



A SUMMARY OF THE FISCAL ACTIONS OF THE 2014 LEGISLATURE

Money Matters 14.03
June 2014

This paper provides a summary of 2014 legislation with fiscal implications. Part one is the summary section. Part two provides details organized according to organization of fiscal accounts used in the conference committees in 2013 and 2014.

The fiscal impacts of the Capital Investment legislation are summarized in a separate document.

The Overall Budget Picture1-9

The Supplemental Budget in Detail

Education Finance.....	10-14
Environment, Natural Resources, and Agriculture Finance	15-19
Health & Human Services Finance	20-25
Higher Education Finance	26-27
Jobs & Economic Development, Housing, and Commerce Finance	28-32
Legacy Finance	33-38
Public Safety & Judiciary Finance	39-41
State Government Finance	42-45
Transportation Finance.....	46-52
Taxes, Local Aids & Credits	53-73

Overview – Budget Changes – 2014 Session

Background

The November 2013 and February 2014 general fund budget forecasts both predicted positive balances for the FY 2014-15 and FY 2016-17 biennia. Under current law a portion of the November balance was used to complete the repayment of a shift in aid payments to school districts.

The November 2013 budget forecast projected a general fund balance of \$1.086 billion for the FY 2014-15 biennium. After eliminating the property tax revenue recognition shift and repaying \$15 million to the state airports fund, \$825 million remained as a projected general fund balance.

The February 2014 budget forecast projected an additional general fund balance of \$408 million for the FY 2014-15 biennium making a total of \$1.233 billion available. The cash flow account was at \$350 million and the budget reserve was at \$660.992 million.

The chart below shows the forecast balances and how those amounts were allocated.

Table 1	
Forecast Changes for FY 2014-15 Biennium	
Dollars in millions	
November 2013 Forecast Projected Balance	1,086
Appropriated for Education Aid to Restore Shifted Payments	-246
Transfer to Airports Fund	-15
Net Balance	825
Additional February 2014 Forecast Projected Balance	408
Net Balance	1,233

The February 2014 forecast projected a general fund structural balance for the next biennium, FY 2016-17, of \$2.622 billion. That projection includes no amount for general inflationary increases in program appropriations. It does include funding for inflationary increases when those increases are required by law.

Budget Balance for FY 2014-15 at \$1.233 Billion

The 2014 Legislature had a general fund balance of \$1.233 billion to work with for the 2014-15 biennium ending on June 30, 2015. Of the \$1.233 billion, \$568.5 million (46.1 percent) was allocated for new spending, \$482.4 million (39.1 percent) for net revenue reductions, \$150 million (12.1 percent) to increase the budget reserve, and \$32.2 million (2.6 percent) was left as a budget balance.

Table 2 separates 2014 session budget changes into various categories.

Table 2		
2014 Session Budget Summary		
Types of General Fund Budget Changes		
Dollars in millions		
	FY 2014-15	FY 2016-17
Beginning Balances	1,233.2	2,622.3
Spending Changes (positive is a cost)	568.5	1,060.2
Revenue Changes (negative is a revenue reduction)		
Tax Revenue Changes	-495.8	-996.0
Non-Revenue Changes	2.9	5.1
Transfers In from Other Funds	10.5	0.0
Increases in Reserves	150.0	0.0
Net Changes	1,200.9	2,051.1
Change in Balance Forward	-	32.3
Ending Balance	32.3	603.5

General Fund Budget Changes by Year and Biennium

Tables 3 and 4 illustrate the general fund budget changes by fiscal year (Table 4) and by biennium (Table 5).

Both charts show revenues and expenditures as projected in the February 2014 state budget forecast and then show changes in revenue and expenditures enacted in the 2014 session. The charts also show the percentage changes in revenue and spending across years (Table 3) or biennia (Table 4) before and after the 2014 session changes.

In Table 3, annual revenue change after 2014 enactments ranges from 2.5 percent between fiscal years 2014 and 2015 to 4.5 percent between both fiscal years 2015 and 2016 and then 2016 and 2017.

Annual spending change in Table 3 after 2014 legislative enactments ranges from a 1.2 percent increase between fiscal years 2014 and 2015 to 5.0 percent between fiscal years 2013 and 2014.

	FY13	FY14	Percent Change	FY15	Percent Change	FY16	Percent Change	FY 17	Percent Change
Revenue - Base	18,656.5	19,443.1	4.2%	20,131.5	3.5%	21,155.3	5.1%	22,128.3	4.6%
Revenue - Change	0.0	-139.3		-343.1		-471.6		-519.4	
Total - Current Revenue	18,656.5	19,303.8	3.5%	19,788.4	2.5%	20,683.7	4.5%	21,609.0	4.5%
Expenditures - Base	18,739.5	19,458.2	3.8%	19,560.8	0.5%	20,133.5	2.9%	20,551.2	2.1%
Expenditures - Change	0.0	219.6		348.9		519.6		540.5	
Total - Current Expenditures	18,739.5	19,677.8	5.0%	19,909.7	1.2%	20,653.1	3.7%	21,091.7	2.1%

Table 4 shows that the revenue change on a biennial basis after the 2014 legislative enactments is 9.4 percent between the FY 2014-15 biennium and the previous biennium and 8.2 percent between the FY 2016-17 biennium and the previous biennium.

Spending change on a biennial basis after the 2014 enactments is 12.1 percent between the FY 2014-15 biennium and the previous biennium and 5.4 percent between the FY 2016-17 biennium and the previous biennium.

	<u>FY 2012-13</u>	<u>FY 2014-15</u>	<u>Percent Change</u>	<u>FY 2016-17</u>	<u>Percent Change</u>
Revenue - Base	35,742.6	39,574.6	10.7%	43,283.6	9.4%
Revenue - Change		-482.4		-991.0	
Total - Current Revenue	35,742.6	39,092.2 [▼]	9.4%	42,292.6	8.2%
Expenditures - Base	35,319.3	39,019.0	10.5%	40,684.7	4.3%
Expenditures - Change		568.5		1,060.2	
Total - Current Expenditures	35,319.3	39,587.5 [▼]	12.1%	41,744.8	5.4%

Budget Changes in Several Bills

General fund budget changes were enacted in a variety of bills during the 2014 session. Table 5 lists the major budget bills.

Table 5						
General Fund - 2014 Changes By Bill						
Dollars in Thousands						
	FY14	FY15	FY14-15	FY16	FY17	FY16-17
Chapter 312 - Supplemental Appropriations						
Chapter 312 Spending	-1,520	276,790	275,270	418,507	438,371	856,878
Chapter 312 Non-Tax Revenue Change	0	13,336	13,336	2,845	2,215	5,060
Chapter 312 - Net	-1,520	263,454	261,934	415,662	436,156	851,818
Chapter 150 - Taxes - 1						
Chapter 150 - Spending	1,000	2,380	3,380	27,790	28,516	56,306
Chapter 150 - Tax Revenue Change	-93,725	-349,570	-443,295	-462,275	-494,115	-956,390
Chapter 150 - Transfer to Budget Reserve	0	150,000	150,000	0	0	0
Chapter 150 - Net	94,725	501,950	596,675	490,065	522,631	1,012,696
Chapter 308 - Taxes - 2						
Chapter 308 -Spending	771	50,027	50,798	40,779	38,580	79,359
Chapter 308 - Tax Revenue Change	-45,604	-6,913	-52,517	-12,190	-27,450	-39,640
Chapter 308 - Net	46,375	56,940	103,315	52,969	66,030	118,999
Chapter 294 - Capital- General Obligation Bonds Debt Service	0	1,252	1,252	3,600	6,188	9,788
Chapter 295 - Capital - Housing Bonds Debt Service	0	0	0	6,400	6,400	12,800
Chapter 295 - Capital - General Fund Appropriations	198,748	0	198,748	0	0	0
Chapter 294 & 295 - Net	198,748	1,252	200,000	10,000	12,588	22,588
Chapter 285 - Synthetic Drugs						
Chapter 285 Spending	163	0	163	0	0	0
Chapter 285 Federal Reimbursement	-57	0	-57	0	0	0
Chapter 285 - Net	106	0	106	0	0	0
Chapter 145 - Heating Assistance	20,000	0	20,000	0	0	0
Chapter 211 - Labor Relations Board	0	125	125	125	125	250
Chapter 182 - Worker's Compensation Recommendations	0	31	31	31	31	62
Chapter 239 - Women's Economic Security	400	1,274	1,674	526	526	1,052
Chapter 252 - Claims	0	84	84	0	0	0
Chapter 252 - Pensions	0	14,031	14,031	21,031	21,031	42,062
Chapter 269 - Exonerated Persons	0	3	3	3	3	6
Chapter 305 - Rulemaking - High Pressure Boilers	0	100	100	0	0	0
Chapter 311 - Medical Cannabis	0	2,819	2,819	853	752	1,605
Total Spending Change	219,505	348,916	568,421	519,645	540,523	1,060,168
Total Non-Tax Revenue Change	0	13,336	13,336	2,845	2,215	5,060
Total Tax Revenue Change	-139,329	-356,483	-495,812	-474,465	-521,565	-996,030
Total Reserve Change	0	150,000	150,000	0	0	0
Net General Fund Changes	358,834	842,063	1,200,897	991,265	1,059,873	2,051,138

The major bills were Chapter 312, a supplemental appropriations bill that included budget changes in most finance committee areas; Chapters 150 and 308, tax bills; and Chapters 294 and 295, capital expenditure bills. Other bills with substantial fiscal impacts included Chapter 145, a low income heating assistance bill enacted early in the legislative session, and Chapter 252, a pension bill. Table 3 summarizes 2014 session general fund budget changes by bill.

The Legislature also passed a bill restricting the State Lottery's ability to utilize on-line access to its products. However, that bill was vetoed by the Governor. If signed into law, it would have reduced general fund revenue as well as revenue for other funds that receive revenue from the lottery.

General fund changes enacted in the 2014 legislative session had a net impact of \$1.2 billion on the General Fund in FY 2014-15. Of this amount \$568.4 million is from increased spending, \$495.8 million is from revenue changes (primarily tax reductions) and \$150 million is transferred to the budget reserve.

The impact of changes enacted in the 2014 legislative session on the next biennium, FY 2016-17, totaled \$2.051 billion. Almost half of this amount was the FY 2016-17 impact of state tax reductions enacted in the 2014 session. Another major change was a reduction of \$403.6 million in the projected amount to be paid from the health care access fund for medical assistance resulting in an increase of the same amount in general fund spending.

Effective July 1, 2014, \$150 million is added to the budget reserve. That will bring the budget reserve total to \$811 million. The cash flow account total is \$350 million and the sum of the two is \$1.161 billion, an amount equal to about 3 percent of biennial general fund revenue.

Table 6 shows the general fund budget change by major category of change.

	Amount	Percentage
Spending Changes	568,421	47.3%
Non-Tax Revenue Changes	-13,336	-1.1%
Tax Revenue Changes	495,812	41.3%
Budget Reserve Increase	150,000	12.5%
Total	1,200,897	100.0%

Budget Changes by Committee

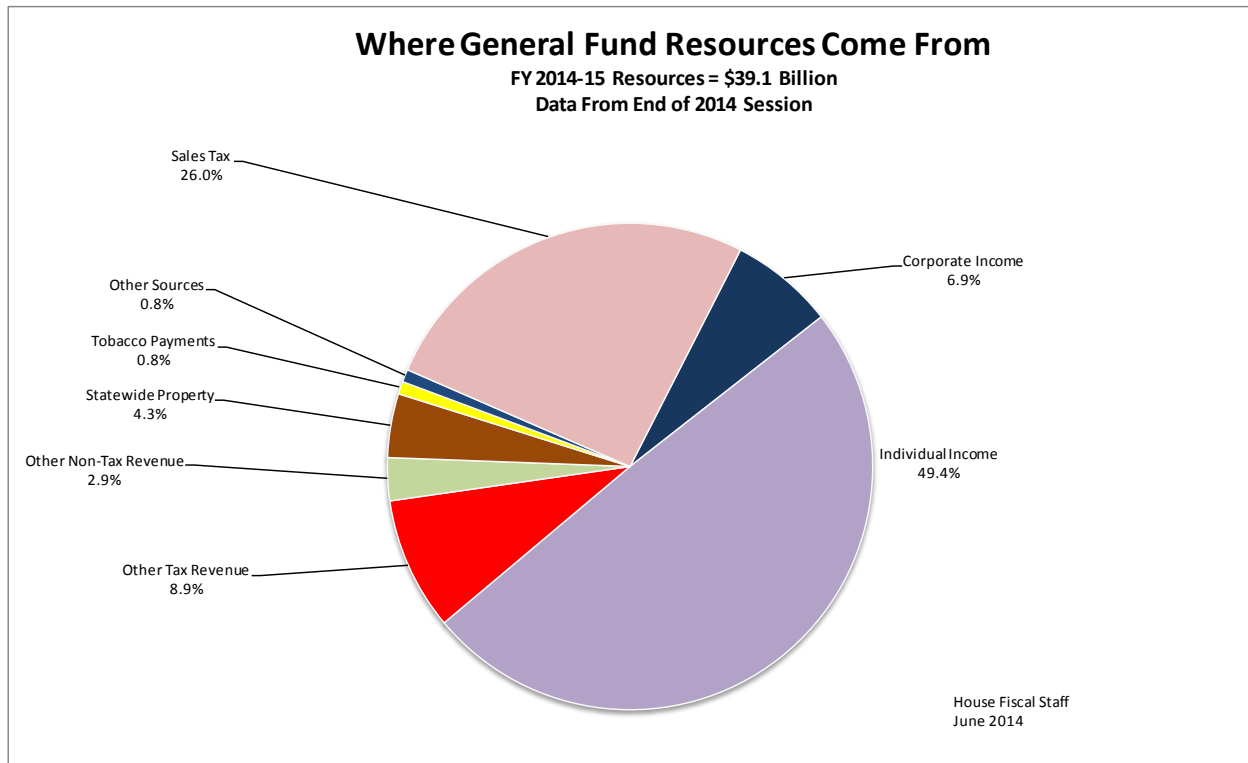
Table 7 takes the same information that is in Table 5 but rearranges it by committee area using the conference committee structure.

Table 7						
General Fund - 2014 Changes By Committee						
Dollars in Thousands						
	FY14	FY15	FY14-15	FY16	FY17	FY16-17
Education - Net	0	54,250	54,250	50,180	54,820	105,000
Higher Education - Net	0	22,250	22,250	24,850	24,850	49,700
Health & Human Services Spending	-1,064	110,516	109,452	319,982	335,075	655,057
Health & Human Services Revenue Change	0	2,621	2,621	2,614	1,984	4,598
Health & Human Services - Net	-1,064	107,895	106,831	317,368	333,091	650,459
Environment, Natural Resources & Agriculture Spending	0	10,756	10,756	976	985	1,961
Environment, Natural Resources & Agriculture Revenue	0	200	200	200	200	400
Environment, Natural Resources & Agriculture - Net	0	10,556	10,556	776	785	1,561
Transportation - Net	0	15,250	15,250	2,250	2,250	4,500
Judiciary & Public Safety Spending	0	35,785	35,785	20,354	20,375	40,729
Judiciary & Public Safety Revenue	0	15	15	31	31	62
Judiciary & Public Safety - Net	0	35,770	35,770	20,323	20,344	40,667
Jobs & Economic Development, Housing & Commerce Spending	19,650	31,450	51,100	1,100	1,100	2,200
Jobs & Economic Development, Housing & Commerce Revenue	0	10,500	10,500	0	0	0
Jobs & Economic Development, Housing & Commerce - Net	19,650	20,950	40,600	1,100	1,100	2,200
State Government & Veterans - Net	400	15,000	15,400	21,384	21,384	42,768
Capital- General Obligation Bonds Debt Service	0	1,252	1,252	3,600	6,188	9,788
Capital - Housing Bonds Debt Service	0	0	0	6,400	6,400	12,800
Capital - General Fund Appropriations	198,748	0	198,748	0	0	0
Capital Expenditures - Net	198,748	1,252	200,000	10,000	12,588	22,588
Taxes Spending	1,771	52,407	54,178	68,569	67,096	135,665
Taxes Revenue Change	-139,329	-356,483	-495,812	-474,465	-521,565	-996,030
Taxes - Net	141,100	408,890	549,990	543,034	588,661	1,131,695
Transfer to Budget Reserve	0	150,000	150,000	0	0	0
Total Spending Change	219,505	348,916	568,421	519,645	540,523	1,060,168
Total Non-Tax Revenue Change	0	13,336	13,336	2,845	2,215	5,060
Total Tax Revenue Change	-139,329	-356,483	-495,812	-474,465	-521,565	-996,030
Total Reserve Change	0	150,000	150,000	0	0	0
Net General Fund Changes	358,834	842,063	1,200,897	991,265	1,059,873	2,051,138

General Fund Resources

During the FY 2014-15 biennium three quarters of general fund revenue is projected to be from the individual income tax and the sales tax. Figure 1 shows general fund revenue sources for the biennium. Revenues from the income tax and sales tax in FY 2014-15 are projected to total \$29.5 billion, about \$3.0 billion more or 11.5 percent more than in the FY 2012-2013 biennium. Revenues from those two sources make up slightly over 75 percent of total general fund revenues.

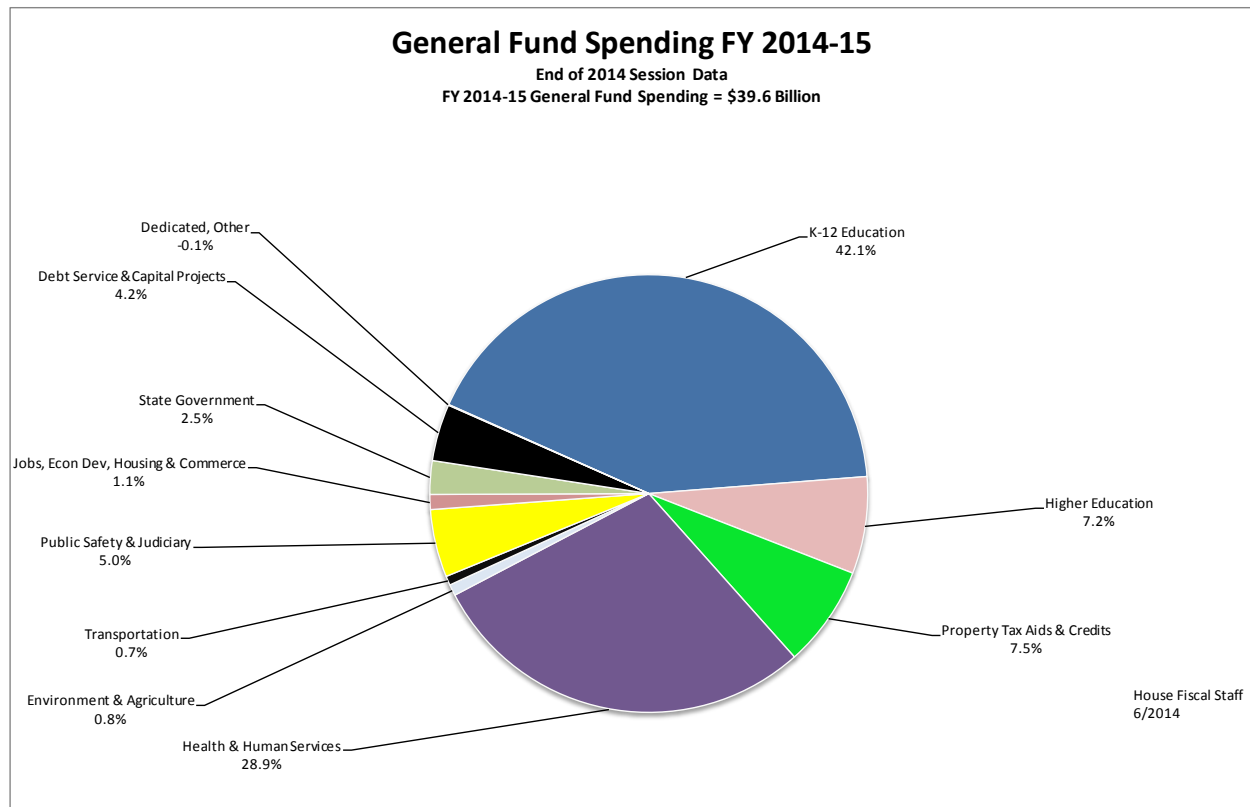
Figure 1



General Fund Spending

Almost 71 percent of general fund spending in the FY 2014-15 biennium is spent in the K-12 Education and Health and Human Services areas. In addition, when the amounts spent for Property Tax Aids and Credits (7.5 percent) and Higher Education (7.2 percent) are added, 85.7 percent of general fund spending is accounted for. That leaves only 13.3 percent for all the other areas. Figure 2 shows the major areas of general fund spending.

Figure 2



Changes in Fees, Fines and Charges

Fees, fines and charges changes netting \$6.6 million for the FY 2014-15 biennium were enacted during the 2014 session. Slightly under \$2 million of this amount is in the General Fund.

In FY 2016-17, changes enacted during the 2014 session are projected to raise \$13.9 million of which just under \$4 million would be in the General Fund.

The fee list below includes two changes that are increases in payments that counties make for services from the Department of Human Services. Arguably, these changes in co-payments should not be included in a “fee” list since they are co-payments rather than fees.

For FY 2015, only two changes exceeded \$1 million: 1) a \$2.5 million increase in a new railroad and pipeline safety assessment, and 2) a \$2.227 million increase in county co-payments for Department of Human Services programs.

Table 10 lists the fee changes enacted in 2014 legislation.

Table 10								
Fees, Assessments, County Charges, Etc. - 2014 Session								
	FY14	FY15	FY14-15	FY16	FY17	FY16-17	Fund	Agency
Rail & Pipeline Safety Training Assessment	0	2,500	2,500	2,500	2,500	5,000	SR	DOT
Rail Safety - Increased State Track Inspector Assessment	0	285	285	344	307	651	SR	DOT
Motorized Bicycle Permit Modifications	0	1	1	1	1	2	SR	DPS
Commercial Learner Permit	0	25	25	25	25	50	SR	DPS
Women's Veterans License Plates	0	8	8	3	3	6	SR	DPS
Bulk Vehicle Data Fee	0	449	449	898	898	1,795	SR	DPS
DPS Driver Record Subscription Service Fee	0	246	246	491	491	983	SR	DPS
Dog & Cat Breeders	0	95	95	95	95	190	SR	AHB
Nonresident Off-Highway Motorcycle Trail Pass	0	5	5	10	10	20	NR	DNR
State Parks License Plates	0	0	0	0	1,703	1,703	NR	DNR
State Park Permit Sales (due to State Park Plates)	0	0	0	0	-852	-852	NR	DNR
Critical Habitat Plates (due to State Park Plates)	0	0	0	0	-255	-255	NR	DNR
Water Permit Processing Fee Exception	0	0	0	0	-1	-1	NR	DNR
Non-Permit Water Penalties	0	18	18	9	5	14	NR	DNR
Game & Fish License Corrections	0	-91	-91	-67	-67	-134	G&F	DNR
SOS & Security Hospital Salary Supp - County Share	0	2,050	2,050	2,050	2,050	4,100	GF	DHS
MSOP Salary Supplement - County Share	0	177	177	0	0	0	GF	DHS
Coordination of Benefits Registry Insurance Recoveries	0	175	175	350	357	707	GF	DHS
Health Department Technical Changes	300	300	600	300	300	600	SGSR	MDH
Hospital Moratorium Exception - Fee Revenue	1	1	2	1	1	2	SGSR	MDH
Integrated Licensing-Home Care & HCBS Providers	0	0	0	31	36	67	SGSR	MDH
TEFRA Fee Reduction	0	-423	-423	-423	-423	-846	GF	DHS
Contractor Certificates - Pay Equity	0	37	37	37	37	74	SR	Human Rights
Energy Conservation Improvement Programs (CIP)	0	400	400	400	400	800	SR	Commerce
Unemployment Overpayment Interest Rate Reduction	0	0	0	-1,200	-1,200	-2,400	SR	DEED
Medical Marijuana - Patient Fees	0	0	0	628	628	1,255	SGSR	MDH
Medical Marijuana - Manufacturer Fees	0	100	100	188	163	351	SGSR	MDH
Total Revenue Raising	301	6,358	6,659	6,671	7,212	13,882	All Funds	
General Fund Total	0	1,979	1,979	1,977	1,984	3,961		
Other Funds Total	301	4,379	4,680	4,694	5,228	9,921		
Fees & Assessments	301	4,131	4,432	4,621	5,162	9,782		
County Share	0	2,227	2,227	2,050	2,050	4,100		
Fund Code	GF - General Fund			SR - Special Revenue Fund				
	G&F - Game & Fish Fund			NR - Natural Resources Fund				
	SGSR - State Government Special Revenue Fund							

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Education Finance

The 2014 Legislature passed a supplemental budget (Chapter 312) that was enacted by the Legislature and Governor that included \$54.25 million in general fund spending in early education and K-12 education programs. In addition to this supplemental budget bill, the first tax bill of the 2014 session, Chapter 150, contained provisions that impact school finance. Information about the tax bill provisions are contained in a separate summary at the end of this section. The chart and narrative below pertains only to the education finance provisions of the supplemental budget bill, Chapter 312.

Education Finance (Dollars in thousands)						
	FY 14	FY 15	FY 14-15	FY 16	FY 17	FY 16-17
General Fund Expenditure Changes						
General Education	0	25,678	25,678	29,112	29,330	58,442
Education Excellence	0	11,119	11,119	1,759	759	2,518
Special Programs	0	250	250	145	152	297
Facilities & Technology	0	0	0	1,577	6,620	8,197
Nutrition Programs	0	4,088	4,088	4,232	4,344	8,576
Early Childhood and Family Support	0	12,113	12,113	12,912	13,172	26,084
Minnesota Department of Education	0	408	408	143	143	286
Minnesota State Academies	0	300	300	300	300	600
Minnesota Management & Budget	0	294	294	0	0	0
subtotal expenditure changes:	0	54,250	54,250	50,180	54,280	105,000
Net General Fund Change:	0	54,250	54,250	50,180	54,280	105,000

The changes (for the FY 2014-15 general fund budget unless otherwise noted) include:

General Education Program

- \$23.25 million in additional state spending to increase the basic formula amount by \$25 starting in FY 2015. The formula allowance for FY 2015 will be \$5,831. Programs with funding mechanisms linked to changes in the formula allowance will see a corresponding increase. These programs include compensatory, sparsity, transportation sparsity, nonpublic pupil, nonpublic transportation, Indian tribal contract schools and, beginning in FY 2015, Early Childhood Family Education (ECFE).
- \$4.9 million to expand eligibility for English Language Learning (ELL) services from five years to six years. Additionally, students who have received less than six years of ELL services but have passed a basic proficiency exam will become eligible for

continued services, if the classroom teacher determines that it would be beneficial to the student.

- \$2.8 million in state aid *savings* to the general fund due to a formula correction to PSEO (post secondary enrollment options) payments. The pupil weighting for this funding formula was inadvertently not adjusted from 1.3 to 1.2 to reflect the new secondary pupil weightings.
- \$65,000 in state aid *savings* due to the conveyance of Crosswinds Integration School to the Perpich Center for Arts Education. The savings is due to loss of state aid to the resident districts for students who open enroll to the Crosswinds School.
- \$74,000 in additional spending due to a change that allows students who attend an Alternative Learning Center (ALC) program to receive dual credit for completing remedial or developmental courses through an early or middle college program.
- \$151,000 for a change to the small schools revenue formula that clarifies that school districts with at least two high schools, at least one of which receives sparsity aid, qualify to have small schools revenue calculated at the site level for schools that are eligible for sparsity aid.

Education Excellence

- \$1.0 million in additional funding for the Minnesota Reading Corps program. The forecast base for FY 2016 and FY 2017 is \$250,000 per year. For FY 2015, funding priority must be given to Focus and Priority school programs, as well as expansion of kindergarten programming.
- \$10 million (entitlement basis) for teacher development and evaluation aid to non-Q-Comp districts for implementation of the new teacher evaluation system. This is a one-time appropriation for FY 2015.
- \$500,000 for recovery program grants. The grants are capped at \$125,000 per program and are to be used for the additional staffing costs associated with recovery programs – licensed alcohol and chemical dependency counselors, nurses, school psychologists, and social workers, etc.
- \$300,000 for a pilot Information Technology certification program. This is a one-time appropriation for FY 2015.
- \$160,000 for a grant to the Northwest Online College in High School program. This is a one-time appropriation for FY 2015.

Special Programs

- \$250,000 for a one time grant program (FY 2015), that will provide support to schools that have a high incidence of prone restraint procedures being used on students.

- \$447,000 in fiscal years 2016 and 2017 for special education aid reimbursements for all one-to-one supports identified as part of a student's Individual Education Plan (IEP) at the Minnesota State Academies for the Deaf and Blind in Faribault, MN.
- \$150,000 in special education transportation costs *savings* due to the Rosemount-Apple Valley-Eagan school district being granted lease levy authority to operate a second transportation hub in their district.

Facilities

- \$6.4 million in enhanced debt service equalization aid. This is the revenue program chosen to offset property tax levy increases in other levy categories. The net result of enhancing debt service equalization aid is a zero overall levy increase in other areas of the budget.
- \$2.058 million in a new debt service equalization program for districts that have been impacted by natural disasters. The equalization factor is set at 300 percent of average adjusted net tax capacity per pupil. Two districts, Moose Lake and Rushford-Peterson, are the likely beneficiaries of this new equalization program. In order to qualify for the aid, the district's voters must vote to approve the building bonds.

Nutrition

- \$3.519 million in additional state spending to fully fund the cost of the reduced price lunch program. Districts will be reimbursed \$0.40 for each reduced price meal served, which is the cost of a student's reduced price meal fee.
- \$569,000 for full funding of breakfast for all Kindergarten students.

Early Childhood Education and Family Support

- \$4.65 million in new funding for the Early Learning Scholarships program. The base budget for this program is \$27.650 million in FY 2015, and \$27.884 million per year in FY 2016 and later.
- \$4.65 million in FY 2015 for additional state aid for Early Childhood Family Education (ECFE) programming.
- \$2 million in additional state spending for school readiness programs.
- \$100,000 for a grant for an evidence-based, early literacy parent-child home program.

Self-sufficiency and Lifelong Learning

- \$213,000 increase for the Adult Basic Education (ABE) program. This change brings the program growth factor back to three percent. It was scaled back to two percent in 2011 and was increased by one half of a percent, to 2.5 percent during the 2013 legislative session.
- \$350,000 for a grant to the Northside Achievement Zone, located in North Minneapolis.

- \$350,000 for a grant to the St. Paul Promise Neighborhood program, located in the Frogtown neighborhood of St. Paul.

Minnesota Department of Education (MDE)

- \$85,000 in increase to MDE's base budget, beginning in FY 2015, to provide additional reporting of student maltreatment.
- \$58,000 for an operating increase to the Board of School Administrators, beginning in FY 2015.
- \$40,000 for expedited rulemaking authority regarding special education streamlining/best practices.
- \$100,000 to the Board of Teaching, on a one-time basis for FY 2015, for implementation of additional Minnesota Teacher Licensing Exam requirements.
- \$75,000 for a one-time grant to "The Works" Museum in Bloomington, MN.
- \$50,000 for a one-time grant to the Headwaters Science Center.
- \$100,000 for MDE to conduct an inventory of Career and Technical Program offerings statewide.
- \$25,000 for MDE to conduct an analysis of ways to better align the Q-comp and teacher evaluation law.
- \$25,000 for MDE to conduct a study of traditional and non-traditional physical education program offerings in districts statewide.

Minnesota State Academies for the Deaf and Blind

- \$300,000 annual operating increase for costs associated with providing one-to-one staff support for students, as per their Individual Education Plans (IEP).

Minnesota Management and Budget

- \$294,000 to MMB for FY 2015 only, for costs of complying with the Public Employees Insurance Program bid process.

Education Related Changes in the First Tax Bill

Chapter 150, the first tax bill enacted during the 2014 session, included changes to Location Equity Revenue program (renamed Local Optional Revenue). It allows all school districts to convert up to \$424 per pupil of existing referendum revenue authority into Local Optional Revenue.

The 2013 Legislature first enacted provisions by which districts in the metro area could convert up to \$424 of referendum revenue authority, and regional centers could convert up to \$212 per pupil of referendum revenue authority, into Location Equity Revenue. (A regional center was

defined as a school district with more than 2,000 students). Districts that did not have existing referendum authority up to these limits were newly eligible for this revenue program. The state aid equalization factors for this revenue were greatly enhanced so many districts saw an increase in state aid and a corresponding decrease in local levy.

The 2014 Legislature extended eligibility for Local Optional Revenue to *all* districts, not just those located in the metro area or in regional centers. Regional centers saw an increase in the maximum amount they could convert to Local Optional Revenue, from \$212 to \$424 per pupil.

The state aid cost of this change is projected to be \$20 million annually, beginning in FY 2016. There is a corresponding property tax levy impact of \$23 million per year as well, beginning with taxes payable in 2015.

For further information on education finance issues contact Melissa R. Johnson, House Fiscal Analysis Department at 651.296.4178, melissa.johnson@house.mn.

Environment, Natural Resources and Agriculture

Agencies and programs funded in 2014 by the Environment, Natural Resource and Agriculture Finance Committee include the Department of Agriculture, the Board of Animal Health, the Pollution Control Agency, the Department of Natural Resources, the Metropolitan Council Parks, and the recommendations of the Legislative Citizens Committee on Minnesota Resources. Appropriations were also made to the Legislative Coordinating Commission, The Department of Administration and the University of Minnesota in addition to the funding they typically receive from other committees. In the 2014 session three chapters of law contribute to appropriations in this area: Chapter 226, the Environment and Natural Resources Trust Fund appropriations, Chapter 290, the Game and Fish Bill and Chapter 312, the Supplemental Appropriations Bill.

Environment, Natural Resources and Agriculture – Supplemental Appropriations (Dollars in thousands)						
	FY14	FY15	FY14-15	FY16	FY17	FY16-17
<u>General Fund Changes</u>						
General Fund Expenditure Changes						
Agriculture Department	-	2,750	2,750	350	350	700
Board of Animal Health	-	310	310	426	435	861
Department of Natural Resources	-	3,021	3,021	-	-	-
Department of Administration	-	185	185	185	185	370
Legislative Coordinating Commission	-	15	15	15	15	30
Metropolitan Council	-	75	75	-	-	-
University of Minnesota	-	4,400	4,400	-	-	-
subtotal expenditure changes:	-	10,756	10,756	976	985	1,961
General Fund Revenue Changes						
Permanent School Fund Cost Certification	-	200	200	200	200	400
subtotal revenue changes:	-	200	200	200	200	400
Net General Fund Change:	-	10,556	10,556	776	785	1,561

Environment, Natural Resources and Agriculture – Supplemental Appropriations						
(Dollars in Thousands)						
	FY14	FY15	FY14-15	FY16	FY17	FY16-17
<u>Non-General Fund Changes</u>						
Game and Fish Fund Expenditure Changes						
<i>(Chapters 290 and 312)</i>						
Department of Natural Resources	-	2,412	2,412	109	-	109
Game and Fish Fund Revenue Changes						
<i>(Chapters 290 and 312)</i>						
Department of Natural Resources	-	(91)	(91)	(67)	(67)	(134)
Net Fund Changes:	-	2,503	2,503	176	67	243
Natural Resources Fund Expenditure Changes						
Department of Natural Resources	-	450	450	-	1,703	1,703
Metropolitan Council	-	450	450	-	-	-
Natural Resources Fund Revenue Changes						
Department of Natural Resources	-	23	23	19	610	629
Net Fund Changes:	-	877	877	(19)	1,093	1,074
Agriculture Fund Expenditure Changes						
Agriculture Department	-	267	267	263	263	526
Agriculture Fund Revenue Changes						
Agriculture Department	-	-	-	-	-	-
Net Fund Changes:	-	267	267	263	263	526
Special Revenue Fund Expenditure Changes						
Board of Animal Health	-	95	95	95	95	190
Special Revenue Fund Revenue Changes						
Board of Animal Health	-	95	95	95	95	190
Net Fund Changes:	-	-	-	-	-	-
Remediation Fund Expenditure Changes						
Pollution Control Agency	-	1,150	1,150	-	-	-
Remediation Fund Revenue Changes						
Pollution Control Agency	-	1,150	1,150	-	-	-
Net Fund Changes:	-	-	-	-	-	-
Environmental Fund Expenditure Changes						
Pollution Control Agency	-	4,000	4,000	3,000	3,000	6,000
Environmental Fund Revenue Changes						
Pollution Control Agency	-	(1,150)	(1,150)	-	-	-
Net Fund Changes:	-	5,150	5,150	3,000	3,000	6,000
Environment and Natural Resources Trust Fund Expenditure Changes						
	-	29,460	29,460	-	-	-
Environment and Natural Resources Trust Fund Revenues Changes						
	-	-	-	-	-	-
Net Fund Changes:	-	29,460	29,460	-	-	-
Total Non-General Fund Expenditures	-	37,834	8,374	3,467	5,061	8,528
Total Non-General Fund Revenues	-	27	27	47	638	685
Net Non-General Fund	-	37,807	8,347	3,420	4,423	7,843

Department of Agriculture

Items changed in the Department of Agriculture budget include:

- A onetime appropriation of \$2 million from the general fund was made to the Department of Agriculture for a grant to Second Harvest Heartland. The funds are to be used to compensate producers and processors for the costs of harvesting and packaging fruits, vegetables and other commodities for distribution to food shelves.
- \$200,000 from the general fund is for a onetime addition to the county fair arts access funding to enhance arts access and education and to preserve and promote Minnesota's history and cultural heritage.
- The department was appropriated \$350,000 from the general fund for an increase in food handler safety inspections. This amount was added to the base.
- The commissioner was appropriated \$200,000 onetime from the general fund for a grant to a higher education institution to research porcine epidemic diarrhea virus.
- A statutory appropriation was made from the pesticide regulatory account in the agricultural fund for pollinator death evaluations and the compensation of pollinator deaths. Up to \$100,000 per year may be spent to compensate experts to evaluate the deaths and up to \$150,000 per year may be spent to compensate the owners of the pollinators who experienced a loss of bees or hives.

Board of Animal Health

The Board of Animal Health was appropriated \$310,000 from the general fund in FY 2015 to administer the dog and cat breeder licensing and inspection program. The base for this program is \$426,000 in FY 2016 and \$435,000 in FY 2017. The program also collects fees from the dog and cat breeders, which are estimated to total \$95,000 per year. These fees are collected in the special revenue fund and are statutorily appropriated for the purposes of the program.

Pollution Control Agency (PCA)

Items changed in the PCA budget include:

- A \$4 million increase from the environment fund in FY 2015 is for the county SCORE Grants program, with \$3 million added as base funding.
- A onetime transfer of \$1.15 million from the environment fund to the remediation fund was made to increase the amount of Superfund work the agency is able to complete. Of this amount \$650,000 is a direct appropriation for staffing and administration and \$500,000 is a statutory appropriation for mitigation.

Department of Natural Resources (DNR)

Items changed in the DNR budget include:

- A onetime appropriation in the amount of \$1 million from the general fund was made for meeting the state's fiduciary duty to Minnesota children with regard to school trust land.

The commissioner must report to the legislature the intended use of the funds and the legislature must approve of the intended use prior to the expenditure.

- A onetime appropriation of \$50,000 from the general fund was made to study the effects of the Lake Emily Dam in Crow Wing County on water clarity and water levels.
- \$21,000 from the general fund is being added as a onetime addition to the grant to the Mississippi Headwaters Board.
- A onetime appropriation of \$1.6 million from the general fund is for improvements and maintenance at state parks.
- \$450,000 from the state parks and trails lottery-in-lieu account in the natural resources fund is a onetime appropriation increase for the state park, state trail and state recreation area operations.
- A onetime general fund appropriation of \$350,000 is for a section of the Willard Munger Trail system to be developed and named the James L. Oberstar Trail.
- The legislature approved a state park license plate that would allow access to state parks without the purchase of an annual or daily vehicle pass. The plates would require a \$50 annual donation to a state park license plate account in the natural resources fund in addition to the normal costs of acquiring license plates. The plates will be available after January 1st 2016 or the date the new driver and vehicle services information technology system is implemented, whichever comes later. It is anticipated the revenues will begin in FY 2017 and total \$1.703 million. There are also anticipated reductions to the critical habitat plate contribution of \$255,000 and reduction in annual state park permits in the amount of \$852,000.
- The creation of a nonresident off-highway motorcycle trail pass will result in \$5,000 of revenue in FY 2015 and \$10,000 in each subsequent year credited to the natural resource fund.
- Changes to the non-permit water penalties will result in \$18,000 of revenue in FY 2015, \$9,000 in FY 2016 and \$5,000 in FY 2017. These revenues are collected in the natural resource fund.
- The Game and Fish Bill, Chapter 290, contains provisions to correct the fee of certain licenses types in order to match the fees that were passed in 2012. These corrections will result in lost revenue to the game and fish fund in the amount of \$91,000 in FY 2015 and \$67,000 each of the following years.
- The Game and Fish Bill, Chapter 290, also provides for 100% disabled veterans to have this designation placed on their driver's licenses, which can be used as proof for acquiring hunting and fishing licenses. This provision will have a onetime cost to the game and fish fund of \$109,000 in FY 2016.

Department of Administration

The cost of a school trust lands director will be paid for out of the general fund. The general fund will be reimbursed from the permanent school fund for the costs. This will result in a \$185,000

transfer from the permanent school fund to the general fund, and a general fund expenditure of \$185,000.

Legislative Coordinating Commission

The cost of the permanent school fund commission will be paid for out of the general fund. The general fund will be reimbursed from the permanent school fund for the costs. This will result in a \$15,000 transfer from the permanent school fund to the general fund, and a general fund expenditure of \$15,000.

Metropolitan Council

Items changed in the Metropolitan Council budget include:

- A \$75,000 appropriation was made from the general fund on a onetime basis for a grant to the city of Shoreview for a feasibility study regarding the lowering of the water level of Turtle Lake and the possible effects of augmentation on the lake.
- \$450,000 is a onetime increase from the metropolitan parks and trails lottery-in-lieu account in the natural resources fund for the operation and maintenance of parks and trails.

University of Minnesota

The University received \$3.4 million in a onetime general fund appropriation for the Invasive Terrestrial Plants and Pests Center. The appropriation is available through FY 2022. In addition to the general fund appropriation, two appropriations from the environment and natural resources trust fund are also made for the same purpose. The three appropriations total \$4.86 million.

Legislative Citizen Commission on Minnesota Resources

Appropriations for the Environment and Natural Resources Trust Fund were made in Minnesota Laws 2014, Chapter 226, totaling \$28.97 million for FY 2015. In addition to the appropriations in Chapter 226, \$490,000 was appropriated in Chapter 312 for the Invasive Terrestrial Plants and Pests Center at the University of Minnesota. Chapter 312 also authorized a transfer from Minnesota Laws 2011, 1st SS, Ch. 2, Art. 3, Sec. 2, Subd. 9, Para. (d) the RIM- Wetland Reserve Acquisition and Restoration Program. This transfer is in the amount of \$970,000 and was directed to the Invasive Terrestrial Plants and Pests Center at the University of Minnesota.

Detailed funding and project descriptions can be found at the Commissions web site: <http://www.lccmr.leg.mn/>

For additional information on Environment, Natural Resources and Agriculture Finance issues, contact Brad Hagemeyer at 651.296.7165 or email: brad.hagemeyer@house.mn.

Health & Human Services Finance

Overview

The 2014 legislature enacted changes to the health and human services budget area that appropriate a net total of \$106.8 million from the General Fund for FY 2014-15 and increased tails spending in FY 2016-17 by \$650.5 million. Most of the changes are included in the human services portion of the omnibus supplemental appropriations bill, Laws 2014, Chapter 312, Article 30, which accounts for \$103.9 million of the new spending in FY 2014-15 and \$648.8 million in new allocations for FY 2016-17. Also, the public safety section (Article 5) of Chapter 312 includes net general fund appropriations of \$30,000 in FY 2015 and \$118,000 in FY 2016-17 to the Department of Human Services (DHS) for the cost of changes to the expungment process. In addition, Chapter 285 (synthetic drugs cease and desist authority for the Board of Pharmacy) includes net general fund appropriations to DHS of \$106,000 in FY 2014, and Chapter 311 (medical cannabis) appropriates \$2.8 million in FY 2015 and \$1.6 million in FY 2016-17 to the Department of Health. Total fiscal impact in the jurisdiction of the Health and Human Services Finance Committee from all bills is shown in the chart below.

Health & Human Services Finance -2014 Supplemental Appropriations						
(Dollars in thousands)						
	FY14	FY15	FY14-15	FY16	FY17	FY16-17
General Fund Expenditure Changes						
Department of Health	950	6,406	7,356	3,114	3,063	6,177
Department of Human Services (net of FFP)	(2,014)	103,960	101,946	316,718	331,862	648,580
Ombudsman for Mental Health/Dev'l Disabilities		150	150	150	150	300
subtotal expenditure changes:	(1,064)	110,516	109,452	319,982	335,075	655,057
General Fund Revenue Changes						
Department of Human Services	0	2,621	2,621	2,614	1,984	4,598
subtotal revenue changes:	0	2,621	2,621	2,614	1,984	4,598
Net General Fund Change:	(1,064)	107,895	106,831	317,368	333,091	650,459
Non-General Fund Changes						
Health Care Access Fund						
Department of Health	(1,000)	(1,000)	(2,000)	(1,000)	(1,000)	(2,000)
Department of Human Services	0	0	0	(198,903)	(204,659)	(403,562)
Net HCA changes:	(1,000)	(1,000)	(2,000)	(199,903)	(205,659)	(405,562)
TANF						
Department of Human Services	0	900	900	3,575	4,483	8,058
Net TANF changes:	0	900	900	3,575	4,483	8,058

Health Care Access Fund (HCAF)

Chapter 312 makes two changes that have a substantial impact on the Health Care Access Fund. First, there is clarification to eliminate a potential duplicate appropriation to the Health Department that results in savings of \$1 million per year to the HCAF in FY 2014-17. The second change is the adoption of a rider that sets the base for direct medical assistance (MA) appropriations from the HCAF in FY 2016-17. The rider sets the base for MA appropriations at \$221.035 million per year from the HCAF. This is a reduction in FY 2016-17 of \$403 million from fiscal tracking for legislation passed by the 2013 legislature establishing direct payments for a portion of total MA costs out of the HCAF. There is a corresponding increase tracked in the forecasted General Fund part of the MA program where the large majority of MA funding occurs and where the previously projected costs above the newly established HCAF base will be picked up.

The 2013 legislature made substantial changes to MA eligibility and funding including paying for a small portion of the MA program directly from the HCAF. At the end of the 2013 session the HCAF was anticipated to fund MA costs of \$403.4 million in FY 2014-15 and \$850 million in FY 2016-17. This left a fund balance as of the end of session 2013 in the HCAF of \$13.7 million at the end of FY 2015 and \$79 million at the end of FY 2017. By the February 2014 revenue forecast the HCAF balance at the end of FY 2017 had declined by \$726 million to a cumulative balance of -\$647 million. Over 80 percent of this decline is due to lower than expected federal reimbursements for MinnesotaCare which are pegged to the price of policies sold through the State's insurance exchange and which were much cheaper in actuality than what was assumed (but not known) in the 2013 session. The base rider adopted in Chapter 312 moves \$403 million in previously projected MA costs from the HCAF to the General Fund (but does not increase expenditures for MA by the two funds collectively) and leaves the HCAF with a projected cumulative balance of -\$239.5 million at the end of FY 2017,

Department of Human Services (DHS)

Chapter 312 increases general fund spending at DHS by \$99.189 million for FY 2014-15 and \$643.9 million in FY 2016-17. As mentioned above, \$403.6 million of the spending in FY 2016-17 is simply moving previously authorized forecast costs from the HCAF to the General Fund. Without the base rider's impact tails go up in FY 2016-17 by \$240.3 million. In addition, spending from the Temporary Assistance for Needy Families (TANF) fund is increased by \$900,000 in FY 2014-15 and \$8.1 million in FY 2016-17 and spending in the health care access fund is reduced by \$403.6 million in the FY 2016-17 biennium (see health care access fund section above). Detailed funding changes at DHS include:

Home and Community Service Providers

Chapter 312 appropriates \$80.4 million from the General Fund in FY 2015 and \$197.7 million in FY 2016-17 to increase reimbursement rates for all home and community based service providers and ICF/DD's. Language in Chapter 312 requires that at least 80 percent of the increase must be used by providers to increase the wages of employees. This one item accounts for 82 percent of new general fund spending in the current biennium for human services in Chapter 312.

Nursing Facilities

Chapter 312 includes three finance changes effecting nursing homes. \$636,000 is appropriated in FY 2015 and \$4.96 million in FY 2016-17 to offset the impact of minimum wage changes. Also, \$1.5 million is appropriated in FY 2015 and \$3 million in 2016-17 to fund critical access nursing facilities. Finally, \$21,000 in FY 2015 and \$26,000 in FY 2016 is appropriated to improve the appeals process for nursing home level of care changes,

Hospitals/Hospital Rebasing

Chapter 312 implements a process to rebase hospital rates for discharges on or after November 1, 2014. The rebasing will move hospital payments from the current cost base year of 2002 to the new cost base year of 2012. Language in Chapter 312 requires this process to be budget neutral. However, several appropriations changes will effect hospital payments. Chapter 312 appropriates \$800,000 in FY 2015 for the state share of MA payments, and clarifies that the Amplatz Children's hospital at the University of Minnesota was exempt from the 10 percent rateable reduction enacted by the 2011 legislature (effective November 2011). In addition, \$7.2 million is appropriated in FY 2015 for the state share of MA payments and repeals the rateable reduction for all hospitals effective November 1, 2014. These costs are offset by moving the effective date for hospital "presumptive eligibility" from January 1, 2014 to July 1, 2014. Presumptive eligibility is required by federal law, however, because of technical problems it was not implemented on January 1. Moving the date out by six months realizes savings against the February forecast of \$7.7 million in FY 2014-15.

Autism

Chapter 312 makes several changes in the area of autism services. \$530,000 in 2015 and \$351,000 in FY 2016-17 is appropriated to provide for culturally appropriate autism provider training. A similar item allocates \$500,000 in FY 2015 only to create an interagency web site to inform people about the full range of autism services. In addition, \$2.5 million is appropriated in FY 2015 only for development grants related to autism respite services. Chapter 312 also allocates \$423,000 in FY 2015 and \$846,000 in FY 2016-17 to reduce parent fees for all TEFRA families which will help many families affected by autism. Finally, these costs are offset by a six month delay in implementation of the MA autism benefit enacted by the 2013 legislature. Implementation issues caused the benefit to not be ready by January of 2014. Chapter 312 moves the implementation date to July 1 of 2014, saving \$4.7 million in FY 2014-15.

Mental Health/Chemical Dependency

Chapter 312 funds several items in this area:

- \$312,000 in FY 2015 and \$620,000 in FY 2016-17 is appropriated for mental health crisis intervention services.
- \$75,000 is appropriated in FY 2015 only to develop a plan for detox services in the medical assistance program.
- \$35,000 is appropriated in FY 2015 only to develop a web based training tool on the civil commitment process.

- \$1.4 million in FY 2015 and \$2.2 million in FY 2016-17 is appropriated for on-going training and implementation of the Jensen legal settlement relating to restraint and isolation of individuals committed to the care of the state.
- \$681,000 in FY 2015 and \$1.4 million in FY 2016-17 is appropriated to adjust the group residential housing rate paid to the Andrew Residence, a transitional facility for individuals many of whom have a mental health diagnosis.
- \$2 million is appropriated for FY 2014-15 only to cover funding deficiencies in the CARE chemical dependency treatment program. In addition, \$8 million in non-General Fund administrative funds are reallocated to providing services in this program.

State Operated Services/Sex Offenders

- \$10 million in FY 2015 and \$20 million in FY 2016-17 is appropriated to offset salary costs at the Minnesota Security Hospital.
- \$1 million in FY 2015 is appropriated to offset salary costs at the Minnesota Sex Offender Program (MSOP).
- \$3 million is appropriated to conduct a review of the sex offender program and its clients ordered by the judge in a federal class action suit challenging the constitutionality of the program.

Other Changes

Additional FY 2014-15 appropriation items (one-time, General Fund unless otherwise noted) include:

- \$65,000 in FY 2015 and \$482,000 in FY 2016-17 is appropriated to raise the personal needs allowance for MA. This will eliminate a problem where individuals fail to qualify for MA solely because there is a garnishment of social security payments for an on-going spousal maintenance order.
- There is a savings of \$2,000 in FY 2015 due to delaying competitive bidding for durable medical equipment.
- \$500,000 in FY 2015 and \$1 million in FY 2016-17 is appropriated for supportive housing for the Safe Harbor program for sexually exploited youth.
- \$1 million in FY 2015 and \$1 million in FY 2016-17 is appropriated for the Homeless Youth Act.
- \$250,000 in FY 2015 only is appropriated for senior nutrition programs.
- \$122,000 in FY 2015 only is appropriated for the MFIP/DWP program to expand educational opportunities for participants (see also TANF).
- \$54,000 in FY 2015 and \$7.8 million in FY 2016-17 is appropriated in an effort to make uniform eligibility requirements in several economic support programs (see also TANF).
- There is a base reduction of \$350,000 in each biennium due to a specific county based grant that is no longer wanted by the county.

- The HIV rebate account is reduced by \$2.2 million in surplus funds. Language in the bill directs DHS to find ways to use funds in the account to improve services so that surpluses do not accumulate.
- There is a reduction of \$642,000 in FY 2015 and \$637 in 2016 from SSI interim assistance recoveries.

Temporary Assistance to Needy Families - TANF

Chapter 312 also authorizes several new appropriations from TANF funds. \$569,000 in FY 2015 and \$418 million in FY 2016-17 is allocated from TANF to expand the definition of work to include more educational opportunities in the MFIP/DWP program. \$331,000 in FY 2015 and \$3.3 million in FY 2016-17 is allocated to move to uniform eligibility requirements for various economic assistance programs. This leaves a projected balance in the TANF Reserve Fund of \$49,000 at the end of FY 2017.

Department of Health (MDH)

Chapter 312 increases general fund spending at MDH by \$4.561 million for FY 2014-15 and \$4.011 million in FY 2016-17. In addition, spending from the State Government Special Revenue fund is increased by \$1.619 million in FY 2014-15 and \$1.391 million in FY 2016-17 and spending in the Health Care Access Fund is reduced by \$2 million in each biennium (see health care access fund section above). Separately, Chapter 311, includes general fund appropriations to MDH of \$2.795 million in FY 2015 and \$1.557 million in FY 2016-17 and state government special revenue appropriations of \$100,000 in FY 2015 and \$1.563 million in FY 2016-17 for implementation of the Medical Cannabis Act. Specific funding changes at MDH include:

- \$975,000 is appropriated from the General Fund is to fund legal settlement costs related to the state's newborn screening program.
- \$1 million is appropriated from the General Fund in FY 2015 is to expand the Safe Harbor program for prevention of sexual exploitation of youth. These funds complement the DHS part of the Safe Harbor program (housing for sexually exploited youth) and are used for grants to regional programs working on prevention of sexual exploitation of youth. This is a permanent increase.
- \$300,000 is appropriated from the General Fund in FY 2015 is to expand the Healthy Homes program that deals with lead, mold and other home environmental hazards. This is a permanent increase.
- \$1.7 million is appropriated from the General Fund in FY 2015 and \$2 million in FY 2016-17 is for a program to offset provider costs for treating uninsured individuals. Chapter 312 specifies funding for four purposes; dental provider grants, community mental health program grants, emergency medical assistance outlier grants, and community health center grants.
- \$75,000 is appropriated from the General Fund is for a commission to study future health care workforce issues. This is a one-time appropriation.

- \$501,000 is appropriated from the General Fund is for health equity grants focused of various issues including health equity in east African communities, east African women's reproductive health, immigrant mental health and minority dementia outreach projects. This is a one-time appropriation.

Health-Related Boards

Chapter 312, Article 30 made only one small change to the Health Related Boards. \$75,000 from the State Government Special Revenue Fund is appropriated to the Board of Nursing for transfer to MDH to conduct a study of chronic pain therapies. For finance changes at the Health Related Boards related to expedited issuance of licenses to military personnel, see the State Government section.

Ombudsman for Mental Health and Developmental Disabilities

Chapter 312 increases the general fund operating appropriation for the Ombudsman by \$150,000 annually beginning in FY 2015.

For further information about human services issues contact Doug Berg, House Fiscal Analysis at 651-296-5346 or doug.berg@house.mn.

Higher Education

The 2014 legislature enacted several appropriation changes and fiscal policies in the area of higher education as part of the supplemental budget bill.

Higher Education – Supplemental Appropriations						
(Dollars in thousands)						
	FY13	FY14	FY13-14	FY15	FY16	FY15-16
General Fund Expenditure Changes						
Office of Higher Education	0	750	750	0	0	0
MN State Colleges and Universities	0	17,000	17,000	17,000	17,000	34,000
University of Minnesota	0	4,500	4,500	7,850	7,850	15,700
subtotal expenditure changes:	0	22,250	22,250	24,850	24,850	49,700
Net General Fund Change:	0	22,250	22,250	24,850	24,850	49,700

Minnesota State Colleges and Universities (MnSCU)

- **Operating Increase:** Chapter 312 allocated \$17 million in base funding for compensation costs associated with the settlement of employment contracts.

Office of Higher Education (OHE)

- **College Possible:** Chapter 312, the Supplemental Budget Bill, provided for \$750,000 one time appropriation in additional funding for College Possible. The additional funds will be used to expand the coaching and mentoring program in Minnesota schools. It is expected that at least 150 students will be added to the program.

University of Minnesota (U of M)

- **Operating Increase:** For fiscal years 2016 to 2041 the operating and maintenance appropriation to the University of Minnesota is increased by \$3.5 million.
- **Regenerative Medicine:** Beginning in fiscal year 2015, \$4.5 million is appropriated to the University of Minnesota for expenses related to the research, clinical translation and commercialization of regenerative medicine in partnership with the Mayo Clinic. Beginning with fiscal year 2016 and beyond the appropriation base will be \$4.35 million. Additionally, the partnership must submit an independent financial audit to the legislature by January 15th of odd numbered years beginning in 2017.

Chapter 312 also allowed the Office of Higher Education to refinance student and parent loans based upon credit and loan eligibility (as determined by the agency). The total amount of refinanced loans cannot exceed \$100 million.

If you have any questions on higher education finance issues, please contact Ken Savary at 651-296-7171 or ken.savary@house.mn.

Jobs & Economic Development, Housing, and Commerce

During the 2014 session, the Legislature enacted the following changes to expenditures and revenues in the areas of Jobs & Economic Development, Housing, and Commerce. These changes can be found in Laws of 2014, Chapters 182, 211, 239, 251, 305, and 312. The table below shows the total amounts by department and fund and is followed by descriptions of individual appropriations and revenue changes within each department. A final section shows all appropriations under the Women's Economic Security Act, a major piece of legislation enacted during the 2014 session. The total general fund expenditure increase for the FY 2014-15 biennium is \$51.1 million. The Legislature increased general fund revenues by \$10.5 million, resulting in a general fund net impact of \$40.6 million.

Jobs & Economic Development, Housing, and Commerce - Supplemental Appropriations (Dollars in thousands)						
	FY14	FY15	FY14-15	FY16	FY17	FY16-17
<u>General Fund Changes</u>						
General Fund Expenditure Changes						
Dept. of Employment and Economic Development	0	28,675	28,675	875	875	1,750
Department of Labor and Industry	0	450	450	0	0	0
Department of Commerce	19,650	0	19,650	0	0	0
Minnesota Housing Finance Agency	0	2,200	2,200	0	0	0
Bureau of Mediation Services	0	125	125	125	125	250
subtotal expenditure changes:	19,650	31,450	51,100	1,000	1,000	2,000
General Fund Revenue Changes						
Department of Commerce	0	10,500	10,500	0	0	0
Net General Fund Changes:	19,650	20,950	40,600	1,000	1,000	2,000
<u>Non-General Fund Changes</u>						
Workforce Development Fund Expenditure Changes						
Dept. of Employment and Economic Development	0	1,800	1,800	0	0	0
Special Revenue Fund Expenditure Changes						
Department of Commerce (statutory appropriation)	0	400	400	400	400	800
Special Revenue Fund Revenue Changes						
Department of Commerce	0	400	400	400	400	800
Dept. of Employment and Economic Development	0	0	0	(1,200)	(1,200)	(2,400)
subtotal revenue changes:	0	400	400	(800)	(800)	(1,600)
Net Special Revenue Fund Changes:	0	0	0	1,200	1,200	2,400

Department of Employment and Economic Development (DEED)

The Legislature made the following FY 2014-15 general fund appropriations to DEED for a total of \$28,675,000. The total amount in the tails is \$1.75 million. These items can be found in Chapter 239 (the first appropriation) and Chapter 312 (the remainder of the appropriations)¹:

- \$500,000 for grants to Women Venture and the Women's Business Center of Northeastern Minnesota. This appropriation is part of the Women's Economic Security Act and grants must be equally divided between the two organizations.
- \$20 million for the newly established Border-to-Border Broadband Development Grant Program. Grants are to promote the expansion of access to broadband service in unserved and underserved areas of the state. The Department may use up to three percent of the total amount for administrative costs and to map current broadband availability across the state.
- \$475,000 each to the six Initiative Foundations across the state, for a total of \$2,850,000.
- \$650,000 to the Urban Initiative Board. The amount must be equally divided between the west and east metro counties. All loans made under the appropriations to the Initiative Foundations and the Urban Initiative Board must be at below market interest rates.
- \$500,000 for the Small Business Development Center Program under MN Statutes, section 116J.68.
- \$400,000 for a new Innovation Voucher Pilot Program, which will provide financing to small businesses to purchase technical assistance and services from public higher education institutions and nonprofit entities. All vouchers require a 50 percent match by recipients. The Department may use up to five percent of the total amount for administrative costs.
- \$475,000 for an increase in the Minnesota Jobs Skills Partnership under MN Statutes, section 116L.02.
- \$2.2 million for the Business Development Grant Program under MN Statutes, section 116J.431.
- \$150,000 for a grant to the City of Proctor to design and construct a sand and salt storage facility. A 100 percent match from a nonstate source is required.
- \$450,000 for grants to the eight Minnesota Centers for Independent Living.
- \$500,000 for the establishment and operation of the interagency Olmstead Implementation Office. Another \$875,000 was added to the base for the office in fiscal years 2016 and 2017 each for a total of \$1.75 million. The legislature intends to review the Office's funding levels for fiscal years 2016 and 2017 during the 2015 session to ensure that the state can comply with the obligations imposed by the court's order under *Olmstead v. L.C.* (1999).

¹ Two additional appropriations were made to DEED, which can be found in Chapter 308, a tax bill: 1) \$250,000 (in FY 2015) for a study into the impact of oil production in North Dakota on Minnesota's economy and 2) \$627,000 (in FY 2015) and \$1,3763,000 (in FY 2016) for Workforce Housing Grants.

In addition, five appropriations were made from the Workforce Development Fund for a total of \$1.8 million. These appropriations can be found in Chapter 239 (the first appropriation) and Chapter 312 (the remainder of the appropriations):

- \$500,000 for a women and high-wage, high-demand, nontraditional job grants program. This appropriation is part of the Women's Economic Security Act and the Department may use up to five percent of the total amount for administrative costs.
- \$300,000 for workforce program outcome activities under MN Statutes, section 116L.98.
- \$250,000 for a grant to the Northwest Indian Opportunities Industrialization Center (OIC).
- \$250,000 for a grant to the Northeast Minnesota Office of Job Training.
- \$250,000 for a grant to Twin Cities RISE!
- \$250,000 for rate increases to providers of extended employment services for persons with severe disabilities under MN Statutes, section 268A.15.

Finally, Chapter 251 changes the interest rate from one and a half percent per month to one percent per month on amounts past due from an employer for unemployment insurance taxes and workforce development assessment. This is estimated to result in a \$1.2 million annual revenue loss in the Special Revenue Fund, starting in FY 2016.

Department of Labor and Industry (DOLI)

The Legislature made the following general fund appropriations to DOLI, which can be found in Chapters 239, 305, and 312, for a total of \$450,000:

- \$100,000 for additional compliance and enforcement activities by the labor standards unit related to the provisions in the Women's Economic Security Act (Chapter 239).
- \$100,000 for updating and modernizing the rules related to high pressure boilers (Chapter 305).
- \$250,000 for the establishment of competency standards for programs in advanced manufacturing, health care services, information technology, and agriculture (Chapter 312).

In Chapter 239, the legislature also appropriated \$250,000 from the Workforce Development Fund for the labor education advancement program under MN Statutes, section 178.11.

Department of Commerce

The legislature made the following general fund appropriations to the Department of Commerce, which can be found in Chapters 145 and 312, for a total of \$19.65 million:

- \$20 million for additional heating assistance through the low-income home energy assistance program. The Department may use up to five percent of this amount for administrative costs. Any unspent balance available after June 30, 2014 cancels to the General Fund (Chapter 145).

- A \$350,000 reduction in the FY 2014 appropriation of \$646,000 to the Gold Bullion Dealer Registration Program (Chapter 312).

Chapter 312 includes two more items under the jurisdiction of Commerce:

- The Legislature generated new revenue through the authorization of a \$10.5 million transfer from the Assigned Risk Plan to the General Fund.
- In non-general fund items, the Legislature increased the amount the commissioner may assess Minnesota utilities under MN Statutes, section 216B.241, from \$450,000 to \$850,000. The \$400,000 increase is statutorily appropriated for the development and operation of a uniform electronic data reporting and tracking system to measure cost and energy savings of energy conservation improvements required under MN Statutes 2012, section 216B.241.

Minnesota Housing Finance Agency²

The Legislature appropriated \$2.2 million from the General Fund for up to two grants for housing projects in communities that have both low housing vacancy rates and education centers for jobs in fields with anticipated significant job growth potential (Chapter 312).

The Legislature also carved out \$500,000 from the FY 2014 appropriation to the Economic Development and Housing Challenge Program for homeownership opportunities for families with a child with disabilities. Funds unexpended by the agency for this purpose will revert back to the Challenge Fund after October 31, 2014 (Chapter 312).

Bureau of Mediation Services

The legislature appropriated \$125,000 in FY 2015 on an ongoing basis from the General Fund to the Bureau of Mediation Services to offer initial assistance in the operations of the newly established Public Employment Relations Board (Chapter 211).

Assigned Risk Plan

In addition to the \$10.5 million transfer from the Assigned Risk Account to the General Fund, Chapter 312 includes two more items related to excess surplus in the account:

- In case of an excess surplus in the Assigned Risk Plan,³ a transfer not to exceed \$4.82 million each year will occur from the Assigned Risk Plan to the MN Minerals 21st Century Fund. The total amount transferred cannot exceed \$24.1 million.
- In case of an excess surplus in the Assigned Risk Plan in fiscal years 2015 and 2016, a transfer not to exceed \$4.82 million each year will occur from the Assigned Risk Plan to the General Fund. The transferred amounts are appropriated to the Department of Labor and Industry for reform of the workers' compensation system.

² An additional appropriation of \$250,000 was made to MHFA, which can be found under the State Government Article of Chapter 312. This appropriation is for at least five housing grants to conduct a housing needs assessment for veterans.

³ An excess surplus is currently defined as amounts above \$50 million.

Women’s Economic Security Act (WESA)

A major piece of legislation enacted in the 2014 session is the Women’s Economic Security Act (Chapter 239). In addition to a number of policy provision related to women in the workplace, the Legislature made seven appropriations to five departments. These appropriations are included in the summaries of their respective areas (for instance, appropriations to the Department of Employment and Economic Development are included in this summary), but the table below shows an overview of appropriations across the areas.

Women's Economic Security Act (Chapter 239)						
(Dollars in thousands)						
	FY14	FY15	FY14-15	FY 16	FY 17	FY16-17
<u>General Fund Appropriations</u>						
Dept. of Employment and Economic Development	0	500	500	0	0	0
Department of Human Rights	0	674	674	426	426	852
Department of Labor and Industry	0	100	100	100	100	200
MN Management & Budget	400	0	400	0	0	0
Total General Fund Appropriations:	400	1,274	1,674	526	526	1,052
<u>Non-General Fund Appropriations and Revenue</u>						
Workforce Development Fund Appropriations						
Dept. of Employment and Economic Development	0	500	500	0	0	0
Department of Labor and Industry	0	250	250	0	0	0
Total Workforce Dev. Fund Appropriations:	0	750	750	0	0	0
Special Revenue Fund Appropriations						
Dept. of Human Rights (statutory appropriation)	0	37	37	37	37	74
Special Revenue Fund Revenue						
Department of Human Rights	0	37	37	37	37	74

If you have questions on Jobs & Economic Development or Housing related issues, please contact Henriët Hendriks at 651.296.4162 or henriet.hendriks@house.mn.

If you have any questions on Commerce related issues, please contact Ken Savary at 651.296.7171 or ken.savary@house.mn.

Legacy Funds

Chapters 256 and 312 of Minnesota Laws 2014 appropriate money from four funds established under the Constitutional Amendment passed by voters in November 2008. The total appropriations made by the 2014 legislature are listed below by fund and fiscal year. The fund balances being listed at the end of each fund incorporate the revenue increases from the November Forecast and the February Forecast as well as the revenue reductions from the two tax bills, Chapter 150 and Chapter 308, passed in 2014.

Table 1			
Minnesota Law 2014 Chapters 256 and 312 Appropriations			
Clean Water, Land and Legacy Constitutional Amendment			
(Dollars in Thousands)			
	FY 2014	FY 2015	Total
Outdoor Heritage Fund	\$0	\$109,320	\$109,320
Clean Water Fund	\$0	\$2,450	\$2,450
Parks & Trails Fund	\$530	\$0	\$530
Arts & Cultural Heritage Fund	\$0	\$975	\$975
Total	\$530	\$112,745	\$113,275

Outdoor Heritage Fund

Chapter 256 provides appropriations totaling \$109,320 million from the Outdoor Heritage Fund. The appropriations fall into five categories consistent with the constitutional language creating the fund.

- | | | |
|-------------------------------------|---------------|-------|
| • <i>Prairies</i> | \$ 37,435,000 | 34.2% |
| • <i>Forests</i> | \$ 16,100,000 | 14.7% |
| • <i>Wetlands</i> | \$ 24,010,000 | 22.0% |
| • <i>Habitat</i> | \$ 30,890,000 | 28.3% |
| • <i>Administration & Other</i> | \$ 885,000 | 0.8% |

The following table shows the Legislative appropriations by agency, category and project description. The Outdoor Heritage Fund is the only fund out of the four funds that makes annual appropriations. The appropriations from the other three funds are supplemental to the biennial appropriations that were made last year. The Legislature receives recommendations from the Lessard-Sams Outdoor Heritage Council for these appropriations. Additional information and descriptions of the projects can be found at: <http://www.isohc.leg.mn/>. The abbreviations for the agencies listed below are: Board of Water and Soil Resources (BWSR), Department of Natural Resources (DNR), Legislative Coordinating Commission (LCC).

Table 2. Outdoor Heritage Fund Appropriations

(all values in thousands \$)		ML 2013 Chapter 137	ML 2014, Chapter 256	<u>FY14-15 Total</u>
<u>Initiative</u>	<u>Agency</u>	<u>FY2014</u>	<u>FY2015</u>	<u>Total</u>
<u>Prairies</u>				
Grasslands for the Future - Easements	BWSR	2,000	-	2,000
Accelerating Wildlife Management Area Acquis.- Phase V & VI	DNR	7,960	10,350	18,310
WMA, SNA, Acq. Phase V & VI	DNR	4,940	8,145	13,085
Minnesota Prairie Recovery Project - Phase IV & V	DNR	5,310	3,940	9,250
MN Buffers for Wildlife & Water-Phase III & IV	BWSR	3,520	2,200	5,720
Cannon River Headwaters Habitat Complex-Phase III	DNR	1,780	1,430	3,210
Accelerated Prairie Restoration - Phase V & VI	DNR	2,220	1,530	3,750
Accelerated Protection of Grassland with RIM and NPB easements	DNR	-	3,000	3,000
Accelerated Protection of Grassland with RIM and NPB easements	BWSR	-	2,450	2,450
Northern Tallgrass Prairie NWR Acquisition - Phase V	DNR	-	2,450	2,450
Anoka Sand Plain Restoration & Enhancement - Phase III	DNR	-	1,190	1,190
Crow-Hassen Priarie Complex Restoration and Enhancement	DNR	-	370	370
Prairie and Oak Savanna Restoration along Mississippi and Rum Rivers	DNR	-	380	380
Subtotal Prairies:		27,730	37,435	65,165
<u>Forests</u>				
Young Forest Conservation - WMA Acquisitions	DNR	1,180	-	1,180
Camp Ripley Partnership: Phase III & IV	BWSR	1,150	1,200	2,350
Camp Ripley Partnership: Phase III	DNR	300	-	300
Northeastern MN Sharp-tail Grouse Habitat - Phase IV & V	DNR	1,180	3,150	4,330
Protect Forest Land-Cass Co.-Phase IV & V	DNR	500	880	1,380
Critical Shoreline Habitat Protection-Phase II	DNR	820	-	820
Minnesota Moose Habitat Collaborative-Phase II	DNR	2,000	-	2,000
Preventing Forest Fragmentation and Protecting and Restoring Lake and Stream Habitat in the St. Louis River Watershed	DNR	-	2,800	2,800
Protecting Pineland Sands Aquifer Forest Lands	DNR	-	1,050	1,050
State Forest Acquisitions - Phase II	DNR	-	950	950
Southeast Minnesota Protection and Restoration - Phase II	DNR	-	5,770	5,770
Floodplain Forest Enhancement on Mississippi River	DNR	-	300	300
Subtotal Forests:		7,130	16,100	23,230
<u>Wetlands</u>				
Reinvest in Minnesota/Wetlands Reserve-Phase V & VI	BWSR	13,390	9,710	23,100
Accelerating the Waterfowl Production Area - Phase V & VI	DNR	6,830	7,280	14,110
Living Shallow Lakes and Wetland Initiative-Phase III & IV	DNR	3,530	4,910	8,440
Wild Rice Shore land Protection-Phase II & III	BWSR	1,630	862.0	2,492
Wild Rice Shoreland Protection-Phase II & III	DNR	-	198.0	198
Wetland Habitat Protection Program	DNR	1,980	-	1,980
Accelerated Shallow Lakes and Wetlands Enhancement-Phase V	DNR	1,790	1,050	2,840
Pelican Lake Enhancement	DNR	2,000	-	2,000
Subtotal Wetlands:		31,150	24,010	55,160

Table 2, cont'd (all values in thousands \$)		ML 2013 Chapter 137	ML 2014, Chapter 256	FY14-15 Total
<u>Initiative</u>	<u>Agency</u>	<u>FY2014</u>	<u>FY2015</u>	<u>Total</u>
<u>Habitat</u>				
Aquatic Habitat - Phase V & VI	DNR	5,250	2,560	7,810
Fisheries Habitat Protection on Strategic North Central MN Lakes	DNR	-	2,130	2,130
Dakota County Habitat Protection-IV & V	DNR	4,100	1,190	5,290
Root River Protection & Restoration	DNR	2,750		2,750
Metro Big Rivers Habitat Program - Phase IV & V	DNR	1,720	2,650	4,370
Mustinka River Fish and Wildlife Habitat Corridor Rehabilitation	DNR	-	2,440	2,440
MN Landscape Arboretum	U of MN	1,000	-	1,000
Lower Mississippi River Habitat Restoration-Phase III	DNR	1,710	-	1,710
Cold Water Fish Habitat - Phase V & VI	DNR	2,470	1,900	4,370
St. Louis River Restoration Initiative	DNR	-	2,290	2,290
Knife River Habitat Restoration	DNR	-	1,410	1,410
Restoration and Enhancement of Washington County Public Lands	DNR	-	430	430
Wirth Park Enhancements	DNR	-	600	600
Evaluate Effectiveness of AIS Prevention Strategies	DNR	-	4,040	4,040
Shell Rock River Habitat & Water Restoration Phase II	DNR	1,127	700	1,827
Conservation Partners Grant Program - Phase IV & V	DNR	3,860	4,550	8,410
Conservation Partners Metro Grant Program	DNR	-	4,000	4,000
	Subtotal Habitat:	23,987	30,890	54,877
<u>Administration</u>				
Contract Management	DNR	175	150	325
Admin Expenses & Compensation	LCC	468	570	1,038
Technical Assistance Panel Coordinator	DNR	45	100	145
Pre-Transaction Service Acceleration	DNR	50	50	100
Public Information Web Site	LCC	15	15	30
	Subtotal Administration:	753	885	1,638
	<u>OUTDOOR HERITAGE FUND TOTAL:</u>	90,750	109,320	200,070
<u>Article Total By Agency</u>				
Department of Natural Resources		67,577	92,313	159,890
Board of Water & Soil Resources		21,690	16,422	38,112
University of Minnesota		1,000	-	1,000
Legislative Coordinating Commission		483	585	1,068
		90,750	109,320	200,070

Note: all appropriations are one-time and have no base into FY2016 and beyond.

The fund balance and percentage at the end of fiscal year 2015 is estimated to be \$3.557 million, or approximately 3.6 percent of the Outdoor Heritage Fund's forecasted revenue in FY 2015.

Clean Water Fund

The 2014 legislature made supplemental appropriations out of the Clean Water Fund totaling \$2.45 million.

Pollution Control Agency

- \$200,000 is for coordination with the state of Wisconsin and with the National Parks Service for comprehensive phosphorus reduction activities in Lake St. Croix.
- The Pollution Control Agency also had a 2009 appropriation towards grants for waste water reuse cancelled. This appropriation had \$750,000 remaining that was cancelled back to the Clean Water Fund.

Board of Water and Soil Resources

- \$150,000 is to collaborate with the commissioner of health and local units of government in the North and East Metro Groundwater Management Area through development and implementation of local water management plans.
- \$250,000 is to collaborate with the commissioner of health and local units of government in the Bonanza Valley Groundwater Management Area and the Straight River Groundwater Management Area through development and implementation of groundwater management plans.
- \$100,000 is for a workshop for public works professionals or other local officials that promote landscape best management practices that keep water on the land.
- \$900,000 is added to the 2013 appropriation for grants to protect and restore surface water and drinking water.

Metropolitan Council

- \$400,000 is to develop a plan for the North and East Metro Groundwater Management Area and to predesign preferred long-term solutions to address regional water supply and sustainability issues.
- \$100,000 is to collaborate with the Board of Water and Soil Resources and the Pollution Control Agency in the investigation of the feasibility of collecting and treating storm water in the North and East Metro Groundwater Management Area.
- \$50,000 is to partner with the University of Minnesota's Minnesota Technical Assistance Program (MnTAP) to identify opportunities for industrial water users to reduce or reuse their water consumption in the North and East Metro Groundwater Management Area.

Department of Health

- \$300,000 is to collaborate with the Board of Water and Soil Resources and local units of government in the three groundwater management areas to update wellhead protection areas within the groundwater management areas.

Department of Natural Resources

- A 2011 appropriation to the DNR for shore land stewardship and Total Maximum Daily Load (TMDL) coordination was transferred to the stream flow monitoring program. The availability of the appropriation was also extended. This appropriation transfer was in the amount of \$575,000.

The fund balance and percentage at the end of FY 2015 is estimated to be \$4.311 million, or approximately 4.3 percent of the Clean Water Fund's forecasted collections in FY 2015.

Parks and Trails Fund

The 2014 Legislature made one cancellation and two new appropriations from the Parks and Trails Fund. The net impact to the fund is zero.

- The legislature cancelled a 2013 Parks and Trails appropriation for the Superior Hiking Trail, ML. 2013, Chapter 137, Art. 3, Sec. 3, Para. (c), Clause (12). This appropriation was for \$530,000.
- \$200,000 was appropriated to the DNR for the Greater Minnesota Regional Parks and Trails Commission to develop a statewide system plan for regional parks and trails outside the seven-county metropolitan area.
- \$330,000 was appropriated to for a section of the Mesabi Trail from Giants Ridge to Tower.

The fund balance and percentage at the end of fiscal year 2015 is estimated to be \$2.338 million, or approximately 5.5 percent of the Parks and Trails Fund's forecasted collections in FY 2015.

Arts and Cultural Heritage Fund

The 2014 Legislature appropriated \$975,000 in FY 2015 from the Arts & Cultural Heritage Fund.

Board of the Arts

- \$750,000 from the Arts and Cultural Heritage fund for arts education in partnership with the President's Turnaround Arts Initiative. The appropriation is one-time, and contingent on Minnesota being designated a Turnaround site. On May 19, 2014, the Perpich Center for Arts Education in Golden Valley was selected to direct the Minnesota program for this initiative.

Minnesota Humanities Center

The center received funding from the Arts and Cultural Heritage fund for two projects totaling \$225,000. The funding is one-time.

- \$125,000 for the Veterans' Voices program to educate and engage the community regarding veteran's contributions, knowledge, skills and experiences. \$25,000 of this amount is for transfer to the Association of Minnesota Public Education Radio Stations (AMPERS) for statewide programming to promote this program.

- \$100,000 for professional development for K-12 educators to better culturally engage their work with at-risk student populations. This may include new and original literature that addresses literacy of emerging cultural communities.

The fund balance and percentage at the end of fiscal year 2015 is estimated to be \$1.819 million, or approximately 3.1 percent of the Arts & Cultural Heritage Fund's forecasted collections in FY 2015.

For additional information on the Outdoor Heritage Fund, Clean Water Fund and Parks and Trails Fund, contact Brad Hagemeyer at 296-7165 or brad.hagemeyer@house.mn

For additional information on the Arts & Cultural Heritage Fund, contact Helen Roberts at 296-4117 or helen.roberts@house.mn

Public Safety & Judiciary Finance

Minnesota Laws of 2014, Chapter 312 includes an increase of \$54 million (\$35 million General Fund, \$19 million Special Revenue Fund) over forecast base to programs in the Judiciary and Public Safety area of the state budget. The legislation was a supplement to the biennial budget passed in 2013 for the fiscal 2014-15 biennium. The summaries below detail the budget priorities of the conference committee and policy changes made by the omnibus bill.

Crime Prevention and Public Safety Finance, Judiciary						
(Dollars in thousands)						
	FY14	FY15	FY14-15	FY16	FY17	FY16-17
<u>General Fund Changes</u>						
General Fund Expenditure Changes						
Department of Corrections	-	30,139	30,139	19,014	19,035	38,049
Department of Public Safety	-	1,773	1,773	883	883	1,766
Department of Human Rights	-	724	724	426	426	852
POST Board	-	50	50	-	-	-
Disaster Aid Contingency Account	-	3,000	3,000	-	-	-
Claims Bill Chapter 252	-	84	84	-	-	-
subtotal expenditure changes:	-	35,770	35,770	20,323	20,344	40,667
General Fund Revenue Changes						
subtotal revenue changes:	-	-	-	-	-	-
Net General Fund Change:	-	35,770	35,770	20,323	20,344	40,667
<u>Non-General Fund Changes</u>						
Fire Safety Account						
Training and Equipment	-	1,300	1,300	-	-	-
Next Gen 911/Emergency Radio Network	11,061	6,865	17,926	-	-	-
Net Special Revenue changes:	11,061	8,165	19,226	-	-	-

Department of Public Safety

- The Department of Public Safety was appropriated an additional \$17.9 million from the Emergency 911 Fund to cover costs related to ongoing upgrades of the Emergency Communications Network. The money provided was unallocated balances in the fund

derived from revenues of the 911 fees levied on phone service. The dollars provided will fund the next generation internet protocol and ongoing expansion of the network.

- A second expenditure from the Special Revenue Fund appropriated \$1.3 million from the Fire Safety Account. This one-time appropriation spent the accumulated balance in the account on additional firefighter training activities and additional equipment for statewide firefighting and hazmat teams.
- General fund additions to the Department of Public Safety were limited to four appropriations totaling \$1.7 million in fiscal year 2015. Three appropriations were to the Office of Justice programs. They included \$500,000 for a women's shelter targeting women of East African descent and \$500,000 of additional money for youth intervention programs. Both appropriations are one-time. The third appropriation was a permanent increase of \$300,000 for sexual assault prevention grants.
- The last addition to the DPS budget was \$473,000 to the BCA for complying with the new legislation that reformed the process of criminal record expungement, which became Laws of 2014, Chapter 246.

Post Board

The Peace Officer Standards and Training Board received a one-time grant of \$50,000 for increased reimbursement to local government for peace officer training costs.

Human Rights Department

- Separate legislation known as the Women's Economic Security Act (2014 Laws, Chapter 239) added \$674,000 to the agency's budget. The dollars will fund five new positions dealing with state contract compliance and some additional money for equipment and software.
- A one-time appropriation of \$50,000 was also included for fiscal 2015 for agency outreach.

Minnesota Department of Corrections

- The Department of Corrections was appropriated an additional \$19 million in fiscal year 2015 to deal with employee related expenses. The dollars will be used to fund increases in salaries and benefit related costs after the last round of negotiations with the state. The funding will be used for increased health insurance costs, and COLA and "step" increases for staff.
- The department was also provided \$11 million for additional rental beds. The department had greatly underestimated growth in prison population and had seen many more court commitments than they had anticipated. Corrections uses rental beds from county jails for shorter term offenders to keep costs down and to relieve overcrowding in state facilities. The cheaper county jail beds house less dangerous and lower-need inmates but

generally do not offer chemical dependency treatment, educational opportunities, or other programming.

- An additional \$50,000 one-time grant in fiscal year 2015 was also provided so the department may update systems to allow for additional zip code disclosure to victims when an offender is released into the community.

Other Provisions

- The legislature provided \$3 million in fiscal year 2015 for a new disaster assistance account. This account will be available for federal disaster assistance match when a disaster declaration is made by the federal government (FEMA). The account will allow for a more immediate response by the state when the legislature is not in session to match federal dollars and begin the process or handle smaller disasters without a special session of the legislature.
- Lastly, \$84,000 was provided in the claims bill (2014 Laws, Chapter 252) to pay for small legal claims levied against the Department of Correction for small accidents and injury.

For questions regarding Judiciary and Public Safety Finance issues, contact John Walz at 651-296-8236 or john.walz@house.mn

State Government

The 2014 Legislature approved \$15.4 million in FY 2015 from the General Fund for the agencies under the jurisdiction of the State Government Finance committee. The tails for FY 2016-17 are \$21.4 million per year.

State Government Finance - Supplemental Appropriations (dollars in thousands)						
	FY 14	FY 15	FY 14-15	FY 16	FY 17	FY 16-17
<u>General Fund Expenditure Changes</u>						
Chapter 312, Article 4 - Supplemental Budget Bill						
Legislature	0	380	380	295	295	590
Housing Finance Agency	0	250	250	0	0	0
Amateur Sports Commission	0	50	50	0	0	0
MN Historical Society	0	25	25	0	0	0
Military Member Expedited Licensing:	0	206	206	0	0	0
subtotal Chapter 312 expenditure changes:	0	911	911	295	295	590
Chapter 182, Worker's Compensation Premium						
Administration - change to statutory appropriation	0	31	31	31	31	62
Chapter 239, Women's Economic Security Act						
Minnesota Management & Budget	400	0	400	0	0	0
Chapter 269, Exonerated Persons						
Minnesota Management & Budget	0	3	3	3	3	6
Chapter 296, Omnibus Pension Bill						
Teacher's Retirement Association	0	14,031	14,031	21,031	21,031	42,062
Chapter 311, Medical Cannabis						
Legislative Coordinating Commission	0	24	24	24	24	48
Net General Fund Change:	400	15,000	15,400	21,384	21,384	42,768
<u>Non-General Fund Changes</u>						
Special Revenue Fund						
Racing Commission: Litigation & Regulatory Costs	100	85	185	0	0	0
State Government Special Revenue Fund						
Military Member Expedited Licensing:	0	73	73	0	0	0
Arts & Cultural Heritage Fund						
Board of the Arts: Turnaround Art Initiative	0	750	750	0	0	0
MN Humanities Commission	0	225	225	0	0	0
Total Arts & Cultural Heritage Fund:	0	975	975	0	0	0

Chapter 182, Worker's Compensation Premium change: This chapter implements recommendations of the Workers' Compensation Advisory Council. The changes may result in additional claims reimbursements, resulting in a \$31,000 annual estimated increase to the Workers Compensation Reinsurance Association (WCRA) premium for the state. The WCRA premium is a forecasted open appropriation.

Chapter 239, Women's Economic Security Act (WESA): \$400,000 is appropriated to Minnesota Management and Budget for a report on the potential for a state administered retirement saving plan for those without access to automatic enrollment payroll deduction IRAs or other similar retirement savings plans. The report is due to the legislature by January 1, 2015.

Chapter 269, Exonerated Persons: \$3,000 is appropriated to Minnesota Management and Budget for the expenses incurred by a new panel established to determine compensation for persons who have been determined to be innocent of a crime for which they served a prison sentence. The compensation amount determined by the panel is to be forwarded to the Legislature for consideration.

Chapter 296, Omnibus Pensions Bill: The general fund impact of the omnibus pension bill is \$14.031 million in FY 2015, and \$21.031 million each year beginning in FY 2016.

Chapter 296 mandates a full consolidation of the Duluth Teachers Retirement Fund into the Teachers Retirement Association (TRA). The consolidation must be approved by the plans' trustees, and is scheduled to be completed by June 30, 2015. \$14.031 million in new state aid to TRA is provided to fund the consolidation, beginning in FY 2015. The total funding directed to TRA on behalf of Duluth is \$14.377 million, which includes \$346,000 in existing state aid.

\$7 million in additional state aid is also provided to the St. Paul Teachers Retirement Fund Association (SPTRFA), beginning on October 1, 2015 (FY 2016). This new aid is in addition to the existing statutory appropriation of \$2.827 million, bringing the total aid to SPTRFA to \$9.827 million each year. SPTRFA also received one-time appropriations of \$7 million in FY 2014 and 2015, so Chapter 296 makes this funding increase permanent.

Chapter 311, Medical Cannabis: \$24,000 is appropriated to the Legislative Coordinating Commission to administer the task force on medical cannabis therapeutic research under new Minnesota Statutes section 152.36, and for a task force to conduct the impact assessment on the use of cannabis for medicinal purposes.

Chapter 312, Supplemental Appropriations: The general fund impact in Article 4 of the supplemental budget bill is \$911,000 in FY 2015, and \$295,000 each year beginning in FY 2016.

Legislative Coordinating Commission

- \$225,000 in FY 2015 for the operating costs of the joint legislative offices. The base for the LCC is increased by \$150,000 each year, beginning in FY 2016.
- \$155,000 for the new Legislative Water Commission. \$145,000 is added to the base each year through FY 2019.

Minnesota Housing Finance: \$250,000 is appropriated for at least five grants of up to \$50,000 each to conduct a housing needs assessment for veterans. The grants may be awarded to any government or nongovernmental organization. These assessments are to be completed by July 30, 2016.

MN Amateur Sports Commission: \$50,000 in one-time funds to develop a pilot program to prevent and reduce childhood obesity.

Minnesota Historical Society: \$25,000 for a grant to Farm America for repairs and maintenance of the Minnesota Agricultural Interpretive Center, and for audit expenses.

Racing Commission: \$100,000 in FY 2014 and \$85,000 in FY 2015 from the racing and card playing regulation account in the Special Revenue Fund. The funds will be used for costs relating to mediation and litigation, a potential case against a regulated association, increased needs for regulatory counsel, and other costs related to regulatory challenges in the racing industry.

Board of the Arts: \$750,000 from the Arts and Cultural Heritage Fund for arts education in partnership with the President's Turnaround Arts Initiative. The appropriation is one-time, and contingent on Minnesota being designated a Turnaround site. On May 19, 2014, the Perpich Center for Arts Education in Golden Valley was selected to direct the Minnesota program for this initiative.

Minnesota Humanities Center: The center received funding from the Arts and Cultural Heritage Fund for two projects totaling \$225,000. The funding is one-time.

- \$125,000 for the Veterans' Voices program to educate and engage the community regarding veterans contributions, knowledge, skills and experiences. \$25,000 of this amount is for transfer to the Association of Minnesota Public Education Radio Stations (AMPERS) for statewide programming to promote this program.
- \$100,000 for professional development for K-12 educators to better culturally engage their work with at-risk student populations. This may include new and original literature that addresses literacy of emerging cultural communities.

Military Members – Expedited and Temporary Licensing, Several Agencies: Chapter 312 directs state agencies and certain occupational licensing boards to establish procedures to expedite licenses and to issue temporary licenses to qualified active duty military members, the spouses of active duty military members, and veterans who have left service in the prior two years with honorable general discharge status. To qualify for a temporary license, an individual must have a license in another state without a history of disciplinary action and must pass a background check.

A total of \$206,000 from the general fund, and \$73,000 from the state government Special Revenue Fund, is appropriated to cover the rule-making costs for the Department of Education and the boards. The table below specifies the appropriation amount to each agency.

Military Member Expedited Licensing:	FY 15
<u>General Fund</u>	
Dept. of Education	44
Board of Accountancy	44
Board of Architecture & Engineering	44
Board of Cosmetologist Examiners	20
Board of Barber Examiners	10
Board of Private Detectives	<u>44</u>
subtotal General Fund:	206
<u>State Government Special Revenue Fund</u>	
Bd. Of Behavioral Health & Therapy	15
Board of Dentistry	10
Board of Dietetics & Nutrition Practice	10
Board of Marriage & Family Therapy	14
Board of Nursing Home Administrators	1
Board of Optometry	10
Board of Podiatric Medicine	10
Board of Social Work	<u>3</u>
subtotal State Govt. Special Revenue:	73
Total All Funds	279

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

Transportation

Articles nine, ten and eleven of the Omnibus Supplemental Appropriations bill, HF 3172, signed into law as Chapter 312 of 2014 session laws, relate to transportation appropriations and policy. Chapter 312 authorized \$15.25 million in additional general fund spending during the 2014-15 biennium for transportation related items, and raised the base by \$4.5 million for the 2016-17 biennium. Below is a summary of general fund appropriations for transportation in Chapter 312. In addition to general fund spending, Chapter 312 also authorized spending in the Trunk Highway Fund, the State Airports Fund, and other special revenue accounts discussed later.

**Table 1. General Fund Spending
Transportation Finance - Supplemental Appropriations (Chapter 312)**
(Dollars in thousands)

	FY14	FY15	FY14-15	FY16	FY17	FY16-17
Department of Transportation						
Greater MN Transit - one time increase		6,500	6,500			-
2014 Election Day Free Transit Rides(Greater MN Transit)		32	32			-
Railroad Grade Crossing Safety on Oil Train Routes		2,000	2,000			-
Safe Routes to School, Non-Infrastructure		250	250	250	250	500
Total Department of Transportation	-	8,782	8,782	250	250	500
Metropolitan Council - Transit						
Transit Shelter Improvements		500	500			-
2014 Election Day Free Transit Rides (Metro area transit)		144	144			-
Suburban Transit Providers		250	250			-
I-35W & Lake Street BRT Station		1,000	1,000			-
Snelling Arterial BRT		1,000	1,000			-
LRT Safety Shift to DPS		(60)	(60)	(60)	(60)	(120)
Total Metropolitan Council - Transit	-	2,834	2,834	(60)	(60)	(120)
Department of Public Safety - Transportation Area						
LRT Safety Shift from Metropolitan Council		60	60	60	60	120
Capitol Security Base Increase		2,000	2,000	2,000	2,000	4,000
Transfer to Special Revenue for Rail and Pipeline Safety		1,574	1,574			-
Total DPS - Transportation Area	-	3,634	3,634	2,060	2,060	4,120
Total General Fund	-	15,250	15,250	2,250	2,250	4,500

Department of Transportation

- Chapter 312 appropriated \$6.5 million in fiscal year 2015 for Greater MN Transit, in addition to the \$32.9 million for the 2014-15 biennium out of the General Fund last year. The appropriation is one time, and does not carry into the next biennium; it will partly offset a reduction in anticipated revenue from the Motor Vehicle Lease Sales tax discussed later in this report. The spending does not immediately go out to Greater MN Transit systems but rather becomes available for transit systems to apply for, with matching local funds.
- Chapter 312 also appropriated \$32,000 for Greater MN Transit systems to offset fair revenue from one day of free transit rides on Election Day 2014. This is a onetime appropriation.
- Chapter 312 appropriated \$2 million from the General Fund to construct rail grade crossing devices along oil train routes in Minnesota. This is a onetime appropriation and is part of the legislation on rail and pipeline safety.
- Chapter 312 appropriated an additional \$250,000 for FY 2015 from the General Fund for non-infrastructure programming relating to the Safe Routes to School program. This is an annual increase in the base for Safe Routes to School that continues into the FY 2016-17 biennium.

Metropolitan Council

- Chapter 312 appropriated \$500,000 from the General Fund to the Metropolitan Council to improve publicly owned transit shelters in the Metro Transit service area. This is a onetime appropriation.
- Chapter 312 appropriated \$144,000 from the General Fund to the Metropolitan Council to offset fair revenue from one day of free transit rides on Election Day 2014. This is a onetime appropriation.
- Chapter 312 appropriated \$250,000 from the General Fund to the Metropolitan Council for Suburban Transit Providers. This is a onetime appropriation.
- Chapter 312 appropriated \$1 million from the General Fund to the Metropolitan Council for Arterial Bus Rapid Transit on Snelling Avenue in St. Paul. This is a onetime appropriation.
- Chapter 312 appropriated \$1 million from the General Fund to the Metropolitan Council for design and construction of a Bus Rapid Transit station on I-35W and Lake Street in Minneapolis. This is a onetime appropriation.
- Chapter 312 shifted \$60,000 in the base general fund appropriation to the Metropolitan Council to the Department of Public Safety in order to conform to federal rules relating light rail safety and emergency response funding.

Department of Public Safety

- Chapter 312 appropriated \$2 million a year from the General Fund starting in FY 2015 and continuing as a base increase in FY 2016-17 for additional state troopers and security officers around the State Capitol Complex.
- Chapter 312 appropriated \$1.574 million from the General Fund to a special revenue account to pay for training and preparedness activities around pipelines and oil train routes as part of the legislation on rail and pipeline safety. The general fund spending is in conjunction with a \$2.5 million a year assessment levied against Rail and Pipeline companies through FY 2017. The general fund transfer is one time for FY 2015, but the Department of Public Safety can spend the funds over multiple years.

Table 2: Transportation Funds Spending							
Transportation Finance - Supplemental Appropriations (Chapter 312)							
(Dollars in thousands)							
	Fund	FY 14	FY 15	FY14-15	FY16	FY17	FY16-17
Department of Transportation							
Airport Development Assistance	AIR	1,000	3,000	4,000			-
Additional Rail Safety Inspectors	SR		285	285	344	307	651
Snow and ice removal	TH	20,000		20,000			-
Winter related trunk highway road repair	TH	10,000		10,000			-
Snow and ice support equipment	TH		5,000	5,000			-
Roadway lighting LED equipment	TH		5,000	5,000			-
Changeable Message Signs	TH		1,000	1,000			-
Pavement Patching Investment	TH		2,000	2,000			-
Replacement of snow plow equipment	TH	5,000	5,000	10,000	5,000	5,000	10,000
Enhanced project management	TH		3,000	3,000			-
Highway 14 turn back	TH	14,000	21,000	35,000			-
Corridors of Commerce	TH	6,500	25,000	31,500			-
Work zone safety education / outreach	TH		120	120			-
Work zone safety initiatives	TH		505	505	505	505	1,010
Total Department of Transportation		56,500	71,910	128,410	5,849	5,812	11,661
Department of Public Safety - Transportation Area							
Railroad and Pipeline Safety (STATUTORY)	SR		3,970	3,970	2,396	2,396	4,792
State Patrol additional Troopers / Academy	TH		5,949	5,949	5,500	5,500	11,000
DVS - Driving exam scheduling improvements	SR		816	816	759	774	1,533
DVS - Motor Vehicle insurance task force - Driver	SR		23	23			-
DVS - Motor Vehicle insurance task force - Vehicle	SR		23	23			-
Transfer from Rail and Pipeline Safety Fund to PCA	SR		104	104	104	104	208
Total DPS - Transportation Area		-	10,885	10,885	8,655	8,670	17,325
Total Transportation Funds		56,500	82,795	139,295	14,504	14,482	28,986

Department of Transportation

- Chapter 312 appropriated \$1 million in FY 2014 and \$3 million in FY 2015 from the State Airports Fund for airport development assistance. The increase in spending from the State Airports Fund comes after the fund was paid back \$15 million from a 2008 transfer to the General Fund.
- As part of the legislation on railroad and pipeline safety, Chapter 312 authorized MnDOT to assess Class One and Class Two railroad companies for three additional state rail safety inspectors. The estimated assessment and spending for the additional inspectors is \$285,000 in FY 2015 and \$651,000 in the FY 2016-2017 biennium. The assessment and spending is within a special revenue account at MnDOT for railroad safety. As part of the rail and pipeline safety legislation, MnDOT is directed to study rail grade crossing safety around oil train routes on the Trunk Highway system and local road networks. To complete this study, MnDOT will incur costs of about \$13,000 from the Highway User Tax Distribution (HUTD) Fund (the fund that is distributed by formula to the Trunk Highway Fund, county, and city road funds).
- Chapter 312 appropriated \$20 million from the Trunk Highway Fund for FY 2014 to supplement MnDOT's budgeted operating costs related to snow plowing activities for the FY 2014-15 winters. The calendar year 2013-14 winter was especially harsh, so MnDOT needed additional funds for winter operations in case the calendar year 2014-15 winter is like the 2013-14 winter. The appropriation is one time.
- Chapter 312 appropriated \$10 million from the Trunk Highway Fund in FY 2014 for Trunk Highway roadway repair related to winter road damage. The appropriation is one time.
- Chapter 312 appropriated \$13 million in FY 2015 from the Trunk Highway Fund for various equipment including, snow and ice removal equipment, roadway LED lighting, pavement patching machines, and changeable message boards. The appropriation is one time.
- Chapter 312 appropriated \$5 million a year starting in FY 2014 and continuing to FY 2017 from the Trunk Highway Fund to accelerate the replacement of MnDOT's snow plow trucks, nearing the end of their useful lives.
- Chapter 312 appropriated \$3 million from the Trunk Highway Fund for FY 2015 for enhanced project management within the program planning and delivery area at MnDOT. The appropriation is in addition to the base and is one time.
- Chapter 312 appropriated \$35 million in total for a Trunk Highway turn back project for Old Highway 14 in Steele and Waseca Counties. Of the \$35 million, \$14 million is from the Trunk Highway Fund for FY 2014 and \$21 million is from the Flex Highway account for FY 2015.
- Chapter 312 appropriated \$31.5 million over the FY 2014-15 biennium from the Trunk Highway Fund for the Corridors of Commerce program. This appropriation is in addition to the \$300 million in Trunk Highway Bonding authorized in the 2013 legislative session. Of the \$31.5 million, \$6.5 million was authorized for FY 2014 and \$25 million for FY 2015. These are onetime appropriations available until expended. Only projects located outside the Twin Cities Metropolitan area are eligible for funding under the FY 2014 appropriation.

- Chapter 312 appropriated \$625,000 from the Trunk Highway Fund for FY 2015 for highway work zone safety initiatives. Of the \$625,000, \$120,000 in FY 2015 is one time for advertisements and outreach, and \$505,000 is ongoing for work zone signage appropriated annually.

Department of Public Safety (DPS)

- Chapter 312 gave the Department of Public Safety the authority to spend \$3.97 million for railroad and pipeline safety in FY 2015 and \$2.396 million a year for both FY 2016 and FY 2017. The spending is authorized out of a special revenue account within DPS for rail and pipeline safety. The account is funded by a onetime \$1.574 million general fund transfer, mentioned above, and an annual \$2.5 million assessment of railroad and pipeline companies, which sunsets in FY 2017. The first \$104,000 of rail and pipeline safety account spending annually will be transferred to the PCA for costs relating to oil spill cleanup preparedness.
- Chapter 312 appropriated \$5.9 million in FY 2015 and \$5.5 million a year in for the FY 2016-17 biennium from the Trunk Highway Fund for the State Patrol to hold a State Trooper Academy to hire 48 new State Troopers.
- Chapter 312 appropriated \$816,000 in FY 2015 from the Driver Services account for twelve additional FTEs to implement driver exams and reduce wait times for taking drivers tests. The base appropriation for this item is \$759,000 in FY 2016 and \$774,000 in FY 2017. This spending reduces an approximately \$4 million surplus in the Driver Services special revenue fund account, which is generated by user fees imposed by the Driver and Vehicle Services division of the Department of Public Safety.
- Chapter 312 appropriated \$32,000 from the Driver Services account and \$32,000 from the Vehicle Services account in FY 2015 for expenses related to the task force on motor vehicle insurance coverage verification. These are one time appropriations.

Revenue Changes and Other Items

In addition to appropriations for transportation, Chapter 312 also contained language that affected revenue to transportation funds and the distribution of transportation taxes. Most of these items were relatively small, with the exception of a change in the distribution of the Motor Vehicle Lease Sales Tax.

- Chapter 312 changes the Driver and Vehicle Services fee structure around commercial vehicles, to conform to new Federal regulation, and learners permits for motorized bicycles, which are projected to increase fee revenue to the Driver Services and Vehicle Services accounts by a net of about \$26,000 a year starting in FY 2015, which will be spent on the new permits. The authorization for a new specialty Minnesota Golf License plate will incur a cost of about \$1,000 from the Vehicle Services account to design the new license plates.
- Chapter 312 contained language that shifted the distribution of Motor Vehicle Lease Sales Tax (MVLST) revenue for FY 2016 between Greater Minnesota Transit and the county road accounts of five of the seven metropolitan counties (Anoka, Carver, Dakota, Scott, and

Washington). The change revises an earlier change in MVLST revenue enacted in the 2013 session.

The original distribution of the MVLST had the first \$32 million deposited into the General Fund, and any amount in excess of the \$32 million would be split: 50 percent for Greater Minnesota Transit, distributed through MnDOT and requiring local matching dollars, and 50 percent to the five counties' road funds. This distribution formula was set into statute in 2008 as a part of a larger transportation funding package.

The change in the 2013 session capped the amount going to the five counties at \$9 million a year and allowed all rest of the MVLST revenue above the \$32 million for the General Fund to go to Greater Minnesota Transit. At the time of the 2013 session, based on the February 2013 Transportation Funds Forecast, this change was estimated to bring in about \$10.8 million more to Greater Minnesota Transit over the course of the FY 2014-15 biennium. The regular distribution was set to go back into effect for the FY 2016-17 biennium.

MVLST revenues grew substantially more than forecasted between the February 2013 and February 2014 forecasts, to the extent that Greater Minnesota Transit was forecasted to receive \$33.1 million more than if the law had not changed in the 2013 session, a gain of \$22.3 million over the originally projected \$10.8 million increase from the forecasted amount in 2013.

Chapter 312 ended the MVLST five county \$9 million cap for FY 2015, in effect making the 50 percent split between Greater Minnesota Transit and the five metro counties go back into effect a year early. This change is forecasted to shift \$12.685 million of anticipated MVLST revenue for FY 2015 from the Transit Assistance Fund to the County State Aid Highway accounts for the five suburban counties.

It is important to note that this shift in MVLST allocation only changes projected revenue, and that the MVLST has been very difficult to accurately forecast. It should also be noted that MVLST revenue is distributed the year after it is recognized (FY 2014 will be paid out in FY 2015 after the fiscal close of FY 2014).

The two Omnibus Capital Investment bills, Chapter 249 (HF 2490) and Chapter 295 (HF 1068) also contained several transportation related items for the MnDOT and the Metropolitan Council; for more information, go to the summary of the capital budget on the House Fiscal Analysis website.

For further information on Transportation finance issues contact Andrew Lee, House Fiscal Analysis Department at 651-296-4181 or Andrew.lee@house.mn.

Changes in Tax Revenues and Tax Aids & Credits

The 2014 legislature passed one minor tax bill¹ and two omnibus tax bills with a total of \$550 million in net tax revenue reductions and net expenditure increases to the general fund relative to current law in the FY 2014-2015 biennium. The first omnibus tax bill, Chapter 150 (HF 1777), contained net tax revenue reductions equal to \$443.295 million and net expenditure increases equal to \$3.380 million in the FY 2014-2015 biennium.² The second omnibus tax bill, Chapter 308 (HF 3167), contained tax reductions equal to \$103.315 million with \$52.517 million from net tax revenue reduction and \$50.798 million from expenditure changes. In the FY 2016-2017 biennium, both tax bills combined provided over one billion in general fund reductions. Table 1 below shows the general fund impact of the tax bills passed during the 2014 session.

**Table 1: Summary of 2014 Tax Changes by Act
General Fund Tax Revenues and Tax Aids & Credits**

Dollars in 000's	FY 2014	FY 2015	FY 14-15	FY 2016	FY 2017	FY 16-17
February 2014 Forecast - Tax Revenues	18,504,362	19,308,272	37,812,634	20,332,368	21,297,580	41,629,948
February 2014 Forecast - Tax Aids & Credits	1,326,626	1,595,981	2,922,607	1,624,802	1,658,416	3,283,218
Tax and Other Revenue Changes						
<i>Positive numbers reflect a revenue gain and negative numbers show revenue loss.</i>						
Chapter 150 General Fund	(93,725)	(349,570)	(443,295)	(462,275)	(494,115)	(956,390)
Chapter 183 General Fund (interaction impact only)	0	0	0	20	20	40
Chapter 308 General Fund	(45,604)	(6,913)	(52,517)	(12,210)	(27,470)	(39,680)
Total Tax & Other Revenue changes Chapters 150, 183 & 308 General Fund	(139,329)	(356,483)	(495,812)	(474,465)	(521,565)	(996,030)
Tax Aids & Credits Changes						
<i>Positive numbers reflect an increase in spending and negative numbers reflect cost savings.</i>						
Chapter 150 General Fund	1,000	152,380	153,380	27,790	28,516	56,306
Subtotal Tax Aids, Credits & Appropriations	1,000	2,380	3,380	27,790	28,516	56,306
Subtotal Transfer to Budget Reserve	0	150,000	150,000	0	0	0
Chapter 183 General Fund (interaction impact only)	0	0	0	(20)	(20)	(40)
Chapter 308 General Fund	771	50,027	50,798	40,799	38,600	79,399
Total Tax & Other Revenue changes Chapters 150, 183 & 308 General Fund	1,771	202,407	204,178	68,569	67,096	135,665
Net Revenue Changes (Revenues less Aids & Credits)	(141,100)	(558,890)	(699,990)	(543,034)	(588,661)	(1,131,695)
Net Revenue Changes (Revenues less Aids & Credits w/o Budget Reserve Transfer)	(141,100)	(408,890)	(549,990)	(543,034)	(588,661)	(1,131,695)

¹ Chapter 183 contains a local tax provision authorizing District One Hospital to sell property and provides for dissolution of a hospital district. Table 1 shows how this provision has a general fund impact that is revenue neutral.

² Chapter 150 also contained \$150.0 million transfer from the general fund to the budget reserve in FY 2015.

Analysis by Chapter – Changes in Tax Revenues – Chapter 150

Chapter 150 contains \$443.295 million in general fund tax reductions relative to current law general fund tax revenues in the FY 2014-2015 biennium. The focus of this first omnibus bill of the 2014 legislative session centered on the adoption of federal conformity provisions and on the repeal or adjustments of recent legislation passed in 2013 in the sales and use tax and the estate tax areas.

Federal Conformity - Individual Income Tax and Corporate Franchise Tax

Chapter 150 contains \$200.295 million in tax reductions that conformed Minnesota law to federal provisions in the American Taxpayer Relief Act of 2012 (ATRA), Public Law 112-240, enacted January 2, 2013. Without state conformity to these federal provisions, taxpayers would be required to compute the difference between federal and state deductions amounts. Table 2 shows the general fund revenue impact of federal conformity provisions adopted by Minnesota by biennia. Some of these federal provisions were enacted retroactively to tax year 2013 only and other federal provisions are adopted permanently.

Table 2: Federal Conformity Changes in Chapter 150						
General Fund Tax Revenues						
Federal Update: The American Taxpayer Relief Act of 2012, Public Law 112-240						
<i>Positive numbers reflect a revenue gain and negative numbers show revenue loss.</i>						
Dollars in 000's	FY 2014	FY 2015	FY 14-15	FY 2016	FY 2017	FY 16-17
Individual Income Tax	(52,670)	(143,025)	(195,695)	(106,880)	(110,405)	(217,285)
Corporate Tax	(4,055)	(545)	(4,600)	(425)	(380)	(805)
General Fund Total	(56,725)	(143,570)	(200,295)	(107,305)	(110,785)	(218,090)

Adopted federal conformity provisions in Chapter 150 with more than \$1 million in annual revenue reduction in the FY 2014-2015 biennium are highlighted in this summary and are grouped into these three categories: (1) differences in income; (2) difference in deductions (above-the-line deductions, itemized deductions, standard deductions); and (3) differences in credits.

Difference in Income:

Minnesota adopts federal changes to the internal revenue code for exclusions from income. At the taxpayer level, exclusions are benefits that are excluded from taxable wages and not reported on the taxable wage box on the W-2. At the state budgeting level, in most cases, exclusions reduce income tax or corporate tax revenue to the General Fund (unless otherwise noted). ATRA Federal conformity exclusion provisions adopted by Minnesota include but are not limited to the following:

- Exclusion for employer provided education assistance: \$8.9 million in the FY 2014-2015 biennium and \$9.3 million in the FY 2016-2017 biennium. This is an on-going provision.

- Exclusion for National Health Services Corporation Scholarship: \$1.2 million in the FY 2014-2015 biennium and \$1.2 million in the FY 2016-2017 biennium. This is an on-going provision.
- Exclusion of indebtedness income on principal residence: \$7.2 million in FY 2014 only. This provision expires after tax year 2013.
- Transfer up to \$100,000 from a traditional IRA or Roth IRA directly to a qualified charity is allowed for individuals age 70 ½ or older, excluding that amount from adjusted gross income: \$2.640 million in the FY 2014-2015 biennium. This provision expires after tax year 2013.
- 15-year straight-line depreciation for leasehold, restaurant and retail improvements and new restaurants: \$1.850 million in the FY 2014-2015 biennium and \$1.6 million in the FY 2016-2017 biennium. This provision affects tax year 2013 only and expires after that year.
- Accelerated depreciation of business property on an Indian Reservation: \$1.115 million in the FY 2014-2015 biennium. This provision also expires after tax year 2013. The revenue impact in the FY 2014-2015 is a general fund revenue reduction but the revenue impact in the FY 2016-2017 biennium is a revenue gain of \$315,000. There is a revenue gain because of the differences in the prior law and the accelerated depreciation schedule that Minnesota has conformed to and enacted in this bill.

Differences in Deductions:

Federal conformity provisions adopted by Minnesota include certain *above-the-line deductions*. Above-the-line deductions are expenses that can be deducted before arriving at federal adjusted gross income (FAGI). These deductions, which reduce revenue to the General Fund, include but are not limited to the following:

- Student loan interest deduction with an increase in the income phase-out for tax year 2013 and future years: \$11.9 million for the FY 2014-2015 biennium and \$9.3 million for the FY 2016-2017 biennium. This provision is on-going.
- Qualified tuition and related expenses deduction: \$5.6 million for FY 2014. This provision expires after tax year 2013.
- Educator classroom expense deduction of up to \$250: \$1.1 million for FY 2014 only. This provision expires after tax year 2013.

Federal conformity provisions adopted by Minnesota also include *itemized deductions*. Itemized deductions are eligible expenses that can be reported for tax purposes to reduce taxable income. This deduction includes the mortgage insurance premium that can be deducted on qualified principal residence. This provision is estimated to reduce general fund revenue by \$3.9 million in FY 2014. This provision expires after tax year 2013.

Finally, federal conformity provisions adopted by *Minnesota* include the *standard deduction*. According to the Internal Revenue Service (IRS), the standard deduction is the dollar amount that reduces the amount of income on which you are taxed and is adjusted each year for inflation and varies according to your filing status. The standard deduction is only available to non-

itemizers. Starting in tax year 2014, Minnesota conformed to the increased standard deduction for married taxpayers to twice the standard deduction of a single person. The estimated general fund revenue reduction with conformity to this on-going provision is \$111.0 million in the FY 2014-2015 biennium and \$152.3 million in the FY 2016-2017 biennium. Minnesota did not conform to this provision in tax year 2013.

Difference in Credits:

Federal conformity provisions adopted by Minnesota include the Child and Dependent care credit. A tax credit is a benefit that provides a direct reduction in the amount of income taxes owed. Starting in tax year 2014 and future years, Minnesota conformed to the increased credit rates and maximum credit amounts for the federal dependent care credit which affects the state dependent care credit. The estimated general fund revenue reduction to this on-going provision is \$1.9 million in the FY 2014-2015 biennium and \$3.9 million in the FY 2016-2017 biennium.

Minnesota did not conform to all federal conformity provisions. Every session, there are a few federal conformity provisions that are not adopted mainly due to budget constraints. For more information about items that were not adopted, see Box 1.

Box 1: Federal Conformity Provisions – Not Adopted by Minnesota during the 2014 Session

In Chapter 150, Minnesota did not conform to the reinstated and modified limitation on itemized deductions or the phase-out of personal and dependent exemptions in tax year 2013 and other years. Minnesota has also delayed conformity to the increased standard deduction for married filers and the dependent care credit by not enacting these provisions retroactively. As shown in the table below, the general fund revenue reductions of the provisions not adopted totaled \$129.8 million in the FY 2014-2015 biennium and \$66.7 million in the FY 2016-2017 biennium.

Federal Conformity Table: Provisions Not Adopted (in millions) in Chapter 150	FY 2014-15 Biennium	FY 2016-17 Biennium
Increase the income threshold for the limitation on itemized deductions (TY 2013 and other years not conformed to)	\$39.8	\$46.8
Increase the income threshold for the phase-out of personal exemptions (TY 2013 and other years not conformed to)	\$16.5	\$19.9
Increase the standard deduction for married filers (TY 2013 only not conformed to)	\$71.6	\$0
For the Dependent Care Credit, increase eligible expense limit and credit rate (TY 2013 only not conformed to)	\$1.9	\$0
Total	\$129.8 million	\$66.7 million

Other - Individual Income Tax and Corporate Franchise Tax

In addition to federal conformity changes, Chapter 150 also made modifications to the individual income tax and corporate franchise tax base. These modifications are estimated to reduce general fund revenue by \$33.2 million in the FY 2014-015 biennium and \$92.8 million in the FY 2016-2017 biennium. Key provisions with a fiscal impact to the General Fund include:

- The Working Family Credit, first enacted in 1991, is a refundable credit against the individual income tax allowed to taxpayers who are eligible for the federal earned income tax credit. Starting in tax year 2014, the size of the credit is increased and restructured. The credit is restructured by eliminating the two-tiered calculation for taxpayers with children under current law. The elimination of that two-tiered calculation allows the first calculation to extend to higher income levels. With this change, the income level at which the credit begins to phase-out for married filers matches the increase provided for the phase-out threshold at the federal level. Finally, the income amounts for qualifying for the credit are indexed for inflation beginning in tax year 2015. These modifications are estimated to reduce general fund revenue by \$30.2 million in FY 2015 and by \$62.8 million in the FY 2016-2017 biennium.
- The Angel Tax Credit was originally enacted in 2010 and was scheduled to sunset in 2014. This refundable credit may be used against individual income tax for investments in qualified small businesses. During the 2014 session, the Legislature extended annual funding by two years, increased the annual funding amount for tax years 2014 to tax year 2016 and modified the allocation/distribution of the credit funding. First, annual funding for this tax credit increased by \$3 million in tax year 2014 from \$12 million to \$15 million and a credit allocation of \$15 million is extended to tax years 2015 and 2016. (The credit is capped at \$15 million per year). Second, in terms of the allocation of credit funding, for tax years 2015 and 2016, \$7.5 million of the annual credit allocation is reserved for investments in greater Minnesota and in minority-owned businesses. Reserved credits not allocated by September 30 of each year are then made available to other qualifying businesses. In total, these changes are estimated to reduce general fund revenue by \$3 million in the FY 2014-2015 biennium and by \$30 million in the FY 2016-2017 biennium.

Estate & Gift Taxes

The Legislature made three major modifications to the estate and gift tax provisions in chapter 150. First, the gift tax is retroactively repealed back to its original effective date (June 30, 2013). Second, the exemption under the estate tax is increased in increments of \$200,000 each year and is phased-in over five years starting at \$1 million in 2013 to \$2 million by 2018. Related to this exemption is the business and farm deduction which is incrementally reduced from \$4 million to \$3 million to be aligned with the general exemption. Third, the estate tax adopts a stand-alone estate tax rate and bracket structure with rates ranging from 10 percent to 16 percent and its structure is no longer tied to the pre-2001 federal credit for state death taxes.³ With the changes

³ Background: According to the Minnesota Estate Tax Short Subject by House Research, the estate tax has evolved as a creature of the federal estate tax. Until December 31, 2011, the Minnesota estate tax was directly linked to the federal estate tax as a pick-up tax equal to the federal credit for state death taxes. Under the pick-up tax structure,

to the rate and bracket structure and increased exemption amount, the 41 percent bubble rate is eliminated and every estate is expected to receive a net estate tax decrease. The total estimated general fund revenue reduction for these changes is \$42.7 million in the FY 2014-15 biennium and \$144.4 million in the FY 2016-2017 biennium.

Sales & Use Tax

In Chapter 150, the 2014 Legislature made significant changes to sales and use tax laws originally enacted in the 2013 omnibus bill. These law changes include the repeal of sales taxes, effective on April 1, 2014, on business purchases for repair labor for electronic and precision equipment and repair labor for commercial and industrial equipment (including farm equipment) as well as storage and warehousing services. The repeal of the exemption for capital equipment used in telecommunications and pay television services was also reversed and the exemption was reinstated on April 1, 2014. In total, these changes are estimated to reduce general fund revenue by \$231.7 million in the FY 2014-2015 biennium and by \$449.3 million in the FY 2016-17 biennium.

Another sales and use tax change made this session by the 2014 Legislature is to delay the enactment of the up-front capital equipment exemption from August 31, 2014 by 10 months to sales made after June 30, 2015. This change has a one-time general fund revenue increase of \$64.6 million in the FY 2014-2015 biennium and a general fund revenue decrease of \$50.1 million in the FY 2016-17 biennium.

In addition to the general fund revenue impact, the sum of the sales tax and use tax changes also has an interaction impact to the Legacy Funds.⁴ The estimated reduction to the Legacy funds is \$9.6 million in the FY 2014-2015 biennium and \$28.9 million in the FY 2016-2017 biennium. Table 3 shows the general fund and non general fund revenue impact summary by tax type for each fiscal year in the budget window.

the Minnesota estate tax imposed no additional burden on estates with each dollar of state tax paid reducing the federal tax by an equal amount. Congress repealed that credit in 2001 and it was phased-out by 2004. The Minnesota legislature, on the other hand, chose to continue to impose the estate tax under the rules in effect before the repeal of the credit.

⁴ The Legacy funds include the following: (1) Outdoor Heritage Fund; (2) Arts and Cultural Heritage Fund; (3) Clean Water fund; and (4) Parks and Trails Fund. For budgetary information about these funds, please consult the Consolidated Fund Balance Statement published by MMB.

Table 3: Chapter 150						
General Fund & Non General Fund Tax Revenues						
<i>Positive numbers reflect a revenue gain and negative numbers show revenue loss.</i>						
Dollars in 000's	FY 2014	FY 2015	FY 14-15	FY 2016	FY 2017	FY 16-17
General Fund:						
Federal Update - Income/Corporate Tax Changes	(56,725)	(143,570)	(200,295)	(107,305)	(110,785)	(218,090)
Sales & Use Tax Changes	(31,400)	(135,700)	(167,100)	(245,700)	(253,700)	(499,400)
Estate/Gift Tax Changes	(5,600)	(37,100)	(42,700)	(62,300)	(82,000)	(144,300)
Other Income Tax Changes	0	(33,200)	(33,200)	(46,100)	(46,700)	(92,800)
Other Income Tax/Corporate Tax Interaction	0	0	0	(870)	(930)	(1,800)
General Fund Total	(93,725)	(349,570)	(443,295)	(462,275)	(494,115)	(956,390)
Non General Fund:						
Sales & Use Tax Changes - Legacy Funds	(1,700)	(7,900)	(9,600)	(14,200)	(14,700)	(28,900)
Non General Fund Total	(1,700)	(7,900)	(9,600)	(14,200)	(14,700)	(28,900)

Analysis by Chapter – Changes in Tax Revenues – Chapter 308

Chapter 308 contains \$103.325 million and \$118.999 million in general fund tax reductions for the FY 2014-2015 and FY 2016-2017 biennium respectively. Of that amount, \$52.517 million are attributed to net tax revenue reductions in the FY 2014-2015 biennium and \$39.640 million are attributed to net tax revenue reductions in the FY 2016-2017 biennium. This section highlights several key revenue provisions enacted in the second tax omnibus bill, Chapter 308.

Individual Income Tax and Corporate Franchise Tax

Individual income and corporate tax law changes in Chapter 308 resulted in an estimated general fund net reduction of \$5.0 million in the FY 2014-2015 biennium and \$2.450 million in the FY 2016-2017 biennium. Most of the revenue impact is due to the creation of a new temporary refundable credit and an expansion of an existing military pay subtraction.

- Temporary, refundable reading credit for tax year 2014 only is estimated to reduce general fund revenue by \$2.6 million in FY 2015. The credit is equal to 75 percent of actual unreimbursed eligible expenses paid by a parent or guardian of a child with a deficiency in basic reading skills. Expenses for the temporary reading credit may not also be used for the k-12 education income tax subtraction.
- Extends the military pay subtraction for National Guard members who serve in Active Guard/Reserve units in tax year 2014. This on-going provision is estimated to reduce general fund revenue by \$3.0 million in FY 2015 and by \$4.3 million in the FY 2016-2017 biennium.

Other provisions include:

- Minnesota law conformed to the Philippines Charitable Giving Assistance Act, public law 113-92. Federal conformity to this provision allows charitable contributions to Typhoon Haiyan made after March 25, 2014 and before April 15, 2014 to be treated as if the contribution was made in 2013. This provision has the effect of accelerating a charitable contribution made in 2014 to be claimed on the 2013 return instead of the 2014 return. This provision has a negligible impact to the general fund in the current biennium with no impact in the FY 2016-2017 biennium.
- Provides a subtraction for the amount of employer provided benefits for a transit pass or for commuter vehicle transportation in tax year 2014. The estimated revenue reduction for this provision as a state subtraction is negligible in FY 2015 and other years. Prior to tax year 2014, this federal conformity provision was treated as exclusion in tax year 2013 when adopted by Minnesota in Chapter 150. Congress has not extended this provision beyond tax year 2013 but Minnesota policymakers have made this provision a permanent subtraction from state taxes until Congress opts to extend the exclusion again. State law allows this provision to be subtracted or excluded from state taxable income only once.

Sales & Use Tax

Chapter 308 contains general fund sales tax revenue reduction of \$42.094 million in FY 2014-2015 and \$36.790 million in the FY 2016-2017 biennium. The largest share of the total tax

reductions in this area are attributed to June Accelerated payment requirement modifications. Effective for accelerated payments on the May return for sales tax payments due on June 26, 2014, the threshold for being required to pay accelerated sales tax has been increased. The threshold will apply to those having annual tax liability of \$250,000 instead of \$120,000. In addition to this change, the payment amount has been modified from 90 percent to 81.4 percent of actual June liability or May liability.⁵ These modifications together will have an estimated general fund revenue reduction of \$40.160 million in FY 2014-2015 and \$3.520 million in FY 2016-2017.

Other existing sales and use tax exemptions are modified and temporary and on-going exemptions are also enacted.

Modified existing sales tax exemptions include:

- The local government exemption enacted in the 2013 omnibus tax bill was modified and expanded during the 2014 legislative session. A list of local government activities and services that do not qualify for the local sales tax exemption is provided in law and is to replace previous law that provided an illustrative list of government services that was more ambiguous. This revised list is effective for purchases made after June 30, 2013. Another modification to this law is that the definition of tax exempt local governments is extended to include all special districts and all joint powers board and organizations, except the Metropolitan Council. This expansion is effective beginning January 1, 2016. Beginning January 1, 2017, all Metropolitan Council purchases are exempt. These two changes to the local government sales tax exemption are estimated to reduce general fund revenue by \$150,000 in the FY 2014-2015 biennium and by \$31.840 million in the FY 2016-2017 biennium.
- Fundraising sales by or for non profits groups exemption was originally enacted in 1985. Chapter 308 increases the annual fundraising sales exemption from \$10,000 to \$20,000. The application of the sales tax has not been modified and continues to apply to sales exceeding the threshold of \$20,000 (previously \$10,000). This change is effective for CY 2015 and is estimated to reduce general fund revenue by \$60,000 in FY 2015 and by \$340,000 in the FY 2016-2017 biennium.
- The expanded exemption for medical devices related to Medicare, Medicaid enacted in the 2013 omnibus tax bill is modified to change the start of the exemption from sales and purchases made after June 30, 2013 to sales and purchases made retroactively after April 1, 2009. A refund will be provided to purchases covered by Medicare and Medicaid during this retroactive time period and will be paid out until June 30, 2015. The estimated general fund revenue reduction is \$1.1 million for FY 2014 only.

New and on-going exemptions include:

- The sale of amusement machines (juke boxes, pinball & video games, foosball, batting cages and machines used in carnival rides) are exempt. The estimated general fund revenue reduction of this exemption is \$210,000 in the FY 2014-2015 biennium and \$520,000 in the FY 2016-2017 biennium.

⁵ For more background about June Acceleration and the payment requirement, please see issue brief on Accelerated June Payments for Sales Tax and Other Taxes on the House Fiscal Analysis Website.

- Qualifying nonprofit snow mobile club exemption on equipment and machines used in grooming state or grant-in-aid snowmobile trails. The estimated general fund revenue reduction for this provision is \$280,000 in FY 2015 and \$570,000 for the FY 2016-2017 biennium.

New and time-limited exemptions include:

- Buildings materials purchased and donated by a private entity and used in the building of an addition to the Marshall-Lyons Public Library expansion project are exempt. This exemption is effective from April 1, 2014 to July 1, 2015. The estimated general fund revenue reduction is \$72,000 in the FY 2014-2015 biennium.
- Sales of prepared food, soft drinks, candy and alcoholic beverages during an annual meeting of the National Conference of State Legislatures (NCSL) are exempt. The estimate general fund revenue reduction is \$62,000 in FY 2015 only.

In addition to the general fund revenue impact, the sum of the sales tax and use tax changes also has an interaction impact to the Legacy Funds. The estimated reduction to the Legacy funds is \$2.390 million in the FY 2014-2015 biennium and by \$2.240 million in the FY 2016-2017 biennium. Table 4 shows the general fund and non general fund revenue impact summary by tax type for each fiscal year in the budget window.

Excise Taxes

- Chapter 308 contains \$5.423 million and \$400,000 in tax reductions in the FY 2014-2015 biennium and the FY 2016-2017 biennium respectively. Similar to sales taxes, the largest share of tax revenue reductions is due to the changes in the June Acceleration payment requirement and tax law modifications to excise taxes.
- Effective for accelerated payments on the May return for excise tax (liquor/cigarette taxes) payments due on June 26, 2014, the threshold for being required to pay accelerated sales tax has been increased. The threshold will apply to those having annual tax liability of \$250,000 instead of \$120,000. In addition to this change, the payment amount has been modified from 90 percent to 81.4 percent of actual June liability or May liability⁶. These modifications together will have an estimated general fund revenue reduction from alcohol and cigarette/tobacco taxes of \$5.313 million in FY 2014-2015 and \$120,000 in FY 2016-2017.
- Cigarette tax rate is modified to eliminate one of the two rates. The rate based on cigarettes weighing more than three pounds per thousand that are subject to the excise tax of \$5.66 per pack of 20 is eliminated. Effective July 1, 2014, all cigarettes would be subject to the cigarette excise tax rate of \$2.83 per pack of 20 with this change having an estimated revenue reduction of \$50,000 in FY 2015 and \$100,000 in the FY 2016-2017 biennium.
- A new micodistillery credit is enacted that may be used against state liquor taxation liability. Effective, July 1, 2014, the credit may not exceed in a fiscal year the lesser of

⁶ For more background about June acceleration, see Issue Brief of June Accelerated payments for sales tax and other taxes on the House Fiscal Analysis Website.

the liability for the tax or \$133,000. Interacting with this provision in Chapter 308 is another provision in Chapter 240 (Liquor Omnibus bill) that allows a Microdistillery to establish a cocktail room and would be required to pay the distilled spirit excise tax on all liquor that they produce and sell in a cocktail room. The estimated revenue reduction to the general fund of these law changes is \$60,000 in FY 2015 and \$180,000 in the FY 2016-2017 biennium.⁷

Table 4: Chapter 308						
General Fund & Non General Fund Tax Revenues						
<i>Positive numbers reflect a revenue gain and negative numbers show revenue loss.</i>						
Dollars in 000's	FY 2014	FY 2015	FY 14-15	FY 2016	FY 2017	FY 16-17
General Fund:						
Income/Corporate Tax Changes	0	(5,000)	(5,000)	(1,190)	(1,300)	(2,490)
Sales & Use Tax Changes	(40,324)	(1,770)	(42,094)	(10,840)	(25,950)	(36,790)
Estate/Gift Tax Changes	0	0	0	0	0	0
Excise Taxes	(5,280)	(143)	(5,423)	(180)	(220)	(400)
General Fund Total	(45,604)	(6,913)	(52,517)	(12,210)	(27,470)	(39,680)
Non General Fund:						
Sales & Use Tax Changes - Legacy Funds	(2,291)	(99)	(2,390)	(655)	(1,585)	(2,240)
Non General Fund Total	(2,291)	(99)	(2,390)	(655)	(1,585)	(2,240)

For more information about state taxes, please contact Cynthia Templin at 651-297-8405 or Cynthia.templin@house.mn.

⁷ Chapter 240 also contained an exemption from state liquor taxation for shipments of bulk distilled spirits to Minnesota Farm Wineries. This exemption offsets tax liabilities for Minnesota farm wineries that purchase bulk distilled spirits to blend their wine to produce fortified wine. Based on the revenue estimate for the original bill (SF 2346), the vast majority of wine purchased is naturally fermented and not distilled with spirits. Given the limited consumption of fortified wine, the estimated revenue reduction for this exemption is estimated to be negligible (\$5,000 or less) during the forecasted budget window.

Changes in General Fund Expenditures

Chapters 150 and 308 of the 2014 Session made numerous changes to Minnesota law governing property taxes, refunds and local aids. As shown in Table 1, general fund appropriations for Property Tax Aids and Credits total \$2.977 billion in FY 2014-15, an increase of \$54.2 million or +1.9 percent above the February 2014 forecast base of \$2.923 billion. In FY 2016-17, appropriations grow to \$3.419 billion, reflecting an increase of \$135.6 million or +4.1 percent above the forecasted amount of \$3.283 billion.

**Table 1: Summary of 2014 Tax Act Expenditures
General Fund Expenditure Changes – Tax Aids & Credits**

Dollars in 000's	FY 2014	FY 2015	FY 14-15	FY 2016	FY 2017	FY 16-17
February 2014 Forecast - Tax Aids & Credits	1,326,626	1,595,981	2,922,607	1,624,802	1,658,416	3,283,218
Tax Aids & Credits Changes						
<i>Positive numbers reflect an increase in spending and negative numbers reflect cost savings.</i>						
Chapter 150 General Fund	1,000	152,380	153,380	27,790	28,516	56,306
Subtotal Tax Aids, Credits & Appropriations	1,000	2,380	3,380	27,790	28,516	56,306
Subtotal Transfer to Budget Reserve	0	150,000	150,000	0	0	0
Chapter 183 General Fund (interaction impact only)	0	0	0	(20)	(20)	(40)
Chapter 308 General Fund	<u>771</u>	<u>50,027</u>	<u>50,798</u>	<u>40,799</u>	<u>38,600</u>	<u>79,399</u>
Total Tax Expenditure Changes						
Chapters 150, 183 & 308 General Fund	1,771	202,407	204,178	68,569	67,096	135,665
Total General Fund						
Forecast + Aids & Credits Changes			3,126,785			3,418,883
Total General Fund						
Forecast + Aids & Credits Changes w/o Budget Reserve Transfer			2,976,785			3,418,883
Total % Change						
Forecast + Aids & Credits Changes w/o Budget Reserve Transfer			1.85%			4.13%

Table 2 provides a more detailed summary of these Tax Aids & Credits spending changes. It compares actual and anticipated spending for the six-year period, FY 2012-2017. Biennial appropriations of \$2.977 billion in FY 2014-2015 reflect a 5.2 percent increase above FY 2012-2013 spending levels of \$2.777 billion. Then in FY 2016-2017, appropriations rise to \$3.419 billion, an increase of about 14.8 percent above projected FY 2014-15 spending.

A closer look at categories of spending - Tax Refunds, Local Aids, Property Tax Credits, Taconite Tax Relief, Local Pensions, Other Expenditures and Appropriations - reveals both enhanced and curtailed FY 2014-2015 appropriation levels when compared to actual FY 2012-2013 spending. However, when FY 2014-2015 appropriations are compared to forecasted, base-level funding for the biennium, not one program was cut or eliminated. (Note: The Homestead Market Value Credit was eliminated in FY 2013 and replaced with the Homestead Market Value Exclusion.) In fact, only two programs, Property Tax Refunds and the Agricultural Market Value Credit, have notable increases in their FY 2014-2015 appropriation levels. Also, similar to last year, the Other Expenditures & Appropriations category reflects unusually high, base-level

funding for the FY 2016-2017 biennium. As provided for in the following detailed analysis, many items within this category are usually included in the bills of other finance committees.

Table 2: 2014 Session - Tax Aids, Credits and Other Expenditures
Dollars in Millions

	February 2014 Forecast		Appropriations Chp 150 & 308 FY 2014-15	% Change FY 14-15 base vs FY 2012-13	% Change FY 2014-15 vs. FY 14-15 Base	Tails Chp 150 & 308 FY 2016-17
	Closing FY 2012-13	Base FY 2014-15				
Property Tax Refunds	\$1,000.0	1,114.8	1,139.4	11.5%	2.2%	1,308.6
Political Contribution Refund	0.0	11.0	11.0	-	0.0%	12.0
Tax Refund Interest	38.4	24.0	24.0	-37.5%	0.0%	30.0
Local Aids	1,215.1	1,357.1	1,362.3	11.7%	0.4%	1,535.4
Local Government Aid (LGA)	850.5	935.1	935.1	9.9%	0.0%	1,036.3
County Program Aid (CPA)	322.2	371.1	371.8	15.2%	0.2%	418.4
County Aquatic Invasv Spec (AIS)	0.0	0.0	4.5	-	-	20.0
Township Aid	0.0	10.0	10.0	-	-	20.0
Disparity Reduction Aid	37.9	36.9	36.9	-2.6%	0.0%	36.6
Other Local Aids	4.5	4.0	4.0	-11.9%	0.0%	4.0
Property Tax Credits	243.7	67.9	84.8	-72.1%	24.9%	104.4
Homestead Market Value Credit	176.0	0.0	0.0	-100.0%	-	0.0
Agricultural Market Value Credit	47.7	45.4	62.3	-4.8%	37.2%	74.4
Border City Disparity Credit	13.3	15.5	15.5	16.9%	0.0%	21.9
Other Credits	6.7	6.9	6.9	3.6%	0.0%	8.2
Taconite Tax Relief Area Aids & Credits	26.4	28.9	28.9	9.5%	0.0%	29.9
Local Pensions Aids	199.0	253.9	253.9	27.6%	0.0%	265.8
Other Expenditures	54.2	65.0	72.4	19.9%	11.4%	132.8
PILT Payments - DNR	51.2	61.4	61.5	19.9%	0.1%	62.3
Performance Measurement	1.1	0.8	0.8	-22.9%	0.0%	0.9
Local Option Abtmt/Disaster Asst	1.9	0.7	0.7	-61.2%	0.0%	0.2
Moose Lake Assmt Reimbsmt	0.0	2.0	2.0	-	0.0%	0.0
Bloomington Infrastructure Projects	0.0	0.0	0.0	-	-	10.4
City Mpls Library debt service aid	0.0	0.0	0.0	-	-	3.7
Local Optional Revenue elig modif	0.0	0.0	0.0	-	-	40.2
IRRRB School Consolidation Acct	0.0	0.0	2.4	-	-	4.8
Volunteer Retention Stipnd Aid	0.0	0.0	0.0	-	-	3.2
Workforce Housing Grant Pilot	0.0	0.0	0.6	-	-	1.4
Debt Serv aid - L & C Jt Pwr Bd	0.0	0.0	0.0	-	-	4.4
Transf/Administration/Studies	0.0	0.0	4.3	-	-	1.2
Total General Fund	\$2,777	\$2,923	\$2,977	5.2%	1.9%	\$3,419

Analysis by Chapter - Chapter 150 – Tax bill 1 (HF 1777)

General Fund **FY 2014-15** **FY 2016-17**

Property Taxes, Aids & Credits

Supplemental County Program Aid (CPA) \$ -0- \$ 7.5 million
Chapter 150 provides an additional \$3 million in CPA funding to Beltrami County for aids payable in 2015-2024, and an additional \$1.5 million for Mahnomen County for aids payable in 2015 only. Of the amount to Mahnomen County, \$750,000 goes to the White Earth Band of Ojibwe for transition costs associated with health and human services.

Conservation easement property tax valuation \$ -0- \$ -0-
Chapter 150 clarifies language in the 2013 Omnibus Tax bill: that property tax valuation reductions apply only to easements or restrictions entered into after May 23, 2013.

Location Optional Revenue (formerly Location Equity Revenue) \$ -0- \$40.2 million
While the 2013 Omnibus Tax act provided metropolitan area and regional center school districts with the authority to levy location optional revenue, Chapter 150 extends this levy authority to all school districts and also provides that a district may levy any amount needed, up to \$424 per pupil. The law also provides that for a district with more than one referendum allowance expiring in the same year, the local optional revenue subtraction must be made first from any allowances that do not have an inflation adjustment approved by the voters. An increase in location equity revenue triggers a corresponding decrease in referendum revenue, and a reduction in referendum revenue increases a district’s state-paid location equity aid. With eligibility extended to an additional 130 school districts, the estimated cost is \$19.0 million in FY 2016 and \$21.2 million in FY 2017.

Property Tax interactions from Chapter 150 changes \$ -0- \$ 3.73 million
Property tax refund interactions in the FY 2016-17 biennium result from additional County Program Aid (-\$0.18 million) and from the extension of levy authority for Location Optional Revenue (+\$3.91 million).

Public Finance

- Itasca County – Provides general obligation bond authority to finance the construction of a new nursing home facility. Local approval needed. \$ -0- \$ -0-
- Detroit Lakes – Extends for 2 years the authority to approve tax increment plans, until December 31, 2016. \$ -0- \$ -0-
- City of St. Paul – Allows the City to spend tax increment from a 2008 TIF district to pay for bond obligations issued in 2009 for the RiverCentre Arena. \$ -0- \$ -0-
- State Fair-issued bond requirements modified. \$ -0- \$ -0-
- Metropolitan Council – Provides additional financing (up to \$75.3 mil) for metro area transit and paratransit capital expenditures. \$ -0- \$ 0.03 million

Appropriations

Department of Revenue –Chapter 150 administration **\$ 1.0 million** **\$ -0-**

Iron Range Resources and Rehabilitation Board (IRRRB)

School Consolidation Account **\$ 2.38 million** **\$ 4.83 million**

Effective for production year 2014 (FY 2015) and beyond, Chapter 150 annually appropriates general fund revenues equal to six cents per ton from the occupation tax to the IRRRB for transfer to the newly created Iron Range School Consolidation Account in the Special Revenue Fund. These funds will be coupled with non-general fund revenues from 1) an existing, ten-cent per ton distribution of production taxes, and 2) two-thirds of the production tax's annual inflation adjustment for distribution years 2015-2017, to help Iron Range school districts with debt service payments. For further detail, see Non General Fund, Iron Range School Consolidation Account.

Transfer from General Fund to Budget Reserve **\$150.0 million** **\$ -0-**

Chapter 150 provides a one-time transfer of \$150 million to the budget reserve on July 1, 2014. The law also directs the Commissioner of Management and Budget to calculate the level of budget reserves by multiplying the current biennium's general fund non-dedicated revenues by the amount of the most recent budget reserve percentage. After a November forecast surplus has been allocated to the statutory priorities in law, no more 33 percent from the forecast balance shall be transferred to the budget reserve account in the General Fund as needed to increase the budget reserves to the newly calculated level. The law also raises the limit on budget reserve from \$653,000,000 to \$810,922,000 so that a forecasted budget surplus will be used to increase the budget reserve without additional legislative action.

<i>Non General Fund – Minerals</i>	<i>FY 2014-15</i>	<i>FY 2016-17</i>
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Iron Range School Consolidation Account

6 cents per ton to Iron Range School Account	(2.38 million)	(\$4.83 million)
10 cents per ton to Iron Range School Account	(1.98 million)	(\$8.02 million)
Two-thirds inflation in production tax (3 years)	(\$0.49 million)	(\$4.84 million)

Effective for production year 2014 (FY 2015) and beyond, Chapter 150 creates the Iron Range School Consolidation Account in the Special Revenue Fund to receive 1) annual general revenue appropriations equal to six cents per ton from the occupation tax, and 2) non-general fund revenues from an existing, ten-cent per ton distribution of production taxes, plus two-thirds of the production tax's annual inflation adjustment for distribution years 2015-2017. The IRRB may use these funds to assist Iron Range school districts with debt service on bonds issued for qualified school projects, or for any other disbursements as authorized by the Board.

County Distribution Fund **\$0.99 million** **\$4.01 million**

Beginning in production year 2014 (FY 2015), production tax revenues that flow to the County Distribution Fund are reduced by five cents per ton and that amount is redirected to the Iron Range School Consolidation Account.

Taconite Economic Development Fund **\$0.99 million** **\$4.01 million**
Beginning in production year 2014 (FY 2015), production tax revenues that flow to the Taconite Economic Development Fund are reduced by five cents per ton and that amount is redirected to the Iron Range School Consolidation Account.

Taconite Environmental Protection Fund **\$0.49 million** **\$4.84 million**
Beginning in production year 2014 (FY 2015), the two-thirds of production tax revenues from inflation adjustments that flow to the Taconite Environmental Protection Fund are redirected to the Iron Range School Consolidation Account and the remaining one-third continues to be distributed to the Douglas Johnson Economic Protection Trust Fund.

Analysis by Chapter - Chapter 308 – Tax bill 2 (HF 3167)

<i>General Fund</i>	<i>FY 2014-15</i>	<i>FY 2016-17</i>
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Property Taxes, Aids & Credits

Homestead Credit Refund one-time 3% increase	\$ 12.1 mil	\$ 0.1 million
Renter Property Tax Refund one-time 6% increase	\$ 12.5 mil	\$ 0.1 million

Chapter 308 provides a one-time increase in property tax refunds for homeowners and renters. For homeowners, an increase of 3 percent will be added to their homestead credit refund for taxes payable in 2014. Likewise, renters will receive an increase of 6 percent to their property tax refund based on rent paid in 2013. These increases will be applied after the initial property tax refund is calculated, allowing a claimant to receive a total refund in excess of the initial maximum refund cap. The combined average refund for a homeowner would be \$837, and for a renter, \$643. Most of this refund increase will be paid in FY 2015, with a small portion rolling into FY 2016.

Property Tax Refund interactions	\$ -0-	(\$ 1.23 million)
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Provisions that change property taxes paid on residential homesteads (including farm homesteads) are assumed to change the amount homeowners receive in property tax refunds. Likewise, changes in property taxes paid on residential, agricultural or business property are assumed to impact the property tax deduction amount these taxpayers claim on their income tax return. Chapter 308 enhances a handful of property tax aids and credits which decrease overall local property tax burdens. The net impact of these changes is estimated to be a cost savings of \$1.23 million in the FY 2016-2017 biennium.

Local Government Aid (LGA) additional appropriations	\$ 0.02 million	\$ 15.63 million
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Chapter 308 makes three changes to LGA provisions: 1) it modifies the formula distribution by setting a city's formula aid equal to its unmet need amount, 2) it provides an additional appropriation of \$7.8 million per year beginning with aids payable in CY 2015/ FY 2016, and 3) it provides payments totaling \$48,000 (over two years) to the City of Bluffton for city aid withheld due to the late filing of financial reports with the state auditor.

County Program Aid (CPA) 2013 change hold harmless \$ 0.74 million \$ -0-

For CY 2014/ FY 2015 only, Chapter 308 provides one-time, supplemental aid for eleven counties whose CY 2014 aid was less than the aid received in CY 2013.

Aquatic Invasive Species (AIS) Prevention Aid \$ 4.5 million \$ 20.0 million

Beginning in CY 2014/FY 2015, Chapter 308 establishes a new county aid program to help prevent the spread of aquatic invasive species through Minnesota waterways. Funds will be distributed using a formula, half of which accounts for each county's share of public watercraft trailer launches and half based on the number of public parking spaces for watercraft trailers at these sites. Eighty-three of Minnesota's 87 counties will receive this aid, the outliers being Dodge, Fillmore, Pipestone and Rock Counties.

Production Property Transition Aid – Bins and Tanks \$ -0- \$ 0.16 million

In response to the Report and Study on Business Production Property, Chapter 308 exempts from the property tax structures and exteriors primarily used for storing ingredients or materials used in the production of bio-fuels, alcoholic beverages and dairy products. This change in definition of real property will cause certain cities and towns to lose a considerable portion of their net tax capacity. Beginning in 2016, transition aid will be available for three cities –Claremont, Janesville and Preston—estimated to lose 5 percent or more of their tax base. The transition aid then phases out by 20 percent each year over the next four years.

Payments in Lieu of Taxes (PILT) \$ 0.07 million \$ -0-

For CY 2014/ FY 2015 only, Chapter 308 makes two corrections to changes in the 2013 PILT payment law. First, it allows payments for wildlife management lands to be the greater of \$5.133 per acre or three-fourths of one percent of appraised value, the same option given to other types of natural resource lands. This modification is retroactive to CY 2013. A one-time appropriation of \$71,000 in FY 2014 will provide an additional payment to the five counties (Kittson, Marshall, Roseau, Pennington and Red Lake) that would have received a higher CY 2013 PILT amount due to this change. The second change clarifies the process for allocating \$300,000 annually to counties for their ditch assessments on consolidated conservation lands.

Volunteer First Responder Retention Stipend Aid \$ -0- \$ 3.23 million

With the intent of improving recruitment and retention, Chapter 308 creates the Volunteer First Responder Retention Stipend Aid pilot program. The three-year program will provide a \$500 stipend to volunteer firefighters, volunteer ambulance attendants and volunteer emergency medical responders who serve qualified entities in the pilot area during calendar years 2014, 2015 and 2016. After receiving a certified list of eligible volunteers from the Commissioner of Public Safety, the Commissioner of Revenue will make payments to qualified entities, who will forward the stipend to each eligible volunteer. By January 15, 2018, the Commissioner of Public Safety will report to the Legislature pertinent program data for the pilot counties and for comparison counties to measure success of the program. With an estimated 3,160 eligible participants, the cost of this pilot program is \$1.58 million in FY 2016 and \$1.65 million in FY 2017.

PROPERTY TAX CREDITS

Agricultural Market Value Credit

One-time Supplemental Credit Payment (CY 2014)	\$ 16.9 million	\$ -0-
Modified Agricultural Homestead Credit	\$ -0-	\$29.9 million

The Agricultural Market Value Credit (Ag MVC) appropriation reimburses taxing districts for property tax credits issued to owners of agricultural property minus the value of the house, garage and one acre of land. Applicants receive tax credits equal to 0.3 percent of the market value of the parcel up to a maximum of \$345 subject to a phase-back of the credit beginning at \$115,000 in market value and reaching a maximum of \$230 for farms valued at \$345,000 and above.

Chapter 308 makes two enhancements to this credit. First, a supplemental credit payment of up to \$205 will be paid by the Commissioner of Revenue to each qualifying property owner, so long as the supplemental credit does not exceed net taxes due and that each property is free of delinquent taxes. The Commissioner must pay these credits by October 15, 2014. About 94,000 agricultural homesteads will receive these payments at a cost of \$16.9 million in FY 2015.

Second, beginning in tax year 2015 (FY 2016), Chapter 308 revises the calculation of the agricultural homestead market value credit to 0.3 percent of market value on the first \$115,000, with an additional credit of 0.1 percent of market value above \$115,000. The phase-back has been eliminated. The maximum credit of \$490 (up from \$345) begins for farms valued at \$260,000 and above. The cost of this provision is estimated at \$14.8 million in FY 2016 and \$15.1 million in FY 2017.

Border City Disparity Reduction Credit

\$ -0- \$ 4.5 million

The Border City Disparity Reduction Credit provides reimbursements to cities for property tax credits issued to qualified commercial/industrial properties located in an enterprise zone of one of four designated border cities: Breckenridge, Dilworth, East Grand Forks, and Moorhead. In CY 2013/FY 2014, the credit reduced property taxes to 1.9 percent of the qualified property's market value, creating reimbursements totaling \$5.5 million for the year.

For CY 2015/FY 2016 and beyond, Chapter 308 increases the credit by reducing the effective tax rate threshold from 1.9 percent to 1.6 percent, and adds the city of Ortonville. Reimbursements to cities are estimated to increase by about \$2.2 million annually.

Property Tax Changes

Disabled veteran homestead market value exclusion

\$ -0- (\$ 0.31 million)

For the surviving spouse of a disabled veteran, Chapter 308 extends the homestead property tax benefit from five to eight years. It also provides the same benefit for spouses of military who are killed in action.

Solar energy systems exemption/solar production tax

\$ -0- \$ negligible

Chapter 308 creates a solar energy production tax on solar energy systems used as a power source (class 3a) and exempts the personal property of solar energy generating systems from property taxes. The rate of the tax on solar energy production would be \$1.20 per megawatt-hour excluding systems with a capacity of one megawatt alternating current or less. Currently,

there is one solar energy system in the state that has a capacity greater than one megawatt alternating current; its annual solar production revenues are estimated at \$3,000.

Limit sliding scale exclusion for electric power generation \$ unknown \$ unknown

For taxes payable in 2016 and beyond, Chapter 308 narrows eligibility for the sliding scale market value exclusion to 1) electric power generation facilities that were eligible in tax year 2015, or 2) facilities that are converted from coal to an alternative fuel and have capacity prior to conversion of less than 75 megawatts. The impact of this provision on local tax bases is unknown.

Cedar Lake/Helena township water/sewer modification \$ -0- \$ unknown

Chapter 308 allows for the removal of the subordinate service district for Silver Maple Bay Estates in Scott County. The elimination of this service district and the disposition of assets may reduce the property taxes by an unknown amount.

EMS special taxing districts modification \$ -0- \$ 0.01 million

The increase in Dakota County's levy authority from \$400,000 to \$550,000 is assumed to increase property taxes on all properties, including homesteads, which would trigger an increase in property tax refunds. See Property Tax Refund interactions, discussed earlier in this analysis.

Rice County Hospital district eliminated (Chp 183) \$ -0- (\$ 0.04 million)

See Property Tax Refund interactions, discussed earlier in this analysis.

Appropriations

Workforce Housing Grant Pilot \$ 0.63 million \$ 1.37 million

Chapter 308 requires the Commissioner of Employment and Economic Development (DEED) to establish a workforce housing grant program to make grants to cities to support the development of market-rate rental housing. Grants of up to \$400,000 may be awarded to qualifying cities located in Roseau and Pennington Counties. In addition, any city receiving a grant must submit a report to the House and Senate Committees with jurisdiction over taxes and workforce development by January 15, 2016. A one-time appropriation totaling \$2 million (over two years) is made for these grants, with moneys available until June 30, 2018.

Debt Service Aid - Lewis & Clark Joint Powers Board \$ -0- \$ 4.40 million

In an effort to assist local governments in southwest Minnesota with the construction of the Lewis and Clark Regional Water System Project, Chapter 308 provides local bonding authority, local taxing authority (1/2 cent local sales tax) and state debt service aid to finance up to \$45 million in local bonds. The Lewis and Clark Joint Powers Board will coordinate the Project's finances for the four units of government located in the Project area – the Cities of Luverne and Worthington, and Rock and Nobles Counties – including allocating bond debt service and any state and federal aid received for the Project.

The Commissioner of Revenue will pay state debt service aid to the Lewis and Clark Joint Powers Board in an amount equal to the principal plus interest on the bonds due in the upcoming year minus 1) 1.5 percent of the combined adjusted net tax capacity of Rock and Nobles

Counties and 2) 50 percent of any federal grants and aids received for the project. If the amount of federal grants and aids received for the project exceed the local payment obligation (excluding state aid), then the Joint Powers Board must repay the excess to the Commissioner of Revenue. Aid payments will be made in July and December, along with other city and county aid program distributions.

Total annual debt service for this Regional Water System Project is estimated at \$3.43 million, of which \$2.2 million will be state-paid debt service aid beginning in FY 2016, and lasting through 2038 or until the bonds are fully paid off.

Reports and Studies

North Dakota oil production impact on MN \$ 0.25 million \$ -0-

Chapter 308 appropriates \$250,000 in FY 2015 to the Commissioner of Employment and Economic Development to study and analyze the effects of current and projected North Dakota oil production and its impacts on Minnesota’s economy. A presentation of the study is required to the House and Senate committees with jurisdiction over economic development and workforce issues by February 15, 2015.

Property tax on Energy Producing Systems \$ 0.15 million \$ -0-

Chapter 308 appropriates \$150,000 in FY 2015 to the Commissioner of Revenue to study the taxation of electric energy producing systems in the state, including traditional and renewable energy sources. A presentation of the study is required to the House and Senate Tax Committees by February 15, 2015.

Administration

Department of Revenue –Chapter 308 various changes	\$ 2.50 million	\$ 1.18 million
Department of Natural Resources – AIS Prevention	\$ 0.40 million	\$ -0-
Department of Public Safety – Volunteer 1st Responder	\$ 0.04 million	\$ 0.02 million

Non General Fund – Minerals* *FY 2014-15* *FY 2016-17

Iron Range School Consolidation Account		
Expired School Bond payments	\$ -0-	(\$ 0.03 million)
Taconite Environmental Protection Fund	\$ -0-	\$ 0.02 million
Douglas J Johnson Economic Protection Fund	\$ -0-	\$ 0.01 million

Effective for calendar year 2016 (FY 2017) and beyond, Chapter 308 expands the sources of revenue for the Iron Range School Consolidation Account in the Special Revenue Fund to include taconite production tax payments currently appropriated to nine schools with expiring bonds. When each school’s bond requirements are met, the payments will then be redirected from the Taconite Environmental Protection Fund and the Douglas J. Johnson Economic Protection Fund to the school trust fund account. Payments are estimated to be \$61,000 in CY 2017, \$1.8 million in CY 2018 and \$2.4 million in each 2019 and 2020, continuing to increase to \$3.4 million in 2024 and beyond. The impact above reflects the conversion to fiscal year format.

Taconite Property Tax Relief Account**\$7.46 million****\$ -0-**

For Distribution Year 2014 only, Chapter 308 creates a special fund to receive 18.84 cents per ton of any excess of the balance remaining after the distribution of taconite production taxes under Minnesota Statutes 298.28, subdivision 6. These funds, which would normally go to the taconite property tax relief fund held by St. Louis County as fiscal agent, are instead allocated to eighteen Iron Range local governments for public works projects.

For more information about tax aids and credits, please contact Katherine Schill at 651-296-5384 or Katherine.Schill@house.mn.