Rec. |
| Education & Outreach | 25,192 | -930 | 24,262 |
| Preservation & Access | 18,842 | -678 | 18,164 |
| Fiscal Agents | 608 | 0 | 608 |
| Historic Structure Grants (open) | <u>10,553</u> | <u>0</u> | <u>10,553</u> |
| Total General Fund | 55,195 | -1,608 | 53,587 |

MN State Arts Board

The Governor recommends total General Fund appropriations of \$15.8 million, a five percent reduction from base.

| Minnesota Arts Board | | | |
|--|---------------|-------------------|-------------------|
| 2012-13 General Fund Appropriations | | | |
| (dollars in thousands) | | | |
| Program | Base | Gov's Chg. | Gov's Rec. |
| Operations & Services | 1,260 | -238 | 1,022 |
| Grants Program | 10,666 | -534 | 10,132 |
| Regional Arts Council | <u>4,754</u> | <u>-62</u> | <u>4,692</u> |
| total Arts Board | 16,680 | -834 | 15,846 |

Office of Enterprise Technology (OET)

The Governor recommends a direct General Fund appropriation of \$10.4 million for this office, a cut of \$546,000, or five percent, from the office's general fund base. This decreased funding level will be achieved through operating budget reductions:

- Planning and Management - \$78,000. Reductions in professional/technical contracts and other operating expenses will have an impact upon implementation of IT plans, process improvements, and technology initiatives.
- Security Management - \$468,000. Reductions in a security consulting position, equipment and software, training and other operating expenses will impact efforts to further raise the level of enterprise security including, but not limited to, operations planning and disaster recovery.

Non-General Fund activities

The majority of the non-general fund portion of OET is the Enterprise Technology Fund. Computer services and telecommunications management provided by OET are funded through state agency reimbursements to the agency's internal service fund.

| Enterprise Technology Fund: FY 2012-13 Projected Expenditures | |
|--|----------------|
| (dollars in thousands) | |
| Computing Services | 60,277 |
| Telecomm Services | 50,202 |
| Enterprise IT Security | 6,250 |
| Customer Service & Management | 14,718 |
| Planning & Management | 25,386 |
| <u>Technology Development</u> | <u>32,259</u> |
| Total Enterprise Technology Fund | 189,092 |

Minnesota Management & Budget

The Governor recommends a direct general fund appropriation of \$36.9 million for the biennium, a reduction of \$1.4 million or four percent, from current law. Specific recommendations include:

- \$500,000 increase for Results Management Initiative, to create a process of public program review and improvement.
- \$50,000 in one-time funding for a Task Force on Small Agencies & Boards, to review the operations and services of small agencies, boards and commissions.
- -\$1.9 million operating budget reduction to offset these increases. The reductions would be achieved through the elimination of 11 positions across the agency.

Department of Revenue

The Governor recommends a direct general fund appropriation of \$271.8 million for the biennium, a net increase of \$7 million, or three percent, from the base. This amount includes increased expenditures of \$11.4 million for additional compliance efforts, offset by \$4.4 million in operating budget reductions to the compliance support portion of the department.

Additional Compliance:

The Governor recommends \$11.4 million to hire 81 additional employees to increase tax auditing and enforcement activities. This initiative is expected to generate \$43.5 million in new revenues, for a net gain of \$32.1 million for the General Fund

| Department of Revenue: New Compliance Initiative <i>(dollars in thousands)</i> | | |
|--|-----------------|-----------------|
| | FY 12-13 | FY 14-15 |
| New Expenditure | 11,373 | 15060 |
| New Revenues | <u>43,500</u> | <u>58,150</u> |
| Net General Fund Gain | 32,127 | 43,090 |

Operating Budget Reductions:

The recommended \$4.4 million in operating budget reductions would be spread across activities that would not directly impact the compliance efforts funded in previous sessions. Possible reductions include:

- Eliminating approximately 23 positions through attrition or layoff.
- Reduction to information services for taxpayers, local governments and tax practitioners.
- Restricting the purchase of information technology.
- Reducing rent costs through increased use of telecommuting.

Department of Military Affairs

The Governor recommends a direct General Fund appropriation of \$41.7 million for the biennium, an increase of \$3 million, or eight percent, over base funding. This funding level includes one change item:

- \$3 million to keep funding for the tuition reimbursement program at 100 percent.

In addition to this direct General Fund appropriation, the Department has an open and standing appropriation for emergency services. Planned expenditures from this appropriation are \$260,000 for the biennium.

Department of Veterans Affairs

The Governor recommends a direct General Fund appropriation of \$116.3 million for this department, an increase of \$2.8 million, or two percent, over base. Forecast spending for the Minnesota GI bill is \$2.7 million, bringing total recommended spending to \$118.9 million.

| Department of Veterans Affairs | | | |
|--|----------------|-------------------|-------------------|
| 2012-13 General Fund Appropriations | | | |
| (dollars in thousands) | | | |
| Program | Base | Gov's Chg. | Gov's Rec. |
| Veterans Services | 25,668 | 1890 | 27,558 |
| Veterans Health Care (Homes) | 87,832 | 900 | 88,732 |
| MN GI Bill (open GF) | <u>2,658</u> | - | <u>2,658</u> |
| total Veterans Affairs | 116,158 | 2,790 | 118,948 |

Change items include:

- \$738,000 for operating costs of the 21-Bed specialty care / Alzheimer's unit at Fergus Falls
- \$162,000 for the operations of the Adult Day Care program at the Minneapolis Veteran's Home
- \$1.89 million to continue funding for the Higher Education Veterans Service Officers.

Small Agencies/ Boards

Office of Administrative Hearings (OAH)

This agency is supported mainly by the Workers' Compensation Special Fund and revolving fund revenues. The Governor recommends direct appropriations of \$14.5 million for the biennium from the Workers Compensation Fund.

OAH also receives general fund appropriations for two smaller activities. The Governor has recommended base level funding for both activities:

- \$534,000 for the Municipal Boundaries Adjustment unit, which was transferred to the office in 2005.
- \$130,000 for Fair Campaign complaint hearings.

Campaign Finance and Public Disclosure Board

The Governor recommends a General Fund operating budget of \$1.45 million, which is base level funding.

Public Subsidy Program:

The Governor is not recommending any changes to this program. Base funding is \$3.5 million for the biennium.

Capitol Area Architectural Planning Board (CAAPB)

The Governor recommends a direct appropriation of \$684,000 for the CAAPB in the FY 2012-13 biennium.

Contingent Accounts

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

In addition to the General Fund appropriation, the Governor recommends contingent appropriations of \$800,000 from the State Government Special Revenue Fund, and \$200,000 from the Workers Compensation Special Fund.

Humanities Commission

The Governor recommends \$500,000 for the Humanities Commission, which is base level funding.

MN Amateur Sports Commission

The Governor recommends \$522,000 for the biennium, which is base level funding.

Public Facilities Authority

The Governor recommends a General Fund appropriation of \$172,000 for the Public Facilities Authority in the FY 2012-13 biennium. The recommendation continues PFA's Small Cities Technical Assistance program at the current funding of \$86,000 per year.

The Public Facility Authority is almost exclusively funded with non-general fund statutory appropriations. More than 99.999% of the PFA's funding is from these sources.

Science Museum of Minnesota

The Governor recommends \$2.3 million for a grant to the Science Museum of Minnesota. This is \$60,000, or three percent, cut from base.

State Board of Investment (SBI)

The SBI is primarily funded through charges to each retirement plan for its share of the Board's operations. The expected revenues and expenditures for this activity are \$4.9 million for the biennium. A small general fund appropriation (\$302,000) is used to fund the Board's investment activities directly related to the General Fund itself.

Minority Councils

The Governor recommends base level funding for the four minority councils, a total of \$2.7 million from the General Fund.

| Minority Councils: 2012-13 General Fund Appropriations | | | |
|---|--------------|-------------------|-------------------|
| <i>(dollars in thousands)</i> | | | |
| Program | Base | Gov's Chg. | Gov's Rec. |
| Asian-Pacific Affairs | 534 | 0 | 534 |
| Black Minnesotans | 614 | 0 | 614 |
| Chicano-Latino Affairs | 578 | 0 | 578 |
| Indian Affairs | <u>972</u> | <u>0</u> | <u>972</u> |
| Total General Fund | 2,698 | 0 | 2,698 |

Gambling Related Agencies

Lawful Gambling Control Board

The Governor is recommending a direct Special Revenue fund appropriation of \$5.5 million for the biennium. This is a reduction of \$400,000 from base, and reflects the decrease in lawful gambling activity in the state. The Board's activities are funded from a percentage (.1%) of gross receipts on charitable gambling, and license/permit fees for manufacturers and distributors.

Lottery

The Governor recommends total operating expenses for the Lottery of \$55.7 million for the biennium, with net proceeds estimated at \$179.2 million. Total state proceeds are projected to be \$271.2 million for the biennium, with \$149.2 million in estimated General Fund revenues. These total revenues include the net proceeds, in-lieu-of-sales tax, and unclaimed prizes.

| Lottery: Governor's Recommended FY 2012-13 Budget | |
|--|------------------|
| <i>(dollars in thousands)</i> | |
| Gross Revenue | 1,002,404 |
| Direct Costs | 767,504 |
| Operating Expense | <u>55,707</u> |
| Net Proceeds | 179,193 |

Minnesota Racing Commission

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

Public-Local Employees Retirement

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

- MN State Retirement System - \$6.3 million for benefits paid to former legislators and elected officials.
- First Class City Teachers State Aid - a \$37.25 million appropriation to reduce the unfunded liabilities of the St. Paul & Duluth teachers retirement funds and to the Teachers Retirement Association (TRA) for the assumed liabilities of the Minneapolis Teachers Retirement Association.
- Public Employees Retirement Fund (PERA): The Minneapolis Employees Retirement Fund (MERF) - \$45.5 million to reduce the plan's unfunded liability.

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

Transportation

The Governor's recommended transportation budget for the 2012-2013 biennium totals \$4.7 billion, which is roughly \$270 million more in direct appropriations from the previous biennium. Much of this increase is due to additional federal fund receipts and the continued phase-in of the motor fuels tax and tab fee changes made in Laws 2008, Chapter 152 as well as the constitutional dedication of the motor vehicle sales tax. The Governor's 2012-2013 budget decreases general fund spending by approximately \$16.4 million for the biennium in comparison to the base appropriations; this represents a \$2.5 million reduction in comparison to the fiscal year 2010-11 biennium. The table below includes the Governor's proposed changes in general fund spending for the Department of Transportation, Metropolitan Council Transit, and the transportation portion of the Department of Public Safety budget. Additional details by agency follow.

| Transportation Policy and Finance Committee | | | | | |
|--|------------------------------------|--------------------------------|----------------------------------|--|--|
| Total General Fund Spending | | | | | |
| (all dollars in thousands) | | | | | |
| | November Forecast FY 2010-11 | Forecast Base FY 2012-13 | Governor's Recs FY 2012-13 | % Change Gov. FY 2012-13 vs. FY 2010-11 | % Change Gov. vs. Base FY 2012-13 |
| Department of Transportation | 30,730 | 34,472 | 31,688 | 3% | -8% |
| Metropolitan Council, Transit | 119,674 | 129,778 | 118,942 | -1% | -8% |
| Department of Public Safety | 15,930 | 15,908 | 13,174 | -17% | -17% |
| Net GF Total | 166,334 | 180,158 | 163,804 | | |

Department of Transportation

- **Transit:** Decrease the general fund appropriation for grants to greater Minnesota transit providers by \$1.3 million per fiscal year beginning in 2012. This represents an eight percent reduction in comparison to base for the biennium and a four percent increase in comparison to the 2010-2011 biennium.
- **Freight:** Decrease the general fund appropriation by \$49,000 per fiscal year. This reduction is related to changes made during the 2010 Legislative Session in which the hazardous materials registration program was repealed, and general fund dollars are no longer needed to run the program.
- **State Road Construction:** Decrease the appropriation from the trunk highway fund by \$43 million in fiscal year 2011 and increase the appropriation by \$66 million for the 2012-2013 biennium. These adjustments are related to changes in anticipated federal funds.

- **Program Planning and Delivery:** Increase the appropriation from the trunk highway fund by approximately \$1.7 million for the 2012-2013 biennium and \$1.5 million for the 2014-2015 biennium. Of this, \$800,000 in fiscal year 2012 and \$600,000 in each fiscal year thereafter is related to an increase in federal funding for state planning and research activities. The Department would use these funds for meeting additional federal reporting requirements and enhancing traffic data collection. In addition, the Governor requested an additional \$130,000 per fiscal year beginning in 2012 for the disadvantaged business enterprise collaborative. The \$130,000 per fiscal year would be used for two additional FTE positions to administer the Department's Targeted Group Business Program.
- **Agency Services:** Increase the appropriation from the trunk highway fund for agency services by \$65,000 per fiscal year beginning in 2012. This increase is related to the increase for state planning and research activities discussed in detail directly above.

Metropolitan Council

- **Bus Transit:** Reduce the general fund appropriation for bus transit by \$5.4 million per fiscal year. This represents a nine percent reduction for bus transit in comparison to the base appropriation and a one percent reduction in comparison to the previous biennium. These reductions will likely lead to service cuts. To help mitigate this issue, the Council may implement a fare increase of 25-cents for bus and rail beginning in 2012.

Department of Public Safety

- **Public Safety Support:** Reduce the general fund appropriation for the health insurance reimbursement program by \$1.4 million per fiscal year beginning in 2012. This reduction is offset by a corresponding increase in spending from the fire safety account in the special revenue fund for this program. The increase in spending is under the jurisdiction of the Public Safety and Crime Prevention Policy and Finance Committee.
- **Driver and Vehicle Services:** Extend the sunset date of the technology surcharge fee to June 30, 2015 from June 30, 2012. The fee is currently set at \$1.75, and the revenue from this fee is being used to develop the Minnesota Licensing and Registration System. The Department estimates the fee will generate \$13.4 million per year. Expenditures related to the system will be \$18.2 million for fiscal years 2013 and 2014 and will increase to \$19.4 million in fiscal year 2015. To cover the difference between revenues and expenditures, the Department plans to use approximately \$16.8 million in carry forward dollars.

If you have any further questions on transportation related issues, please contact Koryn Zewers at 651-296-4178 or koryn.zewers@house.mn.

Taxes

Changes in General Fund Tax Revenue

The Governor's budget recommendations for state taxes, local aids and credits are estimated to generate an increase in general fund revenue of \$3.3 billion in FY 2012-2013 and \$2.5 billion in FY 2014-15. For local aids and credits, the Governor recommends preserving November 2010 forecast spending of \$3.4 billion in the FY2012-13 biennium and \$3.5 billion in the FY 2014-15 biennium with no base-level expenditure reductions. In state taxes, however, the Governor recommends changes that are expected to generate \$3.3 billion in the FY 2012-13 with \$3.1 from individual income tax and corporate tax changes. The revenue gain from the recommended tax increases is slightly offset by the revenue loss from federal conformity. The Governor recommends conforming Minnesota's income and corporate tax law to most federal provisions starting in tax year 2011. Federal conformity in tax year 2011 and other tax years will reduce general fund revenues by \$23.2 million in FY2011, by \$18.2 million in FY2012-13, and \$16.2 million in FY14-15.

| Table 1. Summary of Governor's General Fund Tax Revenue Recommendations | | |
|---|----------------------------|-----------------------|
| <i>Dollars in Thousands</i> | FY 2012-13 Biennium | % of the total |
| Individual Income Tax | \$ 2,838,673 | 85.81% |
| Corporate Franchise Tax | \$ 355,400 | 10.74% |
| Federal Conformity | \$ (18,265) | -0.55% |
| Sales and Use Tax | \$ 37,000 | 1.12% |
| State Property Tax | \$ 80,345 | 2.43% |
| Other Tax & Non-Tax Initiatives | \$ 14,876 | 0.45% |
| Total - General Fund | \$ 3,308,029 | 100.00% |

Source: General Fund Balance Analysis, Feb. 2011 Governor's Recommendations

Individual Income Tax

Enact a new top rate. The Governor recommends a permanent new top bracket at 10.95 percent on taxable income for married joint filers at \$150,000, head-of-household filers at \$130,000, and single filers at \$85,000 effective in tax year 2011. These high income taxpayers are subject to the 7.85 top income tax bracket under current law. According to the biennial budget documents, the tax change would affect 138,378 tax returns or 5.5 percent of individual income tax filers. For tax returns with taxable income above \$500,000, the average state tax increase is \$24,800. If enacted, Minnesota's top income tax rate would be approaching the states of Hawaii and Oregon that have the top income tax rates in the nation with 11 percent¹. Also if enacted, this would be the first Minnesota income tax rates increase since 1991 when the top rate increased to 8.0 percent to 8.5 percent.² The estimated revenue gain to the general fund with a new top bracket at 10.95 percent is \$1.890 billion in FY 2012-13 and \$1.793 billion in FY 2014-15.

¹ [Federation of Tax Administrators, State Individual Income Taxes, February 2010.](#)

² [MN Tax Handbook, MN Dept. of Revenue, December 2010, page5.](#)

Enact a Temporary Surtax on Income Over \$500,000. The Governor recommends a temporary surtax on taxable income over \$500,000 for tax years 2011 through 2013 to remedy the budget short fall mainly in the FY 2013 biennium. The temporary surtax would be imposed on an estimated 17,200 returns with an average increase of \$20,300 for tax year 2011. If enacted, this would be first surtax imposed on Minnesota returns since 1987 when an additional tax equal to 10 percent of the federal 5 percent surtax was enacted.³ This temporary surtax proposal from Governor Dayton is estimated to increase general fund tax revenue by \$918.4 million in FY 2012-13 and \$248.4 million in FY 2014-15.

Impose Income Tax on Part-Year Residents Maintaining a Minnesota Abode. The Governor recommends extending the income tax to persons who are present in the state for more than 60 days but less than 183 days (about 6 months) or more. These individuals would be considered “part-year residents” and would be subject to tax on their Minnesota-sourced income for tax year 2011. The Governor’s recommendation does provide for exceptions to this tax including but not limited to individuals in the state for the purpose of receiving medical services. This provision is estimated to increase general fund tax revenue by \$15.0 million each year starting in FY 2012.

Make the Non-Resident Entertainer Tax More Transparent. The Governor makes three recommendations to the Non-Resident Entertainer Tax effective tax year 2012:

- Repeal the non-refundable \$120 credit;
- Require promoters to withhold 2 percent only on the amounts above \$600 that the promoter pays to the non-resident entertainer in a year⁴; and
- Exempt entertainers who receive total compensation less than the individual filing requirements (\$9,350 in tax year 2010).

Under current law, the Non Resident Entertainer Tax generates about \$1.3 million annually to the general fund. This proposed change is estimated to raise \$28,000 in FY 2013 with a modest revenue gain in future years. The table below shows the tax collected under current law from non-resident entertainers.

| Fiscal Year | Tax Collected (000's) |
|-------------|-----------------------|
| 2000 | \$760 |
| 2001 | \$610 |
| 2002 | \$838 |
| 2003 | \$974 |
| 2004 | \$882 |
| 2005 | \$809 |
| 2006 | \$948 |
| 2007 | \$1,094 |
| 2008 | \$1,245 |
| 2009 | \$1,144 |
| 2010 | \$1,336 |

Source: IA warehouse, Rev Source Codes: 1005 & 1037, Feb 2011

Repeal the Section 125 Health Insurance Credit. The Governor recommends repealing the Section 125 Health Insurance Credit in tax year 2012. This nonrefundable income tax credit was enacted in 2009. This credit is equal

³ [MN Tax Handbook, MN Dept. of Revenue, December 2010, page5](#)

⁴ In 2008 (Chapter 154), the Legislature enacted a provision that required construction contractors to withhold two percent from all payments made to sole proprietors and paid more than \$600 during the year. This provision in 2008 was viewed as a way to improve compliance and the tax collection of sole proprietors.

to 20 percent of the health insurance premiums paid by the employee for the first twelve months of participation in the plan. To qualify for this tax credit, the person had to meet these conditions:

- Had no health insurance coverage for at least one year prior to participating in the plan
- Had a total household income between 275 percent and 300 percent of the federal poverty guidelines with dependents.

According to the biennial budget documents, this tax credit was claimed by 122 tax returns in 2009 with an average of \$362 per return. In FY 2013, the total savings to repeal this tax credit is estimated to be \$55,000 and \$125,000 in FY 2014-15 to the Health Care Access Fund with no impact to the general fund.

Table 3. Governor's Income Tax Recommendations (February Forecast, Dollars in thousands)

| | Effective | FY 2012-13 | FY 2014-15 |
|--|--------------|----------------------|----------------------|
| Individual Income Tax: | | | |
| Current Law Net Individual Income Tax Revenue (receipts minus refunds) | | \$ 15,675,900 | \$ 17,164,400 |
| New Top Income Tax Bracket at 10.95%, Starting at \$150,000 for Married Joint filers | TY 2011 | \$ 1,890,300 | \$ 1,793,900 |
| Temporary Surtax on Income Over \$500,000 | TY 2011-2013 | \$ 918,400 | \$ 248,400 |
| Part-Year Residency Income Tax Law Modification | TY 2011 | \$ 30,000 | \$ 30,000 |
| Repeal Section 125 Health Insurance Credit | TY 2012 | \$ (55) | \$ (125) |
| Non-Resident Entertainer Tax Changes | TY 2012 | \$ 28 | \$ 61 |
| General Fund Total: | | \$ 2,838,673 | \$ 2,072,236 |
| Recommendations as a % of Current Law Tax Base | | 18.11% | 12.07% |

Note: Positive numbers indicate revenue gain.

Source: Biennial Budget Documents, February 2011

Corporate Franchise Taxes

Repeal the Foreign Royalties Subtraction and FOC Preferences. The Governor proposes to repeal the subtraction for foreign royalty income and the foreign operating corporations (FOC) provisions. Under current law, the subtraction of 80 percent royalties and fee income accrued or received from a FOC or a foreign corporation which is a part of the same unitary business as the receiving corporation, is a subtraction against income. If these provisions are repealed as proposed by the Governor, all domestic and foreign royalties will be treated in a consistent manner and conform to Internal Revenue Code treatment. This proposal is estimated to raise general fund tax revenue by \$272.2 million in FY 2012-13.

Unitary Business in the Sales Factor. The Governor recommends modifying the statute to require that all sales to this state of a unitary business be included in the sales factor for this state and that sales by members of the unitary business be included even if they have no Minnesota nexus. This proposal has been designed to curb tax evasion so that companies will not restructure their business to locate their sales

in company that is in the unitary group but has no nexus in Minnesota. If enacted in tax year 2011, this provision is estimated to generate an increase to the general fund of \$46 million in the FY 12-13 biennium and \$40 million in the FY 2014-15biennium.

Repeal Exemption for Insurance Companies. The Governor recommends repealing the current law allowing insurance companies an exemption from the corporate franchise tax. Beginning in TY 2011, this proposal is estimated to increase general fund revenue by \$17.0 million in FY2012-13 and \$15.0 million in FY 2014-15.

Index Minimum Fee Brackets and Fee Amounts for Corporations. The Governor recommends indexing minimum fee brackets and tax amounts for inflation since 1990. Under current law, there is a minimum fee structure based on the sum of Minnesota property, payroll and sales. Approximately, \$60 million is raised from minimum fees under current law. If the Governor’s proposal is enacted, the total general fund revenue from this source would increase by 13 percent (\$8 million). In terms of taxpayers affected, the Minnesota Department of Revenue (DOR) estimates that 18,079 taxpayers will no longer pay the minimum fees, 46,076 taxpayers will pay less in fees and that 38,685 taxpayers will pay more. The table below compares the old schedule to the new schedule proposed by the Governor. Under the new schedule, 67 percent of tax returns that will pay no minimum fee compared to 58 percent of the tax returns with the old schedule.

**Table 4. Impact of Indexing Minimum Fee Brackets and Amounts proposed by the Governor:
C-Corps, partnerships, and S-Corporations Tax Returns in 2007**

| Old schedule | | | Increases | Decreases | New Schedule | |
|--------------|-------------------|------------------|-----------|-----------|-------------------|------------------|
| Brackets | Number of Returns | Percent of Total | | | Number of Returns | Percent of Total |
| \$ - | 115,076 | 58.0% | - | - | 133,155 | 67% |
| \$ 100 | 24,743 | 12.0% | 6,664 | 18,079 | 22,720 | 11% |
| \$ 300 | 41,541 | 21.0% | 25,485 | 16,056 | 31,991 | 16% |
| \$ 1,000 | 8,451 | 4.2% | 1,945 | 6,506 | 5,602 | 3% |
| \$ 2,000 | 4,789 | 2.4% | 1,132 | 3,657 | 2,910 | 1% |
| \$ 5,000 | 5,237 | 2.6% | 3,459 | 1,778 | 3,459 | 2% |
| ALL | 199,837 | 100% | 38,685 | 46,076 | 199,837 | 100% |

Source: Minnesota Department of Revenue, Tax Research Division, February 16, 2011

Improve Tax Compliance. The Governor recommends three other proposals to improve simplicity and increase tax compliance with the state tax code. These provisions are:

- Conforming to the federal law treatment of foreign entities in Section 701 of the Internal Revenue code. Under current law, Minnesota excludes the net income and apportionment factors of foreign partnerships in calculating net income and apportionment factors of a unitary business. If enacted in tax year 2012, this proposal is estimated to generate \$3 million in FY 2013 and \$6 million in FY 2014-15.
- Eliminating the Real Estate Investment Income Trust (REIT) from the dividend received deduction and dividends received from a REIT to ensure state law is consistent with the treatment

provided under the Internal Revenue Code. If enacted in tax year 2012, this proposed change is estimated to increase tax revenue by \$1.0 million in FY 2013 and \$2.0 million in FY 2014-15.

- Require that business transactions meet an economic substance test to be allowed in determining Minnesota taxable income in conformance with federal case law. If enacted in tax year 2011, this recommendation is estimated to generate \$400,000 in FY 2012-13 and \$1.7 million in FY 2014-15.

Make It Easier for Taxpayers to Participate in the Research and Development Credit. The Governor recommends modifying documentation requirements so that taxpayers may benefit from the current law research and development credit when limited base period documentation is available. With the Governor's proposal, taxpayers can use the credit and will be allowed to use a base year percentage of 16 percent when the taxpayer no longer has documentation for 1984 through 1988. This change will decrease general fund revenue by \$200,000 in FY 2013 and by \$400,000 in FY 2014-15.

**Table 5. Governor's Corporate Income Tax Recommendations
(February Forecast, Dollars in thousands)**

| | Effective | FY 2012-13 | FY 2014-15 |
|---|-----------|---------------------|---------------------|
| <i>Corporate Franchise Tax:</i> | | | |
| Current Law Net Corporate Franchise Tax Revenue (receipts minus refunds) | | \$ 1,540,900 | \$ 1,729,900 |
| Repeal Foreign Operating Corporations (FOCS) | TY 2011 | \$ 74,200 | \$ 65,900 |
| Repeal Foreign Royalties (FRS) Subtraction | TY 2011 | \$ 194,000 | \$ 171,100 |
| FOC- FRS Subtraction Interaction | | \$ 4,000 | \$ 4,000 |
| Unitary Business Sales Attributable to MN | TY 2011 | \$ 46,000 | \$ 40,000 |
| Repeal Exemption for Insurance Companies | TY 2011 | \$ 17,000 | \$ 15,400 |
| Index Minimum Fees | TY 2011 | \$ 16,000 | \$ 16,000 |
| Foreign Partnership Income Conformity | TY 2012 | \$ 3,000 | \$ 6,000 |
| Exclude REIT Dividends from the Dividend Received Deduction | TY 2012 | \$ 1,000 | \$ 2,000 |
| Clarify R&D Credit Base Period Documentation | TY 2011 | \$ (200) | \$ (400) |
| Adoption of Economic Substance Test | TY 2011 | \$ 400 | \$ 1,700 |
| General Fund Total: | | \$ 355,400 | \$ 321,700 |
| Recommendations as a % of Net Tax Base | | 23.06% | 18.60% |

Note: Positive numbers indicate revenue gain.

Source: Biennial Budget Documents, February 2011

Federal Conformity

Minnesota tax calculations (for both individuals and corporate taxpayers) start with federal taxable income. Any changes to federal tax law that change the definition of federal taxable

income (FTI) requires that Minnesota either conform to the federal change or modify the Minnesota tax return to reflect the differences between the state and federal tax law, often resulting in adding a line to the Minnesota form to require an addition to Minnesota taxable income. The Governor recommends conforming to most federal provisions enacted since December 17, 2010.

**Table 6. Governor’s Federal Conformity ax Recommendations
(February Forecast, Dollars in thousands)**

| | FY 2011 | FY 2012-13 | FY 2014-15 |
|--|-----------------|--------------------|--------------------|
| <i>Federal Conformity Update:</i> | | | |
| Recommendations by the Governor: | | | |
| The Patient Protection & Affordable Care Act & The Reconciliation Act (Public Law 111-152) | (2,280) | (8,370) | 6,780 |
| The Small Business Jobs Act (Public Law 111-240) | (1,455) | 24,980 | (21,475) |
| The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (TRUIRJCA) | (19,505) | (34,875) | (1,585) |
| General Fund Total: | (23,240) | \$ (18,265) | \$ (16,280) |

Note: Positive numbers indicate revenue gain. Negative numbers indicate revenue loss.

Source: Biennial Budget Documents, February 2011

Highlights of the fiscal provisions in the four federal conformity bills recommended by the Governor:

Patient Protection and Affordability Care Act of 2010 (P.L. 111-148, enacted March 2010) and Health Care and Education Reconciliation Act of 2010 (P.L. 111-152, enacted March 2010)

- Exclusion of employer-produced insurance for children up to age 26. The FY 2011 revenue loss is \$1.9 million, \$8.100 million in FY 2012-2013 and \$11.5 million in FY 2014-15.

Small Business Jobs Act of 2010 (P.L. 111-240, enacted September 2010)

- Increase Section 179 Expensing Limits and Expand Eligible Property, with 80 percent add back and 5-year recovery for tax year 2010 and 2011 only. The FY 2011 revenue gain is \$575,000, \$9.4 million in FY 2012-2013 and a revenue loss of \$4.4 million in FY 2014-15.
- Allow 50 percent bonus depreciation for tax year 2010, with 80 percent add back and a 5-year recovery. The FY 2011 revenue gain is \$2.1 million, \$13.5 million in FY 2012-2013 and a revenue loss of \$20.2 million in FY 2014-15.

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312, enacted December 2010)

- Allow a deduction for tuition and expenses for tax years 2010 and 2011. The revenue loss is \$4.2 million in FY 2011 and \$4.5 million in FY 2012.

- Allow a deduction for K-12 educator classroom expenses for up to \$250. The revenue loss is \$1.0 million in FY 2011 and \$1.1 million in FY 2012.
- Allow tax-free IRA distributions to charities for an individual age 70.5 years and over. The revenue loss is \$1.7 million in FY 2011, \$1.530 million FY 2012-13 and \$270,000 in FY 2014-15.
- Increase phase-out range for married filers by \$5,000 for the Working Family Credit. The revenue loss is \$32.4 million in FY 2012-2013.
- Increase Section 179 Expensing Limits, with 80 percent add back and 5-year recovery for tax year 2012 only. The FY 2012-2013 revenue gain is \$940,000, and a revenue gain of \$2.895 million in FY 2014-15.
- Allow 100 percent bonus depreciation from 9/9/2010 to 12/31/2011 and 50percent Bonus depreciation for tax year 2012 with 80 percent add-back and a 5-year recovery. The FY 2011 revenue loss is \$3.6 million, with a revenue gain of \$36.9 million in FY 2012-2013 and a revenue loss of \$2.5 million in FY 2014-15.

Table 7: Selected Federal Conformity Provisions Not Recommended by Governor (Dollars in Thousands)

| Federal Provision | Effective | FY 2011 | FY 2012-13 | FY 2014-15 |
|---|--------------|--------------------|---------------------|-------------|
| The additional standard deduction for married filers | TY 2011-2012 | \$ (13,200) | \$ (97,100) | \$ - |
| Repeal the Overall Limitation on Itemized Deductions and Phase-out of Personal Exemptions | TY 2011-2012 | \$ - | \$ (148,600) | \$ - |
| Exception under Subpart F for Active Financing Income | TY 2011-2012 | \$ (1,500) | \$ (1,000) | |
| General Fund Total | | \$ (14,700) | \$ (246,700) | \$ - |

Source: Biennial Budget Documents, February 2011

Sales & Use Tax

Affiliate Nexus. The Governor recommends modifying the statute for sales tax nexus with regard to “solicitor”. A solicitor is a person, whether an independent contractor or other representative, who directly or indirectly solicits business for the retailer. Under the Governor’s proposal, the retailer would be presumed to have a solicitor in Minnesota if it has an agreement with a Minnesota resident or business where the resident, for a commission or other consideration, refers customers using a hyperlink on an Internet web site or otherwise, to the seller (retailer). The proposal would apply to gross receipts from sales to Minnesota customers who were referred to the retailer by the solicitor with this agreement. The tax would apply when the retailer’s gross receipts exceed \$10,000 from sales to Minnesota customers over a 12-month period. If enacted in FY 2012, this provision is estimated to increase general fund tax revenue

by \$10.550 million in the FY 2012-13 biennium and \$13.280 million in the FY 2014-15 biennium. Other states such as New York have attempted to enact similar legislation but the New York law has been appealed to a higher court and the tax law's constitutionality has yet to be resolved.

Clarify the Imposition of Sales Tax on Accommodation Intermediaries for On-line Lodging Reservations. Under current law, the final price charged to the consumer for a room rental is generally considered the price subject to sales tax. In recent years, the business model for lodging reservations has changed with on-line reservation services. According to the Minnesota Department of Revenue, on-line reservation services or accommodation intermediaries (not located in Minnesota) pay sales tax to the lodging companies on their purchase price and not based on the price they charge to the customer. The Governor recommends clarifying the statute so that accommodation intermediaries are required to collect and remit sales tax on the full amount charged for on-line lodging services. If enacted in FY 2013, this proposal is estimated to yield a general fund tax revenue gain of \$8.550 million in FY 2012-13 and \$9.500 million in FY 2014-15.

Expand the Sales Tax base to Direct Satellite Service. The Governor recommends imposing sales tax on "direct satellite service" with digital video recorder (DVR) services and programming services requiring subscriber interaction (such as pay-per-view). These services are taxable under current law if provided by a Cable TV provider. This change would treat similar services equally by having the sales tax apply to all DVR and programming services regardless if they are sold by a cable TV provider or a direct satellite provider. If enacted in FY 2012, the proposal is estimated to generate \$2.3 million in FY 2012-13 and \$2.7 million in FY 2014-15.

Expand the Sales Tax base to charges for the access and use of remote access (web-based) software maintained by the seller or a third-party. Under current law, sales tax is imposed on other software purchases or leases. The Governor recommends imposing the sales tax on the use of pre-written computer software as a license to use prewritten computer software and the use of computer equipment by remote access as a taxable lease on tangible personal property. If enacted in FY 2012, this proposal is estimated to increase general fund revenue by \$3.4 million in FY 2012-13 and \$5.6 million in FY 2014-15.

Expand the Sales Tax base to Event Admissions. The Governor recommends imposing sales tax on event admissions. Event admissions include suite rentals at stadiums and admissions to exhibitions and selling events (home & garden, boat, auto and similar shows). Under current law, taxable admission charges include but are not limited to: places of amusement, athletic events such as admissions to musical concerts, dances, motor picture theaters, plays and admission to golf courses. This proposal would provide more consistency on the sales tax treatment of event admissions and other admission charges. If enacted in FY 2012, the proposal is estimated to increase general fund revenue by \$6.9 million in FY 2012-13 and \$7.3 million in FY 2014-15

Require Origin-Based Sourcing Rules for Florists. The Governor recommends requiring origin-based sourcing for telefloral orders. This requirement allows telefloral orders to be

sourced to the location of the florist for the imposition of sales taxes. This change is consistent with the Streamline Sales & Use Tax Agreement (SSUTA) policies. This proposal is estimated to increase general fund revenue by \$100,000 in FY 2012-13 and \$109,000 in FY 2014-15.

Repeal the Imposition of Sales and Use Tax on Ring Tones. The Governor recommends removing the imposition of sales tax on ring tones in order to maintain Minnesota's compliance with the Streamline Sales and use Tax Agreement. If enacted in FY 2013, this estimated general fund revenue loss with the enactment of this proposal is \$410,000 in FY 2012-13 and \$390,000 in FY 2014-15.

Exempt the Lease or Purchase of Emergency Response Vehicles from Sales and Use Tax and Motor Vehicle Sales Tax. Under current law, the purchase of ambulances owned by a licensed ambulance service from the sales tax on motor vehicles and leases for ambulances are exempt from the general sales and use tax. Ambulances also have an exemption from the sales and use tax for their repair and replacement parts and their medical supplies and equipment. Ambulances are also exempt from motor vehicle registration tax. The Governor proposal will clarify that this exemption is extended to emergency response vehicles that are equipped and specifically intended for emergency response that are purchased or leased by an ambulance service. This proposal has a zero revenue impact to the general fund with a revenue loss of \$15,000 in FY 2012 and each year thereafter to the Highway User Tax Distribution Fund (HUTDF) and the Transit Assistance Fund.

Increase the Car Rental Tax from 6.2 percent to 7.2 percent. The Governor recommends increasing the car rental tax by 1 percent with the revenue gain from the tax increase dedicated to Minnesota Tourism marketing and promotion. In 2009, over 90 percent of car rental tax collections originated from the 7-county metro area. If enacted in FY 2012, this tax rate will have increased by 16 percent and this change is expected to yield increase general fund revenue (to be transferred to the special revenue fund) of \$5.6 million in FY 2012-13 and \$6.4 million in FY 2014-15.

**Table 8. Governor's Sales & Use Tax Recommendations
(February Forecast, Dollars in thousands)**

| | Effective | FY 2012-13 | FY 2014-15 |
|---|-----------|--------------|--------------|
| <i>Sales and Use Tax:</i> | | | |
| <i>Current Law Net Sales Tax Revenue (receipts minus refunds)</i> | | \$ 9,030,900 | \$ 9,743,622 |
| <i>Recommendations</i> | | | |
| Affiliate Nexus & Remote Sellers | FY 2012 | \$ 10,550 | \$ 13,280 |
| Exempt Ring Tones | FY 2012 | \$ (410) | \$ (390) |
| Parallel Taxation of Direct Satellite Services | FY 2012 | \$ 2,310 | \$ 2,700 |
| On-line Travel Lodging Reservations Law Clarify | FY 2012 | \$ 8,550 | \$ 9,500 |
| Expand Base - Event Admissions | FY 2012 | \$ 6,900 | \$ 7,300 |
| Expand Base - Parallel Taxation of Remote Access Software | FY 2012 | \$ 3,400 | \$ 5,600 |
| Sourcing Rules for Florists | FY 2012 | \$ 100 | 109 |
| Exemption for Emergency Response Vehicle Tax Broadened | FY 2012 | | |
| Increase the Rental Motor Vehicle Tax by 1% to 7.2% | FY 2012 | \$ 5,600 | \$ 6,400 |
| General Fund Total(non general fund impact not shown): | | \$ 37,000 | 44,499 |
| Recommendations as a % of Net Tax Base | | 0.41% | 0.46% |

Note: Positive numbers indicate revenue gain. Negative numbers indicate revenue loss. Source: Biennial Budget Documents, February 2011

Special Taxes

Cigarette and Tobacco Fees & Taxes. The Governor makes two recommendations in the Cigarette and Tobacco area to improve compliance and simplify administration. If enacted in FY 2012 as proposed, both provisions increase general fund revenue by \$245,000 in FY 2012-13 and \$365,000 in FY 2014-15. The proposals:

- Increase the license fees for tobacco products distributors to \$300 every two years and increase the license fee for cigarette and tobacco subjobbers to \$150 every two years to make the tobacco distributor and the subjobber licenses more equivalent to the cigarette distributor license fee. This proposal would increase the tobacco distributor fee by 100 percent and the subjobber license fee over 500 percent. According the 2010 edition of the Minnesota Tax Handbook, there 158 tobacco distributors and 57 cigarette distributors that are subject to these distributor fees.
- Repeal the tax credit for cigarette and tobacco bad debt. Currently, if a cigarette and tobacco distributor grants credit to a retailer of cigarette and tobacco products, and the retailer fails to pay, the distributor may deduct the deduct the loss as an expense under federal code. At the state level under current law, a tax credit is allowed for those bad debts against state cigarette and tobacco taxes including the health impact fee and additional cigarette stamp charges and related sales tax charges. The Governor proposes to eliminate this tax credit for bad debt and place cigarette and tobacco distributors on par with other businesses.

Insurance Tax. The Governor makes two recommendations insurance tax changes that are estimated to increase general fund revenue by \$1.590 million in FY 2012-13 and \$1.7 million in FY 2014-15. These recommendations are:

- Increasing the tax rate for non admitted insurance purchased directly by an insured from 2 percent to 3 percent of the premium paid to be consistent with the 3 percent rate applied under current law when such insurance is purchased through a surplus lines agent.
- Conforming to the federal provisions of the Nonadmitted and Reinsurance Reform Act of 2010 (NRRRA) by providing for a tax on the gross premiums paid by an insured person based on where the insured person is domiciled. By conforming to this law, state and federal law would be aligned.

Alcoholic Beverage Taxes. The Governor recommends simplifying alcoholic beverage taxes by eliminating the bottle tax with an off-setting tax increase on wine and distilled spirits of \$0.01 per liter to make this proposal revenue neutral. This proposal is estimate to yield in increase in general fund revenue of \$41,000 in FY 2012-13 and \$16,000 in FY 2014-15.

**Table 9. Governor's Special Tax Recommendations
(February Forecast, Dollars in thousands)**

| | Effective | FY 2012-13 | FY 2014-15 |
|---|-----------|-----------------|-----------------|
| Special Taxes: | | | |
| Increase Cigarette and Tobacco License Fees | FY 2012 | \$ 45 | \$ 45 |
| Repeal Credit for Cigarette and Tobacco Bad Debt | FY 2012 | \$ 200 | \$ 320 |
| Surplus Lines - Equalize Rates by Increase Rate to 3% on Non Admitted Insurance | FY 2012 | \$ 290 | \$ 400 |
| Federal Non Admitted Insurance Conformity (NRRRA) | FY 2012 | \$ 1,300 | \$ 1,300 |
| Eliminate Bottle Tax & Simplify Tax On Wine & Spirits | FY 2012 | \$ - | \$ - |
| Repeal Bottle Tax | FY 2012 | \$ (1,780) | \$ (1,970) |
| Increase Excise Tax on Wine & Liquor by \$0.01 per liter | FY 2012 | \$ 1,760 | \$ 1,920 |
| Interaction with Liquor Gross Receipts Tax & Sales Tax | FY 2012 | \$ 61 | \$ 66 |
| General Fund Total | | \$ 1,876 | \$ 2,081 |

Note: Positive numbers indicate revenue gain. Negative numbers indicate revenue loss.

Source: Biennial Budget Documents, February 2011

Other Taxes

Estate Tax. The Governor recommends expanding the nexus rules within the estate tax so that real and tangible personal property located in Minnesota is assigned to Minnesota when it is owned by a non resident decedent and when it is held in a pass-through entity. Under current law, the ownership interests in a pass-through entity are considered intangible assets are assigned to the decedent's domicile upon death and the value of the property is not assigned to Minnesota tax for estate tax purposes if it is held in a pass-through entity. If the Governor recommendation is enacted as proposed in tax year 2011, this proposal will generate an increase of \$13 million in FY 2012-13 and \$16.2 million in FY 2014-15.

State Residential Property Tax. The Governor recommends creating a statewide property tax that would be levied on single unit, residential property with a value greater than \$1 million. A tax rate of 1.05percent would be applied to the incremental value above \$1 million for residential and agricultural homesteads, non-homesteaded residential and seasonal recreational properties. For example, a \$1.5 million property would pay an extra \$5,250 in taxes, and a \$5 million property would pay an extra \$42,000. The Department of Revenue estimates 9,400 properties would be affected, and the average annual payment would be approximately \$6,000. The Department of Revenue estimates that eighty-five percent of these homestead property owners have an annual income greater than \$100,000, and thus would not be eligible for a property tax refund.

This new property tax would be in addition to existing local property taxes levied on a home. In the case where a seasonal recreational property is already subject to the existing statewide property tax, an exemption for the value greater than \$1 million would be granted from the existing statewide tax.

As this proposal raises property taxes on residential property, homeowners will increase their itemized deductions and decrease their income tax liability. The state will realize reduced income tax receipts beginning in FY 2013. This proposal is estimated to generate a net increase to the general fund of \$80.3 million in FYs 2012-013 and \$107.9 million in FYs 2014-15 as follows:

**Table 10. Governor's Recommendation: State Residential Property Tax
State Residential Property Tax– General Fund Net Impact**

| | <u>FYs 2012-13</u> | <u>FYs 2014-15</u> |
|---------------------------|--------------------|---------------------|
| Revenues - Property Tax | \$ 84.2 mil | \$ 115.7 mil |
| Revenues - Income Tax | (\$ 3.9 mil) | (\$ 7.8 mil) |
| Net Revenue Impact | \$ 80.3 mil | \$ 107.9 mil |

Tax Aids & Credits – Changes in General Fund Expenditures

The Governor recommends no program changes to general fund, base-level expenditures for property tax aids and credits, thereby preserving November 2010 forecast spending of \$3.4 billion in FYs 2012-2013 and \$3.5 billion in FYs 2014-15 as shown in the following table. (Note that the Governor accounts for Payments in Lieu of Taxes (PILT) for Department of Natural Resources (DNR) lands in the DNR budget.) However, the Governor's recommendation to extend the K-12 funding shift through the FY 2012-2013 biennium (shown in the K-12 budget) will cause a handful of property tax credit programs to pay slightly reduced amounts – a total reduction of -\$14.3 million over the biennium—to local jurisdictions.

**Table 11. Governor's Recommendations versus November 2010 Forecast base
Property Tax Refunds, Aids & Credits
Governor's Recommended Changes in General Fund Spending, FYs 2012-2013
(Dollars in Thousands)**

| | November Forecast FY 2010-11 | Forecast Base FY 2012-13 | Governor's Recs FY 2012-13 | Percentage Change Gov. FY 2012-13 vs. FY 2010-11 | Percentage Change Gov. vs. Base FY 2012-13 |
|--|---------------------------------|-----------------------------|-------------------------------|--|--|
| <u>Tax Refunds</u> | | | | | |
| Homeowner Property Tax Refund | 594,930 | 652,000 | 652,000 | 10% | 0.0% |
| Renter Property Tax Refund | 330,999 | 403,000 | 403,000 | 22% | 0.0% |
| Political Contribution Refund | 1,720 | 11,800 | 11,800 | 586% | 0.0% |
| Sustainable Forest Land Payments | 12,700 | 31,383 | 31,383 | 147% | 0.0% |
| Other Refunds ¹ | 36,748 | 43,510 | 43,510 | 18% | 0.0% |
| Subtotal Refunds | 977,097 | 1,141,693 | 1,141,693 | 17% | 0.0% |
| <u>Local Aids</u> | | | | | |
| Local Government Aids ² | 913,203 | 1,056,850 | 1,056,850 | 16% | 0.0% |
| County Program Aids ³ | 360,718 | 395,814 | 395,814 | 10% | 0.0% |
| Local Pension Aids | 205,389 | 215,386 | 215,386 | 5% | 0.0% |
| Other Local Aids | 37,377 | 40,676 | 40,676 | 9% | 0.0% |
| Subtotal Aids | 1,516,687 | 1,708,726 | 1,708,726 | 13% | 0.0% |
| <u>Property Tax Credits</u> | | | | | |
| Homestead Market Value Credit | 389,490 | 520,329 | 520,329 | 34% | 0.0% |
| Agricultural Market Value Credit | 47,232 | 47,741 | 47,741 | 1% | 0.0% |
| Senior Property Tax Deferral | 1,485 | 2,358 | 2,358 | 59% | 0.0% |
| Other Credits | 13,374 | 14,682 | 14,682 | 10% | 0.0% |
| Subtotal Credits | 451,581 | 585,110 | 585,110 | 30% | 0.0% |
| <u>Taconite Tax Relief Aids & Credits</u> | 28,828 | 31,547 | 31,547 | 9% | 0.0% |
| <u>Other Expenditures</u> | | | | | |
| Gov's K-12 Shift Extension Impact | 0 | 0 | (14,303) | - | - |
| SUBTOTAL - TAX AIDS & CREDITS | 2,974,824 | 3,468,946 | 3,454,643 | 16% | -0.4% |
| PILT for DNR Owned Lands | 43,601 | 53,291 | 53,291 | 22% | 0.0% |
| TOTAL TAX AIDS & CREDITS w PILT | 3,018,425 | 3,522,237 | 3,507,934 | 16% | -0.4% |

Notes: Negative numbers represent expenditure reductions (budget savings) and positive numbers represent program expenditures.

¹Other refunds includes Targeting and Tax Refund Interest.

²Local Government Aids includes Local Government Aid, Utility Aid and Mahnomens City Aid

³County Program Aids includes County Program Aid, County Transition Aid, and Mahnomens County Aid.

Tax Changes in Other Areas of the Budget

Car Rental Tax 1 Percent Increase (Explore Minnesota Tourism). The Governor seeks to increase the existing 6.2 percent motor vehicle rental fee to 7.2 percent. This 1 percent increase is estimated to yield an additional \$2.6 million per year, which would be dedicated for the purpose of promoting and marketing Minnesota tourism. The effective date of this provision would be July 1, 2011. The general fund revenue gain from this change is estimated to be \$5.6 million in FYs 2012-13 and \$ 6.4 million in FYs 2014-15.

Eliminate Direct Grants from MERC (Department of Health). The Governor seeks to abolish funding for direct grants from the Medical Education and Research Costs (MERC) program. Currently MERC provides two kinds of funding –general allocations and direct grants—to three University of Minnesota hospitals to defray the cost of being an education and research institution. With the elimination of these grants, the state’s portion of funding, originating from dedicated cigarette tax revenue and totaling \$4.6 million per year, would be redirected to the general fund. Thus, the revenue gain would be \$4.6 million in FYs 2012-13 and \$9.2 million in FYs 2014-15.

Tax Compliance (Department of Revenue). The Governor seeks to initiate another round of tax compliance beginning in FY 2012. This proposal would hire an additional 81 compliance employees to identify and collect taxes from individuals and businesses that currently lack a full reporting of their tax liabilities. In order to gain \$43.5 million in general fund revenue over the FY 2012-13 biennium, the Department must spend \$11.4 million to pay for employee salaries, for a net impact of \$32.1 million. Similarly, to gain \$58.2 million in FY 2014-15, expenditures would be \$15.1 million, for a net revenue gain of \$43.1 million.

| Tax Compliance - General Fund Net Impact | | |
|---|---------------------------|---------------------------|
| | <u>FYs 2012-13</u> | <u>FYs 2014-15</u> |
| Expenditures | (\$ 11.4 mil) | (\$ 15.1 mil) |
| Revenues | \$ 43.5 mil | \$ 58.2 mil |
| Net Revenue Impact | \$ 32.1 mil | \$ 43.1 mil |

Extension of Petrofund Sunset (Department of Commerce). The Governor recommends changing the sunset date of the Petroleum Tank Release Cleanup Fund from June 30, 2012 to June 30, 2017, a 5-year extension. Currently, the fund serves as a financial back up for petroleum storage tank owners who are addressing contamination issues from leaking tanks. The absence of the Petrofund would impede storage tank owners ability to comply with federal law and would likely result in financial hardship if cleanup costs were personally assumed. The extension of the program sunset would have no impact on current operations because program expenditures (approximately \$18.2 million per year) are paid with revenues from the Petrofund fee. The effective date of this provision would be July 1, 2012. The revenue gain to the

Petroleum Tank Release Cleanup Fund would be \$26.3 million in FYs 2012-13 and \$52.7 million in FYs 2014-15.

Medical Assistance Surcharges (Department of Human Services). The Governor's budget recommends increasing the surcharges on certain facilities and programs in the Department of Human services budget as shown in the following three components:

I. NF and ICF/MR Surcharges

Nursing Home Provider Surcharge -An increase of \$635 per year per bed (to \$3,450), effective July 1, 2011, and an additional increase of \$350 per bed (to \$3,800), effective October 1, 2011;

Nursing Facility Rate Increase – An increase of \$2.17 per resident day, effective June 1, 2011, and an additional increase of \$1.20 effective September 1, 2011. This increase would impact both public and private pay residents in nursing facilities.

Intermediate Care Facilities for persons with Developmental Disabilities (ICF/MR) Surcharge- An increase of \$2,825 per year per bed (to \$3,865), effective July 2, 1011, and an additional increase of \$408 per bed (to 4,273), effective October 1, 2011.

ICF/MR Rate Increase – An increase of \$8.36 per resident day, effective June 1, 2011, and an additional increase of \$1.20 effective September 1, 2011.

| I. NF and ICF/MR Surcharges | | |
|--|----------------------------|----------------------------|
| General Fund Net Revenue Impact | | |
| | <u>FYs 2012-13</u> | <u>FYs 2014-15</u> |
| Expenditures | (\$ 24.1 mil) | (\$ 24.2 mil) |
| REVENUES | <u>+\$ 68.7 mil</u> | <u>+\$ 67.1 mil</u> |
| Total Impact | +\$ 44.6 mil | +\$ 42.9 mil |

II. MA Hospital Surcharge and Payment Rates

Medical Assistance (MA) Surcharge – Currently at 1.56 percent of net patient revenues, the proposal would increase the rate to 4.45percent, effective July 1, 2011.

Medical Assistance (MA) Fee-for Service Payment Rate –Increase unspecified for inpatient hospital services.

| II. MA Hospital Surcharge and Payment Rate Changes | | |
|---|-----------------------------|-----------------------------|
| General Fund Net Revenue Impact | | |
| | <u>FYs 2012-13</u> | <u>FYs 2014-15</u> |
| Expenditures | (\$ 123.4 mil) | (\$ 37.5 mil) |
| REVENUES | <u>+\$ 498.2 mil</u> | <u>+\$ 563.0 mil</u> |
| Total Impact | +\$ 374.8 mil | +\$525.5 mil |

III. Managed Care Surcharge & Payment Rates

Medical Assistance (MA) Surcharge on HMOs – Currently at 0.6 percent of all premium revenues, the proposal would increase the rate to 4.3 percent, effective July 1, 2011

Medical Assistance (MA and MinnesotaCare Payment Rates - Increase of 8.88 percent for HMOs from January 1, 2012 to June 30, 2012 then beginning July 1, 2012, the rate is decreased to 3.7 percent. For county-based purchasing (CBP) plans, an increase of 10.32 percent from January 1, 2012 to June 30, 2012 then beginning July 1, 2012, the rate is decreased to 4.3 percent.

| III. Managed Care Surcharge and Payment Rate Changes | | |
|---|-----------------------------|-----------------------------|
| General Fund Net Revenue Impact | | |
| | <u>FYs 2012-13</u> | <u>FYs 2014-15</u> |
| Expenditures | (\$ 102.9 mil) | (\$ 141.1 mil) |
| REVENUES | <u>+\$ 310.2 mil</u> | <u>+\$ 383.9 mil</u> |
| Total Impact | +\$ 207.4 mil | +\$ 242.8 mil |

The combined general fund revenue gain from these surcharge changes would be \$877.2 million in FYs 2012-13 and \$1.0 billion in FYs 2014-15 as summarized below:

| Revenue Recap: DHS MA Surcharge | | | |
|--|---------------------------|---------------------------|-----------------------|
| General Fund Net Impact | | | |
| | <u>FYs 2012-13</u> | <u>FYs 2014-15</u> | |
| I. NF and ICF/MR Surcharges | REVENUES | +\$ 68.7 mil | +\$ 67.1 mil |
| II. MA Hospital Surcharge& Payment Rates | REVENUES | +\$ 498.2 mil | +\$ 563.0 mil |
| III. Managed Care Surcharge & Payment Rates | REVENUES | <u>+\$ 310.3 mil</u> | <u>+\$ 383.9 mil</u> |
| TOTAL GENERAL FUND REVENUES (I, II, & III) | | +\$ 877.2 mil | +\$1,014.0 mil |

For additional information on income, corporate, sales and health care taxes, contact Cynthia Templin at 651-297-8405, or cynthia.templin@house.mn.

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