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Fiscal Review

Minnesota State Senate

2013 Session



A

Fiscal Review

of the

2013 Legislative Session

**Prepared by
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REPORT PREFACE

The Fiscal Review is an annual report of budget and fiscal policy actions taken by the Minnesota Legislature. The report covers all budgetary funds (all-funds), with special attention given to the General Fund, which must be in balance at the close of each biennium. Budgetary funds reflect the operating budget for the state but do exclude some state funds not budgeted for operations, such as pension funds, trust funds, and enterprise funds.

Minnesota operates on a two-year (biennial) budget enacted in odd-year legislative sessions; biennial budget revisions and major capital investments tend to be the focus of even-year legislative sessions. While most revenue and expenditure amounts are presented as biennial amounts, annual amounts may provide a more complete understanding of the timing of revenue and appropriations. Additional detail is available by consulting legislative budget tracking sheets or by contacting the relevant Senate fiscal staff.

Link to detailed budget tracking sheets:

<http://www.senate.mn/departments/fiscalpol/tracking/index.php?ls=#header>

Appropriations Defined

Appropriations are authorizations made by the Legislature to spend money from the state treasury for the purposes established by law. The Minnesota Constitution prohibits the payment of money out of the treasury unless appropriated by the Legislature. The Governor may veto appropriations but cannot create appropriations.

Direct appropriations are authorizations to spend a specific dollar amount, usually for a limited time period such as one year or a biennium. Open appropriations, which are less common, authorize an open-ended spending level, such as a ‘sum-sufficient’ to meet a defined need or formula. The amounts shown in the *Fiscal Review* for open appropriations reflect estimates of expected spending.

Most direct appropriations are established in session law and expire at the end of the biennium, or other specified time, and must be renewed every two years in order to continue spending authority. Statutory appropriations, on the other hand, are set in state statutes and provide ongoing authority to spend money from the treasury even if a biennial budget is not adopted. Statutory appropriations may authorize either a specific dollar amount or an open-ended amount, and may provide a specific time period for the appropriation.

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

Further, it should be noted that significant portions of some state agency operations, such as the departments of Administration and Management and Budget, are funded through charges to the other state agencies. In other words, monies appropriated to an agency may be used to purchase services from another state agency whose mission is, in part, to provide for centralized operating functions. To fully describe budget activity while avoiding double-counting, budget totals are reported based on the agency that receives an appropriation. Please note that some *Fiscal Review* chapters also discuss agency activities that are supported through charges to other state agencies.

Appropriations versus Spending

Amounts shown in the *Fiscal Review* for the current biennium (FY 2014-2015) reflect appropriation levels authorized by the Legislature. Amounts shown for the next biennium, often referred to as appropriation “tails,” reflect estimates of future biennial spending assuming current law programs are carried forward for another two years. This *Fiscal Review* compares current biennial appropriations to budgeted spending in the previous biennium (FY 2012-2013), as well as to the February 2013 Forecast “base.” The base in this document is the future spending for FY 2014-2015 as it was projected by the February 2013 forecast.

Methodology Change

Beginning with the FY 2014-2015 budget process, the Department of Management and Budget (MMB) has implemented two new financial management systems. These new systems have changed the consolidated financial statement (CFS) from one that reports General Fund appropriations to one that reports projected expenditures for the General Fund. The 2013 *Fiscal Review* will remain a document that explains the all-funds budget that is reconciled to the CFS. However, the 2013 *Fiscal Review* will also remain a report on legislative action as reflected in actual appropriations. Therefore, beginning with this edition of the *Fiscal Review*, appropriations will be displayed, but to reconcile to the anticipated spending reported in the CFS, additional transactions will be added in individual chapters of the report to coordinate appropriations to the CFS. In most cases, these transactions will be relatively minor adjustments. However, in certain chapters, such as Higher Education, State Government, and Environment, Economic Development, and Agriculture, existing law or custom and practice requires immediate transfers of certain appropriations from the General Fund to other funds. The CFS’s new methodology reports the spending in these other funds, but not where the money is appropriated. Therefore, to accurately reflect the legislative action during the 2013 Session and provide an appropriate reference to the CFS, these chapters will display significant transfers that will be larger than previous CFS reports have displayed. In some cases, these transfers may significantly distort the actual appropriations above or below historic amounts in order to reconcile to the MMB spending reports. Individual chapters will note occasions where the new methods make a substantive difference in understanding the reconciliation between legislative appropriations and the anticipated spending reported by MMB. Please contact the Fiscal Analyst for the appropriate budget area.

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STATE BUDGET OVERVIEW AND HIGHLIGHTS

Session was the adoption of the FY 2014-2015 biennial budget. The enactment of a balanced General Fund biennial budget is always a primary requirement during odd-numbered legislative sessions. In 2013, a projected shortfall of only \$626.7 million for FY 2014-2015 confronted the Legislature. This compares to the previous two odd-numbered sessions where the Legislature addressed projected shortfalls of \$4.6 billion in 2009 and \$5.0 billion in 2011. In 2013, the Legislature concluded the regular session with a completed budget that was structurally balanced for the FY 2014-2015 biennium and for the planning years of FY 2016-2017.

Although balancing the budget in the 2013 Session was essential, the Legislature also addressed a series of noteworthy fiscal issues beyond balancing the budget. Among them was a substantial increase in funding in the E-12; Higher Education; Judiciary; Environment, Economic Development, and Agriculture; and the Tax Aids and Credits jurisdictions. The enacted budget increased the tax burden paid by tobacco users and by individuals with higher incomes. Also, there were increases to the corporate income tax, and the sales tax base was broadened. A Capital Investment Bill was enacted that primarily funded future renovations to the Minnesota State Capitol. In conjunction with this renovation project, the FY 2014-2015 budget authorized funding a new Legislative Office Building. In addition to the General Fund budget, legislation was enacted to appropriate money from the constitutionally dedicated funds, commonly known as the Legacy Act.

Finally, to comply with the requirements of the federal Affordable Care Act, the Legislature established a Minnesota Health Care Exchange program and made a series of changes to the Medical Assistance program.

In addition to these actions, a series of important fiscal policy events occurred during the past year. This document examines how changes to the General Fund during the FY 2012-2013 biennium have affected the state's cash flow account and budget reserve, as well as buying back much of the so-called school shifts. School shifts were used in the previous two biennia to help balance the state's budget. Shifts are discussed in detail in the E-12 Education chapter. Also, the 2011 and 2012 versions of the *Fiscal Review* examined a series of occasions when the Legislature authorized the sale of "appropriation" bonds. This financing mechanism was new and its constitutionality was uncertain, so a validation process was established in law to determine its constitutionality through an expedited review by the Minnesota Supreme Court. The court had not completed its review in August 2012, when the previous version of the *Fiscal Review* was published. The court has now issued its opinion. A special section in the Capital Investment chapter reviews this decision.

STATE BUDGET OVERVIEW

Expenditures

When all funding sources are taken into account, the enacted FY 2014-2015 biennial budget totaled \$67.7 billion, which is shown in Table 1. This includes the two-year budget for the General Fund and all other state funds from which operating budget appropriations are made. The total spending increase will be \$6.2 billion, or ten percent greater than the prior biennium, and \$4.0 billion, or 6.2 percent greater than the February 2013 forecast.

General Fund spending totals \$35.3 billion, which accounts for 50.9 percent of the state's operating budget (after netting out transfers). Federal Funds – the largest category of non-General Fund resources – are budgeted at \$20.1 billion for FY 2014-2015. This total is \$1.2 billion higher than February 2013 forecast, and is \$3.5 billion higher than the FY 2012-2013 biennium.

The noteworthy increases when compared to the February 2013 forecast base were in Health and Human Services (\$1.6 billion,

	FY 2012-13	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012- 13	Change: Enacted - Fest Base
General Fund	35,441.8	36,743.7	38,349.4	2,907.6	1,605.7
General Fund Transfer Out	(2,045.6)	(2,932.3)	(3,078.9)	(1,033.3)	(146.6)
Federal Funds	16,640.3	18,961.1	20,145.8	3,505.5	1,184.7
Other Funds	11,499.4	10,956.9	12,272.2	772.7	1,315.3
All-Funds Total	61,535.8	63,729.3	67,688.5	6,152.6	3,959.1

Table 2 displays the state's all-funds budget by major budget area. Most areas are budgeted higher in FY 2014-2015 than in the prior biennium. These increases reflect the expansion of General Fund resources as a result of the increased tax revenues that were raised during the 2013 Session.

5.6 percent); E-12 Education (\$615.1 million, 3.7 percent); Higher Education (\$164.6 million, 10.7 percent) Property Tax Aids and Credits (\$305.1 million, 11.3 percent); Environment, Economic Development and Agriculture; (\$564.7 million, 19.8 percent).

Table 2
All Funds Biennial Budget -- FY 2014-2015
Comparison of Enacted FY 2014-2015 Budget to FY 2012-2013 and to Forecast
(dollars in millions)

	FY 2012-13	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst Base
E-12 Education	17,176.1	16,829.6	17,444.7	268.6	615.1
Higher Education	1,542.3	1,534.8	1,699.3	157.0	164.6
Property Tax Aids and Credits	2,789.2	2,703.9	3,009.0	219.8	305.1
Health and Human Services	25,141.8	28,141.6	29,721.5	4,579.7	1,580.0
Env, Econ Dev & Agric	3,347.4	2,857.2	3,421.9	74.5	564.7
Judiciary	1,768.6	1,774.1	1,869.5	100.9	95.3
Transportation & Public Safety	6,604.8	6,723.7	7,192.1	587.3	468.4
State Dept and Veterans Affairs	1,482.2	1,419.3	1,587.2	105.0	167.9
Debt Service/Other	1,683.4	1,745.1	1,743.2	59.8	(1.9)
Total for Budget Area	61,535.8	63,729.3	67,688.5	6,152.6	3,959.1

Revenues

Total all-funds revenues were estimated to be \$69.5 billion for the biennium for FY 2014-2015 in the February 2013 forecast. Changes during the 2013 Session increased the all-funds revenue by \$3.8 billion. \$2.6 billion was from changes in the General Fund (before transfers from other funds), and \$1.2 billion was from revenue changes to all other funds.

GENERAL FUND SUMMARY

At the conclusion of the 2013 Session, the state's General Fund for FY 2014-2015 was balanced with a projected \$1.1 billion positive balance before reserves. Revenues were projected to be \$39.4 billion for the biennium and the expenditures were projected to be \$38.3 billion. Of the \$1.1

billion balance, \$350 million was allocated to the cash flow account; \$656.5 million was allocated to the budget reserve; and \$27.8 million was allocated to the Vikings Stadium reserve.

This leaves a projected budgetary balance of \$46.1 million at the end of the FY 2014-2015 biennium.

Table 3 summarizes the enacted General Fund budget.

Table 3 FY 2014-2015 General Fund Budget Comparison of Enacted FY 2014-2015 Budget to FY 2012-2013 and to Forecast <i>(dollars in millions)</i>					
	FY 2012-13	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Forecast Base
Balance Forward (Including Reserves)	1,288.7	1,007.8	1,007.8	(280.9)	-
Revenues	35,160.9	36,115.7	38,422.0	3,261.2	2,306.4
Total Resources	36,449.5	37,123.4	39,429.8	2,980.3	2,306.4
Spending	35,441.8	36,743.7	38,349.4	2,907.6	1,605.7
Budget Reserve *	657.8	656.5	684.3	26.5	27.8
Cash Flow Account	350.0	350.0	350.0	-	-
Budgetary Balance	0.0	(626.7)	46.1	-	-
*Includes Vikings Stadium Reserve					

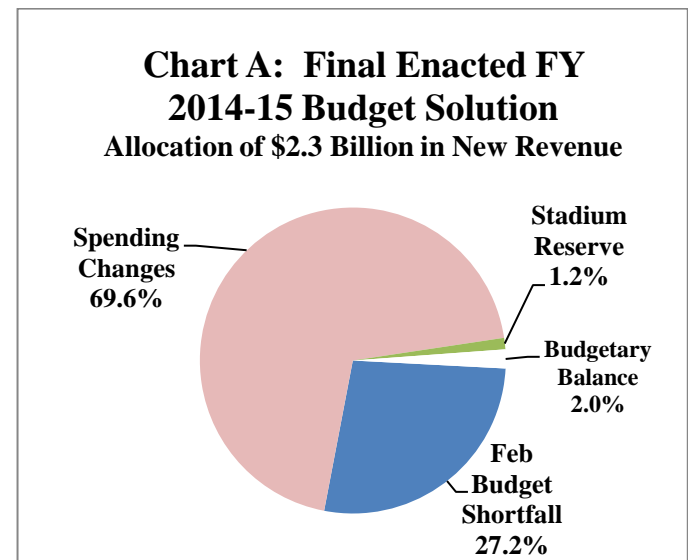
Resolving the FY 2014-2015 General Fund Budget Deficit

The February 2013 forecast projected a \$626.7 million shortfall for the state's General Fund for the FY 2014-2015 biennium. Projected spending under the laws in place at the time (a "current law" forecast) totaled \$36.7 billion, while anticipated revenue was estimated at \$37.1 billion. However, after adjusting for the reserves and the cash flow account (\$1.0 billion), the current law forecast projected a negative budgetary balance of \$626.7 million.

The enacted budget increased revenues by \$2.3 billion and increased appropriations by \$1.6 billion compared to the February 2013 forecast. The revenue increases exceeded the spending increases by \$672.8 million which was sufficient to eliminate the projected shortfall. The enacted budget left an unallocated budgetary balance of \$46.1 million in FY 2014-2015.

Table 4 and Chart A display more detail on how the \$2.3 billion of increased revenue was allocated in the enacted budget. Nearly

Table 4 FY 2014-15 Budget Solution <i>(dollars in millions)</i>	
February Budget Shortfall	627
Spending Changes	1,606
Stadium Reserve	28
Budgetary Balance	46
Tax Revenue	2,306



70 percent of the new revenue was allocated to increased spending changes. The \$626.7 million shortfall constituted 27 percent of the total resources.

The remainder of the new resources was added to the Vikings Stadium reserve (27.7 million) and a budgetary balance that was unallocated (\$46.1 million).

Net Spending Increases: The \$1.6 billion General Fund increase in projected spending for FY 2014-2015 was concentrated in Higher Education (\$248.5 million, 9.7 percent); Environment, Economic Development, and Agriculture (\$156.2 million, 29.9 percent); E-12 Education (\$605.5 million, 4 percent); and Property Tax Aids and Credits (\$305.1 million, 11.3 percent).

Net Revenue Increases: Revenue to the General Fund will net \$2.3 billion higher in FY 2014-2015 than projected in the February 2013 forecast. Most of the changes to revenue occurred in Chapter 143, the Omnibus Tax Act, which included the addition of a fourth tier to the income tax, increases to the cigarette excise tax,

increases to the corporate income tax, and a series of changes to the sales tax. Chapter 108, the Health and Human Services Finance Act, included Medical Assistance surcharge revenue increases.

Capitol Renovation and the Legislative Office Building: Chapter 136, the Capital Investment Act, and Chapter 143, The Omnibus Tax Act, included financing to continue renovations to the Minnesota State Capitol, as well as funding for a new state Legislative Office Building. Chapter 136 included \$109 million to continue cleaning and repair of the building's exterior and to update the building's utilities and mechanical systems. The State Capitol Complex Renovation chapter of this report examines the history and future of the Capitol Complex, including the new Legislative Office Building.

FY 2014-2015 Revenue Changes by Type: As summarized in Table 5, General Fund revenues total \$39.4 billion in FY 2014-2015, an increase of \$2.3 billion compared to the February 2013 forecast. Compared to FY 2012-2013, revenues will be \$3.2 billion

	FY 2012-13	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst Base
Tax Revenue	32,107.0	34,018.7	36,627.3	4,520.3	2,608.6
Nontax Revenue	1,557.9	1,413.8	1,449.2	(108.7)	35.3
Dedicated Revenue	0.5	0.2	0.2	(0.3)	-
Transfers in	1,079.7	633.0	295.4	(784.3)	(337.6)
Prior Year Adjustments	199.3	50.0	50.0	(149.3)	-
Carryforward from Prior Year	1,288.7	1,007.8	1,007.8	(280.9)	-
Total Revenues	36,232.9	37,123.4	39,429.8	3,196.9	2,306.4

higher. Tax revenues were increased by \$2.6 billion and nontax revenues were increased by \$35.3 million for FY 2014-2015.

The revenue transferred to the General Fund is \$337.5 million lower than the February 2013 forecast. This is primarily because the Health Impact Fee was repealed. These resources are collected as a fee imposed on tobacco products and deposited in the Health Impact Fund before being transferred to the General Fund. The repeal of this fee also eliminated the corresponding transfer to the General Fund. Appendix A provides a detailed table on General Fund revenues that were changed during the 2013 Session. This appendix also places these revenues in the context of the overall General Fund budgeting balance.

FY 2014-2015 General Fund Appropriations and Spending Changes by Budget Area

Table 6 summarizes FY 2014-2015 spending and appropriations by budget area. The budget enacted for FY 2014-2015 totals \$38.4 billion of projected appropriations. As indicated above, this is \$1.6 billion above the projected appropriations from the February 2013 forecast, and is \$2.9 billion

above FY 2012-2013 spending. The enacted budget has higher levels of General Fund appropriations compared to forecast for all budget areas.

HIGHLIGHTS BY BUDGET AREA

The following summaries highlight the changes made in each budget area compared to the budget projections in the February 2013 state budget forecast. The overall budgets and budget changes are discussed more fully in the relevant chapters.

E-12 Education Budget

State appropriations from all sources for E-12 Education total \$17.4 billion for the FY 2014-2015 biennium, of which 90 percent is from the General Fund (\$15.8 billion). E-12 Education appropriations in the General Fund are \$606.5 million above the February 2013 forecast and are primarily allocated to a 1.5 percent increase to the basic per-pupil funding formula in both fiscal years of the biennium, full funding for all-day kindergarten, increased equalization on the operating referendum, increased aid for integration revenue, and an expansion of early childhood scholarships.

<p align="center">Table 6 – General Fund Biennial Budget by Budget Area Comparison of Enacted FY 2014-2015 Budget to FY 2012-2013 and to Forecast <i>(dollars in thousands)</i></p>					
	FY 2012-13	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst Base
E-12 Education	15,500.1	15,177.3	15,783.8	283.6	606.5
Higher Education	2,568.8	2,565.3	2,813.8	244.9	248.5
Property Tax Aids and Credits	2,794.2	2,710.9	3,016.0	221.8	305.1
Health and Human Services	10,654.5	11,362.5	11,440.3	785.8	77.8
Env, Econ Dev & Agric	580.3	523.2	679.4	99.1	156.2
Judiciary	1,654.7	1,672.1	1,765.6	110.9	93.5
Transportation & Public Safety	326.8	333.4	405.8	79.0	72.4
State Dept and Veterans Affairs	902.0	898.3	951.5	49.5	53.1
Debt Service	460.3	1,500.8	1,493.3	1,033.0	(7.5)
Total Revenues	35,441.8	36,743.7	38,349.4	2,907.6	1,605.7

Higher Education Budget

The overall operating budget for Higher Education totals \$1.7 billion for FY 2014-2015, with virtually all appropriations coming from the General Fund. Compared to the February 2013 forecast, this represents a \$248.5 million increase in General Fund appropriations. The increased appropriations are primarily allocated to increase the State Grant program and the Minnesota State Colleges and Universities (MnSCU) and University of Minnesota systems. The State Grant program was increased by 15 percent above the February 2013 forecast for FY 2014-2015. MnSCU received a 9.4 percent increase in its General Fund appropriation for the biennium and the University of Minnesota's General Fund appropriation was increased by 7.1 percent.

Health and Human Services Budget

The appropriations for Health and Human Services total \$29.7 billion for all-funds in FY 2014-2015. General Fund appropriations are projected at \$11.4 billion (38.4 percent of the total amount) for the same period. These totals are \$77.8 million higher than the February 2013 forecast for the General Fund, and are \$785.8 million higher than the FY 2012-2013 biennium. Requirements and state-level choices associated with the Federal Affordable Care Act played an important role in budget discussions. Chapter 9 established a Minnesota-based health insurance exchange. Chapter 108 expanded Medical Assistance eligibility for certain populations, as well as establishing a basic health plan.

Property Tax Aids

Funding for a variety of tax aids and credits totals \$3.0 billion from all funding sources for FY 2014-2015, with virtually all of this funding from the state's General Fund. This represents a \$305.1 million increase from appropriations projected in the February

2013 forecast. Most of the increase was from increases to the property tax refund program and aid increases to cities, counties and townships.

Environment, Economic Development, and Agriculture Budget

Total funding for Environment, Economic Development, and Agriculture equals \$3.4 billion for the FY 2014-2015 biennium. The General Fund budget totals \$679.4 million (19.8 percent of the total amount) for the same period. The enacted General Fund budget is \$156.2 million above the February 2013 forecast and is \$99.1 million above the FY 2012-2013 budget. This increase is attributable to substantial increases in the Jobs and Economic Development portion of the budget, which grew by \$86.6 million over the February 2013 forecast.

Judiciary Budget

The Judiciary budget for FY 2014-2015 totals \$1.9 billion, with 94.4 percent of this amount coming from the General Fund. General Fund appropriations are \$93.5 million above the February 2013 forecast. This increase supports increased appropriations for court operations, as well as a 4.4 percent increase to the Department of Corrections budget.

Transportation and Public Safety Budget

Funding for Transportation and Public Safety programs totals \$7.2 billion for the FY 2014-2015 biennium. This budget is primarily supported by non-General Fund sources. General Fund appropriations account for only 5.6 percent of the total.

State Departments and Veterans Affairs Budget

The total budget for State Departments and Veterans Affairs is \$1.6 billion in FY 2014-2015. General Fund appropriations make up over half (59.9 percent) of this total. The

enacted budget implements many of the Compensation Council’s recommendations for executive branch and judicial branch salary increases.

Debt Service Budget

Total projected spending for debt service for the FY 2014-2015 biennium is budgeted at \$1.7 billion from all funding sources. General Fund debt service appropriations are \$1.5 billion in FY 2014-2015. This represents a modest decline from the February 2013 forecast (\$7.5 million) because Chapter 136, the Capital Investment Act, was lower than the forecast assumption. However, due to increased debt service appropriations associated with enactments in prior legislative sessions, the enacted budget is \$1.0 billion higher than the FY 2012-2013 biennium.

GENERAL FUND BUDGET TAILS – FY 2016-2017 BIENNIUM

Looking ahead at the effect of the FY 2014-2015 enacted budget on the next biennium

shows that the state will have a positive General Fund balance of \$735.5 million. Revenues for the FY 2016-2017 biennium are projected to total \$41.4 billion, while projected appropriations are estimated to total \$40.7 billion.

This positive structural balance is down slightly from the budgetary balance projected in the February 2013 forecast. At that time, revenues were projected to exceed appropriations by \$782.6 million. Table 7 displays a comparison of the FY 2016-2017 biennium based on the FY 2014-2015 enacted budget and the February 2013 forecast.

General Fund revenue is projected to grow by \$3.1 billion in FY 2016-2017 when compared to FY 2014-2015, and appropriations are projected to grow by \$2.4 billion over the same period. Overall, this indicates that projected appropriations are growing at a slower pace than revenues over the four years of the projection period.

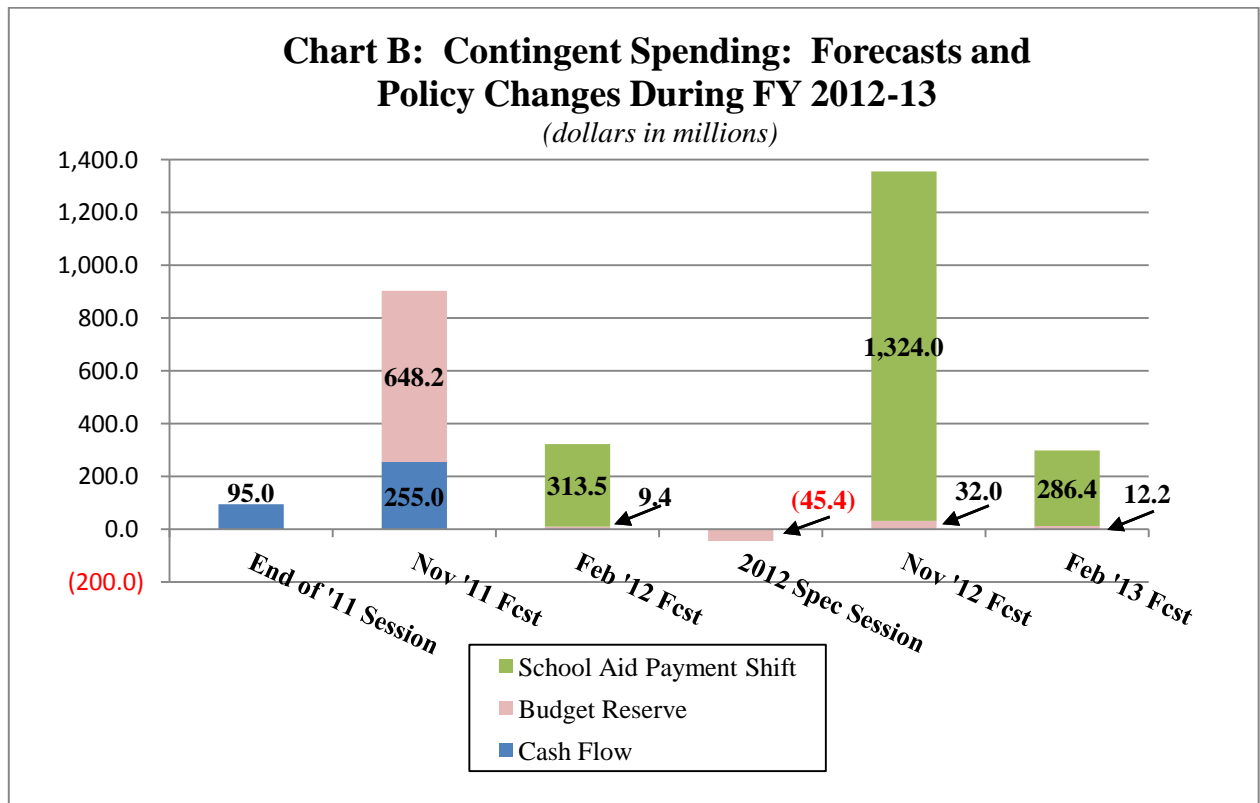
<p align="center">Table 7 General Fund Biennial Budget -- FY 2016-2017 Planning Estimates <i>(dollars in thousands)</i></p>			
	Feb 2013 Forecast Base	Enacted Budget	Change Enacted - Fcst Base
Current Resources (excluding carryforward)	39,295.0	41,460.1	2,165.1
Total Expenditures	38,512.5	40,724.7	2,212.2
Projected Balance	782.6	735.5	

CONTINGENT OBLIGATIONS – A LOOK BACK AND AHEAD

During the FY 2010-2011 biennium, a series of onetime initiatives were used to help balance the General Fund budget. Among those initiatives, the state's cash flow account and budget reserve were reduced. Also, two separate school shifts were put in place – the aid payment shift and the property tax recognition shift. These shifts were initially enacted during the 2009 and 2010 Legislative Sessions. During the 2011 Legislative Session, the aid payment shift was further increased. In 2011, this report discussed how the effect of these onetime budget solutions and the law that requires them to be paid back will create future contingent appropriations, once the economic conditions of the state improve. This report adds to that discussion by providing information about how those contingent appropriations occurred throughout the FY 2012-2013 biennium.

Minnesota Statutes, section 16A.152, subdivision 2, requires that a positive unrestricted General Fund balance projected in a forecast must be used to restore the funds that were reduced by earlier onetime appropriations. Beginning with the November 2011 forecast, with the state's General Fund budget forecast improving, a series of contingent obligations was triggered and additional spending occurred throughout the FY 2012-2013 biennium based on this law. This law establishes an order for restoration. A positive unrestricted balance in a forecast must be used in the following order:

- Cash flow account to \$350 million;
- Budget reserve to \$653 million;
- Aid payment shift restored to 90/10 payment schedule;
- Eliminate the property tax recognition shift; and
- \$15 million to the State Airports Fund.

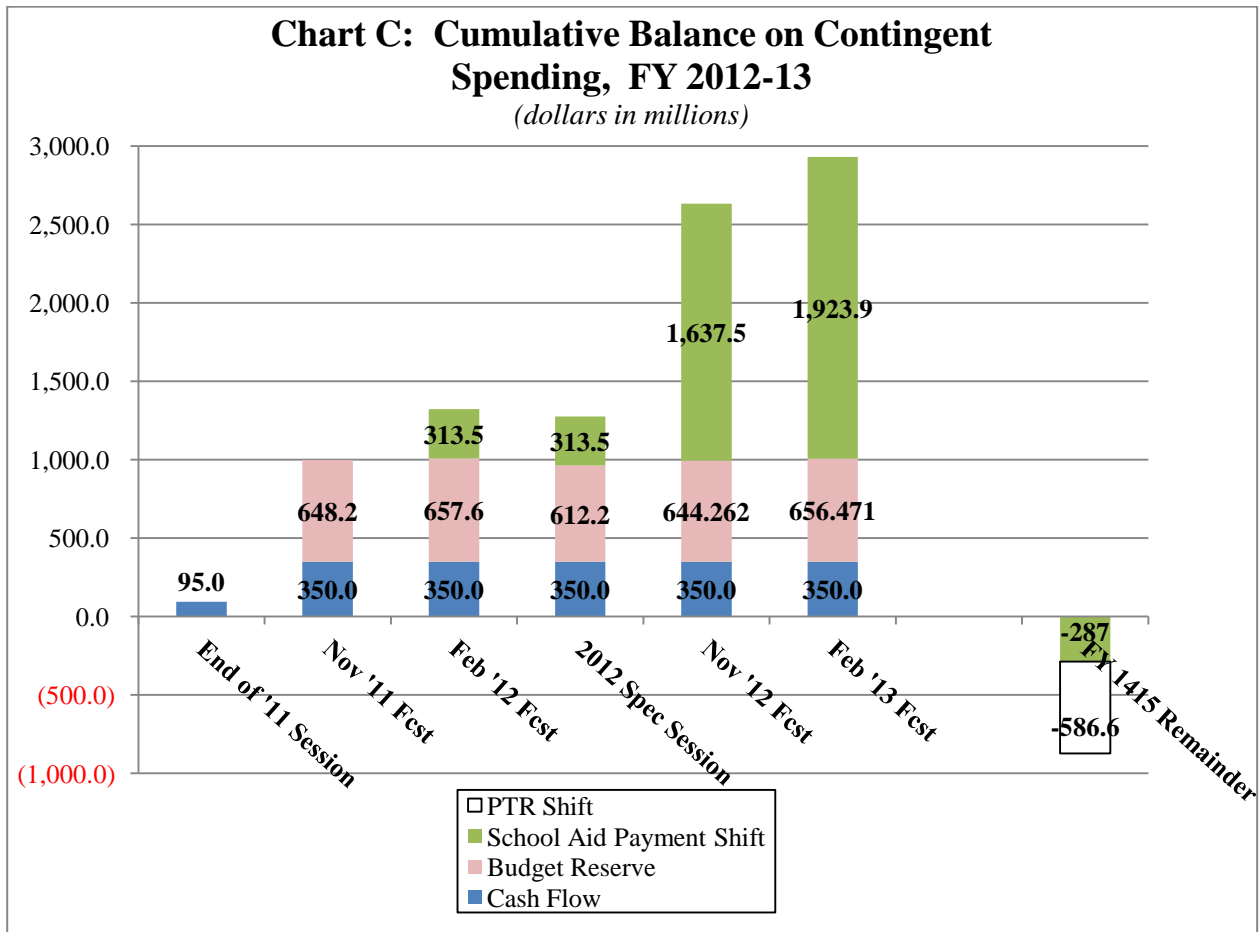


It is worth noting that the cost of the school shifts changes over time with economic variables and policy changes. With each forecast and at the conclusion of each session, the value of these shifts is recomputed to reflect changing pupil counts, policy changes, property tax values, and other variables. So, the cost of buying back the same shift will vary from one forecast to the next.

A positive unrestricted fund balance in the General Fund was reported in four successive forecasts throughout the FY 2012-2013 biennium, beginning in November 2011. The positive balance reported in each of these forecasts was allocated based on Minnesota Statutes, section 16A.152, subdivision 2. The

discussion below provides detail on how this provision was applied during the FY 2012-2013 biennium. Also, Charts B (previous page) and C (below) display the allocation of each positive balance during the biennium and the ongoing cumulative balance of contingent obligations during the biennium.

Before the November 2011 forecast, the cash flow account stood at \$95 million and the budget reserve was at \$0. The November 2011 forecast projected a positive balance of \$876 million. By law, \$255 million of this amount was allocated to the cash flow account to restore it to the required \$350 million. Then, the balance of \$621 million was allocated to the budget reserve. This amount combined with an excess balance of \$27 million in the workers



compensation assigned risk plan increased the budget reserve to \$648 million after the November 2011 forecast.

In February 2012, the next forecast projected a further positive balance of \$323 million for the FY 2012-2013 biennium. The first \$5 million of this positive balance was allocated to the budget reserve to restore it to \$653 million that was required in statute. Then, the next \$313.5 million was used to buy back the school aid payment shift from the 60 percent/40 percent payment schedule that was adopted by the 2011 Legislature to a 64.3 percent/35.7 percent schedule. (Because shift buy backs must be rounded to the nearest tenth of a percent, the remainder was allocated to the budget reserve under law.) This increased the budget reserve to \$657.6 million after the forecast.

No changes to the school shifts were enacted during the 2012 Session. However, the budget reserve was reduced by \$45.4 million during a 2012 Special Session in August to pay for costs associated with flooding in northeast Minnesota. The budget reserve then stood at \$612 million. Because this reduced the budget reserve below \$653 million, the law would have required that a positive balance in a future budget forecast must first be used to reestablish the budget reserve at \$653 million. However, during the 2012 Special Session, language was adopted that any positive balance in the November 2012 forecast would be allocated to the school shift rather than to reestablish the budget reserve at \$653 million. This was a onetime change for the November 2012 forecast only.

The November 2012 forecast projected a positive balance of \$1.33 billion for the FY 2012-2013 biennium. Of this amount, \$1.32 million was allocated to the school aid

payment shift and \$6 million was allocated to the budget reserve (again, due to rounding on the aid payment shift). An additional \$26 million was also allocated to the budget reserve due to an excess surplus in the Workers' Compensation Assigned Risk Plan. After the forecast, the reserve stood at \$644.6 million.

The February 2013 forecast again projected a positive balance of \$295 million for the FY 2012-2013 biennium. Of this amount, \$286.4 million was allocated to buy back the school aid payment shift and \$8.6 million was allocated to the budget reserve. The reserve at the time of this report stands at \$656.5 million. As of the date of this report, the Department of Education estimates the balance of the school aid payment shift is estimated to be \$287 million for the FY 2014-2015 biennium. The separate property tax recognition shift balance is estimated to be \$586.6 million. The total cost of buying the remaining shifts is projected to be \$873.6 million for the FY 2014-2015 biennium. If these shifts are not completely restored during the FY 2014-2015 biennium, the cost of the remaining shift will grow somewhat during the subsequent biennium due to property tax and entitlement growth over time.

Each of these contingent appropriations created increased spending during the FY 2012-2013 biennium. These onetime spending obligations will distort comparisons with the FY 2010-2011 biennium (where spending was suppressed by onetime reductions) and the FY 2014-2015 biennium. Therefore, a direct comparison across biennia (forward and backward) may be confusing without additional explanation.

During the 2013 Legislative Session, Chapter 116, the Education Finance Act,

established a onetime provision that requires any positive General Fund balance at the conclusion of the FY 2012-2013 biennium to be allocated to reduce any outstanding shifts. This must be implemented by September 30, 2013. Effectively, this provision will eliminate any carryforward money from FY 2013 into FY 2014. Instead, those funds will be used to reduce the remaining shifts prior to the November 2013 forecast.

STATE REVENUES

State revenues for the FY 2014-2015 biennium total \$69.5 billion, an increase of \$3.8 billion over the February 2013 forecast. Over half of that change is attributable to increases in tax revenues deposited in the General Fund. The General Fund revenue for FY 2014-2015 is projected to be \$38.1 billion, an increase of \$2.6 billion above the February 2013 forecast. The most notable change outside of the General Fund was the \$1.2 billion increase in Federal Funds for the FY 2014-2015 biennium. In addition, the Health Impact Fund was eliminated in Chapter 143 as part of the combined policy change that eliminated a 75 cent per-pack cigarette fee and corresponding percentage-

based tobacco products fee in favor of an equivalent excise tax increase. The elimination of the fee and, therefore, the fund, reduced non-General Fund revenues by \$376.4 million for the FY 2014-2015 biennium. Revenue for the four Legacy funds increased by \$3.9 million for the biennium, mostly as a result of changes in Chapter 143 to the sales tax base. Transportation funds, including the Transit Assistance Fund, Trunk Highway Fund, and State Airports Fund, grew \$11.7 million, \$265 million, and \$3.9 million for the FY 2014-2015 biennium respectively.

Table 1
All Funds Revenues
(dollars in thousands)

	FY 2012-13 Revenue	FY 2014-15 February Forecast	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fest. Base
General Fund					
Income	16,620,961	17,732,700	18,876,000	2,255,039	1,143,300
Corporate	2,209,258	2,000,800	2,421,650	212,392	420,850
Sales	9,434,196	10,014,082	10,087,849	653,653	73,767
Statewide Property	1,616,034	1,685,302	1,685,302	69,268	-
Estate	314,376	317,400	395,400	81,024	78,000
Alcohol Excise	162,772	170,580	169,740	6,968	(840)
Cigarette and Tobacco Excise	368,572	373,530	1,185,550	816,978	812,020
Insurance Gross Earnings & Fire Marshal	597,869	626,400	626,400	28,531	-
Lawful Gambling	79,613	134,900	134,900	55,287	-
Other Tax Revenues	904,170	963,010	1,044,544	140,374	81,534
Nontax Revenues	637,216	618,892	642,202	4,986	23,310
Other/Adjustments	937,508	794,948	807,116	(130,392)	12,168
Subtotal General Fund Revenue	33,882,545	35,432,544	38,076,653	4,194,108	2,644,109
Non-General Funds					
Legacy Funds	543,090	575,948	579,819	36,729	3,871
Transit Assistance	483,480	540,404	552,084	68,604	11,680

	FY 2012-13 Revenue	FY 2014-15 February Forecast	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Trunk Highway	988,166	868,635	1,133,635	145,469	265,000
State Airports	42,270	38,785	42,685	415	3,900
Special Revenue	2,012,479	1,881,501	1,935,135	(77,344)	53,634
Health Impact	407,657	392,730	16,370	(391,287)	(376,360)
Federal	16,675,596	19,010,635	20,195,339	3,519,743	1,184,704
Other	6,660,611	6,902,040	6,933,059	272,448	31,019
Subtotal Non-General Fund Revenue	27,813,349	30,210,678	31,388,126	3,574,777	1,177,448
Total All Revenues	61,695,894	65,643,222	69,464,779	7,768,885	3,821,557

GENERAL FUND TAX REVENUE CHANGES

General Fund tax revenues are budgeted at \$36.6 billion for the FY 2014-2015 biennium, an increase of \$2.6 billion above the February 2013 forecast. The two largest sources of this increase are attributable to the addition of a fourth tier income tax rate and a cigarette tax increase of \$1.60 per

pack. Broadening of the corporate and sales tax bases will also increase revenue to the General Fund. Table 2 summarizes the major state tax revenue changes specific to the General Fund. Most General Fund tax revenue changes were contained in Chapter 143. In addition, details regarding the Medical Assistance surcharge increases can be found in the Health and Human Services chapter and in Appendix A.

Tax Type	FY 2012-13 Revenue	FY 2014-15 February Forecast	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Individual Income	16,620,960	17,732,700	18,876,000	2,255,040	1,143,300
Corporate Franchise	2,209,259	2,000,800	2,421,650	212,391	420,850
Sales	9,494,634	10,075,460	10,149,227	654,593	73,767
Statewide Property	1,616,034	1,685,302	1,685,302	69,268	-
Estate	330,190	329,800	407,800	77,610	78,000
Alcohol Excise	164,747	171,880	171,040	6,293	(840)
Cigarette and Tobacco Excise	378,975	383,330	1,195,350	816,375	812,020
Taconite	40,806	38,700	36,750	(4,056)	(1,950)
Mortgage Registry	235,137	189,800	189,800	(45,337)	-
Deed Transfer	130,200	180,100	180,100	49,900	-
Insurance Gross Earnings & Fire Marshal	604,407	632,800	632,800	28,393	-
Other Gross Earnings	100	100	100	-	-
Lawful Gambling - February 2012 Base	73,800	73,800	73,800	-	-
Lawful Gambling - Stadium	1,875	61,100	61,100	59,225	-
Medical Assistance Surcharges	486,533	521,700	605,184	118,651	83,484

Tax Type	FY 2012-13 Revenue*	FY 2014-15 February Forecast*	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Income Tax Reciprocity	182	-	-	(182)	-
Motor Vehicle Registration	1,296	1,350	1,350	54	-
Other Tax Refunds	(67,274)	(60,050)	(60,050)	7,224	-
Total Revenue	32,321,861	34,018,672	36,627,303	4,305,442	2,608,631

The Omnibus Tax Act included a number of General Fund revenue policy changes as an important component of the FY 2014-2015 budget. The most notable of these changes are discussed below. Appendix A provides a detailed accounting of the General Fund revenue changes that were included in the enacted budget, both in Chapter 143, as well as in other acts that included revenue changes, and places those changes in the context of overall budgetary balance. Appendix A also includes any transfers affecting the General Fund.

Individual Income Tax

Chapter 143 enacted a fourth tier to the individual income tax brackets. This fourth tier is imposed at a rate of 9.85 percent and applies to Minnesota taxable incomes greater than \$250,000 for married filers filing jointly, \$125,000 for married filers filing separately, \$150,000 for single filers, and \$200,000 for heads of household. This is expected to generate \$592.5 million in FY 2014 and \$526.4 million in FY 2015 in additional revenue above the February 2013 forecast for the General Fund. A corresponding increase to the alternative minimum tax (AMT) was also enacted, making the new AMT rate 6.75 percent, up from 6.4 percent, and raising an additional \$2.7 million and \$2.9 million for the General Fund FY 2014 and 2015 respectively. Taken together, these policy changes amount to 43 percent of the new General Fund revenue in the FY 2014-2015

biennium. The new tax rates are effective beginning in calendar year 2013.

Cigarette and Other Tobacco Products

A second notable source of revenue increases during the 2013 Session was the taxation of cigarettes and other tobacco products (OTP). Chapter 143 increased the excise tax on a pack of cigarettes by \$2.35 to a total per pack tax of \$2.83. Previously, the excise tax was 48 cents per pack. However, the previous law included a \$.75 per pack Health Impact Fee (HIF). Chapter 143 made two primary changes to the taxation of a pack of cigarettes. First, it nominally increased the excise tax by \$2.35. However, because Chapter 143 also repealed the HIF, \$.75 per pack of the cigarette tax increase was already collected under the previous law in the form of the HIF. By repealing the HIF, the effective increase on a pack of cigarettes was \$1.60.

Previously, the revenue generated by the HIF was deposited in the Health Impact Fund and then transferred to the General Fund based on certified health-related costs that were attributable to tobacco use. Since the fund's establishment, the health-related costs attributable to tobacco use exceeded the amount in the HIF. Therefore, the balance of the fund was annually transferred to the General Fund. Repealing the HIF and making a corresponding increase to the cigarette excise tax was revenue neutral to the General Fund. As a transfer, this reduction in revenue is not displayed on

Table 2. However, it is reflected in Appendix A.

The Legislature made a similar adjustment to the taxation of OTP. Previously, OTP was taxed with a 35 percent excise tax and a 35 percent HIF. The proceeds from the portion attributable to the 35 percent HIF were deposited in the Health Impact Fund and then annually transferred to the General Fund after the tobacco-related health costs were certified. Chapter 143 increased the OTP excise tax rate to 95 percent, but also included a repeal of the 35 percent HIF. Therefore, the effective increase to the taxation of OTP was 25 percent calculated on the wholesale price of the product.

In addition to the excise tax increase, Chapter 143 also increased the nonsettlement fee to 2.5 cents per cigarette. Previously, the nonsettlement fee was 1.75 cents per cigarette. The nonsettlement fee is an additional fee on the makers of cigarettes that did not enter into a tobacco settlement agreement with the state. The fee is meant to help the state recover some of the public health care costs of smoking. Increased revenue to the General Fund totaled \$60,000 in FY 2014 and \$60,000 in FY 2015 as a result of this increase.

Chapter 143 also modified the definition of “cigarette” to include “little cigar.” Formerly, these products were taxed as an OTP. Modifying the definition of cigarette to include little cigars increased the taxation of these products. This change resulted in an increase to the General Fund of \$9.5 million in FY 2014 and \$10.1 million in FY 2015.

The tax changes to the cigarettes and OTP generated an additional \$403.6 million in FY 2014 and \$408.5 million in FY 2015 when compared to the February 2013

forecast. Of these changes, 76 percent of the new revenue is attributable to the effective increases to the cigarette and OTP excise taxes.

Stadium Reserve Account

The Vikings Stadium Act, Laws 2012, Chapter 299, created a stadium reserve account as a General Fund account to hold the reserves of any annual revenues that exceeded annual expenditures for the purposes of paying for construction costs associated with the new stadium. At the time of its enactment, the stadium reserve account was expected to have a FY 2014-2015 biennial balance of \$31.2 million. Both the November 2012 forecast and the February 2013 forecast made reductions to initial estimates; the February 2013 forecast reduced the balance to \$1.3 million for the FY 2012-2013 biennium and zero for the FY 2014-2015 biennium. The balance of the reserve account was to be generated through revenue from the taxation of electronic pull-tabs and linked bingo, which would be reduced by certain expenditures and any debt service payments. Bonds for the stadium have not yet been sold as of the publication date of this report, so there are currently no debt service payments to be made. However, certain incurred expenditures have been higher than revenues, and there is no additional revenue available for deposit in the reserve account. In an effort to reinstate the reserve account to the forecasted amounts at the time of its enactment, Chapter 143 transferred \$26.5 million from the General Fund to the stadium reserve account in FY 2014. The money from this transaction was generated by the Cigarette Floor Stocks Tax. The floor stocks tax is a onetime tax imposed on stamped cigarettes that were previously taxed at the lower excise tax rate prior to the increase discussed above. Beginning on July 1, 2013, any floor stocks taxed at the lower

rate are then subjected to the new rate, and the revenues from that transaction are deposited in the General Fund and transferred to the stadium reserve account.

Corporate Franchise Tax

The modifications made under the corporate franchise tax area are anticipated to raise an additional \$232.7 million in FY 2014 and \$188.2 million in FY 2015 in the General Fund over the February 2013 forecast, totaling \$2.4 billion over the biennium. The largest revenue expansion within the corporate franchise tax was the repeal of the subtraction for foreign source royalties and the incorporation of income from foreign operating corporations into the definition of taxable income. By eliminating these subtractions from the definition of taxable income for the corporate franchise tax, this income becomes taxable at 9.8 percent and increases revenue to the General Fund. The combination of those two policies increases General Fund revenues by \$139.4 million in FY 2014 and \$97.8 million in FY 2015. In addition, Chapter 143 modified the research and development credit to make it nonrefundable, but permitted the credit to be claimed against all unitary group members' tax liability and carried forward for up to 15 years. This change reduces the total tax expenditure amount for the credit. Combined, these changes generate \$52.7 million and \$37.8 million in additional General Fund revenue in FY 2014 and FY 2015, respectively.

Among other corporate franchise tax changes, Chapter 143 modified the Historic Structure Rehabilitation Credit. The effective date of this credit was clarified to make it effective for qualifying rehabilitation expenditures and qualifying rehabilitation occurring after May 1, 2010, provided that the application for the credit occurs before the expenditures and

rehabilitation take place. The reduction to the General Fund as a result of this modification is \$4 million in FY 2014. Chapter 143 extended the sunset of the credit from FY 2015 until after the end of FY 2021. The loss to the General Fund as a result of this sunset extension will begin in the FY 2016-2017 biennium.

Federal Conformity

In February 2013, the Legislature passed federal conformity provisions for tax year 2012, in Chapter 3. Chapter 3 conformed Minnesota taxable income to Federal taxable income changes to the income and corporate franchise tax areas, and dealt with temporary extensions for tax year 2012 only. Because these changes were enacted prior to the February 2013 forecast, its costs were measured relative to the November 2012 forecast. The Federal Conformity changes cost \$18.5 million in FY 2013, \$70,000 in FY 2014, and \$2.3 million in FY 2015. These costs were incorporated into the February 2013 forecast and are assumed in the base. As a result, there are no fiscal change items tracked in this report for Chapter 3.

In addition to the early conformity bill, Chapter 143 incorporated two pieces of federal conformity in effect for tax year 2013 only. The federal government extended increased qualifying purchase and deduction limits to the section 179 expensing and bonus depreciation through tax year 2013. When the federal government first allowed section 179 expensing and bonus depreciation, Minnesota did not fully conform. However, instead of requiring businesses to add back the full amount of the deduction allowed at the federal level, which would be the effect of full nonconformity, Minnesota required that 80 percent of the deduction be added back and then 1/5th of the deduction be subtracted off the taxable

income over the next five years. This mechanism, over the five-year period, is intended to achieve a higher level of conformity without the upfront cost associated with it. As part of the conformity measure, Chapter 143 conformed Minnesota's tax law to the higher limits that the federal government enacted in the American Taxpayer Relief Act of 2012, Public Law 112-240, while maintaining the 80 percent add-back with the 1/5th subtraction. The higher limits allow more projects to become eligible for this type of expensing.

Sales Tax

Chapter 143 changes to the sales tax affected both the General and Legacy Funds. The new law included several provisions to broaden the sales tax base, as well as several sales tax exemptions for economic development purposes. Chapter 143 also adopted a definition of "solicitor" for purposes of establishing sales tax nexus in Minnesota, increased the motor vehicle rental tax rate from 6.2 percent to nine percent, and exempted purchases by cities and counties from the combined sales tax. Total sales tax changes increased General Fund revenue by \$73.8 million in FY 2014 and reduced revenue by \$40,000 in FY 2015. Sales tax modifications resulted in a \$3.9 million increase to the Legacy Fund for the FY 2014-2015 biennium. (For more on the Legacy Fund, see Appendix B.)

With respect to the sales tax base, Chapter 143 added business warehousing and storage services, business electronic and precision equipment repair, and commercial and industrial machinery and equipment repair to the sales tax base. Most of the base changes became effective July 1, 2013, but the warehousing and storage sales tax does not become effective until April 1, 2014. The total amount of revenue raised by

broadening the base is \$114.1 million in FY 2014 and \$200.2 million in FY 2015. The revenue growth in FY 2015 over FY 2014 is primarily attributable to the delayed effective date on the warehousing and storage base expansion.

Chapter 143 enacted four new sales tax exemptions for economic development purposes, including purchases by qualified greater Minnesota businesses, qualified biopharmaceutical manufacturing facilities, qualified research and development facilities, and qualified industrial measurement manufacturing and controls facilities. Although all four sales tax exemptions were enacted and made effective the day following final enactment, it is assumed that only the exemption for qualified greater Minnesota businesses and the research and development facility exemption will be implemented during the FY 2014-2015 biennium. This exemption is anticipated to reduce sales tax collections in the General Fund by \$1 million in FY 2014 and \$8.5 million in FY 2015. It is anticipated that the two other new exemptions will begin to be implemented during the FY 2016-2017 biennium. Those projects will have no budgetary effect during the FY 2014-2015 biennium. In addition, Chapter 143 modified the sales tax exemption for capital equipment purchases to an upfront exemption, effective September 1, 2014. Formerly, businesses were required to pay the sales tax at the time of purchase, and then apply to the Department of Revenue for a refund. Modifying the exemption from a refund program to an upfront exemption reduces revenue to the General Fund by \$81.3 million beginning in FY 2015.

Estate Tax

Chapter 143 expanded the estate tax by imposing a gift tax and including certain

gifts in the estate, taxing nonresident property held in a pass-through entity, and modifying the qualified farm and small business property exclusion provisions. Together, those changes generated \$28.1 million in FY 2014 and \$49.9 million in FY 2015 in additional revenue to the General Fund. Those changes are effective for decedents who pass away after December 31, 2012.

Destination Medical Center

Chapter 143 authorized a unique set of tax incentives that includes both tax exemptions and property tax benefits to assist in the development of the city of Rochester as a destination medical center (DMC). The Destination Medical Center Corporation (DMCC), a nonprofit corporation to be created by the city, will prepare, implement, and oversee the project's development. Chapter 143 provides a sales tax exemption for construction materials, supplies, and equipment used for publicly owned buildings and infrastructure, effective July 1, 2015, through June 30, 2049. However, there will be no fiscal effect to the General Fund in the FY 2014 - 2015 biennium because development is not anticipated to begin this biennium. The DMC is an economic development initiative among the city of Rochester, the Mayo Clinic, Olmstead County, and the state, and is designed to provide services and infrastructure necessary to be competitive as a global health center. This enacted exemption is separate from the general sales tax exemption for cities and counties and is expected to be used by construction companies or the DMCC. Chapter 143 permits the city of Rochester to establish special property tax abatement and tax increment financing rules for DMC-related public infrastructure projects. The city is eligible for general state infrastructure aid of up to \$30 million per year after total project

expenditures reach \$200 million. The city is also eligible for state transit aid of up to \$7.5 million per year. Chapter 143 requires a local investment prior to any state aid payments. As a result of the conditions placed on the aid, no aid payments are anticipated to be made until FY 2018.

NONGENERAL FUND REVENUE CHANGES

E911

Chapter 143 imposed the E911 and Telecommunications Access Minnesota (TAM) fee, collected at the retail level, on prepaid wireless service and deposits the money in the Special Revenue Fund. The new fee, combined with an exemption from the current 911 service fee imposed on all telephone lines, generates a net increase of \$760,000 in FY 2014 and \$3.2 million in FY 2015. The proceeds of the fees are used for the Allied Radio Matrix for Emergency Response System (ARMER) as discussed in the chapter on Public Safety.

State Airports Fund

The revenue sources to the State Airports Fund were modified. Under the old law, the fund had four major sources of revenue: the aircraft registration tax, the aviation fuels tax, the sales tax on aircraft, and the airflight property tax. Chapter 143 added sales tax on aircraft as a new source to the fund. This is not a new tax. Previously, sales tax receipts on aircraft were credited to the General Fund. Chapter 143 established a new transfer from the General Fund to the State Airports Fund. This transfer reduces revenue collections in the General Fund and increases revenue to the State Airports Fund by \$2.9 million in FY 2014 and \$2.9 million in FY 2015. In addition, Chapter 143 exempted aircraft parts and labor from the combined sales tax, reducing revenue by

\$3.6 million in FY 2014 and \$3.8 million in FY 2015.

Legacy Funds

Sales tax base broadening and exemption changes affected the Legacy Funds in much the same way as the General Fund, resulting in a small increase over the biennium. Expansion of the sales tax to electronic and commercial repair, warehousing and storage, telecommunications equipment, and other smaller changes generated revenue to the Legacy Funds for a total of \$19.7 million for the FY 2014-2015 biennium. That new

revenue was mostly offset by exemptions to the sales tax, including the upfront capital equipment exemptions and the city and county exemption, for a total reduction to the Legacy Funds of \$15.8 million for the FY 2014-2015 biennium. The resulting increase to the Legacy Funds was \$3.9 million for the FY 2014-2015 biennium. Changes to the Legacy Funds are distributed according to the Minnesota Constitution to the Outdoor Heritage Fund, Arts and Cultural Heritage Fund, Clean Water Fund, and Parks and Trails Fund. For more on the Legacy Funds, see Appendix B.

E-12 EDUCATION

The E-12 budget area, comprising early childhood, elementary, and secondary education spending, totals \$17.4 billion for FY 2014-2015, of which \$15.8 billion, or 90.5 percent, is General Fund appropriations. General Fund appropriations are \$606.5 million above the February 2013 forecast. E-12 Education constitutes the largest General Fund budget area at 41.2 percent of the General Fund.

The changes discussed in this chapter were enacted in Chapters 116 and 143.

Chapter 116, the Education Omnibus Act, enacted most of the education financing provisions for the FY 2014-2015. Chapter 143, the Omnibus Tax Act, made a series of changes to the balance of aid and levies that are used to support education finance in Minnesota. These provisions in Chapter 143 also made changes to E-12 appropriations.

Table 1 - E-12 Education					
All Funds Biennial Spending by Agency & Fund					
(dollars in thousands)					
Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Department of Education					
General Fund	15,463,484	15,140,642	15,746,804	283,320	606,162
General Fund Transfers Out	(80)	(56)	(56)	24	-
Special Revenue Fund	26,464	20,894	20,924	(5,540)	30
Gift Fund	94	86	86	(8)	-
Federal Fund	1,583,496	1,571,529	1,572,579	(10,917)	1,050
Endowment and Permanent School Fund	49,763	51,004	51,004	1,241	-
Env. & Natural Resources Trust Fund	269	-	-	(269)	-
Arts & Cultural Heritage Fund	6,000	-	6,000	-	6,000
Total Department of Education:	17,129,490	16,784,099	17,397,341	267,851	613,242
State Academies					
General Fund	23,193	23,182	23,413	220	231
Special Revenue Fund	5,864	6,686	6,686	822	-
Gift Fund	98	92	92	(6)	-
Federal Fund	591	656	656	65	-
Total for State Academies:	29,746	30,616	30,847	1,101	231
Perpich Center for Arts Education					
General Fund	13,461	13,456	13,546	85	90

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Special Revenue Fund	1,709	1,460	1,460	(249)	-
Arts & Cultural Heritage Fund	1,700	-	1,545	(155)	1,545
Total Perpich Center for Arts Education:	16,870	14,916	16,551	(319)	1,635
Totals by Fund					
General Fund	15,500,138	15,177,280	15,783,763	283,625	606,483
General Fund Transfers Out	(80)	(56)	(56)	24	-
Special Revenue Fund	34,037	29,040	29,070	(4,967)	30
Gift Fund	192	178	178	(14)	-
Federal Fund	1,584,087	1,572,185	1,573,235	(10,853)	1,050
Endowment and Permanent School Fund	49,763	51,004	51,004	1,241	-
Env. & Natural Resources Trust Fund	269	-	-	(269)	-
Arts & Cultural Heritage Fund	7,700	-	7,545	(155)	7,545
Total for Budget Area	17,176,106	16,829,631	17,444,739	268,632	615,108

Significant changes were made to education finance laws in the 2013 Session, which included \$605.5 million in increased General Fund appropriations for FY 2014-2015. The major elements enacted in Chapter 116 include:

- simplifications to the pupil accounting system;
- a 1.5 percent increase in the basic formula allowance during each year of the biennium;
- the establishment of free all-day kindergarten;
- \$40 million in new spending on special education;

- \$40 million in new spending on early childhood scholarships; and
- a mechanism for accelerating the payback of the education shift.

Chapter 143 establishes the Location Equity Revenue program, enhances equalization in the operating referendum program, and extends to school boards the option of enacting a portion of the operating referendum with only a school board vote.

Table 2 - E-12 Education
General Fund Changes Compared to Forecast
(dollars in thousands)

Change Item	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Department of Education						
Basic Formula Allowance Increase (\$78/\$80)	73,104	165,116	238,220	178,679	180,431	359,110
Optional All-Day Kindergarten	-	133,875	133,875	151,754	149,396	301,150
Board Approved Referendum & Equalization	34,750	54,891	89,641	70,952	78,242	149,194
Location Equity Program	10,692	20,356	31,048	21,961	20,180	42,141
Funding for Grade Acceleration	(1,238)	(1,238)	(2,476)	(1,238)	(1,238)	(2,476)
Eliminate Early Graduation Scholarships	(150)	(265)	(415)	(402)	(605)	(1,007)
Clarification of Kindergarten Early Entrance Requirements	(1,331)	(1,540)	(2,871)	(1,540)	(1,540)	(3,080)
Shared Time Impact of Formula Adjustment	59	59	118	119	120	239
Small Schools Formula Modification	-	500	500	500	500	1,000
Compulsory Attendance	-	77	77	98	100	198
Nonpublic Pupil Aid	199	444	643	489	504	993
Nonpublic Pupil Transportation	235	520	755	566	599	1,165
Compensatory Pilot Grants	5,000	5,000	10,000	-	-	-
Tribal Contract Schools	27	61	88	69	71	140
Correction Adjustment to General Ed Student Assessments	(90)	-	(90)	-	-	-
Get Ready Get Credit Educ. Planning Assessment	-	(829)	(829)	(829)	(829)	(1,658)
Teacher Development & Eval. Pilot Grants	683	-	683	-	-	-
Collaborative Urban Educator	254	254	508	254	254	508
Minnesota Math Corps	250	250	500	250	250	500
Career & Technical Aid	4,320	5,680	10,000	5,787	5,787	11,574
School Climate Center	500	500	1,000	500	500	1,000
Innovation Grants	200	-	200	-	-	-
Education & Employment Solution	600	-	600	-	-	-
Civics Education Grants	125	125	250	125	125	250
STARBASE MN	500	500	1,000	500	500	1,000
Regional Centers for Excellence	1,000	1,000	2,000	1,000	1,000	2,000
Special Education Regular	87,572	149,193	236,765	163,190	169,069	332,259
Special Education Excess Cost	(76,609)	(121,919)	(198,528)	(125,042)	(128,051)	(253,093)
Special Education Paperwork Reduction	1,763	-	1,763	-	-	-
Debt Service Equalization Aid	-	14	14	102	137	239
Deferred Maintenance Aid	-	(1)	(1)	(38)	(59)	(97)
School Lunch and Food Storage Program	521	532	1,053	542	553	1,095
Early Childhood Scholarships	20,000	20,000	40,000	20,000	20,000	40,000
Parent-Child Home Program	250	250	500	250	250	500
Adult Basic Education Aid	-	201	201	449	696	1,145
MDE Base Adjustment	200	200	400	200	200	400

Change Item	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Teacher Development & Eval. Pilot Grants (Admin)	750	-	750	-	-	-
Financial Data Analysis	250	250	500	250	250	500
Taconite Tax Changes	737	327	1,064	70	-	70
Department of Education Total	165,928	440,234	606,162	493,282	500,795	994,077
Faribault Academies						
Base Adjustment	73	73	146	73	73	146
Kitchen Upgrades	85	-	85	-	-	-
Faribault Academies Total	158	73	231	73	73	146
Perpich Center for Arts Education						
Base Adjustment	45	45	90	45	45	90
Perpich Center for Arts Education Total	45	45	90	45	45	90
Total General Fund Spending Changes	166,131	440,352	606,483	493,400	500,913	994,313

Pupil Accounting Simplification

Chapter 116 simplified the calculation of weighted pupil counts. These counts are fundamental to the calculation of school district and charter school revenues. Under current law, pupils in each grade are counted, multiplied by a weight that varies by grade level, adjusted in districts with declining enrollment, and summed to a total value called “adjusted marginal cost pupil units.”

Beginning in FY 2015, Chapter 116 eliminated the “marginal cost” step in calculating pupil counts. This step was replaced with a new general education formula called “declining enrollment revenue” that will serve the same purpose of mitigating revenue losses in schools with declining enrollment. Chapter 116 also

simplified the pupil weighting by grade level. (Table 3 summarizes these changes.) Under the new pupil weights, primary students are weighted at 1.0. The previous weighting system had no single grade level weighted at 1.0, a complexity that made the overall education finance system more difficult to understand.

Because these pupil accounting changes were intended to be revenue neutral, other per-pupil revenue allowances and formulas were altered in Chapter 116, including the basic formula allowance. When applicable, these changes are discussed in greater detail.

Table 3 Pupil Weights by Student Category		
	FY 2014	FY 2015 and later
Half-day Kindergarten	0.612	0.55
Full-day Kindergarten	0.612	1.0
Grades 1-3	1.115	1.0
Grades 4-6	1.06	1.0
Grades 7-12	1.3	1.2
Postsecondary enrollment options	1.3	1.2

pupil as for a first grade pupil, regardless of whether that kindergarten pupil attends an all-day, every-day program. Beginning in FY 2015, the pupil weight for all-day kindergarten will increase to a level equal to first grade (see Table 3). This modification will nearly double the amount of potential revenue available for kindergarten pupils.

Basic Revenue

Basic revenue equals the formula allowance multiplied by adjusted pupil units. This formula comprises 66 percent of education spending from the General Fund. Chapter 116 increased the basic formula allowance in two increments equal to 1.5 percent each year in FY 2014-2015.

The formula allowance is \$5,302 for FY 2014 and \$5,806 for FY 2015. Note that the significant net increase between FY 2014 and FY 2015 is largely due to technical changes in the pupil weighting discussed above. Of the \$504 increase in FY 2015, \$80 (1.5 percent) is new revenue and \$424 is an offset to keep pupil weighting changes revenue neutral.

Increases to the basic formula allowance also produced revenue increases in three programs linked to the basic formula allowance: nonpublic pupil education aid, nonpublic pupil transportation, and Tribal contract schools. These formulas were increased in total by \$1.5 million for the FY 2014-2015 biennium.

Optional All-Day Kindergarten

Chapter 116 appropriated \$170 million in new funding for all-day kindergarten beginning in FY 2015. Under current law, districts receive approximately half as much general education revenue for a kindergarten

The passage of all-day kindergarten is expected to create substantial growth in all-day kindergarten programs. The Department of Education estimates that participation in all-day kindergarten will increase to 92 percent in FY 2015, 95 percent in FY 2016, and 97 percent in FY 2017. An all-day kindergarten program must provide at least 850 hours of instruction during the school year.

Accelerated Shift Payback

Minnesota Statutes, section 16A.152, subdivision 2, includes a system to pay back the cash flow account, the budget reserve, the school shifts, and the State Airports Fund once a positive unrestricted balance is forecasted for the General Fund. Under this statute, any forecasted positive unrestricted balance is immediately allocated in priority order to each of these four purposes. At present, the cash flow and budget reserves have been fully restored to statutory levels based on this statute. The school aid payment shift is not yet fully restored and currently stands at an 86.4 percent/13.6 percent split. Likewise, the property tax recognition shift has not yet been restored. (See State Budget Overview and Highlights chapter for a discussion of the reserve and shift buybacks over the past biennium.)

In 2013, the Legislature anticipated that there would be a surplus at the close of the

FY 2012-2013 biennium and Chapter 116 included language that would allocate any positive balance at the conclusion of that biennium to buy back the school shifts based on the balance available at the close of the biennium. This is a onetime mechanism that reallocates funds that would otherwise carry forward from FY 2013 into FY 2014. If triggered by a positive balance in FY 2012-2013, this payback will occur before September 30, 2013, two months before the November 2013 forecast. This provision does not currently affect the FY 2014-2015 biennium and no funds are booked as an appropriation to E-12 Education based on end-of-session estimates. However, if triggered, these funds will be budgeted as increased spending in FY 2014 in the E-12 Education accounts and would first be booked in the November 2014 forecast. As of the date of this report, the Department of Education estimates the total balance of remaining shifts to be \$873.6 million for the FY 2014-2015 biennium.

Operating Referendum Revenue

Concurrent with the pupil accounting changes beginning in fiscal year 2015, Chapter 116 specifies that referendum revenue will be calculated on the basis of pupils served rather than resident pupils, and the alternative attendance adjustment will be eliminated. These changes are revenue neutral for districts and charter schools.

Chapter 143, the Omnibus Tax Bill, enacted a series of changes to the operating referendum beginning in FY 2015: increased operating referendum equalization, school board-approved referendum authority, and a new component of general education called Location Equity Revenue.

Operating Referendum Equalization and Board-Approved Authority

Chapter 143 created a new equalizing tier for the first \$300 per pupil of referendum revenue. Referendum equalization offsets the higher tax rates required to raise the same amount of levy in low property-wealth districts. In low-wealth districts, a greater proportion of referendum revenue is raised from state aid. In the highest wealth districts, referendum revenue is raised entirely through local property tax. On average, under the changes in Chapter 143, this first \$300 per pupil will consist of more state aid and less local property tax relative to current law.

Chapter 143 also granted school boards authority to raise referendum revenue without voter approval. Under this authority, a school board may convert up to \$300 per pupil of existing voter-approved referendum to a board-approved referendum in five year increments. For districts with less than \$300 per pupil of existing voter-approved authority, the board can authorize new referendum revenue up to the difference between \$300 per pupil and the district's existing referendum authority.

Location Equity Revenue

Chapter 143 created a new component of the state's general education program called Location Equity Revenue (LER). LER is available to metro-area school districts and certain large districts in greater Minnesota. School districts that overlap any portion of the seven-county metro area are eligible for \$424 per pupil of location equity revenue. A school district that is not eligible for LER as a metro district, but which has 2,000 or more pupils units in the second-prior year, is eligible for \$212 per pupil in location equity revenue. A district eligible for location equity revenue will automatically receive the revenue unless it elects not to participate.

The Location Equity Revenue allowance is subtracted from the total amount of voter-approved referendum allowances. For eligible districts with referendum revenue more than \$700 per pupil, the LER may provide more state aid and lower property tax burdens (depending on the particular characteristics of the district). For districts at or near the referendum revenue limit, the location equity revenue subtraction will create room underneath the limit that a district's voters may elect to backfill with new referendum authority.

Together, the board-approved referendum authority and LER result in maximum board-approved allowances of \$724 for metro districts and \$512 for nonmetro districts eligible for LER.

Special Education

Chapter 116 increased special education funding by \$40 million in FY 2014-2015 and made significant changes to special education funding formulas. Chapter 116 expanded reimbursement of nonfederal special education expenses and created a tiered reimbursement scale based on primary disability area.

Additionally, Chapter 116 enacts a cost control mechanism that requires serving districts to pay ten percent of unfunded special education costs. Under the previous law, the resident district is responsible for 100 percent of unfunded costs.

Early Learning Scholarships

Appropriations for Early Learning Scholarships were increased by \$40 million, from \$3 million each year in FY 2012-2013 to \$23 million each year in FY 2014-2015. The program provides prekindergarten students from low-income families with scholarships that can be used to enroll in high-quality early childhood programs. High-quality

programs are those that have received a Parent Aware Star Rating of three or four. The scholarship awards are capped at \$5,000 per recipient per year. The Department of Education estimates that the expansion of funding for this program will enable the department to serve an additional 3,500 students.

Student Assessments

Chapter 116 requires the state to transition to a diversified group of assessments that, when fully implemented in the 2015-2016 school year, will provide comprehensive information to teachers, students, and families on a student's trajectory toward career and college readiness. Chapter 116 appropriates \$8 million in FY 2014-2015 for the transition and administration of the new assessment system. This is a \$6.7 million increase over the February 2013 forecast.

Achievement and Integration Revenue

The 2011 Legislature repealed the integration revenue program effective in FY 2014, but set aside \$58.9 million in FY 2014 and \$68.6 million in FY 2015 for a new program to reduce school segregation and close the achievement gap.

Chapter 116 implemented a new program, retitled achievement and integration revenue, that more evenly allocated revenue among demographically similar districts and placed a greater emphasis on student achievement. The law allows the Commissioner of Education to withhold revenue from districts that do not meet their goals for achievement and integration. Chapter 143 also restored the levy authority for eligible districts.

Career and Technical Revenue

Chapter 116 equalized the career and technical revenue program and added \$10 million in state aid to the program in FY

2014-2015. The program was formerly funded entirely through local levy. In FY 2014, the program is projected to generate \$19.7 million in revenue, \$4.3 million of which is state aid. In FY 2015, the program is projected to grow to \$24.2 million, \$5.7 million of which is state aid.

TRA/Pension Adjustment

Under current law, the state aid to districts is reduced in response to a 1997 change in the employer contribution rate for the Teachers Retirement Association (TRA). Chapter 116 eliminated this adjustment beginning in FY 2015 and modified the basic revenue allowance to neutralize the overall statewide impact. Districts with a below-average reduction are eligible for pension adjustment revenue to guarantee the state average gain from the elimination of the pension adjustment.

Compensatory Pilot Grants

Chapter 116 appropriated an additional \$10 million over the FY 2014-2015 biennium to the Compensatory Pilot Grants program, bringing the total appropriation to \$7.3 million for each year. The base budget for FY 2016 and later is \$2.3 million. This pilot program provides funding to several of the state's largest school districts, many of which have a significant number of low-income pupils but do not have high concentrations of low-income pupils at individual school sites. Concentrated, low-income pupils generate higher revenue for schools under current law in other formulas.

Regional Centers of Excellence

Chapter 116 establishes Regional Centers of Excellence and appropriates \$1.0 million in each year of the FY 2014-2015 biennium to support the centers. With the assistance of the Department of Education, regional centers assist and support school boards, school districts, school sites, and charter

schools in implementing research-based interventions and practices to increase student achievement within a region.

Teacher Development and Evaluation

Chapter 116 appropriated \$683,000 in FY 2014 for grants to school districts that elect to pilot the state teacher evaluation default model during the 2013-2014 school year. Of the Department of Education's total appropriation in FY 2014, \$750,000 is allocated for costs associated with teacher development and evaluation.

Alternative Compensation Roll Out

Beginning in FY 2015, the alternative compensation program is no longer included in the calculation of the general education revenue program. Instead, the alternative compensation program will be appropriated separately. The alternative compensation program is otherwise unchanged from the amount projected in the February 2013 forecast.

School Lunch

Chapter 116 increased the school lunch reimbursement rate from 12 cents to 12.5 cents per student lunch served for fiscal year 2015 and later. The reimbursement rate was last increased in 2008 from 10.5 cents to 12 cents. Chapter 116 increased the FY 2015 appropriation by \$1.0 million to pay for the formula change.

Adult Basic Education

Chapter 116 increased the growth factor for the Adult Basic Education (ABE) by one-half percent, from 1.02 to 1.025. This increased the ABE appropriation by \$200,000, effective in FY 2015 and later.

Small Schools Modification

Chapter 116 modified the small schools revenue formula, a component of the general education program, to include small high

schools in geographically isolated school districts. This change increased the general education appropriation by \$500,000 in FY 2015 and later.

Minnesota Math Corps

Chapter 116 established a Minnesota math corps program, similar to the Minnesota reading corps program and operated by the same organization. Chapter 116 appropriated \$250,000 each year in FY 2014-2015 for the new program.

Collaborative Urban Educator

Chapter 116 increased the appropriation for the collaborative urban educator program by \$254,000 each year of FY 2014-2015. The increase reflects the addition of Augsburg College to the program, as well as funding teacher training programs at Concordia University, Hamline University, and the University of St. Thomas. Each institution is now funded at \$195,000 per year. This represents an increase for St. Thomas and Hamline programs. Concordia's allocation was reduced by \$5,000 each year.

Parent Child Home Program

The parent-child home program received a onetime grant of \$250,000 in fiscal year 2013. Chapter 116 made this \$250,000 appropriation permanent and required the program to expand to one additional urban and one additional greater Minnesota location.

Kindergarten Early Entrance Policy Clarification

Chapter 116 clarified the requirements for early entrance to kindergarten, reducing the number of pupils projected to repeat kindergarten. This clarification reduced general education appropriations by \$2.8 million for FY 2014-2015.

Building Lease Aid

Chapter 116 required the Commissioner of Education to approve charter school building lease aid only if the lease has a sum certain annual cost and an escape clause the charter school may exercise if its charter contract is terminated or not renewed. These changes were estimated to reduce the FY 2014-2015 appropriation by \$2.26 million.

Starbase MN

Chapter 116 appropriated \$500,000 in FY 2014-2015 for a new grant program to Starbase MN. The appropriation supports a rigorous science, technology, engineering, and math program providing students in grades 4 to 6 with a multisensory learning experience and a hands-on curriculum in an aerospace environment.

Education and Employment Solution

Chapter 116 appropriated a onetime grant of \$600,000 in FY 2014 to the Minneapolis Urban League for education and employment solutions for young adults.

Civic Education Grants

Chapter 116 appropriated \$125,000 each year in FY 2014-2015 to the Minnesota Civic Education Coalition: Kids Voting St. Paul, Learning Law and Democracy Foundation, and YMCA Youth in Government, to provide civic education programs for Minnesota students.

Agency Budgets

The Department of Education (MDE), the State Academies for the Deaf and Blind, and the Perpich Center for the Arts each received base adjustments in FY 2014-2015. The Department of Education's agency appropriation was increased by \$1.9 million in FY 2014-2015. Of this amount, \$250,000 each year was allocated to enhance financial data analysis, \$750,000 in FY 2014 was allocated to support a teacher development

and evaluation pilot project, and \$200,000 each year was allocated to increase in the MDE base.

The State Academies appropriation for FY 2014-2015 was increased by \$231,000. Of this amount, \$146,000 was an increase to the

base and \$85,000 was for kitchen equipment upgrades.

The Perpich Center for Arts Education's appropriation for FY 2014-2015 was increased by a base adjustment of \$90,000.

HIGHER EDUCATION

Chapter 99, the 2013 Omnibus Higher Education Budget Act, appropriated \$2.8 billion to support Higher Education for the FY 2014-2015 biennium, a \$249.9 million (9.7 percent) increase from both the FY 2014-2015 forecasted base and the FY 2012-2013 spending level. The amount appropriated by the Legislature was reduced by \$1.5 million following the line-item veto of the appropriation for the Teach for America program, yielding a net increase of \$248.5 million over the February 2013 forecast. Funding for the University of Minnesota was increased by \$77.2 million (7.1 percent), and funding for the Minnesota

State Colleges and Universities (MnSCU) was increased by \$102.3 million (9.4 percent), from the forecasted base.

Funding for the Office of Higher Education was increased by \$68.9 million, an increase of 18.1 percent from the February 2013 forecast. The appropriation for the Mayo Medical Foundation was made at the forecasted levels. Changes from FY 2012-2013 spending and the 2014-2015 forecasted base are summarized in Tables 1 and 2, which also include appropriations made to the University of Minnesota and MnSCU in other acts.

As a result of a new methodology for reporting the consolidated financial statement (CFS), there is a significant effect on how higher education appropriations are reported in this report. The 2013 End-of-Session CFS now reports spending for the General Fund rather than appropriations as was done in previous years. A spending report for Higher Education will understate General Fund appropriations for MnSCU because all General Fund appropriations to MnSCU are immediately transferred to the State College and University Fund from which the spending occurs. Also, the appropriation made to the University of Minnesota from the Health Care Access Fund (HCAF) is transferred to the Departments of Human Services and Health before being transferred back to the University of Minnesota as General Fund money. A spending-based report does not show legislative action to actually appropriate from the Health Care Access Fund.

The Fiscal Review is a report of legislative action in the form of appropriations. In both cases, the appropriations are reflected in the tables and a transfer is displayed. However, because the State College and University Fund is not a state fund that is displayed in the CFS, this particular transfer of General Fund dollars has the effect of substantially reducing the funds attributable to MnSCU when the tables on the next page are reconciled to the CFS. It is worth noting that the MnSCU all-funds appropriation is higher by the amount of the transfer, even though these funds are not reported in the total in Table 1. A similar reporting confusion exists with the HCAF funds, which are transferred out and depress the overall level reported in the table to reconcile to the CFS.

Table 1 - Higher Education
All Funds Biennial Spending by Agency & Fund
(dollars in thousands)

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Office of Higher Education					
General Fund	384,252	381,142	450,103	65,851	68,961
Transfer	(30)	-	-	30	-
Reconciliation with CFS	-	3,044	3,044	3,044	-
Federal Fund	10,696	11,092	11,092	396	-
Special Revenue Fund	1,246	1,369	1,369	123	-
Total for Office of Higher Education	396,164	396,647	465,608	69,444	68,961
Minnesota State Colleges and Universities (MnSCU)					
General Fund	1,091,188	1,090,730	1,193,058	101,870	102,328
Transfer to State Colleges and Universities Fund	(1,091,188)	(1,090,730)	(1,193,058)	(101,870)	(102,328)
Environment and Natural Resources Fund	120	-	-	(120)	-
Total for Minnesota State Colleges and Universities	120	-	-	(120)	--
University of Minnesota					
General Fund	1,090,688	1,090,688	1,167,898	77,210	77,210
Clean Water Fund	1,800	-	1,230	(570)	1,230
Environment and Natural Resources Fund	6,127	-	15,917	9,790	15,917
Federal Fund	15	-	-	(15)	-
Health Care Access Fund	4,314	4,314	4,314	-	-
Transfer Out	(4,314)	(4,314)	(4,314)	-	-
Outdoor Heritage Fund	-	-	1,000	1,000	1,000
Parks and Trails Fund	-	-	250	250	250
Special Revenue Fund	44,716	44,720	44,720	4	-
Total for University of Minnesota	1,143,346	1,135,408	1,231,015	87,669	95,607
Mayo Medical Foundation					
General Fund	2,702	2,702	2,702	-	-
Total Mayo Medical Foundation	2,702	2,702	2,702	-	-
Totals by Fund					
General Fund	2,568,830	2,565,262	2,813,761	244,931	248,499
Transfer (Including Reconciliation)	(1,091,218)	(1,087,686)	(1,190,014)	(98,796)	(102,328)
Clean Water Fund	1,800	-	1,230	(570)	1,230
Environment and Natural Resources Fund	6,247	-	15,917	9,670	15,917
Federal Fund	10,711	11,092	11,092	381	-
Health Care Access Fund	4,314	4,314	4,314	-	-
Transfer Out	(4,314)	(4,314)	(4,314)	-	-
Outdoor Heritage Fund	-	-	1,000	1,000	1,000
Parks and Trail Fund	-	-	250	250	250
Special Revenue Fund	45,962	46,089	46,089	127	--
Total for Higher Education	1,542,332	1,534,757	1,699,325	156,993	164,568

NOTE 1: MnSCU's General Fund appropriation is treated as a transfer because the money is transferred to the State Colleges and Universities Fund from which payments to MnSCU are made. This has the effect of reducing the legislatively appropriated total for higher education on the total line by the amount of the transfer.

NOTE 2: The University of Minnesota's Health Care Access Fund appropriation is treated as a transfer because the money is transferred to the General Fund where payments are made. This has the effect of reducing the legislatively appropriated total for higher education on the total line by the amount of the transfer.

Table 2 -- Higher Education
General Fund Changes Compared to Forecast
(dollars in thousands)

Change Item	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Office of Higher Education						
State Grant Program	24,516	22,156	46,672	25,406	25,406	50,812
FAFSA Development	100	-	100	-	-	-
Other Financial Aid Programs						
American Indian Scholarship	1,250	1,250	2,500	1,250	1,250	2,500
HCMC Family Medicine Program	645	645	1,290	645	645	1,290
Interstate Tuition Reciprocity	7,767	7,768	15,535	7,768	7,768	15,536
SLEDS	882	882	1,764	882	882	1,764
Summer Bridge Program	100	100	200	100	100	200
Tribal College Grants	150	150	300	150	150	300
Student Academic Support Programs						
MNLink Gateway/ MINITEX Library Services	300	300	600	300	300	600
Teach for America ¹	-	-	-	-	-	-
Office of Higher Education Total	35,710	33,251	68,961	36,501	36,501	73,002
Minnesota State Colleges and Universities (MnSCU)						
Operations and Maintenance	42,550	59,778	102,328	59,778	59,778	119,556
MnSCU Total	42,550	59,778	102,328	59,778	59,778	119,556
University of Minnesota						
Operations and Maintenance	31,330	45,630	76,960	45,630	45,630	91,260
System Special	125	125	250	125	125	250
University of Minnesota Total	31,455	45,755	77,210	45,755	45,755	91,510
Net Changes	109,715	138,784	248,499	142,034	142,034	284,068

¹ Chapter 99 appropriated \$1.5 million for the FY 2014-2015 biennium and FY 2016-2017 biennium for the Teach for America Program, but it was line-item vetoed by the Governor.

OFFICE OF HIGHER EDUCATION

The General Fund appropriation for the Office of Higher Education was \$450.1 million after accounting for the line-item veto of the appropriation for Teach for America. This includes a substantial increase in funding for the state grant program, which provides need-based financial aid to Minnesota resident

undergraduate students. Additional money was appropriated for tuition reciprocity, American Indian Scholarships, and MnLINK/ Minitex library services. The increased appropriation for tuition reciprocity was used to fulfill Minnesota's obligation to North Dakota to pay for the cost of educating Minnesota students who

attend public colleges and universities in North Dakota. The increased funding for the American Indian Scholarship program was used to reduce the waiting list, and the additional money for MnLINK/Minitex restored the reduction to the program made in the previous biennium.

Funding for a statewide longitudinal data system (SLEDS) and tribal college grants also was included. SLEDS will provide state agencies and educational institutions access to longitudinal data regarding the performance and progression of students through the educational system and into employment. Development of this system was required by the federal government as a condition of receiving stabilization funds in FY 2009.

State Grant Program

The state grant program base was \$355.9 million, an increase of \$46.7 million (15 percent) above the February 2013 forecast. For FY 2014-2015, the tuition and fee maximum for students in four year programs was increased from \$10,488 to \$13,000. The tuition and fee maximum for students enrolled in two year programs remained at the current law level of \$5,808. The living and expense allowance (LME) was increased from \$7,000 to \$7,900. The tuition and fee maximum and LME are used in the formula that determines the state grant award a student is eligible to receive. Projections indicate that the increased level of funding will increase the number of recipients and the average award amount by \$194 across institutional sectors for the 2013-2014 academic year.

MINNESOTA STATE COLLEGES AND UNIVERSITIES (MnSCU)

Chapter 99 appropriated \$1.2 billion from the General Fund to the Minnesota State

Colleges and Universities for the FY 2014-2015 biennium. The FY 2014-2015 appropriation is a \$102.3 million (9.4 percent) increase from the FY 2014-2015 forecasted base, and \$101.9 million (8.5 percent) increase from FY 2012-2013 spending. The appropriation was allocated as follows:

- \$550.7 million in FY 2014 and \$567.9 million in FY 2015 for operations and maintenance;
- \$33.1 million each year for the central office; and
- \$4.1 million each year for the Learning Network of Minnesota.

Chapter 99 established a process to hold back five percent of MnSCU's FY 2015 appropriation. This amount will be released when MnSCU meets at least three of five performance goals established for the system as an accountability measure. The performance goals include: (1) increasing the proportion of graduates, or degrees, diplomas, and certificates conferred; (2) increasing the proportion of graduates who obtain a job related to their degree program; (3) collecting data on the number of Open Educational Resources tools and services offered, and developing a plan to attain a one percent reduction in the cost of instruction; (4) increasing student persistence and completion rates; and (5) reallocating \$22 million in realignment savings.

Chapter 99 also includes a provision to ensure that the tuition rate for all resident undergraduate degree programs during the 2013-2014 and 2014-2015 academic years does not exceed the 2012-2013 academic year rate. \$25.5 million was appropriated to

offset tuition increases at MnSCU colleges and universities. Two additional initiatives were \$7.3 million for a leveraged equipment program, and \$17.0 million to retain faculty and staff.

To ensure greater accountability in Chapter 99, the enacted budget also increased the expenditure and performance reporting requirements for MnSCU. In response to the concern about the use of system revenue for the payment of bonuses to administrators rather than to reduce tuition increases to students, Chapter 99 included language that prohibits the inclusion of any discretionary or other performance-based incentive payment in MnSCU contracts or employment plans.

UNIVERSITY OF MINNESOTA

Chapter 99 appropriated \$1.2 billion from the General Fund and the Health Care Access Fund to the University of Minnesota for the FY 2014-2015 biennium. The FY 2014-2015 appropriation is a \$77.2 million (7.1 percent) increase from both the FY 2014-2015 forecasted base, and FY 2012-2013 spending. This appropriation was allocated as follows:

- \$515.2 million in FY 2014 and \$529.5 million in FY 2015 for operations and maintenance; this appropriation includes \$14.2 million in FY 2014 and \$28.4 million in FY 2015 for tuition relief and \$17.8 million in FY 2014 and \$17.9 million in FY 2015 for the MnDRIVE research program;
- \$2.2 million each year for primary care education initiatives from the Health Care Access Fund;
- \$42.9 million each year for agriculture and extension services;

- \$4.9 million each year for health sciences;
- \$1.1 million each year for the institute of technology;
- \$5.2 million each year for system specials; and
- \$7.5 million each year for the University of Minnesota/Mayo Partnership.

Chapter 99 also established a process to hold back five percent of the University of Minnesota's FY 2015 appropriation. This amount will be released when the University has met three of five performance goals established for the system. The goals include: (1) increasing the number of science, technology, engineering, and mathematics graduates; (2) increasing the four-year, five-year, and six-year graduation rate at the coordinate campuses; (3) increasing the four-year, five-year, and six-year undergraduate graduation rate on the Twin Cities campus; (4) decreasing administrative expenditures; and (5) increasing invention disclosures.

To ensure greater accountability of expenditures of the money appropriated in Chapter 99, the enacted budget also increased the expenditure and performance reporting requirements for the University. In response to the concern about the use of system revenue for the payment of bonuses to administrative personnel rather than to reduce tuition charges to students, Chapter 99 prohibits the use of state revenue for any discretionary or other performance-based incentive payment in contracts or employment plans with the president, vice presidents, chancellors, provosts, vice provosts, deans, or directors of individual programs.

The tobacco excise tax increase enacted in Chapter 143 generates an additional \$44.6 million to the University of Minnesota based on current law. The money is dedicated to training of health care professionals and research.

MAYO MEDICAL FOUNDATION

Chapter 99 appropriated \$2.7 million from the General Fund to the Mayo Medical Foundation to support training for medical students who are residents of Minnesota, and for family practice resident physicians. Funding for Mayo was at the FY 2014-2015 forecasted base.

ADDITIONAL PROVISIONS

Additional noteworthy higher education provisions in Chapter 99 included:

- Enactment of the Prosperity Act, which authorizes in-state tuition status and eligibility to receive state financial aid for students who do not have legal immigration status, but meet statutorily specified eligibility criteria.
- The inclusion of language that will facilitate the access students have to “massive open online courses,” often referred to as MOOCs.
- A pilot program that will increase the state grant award for part-time students attending MnSCU institutions.

HEALTH AND HUMAN SERVICES

Introduction

The 2013 Legislature had to make several decisions regarding implementation of the federal Affordable Care Act (ACA). These are choices that all states in the country must address. In addition, following the U.S. Supreme Court decision regarding the constitutionality of the ACA, the federal government issued a number of regulations that required the Legislature to address additional choices in the Medical Assistance (MA) program. Together, these decisions, along with those related to the base budget and new initiatives, made 2013 an important session for the Health and Human Services (HHS) budget jurisdiction.

First, the ACA required states to implement a health insurance exchange or to use one that is being developed by the federal government. The Governor, under executive authority, had begun implementing a state exchange. The Legislature provided statutory authority in Chapter 9 to implement a state exchange, which is described later in this section, to meet the federal requirement.

Next, the state needed to address MA eligibility. Although Minnesota was an early MA expansion state under the ACA, in 2011 the state expanded eligibility to adults without children with income up to 75 percent of the federal poverty guideline. Initially, the U.S. Supreme Court ruled that the federal government could not compel states to expand MA eligibility. The federal

government subsequently decided that states that choose to do so would be required to expand eligibility to the income eligibility level in the ACA, which was 133 percent of the federal poverty guideline. This eligibility expansion was enacted in Chapter 1.

Finally, the ACA included a number of compliance requirements that changed various provisions of the Medicaid program to simplify program administration and promote eligibility and enrollment. Chapter 108 included these provisions and, in addition, included a maintenance of effort provision that continued MA eligibility for populations that have in the past been covered under the MinnesotaCare program. This change was necessary to comply with a provision in the ACA that prevented states from eliminating medical coverage for populations that already had coverage at the time the ACA was enacted.

Chapter 108, the Omnibus Health and Human Services Appropriations Act, enacted the majority of HHS appropriations for the FY 2014-2015 biennium. This law included base funding and many new proposals for all areas of the HHS budget, along with the decisions relating to implementation of the ACA.

Summary

As shown in Table 1, the February 2013 forecast projected an all-funds biennial budget of \$28.1 billion for the HHS budget jurisdiction in the FY 2014-2015 biennium. The projected budget in the General Fund was \$11.4 billion.

In the 2013 Session, four laws were enacted that increased FY 2014-2015 all-funds appropriations by \$1.6 billion compared to the February 2013 forecast. Chapter 1 expanded MA eligibility; Chapter 9 created a state agency to operate the state's new health insurance exchange; Chapter 108, the Health and Human Services Omnibus Appropriations Act; and Chapter 51, a nurse staffing study. These laws increased General

Fund appropriations for FY 2014-2015 by \$77.8 million. Chapter 108 also included a \$126.3 million increase in revenue, resulting in a net all-funds increase of \$1.5 billion. With revenue changes, the total enacted change to the General Fund was a reduction of \$48.5 million.

Table 1 - Health and Human Services All-funds Biennial Spending by Agency & Fund <i>(dollars in thousands)</i>					
Agency	FY 2012-13 Spending*	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Department of Human Services					
General Fund	10,499,503	11,203,364	11,275,647	776,144	72,283
General Fund Transfers Out- CD Fund	(169,419)	(167,898)	(167,898)	1,521	-
General Fund Transfers Out- Other	(152,220)	(100,882)	(122,590)	29,630	(21,708)
State Government Special Revenue Fund	7,130	7,130	8,609	1,479	1,479
Special Revenue Fund	953,846	843,811	853,107	(100,739)	9,296
Health Care Access Fund	616,568	835,103	1,081,217	464,649	246,114
Gift Fund	156	90	90	(66)	-
Federal Fund	11,813,307	14,006,115	15,178,289	3,364,982	1,172,174
Federal TANF Fund	<u>366,870</u>	<u>362,151</u>	<u>362,151</u>	<u>(4,719)</u>	<u>-</u>
Total Department of Human Services	23,935,741	26,988,984	28,468,622	4,532,881	1,479,638
Department of Health					
General Fund	144,371	148,721	153,934	9,563	5,213
General Fund Transfers Out MERC	(234)	(20)	(20)	214	-
State Government Special Revenue Fund	108,721	132,066	159,682	50,961	27,616
Special Revenue Fund	83,946	91,338	98,061	14,115	6,723
Special Revenue Fund	144,373	149,021	149,621	5,248	600
Environment and Natural Resources Fund	261	-	-	(261)	-
Clean Water Fund	6,038	-	9,270	3,232	9,270
Health Care Access Fund	41,450	21,886	56,886	15,436	35,000
Gift Fund	267	313	313	46	-
Environmental Fund	114	114	114	-	-

Agency	FY 2012-13 Spending*	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Remediation Fund	504	504	504	-	-
Federal Fund	472,872	465,417	474,231	1,359	8,814
Federal TANF Fund	23,426	23,426	23,426	-	-
Total Department of Health	1,026,109	1,032,786	1,126,022	99,913	93,236
Health-Related Boards					
General Fund	10	20	-	(10)	(20)
State Government Special Revenue Fund	33,662	34,142	39,222	5,560	5,080
Special Revenue Fund	503	493	2,201	1,698	1,708
Federal Fund	372	267	267	(105)	-
Total Health-Related Boards	34,547	34,922	41,699	7,152	-
Disability Council					
General Fund	1,049	1,048	1,228	179	180
Special Revenue Fund	11	9	9	(2)	-
Gift Fund	-	25	25	25	-
Federal Fund	132	-	-	(132)	-
Total Disability Council	1,192	1,082	1,262	70	-
MH/DD Ombudsman					
General Fund	3,359	3,308	3,308	(51)	-
Total MH/DD Ombudsman	3,359	3,308	3,308	(51)	-
Ombudsperson for Families					
General Fund	530	530	667	137	137
Special Revenue Fund	212	241	241	29	-
Total Ombudsperson for Families	742	771	908	166	-
MNsure					
Special Revenue Fund	48,452	-	-	(48,452)	-
Federal Fund	81,413	69,938	69,938	(11,475)	-
Total MNsure	129,865	69,938	69,938	(59,927)	-
Emergency Medical Services Regulatory Board					
General Fund	5,637	5,482	5,482	(155)	-
Special Revenue Fund	4,199	3,842	3,842	(357)	-
Gift Fund	15	2	2	(13)	-
Federal Fund	410	464	464	54	-
Total EMSRB	10,261	9,790	9,790	(471)	-
Totals by Fund					
General Fund	10,654,459	11,362,473	11,440,266	785,807	77,793
General Fund Transfers Out	(321,873)	(268,800)	(290,508)	31,365	(21,708)

Agency	FY 2012-13 Spending*	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
MERC	108,721	132,066	159,682	50,961	27,616
State Government Special Revenue Fund	124,738	132,610	145,892	21,154	13,282
Special Revenue Fund Environment and Natural Resources Fund	1,151,596	997,417	1,009,021	(142,575)	11,604
Clean Water Fund	261	-	-	(261)	-
Health Care Access Fund	6,038	-	9,270	3,232	9,270
Gift Fund	658,018	856,989	1,138,103	480,085	281,114
Environmental Fund	438	430	430	(8)	-
Remediation Fund	114	114	114	-	-
Federal Fund	504	504	504	-	-
Federal TANF Fund	12,368,506	14,542,201	15,723,189	3,354,683	1,180,988
	390,296	385,577	385,577	(4,719)	-
Total All-funds Health & Human Services	25,141,816	28,141,581	29,721,540	4,579,724	1,579,959

* As adjusted by FY 2013 changes made by the 2013 Legislature.

General Fund Change Summary

Table 2 is a summary of changes in General Fund appropriations by agency (See Appendix C for detail of changes). For the

Department of Human Services, the enacted budget increased General Fund appropriations for the FY 2014-2015 biennium by \$72.3 million. Reduced

	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Spending Changes						
Department of Human Services						
Health Care	(103,562)	46,426	(57,136)	(85,930)	(63,180)	(149,110)
Continuing Care	24,333	24,984	49,317	36,299	30,895	67,194
Children and Families	8,559	30,146	38,705	38,362	37,337	75,699
Chemical and Mental Health	5,282	10,717	15,999	9,978	11,567	21,545
Central Office Operations	15,155	10,242	25,397	13,114	8,955	22,069
Department of Human Services Total	(50,233)	122,515	72,282	11,823	25,574	37,397
Department of Health	2,771	2,442	5,213	2,492	2,542	5,034
Council on Disability	90	90	180	90	90	180
Ombudsperson for Families	68	69	137	69	69	138
Nursing Home Administrators Board	(10)	(10)	(20)	(10)	(10)	(20)
Total General Fund Spending Changes	(47,314)	125,106	77,792	14,464	28,265	42,729

appropriations of \$57.1 million in health care programs were offset by increases in other areas, including \$49.3 million in Continuing Care programs, \$38.7 million in Children and Families programs, about \$16.0 million in Chemical and Mental Health programs, and Central Office Operations changes of \$25.4 million.

Appropriations for FY 2014-2015 for other agencies in the HHS jurisdiction were also increased, with an additional \$5.2 million from the General Fund for the Department of Health and \$297,000 among the smaller agencies. In total, the General Fund spending is projected to increase by \$77.8 million above the February 2013 forecast.

Revenue Changes by Agency	Fund	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Department of Human Services							
HMO Surcharge Reform	General	6,801	32,973	39,774	3,317	660	3,977
Realign Hospital Surcharge	General	-	36,611	36,611	2,197	1,940	4,137
ICF/DD Surcharge	General	4,525	4,446	8,971	4,367	4,288	8,655
6-Month NF Bed Layaway	General	(70)	(211)	(281)	(211)	(211)	(422)
Restore Planned Closure Rate Adjustment Authority	General	(397)	(1,194)	(1,591)	(1,790)	(2,187)	(3,977)
Eliminate TEFRA Fees Under 275% FPG	General	(877)	(1,286)	(2,163)	(1,196)	(1,196)	(2,392)
Match Supportive Service Expenditures	General	4,400	4,400	8,800	4,400	4,400	8,800
Reduction in CCDTF Carry forward	General	18,188	-	18,188	-	-	-
Increase County Share for Anoka RTC	General	946	946	1,892	946	946	1,892
Increase County Share for MSH	General	3,146	3,146	6,292	3,146	3,146	6,292
MSOP Program Growth--County Share	General	923	1,667	2,590	1,667	1,667	3,334
SIRS Fraud Recoveries	General	750	750	1,500	750	750	1,500
Revenue from DOC for Inmate Health Costs	General	646	2,022	2,668	2,123	2,456	4,579
Child Care Recoveries from Investigations	General	279	470	749	636	663	1,299
MA Provider Recoveries	General	<u>500</u>	<u>500</u>	<u>1,000</u>	<u>500</u>	<u>500</u>	<u>1,000</u>
Subtotal	General	39,760	85,240	125,000	20,852	17,822	38,674
DSH Claim for Legal Non-Citizens in Minnesota Care	HealthCare Access	1,600	600	2,200	-	-	-
Administrative FFP	Health Care Access	<u>631</u>	<u>982</u>	<u>1,613</u>	<u>1,033</u>	<u>1,081</u>	<u>2,114</u>
Subtotal	Health Care Access	2,231	1,582	3,813	1,033	1,081	2,114
HCBS 245D Provider Licensing	SGSR	<u>534</u>	<u>945</u>	<u>1,479</u>	<u>949</u>	<u>709</u>	<u>1,658</u>
Department of Human Services Total		42,525	87,767	130,292	22,834	19,612	42,446

Revenue Changes by Agency	Fund	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Department of Health							
Newborn Screening Fee	General	660	660	1,320	660	660	1,320
Health Care Facility Blueprint Review	SGSR	390	390	780	390	390	780
Home Care Licensing Reform	SGSR	81	1,544	1,625	2,366	2,370	4,736
Geothermal Heat Systems Regulatory Changes	SGSR	150	150	300	150	150	300
Newborn Screening Program Changes	SGSR	2,300	2,450	4,750	2,460	2,504	4,964
Cost Recovery for Lab Testing	SGSR	(140)	(140)	(280)	(140)	(140)	(280)
Environmental Lab Assessment Program Changes	SGSR	<u>(290)</u>	<u>(290)</u>	<u>(580)</u>	<u>(290)</u>	<u>(290)</u>	<u>(580)</u>
Subtotal	SGSR	2,491	4,104	6,595	4,936	4,984	9,920
Cost Recovery for Lab Testing	Special Revenue	<u>300</u>	<u>300</u>	<u>600</u>	<u>300</u>	<u>300</u>	<u>600</u>
Department of Health Total		3,451	5,064	8,515	5,896	5,944	11,840
Board of Marriage and Family Therapy							
Fee Reduction	SGSR	(20)	(20)	(40)	(20)	(20)	(40)
Total Revenue Changes by Fund							
General Fund		40,420	85,900	126,320	21,512	18,482	39,994
Health Care Access Fund		2,231	1,582	3,813	1,033	1,081	2,114
State Government Special Revenue (SGSR)		3,005	5,029	8,034	5,865	5,673	11,538
Special Revenue		300	300	600	300	300	600
Total Revenue Changes for HHS		45,956	92,811	138,767	28,710	25,536	54,246

Table 3 shows the detail of the \$138.8 million change in revenue for all-funds. Most of the new revenue in Chapter 108 was in the General Fund, which received \$126.3 million. Of this amount, \$125 million was for the Department of Human Services. More detail on the revenue changes is included in the agency discussions below.

DEPARTMENT OF HUMAN SERVICES

The Legislature increased all-funds appropriations for the Department of Human Services (DHS) by \$1.5 billion. For the

General Fund, Table 2 shows increased appropriations of \$72.3 million and Table 3 shows new revenue of \$125 million. The net General Fund effect is a decrease of \$54 million for DHS. The detailed changes for each of the DHS business areas are shown in Appendix C. Below is a description of some the higher profile changes in each business area.

Health Care

Health care appropriations in Chapter 108 for the FY 2014-2015 biennium came from the General Fund and the Health Care Access Fund. Table 2 shows that General

Fund appropriations for health care were reduced by \$57.1 million. Chapter 108 also included an appropriation of \$403.4 million for the MA program from the Health Care Access Fund. This was partly offset by other changes in programs funded by the Health Care Access Fund, resulting in a net change in appropriations of \$246.1 million (see Table 1). Table 3 displays \$81.6 million of new General Fund revenue attributable to health care provisions in Chapter 108.

Chapter 1 was enacted before the release of the February 2013 forecast, and therefore is reflected in the base budget for HHS and not included as a change in appropriations enacted by the 2013 Legislature. All changes described in this chapter of the *Fiscal Review* relate to the amounts for FY 2014-2015 in the February 2013 forecast.

Chapter 1 expanded eligibility for MA to include adults without children, parents or caretaker relatives, and children ages 19 and 20 with income between 75 percent and 133 percent of the federal poverty guideline (in 2013, 133 percent is \$15,282 for one person). The asset test in current law was also removed for parents as required by the Affordable Care Act. Although it was reflected in the base spending projected in the February 2013 forecast, Chapter 1 reflected a projected increase of \$63.6 million in General Fund spending that was offset by a transfer of the same amount from the Health Care Access Fund.

Chapter 108 also included numerous changes to the MA program. Under maintenance of effort provisions of the federal Affordable Care Act, MA eligibility was expanded to include children and pregnant women with income under 275 percent of federal poverty guidelines. The maintenance of effort provision applied to Minnesota because this population was

eligible for the MinnesotaCare program when the ACA was passed; the ACA included a requirement that prevented states from eliminating medical coverage for any population that was covered on the day the law was enacted. The FY 2014-2015 net appropriation for this provision is \$28.0 million, which includes additional spending of \$131.8 million in the General Fund and reduced spending of \$103.7 million in the Health Care Access Fund. This change is projected to provide coverage to an additional 10,000 individuals by the end of FY 2015 and 13,000 people by the end of FY 2017.

The Affordable Care Act also included a number of required state compliance provisions that were enacted in Chapter 108. These changes included coverage of children who turn 18 while in foster care, until they reach age 26, allowing hospitals to presume MA eligibility during inpatient hospital stays, simplified application and renewal procedures, and additional provisions intended to improve administrative efficiency of the program and promote access to medical insurance. The General Fund appropriation for these provisions was \$138.3 million for the FY 2014-2015 biennium. These changes were projected to result in MA eligibility for 61,000 additional people by the end of FY 2015 and 67,000 by the end of FY 2017.

Chapter 108 included a rate increase for MA providers. The total amount was \$10.6 million in the FY 2014-2015 biennium. Under the new law, providers of basic care services received a three percent increase, and primary and nonprimary care providers and dentists received a five percent increase. Family planning providers received a 20 percent increase, partly to mitigate the effect of another provision in Chapter 108 relating to how 340B pharmacy providers were

reimbursed. The change in 340B pharmacy rates resulted in a substantial reduction in pharmacy reimbursement for these providers.

Medical Assistance General Fund appropriations for health care services provided by managed care organizations (MCOs) was reduced by \$20.1 million by limiting the administrative expenses that these organizations can include in the calculation of costs when determining the actuarial value of the plans and thus the rates that are paid for MA insurance plans. Currently, administrative costs are limited to five percent of premium revenue but there are no restrictions on what the MCOs can attribute to administrative costs. The provisions in Chapter 108 excluded from cost calculations charitable contributions, employee compensation that exceeds \$200,000 per year, and indirect marketing expenses, like event sponsorship.

Chapter 108 included major changes to the MinnesotaCare program, to adapt the program to a provision in the federal Affordable Care Act that allows states to operate a basic health plan for low-income individuals. Under the new law, individuals with income between 133 percent and 200 percent of the federal poverty guidelines will be eligible for the new MinnesotaCare program beginning January 1, 2014. The current law limit of \$10,000 on inpatient hospital benefits was removed and additional requirements of the Affordable Care Act that apply to MA were incorporated into MinnesotaCare. Under the ACA, Minnesota will receive matching funds from the federal government based on the value of tax credits, and receive additional help paying for premiums that eligible individuals would have received had they purchased insurance through the health insurance exchange that will be operating on

January 1, 2014. The premiums that individuals pay were reduced relative to the current MinnesotaCare program and are projected to be less than individuals would pay for equivalent coverage purchased through the health insurance exchange. The all-funds total for this reform for the FY 2014-2015 biennium is \$29 million, with a General Fund appropriation of \$84.7 million offset by reduced spending of \$55.8 million in the Health Care Access Fund.

A provision in Chapter 108 allowed for MA eligibility for inmates of state and local correctional facilities during the time they are an inpatient in a medical facility. That will provide significant savings in medical costs for the Department of Corrections and local jurisdictions. The Department of Corrections will reimburse the MA program for the nonfederal share of the cost of this provision through an agreement with DHS. This cost is estimated to be \$2.7 million in FY 2014-2015, although there is no net change to the state General Fund budget for DHS. The effect of this provision for the Department of Corrections and local correctional facilities is discussed in the Judiciary chapter.

Chapter 108 included provisions that changed the timing of payments to the state by managed care organizations and hospitals for existing surcharges. These changes resulted in additional revenue to the General Fund. The additional revenue from the change to managed care organization payments was \$39.8 million in FY 2014-2015 and the amount from the change to the hospital surcharge payments was \$36.6 million. (See Table 3.)

Continuing Care

The continuing care provisions enacted in Chapter 108 for FY 2014-2015 increased General Fund appropriations by \$49.3

million, as shown in Table 2. Additionally, continuing care provisions included \$7.1 million of new General Fund revenue. Finally, as shown in Table 4, Chapter 108 had contingent provisions that had no impact on General Fund appropriations and resulted in reduced estimated spending in FY 2016-2017.

Chapter 108 repealed a provision enacted in the 2011 Legislative Session and delayed in the 2012 Session that would have reduced rates by 1.67 percent for long-term care service providers. This was initially a onetime reduction and would have been effective for six months in FY 2014. The amount attributed to repealing this provision was \$12.9 million in the General Fund. Additionally, this same group of providers received a one percent increase in their rates totaling \$25.8 million in FY 2014-2015. The services included in the rate reduction repeal and increase are intermediate care facilities for persons with developmental disabilities (ICF/DDs), home and community-based services (HCBS) waiver providers, and other providers of services in homes and community settings, such as personal care assistance, private duty nursing, and day training and habilitation, among others.

Chapter 108 established statewide standards and rate-setting methodologies for HCBS waiver providers, as required by federal regulations. Previously, contracts between HCBS waiver providers and counties established both the rates and standards. The new standards address service recipients' rights, record keeping, medication administration and the use of psychotropic drugs, use of emergency manual restraint, and facility maintenance requirements, among others. There was a \$1.7 million General Fund appropriation for staff to create and implement training on the new standards and develop outcome

measurements. These providers will also operate under a new HCBS waiver provider license, which is described in the Central Office Operations section of this chapter.

Chapter 108 also included \$961,000 from the General Fund for staff positions to collect and analyze data, conduct policy analysis, and provide technical assistance and training to HCBS waiver providers specifically on psychotropic medication use and emergency use of manual restraints.

Chapter 108 included an increase in the surcharge for ICF/DDs that resulted in \$9 million in additional General Fund revenue in FY 2014-2015. ICF/DDs received a rate increase to offset the additional surcharge and the payments to these providers increased by \$9 million. The General Fund appropriations included \$4.3 million in FY 2014-2015 for additional payments to ICF/DDs. The balance of the \$9 million in payments came from the federal and local government shares of the total reimbursement for services. The overall impact to the state General Fund is a savings of \$4.7 million because the state's share of the rate increase is about half of the total additional payments.

There was a rate increase of up to five percent for nursing facilities included in Chapter 108, which accounted for a \$30.4 million increased General Fund appropriation for FY 2014-2015. Additionally, Chapter 108 included General Fund savings of \$17.3 million and \$2.3 million, respectively, for suspending automatic inflation adjustments for nursing facility operating rates and property rates.

Chapter 108 reinstated a process, repealed in the 2011 Session, to provide an incentive to nursing facilities to close beds by providing a rate increase for remaining beds, resulting

in a loss of \$1.6 million of General Fund revenue related to the nursing facility surcharge. A savings of \$1.9 million for the General Fund was attributed to the reduced number of beds in the system.

Other nursing facility provisions in Chapter 108 that resulted in savings to the General Fund included enhanced nursing facility audits (\$145,000), and allowing facilities to lay-away beds for a minimum of six months instead of one year (\$384,000).

Chapter 108 contained an \$8.2 million General Fund appropriation to assist patients who no longer need treatment at Anoka Regional Treatment Center and Minnesota Security Hospital to transition back into the community. The assistance provided includes basic and mental health care services and community supports, by exempting these patients from home and community-based services (HCBS) waiver enrollment limits.

Reform 2020 Provisions

Chapter 108 also contained several continuing care provisions that are intended to improve efficiency in providing services to the state's aging population and individuals with disabilities. Some of the Reform 2020 provisions were included as a separate article in Chapter 108, which can be implemented only if the federal government approves a waiver requested by the state of Minnesota. The waiver would permit increased flexibility in delivering a variety of continuing care services for individuals. Additionally, the waiver asks the federal government to provide MA funding for programs that are currently financed only by the state of Minnesota. This federal share of MA funding is referred to as federal financial participation (FFP). The programs for which FFP is requested are the Alternative Care program and the Essential

Community Supports program. If the waiver is approved and the Reform 2020 programs are implemented, these initiatives would provide savings for the federal government and the state of Minnesota.

As shown in Table 4, the contingent proposals would have no net cost for the General Fund in FY 2014-2015 and are projected to save up to \$36.2 million in FY 2016-2017. Chapter 108 requires the Commissioner of Human Services to provide the Commissioner of Management and Budget with a plan for implementing the contingent article if the federal waiver is approved. Chapter 108 specifies that none of the contingent provisions can be implemented unless, overall, there is no cost to the General Fund in FY 2014-2015 and FY 2016-2017. The implementation of the plan proposed by DHS cannot occur until approved by the Commissioner of Management and Budget.

Contingent Reform 2020 Provisions

Chapter 108 included a separate article with contingent Reform 2020 provisions, some of which could be implemented without federal approval of the waiver because flexibility in following federal regulations is not required. However, these provisions and the others that require a waiver of federal regulations rely on the savings attributable to the request for FFP to be implemented. Chapter 108 included a provision that seeks approval for FFP for two currently state-only funded programs: Alternative Care (AC) and Essential Community Supports (ECS). No change in AC is proposed, the request is only for FFP. The AC program provides support for individuals 65 years of age or older who need nursing facility level of care but are not eligible for MA, and prevents or delays these individuals from qualifying for MA, realizing savings to both state and federal governments. Before the enactment

Table 4 - Health and Human Services						
General Fund Contingent Reform 2020 Provisions						
<i>(dollars in thousands)</i>						
Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Department of Human Services						
Reform 2020 Proposals						
Enhance Vulnerable Adult Protection	4,019	4,499	8,518	4,498	4,482	8,980
Alternative Care and Essential Community Supports FFP	(10,450)	(11,142)	(21,592)	(12,178)	(15,006)	(27,184)
First Contact-Simplification, Access, and Transitions Support	2,536	(2,091)	445	(5,096)	(7,948)	(13,044)
HCBS Critical Access Study and Service Development	2,438	1,868	4,306	2,303	1,868	4,171
Work-Enpower and Encourage Independence	342	57	399	(234)	(309)	(543)
Housing Stability Services Demonstration	(458)	(3,216)	(3,674)	(3,799)	(4,821)	(8,620)
Modernization of DHS Technology Systems	2,682	8,916	11,598	-	-	-
Total General Fund Contingent Spending	1,109	(1,109)	-	(14,506)	(21,734)	(36,240)

of Chapter 108, ECS provided support to the same individuals as AC, except their needed level of care did not rise to the level of nursing facility care. In addition to seeking FFP for ECS, Chapter 108 expanded the eligible population by removing the age requirement. The FFP generated would result in reduced General Fund expenditures of \$21.6 million in FY 2014-2015. The FFP, if approved, would make available most of the resources to pay for the other Reform 2020 provisions.

Chapter 108 included \$8.5 million of contingent appropriations in FY 2014-2015 to create a single, statewide common entry point for reporting suspected maltreatment of vulnerable adults, and to simplify the process and reduce duplicate reporting. The provision in Chapter 108 replaced a system where each county had its own common entry point.

Changes were made in Chapter 108 that modify how individuals are informed of their long-term care services options to ensure that community alternatives to expensive institutional care are explained and made available to individuals currently living in their homes or residing in institutions. The preadmission screening process for MA-certified nursing facilities and long-term care consultations was simplified; outreach and support to those in institutions wishing to return to a community setting was expanded; a HCBS report card will be developed to provide information to consumers; and a program outcomes evaluation process will be established in Chapter 108. These initiatives increased General Fund appropriations by \$445,000 in FY 2014-2015, and are projected to produce significant savings beginning in FY 2016-2017.

Chapter 108 included a \$4.3 million General Fund appropriation in FY 2014-2015 for DHS to conduct a critical access study to assess the accessibility of home and community-based services for older adults and people with disabilities or mental illnesses in local communities. The goal of this process is to ensure that services are available in parts of the state where populations are anticipated to need access to them. This appropriation is also for an ongoing, biennial HCBS gaps analysis to identify trends in local community needs for services and funding to expand capacity for providers to promote accessibility in areas identified in the critical access study.

An initiative created in Chapter 108 provides assistance to individuals with disabilities to obtain and maintain employment by providing navigator services to steer individuals to available medical, mental health, employment, and housing support services. The contingent General Fund appropriation for this initiative was \$399,000 in FY 2014-2015. These services would be available to those on MA as well as the Medical Assistance for Employed Persons with Disabilities program.

The Housing Stability Services demonstration project created in Chapter 108 provides General Assistance recipients who are elderly or disabled, and housing with services establishment residents who are eligible for Group Residential Housing, with additional housing support and community living assistance to keep these individuals in stable housing environments. Because the lack of stable housing often causes gaps or delays in medical care, eventually resulting in more costly care, this demonstration project is expected to result in General Fund savings of \$3.7 million.

Chapter 108 included an additional \$11.6 million contingent General Fund appropriation FY 2014-2015 for technology systems upgrades. Higher priority systems upgrades, using non-contingent funding, are also in Chapter 108 and described in the Central Office Operations section.

Noncontingent Reform 2020 Provisions

In addition to the contingent Reform 2020 provisions in Article 2, Chapter 108 included several provisions that will be implemented without regard to approval of the waiver. Chapter 108 created Individual Community Living Supports services for older adults on the Elderly Waiver and Alternative Care programs, allowing individuals to receive all of the services they need in their own homes through one provider (similar to how services are delivered in assisted living facilities). Individual Community Living Supports will prevent or delay more expensive home and community-based services or institutional care, resulting in General Fund savings of \$3.6 million in FY 2014-2015.

Chapter 108 also included an initiative to identify individuals on HCBS waivers with more than two hospital admittances as a result of behavioral or mental health issues and proactively provide the care they need in order to avoid future hospitalization. Reduced hospital admittances are expected to result in General Fund savings of \$843,000 in FY 2014-2015.

Chapter 108 replaced the Personal Care Assistance (PCA) program with the Community First Services and Supports (CFSS) program, resulting in \$15.6 million of General Fund savings in FY 2014-2015 by delivering more cost-effective services, reducing or preventing more costly institutional care, and facilitating the transition out of institutions.

Individuals receiving services under the PCA program will remain eligible for CFSS, with an additional 1,400 individuals eligible for CFSS. Many PCA program components remain intact under CFSS, with CFSS placing a greater emphasis on independence through the use of assistive technology and home modifications, among others resources. CFSS enhances recipient options for managing their own care. If the recipient chooses, they may work with a financial management services contractor to assist them in directly hiring and paying for their own services and supports.

Chapter 108 added an early intensive intervention MA benefit for children with Autism Spectrum Disorder, covering a variety of intensive therapeutic and behavior intervention treatments to build communication and social skills early in the child's development. The General Fund appropriation for this provision was \$12.7 million in FY 2014-2015.

Children and Families

Chapter 108 included additional General Fund appropriations of \$38.7 million for children and families programs in the FY 2014-2015 biennium (see Table 2). Also, as Table 3 indicates, there was \$7.4 million of new General Fund revenue attributable to provisions in the children and families business area.

Several changes to the state's child care assistance programs were included in Chapter 108. General Fund appropriations in FY 2014-2015 were increased by \$19.4 million to increase provider rates. The rates were increased to reflect the higher of the 2011 25th percentile or the current maximum rate. The estimated increase from this change for child care centers is 14 percent, and six percent for licensed family child care providers. Additionally, Chapter 108

included \$2.8 million from the General Fund for changes allowing for additional absent days and allowing exceptions to the absent days limits for some medical reasons, along with provisions to promote high quality care by allowing for higher rates for three-star or higher Parent Aware rated providers, and initiatives to simplify program administration and promote program integrity.

Chapter 108 included a new process to determine the accreditation of child care providers that receive a higher rate for being accredited. When it is implemented, the new process is expected to increase the number of accredited providers. Chapter 108 included an additional \$545,000 appropriation for this purpose in FY 2014-2015. Also, disabled adoptive caretakers who have an employed spouse would be eligible to receive child care assistance. A new General Fund appropriation of \$187,000 for FY 2014-2015 was made to implement this provision.

Chapter 108 included \$3.2 million for FY 2014-2015 to implement the Governor's Northstar Care for children proposal. This new program consolidates the adoption assistance, foster care, and relative care assistance programs to equalize the rates and to promote permanent placement for children who have been a greater challenge to place in permanent homes.

The Minnesota Family Investment Program (MFIP) was reformed in Chapter 108 to promote better employment outcomes and simplify program administration. Chapter 108 also included provisions to promote work by increasing the amount of the earnings disregarded in determining eligibility, to try new strategies to develop paid work experience and work study programs, and to better serve teen parents.

Also, the family cap was repealed, allowing for additional income to families that have another child while participating in MFIP. The ongoing FY 2016-2017 appropriation for this provision will be from federal Temporary Assistance for Needy Families (TANF) funds. Until the federal funds are available in FY 2015, a \$1.8 million appropriation from the General Fund was included in Chapter 108 for this purpose. Federal TANF funds were also used beginning in FY 2016-2017 for an MFIP Housing Assistance Grant that was projected to provide \$110 each month to help eligible families pay for housing.

The Parent Support Outreach program was expanded statewide with an additional General Fund appropriation of \$4.5 million. This voluntary program provides early intervention services to families with young children when there is reported child maltreatment that is determined to not meet the legal standard for a maltreatment investigation. Families are offered an assessment to develop a plan that builds on the families' strengths to promote better outcomes for their children. This program has demonstrated in the past that families that receive services are less likely to engage in child maltreatment.

Chapter 108 included substantial new funding of \$7 million in the FY 2014-2015 biennium for the Homeless Youth Act, long-term homeless supportive services, transitional housing programs, and emergency services grants for homeless individuals. New programs to address sexual exploitation of youth were funded in Chapter 108, including \$1 million in FY 2014-2015 for housing and supportive services grants administered by DHS. Additional activities to address exploitation of youth were included in the Department of Health section.

Chapter 108 included a provision that used existing expenditures on supportive services to maximize federal revenue, resulting in an additional \$8.8 million of revenue in the General Fund. Additionally, TEFRA fees were eliminated for families with income below 275 percent of the federal poverty guidelines, resulting in a \$2.2 million loss of revenue to the General Fund in FY 2014-2015.

Chemical and Mental Health

Several new chemical and mental health provisions were enacted in Chapter 108 for the FY 2014-2015 biennium. As shown in Table 2, these provisions accounted for \$16 million of new General Fund appropriations. In addition, Chapter 108 included \$29 million of additional revenue for the General Fund (see Table 3).

Chapter 108 included \$7.4 million in FY 2014-2015 to expand school-linked grants to promote access to mental health services in new areas of the state. These grants make it possible to bring mental health professionals to schools to provide services, reducing the stigma often attributed to accessing mental health services. The grants help to fill in any gaps in coverage for children who are uninsured or underinsured.

Chapter 108 also included FY 2014-2015 appropriations of \$1.5 million to expand mental health crisis response services to new areas of the state; \$600,000 to provide education to medical personnel on administering the Screening, Brief Intervention, and Referral to Treatment assessment to identify potential substance use and promote early access to substance abuse treatment; a \$1.5 million grant for a Text for Life suicide prevention program; and \$46,000 for a mental health first-aid program that provides education to law enforcement personnel to recognize signs of

a person experiencing a mental health crisis. General Fund appropriations also included \$10.4 million for projected growth of the Minnesota Sex Offender Program. This increased caseload in the sex offender program also included \$2.6 million of increased General Fund revenue from the associated county share.

Chapter 108 transferred an accumulated \$18.2 million balance in the Consolidated Chemical Dependence Treatment Fund to the General Fund. This transfer aligned the amount in the fund with projected need for treatment services. Additionally, Chapter 108 contained provisions to increase the county share of the cost for individuals committed to the Minnesota Security Hospital and the Anoka Regional Treatment Center. These provisions netted \$8.2 million of new General Fund revenue in FY 2014-2015.

Central Office Operations

Changes in activities administered by the DHS central office received additional General Fund appropriations of \$25.4 million, as shown in Table 2.

Chapter 108 included an additional \$1.2 million in General Fund appropriations in FY 2014-2015 for new child care licensing provisions. These changes were enacted to address concerns about child safety, particularly sleep safety, to enhance provider training, and to provide information about child care providers to the public.

Also in Chapter 108 was a \$1.7 million General Fund appropriation in FY 2014-2015 to mitigate new licensing fees for HCBS waiver providers licensed under new Minnesota Statutes, Chapter 245D. This was a new category of licensing to ensure compliance with standards enacted in

Chapter 108 for these providers, which are described in the Continuing Care section.

Several provisions were included in Chapter 108 that address program integrity and ensure compliance with state rules and regulations. These include expansion of child care provider investigations and application of data analytics in these investigations, expansion of surveillance and integrity reviews for MA providers and use of new methods to recover overpayments from MA providers, and additional funding to ensure that DHS is complying with state laws. General Fund appropriations attributable to these activities were \$2.8 million, which is offset by \$3.2 million in projected revenue from recovery of overpayments or fraudulent billings.

Chapter 108 included \$1 million in FY 2014-2015 from the General Fund to establish a new county performance management system to promote accountability and better outcomes for families served by DHS programs. It also included \$1.3 million in FY 2014-2015 to fund additional staff needed to accommodate the simplified appeals process implemented along with other compliance provisions required by the federal Affordable Care Act. Finally, Chapter 108 included \$17.3 million in FY 2014-2015 from the General Fund to update DHS technology systems. The system updates were expected to improve efficiency and administration in the programs the department supports.

DEPARTMENT OF HEALTH

All-funds appropriations for the Department of Health was increased by \$93.2 million for the FY 2014-2015 biennium compared to the February 2013 forecast. General Fund

appropriations were increased by \$5.2 million for the biennium.

Chapter 51 required the Minnesota Department of Health to create a work group to study the correlation between nurse staffing levels and hospital patient outcomes. This act included a General Fund appropriation of \$252,000 in FY 2014.

Chapter 108 included an additional \$2.0 million from the General Fund to implement new or enhance existing core activities of the Department of Health. Appropriations for these core activities included:

- \$100,000 annually to replace federal funding for the state's lead poisoning prevention program;
- \$200,000 annually to maintain basic activities of the state's infectious disease laboratory, which monitors infectious disease trends and investigates outbreaks.;
- \$350,000 annually to develop an enhanced statewide cancer data collection system to meet modern expectations of local governments and the public for enhanced and detailed information about cancer in the state; and
- \$350,000 annually for ongoing support of local public health departments.

In addition, there was a \$1 million FY 2014-2015 appropriation for the Minnesota Poison Information Center administered by Hennepin County Medical Center. Along with the DHS appropriation to address sexual exploitation of youth, Chapter 108 included \$1 million in FY 2014-2015 for the Department of Health to add a staff position to administer a statewide program to provide

resources for local communities to better understand and address sexual exploitation of youth.

Chapter 108 also included \$1 million annually from the Health Care Access Fund for the Medical Education and Research Costs fund (MERC) for family practice residency programs outside the seven-county metropolitan area. The MERC distribution formula was changed to reduce the supplemental public program volume factor by ten percent for FY 2014-2015 and eliminate it in FY 2016, and the minimum grant was increased from \$1,000 to \$5,000.

Changes to several programs funded by fees were also included in Chapter 108. New tests were added to the newborn screening requirements and the related State Government Special Revenue Fund (SGSR) fee was increased by \$4.8 million for FY 2014-2015. The related appropriation for the new tests was \$4.3 million from the SGSR fund, along with a \$262,000 General Fund appropriation to DHS for the MA portion of the fee increase. Also, a General Fund newborn screening fee and related appropriation were increased by \$1.3 million for services for deaf and hard-of-hearing individuals and families.

A SGSR fee was established to recover the cost of reviewing blueprints prior to construction of health care facilities, with fee revenue and related appropriation of \$780,000 for the FY 2014-2015 biennium. A license fee was modified for home care providers, with a new structure based on revenue that consolidated four licenses into two and had new SGSR revenue of \$1.6 million in FY 2014-2015, and a related appropriation of \$3 million. Licensing requirements for drilling related to installation of geothermal heat exchange systems were changed to apply to all

contractors, including those that have been drilling holes at an angle to avoid current regulatory requirements. This provision had \$300,000 of additional SGSR fee revenue and a related appropriation of the same amount.

Chapter 108 also included provisions that enhance the ability of MDH to recover the actual cost of lab testing and to improve efficiency of the environmental lab accreditation program. The lab testing provisions included a \$294,000 General Fund appropriation in FY 2014-2015. This amount is offset by related revenue of \$280,000. This provision also included \$600,000 of revenue and a related \$600,000 appropriation in the Special Revenue Fund. The changes to the environmental lab accreditation program reduced revenue and appropriations in the Special Revenue Fund because the labs will now pay the cost of the lab assessment directly to the provider.

The Statewide Health Improvement program received \$17.5 million per year in ongoing funding from the Health Care Access Fund. This program provides funding to local communities to promote better long-term health outcomes by implementing strategies to reduce risk factors that contribute to chronic diseases like cancer, diabetes, and heart disease.

HEALTH-RELATED BOARDS

Several of the health-related boards, funded through the State Government Special Revenue Fund, received additional appropriations in Chapter 108. These increases were appropriated in FY 2014-2015 from the balances in the fund for the individual boards and did not include related fee increases.

The **Board of Chiropractic Examiners** received \$58,000 for new information technology hardware, part-time staff, and to conduct a LEAN evaluation to help improve operational efficiency.

The **Board of Dentistry** received \$203,000 for initiatives to improve efficiency and enhance the ability of the board to resolve complaints. In addition, the Board of Dentistry received \$272,000 for administration of the Health Professionals Service Program, which provides early intervention services, counseling, and treatment services for chemical dependence, mental health concerns, or physical health issues on behalf of all of the health related boards.

The **Board of Nursing Home Administrators**, which is the administrative entity for many functions used by all of the health-related boards, had an unexpended appropriation of \$44,000 from the 2011 Session renewed to complete rulemaking, received \$391,000 to pay onetime retirement costs of the health-related boards, and had another unexpended appropriation of \$1.9 million also from the 2011 Session renewed to implement a shared licensing and discipline case management system for use by all of the health-related boards. The board also will administer new background study requirements for the health-related boards and received \$780,000 to implement this new requirement, along with a related Special Revenue Fund appropriation of \$854,000 for an interagency agreement with the Department of Public Safety to pay for background studies.

The **Board of Physical Therapy** had an unexpended \$44,000 appropriation from 2011 renewed to complete rulemaking and the **Boards of Social Work** (\$111,000), **Veterinary Medicine** (\$58,000), and

Behavioral Health and Therapy (\$106,000) all received additional appropriations to improve their complaint resolution processes. The **Board of Marriage and Family Therapy** received \$25,000 for rulemaking, along with \$119,000 to have a full-time Executive Director and additional staff for licensing activities, and also had a voluntary reduction in fees totaling \$40,000.

OTHER AGENCIES

Chapter 108 included a \$137,000 General Fund appropriation in FY 2014-2015 for the **Ombudsman for Families** to reinstate an Office Manager position and \$180,000 in FY 2014-2015 for the **Disability Council** to provide ongoing emergency preparedness training.

MINNESOTA INSURANCE MARKETPLACE (MNsure)

Chapter 9 created a new state agency to administer the state's health insurance exchange required under the federal Affordable Care Act. The Minnesota Insurance Marketplace, which subsequently

was named MNsure, was included in the jurisdiction of the HHS budget. MNsure will begin processing applications for health insurance on October 1, 2013, and the purchased coverage will be effective January 1, 2014. MNsure will be financed by specified amounts (1.5 percent in CY 2014, and estimated between 1.75 and 2.5 percent in CY 2015 and CY 2016) retained from the premiums of health insurance policies purchased through the exchange. MNsure will also administer applications for Medical Assistance and MinnesotaCare, although no premium revenue will be retained from the amounts paid for health insurance through these programs. Instead, MNsure will allocate to the Department of Human Services a proportional amount of the costs of the exchange, reflecting the costs attributable to participants in public health care programs. For the FY 2014-2015 biennium, the projected cost of the exchange was \$35.7 million in the Special Revenue Fund.

ENVIRONMENT, ECONOMIC DEVELOPMENT, AND AGRICULTURE

Appropriations for the Environment, Economic Development, and Agriculture Budget area were enacted in four chapters in the 2013 Legislative Session:

- Chapter 52 contained the appropriations from the Environment and Natural Resources Trust Fund;
- Chapter 85 contained the appropriations for the Jobs and Economic Development area, and also the Omnibus Energy Act;
- Chapter 114 contained the appropriations for the Environment and Agriculture area; and
- Chapter 137 contained the appropriations from the constitutionally dedicated Legacy Funds.

Total appropriations for the Environment, Economic Development, and Agriculture budget are \$3.4 billion for the FY 2014-2015 biennium, a 2.2 percent increase compared to the previous biennium. The increase is due mainly to significant General Fund increases in the Jobs and Economic Development portion of the budget, and also an increase in Federal Funds.

Compared to the February 2013 forecast, General Fund appropriations for the budget area increased by \$156.2 million, or 29.9 percent.

**Table 1 - Environment, Economic Development and Agriculture
All Funds Biennial Spending by Agency & Fund**
(dollars in thousands)

Agency	FY 2012-13 Expenditures	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Pollution Control Agency					
General Fund	9,868	9,594	9,527	(341)	(67)
State Govt. Special Revenue Fund	154	156	156	2	-
Special Revenue Fund	49,548	40,979	41,090	(8,458)	111
Gift Fund	161	-	-	(161)	-
Environmental Fund	133,435	133,250	143,774	10,339	10,524
Remediation Fund	62,369	69,233	69,233	6,864	-
Federal Funds	<u>50,588</u>	<u>46,078</u>	<u>46,078</u>	<u>(4,510)</u>	-
Subtotal for PCA:	306,123	299,290	309,858	3,735	10,568
<i>Dedicated/Constitutional Funds</i>					
Clean Water Fund	<u>49,595</u>	-	<u>56,630</u>	<u>7,035</u>	<u>56,630</u>
Subtotal Dedicated/Const. Funds:	49,595	-	56,630	7,035	56,630

Agency	FY 2012-13 Expenditures	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Total Pollution Control Agency:	355,718	299,290	366,488	10,770	67,198
Department of Natural Resources					
General Fund	163,697	146,771	172,195	8,498	25,424
General Fund Transfers Out	(13)	-	-	13	-
Special Revenue Fund (1)	64,051	58,394	58,436	(5,615)	42
Natural Resources Fund	183,453	180,569	180,172	(3,281)	(397)
Game and Fish Fund	198,921	195,478	206,212	7,291	10,734
Gift Fund	2,865	3,116	3,116	252	-
Remediation Fund	640	700	700	60	-
Federal Funds	37,031	38,591	38,591	1,560	-
Endowment and Permanent School Fund	<u>604</u>	<u>408</u>	<u>408</u>	<u>(196)</u>	<u>-</u>
Subtotal for DNR:	651,249	624,027	659,830	8,581	35,803
<i>Dedicated/Constitutional Funds</i>					
Env. & Natural Resources Trust Fund	43,204	-	16,892	(26,312)	16,892
Minnesota Resources Fund	3	-	-	(3)	-
Outdoor Heritage Fund	165,357	-	67,577	(97,780)	67,577
Parks and Trails Fund	52,503	-	51,068	(1,435)	51,068
Clean Water Fund	<u>26,030</u>	-	<u>22,085</u>	<u>(3,945)</u>	<u>22,085</u>
Subtotal Dedicated/Const. Funds:	287,097	-	157,622	(129,475)	157,622
Total Department Natural Resources:	938,346	624,027	817,452	(120,894)	193,425
Met Council - Parks					
General Fund	5,740	5,740	5,740	-	-
Natural Resources Fund	<u>11,340</u>	<u>11,340</u>	<u>11,340</u>	<u>-</u>	<u>-</u>
Subtotal for Met Council Parks:	17,080	17,080	17,080	-	-
<i>Dedicated/Constitutional Funds</i>					
Env. & Natural Resources Trust Fund	2,250	-	-	(2,250)	-
Clean Water Fund	1,000	-	3,537	2,537	3,537
Parks and Trails Fund	<u>31,904</u>	-	<u>33,774</u>	<u>1,870</u>	<u>33,774</u>
Subtotal Dedicated/Const. Funds:	35,154	-	37,311	2,157	37,311
Total Met Council Parks:	52,234	17,080	54,391	2,157	37,311
Minnesota Zoo					
General Fund	10,856	10,850	10,850	(6)	-
Special Revenue Fund	30,421	31,215	31,215	794	-

Agency	FY 2012-13 Expenditures	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Natural Resources Fund	320	320	320	-	-
Gift Fund	<u>7,535</u>	<u>3,972</u>	<u>3,972</u>	<u>(3,563)</u>	-
Subtotal for Minnesota Zoo:	49,132	46,357	46,357	(2,775)	-
<i>Dedicated/Constitutional Funds</i>					
Arts and Cultural Heritage Fund	<u>3,000</u>	-	<u>3,500</u>	<u>500</u>	<u>3,500</u>
Subtotal Dedicated/Const. Funds:	<u>3,000</u>	-	<u>3,500</u>	<u>500</u>	<u>3,500</u>
Total Minnesota Zoo:	52,132	46,357	49,857	(2,275)	3,500
Board of Water and Soil Resources					
General Fund	37,325	25,116	25,282	(12,043)	166
Special Revenue Fund	12,125	8,063	8,063	(4,062)	-
Federal Funds	<u>3,669</u>	<u>1,112</u>	<u>1,112</u>	<u>(2,557)</u>	-
Subtotal for BWSR:	53,119	34,291	34,457	(18,662)	166
<i>Dedicated/Constitutional Funds</i>					
Env. & Natural Resources Trust Fund	3,856	-	3,771	(85)	3,771
Outdoor Heritage Fund	40,506	-	21,690	(18,816)	21,690
Clean Water Fund	<u>59,763</u>	-	<u>65,429</u>	<u>5,666</u>	<u>65,429</u>
Subtotal Dedicated/Const. Funds:	<u>104,125</u>	-	<u>90,890</u>	<u>(13,235)</u>	<u>90,890</u>
Total Board of Water and Soil Resources:	157,244	34,291	125,347	(31,897)	91,056
Conservation Corps					
General Fund	612	-	910	298	910
Natural Resources Fund	<u>980</u>	<u>980</u>	<u>980</u>	-	-
Total Conservation Corps:	1,592	980	1,890	298	910
Science Museum					
General Fund	<u>2,136</u>	<u>2,136</u>	<u>2,158</u>	<u>22</u>	<u>22</u>
Subtotal for Science Museum:	2,136	2,136	2,158	22	22
<i>Dedicated/Constitutional Funds</i>					
Env. & Natural Resources Trust Fund	<u>131</u>	-	-	<u>(131)</u>	-
Subtotal Dedicated/Const. Funds:	<u>131</u>	-	-	<u>(131)</u>	-
Total Science Museum:	2,267	2,136	2,158	(109)	22

Agency	FY 2012-13 Expenditures	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Transfer to Closed Landfill Fund					
General Fund	-	12,100	10,000	10,000	(2,100)
General Fund Transfers Out	-	(12,100)	(10,000)	(10,000)	2,100
Total Transfer to Closed Landfill Fund:	-	-	-	-	-
Legislative Citizen Comm. on MN Resources					
Env. & Natural Resources Trust Fund	<u>1,170</u>	-	<u>990</u>	<u>(180)</u>	<u>990</u>
Total LCCMR:	1,170	-	990	(180)	990
Commerce Department					
General Fund	43,915	43,406	50,258	6,343	6,852
General Fund Transfers Out	(85)	(80)	(80)	5	-
Special Revenue Fund	58,903	59,872	83,299	24,396	23,427
Petroleum Tank Release Cleanup Fund	21,552	20,794	20,794	(758)	-
Workers Compensation Fund	1,502	1,502	1,502	-	-
Federal Funds	<u>194,850</u>	<u>325,071</u>	<u>325,071</u>	<u>130,221</u>	-
Total Commerce Department:	320,637	450,565	480,844	160,207	30,279
Public Utilities Commission					
General Fund	11,785	12,356	12,898	1,113	542
Special Revenue Fund	4,384	3,729	3,729	(655)	-
Federal Funds	<u>91</u>	-	-	<u>(91)</u>	-
Total Public Utilities Commission:	16,260	16,085	16,627	367	542
Agriculture Department					
General Fund	62,619	62,600	63,140	521	540
General Fund Transfers Out	(616)	(306)	(92)	524	214
Special Revenue Fund	16,151	19,782	19,782	3,631	-
Agriculture Fund	47,259	52,912	53,868	6,609	956
Gift Fund	83	56	56	(27)	-
Remediation Fund	4,220	3,896	3,896	(324)	-
Federal Funds	<u>16,535</u>	<u>15,735</u>	<u>15,735</u>	<u>(800)</u>	-
Subtotal for Agriculture Department:	146,251	154,675	156,385	10,134	1,710
<i>Dedicated/Constitutional Funds</i>					
Env. & Natural Resources Trust Fund	500	-	590	90	590
Arts and Cultural Heritage Fund	2,799	-	-	(2,799)	-
Clean Water Fund	<u>7,896</u>	-	<u>14,770</u>	<u>6,874</u>	<u>14,770</u>
Subtotal Dedicated/Const. Funds	<u>11,195</u>	-	<u>15,360</u>	<u>4,165</u>	<u>15,360</u>

Agency	FY 2012-13 Expenditures	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Total Agriculture Department:	157,446	154,675	171,745	14,299	17,070
Board of Animal Health					
General Fund	9,680	9,674	9,674	(6)	-
Special Revenue Fund	585	333	333	(252)	-
Federal Funds	<u>1,398</u>	<u>1,178</u>	<u>1,178</u>	<u>(220)</u>	-
Total Board of Animal Health:	11,663	11,185	11,185	(478)	-
Agriculture Utilization Research Institute					
General Fund	<u>5,286</u>	<u>5,286</u>	<u>5,286</u>	-	-
Total AURI:	5,286	5,286	5,286	-	-
Dept Employment & Economic Development					
General Fund	103,196	78,136	164,786	61,590	86,650
General Fund Transfers In	-	2,950	1,950	1,950	(1,000)
General Fund Transfers Out	(110)	(51)	(1,051)	(941)	(1,000)
Special Revenue Fund	80,362	52,794	52,794	(27,568)	-
Petroleum Tank Release Cleanup Fund	28,593	12,400	12,400	(16,193)	-
Workforce Development Fund	96,426	88,485	92,227	(4,200)	3,742
Gift Fund	830	630	630	(200)	-
Remediation Fund	1,543	1,400	1,400	(143)	-
Federal Funds	<u>555,360</u>	<u>575,940</u>	<u>575,960</u>	<u>20,600</u>	<u>20</u>
Total DEED:	866,200	812,684	901,096	34,896	88,412
Department of Labor and Industry					
General Fund	1,633	1,632	2,132	499	500
State Govt. Special Revenue Fund	47,009	52,902	52,867	5,858	(35)
Special Revenue Fund	11,120	12,421	12,360	1,240	(61)
Workforce Development Fund	2,058	2,058	2,058	-	-
Workers Compensation Fund	178,340	190,900	190,900	12,560	-
Federal Funds	<u>10,795</u>	<u>10,600</u>	<u>10,600</u>	<u>(195)</u>	-
Total Dept of Labor and Industry:	250,955	270,513	270,917	19,962	404
Bureau of Mediation Services					
General Fund	<u>3,169</u>	<u>3,168</u>	<u>4,221</u>	<u>1,052</u>	<u>1,053</u>
Total Bureau of Mediation Services:	3,169	3,168	4,221	1,052	1,053
Workers' Compensation Court of Appeals					

Agency	FY 2012-13 Expenditures	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Workers' Compensation Fund	<u>3,406</u>	<u>3,406</u>	<u>3,616</u>	<u>210</u>	<u>210</u>
Total Workers' Comp Court of Appeals:	3,406	3,406	3,616	210	210
Iron Range Res & Rehabilitation Board					
Iron Range Resources Fund	63,390	75,882	75,882	12,492	-
NE MN Econ. Protection Trust Fund	<u>11,730</u>	<u>8,986</u>	<u>8,986</u>	<u>(2,744)</u>	=
Total IRRRB:	75,120	84,868	84,868	9,748	-
Housing Finance Agency (2)					
General Fund	88,816	76,096	101,496	12,680	25,400
General Fund Transfers Out	<u>(88,816)</u>	<u>(76,096)</u>	<u>(101,496)</u>	<u>(12,680)</u>	<u>(25,400)</u>
Total Housing Finance Agency:	-	-	-	-	-
Public Facilities Authority					
Special Revenue Fund	<u>337</u>	<u>172</u>	<u>172</u>	<u>(165)</u>	=
Subtotal for PFA:	337	172	172	(165)	-
<i>Dedicated/Constitutional Funds</i>					
Clean Water Fund	<u>53,294</u>	=	<u>22,000</u>	<u>(31,294)</u>	<u>22,000</u>
Subtotal Dedicated/Const. Funds:	53,294	-	22,000	(31,294)	22,000
Total Public Facilities Authority:	53,631	172	22,172	(31,459)	22,000
Explore MN Tourism					
General Fund	18,385	17,450	27,976	9,591	10,526
Special Revenue Fund	<u>3,577</u>	<u>2,788</u>	<u>2,788</u>	<u>(789)</u>	=
Total Explore MN Tourism:	21,962	20,238	30,764	8,802	10,526
Combative Sports Commission					
Special Revenue Fund	<u>185</u>	=	=	<u>(185)</u>	=
Total Combative Sports Commission:	185	-	-	(185)	-
Science and Technology Authority					
General Fund	714	214	-	(714)	(214)
General Fund Transfers Out	(500)	-	-	500	-
Special Revenue Fund	510	10	-	(510)	(10)
Federal Funds	<u>55</u>	=	=	<u>(55)</u>	=
Total Science and Technology Authority:	779	224	-	(779)	(224)

Agency	FY 2012-13 Expenditures	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Region 3 Occupation Tax					
General Fund	912	912	912	-	-
General Fund Transfers Out	<u>(912)</u>	<u>(912)</u>	<u>(912)</u>	=	=
Total Region 3 Occupation Tax	-	-	-	-	-
Totals by Fund					
General Fund	580,344	523,237	679,441	99,097	156,204
General Fund Transfers In (DEED)	-	2,950	1,950	1,950	(1,000)
General Fund Transfers Out	(91,052)	(89,545)	(113,631)	(22,579)	(24,086)
State Govt. Special Revenue Fund	47,163	53,058	53,023	5,860	(35)
Special Revenue Fund	332,258	290,552	314,061	(18,198)	23,509
Natural Resources Fund	196,093	193,209	192,812	(3,281)	(397)
Game and Fish Fund	198,921	195,478	206,212	7,291	10,734
Agriculture Fund	47,259	52,912	53,868	6,609	956
Petroleum Tank Release Cleanup Fund	50,145	33,194	33,194	(16,951)	-
Gift Fund	11,474	7,774	7,774	(3,700)	-
Environmental Fund	133,435	133,250	143,774	10,339	10,524
Remediation Fund	68,772	75,229	75,229	6,457	-
Workers Compensation Fund	183,248	195,808	196,018	12,770	210
Iron Range Resources Fund	63,390	75,882	75,882	12,492	-
NE MN Econ. Protection Trust Fund	11,730	8,986	8,986	(2,744)	-
Workforce Development Fund	98,484	90,543	94,285	(4,199)	3,742
Federal Funds	870,372	1,014,305	1,014,325	143,953	20
Endowment and Permanent School Fund	<u>604</u>	<u>408</u>	<u>408</u>	<u>(196)</u>	=
Subtotal Non-Dedicated Funds:	2,802,641	2,857,230	3,037,611	234,920	180,381
<i>Dedicated/Constitutional Funds</i>					
Minnesota Resources Fund	3	-	-	(3)	-
Env & Natural Resources Trust Fund	51,111	-	22,243	(28,868)	22,243
Outdoor Heritage Fund	205,863	-	89,267	(116,596)	89,267
Arts and Cultural Heritage Fund	5,799	-	3,500	(2,299)	3,500
Clean Water Fund	197,578	-	184,451	(13,127)	184,451
Parks and Trails Fund	<u>84,407</u>	=	<u>84,842</u>	<u>435</u>	<u>84,842</u>
<i>Subtotal</i>					
<i>Dedicated/Constitutional Funds:</i>	<i>544,761</i>	-	<i>384,303</i>	<i>(160,458)</i>	<i>384,303</i>
Total for Budget Area	3,347,402	2,857,230	3,421,914	74,512	564,684
Note					
(1) Special Revenue expenditures for the Department of Natural Resources have been reduced compared to the Consolidated Fund Statement (CFS) to compensate for "double-counting" that occurs in the Fund as a result of DNR's internal accounting for indirect expenses.					
(2) Housing Finance Agency's General Fund appropriations are transferred to a Housing Finance Authority account that is not tracked in the CFS.					

ENVIRONMENT AND NATURAL RESOURCES AGENCIES

Pollution Control Agency

The Pollution Control Agency's (PCA) nondedicated fund budget increased by \$10.6 million over the February 2013 forecast, or about 3.4 percent. Almost all of the increase came from the Environmental Fund, while net General Fund appropriations for FY 2014-2015 remained almost the same. New initiatives include:

- \$1 million from the General Fund for rulemaking and local technical assistance for new silica sand mining operations;
- \$3 million from the Environmental Fund for water program operations and permitting;
- \$5.3 million from the Environmental Fund for air monitoring programs and awareness; and
- \$1.3 million from the Environmental Fund to continue the biomonitoring program for perfluorinated compounds and to expand the program for other environmental health issues, including researching causes of asthma and monitoring mercury levels.

Chapter 114 also transferred the state Environmental Quality Board (EQB) from the Department of Administration to the PCA and increased the EQB's budget from \$302,000 to \$1 million for the biennium.

Department of Natural Resources

Ground water monitoring and more stable funding for forest management were the main initiatives for the Department of Natural Resources (DNR) FY 2014-2015 budget enacted in Chapter 114.

Overall, the DNR's nondedicated fund budget increased by \$35.8 million, or 5.7 percent. The General Fund portion of the agency's budget was increased by \$25.4 million for FY 2014-2015. The DNR's division of Ecological and Water Resources received a significant increase of \$7.6 million to increase the monitoring of the state's ground water usage and recharging capacity.

A portion of the other General Fund increases were actually continuing appropriations previously enacted on a onetime basis. This included \$6.2 million for continuing the aquatic invasive species program and \$4.5 million for state parks operations. Chapter 114 also increased the General Fund appropriation for forestry management by \$10.1 million. This was to help replace lost revenue on state-owned land due to low timber prices.

Appropriations from the Game and Fish Fund were increased by \$10.7 million to supplement programs in the Fish and Wildlife and Enforcement divisions. This increase was largely from additional revenue due to changes in the hunting and fishing licenses fees that were enacted in the 2012 Session.

Minnesota Conservation Corps

Chapter 114 restored the General Fund portion of the Conservation Corps budget that had been eliminated by the 2012-2013 Legislature. The \$455,000 annual amount from the General Fund will help with the Corp's administrative costs and will fund its summer youth program.

Commerce Department

The Commerce Department's FY 2014-2015 General Fund budget was increased by \$6.9 million, a 15.8 percent increase. Of this amount, \$2.6 million was for additional

agency staff for various consumer protection and financial enforcement programs. Chapter 85 also created a registration system through the Department of Commerce for Bullion and Gold Coin dealers. Dealers are expected to pay, and the department is expected to spend, close to \$700,000 per year on this registration program. The enacted budget also added \$2 million of onetime money from the General Fund to the state's low-income weatherization program to help offset expected federal reductions to this program.

Another \$464,000 from the General Fund was added to the department's budget for the additional duties due to the changes enacted in the Omnibus Energy Act.

Additional General Fund revenue was included in Chapter 85 (see Table 3). The fee paid by insurance companies to appoint insurance agents was increased from \$10 to \$30. This fee increase is expected to bring in an additional \$4.5 million per year to the General Fund. Chapter 114 also made a onetime transfer of \$10 million from the state's assigned risk account to the General Fund.

Public Utilities Commission

The Public Utilities Commission's budget was increased by \$542,000 for additional duties due to the changes enacted with the Omnibus Energy Act.

Department of Agriculture

The total FY 2014-2015 nondedicated fund budget for the Department of Agriculture is \$156.4 million, which is a one percent increase over the base budget. Total General Fund appropriations were increased by \$540,000 and appropriations from the Agriculture Fund increased by \$956,000. The increases from the Agriculture Fund were for increased lab costs, commercial

animal waste licensing and training, and also for new initiatives to study bee population declines.

JOBS AND ECONOMIC DEVELOPMENT AGENCIES

Department of Employment and Economic Development

Overall General Fund appropriations to the Department of Employment and Economic Development were increased by \$86.6 million from the February 2013 forecast for FY 2014-2015. The increase is based largely on General Fund appropriations of \$30.0 million to the Minnesota Investment Fund; \$6.0 million to the Redevelopment Fund; \$24.0 million to a new Job Creation Fund; and \$10 million for the Film Production Jobs program through the Film and TV Board. Vocational Rehabilitation Services also received an increase of \$2 million for extended employment programs.

The Minnesota Trade Office budget was increased by \$1.6 million for FY 2014-2015 as part of a Global Competitiveness Effort designed to increase state trade and export promotion. A new Trade Policy Advisory Council was established, and funding will be available to small businesses with an active interest in exporting products or services to foreign markets.

Chapter 85 directs the Department of Employment and Economic Development to continue the three competitive grant pilot programs established in FY 2013. In FY 2012, pass-through grant recipients received onetime direct appropriations and then were eligible to participate in the new competitive grant programs in FY 2013. The competitive grant programs are targeted toward business development, adult workforce training, and youth workforce training. In FY 2014 and FY 2015, the Business Development

Competitive Grant Program will receive \$1.4 million each year from the General Fund, the Adult Workforce Training Competitive Grant Program will receive \$1 million each year from the General Fund and \$2.2 million each year from the Workforce Development Fund, and the Youth Workforce Competitive Grant Program will receive \$2.8 million each year from the Workforce Development Fund. Additionally, a number of pass-through grant recipients receive direct appropriations for their programs, either from the General Fund or the Workforce Development Fund. The competitive grant programs are funded through the FY 2016-2017 biennium, and the department is allowed to retain up to five percent of the grant amounts for administration and monitoring of the grant programs.

Housing Finance Agency

The FY 2014-2015 Housing Finance Agency General Fund appropriation was increased by \$25.4 million from the February 2013 forecast. Economic development and housing challenge programs were increased by \$14.5 million, including a \$10 million onetime appropriation for a new housing and job growth initiative. Other new initiatives were increased by \$3 million, including rental assistance for highly mobile students, reentry rental assistance, and a high-risk demonstration project for released prisoners. Free voice mail services for homeless and low-income people to assist in searching for affordable housing and jobs was also funded in FY 2014 -2015, and added to the base budget for FY 2016-2017. Tenants' rights advocacy services and East African Women Organization safe housing programs were also funded in both biennia.

All eight statutory programs of the Housing Finance Agency received base program

increases in FY 2014-2015 totaling \$8.5 million. The FY 2016-2017 budget base for the agency was increased by \$22 million over the FY 2014-2015 forecast base budget, an increase of some 30 percent. \$3 million in funding that was not needed for the 2012 flood appropriation for northeast Minnesota was reallocated to the rehabilitation program as a onetime appropriation in FY 2014.

Department of Labor and Industry

The Department of Labor and Industry General Fund appropriation for the Labor Standards Division was increased by \$300,000 for child labor safety and investigations and \$200,000 for wage enforcement activities for FY 2014-2015.

Explore Minnesota Tourism

Explore Minnesota Tourism received an increase of \$10.5 million from their base budget of \$17.4 million to expand tourism marketing. This is a 60 percent increase over the base budget.

Other Agencies and Boards

General Fund and special appropriations offset by revenue increases were adjusted for some agencies in this budget area, including the following, which are depicted in Tables 2 and 3:

- Bureau of Mediation Services;
- Combative Sports Commission; and
- Workers' Compensation Court of Appeals.

The appropriation for the Region 3 Occupation Tax remained at its base level. The Science and Technology Authority statutory language was repealed, resulting in a savings of \$214,000 from the February 2013 forecast.

OMNIBUS ENERGY ACT

Chapter 85 also contained the Omnibus Energy Act (Articles 7 to 13). Enactment of the new energy provisions is projected to significantly increase the state’s solar energy production by the end of the decade. Specifically, all utilities in the state must procure 1.5 percent of their electricity from solar generation by 2020, with a goal of ten percent by 2030.

Article 11 creates a “Made in Minnesota” solar energy production incentive program. For a period of ten consecutive years, public utilities must pay \$15 million each year into an account administered by the Department of Commerce for payments to individual owners of solar photovoltaic devices that meet the “Made in Minnesota” requirements

of the program. A small solar thermal rebate program is included in the incentive program.

The act also funded a variety of studies related to energy issues and made a number of changes to the state’s energy policy and goals.

CONSTITUTIONAL AND DEDICATED FUNDS

See Appendix B for information and tables related to Chapter 52 and Chapter 137.

Table 2 - Environment, Economic Development & Agriculture						
General Fund Spending Changes Compared to Forecast						
<i>(dollars in thousands)</i>						
Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Pollution Control Agency						
Environmental Quality Board Transfer & Increase	312	312	624	312	312	624
Silica Sand Mining Rules and Oversight	500	500	1,000	500	500	1,000
Agency Administration Reduction	<u>(845)</u>	<u>(846)</u>	<u>(1,691)</u>	<u>(846)</u>	<u>(846)</u>	<u>(1,692)</u>
PCA Total	(33)	(34)	(67)	(34)	(34)	(68)
Department of Natural Resources						
Real Estate Services Reduction	(1,569)	(1,569)	(3,138)	(1,569)	(1,569)	(3,138)
Continue Aquatic Invasive Species Program	2,950	3,250	6,200	3,250	3,250	6,500
Water Appropriation Oversight	1,600	6,000	7,600	6,000	6,000	12,000
Replace Forestry Revenue on State Lands	5,050	5,050	10,100	4,500	4,500	9,000
State Forestry Nursery Study	50	-	50	-	-	-
Parks & Trails Operations	2,250	2,250	4,500	2,250	2,250	4,500
Prairie Wetlands Restorations	(199)	(199)	(398)	(199)	(199)	(398)
Replace Utility Crossing Fees	-	400	400	400	400	800
Mississippi River Board Increase	<u>55</u>	<u>55</u>	<u>110</u>	<u>55</u>	<u>55</u>	<u>110</u>
DNR Total	10,187	15,237	25,424	14,687	14,687	29,374
Board of Water and Soil Resources						

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Increase Compliance Efforts	125	125	250	125	125	250
Eliminate Funding for MN River Board	<u>(42)</u>	<u>(42)</u>	<u>(84)</u>	<u>(42)</u>	<u>(42)</u>	<u>(84)</u>
BWSR Total	83	83	166	83	83	166
Conservation Corps						
Reinstate General Fund Operations	<u>455</u>	<u>455</u>	<u>910</u>	<u>455</u>	<u>455</u>	<u>910</u>
Conservation Corps Total	455	455	910	455	455	910
Science Museum						
Operations Increase	<u>11</u>	<u>11</u>	<u>22</u>	<u>11</u>	<u>11</u>	<u>22</u>
Science Museum Total	11	11	22	11	11	22
Transfer to Closed Landfill Fund						
Adjust General Fund Repayment	-	<u>(2,100)</u>	<u>(2,100)</u>	<u>550</u>	<u>550</u>	<u>1,100</u>
Transfer to Closed Landfill Fund Total	-	(2,100)	(2,100)	550	550	1,100
Commerce Department						
Financial Oversight & Consumer Protection	1,300	1,300	2,600	1,650	1,650	3,300
Low Income Weatherization & Equipment Grants	2,150	150	2,300	150	150	300
Broadband Task Force	100	100	200	100	100	200
Bullion and Gold Coin Dealer Registration	646	642	1,288	642	642	1,284
Omnibus Energy Act	<u>364</u>	<u>100</u>	<u>464</u>	<u>22</u>	<u>13</u>	<u>35</u>
Commerce Department Total	4,560	2,292	6,852	2,564	2,555	5,119
Public Utilities Commission						
Omnibus Energy Act	<u>279</u>	<u>263</u>	<u>542</u>	<u>63</u>	<u>27</u>	<u>90</u>
Public Utilities Commission Total	279	263	542	63	27	90
Agriculture Department						
Increase Lab Operations	245	245	490	245	245	490
Increase Food Handler Inspections	225	225	450	225	225	450
Agency Administration Reduction	<u>(200)</u>	<u>(200)</u>	<u>(400)</u>	<u>(200)</u>	<u>(200)</u>	<u>(400)</u>
Agriculture Department Total	270	270	540	270	270	540
Dept Employment & Econ Development						
Minnesota Investment Fund	15,000	15,000	30,000	15,000	15,000	30,000
Redevelopment Fund	6,000	-	6,000	-	-	-
MN Job Creation Fund	12,000	12,000	24,000	12,500	12,500	25,000
Distressed City Economic Program	1,235	-	1,235	-	-	-
Host Community Economic Program	875	875	1,750	875	875	1,750
MN Film Board Jobs Fund	5,000	5,000	10,000	1,500	1,500	3,000
Other Business & Community Develop Changes	2,890	1,890	4,780	1,255	1,255	2,510
MN Trade Office	830	800	1,630	800	800	1,600
Workforce Development Changes	1,946	959	2,905	709	709	1,418

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Vocational Rehabilitation	1,000	1,000	2,000	500	500	1,000
General Support Services	150	150	300	150	150	300
Tax Bill Initiatives	<u>1,025</u>	<u>1,025</u>	<u>2,050</u>	<u>1,025</u>	<u>1,025</u>	<u>2,050</u>
DEED Total	47,951	38,699	86,650	34,314	34,314	68,628
Department of Labor and Industry						
Child Labor Safety & Wage Enforcement	<u>250</u>	<u>250</u>	<u>500</u>	<u>250</u>	<u>250</u>	<u>500</u>
Department of Labor and Industry Total	250	250	500	250	250	500
Bureau of Mediation Services						
Dispute Resolution & Supplemental Staff	<u>604</u>	<u>449</u>	<u>1,053</u>	<u>474</u>	<u>474</u>	<u>948</u>
Bureau of Mediation Services Total	604	449	1,053	474	474	948
Housing Finance Agency						
Housing & Job Growth Initiative	10,000	-	10,000	-	-	-
Housing Challenge Program	2,248	2,248	4,496	5,970	5,970	11,940
Housing Trust Fund	3,721	721	4,442	1,916	1,916	3,832
Other HFA Changes	<u>4,731</u>	<u>1,731</u>	<u>6,462</u>	<u>3,114</u>	<u>3,114</u>	<u>6,228</u>
Housing Finance Agency Total	20,700	4,700	25,400	11,000	11,000	22,000
Explore MN Tourism						
Expanded Marketing	<u>5,263</u>	<u>5,263</u>	<u>10,526</u>	<u>5,263</u>	<u>5,263</u>	<u>10,526</u>
Explore MN Tourism Total	5,263	5,263	10,526	5,263	5,263	10,526
Science and Technology Authority						
Repeal Agency	<u>(107)</u>	<u>(107)</u>	<u>(214)</u>	<u>(107)</u>	<u>(107)</u>	<u>(214)</u>
Science and Technology Authority Total	(107)	(107)	(214)	(107)	(107)	(214)
Total General Fund Spending Changes	90,473	65,731	156,204	69,843	69,798	139,641

**Table 3 - Environment, Economic Development & Agriculture
Revenue Changes Compared to Forecast**
(dollars in thousands)

Revenue Changes by Agency	Fund	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Pollution Control Agency							
Wastewater Lab Fees	Environmental	105	105	210	105	105	210
Sanitary District Fees	Environmental	75	75	150	75	75	150
	Special						
Product Stewardship Plans	Revenue	<u>52</u>	<u>52</u>	<u>104</u>	<u>52</u>	<u>52</u>	<u>104</u>
PCA Total		232	232	464	232	232	464
Department of Natural Resources							
Replace Utility Crossing Fees	General	-	(127)	(127)	(127)	(127)	(254)
Replace Utility Crossing Fees	Special						
	Revenue	-	(10)	(10)	(10)	(10)	(20)
Replace Utility Crossing Fees	Permanent						
	School	-	(164)	(164)	(164)	(164)	(328)
Replace Utility Crossing Fees	Natural						
	Resource	-	(401)	(401)	(401)	(401)	(802)
Adjust Snowmobile Registration	Natural						
	Resource	<u>(528)</u>	<u>(528)</u>	<u>(1,056)</u>	<u>(528)</u>	<u>(528)</u>	<u>(1,056)</u>
DNR Total		(528)	(1,230)	(1,758)	(1,230)	(1,230)	(2,460)
Agriculture Department							
Commercial Animal Waste License	Agriculture	<u>36</u>	<u>38</u>	<u>74</u>	<u>38</u>	<u>38</u>	<u>76</u>
Agriculture Department Total		36	38	74	38	38	76
Commerce Department							
Increase Insurance Appointment Fees	General	4,500	4,500	9,000	4,500	4,500	9,000
Cost Recovery, New FTE's	General	450	450	900	450	450	900
Transfer from Assigned Risk Acct	General	10,000	-	10,000	-	-	-
Extend Unclaimed Property Program	General	-	-	-	1,875	1,875	3,750
Bullion and Gold Coin Dealer Registration	General	668	667	1,335	667	667	1,334
Omnibus Energy Act Assessments	General	364	100	464	22	13	35
Petroleum Inspection Fee Change	General	54	54	108	54	54	108
Petroleum Inspection Fee Change	Special						
	Revenue	276	276	552	276	276	552
Omnibus Energy Act Assessments	Special						
	Revenue	375	-	375	-	-	-
Made In MN Solar Energy Incentives	Special						
	Revenue	<u>7,500</u>	<u>15,000</u>	<u>22,500</u>	<u>15,000</u>	<u>15,000</u>	<u>30,000</u>

Revenue Changes by Agency	Fund	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Commerce Department							
Total		24,187	21,047	45,234	22,844	22,835	45,679
Public Utilities Commission							
Omnibus Energy Act Assessments	General	<u>279</u>	<u>263</u>	<u>542</u>	<u>63</u>	<u>27</u>	<u>90</u>
Public Utilities Commission Total		279	263	542	63	27	90
Dept Employment & Economic Development							
Transfer from Unemployment Insurance Acct	General	7,500	7,500	15,000	-	-	-
River Centre Loan Forgiveness	General	(500)	(500)	(1,000)	(4,000)	(4,750)	(8,750)
Cancel 2012 Flood Appropriation (HFA)	General	3,000	-	3,000	-	-	-
Unemployment Insurance transfer to General Fund	Special Revenue	<u>(7,500)</u>	<u>(7,500)</u>	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEED Total		2,500	(500)	2,000	(4,000)	(4,750)	(8,750)
Department of Labor and Industry							
Combative Sports Fee Adjustment	Special Revenue	41	41	82	41	41	82
Elevator and Plumbing Fee Changes	Special Revenue	214	168	382	168	168	336
Wind Turbine Inspection Fee Change	Special Revenue	<u>(26)</u>	<u>(26)</u>	<u>(52)</u>	<u>(26)</u>	<u>(26)</u>	<u>(52)</u>
Department of Labor and Industry Total		229	183	412	183	183	366
Science and Technology Authority							
Repeal Fee	Special Revenue	<u>(5)</u>	<u>(5)</u>	<u>(10)</u>	<u>(5)</u>	<u>(5)</u>	<u>(10)</u>
Science and Technology Authority Total		(5)	(5)	(10)	(5)	(5)	(10)
Total Revenue Changes by Fund							
General Fund		26,315	12,907	39,222	3,504	2,709	6,213
Environmental Fund		180	180	360	180	180	360
Special Revenue Fund		927	7,996	8,923	15,496	15,496	30,992
Permanent School Fund		-	(164)	(164)	(164)	(164)	(328)
Agriculture Fund		36	38	74	38	38	76
Natural Resource Fund		(528)	(929)	(1,457)	(929)	(929)	(1,858)
Total Revenue Changes for Budget Area		26,930	20,028	46,958	18,125	17,330	35,455

JUDICIARY

The FY 2014-2015 budget for Judiciary appropriations totals \$1.9 billion, most of which is appropriated from the General Fund. Chapter 86, the Omnibus Judiciary Finance Act, appropriated approximately \$1.8 billion from the General Fund for the judiciary and the state departments, agencies, and boards in the Judiciary budget area.

As shown in Table 1, General Fund appropriations are \$93.5 million, or 5.6 percent over the FY 2014-2015 forecast base, and \$100.9 million, or 5.7 percent over FY 2012-2013 spending. A onetime transfer from the Special Revenue Fund into the General Fund accounts for an additional \$2.6 million savings to the General Fund. This transfer is displayed in Appendix A.

Table 1 - Judiciary
All Funds Biennial Spending by Agency and Fund
(dollars in thousands)

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted- FY 2012-13	Change: Enacted - Base
Supreme Court					
General Fund	83,249	83,550	89,739	6,490	6,189
Special Revenue Fund	6,763	6,838	6,838	75	-
Federal Fund	7,876	7,226	7,226	(650)	-
Gift Fund	39	30	30	(9)	-
Total Supreme Court	97,927	97,644	103,833	5,906	6,189
Court of Appeals					
General Fund	20,334	20,456	21,676	1,342	1,220
District Courts					
General Fund	470,339	473,656	504,081	33,742	30,425
Special Revenue Fund	2,542	1,661	1,661	(881)	-
Federal Fund	20,092	25,256	25,256	5,164	-
Gift Fund	159	80	80	(79)	-
Total District Courts	493,132	500,653	531,078	37,946	30,425
Guardian ad litem					
General Fund	24,134	24,134	25,170	1,036	1,036
Special Revenue Fund	4,545	1,060	1,060	(3,485)	-
Gift Fund	1			(1)	-
Total Guardian ad litem	28,680	25,194	26,230	(2,450)	1,036

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted- FY 2012-13	Change: Enacted - Base
Tax Court					
General Fund	1,650	1,650	2,058	408	408
Uniform Laws Commission					
General Fund	98	98	231	133	133
Board on Judicial Standards					
General Fund	1,202	912	1,212	10	300
Legal Profession Boards					
Special Revenue	12,315	13,202	13,202	887	-
Public Defense Board					
General Fund	132,920	131,952	144,310	11,390	12,358
General Fund Transfer In	-	700	700	700	-
Special Revenue	6,754	30	30	(6,724)	-
Federal Fund	551	-	-	(551)	-
Gift Fund	96	-	-	(96)	-
Total Public Defense Bd.	140,321	132,682	145,040	4,719	12,358
Peace Officers Standards and Training					
Special Revenue Fund	8,241	8,240	8,440	199	200
Private Detective Board					
General Fund	240	240	240	-	-
Human Rights Department					
General Fund	6,339	6,336	6,594	255	258
Special Revenue Fund	196	272	272	76	-
Federal Fund	3	-	-	(3)	-
Total Human Rights	6,538	6,608	6,866	328	258
Corrections *					
General Fund	913,033	927,897	968,795	55,762	40,898
General Fund Transfer Out	(90)	-	-	90	-
Special Revenue Fund	33,209	32,123	32,123	(1,086)	-
Federal Fund	10,541	5,355	6,952	(3,589)	1,597
Gift Fund	13	14	14	1	-
Total Corrections	956,706	965,389	1,007,884	51,178	42,495
Sentencing Guidelines					
General Fund	1,172	1,172	1,472	300	300

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted- FY 2012-13	Change: Enacted - Base
Totals by Fund					
General Fund	1,654,710	1,672,053	1,765,578	110,868	93,525
General Fund Transfer	(90)	700	700	790	-
Special Revenue Fund	74,565	63,426	63,626	(10,939)	200
Federal Fund	39,063	37,837	39,434	371	1,597
Gift Fund	308	124	124	(184)	-
					-
Totals All Funds	1,768,556	1,774,140	1,869,462	100,906	95,322
* Includes \$21,000 appropriated in Chapter 122, the State Claims Bill.					

Supreme Court

Chapter 86 appropriated \$65.2 million from the General Fund in FY 2014-2015 to the Supreme Court for operations, and an additional \$24.5 million for Civil Legal Services, which provides legal representation in civil matters to low-income people who could not otherwise afford an attorney. The Supreme Court operations appropriation represents an increase of \$3.7 million, or six percent increase over base funding. The appropriation includes salary increases for court staff of three percent each year, and salary increases for Supreme Court judges of four percent the first year and three percent the second year. The enacted budget also appropriated \$1.0 million for data collection and integration into the criminal history system for the purposes of conducting more accurate background checks. The Civil Legal Services appropriation represents an increase of \$2.5 million, or 11.4 percent over its base budget.

Court of Appeals

Chapter 86 appropriated \$21.7 million from the General Fund in FY 2014-2015 to the Court of Appeals, an increase of \$1.2 million, or six percent of the court's base budget. As with the Supreme Court, the

appropriation includes salary increases of three percent each year for court staff and salary increases of four percent the first year and three percent the second year for Appeals Court judges, as well as \$112,000 for the state share of the judges' pension contribution increase. In addition, the enacted budget appropriated \$46,000 for reimbursement of certain living expenses for Appeals Court judges' who live out-state.

District Courts

The Legislature appropriated \$504.1 million from the General Fund in FY 2014-2015 to the District Courts, an increase of \$30.4 million, or 6.5 percent of the courts' base budgets. Again, this appropriation includes staff salary increases of three percent each year and judge salary increases of four percent the first year and three percent the second year, as well as \$1.6 million for the state share of the judges' pension contribution increase. Chapter 86 also appropriated \$1.750 million for additional specialty court funding.

Guardian Ad Litem Board

Chapter 86 appropriated \$25.2 million from the General Fund in FY 2014-2015 to the Guardian Ad Litem Board, an increase of \$1 million, or 4.3 percent of the board's base

budget. The increase is for salary and health insurance increases.

Tax Court

Chapter 86 appropriated \$2.1 million from the General Fund in FY 2014-2015 to the Tax Court, an increase of \$408,000, or 2.5 percent over the court's base budget. Included in the appropriation are judicial salary increases of three percent each year, \$260,000 for two additional law clerks, \$50,000 for continuing legal education, and \$50,000 for case management system support costs.

Uniform Laws Commission

Chapter 86 appropriated \$231,000 from the General Fund in FY 2014-2015 to the Uniform Laws Commission, an increase of \$133,000 over the commission's base budget. The increase paid back dues owed to the federal Uniform Laws Commission and expenses for attending the annual commission conference.

Board on Judicial Standards

Chapter 86 appropriated \$1.2 million from the General Fund in FY 2014-2015 to the Board on Judicial Standards. Of this appropriation, \$300,000 is for disciplinary and disability hearings conducted in fiscal year 2013.

Board of Public Defense

Chapter 86 appropriated \$145 million from the General Fund in FY 2014-2015 to the Board of Public Defense, an increase of \$12.4 million, or 9.4 percent of the board's base budget. The appropriation includes increases for employee compensation, health insurance, and money for caseload reductions. The enacted budget requires the board to pay all outstanding transcript billings as of June 30, 2013, and to report to the Legislature how the appropriation was spent, including information on new

attorney and staff hires, salary and benefit increases, caseload reductions, technology improvements, and transcript costs and billings.

Peace Officer Standards and Training (POST) Board

Chapter 86 appropriated \$7.7 million from the Special Revenue Fund in FY 2014-2015 to the POST Board, an increase of \$200,000, or 2.7 percent of its base budget. The increase is for reimbursements to local governments for police officer training.

Private Detective Board

Chapter 86 appropriated \$240,000 from the General Fund to the Private Detective Board. This funds the board at its FY 2014-2015 base budget.

Department of Human Rights

Chapter 86 appropriated \$6.6 million from the General Fund in FY 2014-2015 to the Department of Human Rights, an increase of \$258,000, or 4.1 percent of its base budget. The increase is for two new contract compliance officers.

Department Of Corrections

Chapter 86 appropriated \$968.8 million from the General Fund in FY 2014-2015 to the Department of Corrections (DOC), an increase of \$40.9 million, or 4.4 percent over its base budget. In addition, the Legislature transferred \$2.6 million from the MINNCOR (prison industry) Revolving Fund to the General Fund.

DOC – Institutions

The enacted budget increased the Institutions Division appropriation by \$32.9 million over the biennium, or five percent of its base budget. Major initiatives include \$32.5 million for employee compensation and retention and \$3 million for chemical

dependency and sex offender treatment beds.

DOC - Community Services

Chapter 86 increased the Community Services Division appropriation by \$6.3 million, or 2.8 percent of its base budget. The appropriation includes \$3.8 million for employee compensation and health insurance increases, a \$2 million increase for the Community Corrections Act (CCA) subsidy, and a \$400,000 increase for County Probation Officer (CPO) reimbursements.

DOC - Operations Support

Chapter 86 increased the Operations Support appropriation in FY 2014-2015 by \$1.7 million, or 3.9 percent of its base budget. The increase is for employee compensation and health insurance increases.

DOC - Inmate Medicaid Eligibility

Chapter 86 authorized Medicaid eligibility for state and local inmates who undergo inpatient hospital treatment. Under the existing law, inpatient costs for inmates were borne by the state or the county to whom the inmate was committed.

By authorizing Medicaid eligibility for inpatient treatment (thereby shifting costs to the federal government) the state will save an estimated \$8.3 million in the FY 2014-2015 biennium and \$13.6 million in the FY 2016-2017 biennium, and the counties will save a commensurate amount.

Sentencing Guidelines Commission

Chapter 86 appropriated \$1.5 million from the General Fund in FY 2014-2015 to the Sentencing Guideline Commission, an increase of \$300,000. The increase is a onetime appropriation for the development of an electronic sentencing worksheet.

<p align="center">Table 2 - Judiciary General Fund Changes Compared to Forecast <i>(dollars in thousands)</i></p>						
Agency Change Item -- Appropriations	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Supreme Court						
Salary and Health Insurance Increases	799	1,651	2,450	1,651	1,651	3,302
Judges' Salary Increase	52	93	145	93	93	186
State Share Judges' Pension Increases	22	22	44	22	22	44
Data Integration Project 1994-2008 Civil Commitment Data Merge	250	-	250	--	-	-
Total Supreme Court	1,523	2,166	3,689	1,766	1,766	3,532
Civil Legal Services						
Caseload Reduction	1,250	1,250	2,500	1,250	1,250	2,500
Court of Appeals						
Salary and Health Insurance Increases	225	467	692	467	467	934
Judges' Salary Increase	133	237	370	237	237	474

Agency Change Item -- Appropriations	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
State Share Judges' Pension Increases	55	57	112	57	57	114
Appeals Court Judge Reimbursement	-	46	46	115	135	250
Total Court of Appeals	413	807	1,220	876	896	1,772
District Courts						
Salary and Health Insurance Increases	7,078	14,728	21,806	14,728	14,728	29,456
Judges' Salary Increase	1,900	3,382	5,282	3,382	3,382	6,764
Additional Specialty Court Funding	875	875	1,750	875	875	1,750
State Share Judges' Pension Increases	778	809	1,587	809	809	1,618
Total District Courts	10,631	19,794	30,425	19,794	19,794	39,588
Guardian ad litem						
Salary and Health Insurance Increases	347	689	1,036	689	689	1,378
Tax Court						
Two Law Clerks	130	130	260	130	130	260
Continuing Legal Education	25	25	50	25	25	50
Westlaw Access	6	6	12	6	6	12
Judges' Salary Increase	12	24	36	24	24	48
Case Management System Support	25	25	50	25	25	50
Total Tax Court	198	210	408	210	210	420
Uniform Laws Commission						
Base Increase and Back Dues	98	35	133	35	35	70
Board on Judicial Standards						
Disciplinary and Disability Hearings	300	-	300	-	-	-
Board of Public Defense						
Salary and Health Insurance Increases	2,822	5,736	8,558	5,736	5,736	11,472
Caseload Reduction	1,900	1,900	3,800	1,900	1,900	3,800
Total Board of Public Defense	4,722	7,636	12,358	7,636	7,636	15,272
Human Rights						
Two Enforcement Officers	129	129	258	129	129	258
DEPARTMENT OF CORRECTIONS						
Corrections - Institutions						
Salary and Health Insurance Increases	14,009	18,451	32,460	18,451	18,451	36,902
CD and Sex Offender Treatment Beds	1,500	1,500	3,000	1,500	1,500	3,000
Beds - 3 Year Repeat Sex Offenders	12	44	56	83	98	181
Early Release Nonviolent Drug Offenders	(37)	(83)	(120)	(110)	(118)	(228)
Savings Inpatient Medicaid Eligibility	(1,969)	(6,288)	(8,257)	(6,609)	(6,946)	(13,555)
DOC Share Inpatient Medicaid Eligibility	646	2,022	2,668	2,123	2,466	4,589
Health Services Improvements	502	2,576	3,078	2,576	2,576	5,152
Total - Institutions	14,663	18,222	32,885	18,014	18,027	36,041

Agency Change Item -- Appropriations	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Corrections - Community Services						
Salary and Health Insurance Increases	1,659	2,185	3,844	2,185	2,185	4,370
CCA Subsidy Increase	1,025	1,025	2,050	1,025	1,025	2,050
County Probation Officer Reimbursement Increase	200	200	400	200	200	400
Total - Community Services	2,884	3,410	6,294	3,410	3,410	6,820
Corrections - Operational Services						
Salary and Health Insurance Increases	733	965	1,698	965	965	1,930
Corrections Claims Bill (Chapter 122)	21	-	21	-	-	-
TOTAL - DEPARTMENT OF CORRECTIONS	18,301	22,597	40,898	22,389	22,402	44,791
Sentencing Guidelines						
Sentencing Worksheet	300	-	300	-	-	-
Total Judiciary Appropriation Changes	38,212	55,313	93,525	54,774	54,807	109,581
Agency Change Item -- GF Transfers						
Peace Officers Standards and Training						
Increase - Transfer Out of General Fund	(100)	(100)	(200)	(100)	(100)	(200)
Corrections						
MINCORR Revolving Fund Transfer in to GF	1,300	1,300	2,600	-	-	-
Total Judiciary Transfers in to GF	1,200	1,200	2,400	(100)	(100)	(200)
Grand Total Judiciary Budget Changes	37,012	54,113	91,125	54,874	54,907	109,781

TRANSPORTATION AND PUBLIC SAFETY

The Transportation and Public Safety budget, comprising the Department of Transportation, the Metropolitan Council, and the Department of Public Safety, was primarily enacted in two chapters in the 2013 Legislative Session. The enacted budget for FY 2014-2015 appropriated a total of \$7.2 billion in all-funds for the FY 2014-2015 biennium, including \$5.2 billion in Chapter 117, the Omnibus Transportation Finance Act, and \$319 million for public safety in Chapter 86, the Omnibus Judiciary and Public Safety Finance Act. (The Judiciary appropriations are discussed in the Judiciary chapter of this report.) The total FY 2014-2015 appropriations are an

increase of \$587.3 million, or 8.9 percent, over the FY 2012-2013 biennium, and an increase of \$468.4 million, or 7.0 percent, over the February 2013 forecast for FY 2014-2015.

As shown in Table 1, of the \$7.2 billion in total transportation and public safety appropriations for FY 2014-2015, \$5.7 billion is appropriated to the Minnesota Department of Transportation (MnDOT); \$646 million to the Metropolitan Council for metro-area transit operations, including bus transit and rail transit; and \$870 million to the Department of Public Safety (DPS) for transportation and criminal justice programs.

Table 1 Transportation and Public Safety Biennial Appropriation/Spending by Agency and Fund - All Funds FY 2014-15 <i>(dollars in thousands)</i>					
Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Dept of Transportation:					
General Fund	31,673	34,291	35,547	3,874	1,256
Trunk Highway Fund*	2,678,087	2,523,821	2,914,321	236,234	390,500
State Airports Fund	42,019	41,804	40,504	(1,515)	(1,300)
County State Aid Highway Fund	1,043,123	1,205,701	1,199,355	156,232	(6,346)
Municipal State Aid Street Fund	297,239	338,360	338,648	41,409	288
Special Revenue Fund	92,166	103,159	103,221	11,055	62
State Govt Special Revenue Fund	16,650	17,300	17,300	650	-
Highway User Tax Distribution Fund	321	388	463	142	75
Transit Assistance Fund	61,594	76,005	80,593	18,999	4,588
Federal Fund	822,165	946,516	947,117	124,952	601
Total for Dept. of Transportation	5,085,037	5,287,345	5,677,069	592,032	389,724
Metropolitan Council Transit:					
General Fund	78,076	129,859	184,859	106,783	55,000
Transit Assistance Fund	416,566	460,439	461,231	44,665	792

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Total for Met Council Transit	494,642	590,298	646,090	151,448	55,792
Dept of Public Safety (Trans):					
General Fund	16,376	15,900	18,679	2,303	2,779
General Fund (TR OUT)	(1,584)	(1,584)	(1,584)	-	-
Trunk Highway Fund	171,804	171,861	174,607	2,803	2,746
Highway User Tax Distribution Fund	18,146	18,160	18,168	22	8
Special Revenue Fund	143,676	168,685	170,993	27,317	2,308
State Govt Special Revenue Fund	2,869	2,812	2,812	(57)	-
Gift Fund	200	133	133	(67)	-
Federal Fund	106,931	118,902	119,350	12,419	448
Total for DPS-Transportation	458,418	494,869	503,158	44,740	8,289
Dept of Public Safety (Criminal Justice):					
General Fund	200,711	153,326	166,735	(33,976)	13,409
State Govt Special Revenue Fund	73,431	65,397	65,397	(8,034)	-
Special Revenue Fund	49,180	48,223	48,723	(457)	500
Gift Fund	59	54	54	(5)	-
Trunk Highway Fund	3,882	3,882	4,532	650	650
Environmental Fund	138	138	138	-	-
Federal Fund	239,256	80,159	80,159	(159,097)	-
Total for DPS-Criminal	566,657	351,179	365,738	(200,919)	14,559
Total for Dept of Public Safety	1,025,075	846,048	868,896	(156,179)	22,848
TOTALS BY FUND:					
General Fund	326,836	333,376	405,820	78,984	72,444
General Fund (TR OUT)	(1,584)	(1,584)	(1,584)	-	-
Trunk Highway Fund	2,853,773	2,699,564	3,093,460	239,687	393,896
State Airports Fund	42,019	41,804	40,504	(1,515)	(1,300)
County State Aid Highway Fund	1,043,123	1,205,701	1,199,355	156,232	(6,346)
Municipal State Aid Street Fund	297,239	338,360	338,648	41,409	288
Special Revenue Fund	285,022	320,067	322,937	37,915	2,870
Highway User Tax Distribution Fund	18,467	18,548	18,631	164	83
Federal Fund	1,168,352	1,145,577	1,146,626	(21,726)	1,049
Transit Assistance Fund	478,160	536,444	541,824	63,664	5,380
State Govt Special Revenue Fund	92,950	85,509	85,509	(7,441)	-
Gift Fund	259	187	187	(72)	-
Environmental Fund	138	138	138	-	-
TOTAL FOR TRANSPORTATION:	6,604,754	6,723,691	7,192,055	587,301	468,364

General Fund appropriations for transportation and public safety total \$405.8 million for the FY 2014-2015 biennium, an increase of \$79 million, or 24.2 percent,

from the 2012-2013 biennium, and an increase of \$72.4 million, or 21.7 percent, from the February 2013 forecast base for FY 2014-2015.

Table 2 - Transportation and Public Safety
General Fund Spending Changes Compared to Forecast
(dollars in thousands)

	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
<u>Spending Changes</u>						
<i>Department of Transportation:</i>						
MN Council on Transportation Access Grants for Costs of Rides for Disabled Veterans	-	100	100	100	100	200
Superfund Rail Site Cleanup	78	78	156	78	78	156
Safe Routes to School Grants	500	-	500	-	-	-
MnDOT Total Spending Changes	828	428	1,256	428	428	856
<i>Metropolitan Council:</i>						
Metro Transit Operating Increase	6,000	12,000	18,000	11,716	11,716	23,432
Southwest LRT (one-time appropriation)	37,000	-	37,000	-	-	-
Met Council Total Spending Changes	43,000	12,000	55,000	11,716	11,716	23,432
<i>Department of Public Safety:</i>						
State Patrol Retirement Plan Contributions	-	95	95	95	189	284
Soft Body Armor Reimbursement	92	92	184	92	92	184
Capitol Security Taskforce Recommendations	1,250	1,250	2,500	1,250	1,250	2,500
Minnesota School Safety Center	455	405	860	405	405	810
BCA Criminal History System	50	580	630	4,930	417	5,347
BCA Criminal Reporting System	1,360	1,360	2,720	1,360	380	1,740
BCA Forensic Lab Equipment	125	125	250	125	125	250
BCA Forensic Lab Staffing	200	200	400	200	200	400
Livescan Fingerprinting Maintenance	310	389	699	389	389	778
Crime Victims Assistance Grants	1,500	1,500	3,000	1,500	1,500	3,000
Youth Intervention Programs Grants	1,000	1,000	2,000	1,000	1,000	2,000
Community Offender Re-entry	100	100	200	-	-	-
Local Grants for Sex Traffic Victim Training	350	350	700	-	-	-
Juvenile Detention Alternative Initiative	50	50	100	-	-	-
Community Safety De-escalation Grants	50	50	100	-	-	-
Federal Disaster Assistance Match	1,750	-	1,750	-	-	-
DPS Total Spending Changes	8,642	7,546	16,188	11,346	5,947	17,293
Total General Fund Spending Changes	52,470	19,974	72,444	23,490	18,091	41,581

MINNESOTA DEPARTMENT OF TRANSPORTATION (MnDOT)

MnDOT will receive \$5.7 billion in total appropriations for the FY 2014-2015 biennium, an increase of \$592 million, or 11.6 percent, over FY 2012-2013 biennial spending, and an increase of \$390 million, or 7.4 percent, over the February 2013 forecast base.

Of MnDOT's total appropriations, 51.3 percent (\$2.9 billion) is from the Trunk Highway Fund, which receives revenues from the motor fuels tax, vehicle registration tax, and motor vehicle sales tax. The Trunk Highway Fund also receives federal highway aid for road construction. For the FY 2014-2015 biennium, the federal highway aid is estimated to be \$1.0 billion, or approximately 35 percent of MnDOT's total Trunk Highway Fund appropriation.

Aeronautics

Chapter 117 made a onetime reduction of \$1.3 million in FY 2014-2015 for airport development and assistance grants from the State Airports Fund base. This reduction was made to eliminate a projected negative fund balance in FY 2014 and FY 2015. This will result in a biennial reduction of 3.6 percent from FY 2012-2013 spending.

Chapter 143, the Omnibus Tax Act, made a series of changes to the revenues deposited in the State Airports Fund. As discussed in the State Revenues chapter, the sales tax on aircraft that was formerly deposited in the General Fund will be deposited in the State Airports Fund beginning on July 1, 2013. This results in an annual increase to the State Airports Fund of \$2.9 million beginning in FY 2014. In addition, Chapter 143 increased the aviation fuels tax and decreased the aircraft registration tax, both deposited in the State Airports Fund,

resulting in an annual \$1.9 million loss to the fund beginning in FY 2015. The effect to the State Airports Fund as a result of all changes in Chapter 143 is a net increase of \$3.9 million over the FY 2014-2015 biennium.

Greater Minnesota Transit

Chapter 117 appropriated \$115 million in state funds to MnDOT for assistance to locally run transit services outside of the seven-county metropolitan area. This is an increase of \$21.9 million, or 23.5 percent, over spending in FY 2012-2013, and an increase of \$4.8 million, or 4.2 percent, over the February 2013 forecast base.

The majority of the greater Minnesota transit appropriations (70 percent) are statutorily appropriated from the Transit Assistance Fund, which receives portions of the motor vehicle sales tax (MVST) and motor vehicle leasing sales tax (MVLST). The remainder of state funding is directly appropriated from the General Fund (29 percent) and Trunk Highway Fund (one percent).

The first \$32 million of annual MVLST revenues are deposited in the General Fund, and all remaining revenues are allocated 50 percent to the greater Minnesota transit account in the Transit Assistance Fund and 50 percent to the County State-Aid Highway Fund (Local Roads section below provides additional detail). Chapter 117 made a onetime adjustment to this formula for FY 2014-2015, limiting the allocation to the County State-Aid Highway Fund to \$9 million in each year. This will result in an additional \$4.5 million for greater Minnesota transit operations spending in the biennium.

Safe Routes to School

Chapter 117 appropriated \$500,000 from the General Fund in FY 2014-2015 for grants to

local jurisdictions for Safe Routes to School programs to encourage walking and bicycling to school. This is a new funding initiative, which adds ongoing state funding to an existing federal program administered by MnDOT.

State Roads

Of the \$2.9 billion of total Trunk Highway Fund spending by MnDOT in FY 2014-2015, approximately \$1.7 billion, or 59 percent, is appropriated for state road construction, engineering, and design. This is an increase of \$204 million, or 13.4 percent, from the FY 2012-2013 biennium, and an increase of \$380 million, or 28 percent, over the February 2013 forecast base. This projected state road construction spending increase from the Trunk Highway Fund includes:

- an additional \$265 million of authorized federal highway funds;
- a onetime appropriation of \$95 million in FY 2014 for selected construction investments; and
- \$20 million for grants under the Transportation Economic Development program, in partnership with the Department of Employment and Economic Development.

Chapter 117 also appropriated \$524.8 million from the Trunk Highway Fund for state road operations and maintenance, including an ongoing \$10 million biennial increase for increased costs of commodities such as salt, sand, and gasoline; and \$413.4 million for state road program planning and delivery, including \$500,000 for establishment of a Joint Program Office for Economic Development and Alternative Finance.

In addition, the enacted budget appropriated \$348.2 million from the Trunk Highway

Fund for debt service payments on previously authorized trunk highway bonds for state road construction.

Chapter 93 allowed MnDOT to distribute portions of the remnant steel from the former I-35W Bridge to interested parties, including survivors of the bridge collapse. The remaining steel will be recycled, and the proceeds will be deposited in the General Fund, less \$22,000 that will remain in the Trunk Highway Fund to cover costs of disbursement and disposal. This will result in \$645,000 in additional nondedicated revenue to the General Fund in FY 2014, as shown in Table 3.

Local Roads

The FY 2014-2015 MnDOT budget includes appropriations of \$1.2 billion for county state-aid roads and \$338.6 million for municipal state-aid roads, which reflect increases of 15 percent and 13.9 percent, respectively, over the FY 2012-2013 biennium. These funds are allocated to all 87 counties, and to cities with a population of 5,000 or greater, based on statutory distribution formulas.

Chapter 117 enacted a onetime adjustment to the motor vehicle leasing sales tax allocation formula, which will reallocate \$10.8 million of tax revenues from the County-State-Aid Highway Fund to the Transit Assistance Fund for FY 2014-2015 only.

METROPOLITAN COUNCIL – TRANSIT

The Metropolitan Council will receive \$646 million in total appropriations for the FY 2014-2015 biennium for metropolitan transit operations and transportation planning. This is an increase of \$151.5 million, or 30.6 percent, over FY 2012-2013 spending, and

an increase of \$55.8 million, or 9.5 percent, over the February 2013 forecast.

The enacted budget appropriated an additional \$18 million from the General Fund in FY 2014-2015 to alleviate ongoing funding shortfalls in light rail transit operations. In addition, Chapter 117 appropriated \$37 million from the General Fund on a onetime basis to Metropolitan Council in FY 2014 for state costs associated with the future Southwest Light Rail transit corridor.

The Metropolitan Council will also receive an increase of \$44.7 million, or 10.7 percent, in dedicated motor vehicle sales tax (MVST) revenues over FY 2012-2013.

DEPARTMENT OF PUBLIC SAFETY

Transportation Divisions

The Department of Public Safety will receive \$503.2 million in total appropriations for the FY 2014-2015 biennium for transportation-related activities. The appropriation is an increase of \$44.7 million, or 9.8 percent, over the previous biennium, and an increase of \$8.3 million, or 1.7 percent, over the February 2013 forecast base.

Administration and Related Services

Chapter 117 appropriated \$9.8 million from the General Fund, \$2.8 million from the Highway User Tax Distribution Fund, and \$12.7 million from the Trunk Highway Fund for administration, support, and technical services of the Department of Public Safety. These appropriations include small biennial increases from the General Fund (\$184,000) and the Trunk Highway Fund (\$200,000) for reimbursement costs of soft body armor for state police officers and state troopers.

State Patrol

Chapter 117 appropriated \$160.4 million from the Trunk Highway Fund, \$8.8 million from the General Fund, and \$1.6 million from the Highway User Tax Distribution Fund for biennial State Patrol operations, for a total increase of \$4.5 million, or 2.7 percent, over the February 2013 forecast for FY 2014-2015. The ongoing increases include an additional \$2.0 million from the Trunk Highway Fund for increased costs of fuel for state patrol vehicles, and \$2.5 million from the General Fund for the hiring of an emergency manager and additional state troopers assigned to Capitol Complex security.

Driver and Vehicle Services

The enacted budget appropriated \$97.8 million from the Special Revenue Fund for FY 2014-2015 operations of Driver and Vehicle Services (DVS), an increase of \$2.3 million, or 2.4 percent, over the February 2013 forecast for FY 2014-2015. This appropriation includes funding for several new initiatives, including: \$800,000 in FY 2015 for replacement of the DVS telephone system; and \$1.5 million for additional staff, including staff to reduce vehicle title processing time.

DEPARTMENT OF PUBLIC SAFETY

Criminal Divisions

The Department of Public Safety will receive \$870.5 million in total appropriations for the FY 2014-2015 biennium for criminal justice-related activities. The appropriation is a decrease of \$154.6 million, or 15.1 percent, from the previous biennium, and an increase of \$22.8 million, or 2.7 percent, over the February 2013 forecast for FY 2014-2015.

Homeland Security and Emergency Management

Chapter 86 appropriated \$4.6 million from the General Fund to the Office of Homeland Security and Emergency Management, an increase of \$860,000. The increased amount is for the Minnesota School Safety Center. The enacted budget also appropriated \$1.2 million from the Fire Safety Account in the Special Revenue Fund for hazardous material and chemical assessment team grants.

Chapter 141, relating to disaster assistance, appropriated \$1.8 million from the General Fund to the Office of Homeland Security and Emergency Management for disaster aid for the April 2013 severe winter storm in southwest Minnesota.

Bureau of Criminal Apprehension (BCA)

Chapter 86 appropriated \$85.2 million from the General Fund to the Bureau of Criminal Apprehension, an increase of \$4.7 million, or 5.8 percent, over the February 2013 forecast. This appropriation includes funding for several new initiatives, including: \$2.7 million to replace the state criminal reporting system; \$250,000 for forensic lab equipment; \$400,000 for forensic lab staffing; \$699,000 to maintain the state's 177 livescan fingerprinting machines; and \$630,000 for the state criminal history system. The enacted budget also appropriated an additional \$5 million from the Vehicle Services Account in the Special Revenue Fund for the state criminal history system. Other non-General Fund appropriations include \$250,000 from the Vehicle Services Account in the Special Revenue Fund for forensic lab equipment; \$400,000 from the Trunk Highway Fund for forensic lab staffing; and \$3.9 million from the Trunk Highway Fund for DWI lab testing.

To complete the replacement of the criminal history system, Chapter 140 increased the FY 2016-2017 General Fund tails by \$4.2 million.

Gambling and Alcohol Enforcement

Chapter 86 appropriated \$3.2 million from the General Fund to the Gambling and Alcohol Enforcement Division. This represents no change from the February 2013 forecast; however, the enacted budget adds a \$500,000 appropriation from the Special Revenue Fund for oversight of electronic pull-tabs.

Office of Justice Programs

Chapter 86 appropriated \$72 million to the Office of Justice Programs, an increase of \$6.1 million, or 9.3 million percent over base funding. The increase includes the following initiatives:

- \$3 million for crime victim assistance grants;
- \$2 million for youth intervention programs;
- \$700,000 to combat sex trafficking;
- \$200,000 for a community offender reentry program;
- \$100,000 for juvenile detention alternatives; and
- \$100,000 for community safety de-escalation grants.

Emergency Communication Networks

Chapter 86 appropriated \$122.8 million from the State Government Special Revenue Fund to the Emergency Communication Networks Division, an increase of \$1.6 million, or 1.3 percent over its base budget. The appropriation is supported by 911 service fees assessed on all telephone lines. The appropriation funds public safety answering points, medical resource communication centers, debt service, operating and maintenance costs for the

Allied Radio Matrix for Emergency Response System (ARMER), and Metropolitan Council debt service.

Table 3 - Transportation and Public Safety Revenue Changes Compared to Forecast <i>(dollars in thousands)</i>							
Revenue Changes by Agency	Fund	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Department of Transportation:							
I-35W Bridge Remnant Steel Disposition	General	645	-	645	-	-	-
Aeronautics tax changes (cumulative)	State Airports	2,900	1,000	3,900	1,200	1,300	2,500
Motor Vehicle Leasing Sales Tax Allocation	Transit Asst	4,500	6,300	10,800	-	-	-
Motor Vehicle Leasing Sales Tax Allocation	County State Aid	(4,500)	(6,300)	(10,800)	-	-	-
Motor Vehicle Sales Tax Changes	Trunk Highway County State Aid	389	389	778	389	389	778
Motor Vehicle Sales Tax Changes	Aid	215	215	430	215	215	430
Motor Vehicle Sales Tax Changes	Muni State Aid	56	56	112	56	56	112
Motor Vehicle Sales Tax Changes	Transit Asst Special Revenue	44	44	88	44	44	88
Overweight vehicle permits	Revenue	-	-	-	13	20	33
MnDOT Total		4,249	1,704	5,953	1,917	2,024	3,941
Metropolitan Council:							
Motor Vehicle Sales Tax Changes	Transit Asst	396	396	792	396	396	792
Met Council Total		396	396	792	396	396	792
Department of Public Safety:							
High-Value Vehicle Threshold Increase	General Special	(30)	(30)	(60)	(30)	(30)	(60)
High-Value Vehicle Threshold Increase	Revenue Special	(23)	(23)	(46)	(23)	(23)	(46)
Driver's License Fee Increase	Revenue	750	1,500	2,250	1,500	1,500	3,000
Tech. Change to Employee Background Check	Special Revenue	(20)	(20)	(40)	(20)	(20)	(40)
DPS Total		677	1,427	2,104	1,427	1,427	2,854
Total Revenue Changes by Fund							
General Fund		615	(30)	585	(30)	(30)	(60)
State Airports Fund		2,900	1,000	3,900	1,200	1,300	2,500
Transit Assistance Fund		4,940	6,740	11,680	440	440	880
County State Aid Highway Fund		(4,285)	(6,085)	(10,370)	215	215	430
Municipal State Aid Street Fund		56	56	112	56	56	112
Trunk Highway Fund		389	389	778	389	389	778
Special Revenue Fund		707	1,457	2,164	1,470	1,477	2,947
Total Revenue Changes for Transportation & Public Safety		5,322	3,527	8,849	3,740	3,847	7,587

STATE GOVERNMENT FINANCE

The State Government Omnibus Finance Act (Chapter 142) contained appropriations for the Legislature, constitutional officers, and administrative state agencies totaling \$927.7 million for FY 2014-2015. General Fund appropriations contained in other acts

for agencies in this budget area added \$38.9 million bringing the total to \$966.2 million for FY 2014-2015. Funding from all sources totaled \$1.6 billion. Table 1 summarizes the State Departments and Veterans budget across all-funds.

**Table 1 – State Government
All Funds Biennial Spending by Agency & Fund**
(dollars in thousands)

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Legislature					
General Fund	129,437	126,162	138,205	8,768	12,043
State Government Special Revenue Fund	45	-	-	(45)	-
Special Revenue Fund	487	300	300	(187)	-
Health Care Access Fund	128	256	256	128	-
Gift Fund	27	-	-	(27)	-
Federal Fund	173	594	594	421	-
Subtotal for Legislature	130,297	127,312	139,355	9,058	12,043
<i>Dedicated/Constitutional Funds</i>					
Outdoor Heritage Fund	1,388	-	483	(905)	483
Arts and Cultural Heritage Fund	43	-	18	(25)	18
Clean Water Fund	13	-	30	17	30
Parks and Trails Fund	7	-	13	6	13
<i>Subtotal Dedicated/Const. Funds:</i>	1,451	-	544	(907)	544
Total Legislature	131,748	127,312	139,899	8,151	12,587
Governor					
General Fund	6,388	6,386	6,706	318	320
Special Revenue Fund	1,866	1,440	1,440	(426)	-
Total Governor	8,254	7,826	8,146	(108)	320
State Auditor					
General Fund	17,131	17,278	4,195	(12,936)	(13,083)
Special Revenue Fund	1,335	1,446	16,178	14,843	14,732
Total State Auditor	18,466	18,724	20,373	1,907	1,649
Attorney General					
General Fund	42,034	42,142	44,250	2,216	2,108

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
State Government Special					
Revenue Fund	4,361	5,008	5,008	645	-
Special Revenue Fund	18,448	18,326	18,326	(122)	-
Environmental Fund	145	290	290	145	-
Remediation Fund	272	500	500	228	-
Federal Fund	2,244	2,468	2,468	223	-
Total Attorney General	67,504	68,734	70,842	3,338	2,108
Secretary of State					
General Fund	10,945	10,940	12,743	1,798	1,803
Special Revenue Fund	6,149	4,999	5,999	(150)	1,000
Federal Fund	220	-	-	(220)	-
Total Secretary of State	17,314	15,939	18,742	1,428	2,803
Campaign Finance &Public Disclosure Board					
General Fund	1,471	1,378	2,000	529	622
General Fund Open	3,085	3,154	3,154	69	-
General Fund Transfer Out	(3,085)	(3,154)	(3,154)	(69)	-
Special Revenue Fund	2,359	2,422	2,422	63	-
Total Campaign Finance Bd.	3,830	3,800	4,422	592	622
Investment Board					
General Fund	278	278	278	-	-
Special Revenue Fund	6,406	6,634	6,634	228	-
Total Investment Board	6,684	6,912	6,912	228	-
MN.IT Services					
General Fund	11,960	11,958	4,862	(7,098)	(7,096)
General Fund Transfer Out	(35)	-	-	35	-
Special Revenue Fund	24,735	14,914	18,914	(5,821)	4,000
Clean Water Fund	93	-	-	(93)	-
Federal Fund	327	8	8	(319)	-
Total MN.IT Services	37,080	26,880	23,784	(13,296)	(3,096)
Administrative Hearings Office					
General Fund	638	638	738	100	100
Workers Compensation Fund	15,094	14,500	14,500	(594)	-
Total Administrative Hearings	15,732	15,138	15,238	(494)	100
Administration					
General Fund	42,581	41,636	49,422	6,841	7,786
General Fund Transfer Out	(35)	-	-	35	-
Special Revenue Fund	82,069	90,175	90,175	8,106	-
Gift Fund	771	4	4	(767)	-
Federal Fund	7,832	2,923	2,923	(4,909)	-
Subtotal for Administration	133,218	134,738	142,524	9,306	7,786
<i>Dedicated/Constitutional Funds</i>					
Arts and Cultural Heritage Fund	18,129	-	18,530	401	18,530
Total Administration	151,347	134,738	161,054	9,707	26,316

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Capitol Area Architectural & Planning Board					
General Fund	650	650	670	20	20
Special Revenue Fund	-	17	17	17	-
Total Capitol Area Arch & Planning Board	650	667	687	37	20
Minnesota Management and Budget (MMB)					
General Fund	48,629	54,430	66,925	18,296	12,495
General Fund Transfer Out	(11,372)	(17,942)	(17,942)	(16,570)	-
Special Revenue Fund	25,186	20,799	20,799	(4,387)	-
Total Management and Budget	62,443	57,287	69,782	7,339	12,495
Minnesota Revenue Department					
General Fund	277,903	280,838	277,240	(663)	(3,598)
General Fund Transfer Out	(1,558)	-	-	1,558	-
Special Revenue Fund	10,447	7,284	7,284	(3,163)	-
Health Care Access Fund	3,498	3,498	3,498	-	-
Highway Users Tax Distribution Fund	4,362	4,366	4,366	4	-
Environmental Fund	606	606	606	-	-
Total Minnesota Revenue Department	295,258	296,592	292,994	(2,264)	(3,598)
Amateur Sports Commission					
General Fund	496	496	532	36	36
Special Revenue Fund	88	98	98	10	-
Total Amateur Sports Commission	584	594	630	46	36
Council on Black Minnesotans					
General Fund	584	584	784	200	200
Special Revenue Fund	246	28	28	(218)	-
Gift Fund	21	37	37	16	-
Total Council on Black Minnesotans	851	649	849	(2)	200
Chicano/Latino Affairs Council					
General Fund	550	550	750	200	200
Special Revenue Fund	42	-	-	(42)	-
Total Chicano/Latino Affairs Council	592	550	750	158	200
Council on Asian-Pacific Minnesotans					
General Fund	508	508	708	200	200
Special Revenue Fund	34	18	18	(16)	-
Gift Fund	3	6	6	3	-
Total Council on Asian-Pacific Minnesotans	545	532	732	187	200
Indian Affairs Council					

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
General Fund	924	924	1,124	200	200
Special Revenue Fund	2	-	-	(2)	-
Federal Fund	163	80	80	(83)	-
Subtotal for Indian Affairs	1,089	1,004	1,204	115	200
<i>Dedicated/Constitutional Funds</i>					
Arts and Cultural Heritage Fund	1,750	-	1,900	150	1,900
Total Indian Affairs Council	2,839	1,004	3,104	265	2,100
Historical Society					
General Fund	53,602	49,911	51,973	(1,629)	2,062
Special Revenue Fund	1,103	-	-	(1,103)	-
Subtotal for Historical Society	54,705	49,911	51,973	(2,732)	2,062
<i>Dedicated/Constitutional Funds</i>					
Arts and Cultural Heritage Fund	26,820	-	27,875	1,055	27,875
Total Historical Society	81,525	49,911	79,848	(1,677)	29,937
Arts Board					
General Fund	15,013	15,012	15,028	15	16
Special Revenue Fund	8	2	2	(6)	-
Gift Fund	80	80	80	-	-
Federal Fund	1,773	1,530	1,530	(243)	-
Sub-total for Arts Board	16,874	16,624	16,640	(234)	16
<i>Dedicated/Constitutional Funds</i>					
Arts and Cultural Heritage Fund	45,481	-	53,350	7,869	53,350
Total Arts Board	62,355	16,624	69,990	7,635	53,366
Humanities Center					
General Fund	474	474	542	68	68
<i>Dedicated/Constitutional Funds</i>					
Arts and Cultural Heritage Fund	3,150	-	3,250	100	3,250
Total Humanities Center	3,624	474	3,792	168	3,318
Accountancy Board					
General Fund	960	960	1,323	363	363
Total Accountancy Board	960	960	1,323	363	363
Architecture, Engineering, Land Surveying					
General Fund	1,548	1,548	1,548	-	-
Total Architecture, Engineering Board	1,548	1,548	1,548	-	-
Cosmetologist Examiners Board					
General Fund	2,092	2,092	2,692	600	600
Total Cosmetologist Examiners Board	2,092	2,092	2,692	600	600
Barber Examiners Board					
General Fund	514	514	634	120	120
Total Barber Examiners Board	514	514	634	120	120
Veterans Affairs					
General Fund	116,551	121,240	130,775	14,224	9,535

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
General Fund Transfer Out	(88,603)	(89,970)	(93,970)	(5,367)	(4,000)
Special Revenue Fund	164,449	171,608	171,608	7,159	-
Gift Fund	1,053	1,005	1,005	(48)	-
Federal Fund	28,241	26,650	26,650	(1,592)	-
Total Veterans Affairs	221,691	230,533	236,068	14,377	5,535
Military Affairs					
General Fund	45,498	39,464	39,464	(6,034)	-
General Fund Transfer Out	(20)	-	-	20	-
Special Revenue Fund	2,253	2,551	2,551	298	-
Federal Fund	159,123	218,076	218,076	58,953	-
Total Military Affairs	206,854	260,091	260,091	53,237	-
MMB Non-operating					
General Fund	10,955	11,576	11,576	621	-
State Government Special Revenue Fund	400	800	800	400	-
Trunk Highway Fund	628	1,200	1,200	572	-
Workers Compensation Fund	100	200	200	100	-
Federal Fund	8,776	-	-	(8,776)	-
Debt Service Funds Group	250	-	-	(250)	-
Total MMB Non-operating	21,109	13,776	13,776	(7,333)	-
Racing Commission					
Special Revenue Fund	3,830	3,953	3,953	123	-
Total Racing Commission	3,830	3,953	3,953	123	-
Gambling Control Board					
Special Revenue Fund	5,901	7,038	7,038	1,137	-
Total Gambling Control Board	5,901	7,038	7,038	1,137	-
Minnesota State Retirement System					
General Fund	7,442	7,855	7,855	413	-
Total Minnesota State Retirement System	7,442	7,855	7,855	413	-
Public Employees Retirement Assoc					
General Fund	45,500	48,000	48,000	2,500	-
Total Public Employees Retirement Assoc	45,500	48,000	48,000	2,500	-
Teachers Retirement Assoc					
General Fund	30,908	30,908	30,908	-	-
Total Teachers Retirement Assoc	30,908	30,908	30,908	-	-
St. Paul Teachers Retirement Assoc					
General Fund	5,654	5,654	19,654	14,000	14,000
Total St. Paul Teachers Retirement Assoc	5,654	5,654	19,654	14,000	14,000
Duluth Teachers Retirement Assoc					
General Fund	692	692	12,692	12,000	12,000

Agency	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012-13	Change: Enacted - Fcst. Base
Total Duluth Teachers Retirement Assoc	692	692	12,692	12,000	12,000
Indirect Costs Receipts Offset					
General Fund	(32,347)	(39,306)	(39,306)	(6,959)	-
Total Indirect Costs Receipts Offset	(32,347)	(39,306)	(39,306)	(6,959)	-
Tort Claims					
General Fund	322	322	322	-	-
Total Tort Claims	322	322	322	-	-
Contingent Accounts					
General Fund	440	500	500	60	-
Total Contingent Accounts	440	500	500	60	-
General Fund CFS Spending Report Reconciliation*	(10,119)	(6,689)	(13,109)	(2,990)	(6,420)
Totals by Fund					
General Fund	902,010	898,346	951,466	49,456	53,120
General Fund Transfer Out	(114,827)	(117,755)	(128,175)	(13,348)	(10,420)
State Government Special Revenue Fund	4,806	5,808	5,808	1,002	-
Special Revenue Fund	357,443	354,052	373,784	16,341	19,732
Health Care Access Fund	3,626	3,754	3,754	128	-
Gift Fund	1,955	1,132	1,132	(823)	-
Trunk Highway Fund	628	1,200	1,200	572	-
Highway Users Tax Distribution Fund	4,362	4,366	4,366	4	-
Environmental Fund	751	896	896	145	-
Remediation Fund	272	500	500	228	-
Workers Compensation Fund	15,194	14,700	14,700	(494)	-
Federal Fund	208,872	252,329	252,329	43,457	-
Debt Service Funds Group	250	-	-	(250)	-
Subtotal for Regular Funds:	1,385,342	1,419,328	1,481,760	96,418	62,432
<i>Dedicated/Constitutional Funds</i>					
Outdoor Heritage Fund	1,388	-	483	(905)	483
Arts and Cultural Heritage Fund	95,373	-	104,923	9,550	104,923
Clean Water Fund	106	-	30	(76)	30
Parks and Trails Fund	7	-	13	6	13
Subtotal Dedicated/Const Funds	96,874	-	105,449	8,575	105,449
Total for Budget Area	1,482,216	1,419,328	1,587,209	104,993	167,881
* The numbers reported on this line represent a reconciliation to accommodate the methodology change described in the Report Preface.					

Table 2 details General Fund changes for State Departments and Veterans agencies.

Table 2 - State Government General Fund Spending Changes Compared to Forecast <i>(dollars in thousands)</i>						
Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Legislature						
Senate operating increase	2,400	1,900	4,300	1,900	1,900	3,800
House operating increase	2,650	2,650	5,300	2,650	2,650	5,300
LCC operating increase	1,350	1,350	2,700	1,350	1,350	2,700
Electronic Rooster Task Force	21	-	21	-	-	-
Sunset Commission Repeal	<u>(139)</u>	<u>(139)</u>	<u>(278)</u>	<u>(139)</u>	<u>(139)</u>	<u>(278)</u>
Legislature Total	6,282	5,761	12,043	5,761	5,761	11,522
Governor						
Base Adjustment	160	160	320	160	160	320
Attorney General						
Base Adjustment	1,054	1,054	2,108	1,054	1,054	2,108
Secretary of State						
Base Adjustment	273	273	546	273	273	546
Replace Federal HAVA Funds	-	1,000	1,000	1,000	1,000	2,000
Reduction for Business Services						
Efficiencies	(160)	(160)	(320)	(160)	(160)	(320)
Omnibus Elections Act						
Implementation	174	48	222	48	48	96
Attorney's Fees: Redistricting						
Lawsuit	<u>355</u>	<u>-</u>	<u>355</u>	<u>-</u>	<u>-</u>	<u>-</u>
Secretary of State Total	642	1,161	1,803	1,161	1,161	2,322
State Auditor						
Audit Practice Enterprise Fund	(6,586)	(6,535)	(13,121)	(6,535)	(6,535)	(13,070)
Staff Retention: Move to Enterprise Fund	548	813	1,361	920	921	1,841
Staff Retention: Audit Practice	(548)	(813)	(1,361)	(920)	(921)	(1,841)
Base Adjustment	97	97	194	97	97	194
Move JOBZ Oversight	<u>(78)</u>	<u>(78)</u>	<u>(156)</u>	<u>(78)</u>	<u>(78)</u>	<u>(156)</u>
State Auditor Total	(6,567)	(6,516)	(13,083)	(6,516)	(6,516)	(13,032)
Campaign Finance & Public Disclosure Board						
Operating Budget adjustment	311	311	622	311	311	622
Administrative Hearings						

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Base Adjustment	2	2	4	2	2	4
Data Practices Hearing Costs						
Deficiency	36	-	36	-	-	-
Campaign Violations Deficiency	<u>60</u>	<u>-</u>	<u>60</u>	<u>-</u>	<u>-</u>	<u>-</u>
Administrative Hearings Total	98	2	100	2	2	4
Capitol Area Architectural & Planning Board						
Base Adjustment	10	10	20	10	10	20
MN.IT Services						
IT Security Leadership	(198)	(198)	(396)	(198)	(198)	(396)
Consolidation Efforts - General Reduction	<u>(3,350)</u>	<u>(3,350)</u>	<u>(6,700)</u>	<u>(3,350)</u>	<u>(3,350)</u>	<u>(6,700)</u>
MN.IT Services Total	(3,548)	(3,548)	(7,096)	(3,548)	(3,548)	(7,096)
Administration						
Lean Expansion	260	260	520	260	260	520
SmART Expansion	185	185	370	185	185	370
Internal Audit Function	125	125	250	125	125	250
Transfer for Environmental Quality Board	(151)	(151)	(302)	(151)	(151)	(302)
Nellie Stone Johnson Capitol Bust/Statue	30	-	30	-	-	-
WCRA Prefunded Limit Elimination	-	56	56	86	91	177
Target Center/Xcel Centre Study	50	-	50	-	-	-
Capitol Renovations: Rent Loss & Relocation	1,860	-	1,860	1,380	960	2,340
Legislative Office Building Pre-design	3,000	-	3,000	-	-	-
Public TV Increase	553	553	1,106	553	553	1,106
AMPERS Radio Increase	153	153	306	153	153	306
Minnesota Public Radio Increase	300	-	300	-	-	-
Minnesota Public Radio Infrastructure Support	<u>120</u>	<u>120</u>	<u>240</u>	<u>120</u>	<u>120</u>	<u>240</u>
Administration Total	6,485	1,301	7,786	2,711	2,296	5,007
MN Management & Budget (MMB)						
Statewide Budget Systems Development (BPAS)	4,500	725	5,225	725	725	1,450
Results Management Initiative	500	500	1,000	500	500	1,000
Enterprise Human Resources Capacity	900	900	1,800	900	900	1,800
Enterprise Talent Management System	4,000	-	4,000	-	-	-
Child Care & PCA Worker Rep	<u>235</u>	<u>235</u>	<u>470</u>	<u>118</u>	<u>118</u>	<u>236</u>
MMB Total	10,135	2,360	12,495	2,243	2,243	4,486

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Revenue Department						
Reduction - Tax System Savings	(2,406)	(2,494)	(4,900)	(2,494)	(2,494)	(4,988)
Taxpayer Assistant Grants	200	200	400	200	200	400
Require Electronic Wage Levy Payments & Disclosures	(150)	(298)	(448)	(298)	(298)	(596)
Property Tax Technical Grants	300	-	300	-	-	-
Tobacco Study	100	-	100	-	-	-
Tax Bill Implementation Costs	<u>950</u>	-	<u>950</u>	<u>300</u>	<u>300</u>	<u>600</u>
Revenue Total	(1,006)	(2,592)	(3,598)	(2,292)	(2,292)	(4,584)
MN Amateur Sports Commission (MASC)						
Operating Budget /Base Adjustment	18	18	36	18	18	36
Council on Black Minnesotans						
Operating Budget /Base Adjustment	100	100	200	100	100	200
Council on Chicano-Latino Affairs						
Operating Budget /Base Adjustment	100	100	200	100	100	200
Council on Asian-Pacific						
Operating Budget /Base Adjustment	100	100	200	100	100	200
Indian Affairs Council						
Operating Budget /Base Adjustment	100	100	200	100	100	200
Minnesota Historical Society						
Base Adjustment	306	306	612	306	306	612
Expand Education Outreach	284	284	568	284	284	568
Access to Historic Resources	284	284	568	284	284	568
Minnesota Forest History Center	50	50	100	50	50	100
Minnesota Air National Guard Museum	20	-	20	20	-	20
Hockey Hall of Fame	32	32	64	32	32	64
Minnesota Military Museum Archivist Position	60	60	120	-	-	-
Minnesota Military Museum Base Restoration	<u>10</u>	-	<u>10</u>	<u>10</u>	-	<u>10</u>
Historical Society Total	1,046	1,016	2,062	986	956	1,942
Minnesota Arts Board						
Base Adjustment	8	8	16	8	8	16
Humanities Center						
Operating Budget adjustment	14	14	28	14	14	14
Everybody Wins! Children's Reading Grant	<u>40</u>	-	<u>40</u>	-	-	-
Humanities Center Total	54	14	68	14	14	28

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Board of Accountancy						
Base Adjustment	225	138	363	138	138	276
Board of Cosmetologist Examiners						
Base Adjustment	300	300	600	300	300	600
Board of Barber Examiners						
Base Adjustment	60	60	120	60	60	120
Veterans Affairs						
Health Care IT Improvement	3,090	1,910	5,000	1,910	1,910	3,820
Southeast MN Veterans Cemetery - Operations	-	425	425	425	425	850
Honor Guard - Permanent Funding	200	200	400	200	200	400
MN GI Bill Expansion	500	500	1,000	500	500	1,000
County Veterans Service Officer Grant Expansion	1,005	1,005	2,010	1,005	1,005	2,010
Permanent Gold Star Program Funding	100	100	200	100	100	200
MN Assistance Council Veterans (MACV)	<u>250</u>	<u>250</u>	<u>500</u>	<u>250</u>	<u>250</u>	<u>500</u>
Veterans Affairs Total	5,145	4,390	9,535	4,390	4,390	8,780
Retirement Funds						
Duluth Teacher Retirement Aid	6,000	6,000	12,000	-	-	-
St. Paul Teacher Retirement Aid	<u>7,000</u>	<u>7,000</u>	<u>14,000</u>	-	-	-
Retirement Funds Total	13,000	13,000	26,000	-	-	-
Total General Fund Spending Changes	34,312	18,808	53,120	7,371	6,926	14,297

COMPENSATION COUNCIL

In 2013, the 16-member Compensation Council, comprised of six legislators, two nonjudge members appointed by the Chief Justice of the Minnesota Supreme Court, and eight Governor appointees, developed recommendations for salaries for legislators, constitutional officers, heads of state agencies, and judges. Many of the recommendations of the Council were enacted into law in Chapter 142. The following recommendations of the Council were enacted:

- increase the cap on salaries for agency heads relative to the Governor's salary and adjust these annually for inflation;
- allow agency employee salaries to exceed that of the agency head;
- permit the Governor to set salaries within an approved range for Governor's appointees;

- increase the Governor's salary by three percent in each of FYs 2014 and 2015; and
- increase the salaries of other constitutional officers to retain the current proportional relationship to the Governor's salary.

The council's recommended increases to judges' salaries were made in the Judiciary budget bill. (See the Judiciary chapter for a discussion on the Judiciary budget.) Notably, the Council recommended salary increases for legislators that were not passed into law. Chapter 142 changed the composition of the Compensation Council, replacing legislators with nonlegislators appointed by the Senate Majority and Minority Leaders, the Speaker of the House, and the House Minority Leader.

LEGISLATURE

Chapter 142 appropriated \$139.9 million for the operations of the Legislature, with \$138.2 million coming from the General Fund. The General Fund total included \$45.8 million for the Senate; \$61 million for the House of Representatives; and \$38.6 million for the joint legislative offices under the direction of the Legislative Coordinating Commission (LCC). These appropriations reflect a \$12 million increase to the forecasted General Fund amounts for FY 2014-2015.

Chapter 142 repealed the Minnesota Sunset Act, saving \$278,000 that had been appropriated in 2012 for staff to support the Sunset Commission.

An Electronic Roster Task Force was established in the Omnibus Elections Act (Chapter 131) to research various issues related to the use of electronic rosters. The

task force will be composed of 15 members: four legislative members (two senators, two representatives); seven public members; and four state agency representatives. \$21,000 in FY 2014 was appropriated to the LCC to cover member participant costs, staff support, and supplies.

CONSTITUTIONAL OFFICERS

Governor

The Governor's Office received an appropriation of \$6.7 million from the General Fund for FY 2014-2015, which was a five percent increase from the February 2013 forecast amount. Chapter 142 requires notice to the Legislature when the Governor's Office enters interagency agreements with state agencies to support the personnel costs of the office. In FY 2014, this funding is projected to total \$895,000.

State Auditor

Chapter 142 made a significant change to funding for the State Auditor's Office. In recent years, fees charged by the Auditor for its county audits of counties were deposited into the General Fund. Going forward, these fees will be deposited into a dedicated fund and are statutorily appropriated to the State Auditor's Office. Expenditures from the dedicated fund are projected to be \$14.7 million in the FY 2014-2015 biennium. The Auditor also received an appropriation of \$4.2 million from the General Fund for FY 2014-2015. The Auditor is required to report to the Legislature prior to increasing charges for examinations and annually on the fund's anticipated revenues and expenditure, the number of full-time equivalents paid by the fund, rate changes, the number of audits issued, and the number of counties audited.

Chapter 142 allows the State Auditor to charge a onetime fee for use of its city and town accounting software. These fees are deposited in a Special Revenue Fund and are appropriated to the Auditor.

Responsibilities for auditing the JOBZ program and the Dairy Council were moved from the State Auditor to the Legislative Auditor. This change decreased the State Auditor's General Fund appropriation by \$156,000 for FY 2014-2015.

Attorney General's Office

Total funding for FY 2014-2015 for the Attorney General's office is \$70.8 million, \$44.3 million of which was a direct appropriation from the General Fund. The General Fund appropriation was \$2.1 million, or five percent more than the forecast for FY 2014-2015. The office also enters into partner agency agreements with state agencies to provide legal services to non-General Fund programs. These agreements add approximately \$10 million per fiscal year to the budget with payments deposited in an account in the Special Revenue Fund.

Secretary of State

The enacted budget provided \$18.7 million for the Secretary of State for FY 2014-2015. General Fund direct appropriations totaled \$12.7 million. Of this amount, \$355,000 was appropriated to pay attorney fees in the legislative and congressional redistricting lawsuit. \$1 million was appropriated from the General Fund to replace federal funds appropriated under the Help America Vote Act that are no longer available. The base appropriation to the office was increased by \$546 million. \$222 million was appropriated to pay for measures enacted in Chapter 131, the Elections Omnibus Act. The General Fund appropriation was reduced by

\$320,000 in realization of efficiencies in business services.

Chapter 131, contained provisions related to no-excuse absentee voting, election administration, recounts, loss and restoration of voting rights, the use of electronic rosters, and vacancies in nomination for both partisan and nonpartisan offices. Appropriations from the General Fund were included to cover the costs of these provisions.

\$60,000 in onetime dollars was appropriated to the Secretary of State for development and program costs for processing and tracking of mail ballots.

Chapter 131 requires the Commissioner of Corrections to provide the Secretary of State with data on offenders on probation or supervised release. The Secretary of State must use the data to verify data contained in the statewide voter registration system and to direct county auditors to make updates to voter records or, where required, to provide information to the county attorney for an investigation.

The Commissioner of Corrections must also provide to the Secretary of State a list of names and mailing addresses of adult correctional facilities in Minnesota to ensure absentee ballots are not sent to the facilities. \$47,000 in FY 2014 and \$48,000 in FY 2015 are added to the base of the Secretary of State to contract with the Department of Corrections to provide felony offense data. The Department of Corrections will use the transferred dollars to pay the salary and benefit costs of an IT staff person.

Chapter 131 established a pilot project to test the use of electronic rosters during the 2013 municipal election cycle. The Secretary of State is required to report back to the Legislature by January 31, 2014, on

the outcome of the pilot project. \$67,000 in FY 2014 was appropriated to the Secretary of State to implement the electronic roster pilot program.

STATE AGENCIES

Office of MN.IT Services (Formerly Office of Enterprise Technology)

Chapter 142 changed the name of the Office of Enterprise Technology to the Office of MN.IT Services (MN.IT). The FY 2014-2015 total appropriation for the Office of Enterprise Technology was \$23.8 million. The direct General Fund portion of the budget was \$4.8 million for FY 2014-2015. The General Fund appropriation to MN.IT is reduced by \$7.1 million from the February 2013 forecast amount due to consolidation of information technology functions and staff in the last biennium. Chapter 142 made a loan of \$110 million to MN.IT from the General Fund in FY 2014. The loan will be repaid in FY 2015. Therefore, the loan will have no budgeting effect on the biennial budget.

The loan addresses an anticipated cash flow shortfall that results from an agency-wide consolidation of information technology.

MN.IT is also supported by the Enterprise Technology Internal Services Fund, which receives state agency reimbursements for services provided to state and local government agencies. MN.IT assesses charge-backs to agencies for computer services; telecommunication services; enterprise application development; establishing information technology standards; and MN.IT's internal security, planning and management operations. IT staff salary costs for state agencies as a result of IT consolidation are also included. Estimated spending from the Enterprise Technology Internal Services Fund for FY

2014-2015 is \$846.7 million. These dollars are not included in Table 1, but rather are included in state agency budgets.

Department of Administration

Appropriations to the Department of Administration total \$161.1 million for FY 2014-2015, including \$49.4 million from the General Fund. The General Fund appropriation is 20 percent more than the February 2013 forecast base. General Fund appropriations included increases to existing programs that help agencies operate more efficiently and to provide human resource and accounting assistance to small agencies, boards, and councils.

The Department of Administration serves as the fiscal agent for Public Broadcasting grants that total \$5.5 million from the General Fund for FY 2014-2015, an increase of \$2.0 million from the FY 2012-2013 biennium. Public television and radio also receive appropriations in the Omnibus Legacy Act.

The Department of Administration also acts as the fiscal agent for \$18.5 million (included in the total) appropriated from the constitutionally dedicated Legacy Funds. These dollars are for activities such as public broadcasting, zoos, and museums.

See the Appendix B for detail on the Omnibus Legacy Act (Chapter 137).

Funding and responsibility for the Environmental Quality Board was moved to the Pollution Control Agency. (See the Environment, Economic Development, and Agriculture chapter.)

Over 80 percent of Department of Administration functions are funded from non-General Fund appropriations, consisting primarily of internal service and enterprise

funds. Internal service funds are established with deposits of fees charged primarily to state agencies for support services, such as insurance, fleet management, consulting, sale of office supplies, mail services, and the leasing of facilities under the custodial control of the Department of Administration. Enterprise funds are generated through fees charged to governmental entities, citizens, and businesses through the state bookstore, surplus property sales, and cooperative purchasing of products and services. Other funding is from fees for parking. Internal service and enterprise funds are expected to total \$352.4 million for the biennium. The funds are in addition to the \$161.1 million in appropriations to the department and are reflected as part of the state agency budgets.

Minnesota Management and Budget

The FY 2014-2015 operating budget for the Department of Management and Budget (MMB) totals \$87.7 million, \$49 million of which was appropriated directly from the General Fund. In addition to the February 2013 forecast amount, the following appropriations were made for specific initiatives:

- \$5.2 million for development of the Statewide Budget Systems (BPAS);
- \$6.2 million for a results management initiative;
- \$1.8 million for an enterprise human resources capacity management system; and
- \$4 million for an enterprise talent management system.

MMB also operates an Internal Service Fund providing management analysis to state agencies for a fee. In FY 2014-2015, MMB

is projected to receive \$12.1 million in service revenue from state agencies.

MMB also operates the State Employee Group Insurance Program (SEGIP). In FY 2014-2015, this represents a \$2.0 billion insurance program. These are primarily pass-through funds to insurance carriers, third-party administrators, and other vendors. SEGIP's administrative revenues are collected primarily through direct, per-employee charges to state agencies and other groups. SEGIP provides benefits to eligible employees, retirees, and dependents in all branches of state government, Minnesota State Colleges and Universities, and certain quasi-state agencies covering 120,000 individuals statewide.

Department of Revenue

The Department of Revenue budget totals \$285.7 million for the FY 2014-2015 biennium, including direct General Fund appropriations of \$277.2 million, which is \$3.6 million less than the February 2013 forecast. Of this amount, \$300,000 in FY 2014 is for grants to counties for technical assistance to improve property tax databases and \$400,000 for the biennium is for grants for a volunteer program that assists low-income, elderly, and disadvantaged residents with tax preparation. Adjustments to the base appropriations to the Department of Revenue were reduced by \$4.9 million as a result of tax system simplification and efficiencies, and \$448,000 due to requiring employers to submit wage levy payments and documents electronically.

Office of Administrative Hearings

The Office of Administrative Hearings (OAH) has a budget of \$15.2 million for FY 2014-2015, funded mainly by the Workers' Compensation Special Fund and revolving fund revenues. \$14.5 for FY 2014-2015 is from the Workers' Compensation Special

Fund, and \$4.5 million is from the Administrative Hearings Internal Service Fund, funded by charges to other state agencies and local governments for administrative law hearings. The direct General Fund appropriation of \$738,000 for the OAH includes a onetime appropriation to cover deficiencies in campaign finance violation and date practices hearings.

Racing Commission

For the FY 2014-2015 biennium, \$4.0 million was budgeted from direct and statutory appropriations for the Racing Commission's administrative and regulatory expenses, and the Breeder's Fund, which provides support to the horse industry. The revenue for these appropriations is derived from racetrack, card club, occupational license fees, and reimbursements.

Amateur Sports Commission

Chapter 142 appropriates \$532,000 to the Amateur Sports Commission from the General Fund in the FY 2014-2015 biennium. This amount includes a seven percent increase in the commission's operating budget over the last biennium.

Minnesota Historical Society

The total state portion of the Minnesota Historical Society budget for FY 2014-2015 is \$79.9 million. Of this amount, \$51.9 million appropriated in Chapter 142 came from the General Fund for operating expenses and the historic structures grant program. This reflected an increase of \$2 million, or five percent, over the forecast amount for greater access to historic sites and education outreach.

The Historical Society received a \$27.8 million appropriation for FY 2014-2015 from the Arts and Cultural Heritage Fund in Laws 2013, Chapter 137, for grants to local, county, regional, and other historical or

cultural organizations through a competitive process, and for programs and partnerships with other organizations to protect and enhance access to history and cultural heritage.

Councils

Chapter 142 increased the biennial direct General Fund appropriations for operating budgets for each of the four minority councils established in state law by \$100,000 per fiscal year over the forecast amount. The Council on Black Minnesotans received a \$784,000 General Fund appropriation for FY 2014-2015; the Council on Affairs of the Chicano/Latino People, \$750,000; the Council on Asian-Pacific Minnesotans, \$708,000; and the Indian Affairs Council, \$1.1 million. The Indian Affairs council also received a \$1.9 million appropriation from the Arts and Cultural Heritage Fund for language preservation and educations programs.

Licensing Boards

Appropriations for the operations of the licensing boards are made from the General Fund. Fee revenue is not retained by the boards and is deposited in the General Fund as a nondedicated receipt. Chapter 85 contained appropriations and fee increases for the following boards:

- \$634,000 to the **Board of Barber Examiners**, an increase of \$120,000 for the FY 2014-2015 biennium. Fee revenue was projected to increase \$62,000;
- \$2.7 million to the **Board of Cosmetologist Examiners**, an increase of \$600,000 for the FY 2014-2015 biennium. Fee revenue was projected to increase \$1.4 million;

- \$1.5 million to the **Board of Architecture, Engineering, and Land Surveying**; and
- \$1.3 million to the **Board of Accountancy**, an increase of \$256,000 for the FY 2014-2015 biennium. Fee revenue was projected to increase \$237,000 starting in FY 2015.

Department of Military Affairs

The total FY 2014-2015 budget for the Department of Military Affairs is \$260.1 million, of which \$218.1 million comes from federal funds. The enacted FY 2014-2015 budget assumes a \$60 million increase in federal funds compared to the amount spent in the previous biennium. General Fund appropriations to the department were the forecast base amount of \$39.4 million for FY 2014-2015.

Department of Veterans Affairs

The total FY 2014-2015 budget for the Department of Veterans Affairs is \$236 million. The General Fund appropriations in Chapter 142 total 130.8 million, an increase of \$8.7 million above the February 2013 forecast. Of this amount, the following appropriations were specified:

- \$353,000 each year is for grants to specified veterans service organizations;
- \$750,000 each year is for a grant to the Minnesota Assistance Council for Veterans;
- \$618,000 in FY 2014 and \$382,000 in FY 2015 is for improvements to the department's information technology systems;
- \$425,000 in FY 2015 is for operation of a new veterans cemetery in Fillmore County;

- \$200,000 each year funds honor guards at funerals for service members;
- \$200,000 each year is for expansion of Minnesota's GI Bill, to provide postsecondary educational assistance to service members who served prior to September 11, 2001;
- \$100,000 each year to administer the Gold Star Program for surviving family members of deceased veterans; and
- \$1.1 million each year for the County Veterans Service Office grant program.

Chapter 142 transferred unspent funds appropriated in the 2009 Legislative Session, estimated to be \$110,000, from the Veterans Paramedic Apprenticeship Program to the General Fund.

Chapter 142 appropriated \$94 million for veterans homes. A portion of this amount -- \$2.5 million in FY 2014 and \$1.5 million in FY 2015 -- is a onetime expense for improving the department's information technology systems. Appropriations for veterans homes are from the General Fund and are transferred for expenditure to a Special Revenue Fund account that includes federal and client payments.

Extensions of Budget Authority

Chapter 142 extended budget authority for FY 2014-2015 to the following agencies and programs:

- The **State Lottery** operates outside the State Treasury and is not subject to the legislative appropriations process. By statute, the Lottery's operating budget may not exceed nine percent of gross revenue. Chapter 142 sets a maximum amount that may be spent on operating expenses. For FY 2014-2015, the limit

is \$61 million. Total lottery sales for FY 2014-2015 are estimated to be \$1.11 billion. Approximately 24 percent, or \$26.5 million, will be paid to the General Fund, Environment and Natural Resources Fund, Game and Fish Fund, and the Natural Resources Fund;

- \$2 million of direct General Fund appropriations for the **Campaign Finance and Public Disclosure Board**, an increase of 45 percent, or \$622,000, from the forecast amount for FY 2014-2015 to provide staff support for client services, investigations, and audits;
- \$7.0 million from the lawful gambling regulation account in the Special Revenue Fund to the **Gambling Control Board**;
- \$15 million from the General Fund to the **Minnesota State Arts Board** and \$53.4 million from the **Arts and Cultural Heritage Fund**;
- \$542,000 from the General Fund for the **Minnesota Humanities Center**, which is a 14 percent increase from the forecast amount and includes a onetime grant to Everybody Wins! Children's reading program, and \$3.3 million from the **Arts and Cultural Heritage Fund**;
- \$670,000 from the General Fund for the **Capitol Area Architectural and Planning Board**, which is an increase of three percent, or \$20,000 from the FY 2014-2015 forecast;
- \$278,000 from the General Fund for the operations of the **State Board of Investment**. This amount provides for the board's operating costs related to the investment of General Fund treasurer's cash. The remainder of the board's \$6.9

million budget for FY 2014-2015 comes from statutorily appropriated fees assessed against the assets of the funds the board invests;

- \$322,000 to cover **tort claims** made against the state; and
- \$1.5 million for **contingent accounts**, including \$500,000 from the General Fund, \$800,000 from the State Government Special Revenue Fund, and \$200,000 from Workers' Compensation Special Revenue Fund to support eligible and unexpected spending needs from those funds.

PENSIONS

The Omnibus Pension Act (Chapter 111) contained numerous technical provisions and several sections of significance to particular individuals. Major items included solvency measure for a number of retirement plans.

Chapter 111 increased contribution rates and vesting periods for the State Patrol Retirement Plan and made changes to the plan's early retirement and postadjustment provisions in current statute. Chapter 111 appropriated \$649,000 to the Department of Public Safety to cover the increased employer contribution rates. These appropriations are reflected in Table 2 in the Transportation and Public Safety chapter.

The 2013 Legislature made changes to the contribution rates and other retirement benefits to the St. Paul Teachers Retirement Fund Association (SPTRFA) and the Duluth Teachers Retirement Fund Association (DTRFA). Chapter 111 required a study of the feasibility and financial requirements necessary to consolidate SPTRFA and DTRFA into the statewide Teachers

Retirement Association (TRA). The boards of the three retirement funds are jointly charged with undertaking this study. Chapter 111 appropriates onetime aid from the General Fund in FY 2014-2015 in the amounts of \$6 million per year to DTRFA and \$7 million per year to SPTRFA.

Chapter 111 changes benefits and increase contribution rates for the Judges Retirement Plan. The funding for these increases was appropriated in Chapter 86, the Omnibus Judiciary Finance Act. (See the Judiciary chapter for a detailed discussion of Chapter 86.) Solvency measures were also included in Chapter 111 for the Public Employees Police and Fire Retirement Plan.

Chapter 142 extended budget authority for FY 2014-2015 for public retirement fund programs, including open appropriations estimated to be: (1) \$974,000 for constitutional officer plans; (2) \$6.9 million for legislators' retirement plan; (3) \$48 million for the Minneapolis Employees Retirement Fund to reduce unfunded liabilities; (4) \$31 million to reduce the unfunded liabilities of the Statewide Teacher's Retirement Fund; (5) \$19.7 million for the St. Paul Teachers Retirement Plan; and (6) \$12.7 million for the Duluth Teachers Retirement Plan.

**Table 3 - State Government
Revenue Changes Compared to Forecast**
(dollars in thousands)

Revenue Changes by Agency	Fund	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
State Auditor							
Audit Practice Enterprise Fund	General	(6,586)	(6,535)	(13,121)	(6,535)	(6,537)	(13,072)
Staff Retention - Audit Practice	General	548	813	1,361	920	921	1,841
Staff Retention -Enterprise Fund Move	General	(548)	(813)	(1,361)	(920)	(921)	(1,841)
	Special						
Audit Practice Enterprise Fund	Revenue	6,586	6,535	13,121	6,535	6,537	13,072
	Special						
Staff Retention - Audit Practice	Revenue	548	813	1,361	920	921	1,841
Rewrite Small Cities & Towns	Special						
Accounting System	Revenue	<u>250</u>	-	<u>250</u>	-	-	-
State Auditor Total		798	813	1,611	920	921	1,841
MN.IT Services							
E-Government Public-Private Partnership	Special Revenue	-	4,000	4,000	4,000	4,000	8,000
Department of Revenue							
Require Continuous Electronic Payment	General	-	3	3	2	2	4

Revenue Changes by Agency	Fund	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Collect Existing Auto Theft Surcharge	Special Revenue	=	=	=	<u>100</u>	<u>100</u>	<u>200</u>
Department of Revenue Total		-	3	3	102	102	204
Board of Accountancy							
Accountancy Fees	General	237	237	474	237	237	474
Board of Cosmetologist Examiners							
Cosmetology Fees	General	700	700	1,400	700	700	1,400
Board of Barber Examiners							
Barbers Fees	General	31	31	62	31	31	62
Total Revenue Changes by Fund							
General Fund		(5,618)	(5,564)	(11,182)	(5,565)	(5,567)	(11,132)
Special Revenue Fund		7,384	11,348	18,732	11,555	11,558	23,113
Total Revenue Changes for Budget Area		1,766	5,784	7,550	5,990	5,991	11,981

TAX AIDS AND CREDITS

State General Fund spending for tax aids and credits will total \$3.0 billion for the FY 2014-2015 biennium. Chapter 143, the Omnibus Tax Act, appropriated \$25.1 million in FY 2014 and \$280 million in FY 2015 over the February 2013 forecast base. Chapter 143 allocated most of the dollars to local aids and property tax relief through the

homestead credit refund, the renter property tax refund program, through equalization of the education operating referendum formula, and a new location equity formula payable through the General Education program. (The education changes included in Chapter 143 are discussed in the E-12 Education chapter of this report.)

Table 1 – Tax Aids and Credits
All Funds Biennial Spending by Agency & Fund
(dollars in thousands)

Fund/Program	FY 2012-13 Spending	FY 2014-15 Forecast Base	FY 2014-15 Enacted Budget	Change: Enacted - FY 2012- 13	Change: Enacted - Fest. Base
General Fund					
Property Tax Refunds	1,013,667	1,087,190	1,215,020	201,353	127,830
City Aid	850,579	854,013	935,173	84,594	81,160
County Program Aid	322,212	332,495	372,495	50,283	40,000
Township Aid	-	-	10,000	10,000	10,000
Border City Disparity Credit	13,291	13,980	16,060	2,769	2,080
Pension - Supplemental Aid to Fire and Police	-	-	31,000	31,000	31,000
PILT	51,489	51,927	61,427	9,938	9,500
Other Tax Aids and Credits	542,917	371,246	374,802	(168,115)	3,556
Transfers Out	<u>(6,680)</u>	<u>(8,869)</u>	<u>(8,869)</u>	<u>(2,189)</u>	-
Subtotal	2,787,475	2,701,982	3,007,108	221,822	305,126
Special Revenue Fund					
Aid to Local Governments	1,134	1,212	1,212	78	-
Health Care Access Fund					
Tax Refund Interest	605	676	676	71	-
Other Funds					
	10	6	6	(4)	-
Total for Budget Area	2,789,224	2,703,476	3,009,002	219,778	305,126

Property Tax Refunds

Chapter 143 modified three property tax refund programs for a total cost of \$127.8 million beginning in FY 2015. The three programs are the Homestead Credit Refund, the Renter's Property Tax Refund, and the Sustainable Forest Initiative Act.

The first program, the Homestead Credit Refund (formerly titled the homeowner property tax refund), increased \$85.6 million beginning in FY 2015 as a result of a new schedule that decreased the threshold percentage used to determine eligibility for the refund. The former level of participation was approximately 420,000.

Modifications to the thresholds will result in approximately 25 percent more homeowners becoming eligible. Also, by September 1, 2014, the Commissioner of Revenue is required to notify taxpayers if they have not yet filed and they are anticipated, based on their income and tax liability, to receive a refund of over \$1,000. This notification effort is expected to increase participation by an additional five percent and will reduce the General Fund by \$34 million beginning in FY 2015. In addition, the property tax modifications in this chapter as well as changes enacted as part of Chapter 116, the Education Omnibus Act, resulted in a statewide property tax decrease, which in turn decreases General Fund appropriations to the Homestead Credit Refund program by \$11.2 million relative to the February 2013 forecast. Taken together, this resulted in a change to the Homestead Credit Refund program of \$108.4 million.

Second, Chapter 143 modified the Renter’s Property Tax Refund program by decreasing the threshold percentage for renters, increasing the maximum refunds, and modifying the definition of income to exclude retirement contributions. This change totaled \$15.5 million beginning in FY 2015.

Third, Chapter 143 made changes to offset the burden of local property taxes to property owners, and enacted changes to the Sustainable Forest Initiative Act (SFIA) with a cost to the General Fund of \$2 million each year beginning in FY 2014. SFIA pays property owners a straight per-acre payment to encourage forest management. The cost incurred was a result of more properties becoming eligible.

	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Spending Changes						
Revenue						
Property Tax Refunds						
Homeowners	-	108,430	108,430	111,330	116,880	228,210
Renters	-	15,500	15,500	16,400	17,200	33,600
SFIA	1,950	1,950	3,900	1,950	1,950	3,900
Local Aids						
City Aid	-	81,160	81,160	82,660	85,160	167,820
County Program Aid	-	40,000	40,000	40,000	40,000	80,000
Township Aid	-	10,000	10,000	10,000	10,000	20,000
Other Changes and Appropriations						
Border City Disparity Credit	-	2,080	2,080	2,140	2,140	4,280
PILT	4,750	4,750	9,500	4,750	4,750	9,500
Pension – Suppl. Aid to Fire and Police	15,500	15,500	31,000	15,500	15,500	31,000
Other Appropriations	2,936	620	3,556	10,320	10,320	20,640
Total General Fund Spending Changes	25,136	279,990	305,126	295,050	303,900	598,950

Levy Limits

In a further effort to control the growth of property taxes, Chapter 143 enacted a one-year limitation on property tax levy growth for counties with a population over 5,000 and cities with a population over 2,500. This provision limits those cities and counties to the local unit of government's levy in taxes payable 2012 or 2013, whichever is greater, plus three percent. However, the formula to calculate the levy limits permits levy increases to allow special levies for bonded indebtedness, natural disasters, and certain other purposes defined in law. Overall, property taxes will be lower than expected as a result of this limit and will result in a reduction in General Fund appropriations in FY 2015 of \$1.1 million because of fewer property tax refunds paid than were estimated in the February 2013 forecast. This reduction is included in the \$11.2 million property tax refund reduction discussed above.

Local Aid Changes

Chapter 143 made a series of notable changes to local aid programs that increased aid to cities, counties, and townships.

The Local Government Aid (LGA) formula was updated to provide a formula that is more reflective of current needs when compared to a local government's taxing capacity. The revised LGA formula addresses a city's aid based on the difference between its current aid and its unmet need. Updated factors for large, medium, and small cities include pre-1940s housing, housing built between 1940 and 1970, jobs per capita, and peak population decline. In addition to the formula update, Chapter 143 added \$81.2 million each year beginning in FY 2015 to the LGA distribution. This additional aid also includes an increase to the city of Mahanomen of \$160,000 each year, and a

onetime increase to the city of Red Wing of \$1 million. Both the Mahanomen and Red Wing increases are above the formula-driven amounts. The LGA distribution was subject to unallotments and reductions from 2008 through 2013. Under the new LGA formula and increased appropriation enacted in Chapter 143, 41 cities will receive LGA that did not receive it in 2013.

The second aid program to be increased was the County Program Aid formula, which was increased \$40 million each year beginning in FY 2015. This increase will be spread across all counties that currently receive the aid. Chapter 143 also established the Township Aid formula at \$10 million each year, also beginning in the second year of the biennium. Township Aid provides aid to towns based on its agricultural property, geographic size, and population.

Another major piece of local aid that passed as part of Chapter 143 is the pension aid modification for fire and police pensions. The total cost to this additional appropriation is \$15.5 million in each year of the biennium. Each year, the total is allocated to the Public Employee Retirement Fund, the Volunteer Firefighter Retirement Plan, and the State Patrol Retirement Fund.

Finally, local governments benefit from increases to the Payment-in-Lieu-of-Tax (PILT) program. PILT was modified to support many of the recommendations of the Advisory Group established in Laws 2011, First Special Session Chapter 2, the Environment, Energy, and Commerce Finance Act. Those changes totaled \$9.5 million for the FY 2014-2015 biennium.

Property Tax Program Changes

Chapter 143 allocated \$2.1 million from the General Fund beginning in FY 2015 to decrease the Disparity Reduction Credit

threshold to 1.9 percent from 2.3 percent. This program serves to equalize the disparity between commercial and apartment property tax rates in certain Minnesota cities versus rates levied in similar property in North Dakota, and increases the credit to those property owners already eligible.

result of lower equalized levies with the actual revenue increases to the education funding programs beginning in FY 2015. (See the E-12 Education chapter for a complete discussion of school shifts.)

Other Appropriations

Other aids and credits increased as part of Chapter 143 totaled \$3.6 million over the FY 2014-2015 biennium. These changes include an annual \$600,000 increase to the city of Mahanomen, a onetime appropriation of \$2.0 million in FY 2014 to the city of Moose Lake for an assessment reimbursement, \$336,000 in FY 2014 to Hennepin County for disaster abatement, and \$20,000 beginning in FY 2015 to the Office of Higher Education to administer the Greater Minnesota Internship Credit Program.

Chapter 143 also made appropriations not included in Table 1 or 2 for two important components of the Capitol Renovation Project and for two major education funding provisions. The Legislative Office Building and Capitol renovation costs totaled \$4.9 million the first year of the biennium and are discussed in further detail in the Capitol Renovation chapter. Increased equalization of the operating referenda and a new revenue program, Location Equity Revenue, are discussed earlier in the E-12 Education chapter of this report, but were passed as part of Chapter 143. Collectively, these education provisions reduced school levies by \$65.2 million in taxes payable 2014. The education formula changes increase General Fund appropriations by \$46.2 million in FY 2014 and \$75.6 million in FY 2015. Property tax recognition shift payments make up most of the FY 2014 costs as a

CAPITAL INVESTMENT

Chapter 136, the Capital Investment Act, authorized the issuance of \$178.8 million in general obligation bonds to fund capital improvements. Of this amount, \$156.1 million is to be paid from the General Fund, and \$22.7 million is financed by parking fees deposited into a state parking account to pay debt service on the bonds. Chapter 136 cancelled an earlier authorization, resulting in a decrease of \$2.0 million in the total amount authorized. Typically, the Capital Investment Act authorizes less for capital improvements in odd years than in even years.

Of the \$156.1 million in general obligation bonds, Chapter 136 appropriated \$109 million to continue the restoration and renovation of the State Capitol, including cleaning and repairing the exterior of the building, updating utilities and mechanical systems, and demolition for relocating office space. This \$109 million adds to the \$44 million in bonds approved in the 2012 Session for predesign and design work, of which \$6.8 million in funding was set aside for the newly completed tunnel under University Avenue.

The \$22.7 million in the bonding bill financed by parking fees is expected to add 880 parking spots in the Capitol Complex. This will help offset the proposed loss of parking in private facilities just west of the Capitol Complex due to redevelopment and expansion of businesses.

Please see the State Capitol Complex Renovation chapter for more detail and historical context regarding the State Capitol restoration, the new Legislative Office

Building, and new parking facilities in the Capitol Complex.

State Government Debt Service Costs

Minnesota's Management and Budget is the state agency primarily responsible for borrowing money to finance capital projects and managing debt. As authorized by law, the Commissioner of Management and Budget can issue general obligation bonds, general obligation trunk highway bonds, appropriation bonds, and certain types of revenue bonds. Most bond issuances are general obligation bonds paid for by General Fund appropriations.

As shown in Table 1, the February 2013 forecast for the debt service to be paid from the General Fund was \$1.3 billion for the FY 2014-2015 biennium. After the approval of \$178.8 million in new capital improvement authorizations, which was less than the \$225 million included in the February 2013 forecast base, the General Fund spending for debt service will be \$7.4 million below forecast for the FY 2014-2015 biennium.

Other state government entities that can issue bonds are the Agricultural and Economic Development Authority, Higher Education Facilities Authority Revenue Bonds, Housing Finance Authority Revenue Bonds, Iron Range Resources and Rehabilitation Agency, the Office of Higher Education, Public Facilities Authority Revenue Bonds, State Armory Building Commission, and the State Colleges and Universities Revenue Bonds.

Table 1 shows the proposed transfer in by fund to the Debt Service Fund for principal and interest expense to pay off the bonds that have been issued.

Table 1					
Biennial Budget Balance - Debt Service Fund					
<i>(dollars in thousands)</i>					
Transfer in by Fund	FY 2012-13 Spending	FY 2014-15 Fcst. Base	FY 2014-15 Enacted Budget	Change: Enacted-FY2012-13	Change: Enacted-Fcst. Base
Agricultural Fund	43	-	-	(43)	-
Building Fund	120	-	-	(120)	-
General Fund	413,383	1,287,517	1,280,165	866,782	(7,352)
Tobacco Settlement Bond Fund	635,745	-	-	(635,745)	-
Maximum Effort School Loan	46,967	6,424	6,424	(40,543)	-
MN State Colleges and Universities	54,689	54,938	54,938	249	-
Natural Resources Fund	18	8	8	(10)	-
Rural Farm Administration	28,154	15,633	15,633	(12,521)	-
Special Revenue Fund	370	276	276	(94)	-
Trunk Highway Fund	192,906	329,238	329,238	136,332	-
Investment Receipts	234,974	82,410	82,410	(152,564)	-
Balance Forward	724,363	707,642	707,642	(16,721)	-
Total Transfers In:	2,331,732	2,484,086	2,476,734	145,002	(7,352)
Spending	1,624,090	1,552,312	1,544,960	(79,130)	(7,352)
Budgetary Balance	707,642	931,774	931,774	224,132	-

Summary of Authorized Projects

Table 2 summarizes by agency the approved capital improvement projects that are funded by general obligation bonds. Significant capital investments authorized, and detailed in Table 2, include:

- \$20 million for the statewide share of the flood hazard mitigation program;
- \$19.9 million to continue renovations and construction at the Minneapolis Veterans Home facilities;
- \$109 million for the continuation of renovation and restoration of the State Capitol;
- \$22.7 million to accommodate up to 880 new parking stalls in the Capitol Complex; and
- \$8 million to match federal dollars for water infrastructure projects.

Table 2
Capital Investments 2013
(dollars in thousands)

AGENCY AND PROJECT	Fund	Chapter 136
ADMINISTRATION		
Capitol Restoration Program		109,000
Capital Area Parking Facilities		22,680
Administration Total	Bond	131,680
NATURAL RESOURCES		
Flood Hazard Mitigation Grants		20,000
Natural Resources Total	Bond	20,000
PUBLIC FACILITIES AUTHORITY		
State Match for Federal Grants – Clean Water Program		8,000
Public Facilities Authority Total	Bond	8,000
VETERANS AFFAIRS		
Minneapolis Veterans Home Building		18,935
Veterans Affairs Total	Bond	18,935
MANAGEMENT AND BUDGET		
Bond Sale Expense		180
Management and Budget Total	Bond	180
SUMMARY, CHAPTER 136		
Total Projects Authorized		178,795
General Obligation Bonds		156,115
General Obligation Bonds - User Financed		22,680
Bond Proceeds Cancellations		(2,000)
Chapter 136 Total (Net)		176,795

APPROPRIATION BONDS; AN UPDATE

The 2011 and 2012 editions of this report examined the Legislature's authorization of "appropriation" bonds during the 2011 and 2012 Legislative Sessions. After the 2012 Fiscal Review was published, the Minnesota Supreme Court issued its opinion regarding the constitutionality of appropriation bonds. The Legislature did not take any primary fiscal action on appropriation bonds during the 2013 Session, but this section will provide a short review of the "appropriation" bonds authorization and the court's opinion.

For the first time in 2011, the state authorized the sale of "appropriation" bonds. To cover a projected shortfall in the General Fund in FY 2012-2013, the Legislature authorized the sale of revenue bonds secured by ongoing revenues to be paid by certain tobacco companies to the state under a settlement agreement. In addition, the Legislature authorized the sale of appropriation bonds to refund the tobacco revenue bonds before their maturity date.

Also in 2011, the Legislature authorized the issuance of appropriation bonds to fund programs under the Minnesota Pay-for-Performance Act. In 2012, the state authorized appropriation bonds to pay construction costs for a new Minnesota Vikings Stadium.

Because appropriation bonds were a new debt instrument in 2011, and because the Minnesota Constitution restricts the state's ability to sell bonds, the Legislature established a required validation process to determine the constitutionality of appropriation bonds through an expedited review by the Minnesota Supreme Court. On April 5, 2012, the Commissioner of Management and Budget initiated the validation process by filing a complaint with

the Minnesota Supreme Court. On October 31, 2012, the Minnesota Supreme Court ruled that the appropriation bonds issued to refund the tobacco revenue bonds did not violate Constitutional restrictions on state debt. The court concluded that the appropriation bonds did not constitute "public debt" for which the state has pledged its full faith, credit, and taxing powers. This determination was relevant to the validity of the bonds because the Constitution permits public debt only for limited purposes. By concluding that the bonds were not "public debt," the court did not need to consider whether the purpose for issuing the appropriation bonds to refund the tobacco revenue bonds that were issued to fill a gap in the budget was a permitted use of public debt. The court reached its conclusion that the bonds were not public debt by analyzing the contractual commitment the state made to bond holders and found that the state is not bound to use its taxing authority to make payments on the bonds.

At the time of the court's decision, the Department of Management and Budget (MMB) estimated that refunding the outstanding tobacco revenue bonds with appropriation bonds would save \$67.5 million over the bonds. MMB estimated this savings using the present value of principle and interest on the outstanding tobacco bonds compared to the principle and interest on the appropriation bonds at an assumed interest rate of 3.27 percent.

No judicial validation for the other two appropriation bond issues – for the Pay-for-Performance program and for the Vikings stadium construction – is expressly required by law or statute, now that the tobacco appropriation bonds have been held valid. Neither the Pay-for-Performance nor the stadium bonds have been issued to date.

MINNESOTA STATE CAPITOL COMPLEX RENOVATION

Chapter 136, the Capital Investment Act, together with Chapter 143, the Omnibus Tax Act, contain provisions that represent the continuation of major effort to renovate and restore the State Capitol Building that began with the appropriation of \$44 million in the 2012 Capital Investment Act, Chapter 293. The appropriations from the 2013 session were intended to provide the majority of the funding required to completely restore and renovate the State Capitol Building and to construct a new Legislative Office Building, with all of the work scheduled for completion by early 2017.

Efforts to restore the State Capitol began with the creation of the Capitol Preservation Commission in 2011 First Special Session, Chapter 6. The commission was charged with developing a comprehensive, multi-year, predesign plan for the restoration of the Capitol, including a financial plan for the restoration. The commission presented a report on January 11, 2012, that noted a “tipping point” in the life of the Capitol caused by a significant deterioration of stone, risk of leaking piping, lack of ventilation, and disorganization of office spaces. The commission noted that piecemeal efforts dating back to 1985 that totaled more the \$69 million failed to address the critical needs of the Capitol Building. The 2012 report called for \$241 million in bonding appropriations spread across five years of construction to address critical elements and to create a flexible office space that can be adapted to dedicated current uses and unknown future functions.

Laws 2012, Chapter 293, authorized \$44 million of funding from the Bond Proceeds Fund for improvements to the Capitol, including predesign and design of the Capitol restoration, repairs to exterior stone, window replacement, the construction of a new tunnel under University Avenue from the Capitol, and for temporary and permanent office space needed to accommodate the restoration of the Capitol.

Chapter 136 authorized an additional \$109 million from the Bond Proceeds Fund for construction and renovation of the Capitol Building, subject to Capitol Preservation Commission approval of work packages, and Capitol Building tenant approval of spaces proposed for the tenant. Chapter 136 also included a separate authorization of \$22.7 million from the Bond Proceeds Fund for the design and construction of one or more new parking facilities in the Capitol Complex to provide 880 new parking stalls for tenants of the Capitol Complex.

Chapter 143 provided authorization for the Commissioner of Administration to enter into a long-term lease purchase agreement for an office facility for legislative functions, including hearing rooms and parking facilities, to be located directly north of the Capitol Building. This authorization extended the authority to the Commissioner of Management and Budget to issue lease revenue bonds or certificates of participation associated with the lease-purchase agreement in order to provide the financing necessary for the construction. (Laws 2002, Chapter 393, provided similar

authorization for the construction of the Anderson and Freeman State Office Buildings, housing the Departments of Health and Agriculture, respectively.)

The program plan and cost estimates for all elements necessary to complete the project must be approved the Senate and House Rules Committees before construction may begin on the facility. Chapter 143 also provided \$3 million from the General Fund for the predesign and design of the facility. This appropriation provides the funding necessary for the design work to begin before the lease purchase financing is obtained.

A July 8, 2013, presentation from the Department of Administration to the Capitol Preservation Commission outlined the need for \$31.7 million to provide operable windows and additional stone restoration and preservation work, in addition to the \$241 million total previously assigned to the Capitol Restoration Project. \$119.7 million in future appropriations will be necessary to complete the work on the Capitol Restoration Project to the \$272.7 million level.

**APPENDIX A: FY 2014-2015 GENERAL FUND
 BUDGETARY BALANCE AND REVENUE
 CHANGE DETAIL**

(dollars in thousands)

Projected Budget Balance, February 2013 Forecast (626,689)

Revenue Change Items

Tax Revenue Changes

Ch. 108, MA Surcharge, ICF/DD surcharge	8,971
Ch. 108, MA Surcharge, HMO surcharge reform	39,774
Ch. 108, MA Surcharge, ICF/DD surcharge	36,611
Ch. 108, MA Surcharge, Other	(1,872)
Ch. 143, Income Tax, New bracket at 9.85%	1,118,900
Ch. 143, Income Tax, Other changes	13,300
Ch. 143, Corp Inc Tax, Repeal FOC/foreign source royalty	249,200
Ch. 143, Corp Inc Tax, Other changes	155,100
Ch. 143, Sales Tax, Electronic & commercial repair	152,400
Ch. 143, Sales Tax, Warehousing & storage services	95,400
Ch. 143, Sales Tax, Telecommunications equipment	66,600
Ch. 143, Sales Tax, Upfront capital equipment exemptions	(81,300)
Ch. 143, Sales Tax, City and county exemption	(172,000)
Ch. 143, Sales Tax, Other changes	12,667
Ch. 143, Estate Tax, Gift tax, incl. certain gifts in estate	41,400
Ch. 143, Estate Tax, Other changes	36,600
Ch. 143, Cigarette & tobacco excise tax increase	812,020
Ch. 143, Federal Conformity (Inc Tax & Corp Inc Tax)	27,650
Ch. 143, Other misc changes	(2,790)
Subtotal, Tax Revenue Changes	2,608,631

Nontax Revenue Changes

Ch. 74, Same sex marriage (court fees and MMB)	239
Ch. 85, Accountant, cosmetologist, barber fees	1,936
Ch. 85, Insurance agent appointment fee & new Dept of Commerce staff	9,900
Ch. 85, Petro fee dedication change	(552)
Ch. 85, Weights and measures 30% increase	660
Ch. 85, Bullion coin dealers regulation established	1,335
Ch. 85, Energy policy bill assessments (Commerce and PUC)	1,006
Ch. 85, RiverCentre payment temporarily forgiven	(1,000)
Ch. 85, Dept of Commerce, assigned risk plan transfer	10,000

Ch. 86, POST Board increase adjustment to GF	(200)
Ch. 93, I-35W remnant steel	645
Ch. 108, MN sex offender program collections	2,590
Ch. 108, Increase newborn screening for deaf & hard of hearing	1,320
Ch. 108, Change county share of SOS	8,184
Ch. 108, Expansion of surveillance and integrity review	1,500
Ch. 108, MA provider recoveries	1,000
Ch. 108, Match supportive service expenditures	8,800
Ch. 108, Child care provider recoveries	749
Ch. 108, MA eligibility for inmates	2,668
Ch. 108, Eliminate TEFRA fee under 275% of FPG	(2,163)
Ch. 114, Utility crossing fee exemption	(127)
Ch. 117, High-value vehicle threshold increase	(60)
Ch. 142, State Auditor: Audit Practice Enterprise Fund	(13,121)
Ch. 142, DOR require continuous electronic payment	3
Subtotal, Nontax Revenue Changes	35,312
<u>Transfers from Other Funds</u>	
Ch. 85, DEED, UI contingent account transfer to GF	15,000
Ch. 85, MHFA, 2012 flood appropriation cancellation	3,000
Ch. 86, MINNCORR transfer to GF	2,600
Ch. 108, Onetime CCDTF carryforward transfer to GF	18,188
Ch. 143, Eliminate health impact fee transfer to GF	(376,360)
Subtotal, Transfers from Other Funds	(337,572)
Total Revenue Changes	2,306,371
Total Spending Changes	1,605,732
Increase to Stadium Reserve	27,807
Net General Fund Changes	672,832
Revised Balance, FY 2014-2015, End of Session	46,143

APPENDIX B: LEGACY AND CONSTITUTIONALLY DEDICATED FUNDS

(dollars in thousands)

Chapter 137 contained the appropriations from the constitutionally dedicated funds, or otherwise known as the “Legacy” Funds. The Legacy Funds were created by passage of a constitutional amendment in 2008 that raised the sales tax by three-eighths of one percent starting in FY 2010. The Legislature appropriated money from the Outdoor Heritage Fund based on recommendations from the Lessard-Sams Outdoor Heritage Council, which is a council of citizens and legislators that was created to oversee the Outdoor Heritage Fund. The council made recommendations for FY 2014 only and will have additional recommendations for the 2014 Legislature pertaining to the remaining FY 2015 appropriations. The Legislature made appropriations for both FY 2014 and FY 2015 from the other three dedicated funds – Clean Water Fund, Parks and Trails Fund, and Arts and Cultural Heritage Fund.

Several notable aspects of Chapter 137 include:

- The Governor’s line-item veto of two appropriations from the Outdoor Heritage Fund: \$3 million for Aquatic

Invasive Species Local Prevention Grants, and \$6.3 million for habitat projects in Metro Parks;

- \$13.4 million from the Outdoor Heritage Fund for Reinvest in Minnesota (RIM) wetland preservation easements;
- \$3 million from the Clean Water Fund for a Minnesota Agriculture Water Certification Program that will assist farmers in implementing water and land conservation practices;
- The creation of the Greater Minnesota Regional Parks and Trails Commission for system planning and providing recommendations to the Legislature for grants to fund parks and trails projects outside of the seven-county metro area; and
- Established a statutory goal for allocating at least 47 percent of the Arts and Cultural Heritage Fund resources through the Minnesota State Arts Board.

Fund, Agency	FY 2012-13 Biennium	FY 2014-15 Biennium
OUTDOOR HERITAGE FUND*		
<u>Department of Natural Resources</u>		
Prairie Acquisition & Restoration	43,157	22,210
Forests Acquisition & Restoration	29,191	5,980
Wetlands Acquisition & Restoration	29,972	16,130
Fish, Game & Wildlife Habitat	51,534	22,987
<u>Administration, Other</u>	<u>437</u>	<u>270</u>
Total for Department of Natural Resources	154,291	67,577

Fund, Agency	FY 2012-13 Biennium	FY 2014-15 Biennium
<u>Board of Water & Soil Resources</u>		
Prairie Acquisition & Restoration	4,339	5,520
Forests Acquisition & Restoration	480	1,150
<u>Wetlands Acquisition & Restoration (RIM)</u>	<u>26,810</u>	<u>15,020</u>
Total for Board of Water & Soil Resources	31,629	21,690
<u>University of Minnesota</u>		
MN Landscape Arboretum Land Acquisition	-	1,000
<u>Legislative Coordinating Commission</u>		
Administration, Web Site	484	483
TOTAL OUTDOOR HERITAGE FUND	186,404	90,750
CLEAN WATER FUND		
<u>Pollution Control Agency</u>		
Nonpoint Source Protection & Preservation	3,500	4,500
Point Source Protection	1,600	10,200
Assessment, Monitoring & TMDL Development	36,100	34,000
Ground & Drinking Water Protection	3,820	2,250
Education & Public Engagement	450	80
<u>Research & Tool Development</u>	<u>2,300</u>	<u>5,600</u>
Total for Pollution Control Agency	47,770	56,630
<u>Department of Natural Resources</u>		
Nonpoint Source Protection & Preservation	260	1,270
Assessment, Monitoring & TMDL Development	9,410	10,300
Ground & Drinking Water Protection	4,900	5,750
<u>Research & Tool Development</u>	<u>6,150</u>	<u>4,765</u>
Total for Department of Natural Resources	20,720	22,085
<u>Metropolitan Council</u>		
Water Supply Planning	1,000	2,537
<u>Inflow & Infiltration Grants</u>	<u>-</u>	<u>1,000</u>
Total for Metropolitan Council	1,000	3,537
<u>Board of Water & Soil Resources</u>		
Nonpoint Source Protection & Preservation	53,400	59,861
Wellhead Protection Areas	3,600	2,600
<u>Research & Tool Development</u>	<u>2,268</u>	<u>2,968</u>
Total for Board of Water & Soil Resources	59,268	65,429
<u>Department of Agriculture</u>		
AgBMP Loan Program	9,000	400
Assessment, Monitoring & TMDL Development	2,450	2,350
Ground & Drinking Water Protection	2,400	5,920
<u>Research & Tool Development</u>	<u>1,550</u>	<u>6,100</u>
Total for Department of Agriculture	15,400	14,770
<u>Public Facilities Authority</u>		
Wastewater and Point Source Grants & Loans	33,420	22,000
<u>Department of Health</u>		
Ground & Drinking Water Protection	6,038	9,270

<u>University of Minnesota</u>		
Aquatic Invasive Species Research	1,800	-
<u>County Geological Atlas Survey</u>	-	<u>1,230</u>
Total for University of Minnesota	1,800	1,230
<u>Legislative Coordinating Commission</u>		
Public Information Web Site	13	30
TOTAL CLEAN WATER FUND	185,429	194,981
PARKS & TRAILS FUND		
<u>Department of Natural Resources</u>		
State Parks, Recreation Areas, and Trails	30,965	33,774
Regional Parks and Trails Grants	15,192	16,887
Solar Project Grants	-	-
<u>Parks & Trails Coordinating and Assistance</u>	<u>76</u>	<u>407</u>
Total for Department of Natural Resources	46,233	51,068
<u>Metropolitan Council - Regional Parks</u>		
Metro Parks and Trails Grants	31,904	33,774
<u>University of Minnesota</u>		
Parks Framework & Inventory	-	250
<u>Legislative Coordinating Commission</u>		
Public Information Web Site	7	13
TOTAL PARKS & TRAILS FUND	78,144	85,105
ARTS & CULTURAL HERITAGE FUND		
<u>Arts Board</u>		
Arts & Arts Access Initiatives	35,153	42,650
Arts Education Collaborations	6,552	7,520
Arts in Cultural Heritage	2,146	3,180
<u>Fiscal Oversight & Accountability</u>	<u>1,630</u>	-
Total for Arts Board	45,481	53,350
<u>Historical Society</u>		
Statewide History Programs & Projects	10,000	11,200
Statewide Historic & Cultural Grants	10,700	11,200
Assistance to Local Historical Societies	4,300	5,225
<u>Civics Education</u>	<u>500</u>	<u>250</u>
Total for Historical Society	25,500	27,875
<u>Department of Administration: Fiscal Agent</u>		
Public Television	7,480	7,900
Minnesota Public Radio & AMPERS	5,300	6,300
Como Zoo	400	1,000
Lake Superior Zoo & Aquatic Center	200	500
MN Film and TV Board	1,600	-
MN Veterans' Camps	475	-
State Capitol Preservation Commission	550	-
MN African American Museum	-	400
Small Theater Grants	-	150
Veterans Memorial Parks	-	80

Science Museum of Minnesota	<u>1,000</u>	<u>2,200</u>
Total for Dept. of Administration	17,005	18,530
<u>Minnesota Zoo</u>		
Programmatic Development	3,000	3,500
<u>Minnesota Center for the Humanities</u>		
Program Development	650	850
Councils of Color Grants	1,000	-
Children Museums Grants	1,000	-
Minnesota Children's Museum	1,000	1,000
Duluth Children's Museum	-	400
Grand Rapids Children's Museum	-	200
Southern MN Children's Museum	-	400
MN Council on Disabilities	-	400
<u>Civics Education</u>	<u>500</u>	-
Total for MN Center for the Humanities	4,150	3,250
<u>Perpich Center for Arts Education</u>		
Arts, Arts Education, and Arts Access	1,700	1,545
<u>Department of Education</u>		
Minnesota Regional Library Systems	6,000	6,000
<u>Department of Agriculture</u>		
County Ag Societies/County Fair Grants	2,800	-
<u>Indian Affairs Council</u>		
Dakota and Ojibwe Language Preservation	1,250	1,400
<u>Dakota and Ojibwe Immersion Programs</u>	<u>500</u>	<u>500</u>
Total for Indian Affairs Council	1,750	1,900
<u>Legislative Coordinating Commission</u>		
Public Information Web Site	8	18
TOTAL ARTS & CULTURAL HERITAGE FUND	107,394	115,968
SUMMARY, BY FUND		
Outdoor Heritage Fund*	186,404	90,750
Clean Water Fund	185,429	194,981
Parks & Trails Fund	78,144	85,105
Arts & Cultural Heritage Fund	107,394	115,968
Legacy/Constitutionally Dedicated Funds, Grand Total:	557,371	486,804
<u>Notes:</u> *Chapter 137 only appropriated money for the first year for the Outdoor Heritage Funds, other funds were appropriated for two fiscal years. Two projects were vetoed in this chapter.		

In addition to the above funds, voters of Minnesota approved a constitutional amendment in 1988 to establish the Minnesota Environment and Natural Resources Trust Fund. The trust fund is funded from 40 percent of the net proceeds

of the Minnesota Lottery. The Legislature appropriates up to 5.5 percent of the market value of the fund each year. Chapter 52 appropriated \$33.8 million in FY 2014 and \$4.35 million in FY 2015 from the Trust Fund based on recommendations from the

Legislative-Citizen Commission on Minnesota Resources (LCCMR). The LCCMR will have another list of recommended projects for the 2014 Legislature to consider that will likely be in

the range of \$29 million. Table 2 summarizes appropriations from the Environment and Natural Resources Trust Fund by category.

Table 2 Chapter 52 Appropriations from the Environment & Natural Resources Trust Fund <i>(dollars in thousands)</i>	
Category/Project	FY 2014-15 Biennium
Natural Resources Data & Information (10 Projects)	8,076
Land, Habitat, and Recreation (12 Projects)	13,722
Water Resources (8 Projects)	3,819
Aquatic and Terrestrial Invasive Species (8 Projects)	10,982
Environmental Education (3 Projects)	636
Administration	<u>1,125</u>
Total Appropriations from Trust Fund:	38,360

APPENDIX C: FY 2014-2015 GENERAL FUND CHANGES FOR HEALTH AND HUMAN SERVICES

(dollars in thousands)

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Department of Human Services						
Health Care						
ACA: MA Eligibility and Enrollment Changes	18,460	119,804	138,264	148,014	161,256	309,270
ACA: Expand MA Eligibility for Children and Pregnant Women to 275% FPG	34,931	96,833	131,764	113,646	118,728	232,374
Continue EMA Coverage for Cancer and Dialysis	1,429	1,710	3,139	1,710	2,910	4,620
EMA Eligibility Assistance Grants	100	100	200	-	-	-
MA Coverage for Doula Services	-	187	187	365	486	851
MA Coverage for Separate Encounters on the Same Day	66	158	224	158	158	316
MA Eligibility for Inmates in Medical Institutions	646	2,022	2,668	2,123	2,456	4,579
Increase PMAP MERC	6,404	6,404	12,808	6,404	6,404	12,808
MA Coverage for Durable Medical Equipment	250	250	500	-	-	-
MA Provider Rate Increase	1,110	9,514	10,624	15,867	16,764	32,631
Critical Access Dental Changes	2,167	2,366	4,533	2,774	2,781	5,555
Expand MA Dental Services	442	544	986	559	574	1,133
Reduce Allowed MCO Administrative Expenses	(6,704)	(13,445)	(20,149)	(17,179)	(15,768)	(32,947)
MA FFS Savings for ACA Primary Care Rate Increase	(8,954)	(11,192)	(20,146)	-	-	-
Supplemental Rebates for Diabetic Test Strips	(103)	(421)	(524)	(421)	(421)	(842)
SMAC for HCPCS Drug Codes	(22)	(25)	(47)	(25)	(25)	(50)
Child and Teen Check-Up Rate Change	(349)	(590)	(939)	(714)	(742)	(1,456)
340B Drug Reimbursement	(1,505)	(3,301)	(4,806)	(3,317)	(3,343)	(6,660)
Newborn Screening Program Changes	296	496	792	496	496	992
Newborn Screening Program Fee Increase for Deaf & Hard of Hearing Services	121	141	262	141	141	282
MinnesotaCare Reform	24,572	60,167	84,739	66,801	68,810	135,611
Administrative & Systems Costs for Health Care Coverage Changes	431	785	1,216	930	930	1,860
HCAF Spending for MA	(177,350)	(226,081)	(403,431)	(424,262)	(425,775)	(850,037)
Continuing Care						

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
ICF/DD Surcharge Rate Increase	2,181	2,143	4,324	2,105	2,066	4,171
Reform 2020: Individual Community Living Support Added to AC and EW	(78)	(3,510)	(3,588)	(7,363)	(7,975)	(15,338)
Reform 2020: Crisis Diversion and Discharge Planning to Reduce Avoidable Costs	62	(905)	(843)	(1,832)	(1,894)	(3,726)
Reform 2020: Community First Services and Supports	(3,849)	(11,708)	(15,557)	(14,150)	(16,717)	(30,867)
Reform 2020: Intensive Services for Children with Autism Spectrum Disorder	1,418	11,326	12,744	14,868	15,667	30,535
Transition Initiatives to Waivered Services for Certain Populations	3,330	4,884	8,214	5,426	5,285	10,711
Nursing Facility Rate Increase and Quality Supplement	13,125	17,238	30,363	24,485	28,485	52,970
Suspend Alternative Payment System Operating Rate Inflation for Nursing Facilities	(5,133)	(12,170)	(17,303)	(19,305)	(27,002)	(46,307)
Suspend Alternative Payment System Property Rate Inflation for Nursing Facilities	(675)	(1,599)	(2,274)	(2,535)	(3,545)	(6,080)
HCBS Provider Rate Increase and Quality Supplement	4,411	21,384	25,795	37,644	40,359	78,003
Repeal Assessment and Reassessment Modify Congregate Living Rates for Homes with Mental Health Certification	(165)	(165)	(330)	(165)	(165)	(330)
Waiver Management Improvements	141	167	308	167	167	334
CC Quality Initiative-Positive Practice and Behavior Safeguards and Supports	173	227	400	227	227	454
CC Quality Initiative-Waiver Provider Standards Phase II	494	467	961	467	467	934
Enhance Audit Activity Resources for Nursing Facilities	747	971	1,718	971	971	1,942
ICF/DD Cottonwood/Nicollet Bed Closure (w/Rate Adjustment) and Transfer	(12)	(133)	(145)	(307)	(474)	(781)
6-Month NF Bed Layaway Option	39	42	81	42	42	84
Restore Planned Closure Rate Adjustment Authority	(95)	(289)	(384)	(308)	(319)	(627)
HIV Rebate Adjustment	(491)	(1,435)	(1,926)	(2,215)	(2,827)	(5,042)
Modify Residency Ratio Restrictions	(4,462)	(2,038)	(6,500)	(2,038)	(2,038)	(4,076)
Advocating Change Together	34	102	136	136	136	272
MA Coverage of Electronic Tablets as Augmentative Communication Devices	310	-	310	-	-	-
Repeal 1.67% LTC Provider Rate Reduction	(7)	(15)	(22)	(21)	(21)	(42)
	12,835	-	12,835	-	-	-
Children and Families						

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Reduce Community Services						
Development Grants and CS Grants	(1,150)	(1,150)	(2,300)	-	-	-
Childcare Provider Rate Increase and Reforms	4,040	15,364	19,404	17,295	17,660	34,955
Childcare Assistance Absent Days Changes	494	2,339	2,833	2,389	2,417	4,806
Childcare Assistance for Disabled Adoptive Caretaker with Employed Spouse	78	109	187	109	109	218
BSF Childcare Assistance Underspending	(2,500)	(2,500)	(5,000)	-	-	-
Childcare Assistance Accreditation Changes	134	411	545	411	411	822
Childcare & PCA Worker Representation	685	585	1,270	1,672	1,013	2,685
Northstar Care for Children	590	2,598	3,188	6,347	9,968	16,315
Repeal MFIP Family Cap	-	1,847	1,847	-	-	-
MFIP Housing Assistance Grants	-	21	21	-	-	-
MFIP Reforms	395	6,313	6,708	6,049	1,720	7,769
Expand Parent Support Outreach Program	2,250	2,250	4,500	2,250	2,250	4,500
Eliminate EBT Transaction Fee	(213)	(213)	(426)	(213)	(213)	(426)
Adoption Assistance Caseload Adjustment	(1,069)	(706)	(1,775)	(706)	(706)	(1,412)
Food Shelf Programs	375	375	750	375	375	750
All-Day Kindergarten Impact on MFIP Childcare	-	(1,747)	(1,747)	(1,866)	(1,917)	(3,783)
Family Assets for Independence (FAIM)	250	250	500	250	250	500
Homeless Youth Act	2,000	2,000	4,000	2,000	2,000	4,000
Long Term Homeless Supportive Services	1,000	1,000	2,000	1,000	1,000	2,000
Transitional Housing Programs	250	250	500	250	250	500
Emergency Services Grants for Homeless Individuals	250	250	500	250	250	500
Homeless Outreach Grants	200	-	200	-	-	-
Safe Harbor for Sexually Exploited Youth	500	500	1,000	500	500	1,000
Chemical and Mental Health						
Fetal Alcohol Syndrome Grant	180	180	360	-	-	-
Mental Health Pilot Project	224	205	429	-	-	-
Expand School-Linked Grants	2,527	4,907	7,434	4,907	4,907	9,814
MA Coverage for Clinical Care Coordination	(347)	(347)	(694)	(347)	(347)	(694)
Expand Mental Health Crisis Response Services	750	750	1,500	750	750	1,500
Adjust ARMHS Rates and Service Provision	-	-	-	-	1,084	1,084
Health Workforce SBIRT Training	300	300	600	-	-	-
Eliminate RTC Transition Grants	(2,653)	(2,653)	(5,306)	(2,653)	(2,653)	(5,306)

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Mental Health Certified Family Peer Specialists	107	143	250	165	187	352
Mental Health Treatment Permitted in Foster Care	(146)	(85)	(231)	(161)	322	161
Mental Health First Aid Training	22	23	45	23	23	46
Text for Life	625	625	1,250	625	625	1,250
MSOP Caseload Growth	3,693	6,669	10,362	6,669	6,669	13,338
Central Office Operations						
Administrative Reduction-6 FTEs	(368)	(367)	(735)	(367)	(367)	(734)
GRH Specialty Rates Study	100	-	100	-	-	-
Modernization of DHS Technology Systems	11,169	6,162	17,331	9,143	4,829	13,972
HCBS 245D Provider Licensing	874	865	1,739	780	935	1,715
ACA: Provider Screening Application Fee	311	290	601	290	290	580
Childcare Licensing Changes	559	679	1,238	679	679	1,358
Childcare Provider Investigations and Data Analytics	597	535	1,132	535	535	1,070
Expand Internal Audits Capacity	346	323	669	323	323	646
Expansion of Surveillance and Integrity Reviews	430	402	832	402	402	804
MA Provider Recoveries	101	94	195	94	94	188
County Performance Management System	550	476	1,026	476	476	952
Increase Funding for Health Care Appeals	486	783	1,269	759	759	1,518
Department of Human Services Total	(50,233)	122,515	72,282	11,823	25,574	37,397
Department of Health						
Increase Core Public Health Activities	1,000	1,000	2,000	1,000	1,000	2,000
MN Poison Information Center	500	500	1,000	500	500	1,000
Safe Harbor for Sexually Exploited Youth	500	450	950	500	550	1,050
Maternal Depression Reduction Plans & Reports	90	87	177	87	87	174
Nurse Staffing Study	252	-	252	-	-	-
Newborn Screening Program Fee Increase for Deaf & Hard of Hearing Services	529	505	1,034	505	505	1,010
Administrative Reduction-Rent	(100)	(100)	(200)	(100)	(100)	(200)
Department of Health Total	2,771	2,442	5,213	2,492	2,542	5,034
Council on Disability						
Emergency Preparedness Training	90	90	180	90	90	180
Ombudsperson for Families						
Reinstate Office Manager Position	68	69	137	69	69	138

Spending Changes	FY 2014	FY 2015	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Nursing Home Administrators Board						
Correct Drafting Error for 1x Appropriation	(10)	(10)	(20)	(10)	(10)	(20)
Total General Fund Spending Changes	(47,314)	125,106	77,792	14,464	28,265	42,729