

HOUSE RESEARCH

Bill Summary

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Overview

This bill reduces appropriations for fiscal years 2010 and 2011 and increases revenues by approximately \$435.4 million in fiscal year 2011, to address \$2.9 billion of budget short fall.

Section

Article 1: Summary

- 1 **General fund summary.** Summarizes the appropriations and reductions made in this bill.
- 2 **Allotment reductions void.** Voids any reductions in appropriation allotments from July 1, 2009, to the effective date of this section.

Provides an immediate effective date.

Article 2: Cash Flow

- 1 **Change in payment of aids and credits.** Leaves to the discretion of the commissioner of management and budget whether to delay payments to school districts in order to avoid short-term borrowing by the state when general fund cash is not sufficient to make all payments on time. The section increases the amount exempt from the payment delay from \$150 to \$700 per pupil unit and increases the amount a district may retain in its treasury from \$350 to \$700 per pupil unit.

- 2 Monthly payments; University of Minnesota.** Changes the date for the monthly payments of appropriations to the university from the 21st to the 25th.
- 3 State property taxes; county treasurer.** Requires the counties to pay the state property taxes to the state on the same schedule of estimated and final payments used to distribute property taxes to school districts. This advances the settlement dates from the county to the state as follows:
- (i) the current June 28th payment will be made 50 percent on or about May 24th, and 50 percent on or about June 5th;
 - (ii) the December 2nd payment will be made 50 percent on or about October 24th and 50 percent on or about November 2nd; and
 - (iii) the January 25th “clean-up” payment from the county will continue to be made at the same time.
- Effective for distributions beginning October 1, 2010, and thereafter.
- 4 Sales and use tax.** Temporarily requires vendors who collect and remit \$120,000 or more annually in sales tax to remit 90 percent of their monthly liability on the 14th of the month after it was collected with the remainder due on the 20th of the month. Currently the entire amount is due on the 20th of the month. When the cash flow account and the budget reserve account reach the desired levels listed in chapter 16A, the early sales tax payments on the 14th of the month will be eliminated and the remittances will again be due on the 20th of the month. Nothing in this section affects the June accelerated payment date, or its associated settle-up date. Requires that all fees and other taxes reported on the same return be remitted on the same schedule as well.
- Effective for taxes due and payable after September 1, 2010.
- 5 Accelerated payment of monthly sales tax liability; penalty for underpayment.** Provides a penalty for underpayment of the 90 percent of estimated tax liability due on the 14th of the month equal to ten percent of the underpayment amount. Provides a safe harbor for avoiding the penalty by making a payment equal to the lesser of (1) 90 percent of the liability of the previous month, or (2) 90 percent of the liability for the same month in the previous calendar year, or (3) 90 percent of the vendor’s average monthly liability for the previous calendar year.

Article 3: E-12 Education

- 1 Definitions.** Moves unchanged the definition of “school district tax settlement revenue” to its own subdivision.
- 2 Levy recognition.** Beginning in fiscal year 2010, shifts 47.8 percent of the school levy payments (primarily the amounts received in the May, June, and July settlements) into the previous fiscal year.
- 3 Commissioner shall specify fiscal year.** Requires commissioner of education to report any changes to levy recognition to the chairs and ranking members of the Education Finance

Committees of the house and senate.

- 4 Reporting.** Corrects cross reference.
- 5 Aid reduction; levy revenue recognition change.** Clarifies a cross reference.
- 6 Definitions.** Lowers the current year aid payment percentage from 90 to 73 for fiscal year 2011.
- 7 Aid payment percentage.** Deletes an obsolete calculation in the payment schedule used in fiscal year 2005 for special education – excess cost revenue.
- 8 General education aid.** Updates the general education aid appropriation from the 2009 E-12 finance bill to reflect the February forecast, the 73/27 percent payment schedule, and the property tax recognition shift.
- 9 Educate parents partnership.** For fiscal years 2010 and 2011, reduces the educate parents partnership by \$1,000 per year.
- 10 Kindergarten entrance assessment initiative and intervention program.** For fiscal years 2010 and 2011, reduces the kindergarten entrance assessment initiative and intervention program by \$6,000 per year.
- 11 Department.** Reduces the Department of Education appropriation by \$796,000 in fiscal year 2010 and \$1,132,000 in fiscal year 2011 and later. Incorporates reductions to the Board of Teaching and the Board of School Administrators. Eliminates the rider for the early hearing loss coordinator for fiscal year 2011 and later.
- 12 Advance final payment; fiscal years 2010 and 2011.** Permits school districts and charter schools that are in statutory operating debt to be paid on the 90/10 payment schedule in fiscal years 2010 and 2011 only rather than the 73/27 payment schedule established for other districts and charters.

Article 4: E-12 Education Forecast Adjustments

- 1 Debt service appropriation.** Adjusts the fixed, standing appropriation for debt service equalization aid to match the February 2010 forecast estimate of the appropriation.
- 2 - 27 Conforming appropriations.** Updates appropriations from the 2009 E-12 finance bill for fiscal years 2010 and 2011 to reflect the February forecast and the 73/27 percent aid payment schedule.

Article 5: Higher Education

- 1 - 2 Appropriations summary.** Summarizes reductions by fund and provides reductions are from the appropriations enacted for higher education in 2009.
- 3 Minnesota Office of Higher Education.** Reduces appropriations to the Office of Higher Education by \$77,000 in each year. States that, if an extension of the enhanced federal

Medicaid payment (FMAP) is enacted by June 15, 2010, \$36 million in general fund money is appropriated for the state grant program.

- 4 **Board of Trustees of the Minnesota State Colleges and Universities (MnSCU).** Reduces fiscal year 2011 appropriation to MnSCU by \$50 million and allocates \$3.579 million of the cut to the central office and shared services unit and \$46.421 million to operations and maintenance. Sets the base for fiscal year 2012 and fiscal year 2013.
- 5 **Board of Regents of the University of Minnesota.** Reduces fiscal year 2011 appropriation to the University of Minnesota by \$50 million and allocates \$44.606 million of the cut to operations and maintenance with the balance allocated to the various system specials. Sets the base for fiscal year 2012 and fiscal year 2013.

Article 6: Environment and Natural Resources

- 1 - 2 **Appropriations summary.** Summarizes reductions by fund and provides reductions are from the appropriations enacted in 2009.
- 3 **Pollution Control Agency.** Reduces appropriations for fiscal year 2010 by \$110,000 and for fiscal year 2011 by \$99,000.
- 4 **Natural resources.** Reduces appropriations for fiscal year 2010 by \$1.375 million and for fiscal year 2011 by \$1.379 million.
- 5 **Metropolitan Council.** Reduces appropriations for fiscal years 2010 and 2011 by \$86,000 each year.
- 6 **Transfers in.** Increases the transfers from the closed landfill investment fund to the general fund by \$40 million in fiscal year 2011 and sets the transfer at \$12 million each year for fiscal years 2014 to 2017.

Article 7: Energy

- 1 - 2 **Appropriations summary.** Summarizes reductions by fund and provides reductions are from the appropriations enacted in 2009.
- 3 **Department of Commerce.** Reduces appropriations for fiscal years 2010 and 2011 by \$247,000 each year.

Article 8: Agriculture

- 1 - 2 **Appropriations summary.** Summarizes reductions by fund and provides reductions are from the budget enacted in 2009.
- 3 **Department of Agriculture.** Reduces appropriations for fiscal year 2010 by \$493,000 and for fiscal year 2011 by \$492,000.

Article 9: Economic Development

- 1 - 2 **Appropriations summary.** Summarizes reductions by fund and provides reductions are from the appropriations enacted in 2009.
- 3 **Employment and economic development.** Reduces appropriations for fiscal years 2010 and 2011 by \$285,000 each year.
- 4 **Housing Finance Agency.** Reduces appropriations for fiscal year 2011 by \$256,000.
- 5 **Department of Labor and Industry.** Reduces appropriations for fiscal years 2010 and 2011 by \$20,000 each year.
- 6 **Bureau of Mediation Services.** Reduces appropriations for fiscal years 2010 and 2011 by \$16,000 each year.
- 7 **Minnesota Historical Society.** Reduces appropriations for fiscal years 2010 and 2011 by \$168,000 each year.

Article 10: Transportation

- 1 - 2 **Appropriations summary.** Summarizes reductions by fund and provides reductions are from the appropriations enacted in 2009.
- 3 **Transportation.** Reduces appropriations for fiscal years 2010 and 2011 by \$24,000 each year.
- 4 **Metropolitan Council.** Reduces appropriations for fiscal years 2010 and 2011 by \$1.625 million each year.

Article 11: Public Safety

- 1 - 2 **Appropriations summary.** Summarizes reductions by fund and provides reductions are from the appropriations enacted in 2009.
- 3 **Human rights.** Reduces appropriations for fiscal years 2010 and 2011 by \$79,000 each year.

Article 12: State Government

- 1 - 2 **Appropriations summary.** Summarizes reductions by fund and provides reductions are from the appropriations enacted in 2009.
- 3 **Governor and lieutenant governor.** Reduces appropriations for fiscal years 2010 and 2011

by \$81,000 each year.

- 4 **Office of Enterprise Technology.** Reduces appropriations for fiscal years 2010 and 2011 by \$130,000 each year.
- 5 **Administration.** Reduces appropriations by \$100,000 for fiscal year 2010 and by \$200,000 for fiscal year 2011.
- 6 **Management and budget.** Reduces appropriations for fiscal years 2010 and 2011 by \$459,000 each year.
- 7 **Revenue.** Reduces appropriations by \$924,000 for fiscal year 2010 and by \$950,000 for fiscal year 2011.

Article 13: Health and Human Services

- 1 - 2 **Appropriations summary.** Summarizes reductions by fund and provides reductions are from the appropriations enacted in 2009.
- 3 **Department of Human Services.** Reduces appropriations for fiscal year 2010 by \$74.177 million and in fiscal year 2011 by \$74.625 million.
- 4 **Department of Health.** Reduces appropriations for fiscal year 2010 by \$527,000 and in fiscal year 2011 by \$252,000.
- 5 **Payments for substance abuse treatment.** Limits payment for fiscal years 2010 and 2011 to a maximum of 160 percent of the average rate on January 1, 2009, for similar vendor groups.
- 6 **Health protection appropriations.** Eliminates \$75,000 in fiscal year 2010 for pentachlorophenol and a PFC Citizens Advisory Group.
- 7 **Asset limitations for families and children.** Changes the medical assistance asset limit for a household of two or more to \$6,000, plus \$200 for each additional legal dependent and \$3,000 for a household of one for the period January 1, 2011, through June 30, 2011.
- 8 **Personal care assistant; requirements.** Limits the hours of personal care services that a personal care attendant may provide and be paid for to 275 hours per month for the period July 1, 2009, through June 30, 2010.
- 9 **Phase-in of rebased operating payment rates.** Eliminates the partial increase of nursing facility operating payment rates that was scheduled to occur on October 1, 2009.
- 10 **Managed care contracts.** Increases the withhold percentage of managed care plan payments and county-based purchasing plan payments for services rendered on or after January 1, 2010, through December 31, 2010, by 1.0 percent to 4.5 percent and for services rendered on or after January 1, 2010, through December 31, 2011, by 0.5 percent. If an extension of FMAP is enacted before June 15, 2010, the withhold for services rendered on or after January 1, 2010, through December 31, 2011, shall be 4.0 percent.

- 11 Physician reimbursement.** Reduces the payment rates under medical assistance for physician and professional services rendered on or after July 1, 2009, through June 30, 2011, by 6.5 percent over the rates in effect June 30, 2009. This additional 1.5 percent reduction in effect for the period July 1, 2010, to June 30, 2011, does not apply to physician services billed by a psychiatrist or an advanced practice registered nurse with a specialty in mental health.
- 12 Critical access dental providers.** Eliminates the critical access dental provider payments for dental services provided from April 1, 2010, to June 30, 2010.
- 13 Reimbursement for basic care services.** Reduces the payment rates under medical assistance for basic care services by 4.5 percent for the period July 1, 2009, through June 30, 2011.
- 14 Reduction of group residential housing supplemental service rate.** States that the commissioner of human services shall decrease the group residential housing (GRH) supplementary service rate by five percent except for GRH facilities that are reimbursed as a nursing facility.
- 15 Effective date.** States that this article is effective the day following final enactment. If an extension of FMAP is enacted by June 15, 2010, reductions in this article effective on or after July 1, 2010, with the exception of the reductions to appropriations for state agency administrative costs, shall not take effect.

Article 14: Aids, Credits, Refunds

Overview

Enacts aid and credit reimbursement reductions for counties, cities, and towns for Pay 2009 and 2010 equal to the disallowed governor's unallotments. Enacts the temporary modifications to several refunds and credits also included as part of the disallowed governor's unallotments. Makes corrections to the language in session Laws 2010, chapter 215, the earlier budget reduction bill, that referenced unallotments.

- 1 Credit reduction.** Amends a provision in this session's earlier budget reduction bill by removing references to unallotments and substituting references to the reductions in the market value credit reimbursements under section 2 of this article.
- 2 2009 and 2010 aid reductions.** Provides for the computation of reductions in aids and market value credit reimbursements to cities, counties, and towns for both 2009 and 2010 using the same methodology used for the governor's 2009 and 2010 aid and credit unallotments.
- 3 2010 reductions, counties, and cities.** Modifies a provision in the budget-cutting bill enacted earlier this year to eliminate references to unallotments and substitute the reductions under section 2.
- 4 Refunds and credits.** Provides for a temporary modification of existing refund and credit programs.

Subd. 1. Political contribution credit. Temporarily suspends the political

contribution refund for contributions made between July 1, 2009, and June 30, 2011.

Subd. 2. Property tax refund. Modifies the formula for calculating property tax refunds based on rent paid in calendar year 2009. For this year only, rent constituting property taxes will be calculated at a rate of 15 percent rather than 19 percent provided under current law.

Subd. 3. Sustainable forest initiative program. Limits the maximum sustainable forest incentive during fiscal years 2010 and 2011. Program payments for any Social Security number or tax identification number may not exceed \$100,000.

- 5 Levy validation.** Validates the special levies made to compensate for reductions in aids due to unallotments that had been approved by the commissioner of revenue for taxes payable in 2010 despite the unallotment later being ruled invalid. Prohibits a local government from using the special levy for taxes payable in 2011 for any retroactive reduction in aids and credit reimbursements that would have been payable in 2008 or 2009.

Article 15: Special Revenue Fund

Overview

This article changes the deposit of certain dedicated revenues from the general fund to an account in the special revenue fund or another fund as specified in the following sections

- 1 Postsecondary Education Board.** Payments by Minnesota State Colleges and Universities to the legislative auditor to pay audit expenses for audits requested by the board of trustees.
- 2 Agreements.** Funds of the attorney general for interagency legal services.
- 3 Costs for providing copies of data.** Funds collected by the attorney general and the courts for providing copies of data, if the amount is sufficiently large.
- 4 State surplus property.** Net proceeds of the sale of surplus state property by the Department of Administration for state agencies.
- 5 Powers and duties.** Money received by the Board of Water and Soil Resources.
- 6 Permit fee schedule.** Fees received by the Department of Natural Resources for underground storage are credited to an account in the natural resources fund.
- 7 Grant account.** Contaminated site cleanup and development grant account is moved to special revenue fund.
- 8 Federal reimbursement receipts.** Federal reimbursements received by the Department of Military Affairs.
- 9, 10 & 16 Guardian ad litem; legal fees.** Money deposited by the commissioner of management and budget for Supreme Court guardian ad litem reimbursement.
- 11 Deposit of revenues.** Money deposited by the commissioner of revenue from a county for the contaminated site cleanup and development grant account in the Department of

Employment and Economic Development.

- 12 Connection by authorized agency; fee, appropriation.** Money collected by the commissioner of public safety in conjunction with the criminal justice data communications network.
- 13 Contract services; appropriations.** Fees received by the commissioner of public safety for contract services by the Capitol Complex Security Division.
- 14 Application.** Application fees for the credit enhancement program collected by the Public Facilities Authority.
- 15 Deduction for enforcement costs; appropriation.** Money received by the commissioner of management and budget from county treasurers for tax increment financing and appropriated to the state auditor for reporting and auditing TIF.
- 17 Penalty assessment authorized.** Amount of a fine above the statutory minimum imposed by a court for violation of the prostitution solicitation statute and appropriated to the commissioner of public safety.
- 18 Reimbursement.** Repayment to the commissioner of management and budget of public defender costs by persons determined to have ability to pay and appropriated to the Board of Public Defense.
- 19 Sale of wildlife lands.** Proceeds of certain lands sold by the commissioner of administration are deposited into an account in the natural resources fund and appropriated to natural resources.

Article 16: Income Tax

- 1 Individual income tax rates.** Adds a new 9.1 percent rate at \$200,000 of taxable income for married joint filers, with the threshold adjusted for other filing statuses (\$100,000 for married separate filers, \$113,110 for single filers, and \$170,350 for head of household filers). Sunsets the 9.1 percent rate after tax year 2013 if the February 2013 forecast shows an unrestricted general fund balance of \$500 million or more.
- Effective date:** Tax year 2010.
- 2 Inflation adjustment.** Re-sets the annual inflation adjustment of the income tax brackets to use the tax year 2010 amounts specified in section 1 as the base for future annual adjustments.
- 3 Accelerated reinstatement of federal additions to taxable income.** Accelerates the reinstatement for state tax purposes of the federal phaseout of personal and dependent exemptions and the limitation on itemized deductions from tax year 2011 to 2010.

The limitation on itemized deductions would apply to taxpayers with adjusted gross income over \$167,100 in tax year 2010, regardless of filing status. Affected taxpayers would add to Minnesota taxable income three percent of adjusted gross income over the threshold, with the total amount added to taxable income limited to 80 percent of total itemized deductions.

The phaseout of personal and dependent exemptions would apply to married couples filing joint returns with adjusted gross income over \$250,650. The threshold is \$208,850 for head of household filers, and \$167,100 for single filers. Affected taxpayers would be required to add to Minnesota taxable income 2.5 percent of total exemptions for each \$2,500 of adjusted gross income over the threshold.

Background. The limitation on deductions and phaseout of exemptions were first effective at the federal and state level in 1991. The 2001 federal tax law provided for the limitation and phaseout to be gradually phased out, so that taxpayers were only required to add back two-thirds of the required amounts in tax years 2006 to 2007, one-third in tax years 2008 to 2009, and none at all in tax year 2010. The full limitation of deductions and phaseout of exemptions then come back into full effect in tax year 2011, as a result of the sunset on the 2001 federal tax law. Minnesota has conformed to the federal limitation and phaseout from 1991 through the present. This section provides for Minnesota to de-couple from the federal law for tax year 2010 only, and puts the limitation and phaseout back into effect at the state level one year in advance of the federal reinstatement.