

A

Fiscal Review

of the

2005 Legislative Session

**Prepared by
Minnesota State Senate
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INTRODUCTION

The Fiscal Review is an annual report of significant fiscal and policy actions taken by the Minnesota Legislature. No report, however, was issued in 2004, due to the limited scope of budget-related legislative enactments that year.

This report covers actions taken during the 2005 Regular Session, and the First Special Session of 2005. The report does not account for all legislative actions.

Historical users of the Fiscal Review will want to be aware of changes being made in the 2005 report. Beginning in 2005, the report is based on actual spending for the prior biennium and appropriations for the current biennium. Earlier publications of the Fiscal Review reported on comparisons of appropriated amounts from one biennium to the next, even if actual spending differed due to forecast changes, cancellations of appropriated funds, or other reasons. In addition, much of the budget information formerly found in Appendices has instead been pulled into individual chapters. (These changes are intended to help readers to more readily compare past spending to budgeted spending by fund and function.)

Appropriations Versus Spending

Appropriations are authorizations made by the Legislature to spend money from the state treasury for the purposes established by law. Actual spending cannot exceed appropriation amounts without approval from the Legislature or, in some cases, unless certain conditions provided for in law have been met.

There are two basic types of appropriations. Direct appropriations are authorizations for a specific dollar amount and time period; these appropriations are typically found in session law rather than statutes. Statutory appropriations are authorizations for ongoing payments specified in statutes. These appropriations may be for a specific dollar amount or for an open-ended amount, such as the amounts needed to serve all persons meeting certain program requirements and benefit levels set in law. The amounts shown for statutory appropriations reflect estimates of expected spending. Statutory appropriations do not need to be reauthorized each session and continue to be funded even if biennial budget bills are not adopted.

Distinct from the various appropriation types, dedicated revenues and expenditures are streams of revenue dedicated to specific funding purposes. Amounts shown for authorized spending levels reflect the estimates of the revenues to be generated and the allocation of those revenues established in law.

“Base” Versus Prior-Biennia Amounts

Various measures may be used to compare current budget decisions to past budgets. This report provides comparisons for the two most common measures: current versus prior biennium (e.g. FY 2006-07 versus FY 2004-05); and current versus “base”. “Base,” which is defined in Minnesota Statutes, section 16A.11, subdivision 3, generally refers to the amounts that would be expended if direct appropriations for the

second year of the previous biennium were carried forward and statutory appropriations are continued at forecast levels.

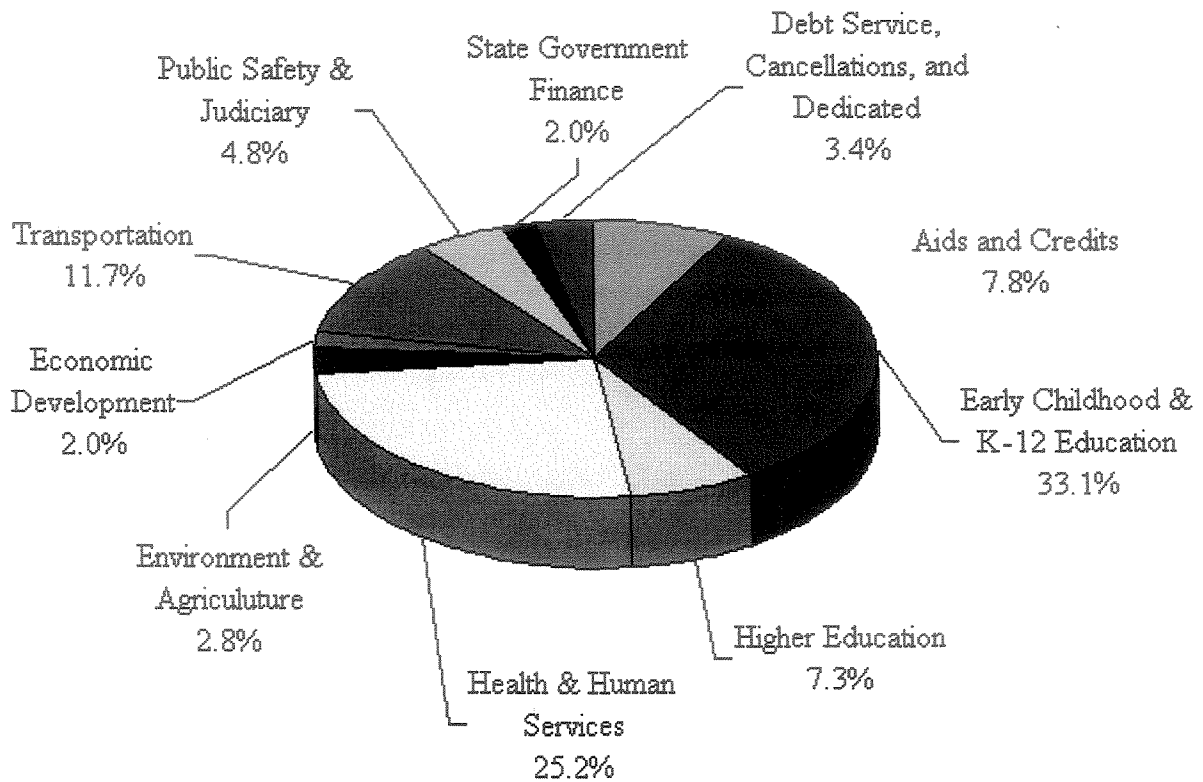
Report Organization and Content

The Fiscal Review is organized by functional budget areas and does not necessarily correspond to Senate Finance Committee structure or Omnibus bill structure.

The General Fund budget decisions tend to receive the most attention during legislative sessions. However, some functional budget areas are largely funded through special funds. This report summarizes legislative action affecting both the General Fund and special funds so that readers can distinguish between the decisions made to balance the General Fund and the overall budget for a functional area. Further, while most significant fiscal and policy actions are integrally related, the report also highlights significant policy changes that have little or no fiscal impact.

Appendix A-1 provides a summary of fund totals by budget area.

**State Appropriations by Function and Area,
All State Funds
FY 2006-2007 Biennium
Total State Appropriations:
\$ 38.234 billion**



SUMMARY FISCAL AND POLICY ACTIONS OF THE 2005 LEGISLATURE

The state budget enacted for the 2006-2007 biennium calls for \$50.1 billion in total spending, an increase of \$3.8 billion or 8.3 percent over the previous biennium (FY 2004-05) and an increase of \$1.1 billion, or 2.3 percent, over the February 2005 forecasted spending for FY 2006-2007. The \$50.1 billion includes \$38.2 billion of spending supported by state resources

and \$11.9 billion of federal funding. The state General Fund, which is required by the State Constitution to maintain biennial balance, accounts for \$30.6 billion of the adopted spending for the FY 2006-2007 biennium. Table 1 summarizes total state and federal spending by functional area.

<u>State Funds</u>	FY 2004-05 Spending*	FY 06-07 Enacted Budget	Difference	Percent Change
K-12 Education	11,931,477	12,466,353	534,876	4.5%
Health and Human Services	8,698,869	9,824,252	1,125,383	12.9%
Transportation	4,184,008	4,457,295	273,287	6.5%
Tax Aids and Credits	2,782,299	2,985,328	203,029	7.3%
Higher Education	2,608,731	2,807,468	198,737	7.6%
Debt Service – Transfers - Others	1,185,768	2,068,395	882,627	74.4%
Public Safety	1,584,518	1,852,757	268,239	16.9%
Environment and Agriculture	1,072,088	1,061,197	-9,891	-0.9%
Economic Development	889,459	832,227	-57,232	-6.4%
State Government	745,690	781,491	35,801	4.8%
Early Childhood Education**	174,272	172,239	-2,033	-1.2%
General Fund Transfers Out	-963,969	-1,074,911	-110,942	-11.5%
Total State Funds	34,893,210	38,234,091	3,340,881	9.6%
Federal Funds				
Health and Human Services	8,436,871	9,015,034	578,217	6.9%
K-12 Education	1,151,108	1,223,797	72,689	6.3%
Economic Development	706,343	680,371	-25,972	-3.6%
Transportation	627,532	597,342	-30,190	-4.8%
Public Safety	293,444	155,300	-138,144	-47.1
Environment and Agriculture	99,730	96,577	-3,153	-3.2%
State Government	90,690	111,429	20,739	22.9%
Higher Education	9,190	8,795	-395	-4.3%
Tax Aids and Credits	0	0	0	n/a
Debt Service	-17,000	-1,000	16,000	94.1%
Total Federal Funds	11,397,908	11,887,645	489,737	4.3%

Table 1 continued	FY 2004-05 Spending*	FY 06-07 Enacted Budget	Difference	Percent Change
All Sources				
Health and Human Services**	17,135,740	18,839,286	1,703,185	9.9%
K-12 Education	13,082,585	13,690,149	607,564	4.6%
Transportation	4,811,540	5,054,637	243,097	5.1%
Tax Aids and Credits	2,782,299	2,985,328	203,029	7.3%
Higher Education	2,617,921	2,816,263	198,342	7.6%
Debt Service – Transfers - Other	1,168,718	2,067,395	898,627	76.9%
Public Safety	1,877,962	2,008,057	130,195	6.9%
Economic Development	1,595,802	1,512,598	-88,954	-5.6%
Environment and Agriculture	1,171,818	1,157,774	-14,044	-1.2%
State Government	836,380	892,920	56,540	6.8%
Early Childhood Education **	174,272	172,239	-2,033	-1.2%
General Fund Transfers Out	-963,969	-1,074,911	-110,942	11.5%
Total—All Sources	46,291,118	51,121,736	3,830,618	8.3%

*Based on the February 2005 Forecast

**State and federal spending on Basic Sliding Fee child care included in Health and Human Services totals but funded in Early Childhood Education budget.

Budget deliberations during the 2005 legislative session focused primarily on elimination of a projected \$466.1 million General Fund budget deficit and on proposals to increase spending for education, public safety, capital projects and other programs by increasing revenues, reducing spending in other areas, or a combination of the two. The General Fund budget enacted for the FY 2006-2007 biennium, including direct and open appropriations, totals \$30.6 billion, an increase of \$2.4 billion or 8.4 percent over FY 2004-2005, and an increase of \$397 million or

1.3 percent over the FY 2006-2007 spending base.

General Fund Budget Deficit

As summarized in Table 2, the February 2005 forecast projected a General Fund shortfall of \$466.1 million for the FY 2006-2007 biennium, with projected expenditures of \$30.2 billion exceeding projected revenues of \$29.7 billion. Revenue and expenditure projections reflect the amounts that would carry-forward with laws in effect at the time of the forecast.

Table 2
General Fund Biennial Summary
(in millions)

	FY 2004-2005	Feb. Fcst. Base FY 2006-2007	Enacted FY 2006-2007
Balance Forward	369	1,003	1,003
Revenues - Current	28,829	29,711	29,711
Revenues - Changes			875
Total Resources Available	29,198	30,714	31,589
<i>Percent Change over FY 2004-2005*</i>		3.6%	6.2%
Expenditures & Transfers-Base	28,195	30,177	30,177
Expenditures & Transfers-Changes			397
Total Expenditures	28,195	30,177	30,574
<i>Percent Change over FY 2004-2005</i>		7.0%	8.4%
Balance before Reserves	1,003	537	1,015
Prior Reserves	104	1,003	1,003
Change in Reserves	899		0
Balance after Reserves	0	-466	12

* Percentages reflect revenue differences excluding reserves and carry-forwards

The combination of tax and spending provisions passed by the 2005 Legislature, including action in both the Regular Session and the First Special Session, eliminated the projected \$466.1 million General Fund deficit and increased spending with both revenues and expenditures projected at \$30.6 billion. As shown in Table 3, the enacted budget for FY 2006-2007 reflects net revenue increases of \$875 million (2.9 percent) and net expenditure increases of \$397 million (1.3 percent) over the February forecast.

Compared to the previous biennium (FY 2004-2005), General Fund revenues will be up \$1.388 billion (6.2 percent) and spending up \$2.379 billion (8.4 percent).

Overview of General Fund Revenues

The 2005 legislative action increased General Fund revenues by a net of \$875 million over the February forecast. These changes, along with forecasted growth in revenues, will result in General Fund revenues being \$1.757 billion, or 6.1 percent, higher for the FY 2006-2007 biennium than for FY 2004-2005.

Table 3
General Fund Revenue Changes by Type and Functional Area
(dollars in millions)

	FY 2004-2005*	FY 2006-2007 Base*	FY 2006-2007 Enacted	Change: Enacted - FY 04-05	Change: Enacted - Base
Total	28,829	29,711	30,586	1,757	875
Revenues by Type					
Tax Revenues	25,770	27,888	28,192	2,422	304
Non-Tax Revenues	1,478	1,409	1,491	13	82
Transfers from Other Funds	1,458	290	759	-699	469
Dedicated Revenue	58	74	74	16	0
Prior Year Adjustments	65	50	70	5	20
Revenue Changes by Functional Area					
K-12 Education					0
Early Childhood Education					0
Higher Education					0
Public Safety					40
State Government					113
Health and Human Services					394
Transportation					18
Tax Aids and Credits					299
Environment and Agriculture					-28
Economic Development					39

* Based on the February 2005 Forecast

The largest single revenue change was the enactment of a seventy-five cents per pack Health Impact Fee on cigarettes and related fee changes for tobacco products contributing to a net increase in General Fund revenue of \$401 million for FY 2006-2007. The Health Impact Fee, however, was ruled unconstitutional by a district court in December 2005. The State is continuing to collect the fee while appeals are pending.

In addition, tax revenues are expected to be a net of \$304 million higher than February forecast, including revenues from extending taxes set to expire, from additional tax compliance and tax amnesty programs, and from a variety of other tax law changes. General Fund revenues also increased due to a variety

of fee increases and onetime transfers and nontax revenue changes.

Overview of General Fund Spending

As summarized in Table 4 and discussed more fully in subsequent chapters, the \$397 million increase in spending for the FY 2006-2007 biennium relative to the February forecast base reflects spending increases in some areas and spending reductions in others. More specifically, the enacted budget calls for spending increases for early, primary, and higher education, public safety, capital projects, and other programs. General fund spending is reduced relative to the forecast base for health care and human service programs, economic development, environment, certain state agency operations, and selected other programs.

Table 4
General Fund Spending by Functional Area
(dollars in millions)

	FY 2004-2005*	FY 2006-2007 Base*	FY 2006-2007 Enacted	Change: Enacted - FY 04-05	Change: Enacted - Base
Total	28,195	30,177	30,574	2379	397
E-12 Education	12,045	12,013	12,578	533	565
Higher Education	2,542	2,753	2,761	219	8
Public Safety	1,450	1,587	1,685	235	98
State Government	585	561	584	-1	23
Health and Human Services	7,262	8,632	8,264	1,002	-368
Transportation	159	163	205	46	42
Tax Aids and Credits	2,807	2,961	2,984	177	23
Environment and Agriculture	423	416	374	-49	-42
Economic Development	317	321	306	-11	-15
Debt Service	589	716	781	192	65
Other	19	54	52	33	-2

* Based on the February 2005 Forecast

K-12 Education

Overall, spending from all state sources for K-12 education was increased by 4.6 percent from \$13.082 billion in the FY 2004-2005 biennium to \$13.690 billion for the FY 2006-2007 biennium. General Fund appropriations account for 90.6 percent of this spending and were increased by 4.5 percent from \$11.871 billion in the FY 2004-2005 biennium to \$12.406 billion for the FY 2006-2007 biennium. By comparison, General Fund appropriations were increased by \$552.9 million, or 4.6 percent, over the February forecast base for the FY 2006-2007 biennium.

Chapter 5, 2005 First Special Session, the Omnibus Education Finance Act, provided school districts with an \$800 million funding increase for 2006 and 2007, including \$139.1 million in property taxes, over the February forecast base for the FY 2006-2007 biennium. The changes increased state General Fund spending by a net of \$565 million for the FY 2006-2007

biennium after adjustment for aid payment and property tax recognition shifts. Most additional funding—\$519.2 million—was allocated to school districts through enhancements to the general education formula allowance and associated linkages, reflecting a 4.0 percent formula increase for both 2006 and 2007.

In addition, Chapter 5, First Special Session, provided \$85.9 million for a new quality compensation program; \$18.2 million for special education programs; \$11.0 million for gifted and talented programs; \$7.5 million for telecommunications access; and \$4.1 million for a new “Get Ready, Get Credit” program. Chapter 5 also increased the referendum revenue cap from 18.6 percent to 26 percent of the formula allowance, established a new deferred maintenance property tax levy beginning in 2008, made adjustments to other miscellaneous levies, and made a variety of other policy changes. Further, the Legislature also directed the Commissioner of Education to review

implementation of the federal “No Child Left Behind” Act and seek waivers from that law in nine areas.

Early Childhood Education

Of the \$800 million in new funding for education, \$12.5 million was for increased funding to early childhood programs in FY 2006-2007. Overall, funding for these programs increased 7.8 percent over the February forecast base budget, but was 1.2 percent less than FY 2004-2005 biennium.

Higher Education

Chapter 107, the Omnibus Higher Education Funding Act of 2005, increased General Fund appropriations for higher education—which accounts for 98 percent of legislatively appropriated higher education funding—by \$201.9 million for the FY 2006-2007 biennium, or 7.9 percent over the previous biennium. The funding increases amount to \$8.2 million, or 3.0 percent, over the FY 2006-2007 base appropriations and include a \$15 million onetime appropriation for biotechnology and a medical genomics project, \$3.2 million to expand programs in Rochester, student aid program changes, and other provisions.

Public Safety

The budget enacted for the FY 2006-2007 biennium provides \$2.0 billion—of which \$1.7 billion, or 84 percent, is appropriated from the General Fund—for corrections, public safety, the judiciary, and related programs. General Fund appropriations are 5.8 percent higher than the February forecast base and 16.2 percent over the FY 2004-2005 biennium. The largest funding increases over base levels were for the judiciary (\$35.0 million); the Department of

Corrections (\$27.0 million); the Department of Public Safety (\$21.4 million); and the Board of Public Defense (\$14.6 million).

More specifically, the General Fund appropriation increases provide additional funding for prison health care, sex-offender treatment and other costs related to sex offenders, community-based supervision and probation officers, civil legal services, judicial salary increases, and public defenders. In addition, the 2005 Legislature also authorized a significant increase in the 911 telephone surcharge, to 65 cents from 40 cents per line, to fund various 911 system-related costs.

Sex Offender Law Changes

Chapter 136, the Omnibus Public Safety Act of 2005, made significant changes to criminal sentencing for offenders convicted of certain egregious or repeat sex offenses. The new law provides for life-without-release for offenders convicted of certain types of first- and second-degree criminal sexual conduct, and for mandatory indeterminate life sentences for certain first-time sex offenders, as well as longer community correctional supervisory periods for other convicted sex offenders.

Environment and Agriculture

Chapter 1, 2005 First Special Session, the Omnibus Environment and Agricultural Finance Act, provided total appropriations of \$1.158 billion for the FY 2006-2007 biennium, a decrease of 1.2 percent over the previous biennium. The overall budget includes \$374.2 of direct and open General Fund appropriations, a decrease of 13.2 percent over the previous biennium. General Fund reductions reflect forecast

reductions for ethanol producer payments, the shifting of solid waste management tax revenues and pollution control agency spending out of the General Fund to other funds, and other transfers and shifts, as well as general agency reductions.

In addition, 2005 Chapter 1, First Special Session, established a sunset for the Legislative Commission on Minnesota Resources (LCMR) and established an advisory task force to examine the current process for making spending recommendations, and increased fees for General Fund and Non-General Fund programs, such as a new resident snowmobile state trail sticker and increased fees for watercraft licenses and cross-country ski licenses.

Economic Development

Spending for economic development programs is expected to decrease from \$2.656 billion to \$2.509 billion, or 5.5 percent, between the FY 2004-2005 biennium and FY 2006-2007 as a result of the budget enacted by the 2005 Legislature. By comparison, General Fund spending is expected to decrease from \$334.1 million to \$306.1 million, a decrease of 8.4 percent, from the FY 2004-2005 biennium to FY 2006-2007; and by 4.5 percent relative to the February forecast for FY 2006-2007. New initiatives included a biotechnology/medical genomics partnership between the Mayo Clinic and University of Minnesota funded at \$15 million and a new program to combat homelessness funded at \$4 million annually. These new funds were more than offset by General Fund reductions elsewhere, including a \$9.7 million onetime cut in renewable energy grant funding; a \$13.2 million

reduction in youth programs; agency budget reductions; transfers of weights and measures functions to the Petroleum Fund (\$5.0 million savings); and other changes.

Health and Human Services

Chapter 4, 2005 First Special Session, the Omnibus Health and Human Services Finance Act, provided \$18.6 billion for the FY 2006-2007 biennium from all sources for health and human service programs. Of this amount, \$8.3 billion, or about 47 percent, of overall funding was in direct and open General Fund appropriations. Spending from all funds for health and human services was 10.6 percent more than the previous biennium. By comparison, General Fund appropriations were 13.8 percent higher than the previous biennium and 4.3 percent lower than the February forecast base for FY 2006-2007.

Net General Fund spending reductions for health and human service programs included reductions for certain economic support programs, HealthMatch savings, and other changes, along with increased funding for nursing homes and other programs. Available Health Care Access Fund balances were used to repeal the \$5,000 benefit cap for adults without children in the MinnesotaCare program and to reinstate other MinnesotaCare benefits eliminated in 2003.

Military and Veterans Programs

The State Government Omnibus Finance Act appropriated funds for a variety of new Military and Veterans Affairs spending initiatives, including: a \$7.7 million increase for a tuition reimbursement program; \$3 million to

provide bonuses for eligible members of the National Guard who extend their enlistment; and a new "Support Our Troops" license plate program anticipated to provide \$1.2 million of revenue to support a variety of grants to assist active members of the National Guard and their families and veterans.

Transportation

Chapter 6, 2005 First Special Session, provided for total transportation and transit funding of \$5.1 billion for the FY 2006-2007 biennium, almost 96 percent of which is outside of the General Fund. General Fund appropriations were increased by \$42.3 million over the February forecast base, and by \$46.3 million over the FY 2004-2005 biennium, to provide additional funding for metropolitan and Greater Minnesota transit programs. Fee changes increased General Fund revenues by \$16.4 million for FY 2006-2007. Non-General Fund spending authorized by Chapter 6, First Special Session, will be \$4.849 billion for the FY 2006-2007 biennium.

Property Tax Aids and Credits

State spending for property tax aids and credits was \$22.3 million higher than the February forecast base of \$2.961 billion for the FY 2006-2007 biennium. The change reflects an increase for Local Government Aid payments to cities of \$48 million annually beginning with aids payable in 2006 (FY 2007), and a reduction in market value homestead credit reimbursements by extending for two more years, for taxes payable in 2005 and 2006, reductions first enacted in 2003. This latter change along with a change for partial homesteads reduced spending by \$35.8 million for FY 2006-2007. The phase-out of the

Limited Market Value (LMV) program, enacted in 2001, was delayed for two years.

Capital Investment and Debt Service

In 2005, the Legislature approved \$944 million for capital investment projects statewide. While capital investment bills are typically smaller in odd-year sessions and larger in even-year sessions, no bonding bill was enacted in 2004. Of the \$944 million, \$886 million is to be financed through state general fund appropriations over the next 20 years and \$59 million is user-financed, with higher education institutions or school districts responsible for debt service. The budget provisions enacted for the FY 2006-2007 biennium provided for an additional \$63 million from the General Fund, relative to the February forecast base, to fund debt service on the increased general obligation bonding authority.

Methamphetamine Crisis

The 2005 Legislature adopted a variety of initiatives intended to address problems related to the manufacture, sale, and use of methamphetamine, including provisions to: restrict the sale of products containing ephedrine and pseudoephedrine, which are used to manufacture methamphetamine (see Chapter 136) and to establish penalties for stealing, purchasing, or possessing anhydrous ammonia to be used in the manufacture of meth (see Chapter 136). Funding was provided for ten new agents for the Bureau of Criminal Apprehension to work exclusively on methamphetamine enforcement statewide (Chapter 136). In addition, a revolving loan account was established to assist local units of government with cleanup of the hazardous waste

generated by the manufacture of methamphetamine (see Chapter 1, First Special Session).

Conceal and Carry Handgun Law

The 2003 Legislature passed legislation making the process for obtaining a handgun permit easier and more uniform statewide. A district court later struck down that law because it was attached to an unrelated bill at the time of passage, and that ruling was later upheld by the Minnesota Supreme Court. The 2005 Legislature reenacted those provisions with certain changes, including allowing businesses to provide notice that they ban guns on their premises with either signage or verbally; requiring permit holders to disclose whether they are carrying a gun when requested by a peace officer; directing the establishment of standards for firearms instructors; requiring disclosure of city/town and county of residence on the application; and directing the court to take possession of a permit upon conviction of a felony by a permit holder. (See Chapter 83.)

Child Support/Custody Changes

The 2005 Legislature overhauled child support and custody laws for the first time in two decades. The new provisions, enacted as Chapter 164, focused on changes in the calculation of child support payments by using the combined gross income of both parents. The law also defines the costs to be included in basic support for a child, allows child support to be adjusted every two years with cost of living changes, addresses how health care is to be provided for a child in joint custody, and provides criteria for evaluating the appropriateness of health care coverage. The changes apply to child support agreements entered into after January 1,

2007. To help offset the administrative costs of implementing the new law, a \$50 fee was added to the civil court filing fee already charged to those filing for divorce.

STATE TAX REVENUES

The February 2005 forecast projected a \$466 million General Fund budget deficit for the 2006-2007 biennium. State tax revenues ultimately contributed some \$304.2 million to the FY 2006-2007 budget solution. An additional \$401 million was generated through a new "Health Impact Fee" of 75 cents per pack on cigarettes and a fee imposed at the rate of 35 percent of the wholesale price on cigars and other tobacco products. This section of the Fiscal Review deals only with state tax revenues.

Revenue Gains

Key components of the revenue raising package based on state taxes include:

- conforming with several federal tax changes made since 2003 (\$7.5 million);
- adopting changes to the sales tax base that brought Minnesota into conformity with the Streamlined Sales Tax Agreement (\$41 million);
- replacing the 2.5 percent additional sales tax on alcoholic beverages (which was set to expire on January 1, 2006) with a new 2.5 percent gross receipts tax effective January 1, 2006 (\$84 million), and repealing the expiration of the special 12.7 percent tax on rental vehicles (\$19 million);
- requiring that the sales tax on motor vehicle leases be paid up front rather than as part of the monthly lease payment (\$39 million);

- changing the collection of the cigarette sales tax from the retail to the wholesale level (\$10 million);
- reversing the effects of four court cases dealing with gas pipelines, telecommunications, and insurance taxes (\$29 million);
- tightening the definition of "foreign operating corporation" (\$5 million);
- implementing a voluntary tax compliance initiative (VCI) to address abusive tax shelters (\$57 million); and
- changing income tax withholding (\$18 million).

Revenue Reductions

The 2005 Legislature also enacted various tax breaks, including:

- changes to the alternative minimum tax (\$3 million);
- enhancement of the K-12 education credit (\$1.4 million);
- state income tax relief for military, National Guard, and Reserve personnel (\$2 million);
- changes in the ways corporations and financial institutions calculate taxable income (\$2 million); and
- tax rate reductions for insurance companies (\$5 million).

Table 1
Total General Fund Tax Revenues
(dollars in thousands)

	FY 2004-2005*	FY 2006-07 Base*	FY 2006-07 Enacted	Change: Enacted - FY 2004-05	Change: Enacted - Base
Revenues					
Total Tax Revenues	25,827,807	27,961,804	28,266,001	2,438,194	304,197
Individual Income (Tsunami Relief in Feb. 05 Base)	11,885,439	13,482,740	13,515,618	1,630,179	32,878
Corporate Income	1,456,948	1,468,800	1,505,195	48,247	36,395
Sales **	8,326,853	8,848,520	8,905,865	603,625	81,958
Motor Vehicle Sales	537,374	530,950	530,950	(6,424)	0
Statewide Property	1,217,396	1,291,217	1,291,202	73,806	(15)
Estate	172,058	176,000	176,000	3,942	0
Alcohol	136,233	135,467	135,442	(791)	(25)
Cigarettes and Tobacco	310,129	292,785	387,869	77,740	95,084
Taconite	3,980	4,650	4,650	670	0
Mortgage Registry and Deed	626,030	476,000	476,000	(150,030)	0
Insurance Gross Earnings	535,683	590,500	591,430	55,747	930
Lawful Gambling	119,520	119,520	119,520	0	0
Medical Assistance Surcharges	401,052	413,855	404,785	3,733	(9,070)
Other	40,798	56,735	56,710	15,912	(25)
Dedicated Revenues	58,314	74,065	74,065	15,751	0

*Based on February 2005 Forecast

**Beginning in FY 2006, all solid waste management tax (SWMT) revenues were shifted out of General Fund (\$24,613 in FY 2006-2007).

The following provides additional information about the key state tax changes made by the 2005 Legislature and includes tables itemizing the state revenue changes resulting from the newly enacted laws. These changes were enacted in Laws 2005, First Special Session Chapter 3, unless otherwise noted.

FEDERAL CONFORMITY

The 2005 Omnibus Tax package made several changes to align state individual and corporate income tax laws with provisions in the federal tax code that have been enacted since 2003. The provisions of the federal tax code that were adopted by the state include:

- The Military Family Tax Relief Act of 2003, which increased the death benefit and the income exclusion for death benefits paid to survivors of members of the military killed in the line of duty;
- The Medicare Prescription Drug Improvement and Modernization Act of 2003, to allow the deduction of contributions to Health Savings Accounts (HSAs) for individuals with high-deductible medical plan coverage. The maximum deduction is \$2,250 for individuals and \$4,500 for family coverage. A high-deductible plan is defined as one with an annual deductible of at least \$1,000 for individual coverage (\$2,000 for family coverage) and a maximum combined deductible and

out-of-pocket expense requirement of \$5,000 for individual coverage and \$10,000 for family coverage. Earnings on amounts contributed to HSAs are tax exempt, as are distributions used for medical expenses;

- The Working Families Tax Relief Act of 2004 provision that extended the \$250 deduction for teaching materials purchased by teachers and individual and corporate deductions for clean fuel vehicles;
- The American Jobs Creation Act of 2004 to extend the higher federal limit on expensing under Internal Revenue Code (IRC) section 179 for another two years. While using the federal amount as the starting point, Minnesota requires that 80 percent of the amount expensed be added back to Minnesota income. Twenty percent of that add-back may then be subtracted in each of the succeeding five years;
- A provision allowing charitable deductions for tsunami relief made in January 2005 to be deducted as a charitable contribution for the 2004 tax year (enacted in Laws 2005, Regular Session Chapter 1); and
- A provision excluding federal disaster mitigation payments from adjusted gross income.

INDIVIDUAL INCOME AND CORPORATE FRANCHISE TAXES

Alternative Minimum Tax (AMT)

Effective for tax year 2006, Minnesota's AMT will allow a full deduction for charitable contributions. Currently, the AMT deduction for charitable contributions is limited to one percent of a taxpayer's income.

Military Pay

An income tax subtraction is allowed to members of the military, National Guard, or Reserves for compensation paid while on active service. These individuals are currently deemed as nonresidents. If the subtractions reduce the total Minnesota source income of a military member below the filing requirement, those individuals will not be required to file a tax return in Minnesota. The amount of income subtracted, however, may be counted as earned income in order to qualify for the state working family and dependent care credits.

K-12 Credit

The current \$1,000 maximum per-child credit is maintained; however, it will be allowed for an unlimited number of qualifying children. Under current law, there is a \$2,000 per-family limit on the credit. Under the new provision, taxpayers can distribute the maximum among their qualifying children. The credit is phased out at the rate of \$1 for each \$4 of household income over \$33,500 for families claiming the credit for one child, and at the rate of \$2 for every \$4 of household income for families claiming the credit for two more children.

Withholding Changes

Businesses that hire independent nonresident contractors to perform construction work in Minnesota are required to withhold and remit to Minnesota eight percent of cumulative calendar year payments in excess of \$50,000. The previous withholding threshold was eight percent withholding on contracts exceeding \$100,000. In addition, nonresident partners and S-corporation shareholders are required to

file quarterly withholding. Under previous law, these tax payments were delayed until after the close of the calendar year.

Foreign Operating Corporations (FOCs)

The definition of FOC now requires a qualifying business to have an average percentage of property and payroll (including the pro rata share of its unitary partnership property and payroll) assigned to locations outside the U.S. equal to at least 80 percent, and have \$1 million in payroll and \$2 million of property located outside of the United States.

Single-Sales Apportionment

An eight-year phase in of single factor sales apportionment of income was enacted. The phase-in begins for tax year 2007 for regular corporations and follows the following schedule:

Tax Year	Sales Percentage
Current Law	75
2007	78
2008	81
2009	84
2010	87
2011	90
2012	93
2013	96
2014	100

Single-factor sales apportionment for financial institutions is phased in under the same schedule. The current law apportionment formula of 75 percent sales, 12.5 percent property, and 12.5 percent payroll will continue to apply to the calculation of income subject to taxation for those engaged in mining or producing ores. Since all of these sales are non-Minnesota sales, single-sales apportionment would have the effect of eliminating the occupation tax.

Table A below highlights the significant individual and corporate income tax changes, including federal conformity, enacted by the 2005 Legislature.

	FY 2006	FY 2007	FY 2006-07	FY 2008-09
TAX REVENUE				
Income Tax				
AMT -- allow full deduction for charitable contributions	0	(3,300)	(3,300)	(8,100)
National Guard -- exempt pay for active service in Minnesota	(42)	(42)	(84)	(84)
Military pay -- subtract active duty military service out of state	(960)	(970)	(1,930)	(1,970)
K-12 Credit	(695)	(730)	(1,425)	(1,575)
Require quarterly withholding for nonresident partnerships & S-corporations	13,200	850	14,050	1,950

Table A continued	FY 2006	FY 2007	FY 2006-07	FY 2008-09
Require withholding on payments to certain construction subcontractors	1,800	1,800	3,600	3,600
Federal Conformity (income tax and corporate franchise tax)				
Tsunami Relief Act (Laws 2005, Chapter 1)	40	0	40	0
Military Family Tax Relief Act of 2003	(680)	(330)	(1,010)	(690)
Medicare Act of 2003 -- Health Savings Accounts	(5,200)	(3,000)	(8,200)	(7,000)
Working Families Tax Relief Act -- \$250 teacher expenses	(2,400)	0	(2,400)	0
Working Families Tax Relief Act of 2005 -- other provisions	(1,580)	(70)	(1,650)	(245)
American Job Creation Act of 2004 (selected items)	8,580	12,185	20,765	37,085
Exemption for disaster mitigation grants (Public Law 109-7)	(15)	(15)	(30)	(35)
Other Taxes	(104)	(6,609)	(6,713)	(17,235)
Corporate Franchise Tax				
Phase in single-sales apportionment over 8 years	0	(2,300)	(2,300)	(27,000)
FOC definition change	1,800	1,300	3,100	1,400
SUBTOTAL: Income and Corporate Franchise Taxes	13,744	(1,231)	12,513	(19,899)

SALES AND USE TAX

Contracts with Foreign Vendors

The Department of Administration and the Legislature must cancel any contract for goods or services with a vendor or bar a vendor from future contracts if the vendor does not register to collect sales and use tax on its taxable sales in Minnesota.

Sales Tax on Leased Vehicles

When a vehicle lease agreement is entered into, the full amount of the sales tax must be paid upfront rather than on a monthly basis as under the prior law. This provision became effective for leases entered into after September 30, 2005.

Rental Vehicle Tax

The December 31, 2005, sunset of the 12.7 percent special sales tax rate that applies to rental vehicles was repealed.

Materials Consumed in Industrial Production

For the purposes of the sales tax exemption for materials consumed in the industrial production process, the new law specifies that the transportation, transmission, or distribution of petroleum, liquefied gas, natural gas, steam or water through pipes, lines, tanks, or mains does not qualify. This exclusion does not apply to the blending of petroleum or biodiesel fuel. This reverses the

Minnesota Supreme Court ruling in the *Great Lakes Gas Transmission, L.P. v. Commissioner*, 638N.W.2d 435 (Minn. 2002).

Telecommunications Equipment Excluded from Capital Equipment Definition

The new language redefines capital equipment to exclude poles, fiber, wire, and conduit. While the language is prospective only, it effectively reverses the ongoing effects of the court's decision in *Sprint Spectrum, LP v. the Commissioner of Revenue*. The state court ruled in the *Sprint* case that purchases by telecommunications companies of poles, fiber, wire, and conduit qualified for an exemption from the sales tax as capital equipment. As a result, the state paid \$65 million in sales tax refunds in 2005. The new language means that no further refunds will be paid by the state.

Public Safety Radio

The sales tax exemption for construction inputs was extended statewide for the development of public safety radio systems.

Streamlined Sales Tax

Changes to Minnesota tax law to bring the state into conformity with the Streamlined Sales Tax Agreement (SSTA) made a number of substantial changes to the taxation of items in Minnesota. Under the old law, nearly all nonprescription drugs were subject to Minnesota sales tax. Under the new law, all nonprescription drugs are exempt from taxation. The new law also exempts all mobility enhancing equipment, as well as all sales of durable medical equipment (DME) for in-home or nonprofit facility use. It, however, taxes all sales by for-profit medical facilities. The significant revenue gain from the changes to conform to the SSTA comes from increased compliance with state tax laws (Laws 2005, Chapter 151).

Table B Sales and Use Changes to General Fund Tax Revenue (dollars in thousands)				
	FY 2006	FY 2007	FY 2006-07	FY 2008-09
Sales and use Tax				
Leased vehicles -- require up-front payment of sales tax (eff. 10/1/05)	18,921	19,749	38,670	6,224
Rental vehicles tax rate -- repeal 12/31/05 expiration date for special 12.7% sales tax rate	4,790	13,800	18,590	29,700
Collect cigarette sales tax at wholesale (at \$0.20/pack)* -- shift	5,400	0	5,400	0
Compliance impact	2,250	2,700	4,950	5,400
Reverse <i>Sprint</i> case: tax telecom. wire, fiber, poles, conduit	1,500	1,560	3,060	3,310
Exempt inputs for public safety radio systems	(1,540)	(1,510)	(3,050)	(1,750)
Require state vendors to collect sales tax	680	2,730	3,410	8,710

Table B continued	FY 2006	FY 2007	FY 2006-07	FY 2008-09
Define industrial production to exclude gas pipelines	9,110	11,720	20,830	21,430
Other Taxes	(1,787)	(2,347)	(4,134)	(2,772)
Streamlined Sales Tax provisions				
Exempt all nonprescription drugs	(7,320)	(8,250)	(15,570)	(17,300)
Exempt all mobility enhancing medical devices; exempt all other durable medical equipment only if for home use	7,590	8,670	16,260	18,530
Increased tax revenue from voluntary payments	9,530	31,100	40,630	110,410
Subtotal: Streamlined Sales Tax provisions	9,800	31,520	41,320	111,640
SUBTOTAL: Sales Tax	49,124	79,922	129,046	181,892

[*NOTE: Impact of increase from \$0.20 to \$0.255 included in cigarette fee revenues]

OTHER TAXES

Insurance Premiums Tax

The tax rate on life insurance premiums will be reduced from two percent to 1.5 percent by 2009.

Insurance Stop Loss

In addition to the effects of two court decisions relating to sales tax reversed by the 2005 Legislature, there are two insurance tax decisions that were also addressed through legislation. The first is *Blue Cross/Blue Shield of Minnesota v. the Commissioner of Revenue*. The court (in 2003) ruled that stop-loss policies were not subject to the insurance premiums tax. Stop-loss insurance is a means through which self-insuring employers can limit their liability. The changes in Chapter 3 explicitly subject stop-loss policies to the premiums tax. The second insurance case deals with the decision in *CUNA Mutual Insurance v. the Commissioner of Revenue*. In that case, the court ruled that a reduced tax rate of 1.26 percent (rather than the regular two percent rate) applied to casualty insurance sold by companies handling both casualty and life insurance.

The new statutory language will allow the lower rate only for companies that sell both casualty and property insurance.

Alcohol Gross Receipts

Under prior law, there was an additional 2.5 percent sales tax on alcoholic beverages (for a total of nine percent) set to expire at the end of 2005. The sunset of the tax would result in a revenue loss to the state of \$84 million for FY 2006-07. The Legislature replaced the special sales tax, which violated the Streamlined Sales Tax Agreement, with a 2.5 percent gross receipts tax to preserve the revenue stream from these products to the General Fund.

Cigarette Sales Tax

The 2005 Legislature replaced the 6.5 percent retail sales tax on cigarettes with a wholesale level tax that will be calculated on an annual basis and whose revenue will equal what the old sales tax would have generated each year.

Voluntary Compliance Initiative (VCI)
 The Commissioner of Revenue was directed to pursue a voluntary compliance initiative beginning August 1, 2005, and running through January 31, 2006. The VCI is targeted at taxpayers who engaged in abusive tax shelters as defined by federal law. These abusive shelters are defined as "listed transactions," "potentially abusive tax shelters," or "reportable transactions." The VCI applies to tax liabilities and penalties attributable to abusive tax shelter transactions for taxable years before January 1, 2005. To participate, a taxpayer must file an amended return that

reverses the abusive tax shelter transaction and pay all taxes and interest due. Installment payment agreements are allowed. In return, all penalties are abated and no criminal action may be brought against the taxpayer for each year the taxpayer participates in the VCI without the right of appeal. Taxpayers can elect to participate while retaining the right to appeal and claim a refund; however, the substantial understatement penalty is not abated if the commissioner denies a claim for refund or if the IRS makes a final determination against the taxpayer.

Other Taxes	FY 2006	FY 2007	FY 2006-07	FY 2008-09
Alcoholic beverages -- enact 2.5% gross receipts tax in lieu of additional 2.5% sales tax	23,650	60,300	83,950	125,100
Life insurance -- reduce premiums tax to 1.5% (phase down over 4 years)	(1,000)	(3,500)	(4,500)	(13,700)
Insurance -- 1.26% rate if both property & casualty sold (CUNA)	90	240	330	500
Insurance -- Subject stop-loss policies to premiums tax effective 1/1/06	1,400	3,700	5,100	9,900
Increase cigarette tax dedication to Academic Health Center (\$22.25 million/yr) and Medical Education fund (\$8.55 million/yr)	(1,848)	(2,452)	(4,300)	(6,579)
Tax Shelter Compliance (VCI)	55,100	1,700	56,800	6,000
Other	(315)	0	(315)	(2,840)
SUBTOTAL: Other Tax Provisions	77,077	59,988	137,065	118,381

Transfers

Chapter 3 transferred up to \$20 million from the Property Tax Relief Account to the General Fund in FY 2006 for budget balancing purposes. In addition, the revenue from the new 75 cent per pack fee on cigarettes and the fee of 35 percent of the wholesale price of other tobacco products (enacted in the Omnibus Health

and Human Services Bill, First Special Session Chapter 4) is initially deposited in the Health Impact Fund (HIF). Revenues are then transferred to the General Fund, provided that the Department of Health certifies that the cost of smoking-related expenses paid out of the General Fund will exceed the amount of revenue accruing to the HIF.

Finally, as part of the 2003 budget deficit solution, the \$1 billion Tobacco Endowment that was established and supported by resources from the state's lawsuit against tobacco companies was eliminated and its resources transferred to the General Fund. In order to compensate the University of Minnesota Academic Health Center (AHC) and the Medical Education Research (MERC) account for resources they lost as a result of the elimination of the endowment, the Legislature dedicated a portion of cigarette sales tax collections to those two purposes. With enactment by the 2005 Legislature of the 75 cent per pack cigarette tax increase, smoking is expected to decline, and sales tax collections from cigarettes are estimated to decline as well. To guarantee a stable revenue stream to the AHC and MERC, the 2005 Legislature enacted an increase in the amount of cigarette sales taxes dedicated to the AHC to a total of \$22 million per year and to the MERC in the amount of \$8.55 million per year.

Health Impact Fee

Prior to August 1, 2005, the per-pack cigarette tax in Minnesota was 48 cents and other tobacco products were taxed at a rate of 35 percent of wholesale price. With enactment of the Health Impact Fee

of 75 cents per pack, the total per-pack assessment is now \$1.13 per pack, and the tobacco products tax is 35 percent of wholesale price and the fee is 35 percent of wholesale price. The total net revenue increase as a result of these changes is \$401 million in FY 2006-07. The Health Impact Fee and the use of its revenues are discussed in greater detail in the Health and Human Services chapter of the Fiscal Review. The net revenue changes are shown in detail in Table D below.

Tobacco companies have filed suit against the state for this provision, arguing that the tobacco settlement language prohibited the state from imposing any other penalties on tobacco companies. The case was still under litigation as this document was being prepared.

HEALTH IMPACT FEE (In Chapter 4, First Special Session--Health & Human Services Bill)	FY 2006	FY 2007	FY 2006-07	FY 2008-09
Cigarette fee at 75 cents per pack, including floor stock fee (eff. 8/1/05)**	192,709	203,856	396,565	398,325
Interaction: Cigarette excise tax revenue (due to fewer cigarette sales)	(18,181)	(20,724)	(38,905)	(38,519)
Interaction: Wholesale-level sales tax from \$0.20 to \$0.255/pack	6,471	5,929	12,400	11,739
Fee on other tobacco products (35% of wholesale price)**	16,576	19,447	36,023	40,752
Interaction: Tobacco products tax revenue (due to fewer sales)	(2,605)	(3,234)	(5,839)	(6,777)
Interaction: Sales tax on other tobacco products	419	521	940	1,092
Total for cigarette and tobacco fees, including interaction	195,389	205,795	401,184	406,612

**Includes changes in excise/sales taxes as well as fee.

Table E				
General Fund Tax Relief Account Transfer and Health Impact Fee				
	FY 2006	FY 2007	FY 2006-07	FY 2008-09
GENERAL FUND TAX REVENUE	139,945	138,679	278,624	280,374
NON-TAX REVENUE				
Transfer from Tax Relief Account to General Fund	20,000	0	20,000	0
TAX BILL GENERAL FUND TOTAL REVENUE (Tax & Non-Tax)	159,945	138,679	298,624	280,374
Note: FY 2006 total includes \$40 from Chapter 1, included in February forecast (Tsunami Relief).				
Total for cigarette and tobacco fees, including interaction	195,389	205,795	401,184	406,612
Grand Total Tax Revenues + Health Impact Fee	355,334	344,474	699,808	686,986

Table F below itemizes the revenue impacts of the changes discussed above on funds other than the General Fund.

Table F				
Nongeneral Fund Revenue Changes (dollars in thousands)				
	FY 2006	FY 2007	FY 2006-07	FY 2008-09
HEALTH CARE ACCESS FUND				
Subject stop-loss policies to insurance premiums tax	800	2,300	3,100	6,000
Exempt TRICARE payments from MnCare Provider Tax	(1,730)	(1,410)	(3,140)	(3,080)
Total Health Care Access Fund	(930)	890	(40)	2,920
HIGHWAY USERS TAX DISTRIBUTION FUND (HUTDF)				
Require up-front payment of sales tax on leased vehicles (10/1/05)	0	0	0	(84)
Pay refunds for air ambulance fuel from State Airports Fund (rather than HUTDF)	15	15	30	30
Total HUTDF	15	15	30	(54)
METRO AREA TRANSIT FUND				
Require up-front payment of sales tax on leased vehicles (10/1/05)	0	0	0	(60)
Total Metro Area Transit Fund	0	0	0	(60)
GREATER MN TRANSIT FUND				
Require up-front payment of sales tax on leased vehicles (10/1/05)	0	0	0	(4)

Table F continued	FY 2006	FY 2007	FY 2006-07	FY 2008-09
Greater MN Transit Fund	0	0	0	(4)
STATE AIRPORTS FUND				
Exempt aviation fuel for air ambulances (pay refunds from State Airports Fund rather than HUTDF)	(15)	(15)	(30)	(30)
SPECIAL REVENUE FUND				
Academic Health Center -- Increase cigarette tax dedication from 6.5 cents per pack to fixed \$22.25 million per year	1,330	1,776	3,106	4,762
Medical Education (MERC) -- Increase cigarette tax dedication from 2.5 cents per pack to fixed \$8.55 million per year	518	676	1,194	1,817
Special Revenue Fund	1,848	2,452	4,300	6,579

ELEMENTARY AND SECONDARY EDUCATION

For the first time since the 2001 legislative session, the Legislature in 2005 approved substantial funding increases for elementary and secondary education. New revenue for school districts totals \$800 million above the February forecast base. As summarized

in Table 1a, the additional funding is from three primary sources: a \$565.4 million increase in state aid (\$552.9 in K-12 aid and \$12.5 in early childhood and family education aid), a \$139.1 million increase in property taxes, and \$95 million in additional shifts.

Table 1a			
Summary of Changes in E-12 Funding			
Education Aid, ECFE Aid, Property Tax, & Revenue Shifts			
(dollars in thousands)			
	FY 06-07 Base	FY 06-07 Enacted Budget	Change: Enacted - Base
Total	14,934,977	15,734,559	799,582
Education Aids	11,853,061	12,405,950	552,889
Early Childhood and Family Education Aid	159,781	172,239	12,458
Property Tax	2,919,668	3,058,764	139,096
Shifts	2,467	97,605	95,138

Early childhood and family education (ECFE) funding is examined in greater detail in the following chapter. The balance of this chapter will examine K-12 education accounts only, reflecting the current Senate Finance Committee structure. Further, although some ECFE

accounts are affected by the E-12 shifts displayed in Table 1a, the impacts are minor and shift policy is primarily related to K-12 funding so the impacts will be examined within the context of K-12.

Table 1b			
Total General Fund Spending and Major Change Items			
K-12 Education Budget			
(dollars in thousands)			
	FY 06-07 Base	FY 06-07 Enacted Budget	Change: Enacted - Base
Total K-12 Education	11,853,061	12,405,950	552,889
General Education	10,113,774	10,627,136	513,362
Educ. Categoricals	1,659,515	1,698,793	39,278
Agency Operations	79,772	80,022	250

Total General Fund appropriations for K-12 education increased from \$11.9 billion in the FY 2004-2005 biennium to

\$12.4 billion in FY 2006-2007, a \$552.9 million increase compared to the base budget for the 2006-2007 biennium.

The bulk of the K-12 budget area provides funding to pay for the operations of the state's schools.

Table 1b also displays nearly all of the new spending for K-12 education was allocated to fund the state's schools, either through general education aid or categorical aid, and only \$250,000 increased funding for state agencies.

The majority of the total increase is due to the addition \$470.5 million to the general education formula allowance, or

four percent each year.¹ Table 1c summarizes the major change items that account for the increase in General Fund appropriations.

¹ The cost of a 4% formula allowance increase can be calculated with or without associated categorical linkages; the costs are \$519.2 million and \$470.5 million, respectively.

	FY 2004-05 Spending*	FY 06-07 Base*	FY 06-07 Enacted Budget	Change: Enacted - FY 2004-05	Change: Enacted - Base
Total	11,870,625	11,853,061	12,405,950	535,325	552,889
Major Change Items:					
General Education	10,012,788	10,019,660	10,019,660	6,872	0
Formula Allowance (4% & 4%)	0	0	519,193	519,193	519,193
Q.Comp Alt Comp	0	0	85,941	85,941	85,941
Gifted & Talented	0	0	10,957	10,957	10,957
Operating Capital Equalization Factor	0	0	(44,308)	(44,308)	(44,308)
Equity Revenue	0	0	22,347	22,347	22,347
Referendum Cap & Equalization Increase	0	0	8,814	8,814	8,814
Aid Savings from Property Tax Recognition Shift	0	0	(95,138)	(95,138)	(95,138)
Other Gen'l Education	92,284	94,114	99,670	7,386	5,556
AP/IB	1,556	1,556	9,000	7,444	7,444
"Get Ready, Get Credit"	0	0	4,133	4,133	4,133
Spec. Education Excess Cost	188,177	183,379	206,369	18,192	22,990
Telecom. Access	0	0	7,500	7,500	7,500
School Lunch, Breakfast & Kindergarten Milk	24,306	24,931	27,920	3,614	2,989
Value Added Index	0	0	1,450	1,450	1,450
Misc Other Changes	1,551,514	1,529,421	1,522,442	(29,072)	(6,979)

*Based on the February 2005 Forecast

Table 2 displays all funds within state government related to K-12 education by agency. In the Department of Education, General Fund appropriations account for \$12.4 billion of the \$13.7 billion, or 90.6 percent, of the all-funds education budget for the FY 2006-2007 biennium.

The Faribault Academy and Perpich Center for Arts Education experienced a growth of 5.1 percent and a decline of 4.4 percent in the General Fund respectively. Faribault's all-funds budget grew by 4.3 percent and the Perpich Center declined by 11 percent.

Again, the primary changes between biennia are the increased state spending to provide schools throughout the state with additional revenue. The General Fund grew by 4.5 percent and federal funds expanded by 6.3 percent.

Agency	FY 2004-2005 Spending*	FY 2006-2007 Enacted Budget	Difference	Percent Change
Total	13,082,585	13,690,149	607,564	4.6%
Department of Education	13,041,406	13,649,747	608,341	4.7%
General Fund	11,835,909	12,370,772	534,863	4.5%
Special Revenue Fund	19,879	17,983	(1,896)	(9.5%)
Endowment & Perm School Fund	34,342	37,189	2,847	8.3%
Federal Fund	1,150,571	1,223,273	72,702	6.3%
Gift Fund	705	530	(175)	(24.8%)
Fairbault Academies	24,528	25,576	1,048	4.3%
General Fund	20,861	21,932	1,071	5.1%
Special Revenue Fund	3,141	3,138	(3)	(0.1%)
Federal Fund	482	472	(10)	(2.1%)
Gift Fund	44	34	(10)	(22.7%)
Center for Arts Education	16,651	14,826	(1,825)	(11.0%)
General Fund	13,855	13,246	(609)	(4.4%)
Special Revenue Fund	2,024	1,398	(626)	(30.9%)
Federal Fund	55	52	(3)	(5.5%)
Gift Fund	717	130	(587)	(81.9%)

*Based on the February 2005 Forecast

Table 3 displays all funds within state government related to K-12 education, separated by budget function. With the General Fund constituting the bulk of the change in K-12, this examination of all funds tells a similar story.

Education aids represents the primary growth, with agency operations representing a substantially smaller growth area.

Function	FY 2004-2005 Spending*	FY 2006-2007 Enacted Budget	Difference	Percent Change
Grand Total	13,082,585	13,690,149	607,564	4.6%
General Education Program	11,198,406	11,787,766	589,360	5.3%
Other General Education	92,284	100,362	8,078	8.8%
Education Excellence	224,478	264,076	39,598	17.6%
Special Education	1,294,594	1,286,058	(8,536)	(0.7%)
Facilities and Technology	114,338	97,902	(17,046)	(14.9%)
Nutrition Programs	25,267	28,220	2,953	11.7%
Libraries	22,081	23,146	1,065	4.8%
Other Aid	3,408	0	(3,408)	(100%)
MDE, Agency Budget	66,550	62,827	(3,723)	(5.6%)
Fairbault Academies	24,528	25,576	1,048	4.3%
Center for Arts Education	16,651	14,826	(1,825)	(11.0%)

*Based on the February 2005 Forecast

GENERAL EDUCATION

Basic Formula Allowance

The general education formula allowance had been frozen at \$4,601 per adjusted marginal cost pupil unit (AMCPU) since fiscal year 2003. The 2005 Legislature increased the FY 2006 formula allowance by four percent to \$4,783 per AMCPU and an additional four percent in FY 2007 to \$4,974. The Legislature also made no changes to the policy of allowing the compensatory, sparsity, transportation sparsity, and several other smaller formulas to remain linked to the formula allowance. Therefore, of the \$800 million in new revenues to school districts, the Legislature allocated \$519.2 million to

the formula allowance and associated linkages.

Quality Compensation

The 2005 Minnesota Legislature funded a new initiative designed to move the state to a system that pays teachers based on performance. The Quality Compensation program (Q. Comp.) allows the Minnesota Department of Education (MDE) to develop alternate paths of career advancement and additional compensation. At least 60 percent of teacher compensation, under the new program, is based on teacher performance. The law provides for site-focused professional development and professional development activities aligned with student needs.

The Q. Comp program breaks new ground in two areas. First, Minnesota has not previously had a formula to systematically encourage most districts in the state to pay teachers based on performance. Second, the Legislature has never funded a program within the general education program with a capped allocation. Previously, any district that met the qualifying characteristics of a program would be eligible to receive funding. The Q. Comp allocation is capped, meaning that some districts who wish to participate may be denied the ability to do so because the available appropriation has already been allocated to other districts. In FY 2006, the Legislature provided funding sufficient to allow districts educating nine percent of the students in the state to participate. In FY 2007, funding is available to allow districts educating 50 percent of the state's students to participate in Q. Comp.

The Q. Comp program provides eligible school districts with \$260 per AMCPU. In FY 2006, the program is funded entirely with state aid totaling \$16.2 million. Beginning in FY 2007, the program is funded through a mix of aid and levy. In FY 2007, the Legislature allocated \$69.6 million in state aid to eligible districts and \$9.3 million in property tax levies.

Gifted and Talented Revenue

The 2005 Legislature created a new revenue stream as part of the general education program equal to \$4 for every AMCPU in FY 2006 and \$9 for every AMCPU in FY 2007. The \$10.9 million state aid allocation is appropriated to every district in the state. Districts must reserve the revenue to identify and teach gifted and talented students and may also

use the revenue to provide staff development to teachers on behalf of gifted and talented students.

Operating Capital Revenue

In 2003, the Legislature changed the operating capital revenue stream from one that was solely funded through state aid to one that is a mix of state aid and property taxes. In that year, an equalization factor was added to convert a portion of operating capital revenue from state aid to property tax revenue. In 2005, this technique was utilized a second time by the Legislature, reducing state aid by \$44.3 million and increasing property taxes by \$51.6 million in FY 2007 for this program. This resulted in no net change to operating capital revenue for districts² but saved state aid appropriations. Technically, the aid-levy swap was accomplished by adjusting the existing equalization factor from \$22,222 to \$10,700 for FY 2007 and later.

Equity Revenue

Several changes were made to the equity revenue program in 2005. The first creates a new category of funding under which relatively small districts that have an operating referendum below ten percent of the statewide average referendum will receive additional equity revenue. This change will bring their revenue up to ten percent of the statewide average for operating referenda. Because this new funding cannot exceed \$100,000 per district, the primary beneficiary will be smaller, out-state school districts. A second change

² The operating capital aid savings in FY 2007 is lower than the property tax increase because of the school payment schedule of aid payments. The balance of the aid savings will accrue to the state in FY 2008.

increases equity revenue for school districts in the metro equity region by 25 percent for fiscal years 2006 and later. Finally, beginning in FY 2007, all districts below the 95th percentile, regardless of equity region, will receive an additional \$46 per AMCPU. The Minneapolis, Saint Paul, and Duluth school districts, which were previously excluded from equity revenue, are also eligible to receive the \$46 per pupil. The equity revenue formula changes are paid for through a mix of state aid and property taxes. State aid increased by \$22.3 million in the biennium and property taxes will increase by \$35.9 million in taxes payable 2006.

Transition Revenue

Transition revenue was created as a hold harmless provision for school districts during the 2003 budget-cutting session. The revenue stream was previously slated to be rolled into the operating referendum beginning in 2009. The 2005 Legislature eliminated that roll-in and made the transition revenue from 2003 permanent. There was no cost to this change.

REFERENDUM REVENUE

The Legislature made several adjustments to the operating referendum revenue program. Changes to referendum revenue often make adjustments to state aid and property tax levies in school districts. The 2005 legislation was no exception, expanding state aid by \$8.8 million for the biennium and increasing property taxes by \$29.6 million for taxes payable in 2006 (FY 2007). (More detail on these property tax changes follow in a later discussion.)

Referendum Cap

In response to growing concerns among school districts that have referenda limited by the operating cap, the 2005 Legislature raised the referendum cap from the existing level of 18.6 percent of the formula allowance to 26 percent of the formula allowance. This change, when combined with the growth in the formula allowance, permits the so-called hard cap to grow from \$856 in FY 2005 to \$1,294 in FY 2007.

Referendum Equalization

The dollar amount of the first tier of referendum revenue was increased from \$500 to \$600 per pupil unit in FY 2007, and to \$700 per pupil unit for FY 2008. This allows districts with referenda in excess of the old \$500 limit to receive higher aid equalization on their referenda, up to \$800 per pupil unit by FY 2008. Furthermore, in conjunction with the growth in the referendum cap, the total equalization limit was expanded from 18.6 percent of the formula allowance to the new cap at 26 percent. Therefore, school districts will continue to receive referendum equalization on the second tier up to the new cap.

EDUCATION PROPERTY TAX CHANGES

For taxes payable in 2006 (FY 2007), the Legislature authorized E-12 property taxes of \$1.68 billion, \$139.1 million above the February forecast base. Taxes payable in 2007 (FY 2008) are authorized at \$1.93 billion, \$212.7 million above the base.

General Education

These tax changes were concentrated primarily in the general education program, which grew by \$97.1 million in

calendar 2006 and \$120 million in 2007. The equity revenue, operating capital levy shift, and Q. Comp programs all experienced formulaic changes that increased levies above the base.

Operating Referendum

The increases to the referendum cap and adjustments to the equalization formulas also had impacts on property taxes. This cap policy change increased levies above the base by \$31.7 million in calendar 2006 and \$41.9 million in 2007. The adjustments to the equalization levels saved \$2.2 million in 2006 and increased property taxes by \$6.4 million in 2007.

Deferred Maintenance

Beginning in calendar 2008, the Legislature authorized a new formula for deferred maintenance. This program is available to every school district in the state that is not eligible to participate in the existing alternative facilities bonding and levy program. Eligible districts can receive up to a maximum of \$60 per pupil for maintenance programs. The maximum allowance is reduced slightly for school districts with newer buildings. The program is equalized for districts. Statewide levies are assumed to be \$20.9 million in calendar 2007, while state aid in that year is estimated at \$3.1 million.

Other Miscellaneous Levies

The 2005 Legislature also made several adjustments to miscellaneous levies. The 2006 impacts above the February forecast base are as follows:

- Unemployment levy, \$7.3 million – reflecting the elimination of a 90 percent cost factor established in the 2003 session;
- Carpenter bus levy, \$2.2 million – permitting districts with unsafe Carpenter buses to levy for their replacements;
- Building lease levy, \$3.9 million – reflecting the elimination of a 90 percent cost factor established in the 2003 session; and
- Debt Service Equalization, -\$3.1 million – reflecting savings associated with the reduction of the maximum effort tax rate for certain school districts.

PROPERTY TAX RECOGNITION SHIFT

Under current law, most education property taxes that are increased by the Legislature create the opportunity for savings in the state aid budget by allowing school districts to recognize property tax revenue early and to take a corresponding reduction in state aid. This process, called a property tax recognition shift, was put in place during the 2003 legislative session to balance the state budget without reducing revenues to school districts. Because this early recognition is part of state law, the K-12 property tax increases of \$139.1 million in calendar 2006 and \$212.7 million in calendar 2007 creates onetime shift savings of \$65.3 million in FY 2006 and \$29.7 million in FY 2007 through early recognition of those taxes and corresponding reductions to state aid.

These combined biennial shift savings of \$95 million permitted the 2005 Legislature to spend those funds. Simply put, the \$95 million in shifts allowed the Legislature to provide \$895 million in additional spending changes

to districts, but to only book \$800 million in state aid and property taxes.

OTHER EDUCATION

Special Education

The 2005 Legislature began phasing out referendum revenue as part of general revenue for the purposes of calculating special education excess cost aid. The calculation includes two-thirds of a district's total referendum revenue in FY 2006 and one-third of a district's total referendum revenue in FY 2007. The law also increased special education excess cost aid by approximately \$22.9 million per year beginning in FY 2006 and set the entitlement for special education excess cost aid for FY 2006 and later years to 74 percent of the district's entitlement for the current fiscal year.

The Legislature allocated \$2.3 million over the February forecast base for transporting nonpublic pupils with special needs. The law requires that the enrolling districts provide the transportation unless both districts agree otherwise. The law also establishes a task force to compare and evaluate how the individual needs of each child are met, whether services are provided in the least restrictive environment, and whether best practices and program efficiencies are being used in areas of transportation, location of services, and shared time aid. The task force is required to submit a report to the Legislature by January 15, 2006.

Nutrition Programs

State aid lunch payments to school districts and other providers of school lunch increased to ten cents from eight

per lunch served. The reimbursement was also increased for kindergarten milk to 14 cents from nine for each half pint served. The lunch appropriation increased by \$2.5 million and the kindergarten milk appropriation increased by \$489,000 over the February forecast base.

Schools Mentoring Schools Regional Sites

The law allows professional compensation revenue to be used for schools mentoring schools regional sites. The MDE commissioner selects up to four districts to participate in the program. The new program was established to assist other school districts located near the four selected districts to improve their development of thorough and effective teacher mentoring programs. The selected districts may use the revenue to pay for staff development and training services at the regional sites.

School Site Decision-Making Agreement

The law allows 60 percent of the licensed teachers at a site to enter into discussions with the school board to reach a school site decision-making agreement. The law allocates \$250,000 to sites with agreements.

Charter Schools

The 2005 Legislature made several changes to the charter school law. In the formation of a charter school, if the board of a prospective sponsor elects not to sponsor a charter school, the applicant to that charter may appeal to the commissioner. Previously, the commissioner could choose to either sponsor the charter school or find another eligible sponsor. The law no longer allows the commissioner to

sponsor a charter school but rather only allows another eligible organization to sponsor the charter school's continued formation.

In addition, the law now requires that a more rigorous process be established between the sponsor and the school to monitor and evaluate the fiscal and student performance of the charter school.

The law now also allows the commissioner to approve a different eligible sponsor if either the sponsor or the charter school board of directors wants to voluntarily terminate the contract at the end of the contract term. In this situation, the law requires the existing sponsor to inform the incoming sponsor about the fiscal and student performance of the charter school. In the case that no eligible sponsor is approved, the charter school will dissolve.

No Child Left Behind

The 2005 Legislature passed a new law related to the federal "No Child Left Behind Act" (NCLB). The law directs the MDE to continue to implement NCLB without interruption, but it also directs the commissioner to review the state plan on implementing NCLB and to seek waivers from the federal Department of Education. The law outlines nine priority waivers on which the MDE should seek federal approval to satisfy NCLB requirements. If MDE is unable to gain approval for these waivers, the MDE must make a recommendation to the Legislature, based on the federal response to the waiver requests, about whether it remains in Minnesota's interest to continue to implement the federal NCLB

law or whether the state should opt out of continued NCLB participation. In addition, the law directs the Commissioner of Finance to report to the Legislature the amount of revenue that the federal government may withhold as a result of a potential state decision to discontinue implementing NCLB.

"Get Ready, Get Credit"

To improve the transition from high school to postsecondary education, the Legislature established and provided \$4.1 million in the biennium to allow the state to reimburse public school students for certain exam fees. Students who complete college-level courses and earn a satisfactory score in one or more specified subjects are eligible for exam reimbursement. Students may receive reimbursement for up to six different exam fees. Priority is given to low income students. The program also requires the MNSCU system and encourages the University of Minnesota system and private post secondary institutions to award college credit to high school students who receive a satisfactory score in a college-level examination program (CLEP) exam. The tests administered by this program are linked to the ACT assessment for college admission. The linkage allows a student's college readiness to be assessed before grades 11 and 12.

EARLY CHILDHOOD EDUCATION

Early Childhood Education budget and policy provisions were enacted in two Omnibus Bills. Chapter 5, First Special Session of 2005, appropriated \$172.2 million for FY 2006-2007 from the General Fund for early childhood and community education programs. The appropriations reflect an increase of \$12.5 million, or 7.8 percent, over the base funding level but \$3.0 million, or 1.2 percent, less than FY 2004-2005. In addition, property tax levies paid in 2006

were expected to increase \$169,000 statewide for basic community education programming.

Chapter 4, First Special Session, appropriated \$114.3 million for the Basic Sliding Fee (BSF) child care program, including \$36.1 million from the General Fund and \$78.3 of Federal Child Care Development Funds.

Table 1 General Fund Spending Early Childhood Education Budget (dollars in thousands)					
	FY 2004-05 Spending*	FY 06-07 Base*	FY 06-07 Enacted Budget	Change: Enacted - FY 2004-05	Change: Enacted - Base
Total	222,073	220,305	208,312	-13,761	-11,993
Education:					
Children and Family Support Services	90,676	81,834	93,392	2,716	11,558
Prevention	10,203	4,691	5,339	-4,864	648
Self-Sufficiency and Lifelong Learning	72,965	73,256	73,508	543	252
Discontinued Programs	428	0	0	-428	0
Education Subtotal:	174,272	159,781	172,239	-2,033	12,458
Human Services:					
BSF-Child Child Care	47,801	60,524	36,073	-11,728	-24,451

*Based on the February 2005 Forecast

Appropriations for administering various early childhood education budget and policy provisions are reflected in the Department of Education agency appropriation in the K-12 Education chapter.

Early Childhood and Family Education

Chapter 5 increased Early Childhood and Family Education program funding \$5.2 million for FY 2006-2007 by increasing the funding formula from \$96 to \$104 multiplied by the greater of

residents under age 5 or 150. The property tax levy portion of this aid-levy program was held constant statewide, although variations may occur for some school districts due to fluctuations in relative property value.

Minnesota Early Learning

Foundation (MELF)

Chapter 5 included a \$1 million, onetime, General Fund appropriation for a new public-private venture in support of early childhood education. The Commissioner of Education must contract with a private, nonprofit organization to implement an early childhood development grant program for low-income and other families. The board of directors for the organization must be composed of both public and nonpublic members. The organization is not to be a state agency or subject to laws governing state agencies, but is subject to the open meeting law.

School Readiness

The Legislature appropriated \$18.1 million from the General Fund for support of school readiness programs for FY 2006-2007, the same amount as was appropriated for FY 2004-2005. Chapter 5, however, amended school readiness program requirements, made school readiness aid contingent upon the submission of a biennial program plan, required annual reports on program activity, allowed school districts to contract with charter schools or community-based organizations to provide school readiness programs, and required school districts to establish sliding fee schedules based on income.

Developmental Screening

Chapter 5 amended the early childhood developmental screening program to require school districts to target screenings to children at an earlier age, between ages three and four. General Fund appropriations for screening aid increased \$1.2 million and the formula was changed so that school districts will receive \$50 for each three-year old

screened, \$40 for each four-year old, and \$30 for each five-year old screened prior to entering kindergarten. Previously, school districts received \$40 for each pupil screened. Chapter 5 also contained provisions to allow families to have their children screened by a public or private health care provider and to require school districts to inform resident families with children under seven of this alternative screening option.

Head Start

Chapter 5 also appropriated \$38.2 million for the Head Start program, an increase of \$4.0 million over base appropriations.

Adult and Community Education Programs

Chapter 5 also provided \$78.8 million for FY 2006-2007 for Prevention and Self-Sufficiency and Lifelong Learning programs, which reflect base level funding with the following exceptions:

- \$252,000 additional funding for Adult Basic Education to reallocate capped funding that previously had been canceling to the General Fund. Under the new provisions, funds initially allocated to eight school districts that exceed the cap will instead be reallocated to other programs, some of which have waiting lists for services;
- \$2 million, for FY 2006-2007 only, for intensive English instruction for new adult refugees; and
- \$817,000 additional funding for Community Education, including \$648,000 from the General Fund and \$169,000 in property tax levy by increasing the funding formula by 19 cents, from \$5.23 to \$5.42 per capita, beginning in FY 2007.

Table 2
Biennial Spending by Agency and Fund—All Funds
Early Childhood and Family Education
(dollars in thousands)

Agency	FY 2004-2005 Spending*	FY 2006-2007 Enacted Budget*	Difference	Percent Change
Education				
General Fund	174,272	172,239	-2,033	-1.2%
Human Services				
General Fund	47,801	36,073	-11,728	-24.5%
Federal Funds-CCDF	56,062	78,215	22,153	37.5%
Total Human Services	103,863	114,288	10,425	10.0%

*Based on the February 2005 Forecast

Basic Sliding Fee Child Care

Funding for the Basic Sliding Fee child care program will total \$114.3 million in FY 2006-2007. Policy and funding changes to Basic Sliding Fee, which are closely linked to MFIP child care changes discussed in Health and Human Services, provided additional funding for child care relative to the previous biennium, but less than would have been available if the sunset of limits on child care reimbursement rates would have been maintained. General Fund reductions of \$11.7 million for FY 2006-2007 are offset by accelerating the spending of \$18.3 million excess federal Child Care Development Funds. These

funding levels primarily reflect an increase in child care reimbursement rates of the lesser of the 75th percentile of the most recent rate survey, or 1.75 percent of the previously frozen rate; and a new parental fee schedule.

In addition, child care center rates in some counties were adjusted by establishing a maximum payment rate at the higher of the current rate or the highest reported county rate for 2002; and a new absent day policy was adopted that limits reimbursement to 25 days for which the child was absent in a fiscal year, excluding holidays.

Table 3
Biennial Spending by Function—All Funds
Early Childhood and Family Education
(dollars in thousands)

Function	FY 2004-2005 Spending*	FY 2006-2007 Enacted Budget	Difference	Percent Change
Education				
Child/Family Education	90,676	93,392	2,716	3.0%
Prevention	10,203	5,339	-4,864	-47.7%
Self Sufficiency	72,965	73,508	543	0.7%
Discontinued Programs	428	0	-428	-100.0%
Human Services				
Basic Sliding Fee	103,863	114,288	10,425	10.0%
Total	278,135	286,527	8,392	3.0%

*Based on the February 2005 Forecast

HIGHER EDUCATION

The 2005 Legislature adopted a budget that provides \$2.8 billion, for the 2006-2007 biennium, to the University of Minnesota, the Minnesota State Colleges and Universities (MnSCU), the Mayo Foundation, and the Office of Higher Education (formerly the Higher Education Services Office). The Office of Higher Education administers various student financial aid, library, and telecommunications programs. The funding reflects an overall increase for higher education of 7.9 percent over FY

2004-2005 and 0.3 percent over the February forecast base. The increase is 9.9 percent for the University of Minnesota and 8.8 percent for MnSCU over FY 2004-2005. This increase follows an approximately 15 percent reduction to each of the systems in the 2004-2005 biennium.

Of the \$2.8 billion, 98.0 percent is from the General Fund, and only \$55,263 is from other funds. General fund amounts are delineated in Table 1 below.

Table 1 General Fund Spending and Major Change Items Higher Education Budget (dollars in thousands)					
	FY 2004-05 Spending*	FY 2006-07 Base*	FY 2006-07 Enacted Budget	Change: Enacted - FY 2004-05	Change: Enacted - Base
Total	2,559,102	2,752,758	2,761,000	201,898	8,242
Major Change Items:					
Office of Higher Education	352,953	349,904	349,310	-3,643	-594
MnSCU	1,106,075	1,226,188	1,202,888	96,813	-23,300
University of Minnesota	1,097,351	1,173,884	1,205,770	108,419	31,886
Mayo Foundation	2,723	2,782	2,782	59	0
Minnesota Department of Health	0	0	250	250	250

*Based on the February 2005 Forecast

Office of Higher Education (formerly the Higher Education Services Office)

The Legislature appropriated \$349.3 million to the Office of Higher Education, and enacted numerous provisions to assist students and their families in paying for a college education. Noteworthy enhancements include:

- An increase in the portion of the tuition and fee amount recognized in computing the state grant award amount for which a student is eligible. This change will increase the state grant award received by many students who are eligible for the need-based financial aid program.

- An increase in the annual childcare grant for which an individual is eligible from \$2,200 to \$2,300 per year.
- An increase in the time a student has to apply for financial aid from 14 to 30 days after the start of the term.
- An additional semester of financial aid eligibility for students who are called up for active duty.

Further, the Legislature has directed the Office of Higher Education to examine a number of issues during the interim.

The office must convene an advisory task force to examine the state's current statutory formula for determining the level of state funding for the University of Minnesota and MnSCU. The task force must submit a report to the Legislature with its recommendations by January 15, 2006.

Numerous issues surrounding the terms of the tuition reciprocity agreements Minnesota has with Wisconsin and South Dakota have arisen over the past several years. The Legislature directed the office to address the provisions of concern to the members with the appropriate representatives from the two states and report to the Legislature on the results of the discussions. Issues of concern include tuition disparities and interstate payments.

The office was directed to examine the tuition levels, program offerings, student debt load, and financial assistance at institutions in the for-profit post-secondary education sector.

In conjunction with this analysis, the impact on students of the maximum tuition and fee amount employed in calculating the state grant award amount for which an individual is eligible must be examined. The office also was directed to examine current laws, rules, and regulations pertaining to the licensing and registration of private for-profit and not-for-profit postsecondary institutions providing courses and programs in the state.

The Legislature created an 11-member committee and made a onetime appropriation of \$3.2 million to examine the higher education program needs of the Rochester area. \$200,000 is earmarked to support the committee's planning activities. The remaining \$3 million may be used to provide: (1) additional planning and development funds; (2) initial funding for academic program development; and (3) funding related to academic facilities.

University of Minnesota

The University of Minnesota will receive \$1.2 billion from the General Fund for the 2006-2007 biennium, an increase of \$108.4 million over the 2004-2005 biennium. The money appropriated will be used to finance costs associated with increased enrollments, as well as research support, technology enhancements, support for student programs, services and outreach to underserved populations, and competitive faculty and staff compensation.

The Legislature modified the process to select regents to the Board of Regents by giving the Governor a role in making selections. The Regent Candidate Advisory Council will recommend

prospective regents to the Governor. The Governor will nominate regent candidates to a 20-member joint legislative committee, which will review the Governor's recommendations, and recommend candidates for board vacancies to the Legislature.

Minnesota State Colleges and Universities (MnSCU)

MnSCU received \$1.2 billion from the General Fund for the 2006-2007 biennium, an increase of \$96.8 million over the appropriation for the 2004-2005 biennium. The money appropriated will be used to cover the costs associated with increased enrollment, expanding online program offerings, nursing and teacher education, farm and small business management education, outreach services to underserved populations, and competitive faculty and staff compensation. Ten million dollars was earmarked for designation by the Board of Trustees of up to eight centers of excellence.

The Legislature also authorized MnSCU to offer applied doctorate degrees in business education, psychology, physical therapy, audiology, and nursing.

Mayo Medical Foundation

The Mayo Medical Foundation was appropriated \$2.8 million to support the training of medical students who are residents of Minnesota, and students in

the family practice and graduate residency program.

Nursing Education

The Legislature appropriated \$250,000 to the Department of Health to implement a loan forgiveness program for nurses.

Other Provisions

In addition to the amounts appropriated in the Higher Education Funding Act, the Legislature also appropriated money to support a collaborative research partnership between the University of Minnesota and the Mayo Medical Foundation for research in biotechnology and medical genomics, including:

- A onetime appropriation of \$15 million in Chapter 1, First Special Session of 2005, for the direct and indirect costs associated with the research partnership. An annual report to the Legislature on the expenditure of the appropriation is required until the full appropriation amount has been expended.
- Over \$21 million was authorized in the Capital Investment Bill for the Board of Regents of the University of Minnesota to purchase space in the Stabile Building on the Mayo Clinic Campus in Rochester, to accommodate the work and research infrastructure associated with the collaborative research efforts of the two institutions.

Budget Detail

Biennial spending and appropriation amounts by fund are delineated in Table 2.

Biennial spending and appropriation amounts by function are delineated in Table 3.

Agency	FY 2004-2005 Spending*	FY 2006-2007 Enacted Budget*	Difference	Percent Change
OHE**-General Fund	352,953	349,310	-2,936	-.8%
OHE-Special Revenue	592	690	98	16.5%
OHE-Federal Fund	8,483	8,795	-395	-4.7%
MnSCU-General Fund	1,106,075	1,202,888	96,813	8.8%
MnSCU-Endowment	1	-0-	-1	-100%
Uof M-General Fund	1,097,351	1,205,770	108,419	9.9%
Uof M-Health Care Access	4,314	4,314	-0-	-0-
Uof M-Special Revenue	44,722	41,464	-3,258	-7.3%
Mayo Foundation-General Fund	2,723	2,782	59	2.2%
Department of Health-General Fund	-0-	250	250	100%
Totals	2,617,214	2,816,263	199,049	7.6%

Function	FY 2004-2005 Spending*	FY 2006-2007 Enacted Budget*	Difference	Percent Change
State Grant Program	281,150	281,150	-0-	-0-
Outreach	1,259	1,610	351	27.9%
Service Learning	693	230	-463	-66.8%
Childcare/Work Study	34,374	34,756	382	1.1%
Tuition Reciprocity	7,200	2,000	-5,200	-72.2%
College Savings Program	2,240	2,040	-200	-8.9%
Technology Infrastructure	21,723	18,012	-3,711	-17.1%
Administration-OHE	4,906	6,282	1,376	28%
Federal Funds-OHE	8,483	8,795	-395	-4.3%
Rochester Higher Education	-0-	3,200	3,200	100%
Medical Education	2,723	3,502	779	28.6%
MnSCU-Operations	1,106,077	1,202,888	96,812	8.7%
Uof M-Operations	1,020,234	1,127,274	107,040	10.5%
Uof M-Specials	126,153	104,274	-1,879	-1.5%
Nursing Education	-0-	250	250	100%
Total	2,617,214	2,816,263	198,342	7.6%

*Based on the February 2005 Forecast. Amounts differ from Department of Finance by \$581,000 in FY 2004-2005 and by \$2,460,000 in FY 2006-2007 because University of Minnesota Environment and Natural Resources Fund spending is carried in the Environment and Agriculture budget area.

**OHE indicates the Office of Higher Education

HEALTH AND HUMAN SERVICES

DEPARTMENT OF HUMAN SERVICES

The 2005 Legislature made available \$17.6 billion from all sources for the Department of Human Services (DHS) for the 2006-2007 biennium, including General Fund appropriations of \$8.06 billion; federal funds, including Temporary Assistance to Needy Families (TANF) of \$8.01 billion; and Health Care Access Fund (HCAF) appropriations of \$806 million. These totals include direct appropriations and statutory appropriations available as a result of existing state and federal laws.

As shown on Table 1, appropriations for the 2006-2007 biennium are \$1.0 billion, or 13.8 percent higher than FY 2004-2005, and are \$367.3 million, or 43 percent lower than February forecasted amounts for FY 2006-2007.

The appropriations included money to pay for forecasted growth in DHS entitlement programs. Continued

spending growth in the DHS forecasted programs was an issue that attracted a great deal of attention in the Health and Humans Services area during the legislative session. Persons who satisfy eligibility criteria are entitled to benefits under some DHS programs and anticipated growth is periodically forecasted by the department. The growth for the FY 2006-07 biennium included in the forecast was almost \$1.4 billion in the General Fund.

Spending from the TANF Fund was forecasted to increase by \$37.7 million over the previous biennium. HCAF spending was estimated to drop by \$25.6 million. The Legislature addressed to the forecast with a combination of appropriations to pay for these added costs and program changes and transfers to reduce spending in forecasted General Fund programs and other DHS programs.

	FY 2004-05 Spending*	FY 2006-07 Base*	FY 2006-07 Enacted Budget	Change: Enacted - FY 2004-05	Change: Enacted - Base
Total	7,261,559	8,631,752	8,264,447	1,002,888	(367,305)
Department of Human Services	7,062,627	8,431,140	8,059,405	996,778	(371,735)
Department of Health	122,943	129,376	133,806	10,863	4,430
Veterans Nursing Home Board	59,841	60,060	60,060	219	0
Emergency Medical Services Board	7,044	6,762	6,762	(282)	0
Council on Disability	1,112	1,000	1,000	(112)	0
MH/MR Ombudsman	2,901	2,924	2,924	23	0
Ombudsmen for Families	491	490	490	(1)	0
DHS - Transfer Out to Health Care Access Fund	4,600	0	0	(4,600)	0

The DHS appropriations reflect reduced revenue of \$14.1 million, including \$8.1 million in General Fund revenue. Most of the revenue was attributable directly to TANF refinancing and reduction in parental fees for services for disabled children.

Following is a program-by-program description of direct appropriations for the department.

Agency Management

The Legislature appropriated almost \$105.4 million for agency management activities, including about \$93.7 million from the General Fund. Changes included \$8.5 million in new spending to cover the increased lease costs related to the new Elmer A. Anderson building. Additionally, \$589,000 was appropriated for activities that increase the agency's ability to meet statutory requirements for licensing and background studies. The cost of this item was partially paid for by increasing licensing fees for home and community-based providers and increasing the fees for background studies for personal care and nursing service providers.

Economic Support Grants

Nearly \$1.249 billion was appropriated for this activity, of which \$782 million was from the General Fund and nearly \$466 million from the TANF Fund. This funding level represents a \$141 million dollar reduction from the FY 2006-07 base level. These General Fund reductions are primarily the result of three proposals. First is a delay in the Projects of Regional Significance initiative until FY 2010, for a savings of \$50 million in FY 2006-07. These funds, which were meant to restore the Children and Community Services block

grant to FY 2002-03 base funding levels, were to be spent on projects to support and develop human services capacity and service delivery on a regional basis. Second, savings of over \$27 million were achieved by replacing (refinancing) General Fund TANF eligible spending with spending from the TANF Fund. Third, the child care rate freeze implemented in FY 2004 was maintained, with the slight adjustment of providing a 1.75 percent cost of living adjustment to providers in FY 2006, for a savings of nearly \$62 million. Finally, smaller General Fund savings were realized by accelerating \$18.3 million in child care development spending and refinancing \$3.6 million in Food Stamp funding.

General Fund savings were offset by several new spending items. To address long-term homelessness, the Legislature appropriated \$10 million in FY 2006-07 for supportive housing services grants and \$2.2 million to create a demonstration project to prevent homelessness for young adults in transition from long-term foster care. The Legislature also appropriated \$500,000 to fund the capital costs for new transitional housing.

The Legislature also appropriated \$2.4 million to the Leech Lake and White Earth tribal bands to provide the full continuum of child welfare services to American Indian children living at those reservations.

Basic sliding fee child care and MFIP/Transitional Year child care co-pays were decreased by creating a new parent fee schedule at a cost of \$4.1 million in FY 2006-07.

Finally, there was new TANF spending in the economic support grant area, with \$3.3 million spent on capping the subsidized housing and Supplemental Social Security penalty in MFIP at \$125 per case per month.

Children and Economic Assistance Management

Just over \$85.1 million was provided from the General Fund for children and economic assistance management, an amount \$578,000 over the base funding level.

Health Care Grants

The Legislature appropriated just under \$4.2 billion for health care grants, including nearly \$3.5 billion from the General Fund and almost \$697 million from HCAF. The programs funded include MinnesotaCare, Medical Assistance basic health care grants, General Assistance Medical Care, other health care assistance, and the Prescription Drug Program.

The entire appropriation of \$697 million of HCAF was directed to the MinnesotaCare program. This represents an almost \$183 million increase in spending from the base funding level. One of the most significant items that received new funding was the repeal of the \$5,000 benefit cap for adults without children in MinnesotaCare at a cost of \$40.4 million for the biennium. This amount also included funds for adding back diabetic supplies and services provided by psychologists and social workers to the MinnesotaCare limited benefit set. Another significant appropriation to MinnesotaCare resulted from the inclusion of over 18,000 individuals from the GAMC program at a cost to HCAF of \$61 million in FY

2007 and over \$370 million for FY 2008-2009. The individuals who were moved from GAMC to MinnesotaCare are adults without children, who are not receiving Group Residential Housing (GRH) grants or General Assistance cash grants, who have permanent housing and who have not filed an application for disability with the Social Security Administration. (For a more in-depth discussion of the fiscal and policy implications of this item, see the box below.) The shift of these individuals from a General Fund program to HCAF saved the General Fund \$69 million in FY 2007 and over \$431 million in FY 2008-09. The final major appropriation from the HCAF was made to cover the cost of a 17-month delay in the implementation of DHS's new health care eligibility computer system, HealthMatch. Built into the February forecast was the assumption that the implementation of HealthMatch would lead to the identification of individuals and families currently enrolled in MinnesotaCare who were also eligible for MA or GAMC. Because MA and GAMC offer more generous benefits than MinnesotaCare and recipients pay no premiums, eligible enrollees would be automatically transferred by the new system from MinnesotaCare to MA or GAMC. In the forecast, savings were attributed to HCAF because of the decrease in MinnesotaCare enrollees and increased costs to the General Fund because of increased MA and GAMC enrollees. However, because of internal difficulties in implementing the system, DHS projected a 12-month delay in HealthMatch implementation and an additional five months of delay was created by changes made during the 2005 First Special Session. This appropriation of \$102.7 million was

needed to cover the implementation delay in HCAF and savings of \$107.3 million were recognized in the General Fund. The final major HCAF appropriation was \$3.5 million to improve the MinnesotaCare enrollment process.

New spending in HCAF was partially offset by several savings initiatives. The Legislature instituted a number of MinnesotaCare eligibility reforms, which saved \$6.3 million. These eligibility reforms included requiring students enrolled in secondary education institutions to be removed from the program if they have insurance available through their school and requiring premium changes during the six-month enrollment period if income changes during that time. Savings also resulted from increasing MinnesotaCare premiums by \$1 for children in households with income less than 150 percent of federal poverty guidelines and by ten percent for all other enrollees for a total savings of 2.5 million. The Legislature also imposed co-payments for MinnesotaCare enrollees for non-preventative (\$3) and nonemergency (\$6) emergency room visits. This initiative resulted in a nearly \$2.4 million spending reduction in FY 2006-07. The final major reduction in HCAF spending was the elimination of MinnesotaCare outreach grants for a savings of \$1.5 million.

The Legislature appropriated nearly \$1.31 billion from the General Fund for MA basic health care services for families and children. This total reflects a General Fund reduction of almost \$98 million. The General Fund appropriation for MA basic health care services for the elderly and disabled persons exceeded

\$1.67 billion but included a cut of more than \$9.9 million. Because individual health care budget items often require the appropriation or spending reduction from both of these areas, the budget change items passed in these areas are discussed together.

The most significant spending reductions were a onetime savings in FY 2006-07 of \$57.9 million attributable to the 17-month HealthMatch delay; net savings of nearly \$22.6 million from the combined value of the repeal of a hospital intergovernmental transfer and increased disproportionate share hospital funds from the federal government; savings of \$7.2 million for a number of pharmaceutical initiatives, including reduction of pharmacy reimbursement rates; prior authorization of new drugs and selective distribution of specialty pharmaceuticals; nearly \$4.3 million from instituting prior authorization for certain services, such as hysterectomies, orthodontics, and spinal fusion; a savings of over \$58 million in reductions to inpatient hospital rates, excluding GAMC; (See highlighted discussion below regarding the interaction of the hospital payment reductions and increased disproportionate share payments.) \$3.3 million from the elimination of payments for improper emergency room use; and savings of \$959,000 from the discontinuation of payments for circumcision, erectile dysfunction drugs, and sex-change operations.

The major spending increases in this area were spending of \$22.3 million for increased disproportionate share hospital payments; limiting the amount of co-pays that can be collected for pharmaceuticals at a cost of \$5.1

million; spending of \$2.1 million for the repeal of the \$500 MA dental cap; and spending of \$4 million to fund increased

reimbursements to rural hospitals for 16 inpatient procedures.

DSH Payments and Hospital Reimbursement Reductions

The Legislature enacted a series of complex hospital reimbursement changes designed to: (1) reduce state MA spending through a hospital rate reduction; (2) eliminate certain intergovernmental transfer payments to the state in order to comply with federal mandates; and (3) maximize federal disproportionate share (DSH) payments in order to ameliorate the rate reductions. This initiative included the following:

- a six percent permanent reduction in MA hospital reimbursements;
- the elimination of intergovernmental transfer payments totaling \$2 million per month from Hennepin County and the University of Minnesota, offset by the repeal of payments totaling just over \$2 million per month to Hennepin County Medical Center and Fairview-University Medical Center;
- for the current biennium, the reporting of certain state GAMC payments as DSH payments in order to draw federal matching funds; and
- for the 2008-2009 biennium, the use of hospital expenditures by certain large metropolitan hospitals and certain government entities to earn federal DSH match. This match, offset by the value of an additional four percent hospital rate cut, will be used to increase MA hospital payments by four, ten, or 13 percent, depending on each hospital's location and MA utilization rate.

The net budget impact of this initiative is a savings of \$22.9 million in the current biennium and a savings of \$94.6 million in the 2008-2009 biennium.

The Legislature also directed DHS to report by December 15, 2008, on ways to maximize federal DSH payments after June 30, 2009.

The GAMC appropriation of over \$514 million reflects a General Fund reduction of nearly \$116 million from base level funding for FY 2006-07. The most significant reductions were a \$69 million savings that resulted in the shift of over 18,000 individuals from the program to MinnesotaCare; and savings

of \$49.4 million from the 17-month HealthMatch delay.

New GAMC spending items included \$3.8 million to limit co-pays on pharmaceuticals and \$900,000 to pay for increased reimbursements to rural hospitals for 16 inpatient procedures.

The Legislature appropriated \$4.3 million for the Prescription Drug Program for FY 2006. The program was eliminated in FY 2007, due to the establishment of a federal Medicare drug benefit. This resulted in a savings of nearly \$20.9 million for the current biennium.

Health Care Management

The Legislature appropriated \$97.3 million for programs under this activity, including \$52.5 million from the General Fund and almost \$45 million from HCAF. General Fund spending in this area increased \$11 million from the FY 2006-07 base funding level.

New spending in this area included \$3 million to implement an intensive medical care management contract and over \$600,000 for an initiative to improve the cost effectiveness of health care. The remainder of the new spending was used for new administrative and systems costs associated with the items included in the FY 2006-07 budget.

Continuing Care Grants

The 2005 Legislature provided over \$11.2 million to eliminate the retroactive application of a policy established by the 2003 Legislature regarding life estate and joint tenancy interests owned by MA recipients. 2003 legislation established the policy that these interests continue in effect after the death of the recipient for purposes of MA estate recovery purposes and that liens on these interests do not expire upon the death of the recipient. The 2003 legislation had retroactive application to any life estates and joint tenancies in existence upon the effective date of the policy change. The 2005 Legislature limited the application

of this policy to life estates and joint tenancies established after August 1, 2003, and mandated that any collections made under the retroactive feature be refunded without interest. Refunds will cost over \$2.9 million, and MA lien revenue will be reduced by about \$8.3 million.

The Legislature also repealed a provision of the 2003 legislation that broadened the state lien law to apply to recipients of Alternative Care (AC) services. This repeal will cost over \$13 million, mostly due to caseload growth. (Large numbers of persons refused to apply for AC because of the lien policy established in 2003.) However, no refunds were authorized for AC lien collections since 2003.

In a related action, the Legislature saved over \$4 million by establishing a new state policy that irrevocable trusts and other similar instruments are revocable for the specific purpose of determining eligibility for public payment of long-term care costs. (This policy change was included in Chapter 155, which was adopted during the regular session.) The new policy applies to trusts created on or after July 1, 2005.

Eligibility for the AC program was restricted as a cost-cutting measure. Under the previous standard, AC eligibility was open to persons whose combined assets and income would be depleted to the level that would qualify them for MA within 180 days of a nursing home placement. Under the new standard, MA eligibility must be anticipated within 135 days of placement. This change is expected to save almost \$10.9 million.

In another AC program reduction, a savings of over \$7.4 million was realized by eliminating AC coverage for adult foster care, assisted living services, and residential care services.

The Legislature provided over \$76.1 million to increase rates paid to nursing facilities, intermediate care facilities for persons with mental retardation (ICFs/MR), and a variety of community-based providers. Seventy-five percent of the new money must be used to increase employee wages and for benefit costs. For nursing homes, the rate increases are 2.2553 percent the first year and 1.2553 percent the second year. Also in the second year, nursing facilities may receive an additional increase of up to 2.4 percent, which will be allocated according to each facility's quality score under a new quality incentive program. No requirements were established regarding how much of the quality-based increase must be used for employee wages and benefits. For ICFs/MR and community-based providers, the rate increase is 2.553 percent each year, with 75 percent reserved for employee wages and benefits. The cost of these rate increases was partially offset by a savings of about \$19.5 million realized through the suspension of the automatic annual operating payment rate increase for nursing homes that participate in the alternative payment system. This automatic rate increase has been suspended since 1999, and the 2005 Legislature continued that suspension through June 30, 2009. The Legislature also established an employee scholarship program for workers in certain community-based programs that is similar, though not identical, to the existing scholarship program for nursing facility employees. A transfer of about

\$1.2 million from the State Government Special Revenue (SGSR) Fund was authorized to support this program.

The Legislature reduced spending by over \$8.1 million through the establishment of a nursing facility bed closure incentive. A formula was established to increase facility rates for each bed closure that results in the creation of a single-bed room. The savings is the net result of an expected reduction of about \$25.5 million in nursing facility payments, offset by increased costs for other service options and by a \$9 million reduction in nursing home surcharge revenue.

Another savings of about \$1.1 million was realized by extending the construction deadline for nursing facility moratorium exception projects that were originally approved during the biennium that ended June 30, 2003. The savings estimate assumes that construction delays will also slow down project-related MA expenditures. The Legislature also authorized the approval during the current biennium of new moratorium exception projects with an annualized MA cost of \$1.5 million. The state cost of this initiative for the biennium is \$150,000.

The Legislature also realized savings of over \$52.7 million by capping the growth in certain MA waived services programs that provide community-based alternatives to institutional care. (The caps were included in Chapter 155, which passed during the regular session.) The caps involve placing limits on monthly caseload growth.

In other significant actions in the continuing care area, the Legislature:

(1) provided about \$1.3 million for five percent rate increases for certain home health services; (2) appropriated about \$10.2 million to reduce the county share of certain ICFs/MR placements to ten percent of the nonfederal share down from 20 percent; (3) made available over \$4.7 million for a \$12 per month community living adjustment for occupants of Group Residential Housing units; (4) saved almost \$6.1 million through reform of the personal care assistant (PCA) program, especially through the requirement that PCA services be provided based on a physician's statement of need; and (5) provided over \$2.6 million to reduce higher parental fees adopted in 2003 for the parents of children participating in various DHS programs.

Continuing Care Management

Over \$30.5 million was appropriated to the area of Continuing Care Management. This amount represented a \$1.6 million increase from the base budget for FY 2006-07. The increase was due to new spending on a statewide quality assurance study, administrative funding associated with an effort to allow private vendors to provide relocation services, and administrative funding for a program to reform PCA services.

State-Operated Services

The Legislature provided over \$424 million from the General Fund for state-operated services, including regional treatment centers (RTC), psychiatric hospitals, sexual psychopath treatment programs, and state-staffed community-based group homes. This appropriation was more than \$29.7 million above the FY 2006-07 base. It should be noted that this base amount also included a

deficiency appropriation of \$13.4 million for FY 2004-05 and \$24.3 million in FY 2006-07 that passed early in the 2005 regular session. Just over \$10.4 million of the new spending paid for increased utilization of the department's forensic services at the Saint Peter RTC campus. There was also a onetime appropriation of \$17.3 million to allow the Adult Mental Health Program transition, designed to provide services in community-based settings, to be fully implemented. Finally, there was an appropriation of \$600,000 to begin an evidence-based methamphetamine treatment program at the Willmar RTC.

MINNESOTA DEPARTMENT OF HEALTH

The Legislature appropriated just over \$846.7 million for the Minnesota Department of Health (MDH) for the current biennium. This included \$136.1 from the General Fund; just over \$73 million from SGSR; over \$12.5 million from HCAF; \$12 million from TANF; almost \$354 million in federal non-TANF funds; \$81 million from the Special Revenue Fund; and small amounts from several minor funding sources. These totals represent a net increase in funding of over \$4.4 million.

Agency Programs

The following is a program-by-program description of direct appropriations for the department.

Community and Family Health Promotion

Just over \$100 million was appropriated from all sources for health promotion activities. The most significant funding came from the General Fund with an appropriation of \$80.9 million

Significant reductions in this area included the elimination of suicide prevention grants, for a savings of almost \$2 million. The dental loan forgiveness program was eliminated resulting in a reduction of \$1.1 million. Although the program was eliminated, dentists were made eligible for the department's health professional loan forgiveness program. A reduction was also made to the department's administrative budget. This reduction was made as part of a proposal that funded the lease costs for MDH's new public health lab in the Freeman Building.

These reductions were offset in part by new spending of \$2.5 million for the Positive Alternatives Grant Program. This program awards grants to organizations that provide direct care to pregnant women and their unborn children. An appropriation of \$734,000 was made from the General Fund for a new state trauma system. The appropriation was offset by an increase of a like amount in hospital license fees that are deposited in the General Fund. The state trauma system will coordinate responses to ensure seriously injured people are transported and treated at facilities that are appropriate to the severity of their injuries. Finally, \$1 million was spent in FY 2006-07 on family planning grants for clinics in rural Minnesota. This appropriation will sunset at the end of the current biennium.

Policy Quality and Compliance

The Legislature appropriated \$35.8 million for Policy Quality and Compliance activities. Of this amount, nearly \$30 million was appropriated from the SGSR fund and just over \$7

million was from the General Fund. The total appropriation represents a net increase of \$1.8 million from the biennium's base budget.

The most significant spending item in this area was a \$2.1 million SGSR appropriation for increased vital records activities. This appropriation was offset by an increase of \$2.8 million in vital records fees. A General Fund reduction of \$140,000 from the Office of the State Registrar was reallocated to pay for the lease costs of the new public health lab in the Freeman Building. Similarly, a transfer of \$508,000 was made from the occupational therapy licensing account to pay for the costs of the new building.

Health Protection

Health Protection activities received almost \$67.3 million in total funds for the current biennium. Of this amount, \$18.1 million was appropriated from the General Fund and \$49.1 million from the SGSR fund. The total appropriation represented an almost \$8.4 million increase from base level spending.

The most significant item of new spending was \$6.1 million on the several licensing and certification programs, including: drinking water service connection fees well-management program; plumbing program; food manager certification fee; and lab certification program. This new spending was offset by an increase of \$5.2 million in fees for these programs, for a net cost of more than \$900,000. New spending in this area also included a \$100,000 appropriation to provide technical assistance to local units of government for methamphetamine lab cleanup.

Office of Minority and Multicultural Health

More than \$9.9 million was appropriated for this program area, which represented no change from base level funding.

Administrative Support Services

The Legislature appropriated slightly more than \$14.9 million for administrative support services, all from the General Fund. This represents an almost \$5 million increase from base level funding for the current biennium.

The most significant spending in this area was \$5.5 million to pay for the increased rent costs of the new public health lab in the Freeman Building. Of this amount, \$2.2 million was paid for by internal reallocations from other divisions of the department. The cost was further offset by almost \$2.7 million transferred from the department's SGSR accounts. As noted above, the agency's administrative budget was also cut by \$123,000 to pay for this item. The remainder of funds needed for the increased rent was paid for by the General Fund. Another significant item funded in this area was \$670,000 for adverse health event reporting activities. This spending was offset by a \$670,000 increase in fees on hospitals and outpatient surgical centers.

HEALTH-RELATED REGULATORY BOARDS

The Legislature made available almost \$27.1 million to operate the boards that regulate a broad variety of health-related service providers. This amount represents a \$4 million increase from base level funding and comes from SGSR, which is derived from fees collected from regulated providers.

Four of 14 boards, the Board of Dietetics and Nutrition Practice, the Board of Optometry, the Board of Psychology, and the Board of Behavioral Health and Therapy, were funded at the adjusted base level with no funding changes. The remaining ten boards received \$1.7 million in various adjustments that were made up, for the most part, by license fee decreases. There was also a \$50,000 appropriation to the Board of Pharmacy for the administration of a cancer drug repository.

There were a number of transfers from the health-related boards to other agencies. The Legislature ordered: (1) a \$400,000 transfer from the Board of Pharmacy to MDH for the rural pharmacy preservation grant program; (2) a \$400,000 transfer from the Board of Medical Practice to MDH for the physician loan forgiveness program; and (3) two Board of Nursing transfers, one to DHS for \$1.2 million to partially offset the costs of a long-term care employee scholarship program, and another to MDH for \$325,000 for the nurse loan forgiveness program.

Finally, the Legislature made operational adjustments to both the Board of Social Work and the Board of Dentistry. The Board of Dentistry was appropriated \$150,000 from its existing budget in FY 2006 for the start-up costs of a dental access program. The Board of Social Work was appropriated \$205,000 for administering the Office of Mental Health Practice.

VETERANS NURSING HOMES BOARD

In First Special Session Chapter 4, the Legislature appropriated just under

\$60.1 million to the board for the 2006-2007 biennium to operate veterans homes in Minneapolis, Hastings, Silver Bay, Fergus Falls, and Luverne.

EMERGENCY MEDICAL SERVICES REGULATORY BOARD

First Special Session Chapter 4 made available almost \$7.9 million for the Emergency Medical Services Regulatory Board, which regulates and supports statewide emergency medical care. This amount represented no change from its FY 2006-07 base level budget.

COUNCIL ON DISABILITY

First Special Session Chapter 4 appropriated \$1 million for the council. This represents no change from its FY

2006-07 base level funding. The council will sunset on June 30, 2007.

OMBUDSMAN FOR MENTAL HEALTH AND MENTAL RETARDATION

First Special Session Chapter 4 provided just over \$2.9 million to operate this office. This is no change from its FY 2006-07 base.

OMBUDSMAN FOR FAMILIES

First Special Session Chapter 4 provided \$490,000 to operate this office. This amount is equal to the ombudsman's base funding level.

	FY 2004-05 Spending	FY 2004-05 Spending	Difference	Percent Change
Dept. of Human Services				
General Fund	7,067,227	8,059,405	992,178	14.0%
General Fund Transfers Out	(214,210)	(131,927)	82,283	-38.4%
State Govt. Special Revenue Fund	1,068	1,068	0	0.0%
Health Care Access Fund	588,118	806,015	217,897	37.0%
Special Revenue Fund	532,861	425,152	(107,709)	-20.2%
Federal Fund	7,494,949	8,019,330	524,381	7.0%
Federal TANF	416,530	454,727	38,197	9.2%
Gift Fund	112	150	38	33.9%
Endowment Fund	1	2	1	100.0%
Total DHS	15,886,656	17,633,922	1,747,266	11.0%
Dept. of Health				
General Fund	122,943	133,806	10,863	8.8%
State Govt. Special Revenue Fund	62,143	73,354	11,211	18.0%
Health Care Access Fund	12,499	12,618	119	1.0%
Special Revenue	92,412	79,893	(12,519)	-13.5%
Federal Fund	354,163	354,561	398	0.1%
Federal TANF Reserve Fund	11,975	12,000	25	0.2%

Table 2 continued	FY 2004-05 Spending	FY 2004- 05 Spending	Difference	Percent Change
Remediation Fund	400	400	0	0.0%
Medical Education Endowment Fund	158,038	173,210	15,172	9.6%
Gift Fund	349	86	(263)	-75.4%
Total MDH	814,922	839,928	25,006	3.1%
Veterans Homes Board				
General Fund	59,841	60,060	219	0.4%
General Fund Transfers Out	(59,841)	(60,060)	(219)	0.4%
Special Revenue Fund	119,998	127,964	7,966	6.6%
Federal Fund	565	556	(9)	-1.6%
Gift Fund	1,543	1,552	9	06%
Total Vet's Home Board	122,106	130,072	7,966	6.5%
Health Related Boards				
General Fund	0	0	0	0.0%
State Govt. Special Revenue Fund	21,766	27,551	5,785	26.6%
Health Care Access Fund	128	0	(128)	-100.0%
Special Revenue Fund	392	204	(188)	-48.0%
Total Health Related Boards	22,286	27,755	5,469	24.5%
Ombudsman for MH/MR				
General Fund	2,901	2,924	23	0.8%
Ombudsman for Families				
General Fund	491	490	(1)	-0.2%
Special Revenue Fund	226	324	98	43.4%
Total Ombudsman for Families	717	814	97	13.5%
Disability Council				
General Fund	1,112	1,000	(112)	-10.1%
Special Revenue Fund	5	10	5	100.0%
Gift Fund	5	0	(5)	-100.0%
Emergency Medical Services Board				
General Fund	7,044	6,762	(282)	-4.0%
State Govt. Special Revenue Fund	1,112	1,114	2	0.2%
Special Revenue Fund	2,213	2,344	131	5.9%
Federal Fund	958	650	(308)	-32.2%
Gift Fund	13	4	(9)	-69.2%
Total EMS Board	11,340	10,874	(466)	-4.1%
HHS Budget Division by Fund Category				
General Fund	7,261,559	8,264,447	1,002,888	13.8%
General Fund Transfer Out	(274,051)	(191,987)	82,064	-29.9%

Table 2 continued	FY 2004-05 Spending	FY 2004- 05 Spending	Difference	Percent Change
State Govt. Special Revenue Fund	86,089	103,087	16,998	19.7%
Health Care Access Fund	600,745	818,633	217,888	36.3%
Special Revenue	748,107	635,891	(112,216)	-15.0%
Federal Fund	7,850,274	8,375,097	524,823	6.7%
Federal TANF Reserve Fund	428,505	466,727	38,222	8.9%
Remediation Fund	400	400	0	0.0%
Medical Education Endowment Fund	158,038	173,210	15,172	9.6%
Endowment Fund	1	2	1	100.0%
Gift Fund	2,022	1,792	(230)	-11.4%
Total HHS Budget Division	16,861,689	18,647,299	1,785,610	10.6%

Table 3 Biennial Spending by Function - All Funds Health and Human Services (dollars in thousands)				
Function	FY 2004-2005 Spending*	FY 2006-2007 Enacted Budget	Difference	Percent Change
Department of Human Services				
Agency Management	178,783	104,917	(73,866)	-41.3%
Children & Economic Support Grants	838,425	782,038	(56,387)	-6.7%
Children & Economic Asst. Mgmt.	23,841	85,684	61,843	259.4%
Health Care Grants	3,323,130	4,196,506	873,376	26.3%
Health Care Management	48,111	97,334	49,223	102.3%
Continuing Care Grants	2,831,363	3,168,140	336,777	11.9%
Continuing Care Management	34,506	30,220	(4,286)	-12.4%
State Operated Services	409,068	424,029	14,961	3.7%
Healthy Marriage Initiative	100	-	(100)	100.0%
Child Support	-	1,310	1,310	NA
Fund Transfers	4,600	-	(4,600)	100.0%
Federal Reimbursement	(64,525)	(77,096)	(12,571)	19.5%
Special Revenue Open/Stat	532,861	425,152	(107,709)	-20.2%
Health Care Access Open/Stat	29,011	53,406	24,395	84.1%
Gift Fund	112	150	38	33.9%
Endowment Fund	1	2	1	100.0%
General Fund Transfer Out	(214,210)	(131,927)	82,283	-38.4%
Federal Fund	7,494,949	8,019,330	524,381	7.0%
Federal Fund TANF	416,530	454,727	38,197	9.2%
Total Department of Human Services:	15,886,656	17,633,922	1,747,266	11.0%
Department of Health				
Community and Family Health	87,976	88,213	237	0.3%
Policy Quality Compliance	26,371	35,812	9,441	35.8%

Table 3 continued	FY 2004-2005 Spending*	FY 2006-2007 Enacted Budget	Difference	Percent Change
Health Protection	61,630	67,667	6,037	9.8%
Minority and Multicultural Health	10,063	9,964	(99)	-1.0%
Administrative Support Services	11,583	14,958	3,375	29.1%
Positive Alternatives	0	2,500	2,500	NA
St Gov Spec Rev Open/Stat	299	998	699	233.8%
Health Care Access Open/Stat	63	66	3	4.8%
Special Revenue Open/Stat	92,412	79,893	(12,519)	-13.5%
Gift Fund	349	86	(263)	-75.4%
Medical Education Endowment	158,038	173,210	15,172	9.6%
Federal Fund	353,802	354,561	759	0.2%
Federal Fund TANF	11,975	12,000	25	0.2%
Total Department of Health:	814,922	839,928	25,006	3.1%
Total Vet's Home Board	122,106	130,072	7,966	6.5%
Total Health Related Boards	22,286	27,755	5,469	24.5%
Ombudsman for MH/MR	2,901	2,924	23	0.8%
Total Ombudsman for Families	717	814	97	13.5%
Disability Council	1,122	1,010	(112)	-10.0%
Emergency Medical Services Board	11,340	10,874	(466)	-4.1%
Total HHS Budget Division	16,861,689	18,647,299	1,785,610	10.6%

*Based on the February 2005 Forecast

HOUSING

Housing Finance Agency

The Legislature appropriated \$70.4 million from the General Fund for the FY 2006-2007 biennium to the Minnesota Housing Finance Agency (MHFA) for affordable housing. This is similar to the appropriation to the agency for the 2004-2005 biennium, which was slightly less than \$70.3 million. In addition, the 2005 bonding bill included capital funding for two housing projects, including \$350,000 to Hennepin County for a Supportive Housing and Redevelopment project, and \$12 million to the MHFA under the Housing the Homeless Program to make loans to cities and counties for permanent, publicly owned rental housing.

Notable changes in General Fund appropriations between FY 2004-2005 and FY 2006-2007 include:

- Funding for the city of Roseau to buy out flood-damaged residential property, which was a onetime appropriation, is not continued.
- The challenge program increase of \$2,570,000 combined the two appropriations for Indian Housing Programs with the challenge

program. The biennial appropriations for the Urban Indian Housing Program of \$360,000 and the Tribal Indian Housing Program of \$2,210,000 are available on a fiscal year basis during the first eight months of the fiscal year for the specific Indian Housing Programs. If not used, the appropriations are available for other eligible activities of the challenge program.

- The Housing Trust Fund was increased by \$2,000,000 each year for the purpose of ending long-term homelessness. This increase in General Fund dollars may be used as supportive housing spending, along with the \$12 million in bonding dollars mentioned above for the Housing the Homeless Program.

The other decreases shown in Table 1 are the adjustments made to increase the Housing Trust Fund for the Housing the Homeless Program, with an overall increase in the General Fund appropriation to the Minnesota Housing Finance Agency of \$200,000 for the biennium.

Table 1
General Fund Spending and Major Change Items
Minnesota Housing Programs
(dollars in thousands)

	FY 2004-05 Spending	FY06-07 Base	FY06-07 Enacted Budget	Change: Enacted – FY 04-05	Change: Enacted – Base
Total	70,270	70,270	70,470	200	200
Major Change Items					
Roseau Flood Assistance	500	500	-0-	-500	-500
Affordable Rental Housing	18,546	18,546	17,992	-554	-554
Challenge Program	19,244	19,244	21,814	2,570	2,570
Housing Trust Fund	8,610	8,610	12,610	4,000	4,000
Urban Indian Housing	360	360	-0-	-360	-360
Tribal Indian Housing	2,210	2,210	-0-	-2,210	-2,210
Capacity Building Grants	610	610	500	-110	-110
Housing Rehabilitation and Accessibility	7,944	7,944	5,308	-2,636	-2,636

Table 2
Biennial Spending by Agency and Fund – All Funds
Minnesota Housing Programs
(dollars in thousands)

Agency	FY2004-2005 Spending	FY 2006-2007 Enacted Budget	Difference	Percent
Minnesota Housing Finance Agency	431,999	439,991	7,992	1.8%

Affordable Housing

The Minnesota Housing Finance Agency funds affordable housing activities in five broad areas, using a combination of state and federal funds, which total more than \$439 million for the current biennium. In addition to managing these funds on a biennial basis, the agency has a portfolio of housing related loans and investments of \$2.8 billion, \$1.8 billion of which are financed by mortgage revenue bonds.

Notable changes between the functions are discussed in following paragraphs.

In the supportive housing program, the Housing Trust Fund was increase by \$4 million to assist with the program to end long-term homelessness. Also, for housing the homeless program, there was \$12 million in the 2005 Capital Investment Bill.

The difference in the homeownership loan program was a reduction in loans to first time homebuyers to help with the

down-payment and entry costs. However, due to a higher level of loan repayments in recent years to the agency through loan refinancing, it is anticipated the base level of new homeownership loans will be maintained through the 2006-07 biennium.

The 17.6 percent increase in the resident and organization support area reflects additional federal funding of \$500,000 in fiscal year 2006 for the chronic homelessness program.

Table 3
Biennial Spending by Function – All Funds
Minnesota Housing Programs
(dollars in thousands)

Function	FY 2004-2005 Spending	FY 2006-2007 Enacted Budget	Difference	Percent
Development and Redevelopment Programs	37,904	41,714	948	2.3%
Supportive Housing Programs	21,458	26,216	4,758	22.2%
Homeownership Loan Programs	2,115	600	(1,515)	71.6%
Preservation of Federally Assisted Housing Programs	320,883	324,212	3,329	1.0%
Resident and Organization Support	4,391	5,162	771	17.6%
Administrative	42,386	42,087	(299)	0.7%
Total	431,999	439,991	7,992	1.8%

ECONOMIC DEVELOPMENT

The Legislature appropriated \$306.1 million for the FY 2006-2007 biennium from the General Fund for economic development programs, a reduction of

\$28.0 million, or 8.4 percent, from the previous biennium.

Table 1 General Fund Spending and Major Change Items Economic Development Budget (dollars in thousands)					
	FY2004-05 Spending	FY 06-07 Base	FY 06-07 Enacted Budget*	Change: Enacted - FY 2004-05	Change: Enacted - Base
Total	334,125	320,591	306,075	-28,046	-14,516
Major Change Items:					
Minnesota Investment Fund	2,406	2,406	0	-2,406	-2,406
Biotech/U of M Partnership	2,000	0	15,000	13,000	15,000
Methamphetamine Cleanup	0	0	500	500	500
Minnesota Youth Programs	13,164	13,164	0	-13,164	-13,164
Explore Minnesota Tourism	16,565	17,252	18,402	1,837	1,150
Minnesota Technology, Inc.	3,000	0	0	-3,000	0
Energy & Telecomm Costs to Renewable Energy Fund	9,676	9,676	0	-9,676	-9,676
Weights & Measures Division - Expenses to Petro Fund	5,014	5,014	0	-5,014	-5,014
Rehabilitation Loans	7,944	7,944	5,308	-2,636	-2,636
Prevention of Homelessness	0	0	4,000	4,000	4,000
Historical Society Funding	44,687	44,687	46,450	1,763	1,763
* Dollars are after Governor's Vetoes					

Two major organizational changes in the economic development functions occurred in the 04-05 biennium. One was the completion in July 2003 of the merger of the departments of Economic Security and Trade and Economic Development, into a new agency called the Department of Employment and Economic Development (DEED). However, due to action taken in the 2004 legislative session, the Tourism Division was separated from the newly formed department as an office in the executive

branch of government with a director appointed by the Governor. The mission of the new office of Explore Minnesota Tourism is to promote and facilitate increased travel to and within the state. Since the tourism director is supervised by the DEED commissioner, the budget of some \$18 million for the biennium will be included in the totals of Table 1. The second important change was the ending of state funding for Minnesota Technology, Inc. (MTI). Founded in 1987 from the framework of the Greater

Minnesota Corporation, MTI was designed to transfer information and technologies to assist small and medium sized businesses in production or increase productivity of products or services. Services and technology enhancements provided by MTI are now available through fees from for-profit companies.

Notable General Fund changes between the biennial appropriations are discussed in the following paragraphs.

Minnesota Investment Fund

The direct appropriation for the Minnesota Investment Fund was eliminated, resulting in savings to the General Fund of \$2.4 million in the 2006-2007 biennium. Dedicated revenues of about \$1 million per year continue to go into the Investment Fund, which is used to assist small-to-medium sized businesses to expand, with a focus on industrial, manufacturing, and technology-related industries.

Biotechnology/Medical Genomics Initiative

Funding for the expenses of the collaborative research partnership between the University of Minnesota and the Mayo Foundation in Rochester for research in biotechnology and medical genomics was increased substantially to \$15 million from \$2 million between the bienniums.

Methamphetamine Cleanup

A new revolving loan program was established for cleaning up methamphetamine laboratories which generate extremely toxic wastes that can penetrate porous surfaces.

The loan fund was initiated with a \$500,000 appropriation, which will allow local units of government, on a first-come-first-served basis, to be reimbursed for the cleanup costs after repayment of the loans has been identified. Through DEED, the Public Facilities Authority will manage the fund.

Explore Minnesota Tourism

Explore Minnesota Tourism's budget was increased by \$1 million for FY 2006-2007 for marketing, along with increases from the Public/Private Enhancement Partnership, which will bring the required annual match to \$4 million in private sector involvement in tourism.

Youth Programs

To save General Fund dollars in the economic development area, funding for the four Minnesota Youth Programs was eliminated, resulting in a savings of \$13.2 million dollars. Although the statutory language for the programs remain in place, the following action was taken: the General Fund appropriation for the Youthbuild Program, which provides at-risk youth ages 16 to 24 with specialized training in the construction and building trades, was eliminated, saving \$1.5 million; state funding of the more generalized statewide Minnesota Youth Program, serving at-risk youth between the ages of 14 and 21, was eliminated, saving some \$8.4 million (however, \$6 million in Workforce Development Funds were used to offset the reduction); Learn-to-Earn, a program of summer employment, academic, and recreational opportunities for unemployed youth ages 14 to 18 was eliminated, saving \$366,000; and the Youth Intervention

Program, providing prevention and early intervention services was shifted to the Public Safety operating budget, reflecting a change in responsibility for administering the program from DEED to the Department of Public Safety.

The General Fund of appropriation of \$3 million to MTI was ended during the 2004-05 biennium, and the functions and services provided by MTI were turned over to private, for-profit corporations. Recent annual appropriations had been more than \$7 million from the General Fund, so this legislative action has resulted in some direct savings.

Renewable Energies Development Fund

To reduce General Fund expenditures, a shift in costs within the Commerce Department was accomplished between the biennia resulting in a savings of \$9.7 million dollars. Small wind generator incentive payments which had been paid for from the General Fund will be made from the Renewable Development Fund starting in FY 2006. Revenues into the Renewable Development Fund come from Excel Energy ratepayers, and the funds are distributed as grants by an independent board and are administered by Excel Energy. Although the General Fund benefits from this shift, it is anticipated that there will be no reduction in the incentive payments due to a balance in the Renewable Development Fund.

A second shift of costs within the Commerce Department also saved the General Fund about \$5 million for the 2006-07 biennium. Expenses of the Weights and Measures Division were shifted from the General Fund to the Petroleum Inspection Fund. This

division serves every person and business in Minnesota that buys or sells goods or services based on a measured quantity.

Housing Programs

See the Chapter on Housing.

Historical Society

General Fund spending for state Historical Society functions was increased by \$1.7 million between bienniums to partially restore budget reductions made for FY 2004-05. For the 2006-07 biennium, \$700,000 was added each year to operate seven historic sites, and the society was directed to work with interested communities and individuals who could provide financial or in-kind support.

To assist in balancing the state's General Fund budget, several transfers and fee and revenue increases in various agencies were also adopted. These increased revenues, which were deposited into the General Fund and not appropriated back to the agencies, total \$41 million. The two largest of these transfers was \$32 million in revenue from accelerating sales of unclaimed property in the Department of Commerce, and \$4 million from balances in the Board of Electricity.

The Economic Development area includes a diverse set of state departments, as well as many small agencies and boards with biennial budgets of more than \$2.6 billion dollars and more than 3,000 employees. These agencies are listed in Table 2, and are grouped into functions in Table 3. The general goals for the agencies and functions in the economic development area include improving productivity,

increasing wealth, and promoting equity within the state. It includes services such as financing business expansions, promoting tourism, regulating financial services and utilities, promoting safe work environments, job-training programs, affordable housing programs, arts culture, and preserving historically significant sites and documents.

Economic efforts are financed from the general fund, other state funds, and federal funds. Other state funds include money generated from user fees, bond proceeds, and special taxes. The federal funds are largely spent on wastewater and drinking water systems, community development block grants, unemployment insurance, employment and training services, and housing subsidies. Most of the spending in Labor and Industry, which is the Protection and Safety of Workers function in Table 3, is from the Workers' Compensation Fund.

Notable changes between all fund biennial appropriations in the functions listed on Table 3 are discussed in the following paragraphs.

Promotion of Business and Employment Security

The Public Facility Authority, which is part of the Department of Employment and Economic Development, received about \$50 million in state bond proceeds in the 2004-05 biennium, and about the same amount from federal funds and

local match. Also in this function is the Iron Range Resources Agency, which shows a difference of \$18 million between the biennia, but it has revolving funds and carryover authority, so this amount will essentially be level over time. The third major change was the elimination of MTI, accounting for \$7.6 million of the difference in this function. The final major change, the extension of the Workforce Development Fee at .10 percent, is not reflected in the 2006-07 enacted amounts. The revenue of more than \$18 million from the fee added to the enacted column explains the most of the remaining total difference.

Protection and Safety of Workers

The major difference in this function is the reduction by about \$11 million between the biennia. This is an estimate of reduced spending in the Workers' Compensation Fund for reimbursements to insurers and employers for payments made to employees under the second injury and supplemental benefits programs. Statutory changes in these programs starting in 1995 reduced payments under these programs on a declining basis until approximately 2040. Historically, the workers' compensation assessment rate has fluctuated between 20 percent and 31 percent. With these changes, the assessment rate has gone down from 30 percent in FY 2003, and was set at 25.68 percent in FY 2005.

Table 2
Biennial Spending by Agency and Fund – All Funds
Economic Development Budget
(dollars in thousands)

Agency	FY 2004-2005 Spending	FY 2006-2007 Enacted Budget*	Difference	Percent Change
Employment & Economic Dev				
General Fund	110,394	90,781	-19,613	-17.8%
General Fund transfer out	-30	0	30	-100.0%
Petroleum Tank Release Fund	13,513	12,400	-1,113	-8.2%
Special Revenue Fund	47,938	43,301	-4,637	-9.7%
Workforce Development	101,697	87,214	-14,483	-14.2%
Federal Fund	513,099	478,707	-34,392	-6.7%
Federal Fund TANF	1,103	0	-1,103	-100.0%
Remediation	1,400	1,400	0	0.0%
Gift Fund	830	1,262	432	52.0%
Total, Employ & Econ Devel	789,9444	715,065	-74,879	-9.5%
<i>Other Funding</i>				
<i>Public Facilities Authority</i>	<i>473,178</i>	<i>420,864</i>	<i>-52,314</i>	<i>-11.1%</i>
<i>Drinking Water Revolving Loans</i>	<i>145,677</i>	<i>159,628</i>	<i>13,951</i>	<i>9.6%</i>
<i>Transportation Revolving Fund</i>	<i>37,679</i>	<i>24,491</i>	<i>-13,188</i>	<i>-35.0%</i>
Explore Minnesota–Tourism **				
General Fund	8,909	18,402	9,493	106.6%
Special Revenue	977	5,015	4,038	413.3%
Federal	29	0	-29	-100.0%
Total, Explore Minnesota	9,915	23,417	13,502	136.2%
Minnesota Technology Inc.	7,635	0	-7,635	-100.0%
Housing Finance Agency				
General Fund	69,954	70,470	516	0.7%
General Fund transfer out	-69,954	-70,470	-516	-0.7%
Total, Housing Finance	0	0	0	0
<i>Housing Finance-statutory</i>	<i>431,999</i>	<i>439,991</i>	<i>7,992</i>	<i>1.9%</i>
Commerce				
General Fund	56,845	40,292	-16,553	-29.1%
General Fund transfer out	-16	0	16	-100.0%
Environment & Natural Resources	0	700	700	N/A
Petroleum Tank Release Fund	32,454	32,520	66	.2%
State Government Special Revenue	529	183	-346	-65.4%
Special Revenue Fund	30,015	47,228	17,213	57.3%
Federal Fund	185,908	189,676	3,768	2.0%
Workers Compensation	1,450	1,670	220	15.2%
Gift Fund	2	0	-2	-100.0%
Total, Commerce	307,187	312,269	5,082	1.7%
Accountancy Board	1,211	974	-237	-19.6%
Arch, Eng, Survey Board	1,854	1,570	-284	-15.3%
Barbers, Cosmetology Board	825	1,398	573	69.5%
Electricity Board-Special Revenue	21,230	22,092	862	4.1%

Table 2 continued	FY 2004-2005 Spending	FY 2006-2007 Enacted Budget*	Difference	Percent Change
Public Utilities Commission				
General Fund	8,429	8,326	-103	-1.2%
Special Revenue	2,896	6,248	3,352	115.7%
Total, Public Utilities Comm	11,325	14,574	3,249	28.7%
Labor & Industry				
General Fund	5,705	5,744	39	0.7%
Special Revenue	2,934	2,580	-354	-12.1%
Workforce Development	901	1,500	599	66.5%
Federal Fund	10,369	10,676	307	3.0%
Workers Compensation	214,030	201,938	-12,092	-5.6%
Total, Labor & Industry	233,939	222,438	-11,501	-4.9%
Mediation Services				
General Fund	3,659	3,546	-113	-3.1%
Special Revenue	6	6	0	0.0%
Total, Mediation Services	3,665	3,552	-113	-3.1%
Worker Comp Court of Appeals- Workers Compensation Special Fund	3,236	3,236	0	0.0%
Historical Society				
General Fund	44,687	46,450	1,763	3.9%
Environment and Natural Res	75	0	-75	-100.0%
Special Revenue	1,862	1,862	0	0.0%
Total, Historical Society	46,624	48,312	1,688	3.6%
<i>Other</i>				
<i>Gift</i>	<i>25,002</i>	<i>25,002</i>	<i>0</i>	<i>0.0%</i>
<i>Federal</i>	<i>626</i>	<i>666</i>	<i>40</i>	<i>6.4%</i>
Arts Board				
General Fund	17,177	17,186	9	0.1%
Special Revenue Fund	15	2	-13	-86.7%
Gift	888	129	-759	-85.5%
Federal	1,335	1,312	-23	-1.7%
Total, Arts Board	19,415	18,629	-786	-4.0%
IRRR				
Iron Range Resources & Rehab	60,361	52,204	-8,157	-13.5%
Economic Protection Trust Fund	8,534	2,162	-6,372	-74.7%
Total, IRRR	68,895	54,366	-14,529	-21.1%
Region 3-Occupation Tax				
General Fund	936	936	0	0
General Fund transfer out	-936	-936	0	0
Total, Region-3	0	0	0	0
Total State and Federal	1,526,900	1,441,892	-85,008	-5.6%
<i>Other Funding</i>	<i>1,114,161</i>	<i>1,070,642</i>	<i>-43,519</i>	<i>-3.8%</i>
Total, Including Other Resources	2,641,061	2,512,534	-128,527	-4.8%
* Dollars are after the Governor's Vetoes				
** After the reorganization, the difference is \$4,753 or 25.5%				

Table 3
Biennial Spending for Function - All Funds
Economic Development Budget
(dollars in thousands)

Function	FY2004-2005 Spending	FY 2006-2007 Enacted Budget*	Difference	Percent Change
Promotion of Business and Employment Security	1,532,923	1,397,831	-135,092	-8.8%
Affordable Housing Assistance	431,999	439,991	7,992	1.9%
Regulation of Banking, Insurance & Real Estate	307,187	312,269	5,082	1.7%
Licensing of Business Professionals	25,120	26,034	914	3.6%
Regulation of Utilities	11,325	14,574	3,249	28.7%
Protection and Safety of Workers	240,840	229,226	-11,614	-4.8%
Educating and Preserving Arts and History	91,667	92,609	942	1.0%
Total	2,641,061	2,512,534	-128,527	-4.9%
* Dollars are after the Governor's Vetoes				

ENERGY, TELECOMMUNICATIONS, AND UTILITIES

Chapter 40 extended the deadline for eligibility for the Renewable Energy Production Incentive for wind energy conversion facilities to accommodate projects affected by a delay in payment of a federal production tax credit. As a result, more than 100 megawatts of capacity as originally provided in statute may qualify to receive the incentive payment, resulting in a reduction in the payment from 1.5 cents per kilowatt to one cent.

Chapter 67 provided property owners the ability to petition their municipality to assess them for the cost of burying utility lines to the extent that cost exceeds the utility's design and construction standards or those set by law, tariff, or franchise.

Chapter 97 contained several energy provisions. Article 1 defined transmission companies as entities separate from utilities owning transmission facilities and provided conditions under which the Public Utilities Commission (PUC) may approve transfer of electric transmission assets to a transmission company. Those conditions are meant to safeguard Minnesota ratepayers, the reliability of the state's transmission infrastructure, and the public interest, while encouraging development of renewable resources.

Article 1 also created a tariff mechanism for the automatic annual adjustment of charges for Minnesota jurisdictional costs of new transmission facilities upon filing with the PUC.

Chapter 97, article 2, established a tariff to optimize local and regional benefits from wind energy development, and to facilitate development of community-based wind energy projects. Article 2 granted priority status to transmission projects determined by the PUC to be necessary to meet a utility's renewable energy objective. Article 2 also required all utilities providing service in Minnesota to finance and participate in a statewide study of the impacts on reliability and cost of increasing wind capacity to 20 percent of the state's total retail electric sales by 2020.

Chapter 97, article 3, transferred authority for routing and siting of high voltage electric transmission lines and large energy facilities from the Environmental Quality Board to the PUC, with the Department of Commerce required to provide technical expertise, environmental assessments, and other assistance to the PUC in routing and siting decisions.

Chapter 97, article 5, provided for a joint venture between the municipal utilities of Hibbing and Virginia to retrofit coal-fired generation facilities to utilize biomass fuels. Chapter 20 provided \$2 million to the Laurentian Energy Authority for construction of a wood yard for processing and preparing agricultural and forest-derived biomass for such a facility.

Chapter 97, article 6, established an electronic filing account at the Department of Commerce to allow documents to be filed and viewed

electronically, and authorized a onetime assessment of \$300,000 on all regulated utilities, proportional to their gross revenues, for this purpose.

Chapter 97, article 8, allowed for the creation of Local Power Quality Zones, upon petition to the PUC, to enable ratepayers, through tariffs and surcharges, to obtain electrical service with a significantly lower number of service outages or voltage fluctuations.

Chapter 97, article 9, removed a prohibition on eligibility for the Renewable Energy Production Incentive in Minnesota Statutes, section 216C.41, on biogas facilities that began generating electricity prior to July 1, 2001.

Chapter 97, article 11, directed the Legislative Electric Energy Task Force to conduct a study to examine alternative methods of compensating landowners who have had high-voltage transmission lines constructed on their land.

Chapter 97, article 13, directed the Department of Administration to identify opportunities for demonstrating the use of hydrogen fuel cells within state-owned facilities, vehicle fleets, and operations, and required the Department of Commerce to compile a biennial list of hydrogen pilot projects.

Article 13 also required the Commissioner of Commerce to assess energy utilities \$300,000 in each year of the biennium for the purpose of matching federal and private investment in three multifuel hydrogen refueling stations in the state.

Chapter 97, article 14, allocated \$150,000 from the renewable

development account to the Agriculture Utilization Research Institute to be disbursed in equal amounts over three years for projects that utilize soy diesel-fueled generators as backup power for a wind energy conversion system of no more than one megawatt generating capacity.

Chapter 97, article 15, directed the Reliability Administrator within the Department of Commerce to spend up to \$25,000 of the administrator's budget on a comprehensive analysis of the benefits provided by the use of biodiesel as a home heating fuel.

Chapter 81 established an accessible electronic information service for communication-impaired individuals, with an annual budget not to exceed \$100,000, under the authority of the Commissioner of Employment and Economic Development, and appropriated an unspecified amount to implement the program from the Telecommunications Access Minnesota Fund. This chapter also required the Commissioner of Human Services to enter into grant agreements with television stations to provide real-time captioning for certain news programming. Such agreements are not to exceed a total annual budget of \$300,000 with funds appropriated from the Telecommunications Access Minnesota Fund.

COMMERCE AND INSURANCE

Chapter 77 eliminated a provision in statute that exempted health maintenance organizations from an assessment for the insurance fraud prevention account, in addition to making several minor changes to various health plan company reporting requirements.

Chapter 94 changed the way in which total vehicle damage from collisions or other causes is calculated for the purpose of issuing a salvage title. That calculation now excludes the costs of repairing or replacing deployed airbags.

Chapter 100 modified the way in which the Department of Commerce processes applications for licensing and certification, limited the amount of license fee refunds, established new criteria and modified existing criteria for licensing education courses, and altered time limits for applying for certain licenses. Chapter 62 extended the application deadline specifically for the power limited technician licensing examination.

Chapter 118 contains several technical provisions related to financial institutions, along with a prohibition on service as a residential mortgage originator for individuals convicted of a crime involving dishonesty, breach of trust, or money laundering.

Chapter 132 contains numerous insurance provisions, many of which are technical in nature, involve changes in certain fees, or modify consumer notification requirements. Other technical changes involve making conforming changes to account for health savings accounts and Medicare

Part D. Chapter 132 also makes changes that deal with the open enrollment period for Medicare Part B supplemental insurance, extending the open enrollment period to individuals who obtained health coverage through an employer without being an employee then reenrolled in Medicare Part B.

Perhaps the most significant policy change in Chapter 132 is section 15, which permits flexible health benefits plans for small employers with no more than 50 employees. These are plans that do not cover all of the mandated benefits that a health plan would otherwise be required to cover under Minnesota law. The intent of this change is to provide small employers the option of choosing to provide health insurance coverage for their employees, which, while lacking some of the services of traditional plans, is theoretically less costly.

First Special Session Chapter 1, article 5, provides for the regulation of service contracts and service contract providers, and creates the legal framework within which service contracts may be sold in this state. Exempted from these considerations are warranties; maintenance agreements or any similar product sold by public utilities or their affiliates; service contracts sold to persons other than consumers or on personal property purchased for less than \$250; and motor vehicle service contracts.

TRANSPORTATION PROGRAMS

The appropriations for transportation purposes and the major transportation policy changes from the 2005 legislative session are contained in First Special Session Chapter 6, the Omnibus Transportation Funding and Policy Bill. In addition, during the regular session the Legislature passed House File No. 2461, which contained both the transportation appropriations and major revenue and spending increases for transportation purposes. This bill was vetoed by the Governor. However, a proposed constitutional amendment to dedicate the motor vehicle sales tax to transportation purposes was not subject to the Governor's veto and became law.

As shown in Table 2, Chapter 6 provides for total transportation program spending (direct and indirect appropriations) of

\$4.9 billion for the 2006-2007 biennium. This is more than a five percent increase over the 2004-2005 biennium transportation spending.

Table 1 shows the total General Fund appropriations and revenue changes for the 2006-2007 biennium for transportation programs. There is a significant increase of over \$46 million (29 percent) in the General Fund appropriations for the 2006-2007 biennium over the 2004-2005 biennium. This increase is a result of additional General Fund revenues being appropriated to transit purposes (both metropolitan and greater Minnesota) in part to minimize the impact of decreasing revenues from the motor vehicle sales tax (MVST) dedicated to transit purposes.

Agency	FY 2004-05 Spending	FY 2006-07 Base	FY 06-07 Enacted Budget	Change: Enacted- FY 2004-05	Change: Enacted - Base
Spending Items:					
MnDOT					
Multimodal Systems	32,273	32,312	38,312	6,039	6,000
MnDOT Other	130	130	130	0	0
MnDOT Subtotal	32,403	32,442	38,442	6,039	6,000
Metropolitan Council Transit	112,066	116,256	156,256	44,190	40,000
Public Safety Transportation					
Admin & Related Services	4,696	4,747	4,747	51	0
State Patrol	5,942	5,742	5,742	-200	0
Driver & Vehicle Services	3,614	3,548	0	-3,614	-3,548
Public Safety Subtotal	14,252	14,037	10,489	-3,763	-3,548
TOTAL SPENDING	158,721	162,735	205,187	46,466	42,452

Agency	FY 2006-07 Enacted Budget
Driver's License Electronic Records Increase \$2.50 to \$5	2,876
Motor Vehicle Transfer Fee Increase \$4 to \$8	13,513
Accident Report Fees Transfer to Special Revenue	-32
TOTAL REVENUE	16,357

In addition, a number of fees charged by transportation programs were increased, including increasing the fee for electronic transfer of driver's license records to \$5 from \$2.50; and increasing the motor vehicle transfer fee to \$8 from \$4. These changes contributed over \$16 million in new revenue to the General Fund.

The total 2006-2007 biennium transportation appropriations by fund and agency are shown in Table 2. The

Minnesota Department of Transportation (MnDOT) receives the majority of the transportation funds — over \$4.1 billion for the 2006-2007 biennium. The Department of Public Safety will receive almost \$350 million for its transportation-related activities, and the Metropolitan Council will receive slightly over \$403 million for metropolitan area transit planning and operations. Each of these agencies' budgets and related transportation legislation is briefly discussed below.

Agency	FY 2004-2005 Spending	FY 2006-2007 Enacted Budget	Difference	Percent Change
MN Department of Transportation				
General Fund	32,403	38,442	6,039	18.6%
Special Revenue Fund	48,961	39,021	-9,940	-20.3%
State Airports Fund	40,362	39,924	-438	1.1%
Municipal State-Aid Street	254,249	242,745	-11,504	-4.5%
County State-Aid Highway	853,564	919,866	66,302	7.8%
Trunk Highway Fund*	2,140,747	2,315,622	174,875	8.2%
Highway User Tax Distribution	1,093	1,242	149	13.6%
Trunk Highway Bond Fund	209,154	251,215	42,061	20.1%

Table 2 continued	FY 2004-2005 Spending	FY 2006-2007 Enacted Budget	Difference	Percent Change
Greater MN Transit Fund	17,213	16,311	-902	-5.2%
Federal Funds	551,851	536,511	-15,340	-2.8%
MnDOT Subtotal	4,149,597	4,400,899	251,302	6.1%
Metropolitan Council Transit				
General Fund	112,066	156,256	44,190	39.4%
Metro Area Transit Fund	249,792	246,821	-2,971	-1.2%
Metropolitan Council Transit Subtotal	361,858	403,077	41,219	11.4%
Dept. of Public Safety - Transportation				
General Fund	14,252	10,489	-3,763	-26.4%
Special Revenue Fund	24,736	113,820	89,084	360.1%
Trunk Highway Fund	189,718	147,391	-42,327	-22.3%
Highway User Tax Distribution	37,283	16,956	-20,327	-54.5%
State Govt. Special Revenue Fund	1,701	0	-1,701	-100%
Gift Fund	112	90	-22	-19.6%
Environmental Fund	98	98	0	0%
Federal Funds	75,681	60,831	-14,850	-19.6%
Dept. Public Safety Transportation Subtotal	343,581	349,675	6,094	1.8%
General Fund Transfer Out	(1,584)	0	1,584	-100.0%
Total Transportation*	4,853,452	5,153,651	300,199	6.2%
Total General Fund	158,721	205,187	46,466	29.3%

*Includes a transfer to the Debt Service Fund: \$43,496 in FY 2004-2005 and \$99,014 in FY 2006-2007.

Minnesota Department of Transportation

Table 3 provides a breakdown of MnDOT's total direct appropriations for the department's primary activities and the approximate change from the previous biennium. MnDOT will directly receive a total of approximately \$3.5 billion for the 2006-2007 biennium. The amounts shown for county state-aids (\$895 million) and municipal state-aids

(\$238 million), however, are pass-through funds distributed by MnDOT on a formula basis to the state's 87 counties and cities with a population over 5,000 for expenditure on local road systems. MnDOT retains approximately \$2.34 billion for its various transportation activities, including state road construction and maintenance, greater Minnesota transit, aeronautics, freight, and commercial vehicles.

Function	Biennial Total 2004-2005	Biennial Total 2006-2007	Percent Change
Multimodal Systems			
Aeronautics	44,440	40,440	4.9%
Greater MN Transit	33,209	39,210	18.1%
Freight/Commercial Vehicles	10,644	10,644	0.0%

Table 3 continued	Biennial Total 2004-2005	Biennial Total 2006-2007	Percent Change
State Roads			7.7%
Construction, Engineering, and Design	1,480,774	1,594,314	19.6%
Highway Debt Service	100,732	120,476	5.1%
State Road Operations & Maintenance	389,572	409,492	19.5%
Electronic Communications	9,980	11,930	
General Support & Buildings	107,578	111,178	3.3%
Local Roads			
County State Aids	836,962	895,283	7.0%
Municipal State Aids	249,303	237,889	-4.6%
Trunk Highway Bond Fund	209,154	251,215	20.1%
Total Direct Appropriations	3,257,294	3,470,856	6.6%
County State Aids Open/Statutory	16,602	24,583	48.1%
Municipal State Aids Open/Statutory	4,946	4,856	-1.8%
State Airports Open/Statutory	1,546	1,108	-28.3%
Greater MN Transit Open/Statutory	17,213	16,311	-5.2%
Trunk Highway Open/Statutory	39,037	55,196	41.4%
Special Revenue Open/Statutory	48,961	39,021	-20.3%
Highway User Open/Statutory	1,093	1,242	13.6%
Nonconstruction Federal Funds	551,851	536,511	-2.8%
Total	4,149,597	40,400,899	6.1%

Approximately 99 percent of MnDOT's funds (\$2.32 billion) are from the Trunk Highway Fund, with minor amounts from the General Fund and Airports Fund. The Trunk Highway Fund receives 62 percent of the revenues generated by the state's vehicle registration tax and 20 cent per-gallon gas tax, and 30 percent of the revenues from the sales tax on motor vehicles. The Trunk Highway Fund also receives federal highway aid for road construction. For the 2006-2007 biennium, federal highway aid is estimated to be \$664 million, or approximately 29 percent of MnDOT's total Trunk Highway Fund appropriation.

State Roads

MnDOT's major area of expenditure, excluding the local road program, is for state road construction, engineering, and

design, which accounts for about two-thirds of MnDOT's total appropriation. The 2006-2007 biennium state road construction appropriation of \$1.6 billion is an approximate increase of \$113 million, or almost eight percent over the 2004-2005 biennium.

However, this increase is somewhat misleading because the 2006-2007 appropriation includes a \$50 million increase due to the increased use of advance construction (AC) financing. AC is essentially a short-term, interest-free borrowing program, under which the state is allowed to count future federal highway aid allotments in the current year. In addition, the construction spending in FY 2005 was reduced \$144.5 million below the actual appropriation because the Trunk Highway Fund could not sustain the appropriated level of spending.

Spending for debt service shows an increase of almost 20 percent. This increase is necessary to pay the debt service on the \$400 million in trunk highway bonds authorized in the 2003 Omnibus Transportation Finance Bill. State road operations and maintenance received an increase of five percent. \$16 million of this increase was recommended by the Governor to increase bridge and pavement preservation. In addition, spending for electronic communications was increased by almost 20 percent. This increase was recommended by the Governor to meet the growing obligations for system software and hardware support of the 800 MHz Shared Public Safety radio system.

Greater Minnesota Transit

Greater Minnesota Transit was facing a significant funding shortfall for the 2006-2007 biennium. A large part of this funding shortfall was due to revenues from the MVST falling short of forecast revenues. (Greater Minnesota Transit receives 1.43 percent of the revenues from MVST.) The Governor's budget did not include a recommendation for an increased General Fund appropriation for the Greater Minnesota Transit Plan. However, throughout the session, MnDOT testified that without an increase, transit assistance grants to local governments would have to be cut significantly. As part of the final negotiations in the Special Session, the Senate, House of Representatives, and Governor agreed to increase transit spending, and Greater Minnesota Transit received an increase of \$6 million (18 percent) in its General Fund appropriation over the 2004-2005 biennium.

Transportation Policy

The Omnibus Transportation Funding and Policy Bill also included a number of transportation policy changes related to MnDOT operations. These policy changes include:

- establishing a local road sign revolving account for equipment acquisition, materials, and other costs related to signs on local roads;
- designating a portion of Trunk Highway 371 as the Purple Heart Memorial Highway;
- designating the Trunk Highway 23 bridge over the St. Louis River as the Biauswah Bridge;
- allowing the commissioner to establish a grade crossing safety account to be used for rail-highway grade crossing safety projects on public streets and highways;
- establishing a town road sign replacement program to inventory and evaluate signs and remove and replace signs as necessary on an ongoing basis;
- prohibiting trains from operating in excess of 30 miles per hour (mph) in the town of Orr; and
- limiting the state ethanol mandate to ten percent if a higher level would result in a loss of federal transportation funds.

Metropolitan Council Transit

The Legislature appropriated \$156.3 million from the General Fund to the Metropolitan Council for metropolitan transit planning and operations. This is an increase of about \$44 million, or 39 percent, from the previous biennium. Of this amount, \$146.9 million is for operation of the regional bus system and the remainder, \$9.35 million, is for operation of the Hiawatha Light Rail

Transit Line (LRT). The amount appropriated for LRT operations will pay for 50 percent of the total operating costs, and the remaining 50 percent is paid by the Hennepin County Regional Rail Authority.

Under existing legislation, the council also receives 21.5 percent of the proceeds from the MVST for transit operations. Similarly to Greater Minnesota Transit, the Metropolitan Council was facing a significant funding shortfall in part due to these revenues coming in significantly under forecast. In addition, the council faced inflationary cost pressures from the increased price of fuel and health insurance premiums.

The Governor did not recommend a General Fund appropriation increase for Metropolitan Transit; however, it became apparent throughout the session that without an increase, there would be significant cuts in bus operations. During the Special Session, the Senate, House of Representatives, and Governor agreed to increase General Fund spending for Metropolitan Transit by \$40 million per year, in addition to the \$4 million increase for LRT operations.

Department of Public Safety

The Omnibus Transportation Funding and Policy Bill included approximately \$249 million for the Department of Public Safety (DPS) for transportation-related activities. The appropriation is an approximate \$7.8 million, or two percent, increase over the previous biennium. The breakdown of DPS's spending by fund is shown in Table 2.

The spending for most of the funds, General Fund, Trunk Highway Fund,

and Highway User Fund, show a significant reduction from the 2004-2005 biennium, while the spending from the Special Revenue Fund increases significantly. This increase is due to the creation of two new accounts within the Special Revenue Fund, the Driver Services Operating Account, and the Vehicle Services Operating Account. Spending and revenues from the General Fund, Trunk Highway Fund, and Highway User Fund were transferred to these new accounts to fund the operations of the department's Driver and Vehicle Services (DVS) Division.

These new accounts receive revenue from a number of fees charged by DVS, including driver's license and permit fees, other driver compliance-related fees, title fees, records fees, and other vehicle service-related fees. These new accounts will allow DVS to act as a fee-based agency, i.e., operating on the revenue generated from the fees it charges.

In addition to moving the existing fee revenue to these new accounts, the department increased a number of the fees, including: a \$3 increase in driver's licenses and permit fees; implementation of a new fee of \$20 for multiple road tests; implementation of a new fee of \$10 for multiple written tests; a new expedited service fee of \$20; a title application fee increase of \$2.50; a motor vehicle dealer licensure increase of \$50; and an electronic records fee increase of \$5.

Public Safety Policy

The following changes were made to various public safety laws:

- authorizing the issuance of Disabled American Veteran plates;
- allowing pedestrian signals to display either a word or a symbol of a walking person and upraised hand;
- providing for a mandatory six-month license revocation for speed law violators who drive faster than 100 miles per hour;
- doubling the fine for speed law violators who drive in excess of 20 mph over the posted speed;
- prohibiting an instruction permit or provisional license holder from operating a motor vehicle while using a cell phone; and
- amending the “Dimler” law to expand the exemption from placing convictions on driving records to include convictions for driving within five miles over a 60 mph speed limit.

Vetoed Transportation Funding Legislation

As mentioned previously, during the regular 2005 session, the House of Representatives passed House File No. 2461 and the Senate concurred to the House language. The Governor vetoed the bill on May 19, 2005. However, under a 1946 opinion by the Attorney General, proposed constitutional amendments cannot be vetoed by a Governor. House File No. 2461 contained a proposed constitutional amendment to dedicate 100 percent of the proceeds from the existing sales tax on motor vehicles to transportation purposes. This amendment was enacted into law as Laws 2005, Chapter 88.

The vetoed bill contained significant new taxes and revenue for transportation purposes. Specifically, it included a ten cent gas tax to be phased-in, five cents in

fiscal year 2006, and five cents in fiscal year 2007. This tax increase would have raised \$160 million in FY 2006 and approximately \$325 million in FY 2007. This revenue would have been deposited in the Highway User Tax Distribution Fund and used for highway purposes. It also made changes to the vehicle registration tax by removing the maximum payments of \$189 in year two and \$99 in year three, and also slightly changed the vehicle depreciation schedule. However, the bill contained a phase-in of this change by providing that no vehicle owner could pay a higher tax than was paid in the previous year for the same vehicle. The registration tax change would have provided \$15 million in FY 2006, and \$57 million in FY 2007, and the revenues would have grown to approximately \$175 million annually by FY 2012.

Finally, the bill dedicated one-quarter cent of existing state sales tax revenue to transit purposes. This equated to approximately \$100 million per year for transit, but also left a similar “hole” of this amount in the state’s General Fund. To minimize the impacts of this dedication, revenue from the Department of Transportation’s share of the motor vehicle sales tax was transferred back to the General Fund for a period of four fiscal years. However, beginning in FY 2010, this transfer would have ended and the General Fund would have been short revenue. The vetoed bill would have provided approximately \$7.7 billion for transportation purposes over a ten-year period.

Proposed Constitutional Amendment

The question that must be submitted to the voters at the 2006 general election reads as follows:

“Shall the Minnesota Constitution be amended to dedicate revenue from a tax on the sale of new and used motor vehicles over a five-year period, so that after June 30, 2011, all of the revenue is dedicated at least 40 percent for public transit assistance and not more than 60 percent for highway purposes?”

If the proposed amendment is adopted at the 2006 election, two new sections will be added to Article XIV (Public Highway System) of the Minnesota Constitution. New Article XIV, Section 12, requires that beginning July 1, 2007, 63.75 percent of the MVST proceeds must be apportioned for transportation purposes. This amount must be increased by ten percent each year, ending with 100 percent apportioned

after June 30, 2011. New Article XIV, Section 13, requires that the revenue apportioned in Section 12 be allocated not more than 60 percent to the Highway User Fund and not less than 40 percent to a fund dedicated solely to public transit assistance.

If the amendment is passed, the Legislature must statutorily determine the actual split of the revenues between highways and transit, with the requirement that transit receive at least 40 percent of the total revenues. Assuming the Legislature chooses to maintain the 40 percent transit/60 percent highway split, the new revenues available and the shortfall to the General Fund are shown in the table below.

Table 4 (Dollars in millions)					
	FY 2008	FY2009	FY2010	FY2011	FY2012
Highways	\$37.5	\$76.1	\$116.2	\$158.2	\$187.3
Transit	\$22.5	\$48.1	\$74.8	\$102.8	\$122.1
General Fund	-\$60.0	-\$124.2	-\$191.0	-\$261.0	-\$309.4

ENVIRONMENT AND AGRICULTURE

Budget Overview

Total appropriations for the environment and agriculture budget areas were \$1.158 billion, 1.2 percent less than the previous biennium. However, General Fund spending decreased by 13 percent, from \$430.9 million in FY 2004-2005 to \$374.2 million in the 2006-2007 biennium. By comparison, General Fund spending is \$14.0 million lower than the February forecast base for FY 2006-2007.

In contrast, spending for other dedicated funds increased, some of which is due to shifting certain expenditures out of the General Fund to other funds. About \$24 million of revenues and expenditures for the Pollution Control Agency were shifted from the General Fund to the Environmental Fund, and \$7 million of revenue and expenditures for the Department of Natural Resources were moved from the General Fund to the Natural Resources Fund.

Fee and other revenue changes raised about \$13.6 million for the 2006-2007 biennium. The Legislature also made some onetime transfers into the General Fund equaling about \$3.1 million.

Department of Agriculture

The total FY 2006-2007 budget for the Department of Agriculture is \$137.7 million, a 1.9 percent decrease from spending in the previous biennium.

The decrease was the result of a combination of forecasted reductions in ethanol producer payments, along with increases in other areas, including rent. Of the total appropriation, \$77.5 million

is from direct allocations in Laws 2005, First Special Session Chapter 1. The remaining amounts in the department's budget reflect open and statutory appropriations. The two largest sources of money appropriated to the Department of Agriculture are from the General Fund (55.7 percent) and from the Agricultural Fund (29.2 percent). The largest spending area in the department is agricultural protection. When the direct appropriations in this area are combined with the statutory appropriations from the Agricultural Fund, spending totals over \$61.6 million and represents 44.7 percent of the department's budget. The second largest spending area is ethanol producer payments, which represents 24.7 percent of the department's budget.

Ethanol producer payment expenditures were reduced by almost \$10.4 million to reflect the reduction in production capacity that is eligible for payments under the program. Much of the ethanol production capacity eligible for payment will be reaching the ten-year maximum payment period. Based on current law, no new ethanol production capacity may be approved for payments.

Agricultural Utilization and Research Institute

The total FY 2006-2007 budget for the Agricultural Utilization and Research Institute is \$3.2 million, a 0.8 percent increase over the previous biennium. All state funding for the institute is from the General Fund.

Board of Animal Health

The total FY 2006-2007 budget for the Board of Animal Health is over \$9.4 million, a 28.9 percent increase. The increase reflects rent increases and increased federal funding. Of the total amount, \$6.5 million is the result of direct appropriations from the General Fund in Laws 2005, First Special Session Chapter 1.

Board of Water and Soil Resources

The total FY 2006-2007 budget for the Board of Water and Soil Resources is almost \$32.2 million, which was a 2.8 percent decrease over the previous biennium. Of this total, almost \$30.7 million is direct appropriations from the General Fund in Chapter 1.

Department of Natural Resources

The total FY 2006-2007 budget for the Department of Natural Resources (DNR) is over \$611.8 million, which is a 0.8 percent increase over the previous biennium. Of this total, over \$452.1 million is from direct appropriations in Laws 2005, First Special Session Chapter 1. The three largest sources of funding for the DNR are the General Fund (34.8 percent), the Game and Fish Fund (29.8 percent), and the Natural Resources Fund (21.9 percent). The three largest areas of direct appropriations to the DNR are Fish and Wildlife Management (20.5 percent), Parks and Recreation Management (10.8 percent), and enforcement (9.4 percent).

As part of the budget changes to the DNR, the General Fund budget was reduced by over \$22.4 million. Most of this reduction was due to three significant changes in the DNR's budget. The first was a General Fund reduction plan of over \$8.6 million. The second

was a reduction of almost \$3.1 million for minerals management, which was offset by appropriations in the Natural Resources Fund from mineral payments on permanent school and permanent University lands. The third change was a \$7 million change in the deposit and expenditure of forestry revenue on trust lands from the General Fund to the Natural Resources Fund. This last change was budget neutral because the fund for deposit of fees and expenditures on this activity was changed, but not the overall funding level.

Another budget-neutral change to the DNR's budget was the operations support reallocation. The change reallocates almost \$21.9 million from the operations support budget into the budgets of the divisions requiring the support.

Watercraft License Fees

The 2005 Legislature increased watercraft license fees by 50 percent. The new fees will increase biennial revenue by \$3.6 million for acquisition, development, maintenance, and rehabilitation of water access sites. The following table shows the fees prior to the change and the new fees.

Watercraft License Fees		
Type of Watercraft	Old Fee*	New Fee*
Watercraft, other than personal watercraft, less than 17 feet	\$ 12.00	\$ 18.00
Watercraft, other than personal watercraft, 17 to 19 feet	\$ 18.00	\$ 27.00
Rental watercraft, other than personal watercraft, 19 feet or less	\$ 6.00	\$ 9.00
Canoe, kayak, sailboat, sailboard, paddleboat, or rowing shell 19 feet or less	\$ 7.00	\$ 10.50
Personal watercraft	\$ 25.00	\$ 37.50
Watercraft more than 19 feet but less than 26 feet	\$ 30.00	\$ 45.00
Watercraft 26 feet but less than 40 feet	\$ 45.00	\$ 67.50
Watercraft 40 feet or longer	\$ 60.00	\$ 90.00
Watercraft for hire over 19 feet	\$ 50.00	\$ 75.00
Watercraft used by a nonprofit for teaching boat and water safety	\$ 3.00	\$ 4.50
Watercraft dealer license	\$ 45.00	\$ 67.50
Watercraft license transfer	\$ 3.00	\$ 4.50
* Watercraft license fees are for three years. The amounts shown do not include applicable aquatic invasive species surcharges, transaction fees, or filing fees.		

Snowmobile State Trail Sticker

The 2005 Legislature extended the snowmobile state trail sticker requirement (\$15 per year) to residents who operate on a state or state grant-in-aid snowmobile trail. A person may purchase a three-year sticker at the time of snowmobile registration for \$30. Anyone caught on a state or grant-in-aid trail without a sticker is required to purchase a one-year sticker for \$30. The additional trail sticker sales will increase biennial revenue by \$5 million for grant-in-aid trails, trail maintenance, trail grooming, and trail easement acquisition.

Cross-Country Ski License

The 2005 Legislature increased the annual cross-country ski license to \$14 from \$9, and the three-year license to \$39 from \$24. The cost of the daily cross-country ski license was increased to \$4 from \$2. All of the revenue from cross-country ski license sales is dedicated for local grant-in-aid cross-country ski trails.

Metropolitan Council Parks

The total FY 2006-2007 budget from the state for Metropolitan Council Parks is \$15.7 million, a 5.6 percent increase over the previous biennium.

Minnesota Zoological Board

The total FY 2006-2007 budget for the Minnesota Zoological Board is \$34 million, a 3.3 percent increase over the previous biennium. Most of the increase is from the Special Revenue Fund (fees charged at the Minnesota Zoo) and the Gift Fund. The Legislature also transferred all of the debt service payment responsibility for the zoo's aquatic center to the General Fund, saving the zoo approximately \$1.9 million for the biennium.

Minnesota Conservation Corps

The total FY 2006-2007 budget from the state for the Minnesota Conservation Corps is \$1.7 million, which is the same as the previous biennial amount.

Minnesota Resources

The total FY 2006-2007 budget for Minnesota Resources is \$35.2 million, a 7.6 percent increase over the prior biennium. Most of the funding for Minnesota Resources is from the Environment and Natural Resources Trust Fund (95 percent), which is funded through the Minnesota Lottery. The two largest spending areas under Minnesota Resources are recreation (35.6 percent) and fish and wildlife habitat (27.2 percent).

Not included in the total for the FY 2006-2007 Minnesota Resources budget is over \$4.1 million in line-item vetoes by the Governor for: the second year of the Legislative Commission on Minnesota Resources (LCMR) administration (\$450,000); a land exchange revolving fund (\$500,000); a program to enhance revenue generation for state parks and recreation areas (\$200,000); a quantification of climate change impacts on Minnesota's aquatic resources (\$250,000); a green roof cost-share and monitoring program (\$350,000); upgrades to the Blue Heron research vessel (\$295,000); land cover mapping for natural resource protection (\$250,000); planning for economic development via energy independence (\$240,000); Phillips Community biomass energy system (\$900,000); Laurentian Energy Authority biomass project (\$466,000); enhancing civic understanding of groundwater (\$150,000); and an environmental problem-solving model for Twin Cities' schools (\$75,000).

The Legislature also enacted a July 1, 2006, sunset of the LCMR's duty to recommend appropriations from the Environment and Natural Resources

Trust Fund. An advisory task force was established to examine the current process for making recommendations from the trust fund. The task force is directed to report to the 2006 Legislature on its recommendations for changes in the process.

Pollution Control Agency

The total FY 2006-2007 budget for the Pollution Control Agency (PCA) is \$275.3 million, a 7.3 percent reduction from the previous biennium. Of the total amount, almost \$158 million is from direct appropriations in Chapter 1. Most of the decrease in the PCA budget is due to: (1) a reduction in spending from the remediation fund for hazardous waste site and closed landfill cleanup; (2) reduced federal funds; and (3) the sunset of the mixed municipal solid waste processing payment program. These reductions are partially offset by increased spending for protection of the water and the air. The three largest sources of funding for the PCA are the Environmental Fund (42.4 percent), the Remediation Fund (24.5 percent), and federal funds (15.8 percent). The three largest areas of spending by the PCA are protection of the land (26.7 percent), including both direct appropriations and statutory appropriations from the Remediation Fund; protection of the water (19.2 percent); and environmental assistance (14.9 percent). The 2005 Legislature also merged the Office of Environmental Assistance (OEA) into the PCA, but kept the activities of the OEA as a separate program area within the agency.

Science Museum of Minnesota
The total FY 2006-2007 budget from the state for The Science Museum of

Minnesota is \$1.5 million, which is the same as the previous biennium.

Table 1
Total General Fund Spending and Major Change Items
Environment and Agriculture Budget
(dollars in thousands)

	FY 2004-05 Spending	FY 2006-07 Base	FY 2006-07 Enacted	Change: Enacted - FY 2004-05	Change: Enacted - Base
Total General Fund	430,891	416,193	374,178	(56,713)	(42,015)
Major Change Items Expenditures:					
Pollution Control Agency	29,643	29,430	22,717	(6,926)	(6,713)
General Reduction					(6,111)
Other Reductions					(602)
Office of Environment Assistance	23,439	23,520	0	(23,439)	(23,520)
Merge into PCA, use ENV Fund					(23,520)
Minnesota Zoo	12,782	13,114	12,878	96	(236)
General Reduction					(236)
Metropolitan Council Parks	6,600	6,600	6,600	0	0
Dept. of Natural Resources	235,091	230,116	212,660	(22,431)	(17,456)
General Reduction					(6,342)
Mineral Mgmt. Fee Fund Change					(3,052)
Debt Service Payment Reduction					(2,292)
Trust Land Mgmt. Fund Change					(7,000)
Other Initiatives					1,230
Board of Water & Soil Resources	30,944	30,862	30,671	(273)	(191)
General Reduction					(400)
Other Initiatives					209
MN Conservation Corps	700	700	700	0	0
Agriculture Dept.	81,496	71,545	76,732	(4,764)	5,187
New Building Lease Costs					4,249
Livestock Initiatives					420
Other Initiatives					518
Board of Animal Health	5,522	5,606	6,520	998	914
New Building Lease Costs					314
Veterinary Diagnostic Lab					600
Science Museum of MN	1,500	1,500	1,500	0	0
Ag. Utilization Research Institute	3,174	3,200	3,200	26	0
Major Change Items – Revenue:					(27,656)

Table 1 continued	FY 2004-05 Spending	FY 2006-07 Base	FY 2006-07 Enacted	Change: Enacted - FY 2004-05	Change: Enacted - Base
Solid Waste Tax Change					(24,613)
Trust Land Mgmt. Fund Change					(7,000)
Cancel MN Future Res. Fund					1,043
Cancel Environmental Fund					2,059
Other Revenue Changes					855
Net General Fund Change					(14,359)

Table 2 Biennial Spending by Agency and Fund - All Funds Environment and Agriculture Budget (dollars in thousands)				
Environment & Agriculture	FY 2004-05 Spending	FY 2006-2007 Enacted Budget	Difference	Percent Change
Department of Agriculture				
General Fund	81,496	76,732	(4,764)	
Agricultural Fund	38,425	40,264	1,839	
Special Revenue Fund	5,981	6,421	440	
Remediation Fund	5,478	2,231	(3,247)	
Gift Fund	166	128	(38)	
Federal Funds	8,780	11,940	3,160	
Subtotal Department of Agriculture:	140,326	137,716	(2,610)	-1.9%
Agricultural Utilization Research Institute				
General Fund	3,174	3,200	26	
Subtotal Agricultural Utilization Research Institute:	3,174	3,200	26	0.8%
Board of Animal Health				
General Fund	5,522	6,520	998	
Special Revenue Fund	92	92	0	
Federal Funds	1,683	2,796	1,113	
Subtotal Board of Animal Health:	7,297	9,408	2,111	28.9%
Board of Water & Soil Resources				
General Fund	30,944	30,671	(273)	
Special Revenue Fund	1,875	915	(960)	
Federal Funds	302	598	296	
Subtotal Board of Water & Soil Resources:	33,121	32,184	(937)	-2.8%
Department of Natural Resources				
General Fund	235,091	212,660	(22,431)	
Natural Resources Fund	110,689	134,052	23,363	

Table 2 continued	FY 2004-05 Spending	FY 2006-2007 Enacted Budget	Difference	Percent Change
Special Revenue Fund	42,187	38,468	(3,719)	
Endowment and Permanent School Fund	540	438	(102)	
Game and Fish Fund	172,838	182,327	9,489	
Remediation Fund	3,237	3,369	132	
Minnesota Future Resources	3,069	0	(3,069)	
Gift Fund	4,136	2,925	(1,211)	
Federal Funds	35,376	37,611	2,235	
Subtotal Department of Natural Resources:	607,163	611,850	4,687	0.8%
Metropolitan Council Parks				
General Fund	6,600	6,600	0	
Natural Resources Fund	8,304	9,140	836	
Subtotal Metropolitan Council Parks:	14,904	15,740	836	5.6%
Zoological Board				
General Fund	12,782	12,878	96	
Natural Resources Fund	245	270	25	
Special Revenue Fund	18,077	18,785	708	
Gift Fund	1,795	2,114	319	
Federal Funds	56	0	(56)	
Subtotal Zoological Board:	32,955	34,047	1,092	3.3%
Minnesota Resources (LCMR)				
Environmental & Nat Res. Trust Fund	30,100	33,560	3,460	
Natural Resources Fund	2,000	1,600	(400)	
Special Revenue Fund (Great Lakes & Oil Overcharge)	575	0	(575)	
Subtotal Minnesota Resources:	32,675	35,160	2,485	7.6%
Pollution Control Agency				
General Fund	53,082	22,717	(30,365)	
State Govt. Special Revenue Fund	97	98	1	
Special Revenue Fund	26,576	24,684	(1,892)	
Environmental Fund	82,763	116,639	33,876	
Remediation Fund	80,897	67,497	(13,400)	
Gift Fund	75	22	(53)	
Federal Funds	53,533	43,632	(9,901)	
Subtotal Pollution Control Agency:	297,023	275,289	(21,734)	-7.3%
Science Museum of Minnesota				
General Fund	1,500	1,500	0	
Subtotal Science Museum of Minnesota:	1,500,000	1,500	0	0.0%
Minnesota Conservation Corps				

Table 2 continued	FY 2004-05 Spending	FY 2006-2007 Enacted Budget	Difference	Percent Change
General Fund	700	700	0	
Natural Resources Fund	980	980	0	
Subtotal Minnesota Conservation Corps:	1,680	1,680	0	0.0%
Grand Total Environment & Agriculture	1,171,818	1,157,774	(14,044)	-1.2%
By Fund				
General Fund	430,891	374,178	(56,713)	-13.2%
Agricultural Fund	38,425	40,264	1,839	4.8%
Special Revenue Fund	95,363	89,365	(5,998)	-6.3%
Environmental & Nat Res. Trust Fund	30,100	33,560	3,460	11.5%
Gift Fund	6,172	5,189	(983)	-15.9%
Natural Resources Fund	122,218	146,042	23,824	19.5%
Endowment and Permanent School Fund	540	438	(102)	-18.9%
Game and Fish Fund	172,838	182,327	9,489	5.5%
Remediation Fund	89,612	73,097	(16,515)	-18.4%
Minnesota Future Resources	3,069	0	(3,069)	-100.0%
Environmental Fund	82,763	116,639	33,876	40.9%
State Govt. Special Revenue Fund	97	98	1	1.0%
Federal Funds	99,730	96,577	(3,153)	-3.2%
Grand Total Environment & Agriculture	1,171,818	1,157,774	(14,044)	-1.2%

**Table 3
Biennial Spending by Function – All Funds
Environment and Agriculture Budget**

Environment and Agriculture	FY2004-05 Spending	FY2006-2007 Enacted Budget	Difference	Percent Change
Department of Agriculture				
Protection Service	20,561	21,331	770	3.7%
Agricultural Marketing and Development	7,603	7,950	347	4.6%
Administration and Financial Assistance	9,648	14,214	4,566	47.3%
Ethanol Producer Payments	44,390	34,013	(10,377)	-23.4%
Special Revenue Fund Open/Statutory Approps.	5,981	6,421	440	7.4%
Gift Fund	166	128	(38)	-22.9%
Remediation Fund Open/Statutory Approps.	4,772	1,455	(3,317)	-69.5%

Table 3 continued	FY2004-05 Spending	FY2006-2007 Enacted Budget	Difference	Percent Change
Agricultural Fund Open/Statutory Approps.	38,425	40,264	1,839	4.8%
Federal Funds	8,780	11,940	3,160	36.0%
Subtotal Department of Agriculture:	140,326	137,716	(2,610)	-1.9%
Agriculture Utilization Research Institute	3,174	3,200	26	0.8%
Board of Animal Health	5,522	6,520	998	18.1%
Special Revenue Fund Open/Statutory Approps.	92	92	0	0.0%
Federal Funds	1,683	2,796	1,113	66.1%
Subtotal Board of Animal Health:	7,297	9,408	2,111	28.9%
Board of Water & Soil Resources	30,944	30,671	(273)	-0.9%
Special Revenue Fund Open/Statutory Approps.	1,875	915	(960)	-51.2%
Federal Funds	302	598	296	98.0%
Subtotal Board of Water & Soil Resources:	33,121	32,184	(937)	-2.8%
Department of Natural Resources				
Operations Support	44,527	18,636	(25,891)	-58.1%
Water Resources Management	22,396	22,184	(212)	-0.9%
Land & Mineral Resources Management	15,187	17,578	2,391	15.7%
Forest Management	68,028	70,652	2,624	3.9%
Fish and Wildlife Management	108,523	125,554	17,031	15.7%
Ecological Services	17,684	20,431	2,747	15.5%
Parks and Recreation Management	58,728	66,162	7,434	12.7%
Enforcement	55,943	57,309	1,366	2.4%
Trails and Waterways	49,685	53,631	3,946	7.9%
Leech Lake and White Earth Reservation	5,092	5,157	65	1.3%
1854 Indian Treaty Settlement	10,356	10,655	299	2.9%
Public Hunting Grounds/Con Con Areas	276	278	2	0.7%
Payment in Lieu of Taxes	25,715	29,750	4,035	15.7%
DNR Firefighting	19,108	16,708	(2,400)	-12.6%
Game and Fish Fund Open/Statutory Approps.	8,176	7,626	(550)	-6.7%
Natural Resources Fund Open/Statutory Approps.	7,543	7,328	(215)	-2.9%
Special Revenue Fund Open/Statutory Approps.	42,187	38,468	(3,719)	-8.8%

Table 3 continued	FY2004-05 Spending	FY2006-2007 Enacted Budget	Difference	Percent Change
Gift Fund	4,136	2,925	(1,211)	-29.3%
Reinvest In Minnesota	4,920	0	(4,920)	-100.0%
Remediation Fund Open/Statutory Approps.	3,037	3,169	132	4.3%
Endowment & Permanent School Fund	540	38	(502)	-93.0%
Federal Funds	35,376	37,611	2,235	6.3%
Subtotal Department of Natural Resources:	607,163	611,850	4,687	0.8%
Met Council Parks	14,904	15,740	836	5.6%
Zoological Board	13,027	13,148	121	0.9%
Special Revenue Fund Open/Statutory Approps.	18,077	18,785	708	3.9%
Gift Fund	1,795	2,114	319	17.8%
Federal Funds	56	0	(56)	-100.0%
Subtotal Zoological Board:	32,955	34,047	1,092	3.3%
Minnesota Conservation Corps	1,680	1,680	0	0.0%
Minnesota Resources				
LCMR Administration	863	619	(244)	-28.3%
Recreation	13,492	12,519	(973)	-7.2%
Water Resources	2,097	5,132	3,035	144.7%
Agricultural & Natural Resources-Based Industries	622	2,683	2,061	331.4%
Land Use & Natural Resources Information	1,382	1,750	368	26.6%
Environmental Education	470	495	25	5.3%
Children's Environmental Health	563	200	(363)	-64.5%
Fish & Wildlife Habitat	12,446	9,576	(2,870)	-23.1%
Energy	740	2,186	1,446	195.4%
Subtotal Minnesota Resources:	32,675	35,160	2,485	7.6%
Pollution Control Agency				
Protection of the Water	39,527	50,867	11,340	28.7%
Protection of the Air	17,535	18,901	1,366	7.8%
Protection of the Land	36,030	36,938	908	2.5%
Administrative Support	3,415	3,166	(249)	-7.3%
Multimedia	9,090	8,610	(480)	-5.3%
Office of Environmental Assistance	47,485	39,508	(7,977)	-16.8%

Table 3 continued	FY2004-05 Spending	FY2006-2007 Enacted Budget	Difference	Percent Change
Special Revenue Fund Open/Statutory Approps.	26,489	24,684	(1,805)	-6.8%
State Govt. Special Revenue Fund Open/Stat. Approps.	1	2	1	100.0%
Environmental Fund Open/Statutory Approps.	5,354	4,270	(1,084)	-20.2%
Gift Fund	75	22	(53)	-70.7%
Remediation Fund Open/Statutory Approps.	58,489	44,689	(13,800)	-23.6%
Federal Funds	53,533	43,632	(9,901)	-18.5%
Subtotal Pollution Control Agency:	297,023	275,289	(21,734)	-7.3%
Science Museum of Minnesota	1,500	1,500	0	0.0%
Total Environment & Agriculture:	1,171,818	1,157,774	(14,044)	-1.2%

PUBLIC SAFETY AND JUDICIARY

The 2005 Legislature approved FY 2006-2007 General Fund appropriations of \$1.685 billion for public-safety related state departments, agencies, boards, and the judiciary.

The appropriated amount is \$98.1 million above the fiscal year 2006-07 base funding level, a 5.8 percent increase; and \$235.4 million or 16.2 percent more than FY 2004-2005.

Table 1 Total General Fund Spending and Major Change Items Public Safety Budget (dollars in thousands)					
	FY 2004-05 Spending	FY 2006-07 Base	FY 2006-07 Enacted	Change: Enacted – FY 2004-05	Change: Enacted – Base
Supreme Court	74,890	72,168	84,807	9,917	12,639
Court of Appeals	15,837	15,878	16,378	541	500
Trial Courts	371,941	440,412	462,266	90,285	21,814
Tax Court	1,441	1,452	1,452	11	0
Uniform Laws Commission	79	78	96	17	18
Judicial Standards Board	738	504	554	-184	50
Public Defense Board	107,526	107,864	122,504	14,978	14,640
Public Safety	141,299	141,470	162,913	21,614	21,443
Private Detective Board	270	252	252	-18	0
Human Rights	6,871	6,980	6,980	109	0
Corrections	727,785	798,959	825,938	98,153	26,979
Sentencing Guidelines	993	872	926	-67	54
Ombudsman for Corrections	6	0			
Board of Veterinary Medicine			7	7	7
Total General Fund	1,449,676	1,586,889	1,685,033	235,357	98,144

Department of Corrections

The Legislature approved a biennial General Fund appropriation of \$825.9 million, an increase of \$27.0 million from the FY 2006-2007 base, which itself included a \$71.2 million forecast adjustment. The changes include:

- a \$700,000 agency-wide reduction;
- \$6.2 million for the increased costs of prison health care;
- \$3.0 million for sex offender treatment and transitional services in prison;
- \$2.7 million for sentencing changes (covering the additional prison bed impact of the bill);
- \$2.0 million for increased chemical dependency programming in prison;
- \$10.4 million for various community-based offender enforcement and reentry programs, including money for global positioning satellites, more intensive supervised release agents, transitional housing for offenders,

increased funding for civil commitment review, and probation revocation hearings;

- \$3.0 million for increased supervision of violent offenders;
- \$1.0 million for increased reimbursement of county probation officers; and
- \$1.2 million for intensive supervision and aftercare services for controlled substance offenders.

Supreme Court

The Legislature appropriated \$84.4 million from the General Fund to the Supreme Court, an increase of \$12.2 million. This increase includes a \$10 million increase for civil legal services and a judicial salary increase of 1.5 percent.

Court of Appeals

The Legislature appropriated \$16.4 million from the General Fund to the Court of Appeals, an increase of \$500,000. This includes a judicial salary increase of 1.5 percent.

District Courts

The Legislature appropriated \$462.4 million from the General Fund to the district courts, an increase of \$22 million. This includes a judicial salary increase of 1.5 percent.

Board of Public Defense

The Legislature appropriated \$122.5 million from the General Fund to the Board of Public Defense, an increase of \$14.6 million.

Peace Officer Standards and Training (POST) Board

The Legislature appropriated \$8.2 million from the special revenue fund to the POST Board, an increase of \$282,000. Two additions to the non-DWI driver's license reinstatement fee were approved. These changes are estimated to generate an additional \$1.6 million, which will be dedicated to a special revenue fund to increase training reimbursements for local law enforcement officials.

Department of Public Safety

Six programs under the Department of Public Safety are funded in the Public Safety Funding Bill. (The others are funded in the Transportation Funding Bill.) The Legislature appropriated \$162.9 million from the General Fund for the Department of Public Safety functions under the jurisdiction of the criminal justice committees of the Legislature, an increase of \$21.4 million.

In addition, the Legislature appropriated \$89 million from the State Government Special Revenue Fund for the 911 emergency services program, an increase of \$34 million. (See discussion of Public Safety Radio System below.)

Office of Homeland Security and Emergency Management

The Legislature appropriated \$5.1 million from the General Fund to the Office of Homeland Security and Emergency Management. This appropriation includes a savings of \$618,000 due to the merger of the emergency management phone center with the Bureau of Criminal Apprehension (BCA) communications center.

Bureau of Criminal Apprehension (BCA)

The Legislature appropriated \$79.1 from the General Fund to the BCA. Major spending initiatives included the following:

- \$3.9 million to replace the Automated Fingerprint ID System (AFIS);
- \$1.7 million to implement changes to the predatory offender law;
- a \$1.5 million increase for collection and processing of DNA samples;
- a \$577,000 increase for the criminal justice information audit trail;
- a \$135,000 increase for the ongoing costs of Livescan; and
- a \$2 million increase for ten special methamphetamine enforcement agents.

The BCA also saved \$4.0 million for the biennium by reducing the CrimNet technical base adjustment by \$3.0 million and reducing funding for suspense file reduction by \$1.0 million. Finally, the Department of Public Safety absorbed an agency-wide cut of \$495,000. It is assumed that most of that cut will come from the BCA.

State Fire Marshal

The Legislature appropriated \$5.7 million from the General Fund to the State Fire Marshal, an increase of \$800,000.

Office of Gambling and Alcohol Enforcement

The Legislature appropriated \$3.2 million from the General Fund to the Office of Gambling and Alcohol Enforcement.

Office of Justice Programs

The Legislature appropriated \$68.5 million from the General Fund to the Office of Justice Programs, an increase over base funding of \$14.5 million. The \$14.5 million increase was allocated as follows.

- a \$2.5 million increase for crime victim assistance funding;
- a \$800,000 increase for battered women's shelters and safe houses;
- \$4.7 million for the criminal gang strike force;
- \$1.5 million for the financial crimes task force;
- \$1.5 million in methamphetamine treatment grants to counties;
- \$400,000 for a homelessness pilot project; and
- \$100,000 for a study of human trafficking.

In addition, the Legislature transferred the Youth Intervention Program, and its \$2.9 million base appropriation, from the Department of Employment and Economic Development to the Office of Justice Programs

in the Department of Public Safety. This program provides prevention and early intervention services for at-risk youth.

Public Safety Radio System

The Legislature appropriated \$89 million from revenue, generated by 911 service fees on all telephone lines, to operate the 911 emergency telecommunication system and \$62.5 million of 911 revenue bond proceeds to continue construction of the 800 MHz radio system used to dispatch help to those who call 911. Eight million dollars of the bond proceeds is to pay to a local government up to half the cost of building a subsystem in the metropolitan area; \$45 million is to construct radio towers and related equipment in the Rochester and St. Cloud districts of the State Patrol; and \$9.5 million is to pay to a local government up to half the cost of building a subsystem in the Rochester and St. Cloud areas.

The Legislature increased the 911 telephone fee from 40 cents per line per month to 65 cents per line per month to fund the current deficiency in the costs of operating the 911 system, to pay off prior year obligations of the 911 telephone fund, and to help defray the cost of operating public safety answering points.

Office of Administration

The Legislature appropriated \$1.3 million from the General Fund for increases in public safety officer health insurance.

Sex-Offender Sentencing

The 2005 Legislature significantly overhauled criminal sentencing for offenders convicted of certain egregious or repeat sex offenses. The law provides a mandatory life-without-release sentence for offenders convicted of certain types of first- or second-degree criminal sexual conduct involving force or violence, if the crime involved two or more heinous elements or the perpetrator is a repeat offender and the present offense involved a heinous element.

The law also provides for mandatory indeterminate life sentences for certain first-time sex offenders where the crime involved a heinous element and for certain repeat offenders. In addition to increasing prison terms for egregious sex offenders, the law provides for longer community correctional supervisory periods for sex offenders

(including up to lifetime supervision for certain offenders). Finally, the law created a new substantive criminal sexual conduct crime – criminal sexual predatory conduct.

Table 2 delineates total spending authority for all funds for the public safety departments, agencies, boards, and the judiciary.

	FY 2004-05 Spending	FY 2006-07 Enacted	Difference	Percent Change
Supreme Court				
General Fund	74,890	84,807	9,917	13.24%
Special Revenue Fund	2,453	2,448	-5	-0.20%
Federal Fund	7,363	6,961	-402	-5.46%
Gift Fund	101	92	-9	-8.91%
Total All Funds	84,807	94,308	9,501	11.20%
Court of Appeals				
General Fund	15,837	16,378	541	3.42%
Legal Professional Boards				
Special Revenue Fund	9,554	10,116	562	5.88%
Trial Courts				
General Fund	371,941	462,226	90,135	24.27%
Special Revenue Fund	0	202	202	n/a
Federal Fund	926	410	-516	-55.72%
Total All Funds	372,867	462,838	89,971	24.13%
Tax Court				
General Fund	1,441	1,452	11	0.76%
Uniform Laws Commission				
General Fund	79	96	17	21.52%
Board of Judicial Standards				
General Fund	738	554	-184	-24.93%
Board of Public Defense				
General Fund	107,526	122,504	14,978	13.93%
Gift Fund	134	0	-134	-100.00%
Total All Funds	107,660	122,504	14,844	13.79%
Dept. of Public Safety				
General Fund	141,299	162,913	21,614	15.30%
State Gov Sp. Rev. Fund	52,041	89,129	37,088	71.27%
Special Revenue Fund	26,884	21,660	-5,224	-19.43%

Table 2 continued	FY 2004-05 Spending	FY 2006-07 Enacted	Difference	Percent Change
Federal Fund	259,866	138,372	-121,494	-46.75%
Gift Fund	74	0	-74	-100.00%
Total All Funds	480,164	412,074	-68,090	-14.18%
POST Board				
Special Revenue Fund	7,886	9,763	1,877	23.8%
Private Detective Board				
General Fund	270	252	-18	-6.7%
Human Rights				
General Fund	6,871	6,980	109	1.6%
Special Revenue Fund	425	304	-121	-28.5%
Total All Funds	7,296	7,284	-12	-0.2%
Corrections				
General Fund	727,785	825,938	98,153	13.5%
Special Revenue Fund	35,193	33,972	-1,221	-3.5%
Federal Fund	25,289	9,557	-15,732	-62.2%
Gift Fund	90	38	-52	-57.8%
Total All Funds	788,357	869,505	81,148	10.3%
Sentencing Guidelines				
General Fund	993	926	-67	-6.8%
Gift Fund	7	0	-7	-100.00%
Total All Funds	1,000	926	-74	-7.4%
Ombudsman for Corrections				
General Fund	6	0	-6	-100%
Board of Veterinary Medicine				
General Fund	0	7	7	n/a
Total General Fund	1,449,676	1,685,033	235,357	16.2%
Total State Gov Sp. Rev. Fund	52,041	89,129	37,088	71.3%
Total Special Revenue Fund	82,395	78,465	-3,930	-4.8%
Total Federal Fund	293,444	155,300	-138,144	-47.1%
Total Gift Fund	406	130	-276	-68.0%
Total All Funds	1,877,962	2,008,057	130,095	6.95%

The Public Safety and Judiciary Budget Bill, Laws 2005, Chapter 136, raised the following fees and surcharges, found in Table 3.

**Table 3
Public Safety
State Fee - Surcharge Increases**

Fee/Surcharge	Current Fee/Surcharge vs. New Fee/Surcharge	FY 2006-07 (thousands)	Fund
Surcharge Increase on Criminal Fines	\$60 to \$72	13,680	General
Surcharge Increase on Parking Tickets	\$3 to \$4	1,100	General
Real Estate Recording Fee Increase	State share increase from \$4 to \$10.50	19,180	General
Civil Court Filing Fee	\$235 to \$240	1,139	General
Liquor Wholesale/Manufacture License Fee Increases	Various	1,514	General
Non-DWI Reinstatement Fee (POST Board for training)	New fee at \$20	1,595	Special
911 Fee Increase	40 cents per month per line to 65 cents per month per line	34,130	Special
Totals		36,613	General
		35,725	Special
		72,338	All Funds

STATE GOVERNMENT FINANCE

The State Government Omnibus Finance Act (Laws 2005, Chapter 156) contained direct and open General Fund appropriations for the Legislature, constitutional officers, and administrative state agencies totaling \$581.2 million for FY 2006-2007. Net General Fund appropriations for FY 2006-2007 are \$468 million after being offset by \$113.2 million in new General Fund revenues, \$90.7 million of which are expected to come from new tax compliance initiatives in the Department of Revenue.

(See Table 1)

LEGISLATURE

The Legislature approved \$116.1 million from the General Fund for its own operations, including \$38.6 million for the Senate; \$52.0 million for the House of Representatives; and \$25.5 million for the joint legislative offices under the direction of the Legislative Coordinating Commission. Overall, these appropriations reflect a 0.8 percent reduction compared to the previous biennium. Chapter 156 also required a onetime cancellation of \$1.25 million each for the House of Representatives and the Senate from their carryforward balances authorized under Minnesota Statutes, section 16A.281. Slightly more than \$11.0 million remains in the combined House of Representatives and Senate carryforward balances.

CONSTITUTIONAL OFFICES

Governor

The Governor's office received an appropriation of \$7.2 million from the

General Fund, which is a decrease of one percent from base-level funding for FY 2006-2007. The Governor's office also plans to collect \$522,000 in special revenue funding for the Governor's office in Washington, D.C., from the state agencies that use services provided by the office.

State Auditor

The State Auditor's office received a direct General Fund appropriation of \$16.5 million for the biennium, a 0.4 percent cut from the FY 2006-2007 base. The office also has statutory spending authority of \$2.0 million.

Attorney General's Office

The FY 2006-2007 budget approved for the Attorney General's Office (AGO) totals \$71.6 million, of which \$45.5 million is a direct appropriation from the General Fund. Direct appropriations represent a decrease of 0.4 percent from the base-level funding planned for the FY 2006-2007 biennium. The AGO also receives statutory appropriations from the General Fund and other funds resulting from partner agreements with state agencies that total \$17.25 million for the biennium.

In addition, the AGO receives continuing direct appropriations from other funds for services related to health licensing boards (\$3.6 million from the State Government Special Revenue Fund), and for duties related to prosecution of environmental crimes, the landfill cleanup program, and environmental insurance claims settlements (\$290,000 from the Environmental Trust Fund and \$968,000 from the Remediation Fund).

Table 1
Total General Fund Spending and Major Change Items
State Government Budget
(dollars in thousands)

	FY 2004-05 Spending*	FY 2006-07 Base*	FY 06-00 Enacted Budget	Change: Enacted - FY 2004-05	Change: Enacted -Base
Legislature	117,088	116,096	116,058	(1,030)	(38)
Legislative Carryforward	13,503	0	(2,500)	(16,003)	(2,500)
Governor's Office	7,269	7,172	7,168	(101)	(4)
State Auditor	16,727	16,612	16,546	(181)	(66)
Attorney General	53,311	45,693	45,514	(7,797)	(179)
Secretary of State	12,193	11,980	11,982	(211)	2
Campaign Finance Board	5,773	5,284	4,998	(735)	(286)
Investment Board	4,402	4,334	4,334	(68)	0
Administrative Hearings	0	0	524	524	524
Dept. of Administration ¹	44,920	39,608	42,513	(2,407)	2,905
Office of Enterprise Technology ¹	4,998	4,958	3,606	(1,392)	(1,352)
Public Broadcasting	3,806	3,806	3,710	(96)	(96)
CAAP Board	595	602	617	22	15
Department of Finance- direct	30,816	30,432	29,616	(1,200)	(816)
Nonoperating - open	10,915	10,262	10,262	(653)	0
Indirect Costs Receipts Offset	(36,440)	(35,774)	(34,774)	1,666	1,000
Dept. of Employee Relations	12,948	13,403	12,250	(698)	(1,153)
Department of Revenue	186,628	190,966	202,802	16,174	11,836
Department of Military Affairs	26,934	25,261	36,021	9,087	10,760
Dept. of Veterans Affairs	8,718	8,074	8,504	(214)	430
Veterans Service Organizations ²	176	176	0	(176)	(176)
MN Amateur Sports Cmsn.	674	1,050	506	(168)	(544)
Target Center Appropriation	1,500	1,500	1,500	0	0
Councils	2,706	2,564	2,527	(179)	(37)
Contingent Accounts	1,000	1,000	500	(500)	(500)
Tort Claims	322	322	322	0	0
MN State Retirement	2,116	2,381	2,381	265	0
Local Pension Aids	51,244	53,664	53,664	2,420	0
Total Expenditures:	584,802	561,426	581,151	(3,651)	19,725

¹Office of Enterprise Technology functions and funding transferred from Dept. of Administration
FY 2004-2005 spending and base adjusted to reflect transfer

²Veterans Service organizations funding transferred to Dept. of Veterans Affairs

*Based on the February 2005 Forecast

Secretary of State

The Secretary of State received \$11.9 million, an overall increase of \$2,000 from the planned FY 2006-2007 base. This included an appropriation of \$50,000 in onetime funding for the Electronic Real Estate Recording Task Force and a cut of \$48,000 to the operating budget.

Chapter 162 also appropriated \$38.29 million from the Help America Vote Act account (federal grant money): \$29 million to purchase voting equipment to comply with the mandate of the federal Help America Vote Act of 2002 that every polling place used in a federal election be equipped with a voting machine that permits people with disabilities to vote in private without assistance and to pay for operating costs of that equipment; \$6 million to purchase optical scan voting equipment; \$290,000 to improve access to polling places for individuals with disabilities; and \$3 million to the Secretary of State to maintain and further develop the Statewide Voter Registration System.

The act also set standards for the capability, setup, and operation for the planned new electronic voting systems. Further, the act directs the Secretary of State, with the assistance of the Commissioner of Administration, to develop state contracts that counties and municipalities may use to purchase the new electronic voting systems.

STATE AGENCIES

Campaign Finance and Public Disclosure Board

The Campaign Finance and Public Disclosure Board received a General Fund appropriation of \$1.39 million, which was a 2.5 percent reduction from

the FY 2006-2007 base. Chapter 156 also reduced the statutory appropriation for the public subsidy program by \$250,000, leaving a \$1.25 million base. The total funding remaining for the program is now estimated at \$3.61 million.

State Board of Investment

The State Board of Investment received \$4.3 million for its operations, representing the planned base level funding for FY 2006-2007. The Legislature did not approve the board's proposal to allow the board to charge each retirement plan directly for its share of the board's operations.

Office of Enterprise Technology

Chapter 156 established the Office of Enterprise Technology (OET) as a separate, cabinet-level agency. Two principal functions were transferred from the Department of Administration (DOA) to the new agency: (1) the oversight and control of technology policy and spending within state government; and (2) the Inter-technologies Group, providing computer and telecommunications services to state agencies.

For FY 2006-2007, the OET received an appropriation of \$3.6 million, which reflects a cut of 27 percent from the base funding for the functions previously performed and funded by DOA. The OET is also supported by the Enterprise Technology Revolving Fund, which receives state agency reimbursements for services provided to the agencies. The estimated spending from the fund for FY 2006-2007 is \$73.1 million for computing services, and \$80.7 million for telecommunications services.

Office of Administrative Hearings

The Office of Administrative Hearings (OAH) is supported mainly by the Workers' Compensation Special Fund and revolving

fund revenues. The overall budget of \$190 million includes \$14.8 million for the OAH. The 2.2 percent increase from the 2006-2007 base is to be used for information technology improvements. The OAH was also given authority to hear municipal boundaries transfer hearings by the Governor, using his reorganization authority. The funding available for this function is \$524,000 for FY 2006-2007, a decrease of \$72,000 from the FY 2006-2007 base. Laws 2005, Chapter 114, transferred responsibility for grievance hearings for classified state employees not covered by a collective bargaining agreement from the OAH to the Bureau of Mediation Services.

Department of Administration

The Department of Administration budget totals \$227.3 million All-Funds, including a \$42.5 million appropriation from the General Fund in Chapter 156, an increase of \$2.9 million or 7.3 percent from the 2006-2007 base. The increase was largely due to onetime funding of \$5.1 million provided for agency relocation costs. Major program cuts made to the department's budget included a 32 percent reduction to the Land Management Information Center's budget, resulting in an appropriation of \$1.5 million, and complete elimination of General Fund support for local planning assistance.

Nearly 63 percent of the Department of Administration's budget is made up of Internal Service Fund (ISF) dollars. The department has statutory authority to bill for goods and services it provides to other state agencies. Payments for leases, janitorial services, state vehicles, consulting services, mail delivery, and

property/casualty insurance are examples of internal services.

Two major transfers to the General Fund were made from other funds administered by the department: (1) \$2 million from the balance in the Building Codes Account (the Building Codes and Standards function of the department was previously transferred to the Department of Labor and Industry by executive order); and (2) \$3.9 million from the Facilities Repair and Replacement Account.

Public Broadcasting

Public Radio and Public Television received a total appropriation of \$3.7 million from the General Fund in Chapter 156, a 2.5 percent reduction from the FY 2006-2007 base. Public Radio received total funding of \$954,000, and public television received \$796,000 for equipment grants and \$1.9 million for matching grants. Metro Cable channel 6 also received \$34,000.

Capitol Area Architectural and Planning Board

The Capitol Area Architectural and Planning Board received a direct appropriation of \$539,000, an increase of 2.9 percent from the FY 2007-2007 base-level budget.

Department of Finance

The Department of Finance budget totals \$43.3 million All-Funds, including \$29.6 million from the General Fund for the biennium, reflecting a 2.7 percent General Fund reduction from the FY 2006-2007 base budget. Chapter 156 also transferred up to \$3 million from the Statewide Systems Administrative Account managed by the department.

Department of Employee Relations

The Department of Employee Relations received \$11.2 million from Chapter 156,

reflecting a decrease of 9.3 percent, or \$1.2 million from the base budget. The General Fund appropriation represents less than one percent of the agency's total budget. The largest portion of the agency's budget is the state employee insurance program and Workers' Compensation. These programs are funded with statutory appropriations.

Department of Revenue

The Department of Revenue budget totals \$216 million, including a General Fund appropriation of \$199 million from Chapter 156, reflecting a 6.1 percent increase of \$11.8 million from the base budget for FY 2006-2007. This appropriation included \$17.8 million in new funding for tax compliance initiatives that are expected to yield \$90.7 million in new revenues in the FY 2006-2007 biennium, resulting in a net General Fund gain of \$72.9 million. The department's appropriation from Chapter 156 also includes \$2 million in planned savings from rents and leases and \$4 million in savings by deferring planned purchases of software and hardware systems.

Department of Military Affairs

Chapter 156 appropriated \$35.2 million in funding for Military Affairs, which included a \$10.6 million, 43 percent increase from the FY 2006-2007 base. The new spending is to be used for two initiatives: (1) \$7.7 million for the tuition reimbursement program to allow the department to reimburse National Guard members up to 100 percent of the amount of tuition at eligible postsecondary educational institutions; and (2) \$3 million for a midcareer reenlistment program that will provide bonuses of \$1,000 a year for up to five years for

eligible members of the National Guard who extend their enlistment.

A separate appropriation of an estimated \$1.2 million was made in Chapter 156 for grants to assist eligible members of the National Guard in active service and their dependents who are experiencing financial difficulties.

Of the department's total budget, over 71 percent comes from the federal government through cooperative agreements for facilities maintenance, telecommunications, security, firefighting, distance learning, and educational programs.

Department of Veterans Affairs

The Department of Veterans Affairs received \$8.5 million, which is an increase of \$430,000 or 5.3 percent over the FY 2006-2007 base. The increase results from the transfer of funding for three separate veterans services organizations into the department, including the Military Order of the Purple Heart (MOPH), Disabled American Veterans (DAV), and Veterans of Foreign Wars (VFW). These organizations are also eligible for funding from the Support Our Troops license plate revenues.

Chapter 156 appropriated \$1.2 million to the department from the anticipated revenues from the Support Our Troops license plates authorized in Chapter 156. Chapter 156 allows the department to use the appropriation for three purposes: (1) veterans services provided by MOPH, DAV, and VFW; (2) grants for services to veterans provided by Vinland Center and the Minnesota Assistance Council for Veterans; and (3) an outreach and assistance initiative program for underserved veterans.

Chapter 156 also provides a separate appropriation from the Special Revenue Fund to the Department of Public Safety to cover

the costs of producing and issuing the Support Our Troops license plates.

Gambling Control Board

The Gambling Control Board received a \$5.1 million appropriation from the lawful gambling regulation account in the Special Revenue Fund. This appropriation is a ten percent increase over the FY 2006-2007 base. This increase is intended to be used for increased compliance activities and technology investments.

Racing Commission

Chapter 156 provided a \$1.5 million appropriation for the Racing Commission from the Special Revenue Fund. The revenue for this appropriation is derived from racetrack and occupational license fees and reimbursements from the Canterbury Park Racetrack for stewards, veterinarians, and laboratory costs. This appropriation includes an additional amount of \$667,000 to be derived from licensing fees from the new harness racing track in Anoka County.

State Lottery

Chapter 156 provided a \$54.2 million authorization for the operating budget of the State Lottery. Net proceeds from the State Lottery are expected to be \$134.7 million. Chapter 156 also approved the transfer of \$2.7 million from the Unclaimed Lottery Prize account to the General Fund.

Tort Claims

\$322,000 was appropriated in Chapter 156 to cover tort claims made against the state.

Retirement Funds

Several public retirement programs received estimated appropriations from

their statutory open appropriations: (1) \$4.5 million for legislative plans; (2) \$796,000 for constitutional officer plans; (3) \$16.1 million for the Minneapolis Employees Retirement Fund to reduce unfunded liability; and (4) \$37.5 million to reduce the unfunded liabilities of the Minneapolis and St. Paul Teachers' Retirement Funds.

Amateur Sports Commission

Chapter 156 appropriated \$506,000 for the Amateur Sports Commission (MASC), which was a reduction of \$544,000 or 51.8 percent from the FY 2006-2007 base. This cut includes the removal of an appropriation made in the 2004-2005 biennium that required MASC to reimburse the \$450,000 appropriation by the end of that biennium from additional fees. Chapter 156 also amended the 2005 Bonding Bill (Laws 2005, Chapter 20) to limit the lease revenue for MASC from land it may lease at the National Sports Center in Blaine to \$300,000 per fiscal year. MASC is also required to report leases to the Legislature 30 days before MASC may enter into the lease. Other changes to the lease authority for MASC remove its property tax exemption for property it leases and require financial reports on lease revenues.

Councils

Chapter 156 provided reduced funding for the four minority councils established in state law: (1) the Council on Black Minnesotans received a 1.4 percent cut to \$556,000; (2) the Chicano Latino Affairs Council received a 1.5 percent reduction to \$542,000; (3) the Council on Asian-Pacific Minnesotans received a 1.4 percent reduction to \$479,000; and (4) the Minnesota Indian Affairs Council received \$950,000, a 1.5 percent cut.

Contingent Accounts

Chapter 156 reduced the General Fund appropriation for the contingent accounts by \$500,000. The contingent accounts also

received an \$800,000 appropriation from the State Government Special Revenue Fund and \$200,000 from the Workers' Compensation Special Revenue Fund.

PENSIONS

The primary pension legislation of 2005 was Laws 2005, First Special Session Chapter 8. That chapter contained numerous technical provisions and many sections that recodified and reorganized existing law, as well as several provisions of significance to particular individuals.

The most significant change made in the bill was to increase the employee and employer contribution rates for participants in the Public Employees Retirement Association and the Public Employees Police and Fire Association. The contribution rate increases will be phased in between 2006 and 2010.

Total Spending by Agencies In Chapter 156

The following table shows total spending by state agencies receiving appropriations in Chapter 156 and compares the spending with FY 2004-2005 spending. The amounts spent are from direct and statutory appropriation and are shown for all funds.

(See Table 2)

AGENCY	AGENCY/FUND	FY 2004-05 Spending*	FY 2006-07 Enacted Budget	Difference	Percent Change
Legislature					
	GENERAL FUND	117,088	116,058	(1,030)	-0.9%
	<i>GENERAL FUND Carryforward</i>	<i>13,503</i>	<i>11,003</i>	<i>(2,500)</i>	<i>-18.5%</i>
	HEALTH CARE ACCESS FUND	256	256	0	0.0%
	SPECIAL REVENUE FUND	742	19	(723)	-97.4%
	GIFT FUND	63	0	(63)	-100.0%
	Total	131,652	127,336	(4,316)	-3.3%
Governor's Office					
	GENERAL FUND	7,269	7,168	(101)	-1.4%
	SPECIAL REVENUE FUND	521	522	1	0.2%
	Total	7,790	7,690	(100)	-1.3%
State Auditor					
	GENERAL FUND	16,727	16,546	(181)	-1.1%
	<i>GENERAL FUND - statutory</i>	<i>1,653</i>	<i>1,982</i>	<i>329</i>	<i>19.9%</i>
	SPECIAL REVENUE FUND	28	0	(28)	100.0%
	Total	18,408	18,528	120	0.7%
Attorney General					
	GENERAL FUND	53,311	45,514	(7,797)	-14.6%
	<i>GENERAL FUND - statutory</i>	<i>18,975</i>	<i>16,564</i>	<i>(2,411)</i>	<i>-12.7%</i>

AGENCY	AGENCY/FUND	FY 2004-05 Spending*	FY 2006-07 Enacted Budget	Difference	Percent Change
	STATE GOVERNMENT SPECIAL REVENUE FUND	4,657	3,572	(1,085)	-23.3%
	STATE GOVERNMENT SPECIAL REVENUE FUND - statutory	1,820	1,650	(170)	9.3%
	SPECIAL REVENUE FUND	563	438	(125)	-22.2%
	FEDERAL FUND	2,316	2,566	250	10.8%
	ENVIRONMENTAL FUND	290	290	0	0.0%
	REMEDATION FUND	968	968	0	0.0%
	Total	82,900	71,562	(11,338)	-13.7%
Secretary of State					
	GENERAL FUND	12,193	11,982	(211)	-1.7%
	SPECIAL REVENUE FUND	8,466	40,167	31,701	374.5%
	Total	20,659	52,149	31,490	152.4%
Campaign Finance & Public Disclosure Board					
	GENERAL FUND	1,461	1,388	(73)	-5.0%
Campaign Financing Checkoff Subsidy					
	GENERAL FUND	4,272	3,610	(662)	-15.5%
Investment Board					
	GENERAL FUND	4,402	4,334	(68)	-1.5%
Administrative Hearings					
	GENERAL FUND	0	524	524	
	SPECIAL REVENUE FUND	65	130	65	100.0%
	ADMINISTRATIVE HEARINGS	3,739	3,507	(232)	-6.2%
	WORKERS COMPENSATION SPECIAL FUND	14,530	14,810	280	1.9%
	Total	18,334	18,971	637	3.5%
Department of Administration					
	GENERAL FUND	49,918	42,513	(7,405)	-14.8%
	STATE GOVERNMENT SPECIAL REVENUE FUND	12,615	13,897	1,282	10.2%
	SPECIAL REVENUE FUND	20,363	22,720	2,357	11.6%
	TRUNK HIGHWAY FUND	10	0	(10)	-100.0%
	FEDERAL FUND	5,577	3,941	(1,636)	-29.3%
	GIFT FUND	107	12	(95)	-88.8%
	INTERNAL SERVICE FUNDS	275,754	139,229	(136,525)	-49.5%
	Total	364,344	222,312	(142,032)	-39.0%
Office of Enterprise Technology					
	GENERAL FUND	0	3,606	3,606	
	INTERNAL SERVICE FUND	0	158,324	158,324	
	Total	0	161,930	161,930	
Public Broadcasting					
	GENERAL FUND	3,806	3,710	(96)	-2.5%
Capitol Area Architect					
	GENERAL FUND	595	617	22	3.7%

Table 2 continued	AGENCY/FUND	FY 2004-05 Spending*	FY 2006-07 Enacted Budget	Difference	Percent Change
	SPECIAL REVENUE FUND	15	0	(15)	-100.0%
	GIFT FUND	3	0	(3)	-100.0%
	Total	613	617	4	0.7%
Department of Finance					
	GENERAL FUND	30,816	29,616	(1,200)	-3.9%
	SPECIAL REVENUE FUND	13,831	13,706	(125)	-0.9%
	Total	44,647	43,322	(1,325)	-3.0%
Department of Finance Nonoperating					
	GENERAL FUND	10,915	10,262	(653)	-6.0%
	STATE GOVERNMENT SPECIAL REVENUE FUND	26	0	(26)	-100.0%
	FEDERAL FUND	8,188	8,102	(86)	-1.1%
	Total	19,129	18,364	(765)	-4.0%
Indirect Costs					
	GENERAL FUND	(36,440)	(34,774)	1,666	-4.6%
Department of Employee Relations					
	GENERAL FUND	12,948	12,250	(698)	-5.4%
	SPECIAL REVENUE FUND	50,244	51,602	1,358	2.7%
	STATE EMPLOYEES INSURANCE	1,021,975	1,296,383	274,408	26.9%
	Total	1,085,167	1,360,235	275,068	25.3%
Department of Revenue					
	GENERAL FUND	186,628	202,802	16,174	8.7%
	HEALTH CARE ACCESS FUND	3,347	3,308	(39)	-1.2%
	SPECIAL REVENUE FUND	6,355	5,100	(1,255)	-19.7%
	STATE AIRPORTS FUND	1	2	1	100.0%
	HIGHWAY USERS TAX DISTRIBUTION FUND	4,195	4,194	(1)	0.0%
	ENVIRONMENTAL FUND	668	586	(82)	-12.3%
	Total	201,194	215,992	14,798	7.4%
Department of Military Affairs					
	GENERAL FUND	26,934	36,021	9,087	33.7%
	SPECIAL REVENUE FUND	1,320	2,532	1,212	91.8%
	FEDERAL FUND	73,826	95,900	22,074	29.9%
	Total	102,080	134,453	32,373	31.7%
Department of Veterans Affairs					
	GENERAL FUND	8,718	8,504	(214)	-2.5%
	SPECIAL REVENUE FUND	384	1,695	1,311	341.4%
	FEDERAL FUND	663	800	137	20.7%
	GIFT FUND	26	27	1	3.8%
	Total	9,791	11,026	1,235	12.6%
Veterans Service Organizations					
	GENERAL FUND	176	0	(176)	100.0%
Amateur Sports Commission					

Table 2 continued	AGENCY/FUND	FY 2004-05 Spending*	FY 2006-07 Enacted Budget	Difference	Percent Change
	GENERAL FUND	2,174	2,006	(168)	-7.7%
	GIFT FUND	5	0	(5)	100.0%
	Total	2,179	2,006	(173)	-7.9%
Council on Black Minnesotans					
	GENERAL FUND	586	556	(30)	-5.1%
	SPECIAL REVENUE FUND	148	90	(58)	-39.2%
	GIFT FUND	7	0	(7)	100.0%
	Total	741	646	(95)	-12.8%
Chicano Latino Affairs Council					
	GENERAL FUND	612	542	(70)	-11.4%
	GIFT FUND	8	0	(8)	100.0%
	Total	620	542	(78)	-12.6%
Council on Asian-Pacific Minnesotans					
	GENERAL FUND	492	479	(13)	-2.6%
	SPECIAL REVENUE FUND	59	106	47	79.7%
	GIFT FUND	23	18	(5)	-21.7%
	Total	574	603	29	5.1%
Indian Affairs Council					
	GENERAL FUND	1,016	950	(66)	-6.5%
	FEDERAL FUND	120	120	0	0.0%
	GIFT FUND	3	2	(1)	-33.3%
	Total	1,139	1,072	(67)	-5.9%
Gambling Control Board					
	SPECIAL REVENUE FUND	2,096	5,600	655	31.3%
Racing Commission					
	SPECIAL REVENUE FUND	2,252	2,751	499	22.2%
Contingent Accounts					
	GENERAL FUND	1,000	500	(500)	-50.0%
	STATE GOVERNMENT SPECIAL REVENUE FUND	800	800	0	0.0%
	STATE AIRPORTS FUND	100	100	0	0.0%
	TRUNK HIGHWAY FUND	400	400	0	0.0%
	HIGHWAY USERS TAX DISTRIBUTION FUND	250	250	0	0.0%
	WORKERS COMPENSATION SPECIAL FUND	200	200	0	0.0%
	Total	2,750	2,250	(500)	-18.2%
Tort Claims					
	GENERAL FUND	322	322	0	0.0%
	TRUNK HIGHWAY FUND	1,200	1,200	0	0.0%
	Total	1,522	1,522	0	0.0%
Minnesota State Retirement System					

Table 2 continued	AGENCY/FUND	FY 2004-05 Spending*	FY 2006-07 Enacted Budget	Difference	Percent Change
	GENERAL FUND	2,116	2,381	265	12.5%
Local Pension Aids					
	GENERAL FUND	51,244	53,664	2,420	4.7%
Fund Totals					
	GENERAL FUND	571,299	583,651	12,352	2.2%
	GENERAL FUND - statutory	18,975	16,564	(2,411)	-12.7%
	GENERAL FUND Carryforward	13,503	11,003	(2,500)	-18.5%
	HEALTH CARE ACCESS FUND	3,603	3,564	(39)	-1.1%
	SPECIAL REVENUE FUND	110,252	147,178	36,926	33.5%
	GIFT FUND	245	59	(186)	-75.9%
	STATE GOVERNMENT SPECIAL REVENUE FUND	19,918	19,919	1	0.0%
	FEDERAL FUND	90,690	111,429	20,739	22.9%
	ENVIRONMENTAL FUND	958	876	(82)	-8.6%
	REMEDIATION FUND	968	968	0	0.0%
	ADMINISTRATIVE HEARINGS	3,739	3,507	(232)	-6.2%
	WORKERS COMPENSATION SPECIAL FUND	14,730	15,010	280	1.9%
	INTERNAL SERVICE FUND	275,754	297,553	21,799	7.9%
	STATE EMPLOYEES INSURANCE	1,021,975	1,296,383	274,408	26.9%
	TRUNK HIGHWAY FUND	1,610	1,600	(10)	-2.4%
	STATE AIRPORTS FUND	101	102	1	1.0%
	HIGHWAY USERS TAX DISTRIBUTION FUND	4,445	4,444	(1)	0.0%
	TOTAL *	2,152,921	2,513,810	360,889	16.8%
	Not in consolidated fund balance	1,337,419	1,628,812	291,393	21.8%
	Consolidated fund balance **	815,346	884,998	69,152	8.5%

* includes funds transferred among agencies for various services

** excludes most funds transferred among agencies

TAX AIDS AND CREDITS

State General Fund spending for tax aids and credits will total \$2.984 billion for the FY 2006-2007 biennium, an increase of \$22.3 million over the February forecast base. Appropriations for FY 2006-2007 are \$177.0 million, or 6.3 percent, higher than FY 2004-2005. Most of the biennial change is attributable to forecasted increases in property tax refunds and county aids.

The 2005 Legislature made several changes to state aid payments to local governments and homeowner property tax relief programs. The most significant of these was a \$48 million increase in state aid payments to cities through the local government aid (LGA) program.

Table 1 summarizes General Fund tax aid and credit spending for the FY 2004-2005 and FY 2006-2007 biennia.

Table 1 General Fund Spending for Tax Aids and Credits (dollars in thousands)					
	FY 2004- 2005*	FY 2006- 07 Base*	FY 2006-07 Enacted	Change: Enacted - FY 2004-05	Change: Enacted - Base
Total Expenditures**	2,781,060	2,961,484	2,983,735	202,675	22,251
Property Tax Refunds	596,489	670,033	676,145	79,656	6,112
City Aid	902,455	873,276	921,381	18,926	48,105
Market Value Homestead Credit	588,670	599,299	563,513	(25,157)	(35,786)
County Aid	111,620	409,572	409,771	298,151	199
Other Tax Aids and Credits	581,826	409,304	412,925	(168,901)	3,621

* Based on the February 2005 Forecast

**Totals differ from Department of Finance by \$25,715 for FY 2004-2005 due to PILT payments, which are included in the Environment and Agriculture Chapter.

PROPERTY TAX AIDS AND CREDITS

Local Government Aid

The appropriation for Local Government Aid (LGA) was increased by \$48 million annually, beginning with aids payable in 2006. Cities with populations under 5,000 received an aid base increase equal to \$6 per capita. The cost of this aid base increase for small cities was approximately \$4 million annually.

The remaining \$44 million of the increased LGA appropriation was

distributed under the existing formula with minor modifications. The formula was modified by eliminating the addition of taconite production tax aid to revenue-raising capacity for cities impacted by mining operations and by providing a phase-in for small cities whose population growth moves them to the large city formula.

Market Value Homestead Credit

The reduction in market value homestead credit reimbursements enacted in 2003 was extended for an additional two years, for taxes payable in 2005 and 2006. The reimbursement reductions applied to those cities that

did not have sufficient LGA to meet the aid cut target required under the 2003 budget reductions. As originally enacted, the market value credit reductions applied to payable years 2003 and 2004. Another change to the market value homestead credit provided that the credit allowed to partial homestead properties cannot exceed the amount received by a full homestead.

Limited Market Value

The phaseout of Limited Market Value (LMV) enacted in 2001 was delayed by two years. LMV sets a limit on property value increases for residential, recreational, and agricultural property. Under the law enacted in 2001, LMV was set to expire for assessment year 2007, taxes payable 2008. The law change will keep the payable 2005 limit in place for payable years 2006 and 2007. The phaseout will be completed for taxes payable in 2010.

Border City Enterprise Zones

An appropriation of \$1.5 million was made for fiscal year 2006 for tax

reductions in enterprise zones bordering other states.

Property Tax Refund

Homeowner property tax refunds were projected to increase due to the increases in K-12 education levies authorized in the education funding legislation. A reduction in property tax refunds is anticipated due to the increase in the appropriation for LGA and the delay in the phaseout of limited market value.

Low-Income Apartment Class Rate

A reduced class rate of 0.75 percent was enacted for apartment properties in which at least 75 percent of rental units are restricted to low-income tenants. This change reinstates the preferential class rate for low-income apartment properties that was repealed in 2001.

The following table summarizes the major tax aid and credit expenditures enacted during the 2005 legislative session.

Table G				
Changes in General Fund Expenditures,				
Tax Aids and Credits				
(dollars in thousands)				
	FY 2006	FY 2007	FY 2006-07	FY 2008-09
LGA - Increase current law distribution		44,000	44,000	88,000
LGA - Under 5,000 population aid base adjustment		4,000	4,000	8,000
Market Value Homestead Credit	(17,814)	(17,972)	(35,786)	(929)
Property Tax Refund		6,112	6,112	7,525
Border City Enterprise Zones	1,500		1,500	
Other Miscellaneous	2,200	(200)	2,000	1,000
Total	(14,114)	35,940	21,826	103,545

	FY 2004-2005*	FY 2006-07 Enacted*	Difference	Percent Change
Total All Funds	2,770,790	2,968,828	202,675	7.3%
General Fund**	2,781,060	2,983,735	202,675	7.3%
General Fund Transfer Out	(11,509)	(16,500)	(4,991)	43.4%
Special Revenue Fund	631	718	87	13.8%
Health Care Access Fund	608	875	267	43.9%

*Based on February 2005 Forecast

**Reflects transfer out of PILT and taconite.

<i>All General Fund except as noted</i>	FY 2004- 05*	FY 2006-07 Enacted*	Difference	Percent Change
Total Expenditures All Funds	2,770,790	2,968,828	202,675	7.3%
Police and Fire Amortization Aid	10,005	9,296	(709)	-7.1%
Property Tax Refund	281,299	356,222	74,923	26.6%
Renters Credit	290,981	302,100	11,119	3.8%
Targeted Property Tax Refund	20,702	13,750	(6,952)	-33.6%
City Aid	903,086	922,099	19,013	2.1%
General Fund	902,455	921,381		
Special Revenue Fund	631	718		
PERA Pension Aid	29,169	29,168	(1)	0.0%
School Disparity Reduction Aid	16,685	17,390	705	4.2%
Disparity Reduction Aid-Nonschool	21,664	21,962	298	1.4%
Border City Credit-School	1,296	1,397	101	7.8%
Border City Credit-Nonschool	9,092	9,207	115	1.3%
MV Homestead Credit-School	135,967	119,464	(16,503)	-12.1%
Ag. Land MV Homestead Credit-School	10,416	10,075	(341)	-3.3%
Attached Machinery Aid-School	138	0	(138)	-100.0%
Attached Machinery Aid-Nonschool	403	0	(403)	-100.0%
Market Value Homestead Credit	452,703	444,049	(8,654)	-1.9%
Ag Land Market Value Homestead Credit	37,219	37,382	163	0.4%
HACA	135,606	806	(134,800)	-99.4%
Taconite Aid	561	1,122	561	100.0%
Taconite Production Tax Reduction (Transfer Out)	(11,509)	(16,500)	(4,991)	43.4%
Supplemental Homestead	9,899	10,006	107	1.1%
Temporary Court Aid	17,104	4,641	(12,463)	-72.9%

Table 3 continued	FY 2004-05*	FY 2006-07 Enacted*	Difference	Percent Change
Education Homestead Credit	229	0	(229)	-100.0%
County Program Aid	111,620	409,771	298,151	267.1%
Low-Income Housing Aid	2,180	552	(1,628)	-74.7%
Forest Land Credit Program	3,507	4,073	566	16.1%
Aid to Police and Fire	164,246	193,028	28,782	17.5%
PILT	26	16	(25,715)	-99.9%
Nonschool Wetlands Credit	0	2	2	--
Disaster Credit	73	0	(73)	-100.0%
County Transition Aid	0	2,320	2,320	--
Indian Casino Aid	1,350	1,370	20	1.5%
Misc. Aids and Credits	0	3,167	3,167	--
Criminal Justice Aid	33,260	1,428	(31,832)	-95.7%
Family Preservation Aid	23,884	0	(23,884)	-100.0%
Dept. of Revenue Tax Admin.	0	1,090	1,090	--
Tax Refund Interest	35,782	30,875	(4,907)	-13.7%
General Fund	35,174	30,000		
Health Care Access Fund	608	875		
Political Contribution Refund	10,648	11,000	352	3.3%

*Based on February 2005 Forecast

STATE DEBT AND CAPITAL EXPENDITURES

Capital Expenditures

The 2005 Legislature adopted a capital investment bill totaling \$944 million. While this was a significant increase compared to the 2003 legislative approval of \$237 million, the Legislature did not pass a bonding bill in 2004 as is typical for even-numbered years. The 2005 capital investment bill was similar in size to the bill proposed in 2004.

Notable capital investments in the state's infrastructure by the 2005 Legislature include:

- \$114 million for asset preservation accounts;
- \$89 million for clean air, water, and conservation functions;
- \$67 million for economic stimulus projects;
- \$40 million for flood control assistance; and
- \$40 million for development of bioscience and biotechnology projects.

Substantial investments were also made in the transportation area, including the Northstar commuter rail (\$37.5 million) and the corrections system (more than \$90 million).

General Fund Debt Service

Of the \$944 million in capital investment projects authorized in 2005, \$886 million are to be funded with general obligation bonds for which the related debt service costs will be paid by the General Fund. Total General Fund spending for debt service costs will increase from \$589.1 million in the FY 2004-2005 biennium, to \$781.1 million for the FY 2006-2007 biennium, a 32.6 percent increase.

Table 1 provides a complete listing of the capital investment projects and the amounts authorized by the Legislature in 2003 and 2005.

Table 1 Bonding Projects 2003 and 2005		
AGENCY AND ITEM	PROJECT AND TOTAL 2003	PROJECT AND TOTAL 2005
ADMINISTRATION DEPARTMENT		\$7,279,000
Asset Preservation – Administration Properties		2,500,000
Capital Asset Preservation and Replacement Account (CAPRA)		3,000,000
Central Park Parking Ramp		1,779,000
AGRICULTURE DEPARTMENT		3,919,000

Table 1 continued	PROJECT AND TOTAL 2003	PROJECT AND TOTAL 2005
Agriculture Water Management Research Partnership		619,000
Joint Plant Pathology Research Facility		3,300,000
AMATEUR SPORTS COMMISSION	\$5,000,000	
Sports Conference Center	5,000,000	
ARTS	\$30,000,000	
Minneapolis Children's Theater Company	5,000,000	
Minneapolis Guthrie Theater	25,000,000	
BOARD OF WATER AND SOIL RESOURCES	6,400,000	27,862,000
Lazarus Creek	1,400,000	
Minnesota River Basin Flood Mitigation		500,000
Reinvest In Minnesota Conservation Easements	1,000,000	23,000,000
Stillwater-Brown's Creek	1,300,000	
Wetland Replacement Due to Public Roads	2,700,000	4,362,000
CAPITOL AREA ARCHITECTURAL AND PLANNING		2,370,000
Capitol Interior Renovation		1,200,000
Capitol Third Floor Restoration		1,170,000
CORRECTIONS DEPARTMENT		98,694,000
Asset Preservation		8,000,000
Faribault Correctional Facility-Phase I		84,844,000
Stillwater Correctional Facility-Phase I		3,500,000
Willow River Correctional Facility-Activities Building		2,000,000
Willow River Correctional Facility-Additional Beds		350,000
EDUCATION DEPARTMENT	11,500,000	20,583,000
Early Childhood Facilities		500
East Metro Magnet – Crosswinds School		1,083,000
Library Access and Improvement Grants	1,000,000	1,000,000
Paul and Sheila Wellstone Community Center	5,000,000	
Trollwood Performing Arts School	5,500,000	
Red Lake School – Capital Loan		18,000,000
EMPLOYMENT AND ECONOMIC DEVELOPMENT	31,425,000	167,199,000
Austin/Southeast Minnesota Flood Relief		2,000,000
Bioscience Development Grants		18,500,000
Buffalo Lake – Garage and Street Repair		690,000
Bioscience Development Grants		3,000,000
Capital Project/Flood Relief - Roseau	500,000	13,220,000
Clean Water Revolving Capital Loans		14,380,000
Crookston and Red Lake Falls Riverbank Protection		2,500,000

Table 1 continued	PROJECT AND TOTAL 2003	PROJECT AND TOTAL 2005
Detroit Lakes Regional Historical Pavilion and Band Shell		283,000
Greater Minnesota Business Development Infrastructure Grant Program	7,500,000	10,000,000
Impaired water/Total Maximum Daily Load Grants		2,000,000
Laurentian Energy Wood Yard		2,000,000
Lewis and Clark Rural Water System		2,000,000
Mayo Clinic and U of M Biotechnology Facility		21,726,000
Minnesota Planetarium and Space Discovery Center		22,000,000
Moorhead Hjemkomst Interpretive Center		1,000,000
Orono – Big Island Veterans Camp		2,000,000
Public Infrastructure – Flood Relief	1,125,000	
Redevelopment Account Grant Program		15,000,000
Redevelopment Account-Little Falls Hennepin Paper	1,000,000	
St. Paul – Phalen Boulevard	4,000,000	4,000,000
St. Paul – Roy Wilkins Auditorium	2,300,000	
Shubert Performing Arts and Education Center		1,000,000
Wastewater Infrastructure Funding Program	15,000,000	29,900,000
HEALTH DEPARTMENT	775,000	
Community Dental Clinics-Duluth and Moorhead	775,000	
HISTORICAL SOCIETY	500,000	6,000,000
County and Local Preservation Grants	300,000	1,000,000
Fort Belmont – Jackson	200,000	
Fort Snelling Revitalization		1,000,000
Historic Sites Asset Preservation		4,000,000
HOUSING FINANCE AGENCY		12,350,000
Hennepin County-Housing and Redevelopment		350,000
Permanent Supportive Housing Loans		12,000,000
HUMAN SERVICES DEPARTMENT		26,073,000
Grave Markers at Regional Treatment Centers		300,000
St. Peter New Facilities for Sex Offender Program		3,259,000
Systemwide Asset Preservation		3,000,000
Systemwide Demolition/Redevelopment		17,600,000
Systemwide Roof Repair and Replacement		1,014,000
Willmar Regional Campus Plan Design/Construct		900,000
METROPOLITAN COUNCIL	1,000,000	30,914,000
Cedar Avenue Busway		10,000,000
Central Ave Transitway - St. Paul to Minneapolis		5,250,000
Metro Regional Parks Capital Improvements		7,000,000

Table 1 continued	PROJECT AND TOTAL 2003	PROJECT AND TOTAL 2005
Northwest Busway	1,000,000	
Ramsey County Lake Link Trail		100,000
Red Rock Line Corridor Busway		500,000
Rush Line Corridor Busway		500,000
St. Paul – Desnoyer Park		388,000
St. Paul – Raspberry Island		4,676,000
So. St. Paul – Port Crosby		2,500,000
MILITARY AFFAIRS		4,000,000
Asset Preservation		3,000,000
Facility Life/Safety		1,000,000
MINNESOTA STATE ACADEMIES		4,255,000
Asset Preservation		4,255,000
MINNESOTA STATE COLLEGES AND UNIVERSITIES	59,716,000	213,598,000
Asset Preservation and Replacement		41,500,000
Anoka Ramsey Community College		10,483,000
Bemidji State University	1,000,000	10,863,000
Central Lakes College		5,953,000
Century College		5,888,000
Dakota Technical College	500,000	7,387,000
Fergus Falls Community & Technical College	760,000	7,604,000
Fond Du Lac Tribal and Community College		635,000
Hennepin Technical College	2,000,000	
Inver Hills Community College	500,000	6,045,000
Lake Superior Community and Technical College	700,000	11,243,000
Minneapolis Community and Technical College		900,000
Minnesota State University, Mankato	8,400,000	2,560,000
Minnesota State University, Moorhead		10,977,000
Minnesota West Community and Technical College	6,300,000	
Moorhead Community and Technical College	400,000	7,061,000
Northland Community and Technical College		2,156,000
Northeast Higher Education District	5,496,000	
St. Cloud State University	10,000,000	4,050,000
St. Cloud Technical College	700,000	15,056,000
St. Paul College		10,993,000
Southeast Technical College	580,000	3,802,000
South Central Technical College	300,000	5,157,000
Southwest Minnesota State University	9,200,000	
Systemwide Demolition		1,625,000

Table 1 continued	PROJECT AND TOTAL 2003	PROJECT AND TOTAL 2005
Systemwide Land Acquisition	10,000,000	300,000
Systemwide Program Consolidation		1,173,000
Systemwide Science Lab Renovations		6,668,000
Systemwide Technology-Updated Classrooms		1,019,000
Systemwide Workforce Training Classrooms		3,083,000
Ridgewater Community and Technical College	2,880,000	
Riverland Community and Technical College		5,540,000
Rochester Community and Technical College		12,759,000
Winona State University		11,118,000
NATURAL RESOURCES DEPARTMENT	13,755,000	13,755,000
Asset Preservation – Statewide		2,000,000
County Forest Land Reforestation		1,000,000
Critical Habitat – Match		2,000,000
Dam Renovation and Removal	1,050,000	2,000,000
Field Office Renovation and Improvements		300,000
Fish Hatcheries Improvements		1,700,000
Fisheries Acquisition and Improvements		1,050,000
Flood Hazard Mitigation Grants	4,405,000	27,000,000
Forest Roads and Bridges		300,000
Lake Superior Safe Harbor		2,000,000
Local Initiative Grants		1,000,000
Metro Greenways and Natural Areas		500,000
Metro Regional Park Acquisition and Betterment	2,700,000	
Native Prairie Bank Easements and Development	1,000,000	1,000,000
National Eagle Center	500,000	
Red River of the North Canoe Route		300,000
Red Rock Rural Water System	125,000	
Reforestation		2,000,000
Scientific and Natural Area Acquisition and Development	2,000,000	300,000
State Forest and Forest Legacy Land Acquisition		1,500,000
State Park and Recreation Area Acquisition	1,000,000	2,500,000
State Park and Recreation Area Building Development		1,800,000
State Trail Acquisition and Development	475,000	7,910,000
Stream Protection and Restoration	500,000	500,000
Trail Connections		885,000
Water Access Acquisition and Fishing Piers		2,000,000
Wildlife Area Land Acquisition		10,000,000
Wildlife Management Area Development		600,000

Table 1 continued	PROJECT AND TOTAL 2003	PROJECT AND TOTAL 2005
OFFICE OF ENVIRONMENTAL ASSISTANCE		4,000,000
Olmsted County Capital Assistance Grant		2,000,000
Red Wing Capital Assistance Grant		2,000,000
PERPICH CENTER FOR ARTS EDUCATION		1,083,000
Asset Preservation		558,000
Beta Building Demolition		525,000
POLLUTION CONTROL AGENCY		10,000,000
Closed Landfill Bonding		10,000,000
PUBLIC SAFETY		642,000
Blue Earth Regional Fire and Police Station		642,000
TRANSPORTATION	27,900,000	94,000,000
Duluth Aerial Bridge		1,000,000
Flood Damage Repair – Roads and Bridges	1,400,000	
Freight Access Improvements - Winona	3,500,000	
Greater Minnesota Transit Facilities	1,000,000	
Local Road Improvement Program	20,000,000	10,000,000
Local Bridge Replacement		40,000,000
Northstar Commuter Rail		37,500,000
Port Development Assistance	2,000,000	2,000,000
Rail Service Improvements		2,500,000
St. Paul Holman Field Protection		1,000,000
UNIVERSITY OF MINNESOTA	48,708,000	108,383,000
Academic Health Center Renovation, St. Paul		11,600,000
Asset Preservation and Replacement		40,000,000
District Heating Facilities, Morris		4,000,000
Education Sciences Renovation, Minneapolis		14,500,000
Football Stadium, Morris		1,800,000
Genomics Building, Rochester	400,000	
Grand Rapids Research and Outreach Center		283,000
Life Science Renovation, Duluth		10,100,000
Jones Hall Renovation, Minneapolis	8,000,000	
Kolthoff Hall Renovation, Minneapolis		17,400,000
Recreational Sports Addition, Duluth		8,700,000
Research and Outreach Centers	2,508,000	
Social Science Building Renovation, Morris	8,600,000	
Translational Research Facility Addition, Minneapolis	24,700,000	
Teaching and Technology Center, Minneapolis	3,000,000	

Table 1 continued	PROJECT AND TOTAL 2003	PROJECT AND TOTAL 2005
Veterinary Diagnostic Laboratory, St. Paul	1,500,000	
VETERANS AFFAIRS		670,000
Minnesota World War Two Memorial		670,000
VETERANS HOME BOARD		5,437,000
Adult Day Care, Minneapolis		1,031,000
Asset Preservation		4,000,000
Dementia Unit, Luverne		306,000
Pre-design Veterans Nursing Home, Willmar		100,000
ZOOLOGICAL GARDEN		22,640,000
Asset Preservation		2,000,000
Master Plan – Phase I, Gateway to the North Exhibit		20,640,000
BOND SALE EXPENSES	236,000	884,000
TOTAL	236,915,000	944,980,000
BOND PROCEEDS FUND (GENERAL FUND DEBT SERVICE)	189,281,000	817,892,000
BOND PROCEEDS FUND	47,634,000	59,088,000
MAXIMUM EFFORT SCHOOL LOAN FUND		18,000,000
STATE TRANSPORTATION FUND		50,000,000

Table A-1
Budget Area By Fund and Fund Totals
(dollars in thousands)

	FY2004-05 Spending	FY2006-2007 Enacted Budget	Difference	Percent Change
Aids and Credits				
General Fund	2,781,060	2,983,735	202,675	7.3%
Special Revenue Fund	631	718	87	13.8%
Health Care Access Fund	608	875	267	43.9%
Subtotal Aids and Credits:	2,782,299	2,985,328	203,029	7.3%
Early Childhood & K-12 Education				
General Fund	12,044,897	12,578,190	533,293	4.4%
Special Revenue Fund	25,044	22,519	(2,525)	-10.1%
Endowment & Permanent School Fund	34,342	37,189	2,847	8.3%
Gift Fund	1,466	694	(772)	-52.7%
Federal Funds	1,151,108	1,223,797	72,689	6.3%
Subtotal Elem. & Secondary Ed.:	13,256,857	13,862,389	605,532	4.6%
Higher Education				
General Fund	2,559,102	2,761,000	201,898	7.9%
Special Revenue Fund	45,314	42,154	(3,160)	-7.0%
Health Care Access Fund	4,314	4,314	0	0.0%
Endowment Fund	1	0	(1)	-100.0%
Federal Funds	9,190	8,795	(395)	-4.3%
Subtotal Higher Education:	2,617,921	2,816,263	198,342	7.6%
Health & Human Services				
General Fund	7,261,559	8,264,447	1,002,888	13.8%
Special Revenue Fund	748,107	635,891	(112,216)	-15.0%
State Govt. Special Revenue Fund	86,089	103,087	16,998	19.7%
Health Care Access Fund	600,745	818,633	217,888	36.3%
Gift Fund	2,022	1,792	(230)	-11.4%
Endowment Fund	1	2	1	100.0%
Remediation Fund	400	400	0	0.0%
Federal Medical Education Endowment	158,038	173,210	15,172	9.6%
Federal TANF Fund	428,505	466,727	38,222	8.9%
Federal Funds	7,850,274	8,375,097	524,823	6.7%
Subtotal Health & Human Services:	17,135,740	18,839,286	1,703,546	9.9%
Environment & Agriculture				
General Fund	430,891	374,178	(56,713)	-13.2%
Agricultural Fund	38,425	40,264	1,839	4.8%
Special Revenue Fund	95,363	89,365	(5,998)	-6.3%
Environmental & Nat Res Trust Fund	30,100	33,560	3,460	11.5%
Gift Fund	6,172	5,189	(983)	-15.9%

Table A-1 continued	FY2004-05 Spending	FY2006-2007 Enacted Budget	Difference	Percent Change
Natural Resources Fund	122,218	146,042	23,824	19.5%
Endowment and Permanent School Fund	540	438	(102)	-18.9%
Game and Fish Fund	172,838	182,327	9,489	5.5%
Remediation Fund	89,612	73,097	(16,515)	-18.4%
Minnesota Future Resources	3,069	0	(3,069)	-100.0%
Environmental Fund	82,763	116,639	33,876	40.9%
State Govt. Special Revenue Fund	97	98	1	1.0%
Federal Funds	99,730	96,577	(3,153)	-3.2%
Subtotal Environment & Agriculture:	1,171,818	1,157,774	(14,044)	-1.2%
Economic Development				
General Fund	334,125	306,075	(28,050)	-8.4%
Special Revenue Fund	107,874	128,334	20,460	19.0%
MN Technology Inc Fund	7,635	0	(7,635)	-100.0%
Petroleum Tank Release Cleanup Fund	45,967	44,920	(1,047)	-2.3%
State Govt. Special Revenue Fund	529	183	(346)	-65.4%
Iron Range Resources & Rehab Fund	60,361	52,204	(8,157)	-13.5%
Workforce Development Fund	102,598	88,714	(13,884)	-13.5%
Workers Compensation Special Fund	218,716	206,844	(11,872)	-5.4%
Remediation Fund	1,400	1,400	0	0.0%
Economic Protection Trust Fund	8,534	2,162	(6,372)	-74.7%
Gift Fund	1,720	1,391	(329)	-19.1%
Federal TANF Fund	1,103	0	(1,103)	-100.0%
Federal Funds	705,240	680,371	(24,869)	-3.5%
Subtotal Economic Development:	1,595,802	1,512,598	(83,204)	-5.2%
Transportation				
General Fund	158,721	205,187	46,466	29.3%
Special Revenue Fund	73,697	152,841	79,144	107.4%
State Airports Fund	40,362	39,924	(438)	-1.1%
Municipal State Aid-Street	254,249	242,745	(11,504)	-4.5%
County State Aid-Highway	853,564	919,866	66,302	7.8%
Trunk Highway Fund *	2,286,969	2,363,999	77,030	3.4%
Trunk Highway Bond Fund	209,154	251,215	42,061	20.1%
Highway User Tax Distribution	38,376	18,198	(20,178)	-52.6%
Greater MN Transit Fund	17,213	16,311	(902)	-5.2%
Metro Area Transit Fund	249,792	246,821	(2,971)	-1.2%
State Govt. Special Revenue Fund	1,701	0	(1,701)	-100.0%
Environmental Fund	98	98	0	0.0%
Gift Fund	112	90	(22)	-19.6%
Federal Funds	627,532	597,342	(30,190)	-4.8%
Subtotal Transportation:	4,811,540	5,054,637	243,097	5.1%
Public Safety & Judiciary				
General Fund	1,449,676	1,685,033	235,357	16.2%

Table A-1 continued	FY2004-05 Spending	FY2006-2007 Enacted Budget	Difference	Percent Change
Special Revenue Fund	82,395	78,465	(3,930)	-4.8%
State Govt. Special Revenue Fund	52,041	89,129	37,088	71.3%
Gift Fund	406	130	(276)	-68.0%
Federal Funds	293,444	155,300	(138,144)	-47.1%
Subtotal Public Safety & Judiciary:	1,877,962	2,008,057	130,095	6.9%
State Government Finance				
General Fund	584,802	583,651	(1,151)	-0.2%
Health Care Access Fund	3,603	3,564	(39)	-1.1%
Special Revenue Fund	114,310	150,788	36,478	31.9%
State Govt. Special Revenue Fund	19,918	19,919	1	0.0%
State Airports Fund	101	102	1	1.0%
Trunk Highway Fund	1,610	1,600	(10)	-0.6%
Trunk Highway Bond Fund	0	510	510	NA
Highway User Tax Distribution	4,445	4,444	(1)	-0.0%
Workers Compensation Special Fund	14,730	15,010	280	1.9%
Environmental Fund	958	876	(82)	-8.6%
Remediation Fund	968	968	0	0.0%
Gift Fund	245	59	(186)	-75.9%
Federal Funds	90,690	111,429	20,739	22.9%
Subtotal State Government Finance:	836,380	892,920	56,540	6.8%
Debt Service, Cancellations, and Dedicated				
General Fund	590,314	832,711	242,397	41.1%
Workforce Development Fund	124	0	(124)	-100.0%
Debt Service Fund	841,687	1,161,214	319,527	38.0%
Federal TANF Fund	(17,000)	(1,000)	16,000	-94.1%
Interfund Transfers/Transactions	(246,357)	74,470	320,827	-130.2%
Subtotal Debt Service and Misc:	1,168,768	2,067,395	898,627	76.9%
TOTAL; ALL AREAS				
General Fund	28,195,147	30,574,207	2,379,060	8.4%
General Fund Transfer Out**	(963,969)	(1,074,911)	(110,942)	11.5%
Special Revenue Fund	1,292,735	1,301,075	8,340	0.6%
MN Technology Inc Fund	7,635	0	(7,635)	-100.0%
Environmental & Nat Res Trust Fund	30,100	33,560	3,460	11.5%
Minnesota Future Resources	3,069	0	(3,069)	-100.0%
Petroleum Tank Release Cleanup Fund	45,967	44,920	(1,047)	-2.3%
State Govt. Special Revenue Fund	160,375	212,416	52,041	32.4%
Natural Resources Fund	122,218	146,042	23,824	19.5%
Health Care Access Fund	609,270	827,386	218,116	35.8%
Agricultural Fund	38,425	40,264	1,839	4.8%
Endowment & Permanent School Fund	34,882	37,627	2,745	7.9%
State Airports Fund	40,463	40,026	(437)	-1.1%
Game and Fish Fund	172,838	182,327	9,489	5.5%

Table A-1 continued	FY2004-05 Spending	FY2006-2007 Enacted Budget	Difference	Percent Change
Iron Range Resources & Rehab Fund	60,361	52,204	(8,157)	-13.5%
Workforce Development Fund	102,722	88,714	(14,008)	-13.6%
Municipal State Aid-Street	254,249	242,745	(11,504)	-4.5%
County State Aid-Highway	853,564	919,866	66,302	7.8%
Trunk Highway Fund*	2,288,579	2,365,599	77,020	3.4%
Trunk Highway Bond Fund	209,154	251,725	42,571	20.4%
Highway User Tax Distribution	42,821	22,642	(20,179)	-47.1%
Workers Compensation Special Fund	233,446	221,854	(11,592)	-5.0%
Environmental Fund	83,819	117,613	33,794	40.3%
Remediation Fund	92,380	75,865	(16,515)	-17.9%
Metro Area Transit Fund	249,792	246,821	(2,971)	-1.2%
Greater MN Transit Fund	17,213	16,311	(902)	-5.2%
Economic Protection Trust Fund	8,534	2,162	(6,372)	-74.7%
Gift Fund	12,143	9,345	(2,798)	-23.0%
Endowment Fund	2	2	0	0.0%
Debt Service Fund	841,687	1,161,214	319,527	38.0%
Federal Medical Education Endowment	158,038	173,210	15,172	9.6%
Federal TANF Fund	412,608	465,727	53,119	12.9%
Federal Funds	10,827,208	11,248,708	421,500	3.9%
Interfund Transfers/Transactions	(246,357)	74,470	320,827	-130.2%
TOTAL ALL FUNDS:	46,291,118	50,121,736	3,830,618	8.3%
* Trunk Highway Fund expenditures do not				
** General Fund Transfers Out adjustments				
transferred from the General Fund to other				