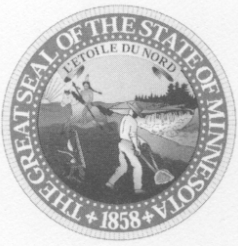




Minnesota

Governor Pawlenty's Proposed Budget

Budget Summary and Policy Highlights



STATE OF MINNESOTA

Office of Governor Tim Pawlenty

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Boulevard ♦ Saint Paul, MN 55155

February 18, 2003

To the people of Minnesota and their 2003 Legislature:

This letter conveys my recommendations for the State's budget for the next two years. The message is both somber and hopeful. We have done what the critics said was impossible; this budget fulfills our constitutional duty to propose a balanced budget-eliminating the \$4.5 billion shortfall projected in November-without raising taxes.

The Pawlenty-Molnau Administration holds the fundamental principle that Minnesotans are not undertaxed. Minnesota is consistently one of the highest-taxing states, and I don't believe we can help jump start our shaky economy by raising taxes. We made a promise to people that we would not solve the budget crisis by raising taxes, and with this budget, we've delivered on that promise.

The only way to do this is to rein in the growth in government spending. While the November forecast projected increased spending of 14.3 percent, this budget holds the growth in spending to 3.8 percent. This achievement is unprecedented in recent years: the average rate of biennial spending growth over the past 20 years is 12.9 percent. However, in spite of the spending discipline required by this budget solution, this will still be the largest budget in state history, increasing by one billion dollars over last biennium.

Balancing the budget and controlling state spending will not come without some sacrifice. All Minnesotans will feel the budget pinch in some way. But just as every Minnesota family must spend less when they earn less, so too must state government.

This budget spends \$28.1 billion from the General Fund, and we've focused our investments on the highest priorities. In my view, our most important budget responsibility is to provide funding for quality schools that are accountable to parents, students and taxpayers. We have done our best to shield K-12 classrooms from reductions and maintain school revenue per student at current levels. We have done our best to shield K-12 classrooms from reductions; in fact, this budget results in a 2.2 percent increase in school revenue per student.

One of Minnesota's greatest challenges over the next few years is to make progress on building a transportation system to meet the demands of the 21st Century. We begin the process in this budget by reducing overhead spending in the Department of Transportation to reinvest that money into an accelerated road construction program. In the coming weeks, the Administration will release the details of our plans to increase investment in this infrastructure that is so critical to our state's economic growth and quality of life.

(more)

As I said in the State of the State address, I don't want to manage government, I want to change it. While the challenges before us are great, and sacrifices will be required, we should also view this as a great opportunity to focus government on what's most important and to improve the way we do things. The primary way we'll accomplish that is through our spending recommendations: "doing the right things well," and eliminating spending that is not a high priority or not a particularly appropriate role for government in a time of scarcity. But we will make other important changes as well:

- Recreating the state Department of Education, focusing its efforts more directly on the core mission of improving public education and holding it accountable;
- Implementing the long-planned merger of the Department of Trade and Economic Development and Economic Security to reduce administration and improve the performance of our workforce development efforts;

Changing funding practices so that entities such as the Racing Commission, Gambling Control Board, Amateur Sports Commission, and Campaign Finance and Public Disclosure Board are paid for by user fees.

Finally, we must work to return the state to fiscal stability. My budget restores the Budget Reserve to \$500 million by the end of the biennium. Part of the responsibility to balance the budget is to prepare for the possibility of economic conditions worsening by putting some money aside for a future rainy day even while it's still stormy outside. The budget also assumes a return to structural balance in the 2006-07 biennium, including some modest growth in the basic K-12 education funding formula. These provisions are crucial to the state's financial health.

The challenges before us are daunting, but we are up to the task. The citizens of the state deserve no less than our collective courage to make the difficult decisions that are required.

Sincerely,

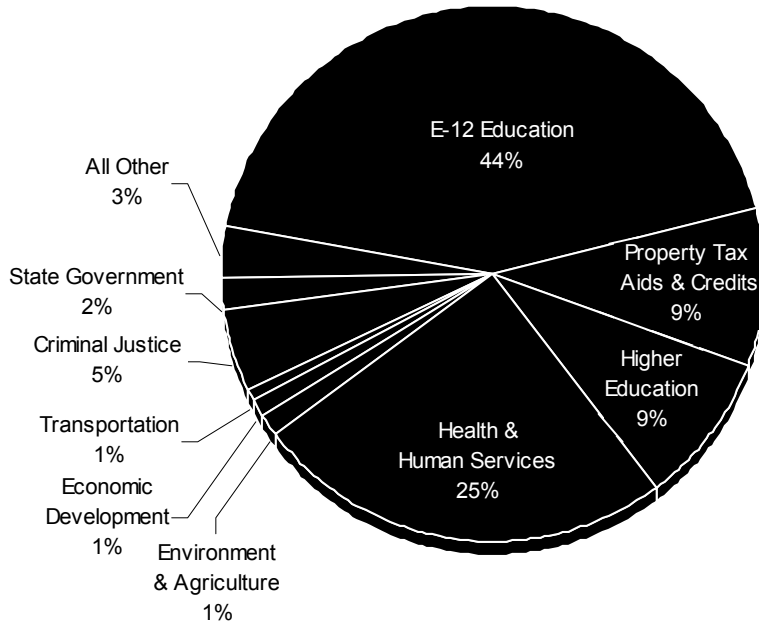
A handwritten signature in dark ink, appearing to read 'Tim Pawlenty', with a stylized, cursive-like script.

Tim Pawlenty
Governor of Minnesota



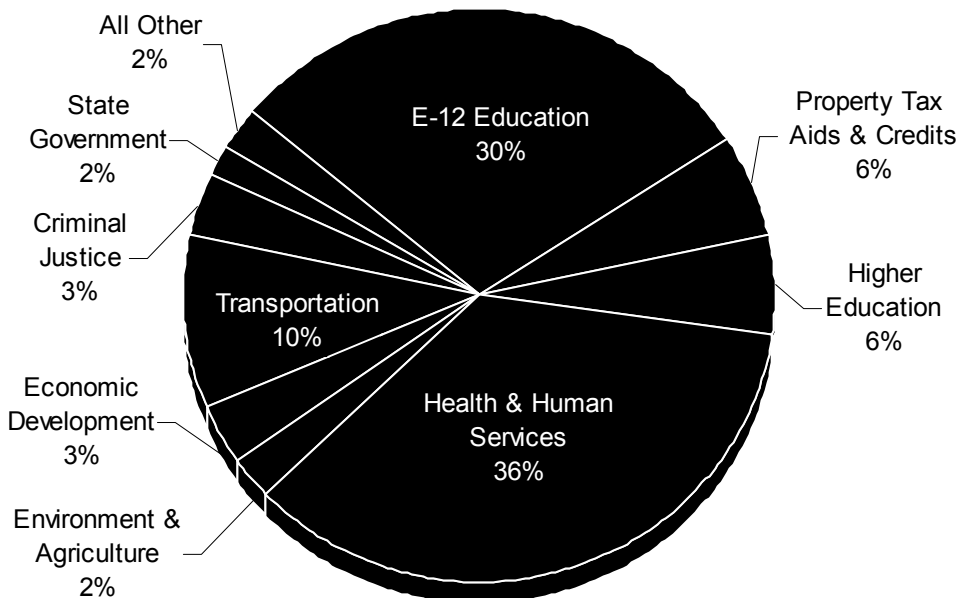
Proposed Budget Expenditures

FY 2004-05 General Fund Budget Distribution of Expenditures



Category	Dollars in Millions
E-12 Education	\$12,222
Property Tax Aids & Credits	2,633
Higher Education	2,552
Health & Human Services	7,022
Environment & Agriculture	419
Economic Development	326
Transportation	161
Criminal Justice	1,387
State Government	561
All Other	839
Total	\$28,120

All Funds: General, Special Revenue, Federal Distribution of FY 2004-05 Spending



Category	Dollars in Millions
E-12 Education	\$13,682
Property Tax Aids & Credits	2,634
Higher Education	2,610
Health & Human Services	16,421
Environment & Agriculture	1,137
Economic Development	1,532
Transportation	4,489
Criminal Justice	1,561
State Government	872
All Other	1,093
Total	\$46,031



Highlights: The Governor's 2004-05 Budget

Solving the Budget Shortfall

The Governor's proposed budget for FY 2004-05 responds to the fiscal crisis facing the state in a way that recognizes the economic realities facing all Minnesotans. The Governor directed that budget problems be solved without tax increases, that spending should focus on essential state services and that budget priorities be maintained through reallocating, restructuring, reducing or eliminating some state programs and grants.

- **Balances the budget** meeting the challenge of a \$4.2 billion shortfall caused by growing spending, recession and slow economic recovery
- **Avoids increasing taxes** to balance the budget
- **Brings spending back in line** with available revenues
- **Provides essential services** most critical to state citizens

The budget defines how the Governor intends to use state resources to improve the lives of citizens while limiting government to its appropriate roles. The budget plan is designed to pay for core state services and provide a prudent plan to restore Minnesota's financial stability.

Taxes, Other Revenues & Resources

General fund revenues are forecast to grow \$1.663 billion or 6.6 percent in the FY2004-05 biennium over the current biennium. The Governor's budget adds \$1.581 billion in available resources through a combination of one-time and permanent revenue changes – as well as a \$186 million increase to the balance from FY 2003.

- **Eliminates the tobacco funds** in FY 2004 transferring \$1.029 billion to the general fund.
- **Repeals the June sales tax acceleration buyback** eliminating \$160 million in revenue loss in FY 2005 under current law provisions.
- **Consolidates the Health Care Access Fund into the general fund** resulting in a one-time revenue gain of \$166 million in FY 2004-05 from the funds projected surplus. Projected future shortfalls for the fund are managed within the Governor's recommendations for the general fund.
- **Transfers \$29 million from state special revenue funds** including \$10 million from the state government special revenue fund, \$10 million from the solid waste fund, and \$9 million from other dedicated accounts
- **Permanently Increases revenues associated with Human Services programs** by \$178 million by increasing the Medical Assistance Surcharge, increased RTC collections and other DHS collections



- **Redirects several dedicated revenue sources into the general fund** including the motor vehicle title transfer fee, 2 cents per pack of cigarette tax currently dedicated to the future resources fund, lottery-in lieu receipts and unclaimed lottery receipts. Dedicates 9 cents per pack of the general fund cigarette tax to replace money for medical research and the academic health center from the tobacco funds.
- **Limits fee increases** to those directed at recovering program costs and where there was a compelling rationale to make programs self-supporting.
- **Requires action on unfinished items from FY 2003** that total \$186 million. Recommendations include refinancing \$110 million general-funded transportation projects and \$76 million in one-time transfers from special revenue funds.

Spending

For the 2004-05 biennium, General Fund spending will total \$28.120 billion. This is an increase of \$1.012 billion over the current biennium, or 3.8 percent. Compared to the November 2002 forecast projections for FY 2004-05 spending, the proposed budget represents a reduction of \$2.855 billion, or 9.2 percent of forecast spending.

- **Shields K-12 classrooms from budget cuts** by increasing K-12 revenues per student from \$7,633 in FY2003 to \$7,799 in FY 2004, a 2.2 percent increase – and by providing an additional 1.3 percent increase in FY2005. The E-12 education budget will total \$12.6 billion, an increase of 17 percent over the current biennium in order to meet commitments for the state to pay a greater share of school costs resulting from education finance and property tax reform.
- **Reduces forecast growth in Human Services spending** from over 20 percent to just under 8 percent. Provides for general fund spending of nearly \$7.0 billion, with recommended budget changes to address the cost pressures that have made this the fastest growing area of state spending.
- **Moves dollars from higher education institutions to students.** Provides nearly \$2.6 billion in state funding, a 9 percent reduction from current levels. Reductions to the post-secondary systems are mitigated by increases to financial aid programs and limits on tuition increases.
- **Redefines local aid programs and formulae focusing** local aid programs on assisting Minnesota communities with basic services. Slightly over \$2.6 billion is provided, but this represents about a 22 percent reduction from the current biennium. The Governor recommends both levy limits and reverse referendum as tools to hold property taxes in check as funding reforms are put into place.
- **Reduces spending in other areas by an average 15 percent** - state agency operating costs are reduced, as are lower priority grants programs. Reduces the number of state positions, state contracts and purchases.
- **Begins re-engineering the way that state government operates** to more effectively deliver services in a less costly manner. Consolidates a number of smaller agencies, reduces duplication and overlap, eliminates low priority activities, while making others self-supporting.
- **Freezes public sector wages** to restrain the growth in state, local and school district costs. Recommends a two-year public employee pay freeze to minimize job losses and service disruptions.



Reserves, Financial Management

- **Restores the budget reserve to \$500 million**, about 3.5 percent of FY 2005 recommended spending. Directs that any future forecast balances first be used to restore the reserve to \$653 million.
- **Closes the structural gap in revenues and spending** through FY 2005, and produces a positive structural balance in FY 2006 of \$302 million and \$786 million by FY 2007.



Meeting the Fiscal Challenge

An Opportunity for Change

It is clear now that the U.S. economy is taking longer than expected to recover from the economic downturn of the last year. This fact, combined with rapidly growing state spending, has contributed to the \$4.2 billion shortfall faced in putting together the FY 2004-05 budget. This shortfall is by far the most dramatic fiscal crisis Minnesota has ever faced.

Governor Pawlenty's budget addresses this fiscal crisis – and uses the resolution of Minnesota's fiscal problem as an opportunity to make the necessary, critical changes to position Minnesota for the future. The changes reflected in the budget are not an end, but rather must be part of a different vision of state spending and government and the beginning of change.

The Governor's budget is premised on the strong belief that Minnesota can resolve the fiscal crisis and emerge with more efficient government, stronger communities and a different blueprint for the future. Unless action is taken to change state spending trends, taxes and financial resources that will be available over the next decade will not be sufficient to avoid chronic and recurring deficits.

Tough Choices

The FY 2004-05 budget defines how the Governor intends to use the state budget to provide essential services to Minnesota citizens while limiting government to its most appropriate roles. The plan is carefully designed to pay for needed state services and preserve the state's economic and fiscal health for the next four years.

The Governor's budget was based on five key goals:

- Improve educational achievement
- Ensure public safety
- Ensure adequate health care
- Increase jobs and economic opportunity
- Enhance transportation

With a shortfall of the magnitude faced by the state, no area of the budget could be held totally harmless. However, the budget reflects these key goals and minimizes the impact of reductions to the greatest extent possible.

It is important to understand the nature of the state's forecast shortfall. The state is currently spending \$1.9 billion more in the current budget than it is collecting. This "hole" was filled largely by depleting budget reserves and by using one-time monies to fill the gaps. Even with a slowdown in economic growth, state taxes and other revenues will grow \$1.7 billion, 6.6 percent over the current two-year budget. This is not enough to fill the current gap in spending, much less provide for growing costs in all areas of the budget. Without action - the problem continues into the future. Spending would have exceeded revenues through the FY2006-07 planning horizon by over \$2 billion dollars.

How Decisions Were Made

The Governor's budget acts to correct this revenue-spending imbalance. The budget reflects the belief that the budget can be balanced and necessary changes can occur without increasing taxes. The fact that Minnesota continues to be ranked 6th highest nationally in total state and local spending indicates that there is capacity to reduce spending and still provide high quality services to citizens. The FY 2004-05 budget will spend one billion dollars more than the current biennium – just less than interest groups and spending systems would advocate.



Meeting the Fiscal Challenge

Closing the \$4.2 billion budget gap required a balanced solution and consideration of every available option. The Governor's budget decisions reflect a prudent mix of one-time resources and spending changes – and permanent “structural” changes.

The Governor set early parameters on which decisions were based. State agencies were asked to prepare 20 percent reduction plans. Actual reductions were somewhat less, but vary with individual areas and agencies based on the nature of the functions and priorities. With a clear goal of protecting the classrooms, reductions to E-12 education were significantly less. Health and Human services spending was targeted because it is the fastest growing areas of the state budget and represents over one-quarter of the general fund budget.

Tobacco funds and one-time K-12 payment changes were used to mitigate potentially higher reductions, and to provide transition funding to allow budget reductions to be implemented without major service impacts.

Budget Reflects Sound Fiscal Management

Minnesota currently is ranked AAA by national rating agencies, the highest possible rating. This has not always been the case. Minnesota was downgraded in the early 1980's after the repeated financial crises and special legislative sessions of that period. It took 15 years to regain the AAA rating. For most Minnesotans concerned about services and taxes, this may not seem relevant. It is – because it is a measure of the stability and predictability of state finances.

The Governor insisted that the budget meet five important financial management goals:

- Resolve the immediate fiscal crisis with a four-year view
- Restore stability and predictability to state finances
- Rebuild the budget reserve to manage risk of future forecasts
- Permanently adjust spending to match revenue growth
- Address the shortfall in a responsible way that will permit future investments in priority areas

These goals require that state policy makers must pay attention to the state's “structural” balance when making budget decisions. Simply put, the Governor's budget restores revenue and spending balance by FY 2006 and FY 2007. It does not spend more than it collects in taxes and other revenues on a continuing basis.

In considering the economic outlook, the Governor requested that \$500 million be placed into the budget reserve as a hedge against a downward revision in future forecasts. Additionally, his budget decisions result in a positive revenue-spending balance of over \$700 million in the fiscal year 2007 planning estimates.



E-12 Education

The E-12 Education budget provides state aid to school districts for elementary and secondary schools, as well as funding for early childhood education, child care and community-based education and operating funds for the Department of Education, the State Residential Academies for the Blind and the Deaf, and the Perpich Center for Arts Education.

E-12 Education is financed through a combination of state aid, property taxes, federal aid, and local non-tax receipts. Like most states, federal funds supply only a relatively small portion of the money coming to schools in Minnesota.

E-12 Education Funding (\$ in millions)			
	<u>FY 2002-03</u>	<u>FY 2004-05</u>	<u>Percent Change</u>
General Fund	10,725	12,582	17%
Aid Payment Change	(445)	(183)	n.a.
Property Tax Recognition Shift		(174)	

State Spending

The Governor's general fund budget for E-12 education in FY 2004-05 totals \$12.6 billion – a 17 percent increase over FY 2002-03. This increase reflects approximately \$1 billion related to the property tax reform enacted in 2001 and implemented in FY 2003. The 2002 legislature also changed the payment schedule for school aids from 90/10 to 83/17, saving \$445 million on a one-time basis.

The Governor's recommendation also includes \$357 million in one-time changes to the school aid payment schedule from 83/17 to 80/20 (saving \$183 million) and the timing of the recognition of property tax levies (saving \$174 million). While these adjustments provide the state with one-time savings, they do not affect the actual revenue that school districts receive, and so are used to mitigate the actual impact of the budget shortfall on core education activities.

State and Local Spending (Revenue) per Student

State funding is only part of the picture for schools, however. Revenue per student—including state and local funds—is often viewed as more relevant, as it removes the effect of shifts between state and local sources (such as property tax reform), eliminates distortion due to payment shifts (such as the 2003 and 2004 payment changes), and also controls for enrollment changes.

Revenue Per Student, FY 2002-2007

Fiscal Year	Total Operating Revenue per Student (State + Local Levies)	Annual Percent Change
2002	\$7,144	2.6%
2003	\$7,633	6.8%
2004-Gov's Rec.	\$7,799	2.2%
2005-Gov's Rec.	\$7,900	1.3%
2006-Gov's Rec.	\$7,932	0.4%
2007-Gov's Rec.	\$8,008	0.9%

As the table indicates, the Governor's recommendation for FY 2004-05 increases the revenue per student compared to FY 2003. On a statewide basis, revenue per student will grow from \$7,633 in FY 2003 to \$7,799 in FY 2004, a 2.2 percent increase. The impact on individual districts will vary, depending on factors such as passage of referenda, tax base changes and program utilization.



Key Elements of the Budget Recommendations

The Governor's FY 04-05 budget places a priority on protecting Minnesota's school classrooms from the impact of the state's massive budget shortfall while also avoiding increases in additional property taxes, unless they are truly at local option. This budget proposal fulfills both goals: revenues per student are maintained at the current year level, and the proposed budget for K-12 has no net impact on the statewide level of property taxes.

In addition, the Governor's budget recommendations implement several measures to increase accountability and strengthen incentives for cost effective operations, and are a first step toward reform of the general education program. Because of the magnitude of the funding changes resulting from these recommendations, the Governor's budget includes a "hold-harmless" provision that will mitigate the short-term impact on school districts.

During 2003, the Governor also plans to continue examining the school finance system, to better link achievement, accountability, and financing. A school finance reform plan will be presented to the Legislature in 2004.

Key elements of the E-12 budget proposal include:

- The Governor's budget caps learning year pupil units at 1.0. The Learning Year program began as a pilot program in the late 1980s to allow secondary students to accelerate their learning and graduate early. Use of it has expanded to include elementary as well as secondary students, and to include remedial programs as well as accelerated learning. This program provides school districts with little incentive to improve performance within the regular school day.
- Under the current formula for Limited English Proficiency (LEP) funding, districts lack the incentive to ensure that LEP students are learning the language skills they need to be successful. The longer a student remains in LEP status, the more aid the district receives. The Governor's budget limits LEP funding for each student to five years.
- The Governor's plan seeks to improve the fairness of school financing by substantially increasing the fully equalized portion of referendum revenue and by requiring a local contribution for districts accessing equity revenue.
- The Governor recommends eliminating the impact of the \$415 roll-in on revenues linked to the general education formula allowance. Certain education formulas, such as compensatory, transportation, transportation sparsity and post secondary enrollment options (PSEO) are linked to the general education formula. When the formula allowance was increased by \$415 in FY 2003 to reflect the roll-in of referendum revenue, the funding generated by these other formulas automatically increased because of the link to general education funding. The Governor's budget eliminates the additional 9.9 percent increase caused by this relationship between the formulas.
- The Governor proposes a new "transition revenue" to ensure that districts will not be unduly harmed by the above changes to the general education program. This revenue provides a guarantee that in FY 2004, each district will receive either the amount they received per pupil in FY 2003, or the amount they would have received under current law for FY 2004.
- The Governor eliminates statutory growth factors in Special Education, Special Education Excess Cost and Adult Basic Education. Removing these "automatic" increases ensures that decisions will be made each biennial budget, rather than giving some programs a virtual guarantee of increased funding.



- Recognizing the cost pressure that exists in special education, the Governor's budget includes \$20 million in one-time funds to reduce the cross subsidy of special education expenditures from general education revenue.
- The Governor proposes to rename the Department of Children, Families and Learning as the Department of Education. As with most other administrative budgets, the Governor recommends a significant reduction to their operational funding, a \$7.5 million decrease from FY 02-03.
- The Governor's budget recommendation for the Academies for the Deaf and the Blind in Faribault totals \$21 million, a reduction of \$51,000 from FY 02-03 and a 5 percent reduction from FY 04-05 forecast levels. Funding for the Perpich Center for FY 2004-05 totals \$13 million in the Governor's budget, a reduction of 10 percent from FY 02-03 and 15 percent from FY 04-05 forecast levels.



Higher Education

The higher education budget comprises the University of Minnesota, the Minnesota State Colleges and Universities (MnSCU), and the Higher Education Services Office (HESO). It also includes the Higher Education Facilities Authority and grants to the Mayo Foundation. Higher education is financed through a mix of state and federal funds, tuition, private and institutional funds, with the state paying the largest share.

Higher Education Bill Funding (\$ in millions)			
	<u>FY 2002-03</u>	<u>FY 2004-05</u>	<u>Percent Change</u>
General Fund	2,806	2,552	(9)%

The Governor's general fund budget for higher education totals \$2.552 billion – a 9 percent decrease over the current biennium.

Key Elements of the Budget Recommendations

Recognizing the severity of the budget shortfall, the Governor's budget reduces state funding for the post-secondary institutions, while minimizing the impact on students through increased funding for financial aid and a limit on tuition increases. The Governor expects the institutions will rigorously review their operations and focus state funding on the support of core academic activities.

The Governor's budget includes the following specific recommendations:

- The State Grant program increases by \$60 million in the Governor's budget proposal. These funds have been reallocated from the University of Minnesota and MnSCU, in order to put more funds in the hands of students, enabling them to choose the best venue for furthering their education, and encouraging a vibrant and competitive higher education infrastructure.
- The Governor's budget recommends \$1.094 billion from the General Fund for MnSCU, a 10% decrease from FY 02-03 funding levels. In FY 2001, MnSCU received 57 percent of their revenue from the state, so this represents a reduction of approximately 6% of their total revenue.
- The Governor's budget recommends \$1.085 billion from the General Fund for the University of Minnesota, a 15% decrease from FY 02-03. In FY 2001, the University received 32 percent of their revenue from the state, so this represents a reduction of approximately 5% of their total revenue.
- Tuition increases would be limited to a maximum of 15% for MnSCU, with a similar expectation for the University of Minnesota. The Governor views this increase as an absolute ceiling, and challenges the systems to limit tuition adjustments to much lower levels in order to limit the impact of the budget reductions on students. In FY 2003, average tuition at MnSCU was \$2,813, an increase of 11% over the previous year. In FY 2003, average tuition and fees at the University of Minnesota were \$6,280, an increase of 13% over the previous year.
- The Governor recommends eliminating the endowment for the Academic Health Center (AHC) and replacing that dedicated funding stream with the dedication of 6.5 cents of the existing cigarette tax. This would stabilize funding for the Academic Health Center at FY 2003 levels.



Higher Education

- The Governor proposes changing the governance structure of the Higher Education Services Office (HESO) in order to streamline executive branch policy making on higher education and ensure better accountability for the public. Currently, the 9-member HESO Council is responsible for hiring the HESO Director, but has few other statutory responsibilities. The Governor proposes eliminating the HESO Council and directly appointing the HESO Director. This would provide the Governor with a “point person” on higher education, and ensure that HESO could be held accountable for effective administration of the State Grant program.
- In order to maintain and enhance a unified dialogue on higher education, the Governor recommends strengthening the role of Higher Education Advisory Council (HEAC). Currently, HEAC is advisory to the HESO Council and includes representatives from the University of Minnesota, MnSCU, HESO, the Department of Education, the Private Colleges Council and the Association of Private Post-secondary schools. The Governor proposes expanding the HEAC membership by adding citizen members, and making HEAC advisory to the Governor.



Health & Human Services

The Health and Human Services budget includes appropriations for the Department of Human Services, Department of Health, Veterans Homes, and related boards. This portion of the budget pays for hospital visits, nursing home care, welfare payments, job training, care at state institutions, regulatory activities, public health, and other services. Funding and delivery of these services is a shared responsibility of the state, the federal government, and Minnesota's 87 counties.

Health & Human Services Bill Funding (\$ in millions)			
	<u>FY 2002-03</u>	<u>FY 2004-05</u>	<u>Percent Change</u>
General Fund	6,527	7,022	8%
All Operating Funds	15,163	16,421	8%

The Governor's general fund budget for Health and Human Services totals \$7.0 billion – a nearly 8 percent increase over the current biennium. The budget for all funds totals \$16.4 billion, an increase of 8 percent. Net spending growth reflects the continued growth in the cost and number of people participating in state and federal human services programs. The Governor's budget recommendations address the cost pressures that have made this area the fastest growing part of the state budget.

Key Elements of the Budget Recommendations

The Governor's budget reduces health and human services spending from forecast levels but allows the state to preserve core health and economic support services for the most vulnerable people. This part of the budget requires difficult trade-offs since protecting core services often requires eliminating optional services or eligibility. Even within more limited resources, the Governor aims to maintain a comprehensive set of services for children, elderly, and people with disabilities.

The Governor maintains the state's safety net by prioritizing and re-directing existing resources. The budget includes expanded and improved mental health services for children and full funding for adoption assistance of special needs children. Even in tight budgets, the state can set its priorities to ensure that the safety net is maintained and even improved.

- The Governor's budget achieves significant new savings by creating a single state program for adults without children by consolidating the General Assistance Medical Care (GAMC) program with the MinnesotaCare program and further modifying MinnesotaCare. Adults, both parents and adults without children, will be impacted by budget proposals the most, with reduced eligibility levels and increased premiums. The proposals also maintain coverage for those who opt to pay the full cost of MinnesotaCare's below-market premium prices but eliminate subsidized health insurance coverage for higher-income parents and pregnant women.
- Since health care programs funded exclusively with state dollars are less than one-quarter of all health spending, reductions also had to be made in the federally matched Medical Assistance (MA) program, the state's version of Medicaid. Changes to eligibility, benefits, utilization, and provider payments are some of the few tools available to state policy-makers. The Governor's budget changes include a two-year moratorium on growth in the MA home and community-based services for people with developmental disabilities, elimination of health care coverage for undocumented people, and the elimination of a recently enacted expansion of autism services.



Health & Human Services

- Trimming existing payments is also necessary in order to maintain the safety net and maintain access to health care services. Co-payments are proposed for certain services, such as non-emergency emergency room visits, eyeglasses, and non-generic drugs. While hospital and other service providers will receive reduced reimbursements for services, this budget strives to limit the shift to charity care and preserve state assistance for critical services.
- The Governor reduces the impact of some funding reductions on local government by simplifying and consolidating state funding streams. Categorical grants from Human Services and Health have been substantially streamlined, providing local flexibility in service delivery with a focus on outcomes. Funding for children's services and public health are among those targeted for consolidation.
- To support holistic management of state health care programs, the Health Care Access Fund is merged into the General Fund at the end of FY 2005. This will also allow policymakers to make health care spending decisions in the same framework as other state policy and funding decisions.
- The Governor recommends dedicating 2.5 cents of the existing cigarette tax for funding medical education and research. This ongoing funding is intended to replace monies provided by state tobacco endowments. The three endowments for medical education, academic health center (see Higher Education), and tobacco use prevention total more than \$1 billion and will be eliminated. Remaining funds will be deposited into the general fund in FY 2004.



Tax Aids & Credits

Property tax aids and credits are state funds paid to local governments (public schools, cities, counties, towns and special districts) to reduce the local costs of service delivery, to defray the costs of state mandates, or to generally reduce local property taxes. These payments reduce local property tax burdens by substituting state funds for revenues that would otherwise need to be raised through the local property tax. Some payments to individuals, like property tax refunds (PTR) for homeowners and renters, are also included in this category because they reduce property tax burdens.

Most aids and credits are based on complex formulas written into law. To administer those formulas, the Department of Revenue collects local assessment and levy information, calculates levy limits, forecasts aid payments required, and makes most property tax aid payments to the local governments. In the case of school-related aids, the Department of Education makes the payments to local districts.

Property tax aids and credits are financed entirely from the state's general fund.

Property Tax Aids & Credits Funding (\$ in millions)			
	<u>FY 2002-03</u>	<u>FY 2004-05</u>	<u>Percent Change</u>
General Fund	3,389	2,633	-22%

The Governor's general fund budget for this area totals \$2.6 billion – a 22 percent decrease over the current biennium. The budget recommendation seeks to reform the amount and way that state aid is distributed to local governments. With falling state resources, reductions in aids and credits – nearly 11 percent of forecast spending -- will be required to bring the overall budget into balance.

Key Elements of the Budget Recommendations

The Governor's budget reduces state aid to a sustainable level and permanently reforms how money is distributed to local units of government. Too much of current funding is based on historic funding formulas that do not take into account local resources or local needs.

The Governor expects that reductions in city and county aids will be followed by lower local spending, not higher property taxes. To ensure that state aid reductions are not passed along to property taxpayers, all reductions are capped so that no unit of government is disproportionately impacted. The governor also recommends continued levy limits so that changes are made to spending, not local taxes. Reductions in local budgets are significantly lower than those experienced by state agencies and should not become an excuse for higher property taxes.

A summary of the local aids package is as follows:

- Reductions to local units of government are phased in to recognize local circumstances. First year reductions are one-third of the total since current budgets are already set. Second year reductions are higher, but can be more reasonably incorporated into local budgets.
- Local governments that have held the line on property tax increases receive lower reductions in their state aids. Those counties and cities with levy plus aid increases of less than 2% per year will not be penalized for passing along the impact of state led property tax reductions.
- Specific formula reform options will be released later to address LGA and county needs/capacity formula. These options will be released early enough for legislative action yet this session.



Tax Aids & Credits

- Reverse referendums are proposed so that local voters may not only hold down spending growth, but may even decrease spending. Activities funded by local levies must demonstrate continuing value to the public in order for their continued support.
- City aids and credits are reduced by \$435 million for the biennium. This represents a 28.8% reduction in state aids, or a 6.2% reduction in total city revenues.
 - ▷ For the first year, changes are capped at 5% of total revenues for cities with more than 1,000 people. Smaller reductions of 3.5% are taken in aids to small cities and those that have already restrained spending growth.
 - ▷ For the second year, changes are capped at 9.5% for most cities, with smaller cities and those with low spending growth capped at 8%.
- County aids and credits are reduced by \$189 million for the biennium. This represents a 20.1% reduction in state aid, or a 2.4% reduction in total county revenues.
 - ▷ For the first year, changes are capped at 3.2% of total revenues. Smaller reductions of 1.5% are taken in aids to those counties that have already restrained spending growth.
 - ▷ For the second year, reductions are capped at 6.0% for counties, with low spending growth counties capped at 2.5%.
- Overall reductions to county aids are smaller than for cities due in part to their role in delivering state services. Counties are also impacted by state budget reductions in state health, human services, and corrections spending. As a result, while direct aid losses are lower, the overall impact between counties and cities is relatively balanced.



Environment & Agriculture

The Environment and Agriculture budget provides funding for the Pollution Control Agency (PCA), the Department of Natural Resources (DNR), the Department of Agriculture, the Office of Environmental Assistance, the Board of Soil and Water Resources and other small agencies. Their mission is to protect and enhance the quality of the environment, and human and animal health.

The state invests in this area to balance the many interests of Minnesota citizens. Preserving our natural heritage for future generations while also providing quality trails, water access sites, and fishing, hunting, and camping resources for the recreation of a growing population is a major responsibility. At the same time, the state manages its forest and mineral resources for the economic benefits of citizens, communities, and industries, it also spends money to support the production of ethanol, promote agricultural products, and protect consumers through the regulation and inspection of products for human and animal consumption. Funding in this area is complex, with 40 percent of spending coming from the general fund, and 60 percent from a wide variety of user fees.

Environment & Agriculture Bill Funding (\$ in millions)			
	<u>FY 2002-03</u>	<u>FY 2004-05</u>	<u>Percent Change</u>
General Fund	486	419	(14)%
All Operating Funds	1,180	1,137	(4)%

The Governor's general fund budget for Environment and Agriculture totals \$419 million – a 14 percent decrease from the current biennium. The budget for all funds totals \$1.1 billion, a decrease of 4%.

Key Elements of the Budget Recommendations

- The Governor recommends a reduction in funding for the Ethanol Development program. The Department of Agriculture is also being asked to review the program and provide recommendations for changes that will help ensure the long-term financial viability of the state's investment in the ethanol industry.
- The Governor is recommending an environmental fund simplification that will enhance the Minnesota Pollution Control Agency's ability to direct resources toward environmental priorities. This proposal will restructure the Environmental Fund and create a new Remediation Fund. The proposal will also rename the solid waste tax to the "environmental tax" to reflect the broader purposes for which the revenue is spent.
- The proposed budget includes general fund reductions for the Department of Natural Resources. The budget includes broad based reductions across all programs, with the exception of Forestry, where the Department will make a smaller reduction to ensure its continued contribution to forest health, fire protection, and rural and state economies, and to maintain timber sales. Services will be reduced in State Parks, but all parks will remain open. The DNR will continue to work to refine the details for specific reductions
- A limited number of fee increases for the Department of Agriculture, the Department of Natural Resources, and the Pollution Control Agency are included in the budget. These increases are necessary for the agencies to recover the cost of the programs and activities being supported by fees.
- The Governor is recommending that the administrative and operational functions of the Board of Animal Health and the Agriculture Utilization Research Institute be consolidated with the



Environment & Agriculture

Department of Agriculture in order to reduce administrative costs while continuing the critical services of these agencies.

- The budget for the Office of Environmental Assistance includes a 20 percent reduction in grants and loans including the SCORE grants to counties for waste reduction and recycling. The budget also includes a recommendation for a 25 percent reduction in the grant programs of the Board of Water and Soil Resources.



Economic Development

The Economic Development budget includes funding for the departments of Commerce, Labor and Industry, Trade and Economic Development, the Minnesota Housing Finance Agency, and the Minnesota Historical Society as well as many small agencies and boards. This is a diverse set of agencies whose general goals include improving productivity, increasing wealth, and promoting equity. They provide services such as financing business expansions, promoting tourism, regulating financial services and utilities, promoting safe work environments, providing employment services and job-training, providing affordable housing programs, and preserving historically significant sites and documents.

Economic development efforts are financed from the General Fund, federal, and other state funds. Other state funds include money generated from user fees and special taxes. Federal funds are largely spent on wastewater and drinking water systems, community development block grants, unemployment insurance, employment services, training services for people with disabilities, and housing subsidies.

Economic Development Bill Funding (\$ in millions)			
	<u>FY 2002-03</u>	<u>FY 2004-05</u>	<u>Percent Change</u>
General Fund	433	326	(25)%
All Operating Funds	1,808	1,532	(15)%

The Governor's general fund budget for Economic Development totals \$326 million – a 25 percent decrease from the current biennium. The budget for all funds totals \$1.5 billion, a decrease of 15 percent. A significant portion of the general fund decrease is related to the \$24 million in one-time funding for affordable housing that was available in FY 2002-03. In addition, \$8 million in one-time funding in FY 2002-03 was provided for workforce development related programs and special flood relief activities.

Key Elements of the Budget Recommendations

- The Governor's budget implements the merger of the Department of Trade and Economic Development and the Department of Economic Security. The combining of the two departments will provide opportunities to increase efficiencies and a more unified approach to workforce development.
- The proposed budget reduces the General Fund appropriation for the Contaminated Site Cleanup program. The program is supported by other funding sources and will have \$16.7 million available for projects in FY2004-05.
- The Governor's budget recommends a reduction in some housing programs. However the Minnesota Housing Finance Agency will preserve its core services and provide housing assistance for the state's low-income population.
- The elimination of the General Fund appropriation to the Minnesota Technology Incorporated (MTI) is also recommended by the Governor. MTI has non-state resources available to provide services to businesses. In addition, the Governor recommends the services of MTI that continue be closely coordinated with the activities of the Department of Trade and Economic Development in order to achieve efficiencies and avoid duplication.
- The Governor recommends a 20 percent reduction in the General Fund base for the minority councils. The councils are being asked to work together to maintain their most important core functions while reducing administrative costs by merging staffing and office facilities.



- Two significant reforms are being recommended by the Governor in the budget for the Department of Labor and Industry. By implementing a new apprenticeship registration fee, the program costs for that activity will be transferred to those organizations that receive the benefit of the Apprenticeship program. The second reform includes turning the agencies private sector OSHA enforcement program back to the federal government. The department will continue a smaller OSHA program directed towards public sector employers not covered by federal OSHA regulations.
- The Governor's budget reduces funding for the Arts Board by 22 percent from FY 02-03 and eliminates state funding for the Humanities Commission. Even with these changes, funding per capita for arts and humanities is the second highest in the Midwest, second only to Michigan.



Transportation

The Transportation budget supports the Minnesota Department of Transportation, Metropolitan Council Transit, transportation-related functions of the Department of Public Safety, and other small agencies. This funding supports the design, construction, maintenance, and management of state highways and bridges, financing of county state aid and municipal state aid roads, state aid for metropolitan and Greater Minnesota transit operations, and the development and maintenance of airports, the State Patrol, driver and vehicle services, traffic safety, and pipeline safety.

The largest share of funding for this area of the budget is in the form of dedicated motor fuel and registration taxes deposited in the Highway User Tax Distribution (HUTD) Fund. The General Fund supports only 3.7 percent of the funding for the activities in this area.

Transportation Bill Funding (\$ in millions)			
	<u>FY 2002-03</u>	<u>FY 2004-05</u>	<u>Percent Change</u>
General Fund	451	161	(64)%
All Operating Funds	5,059	4,489	(11)%

The Governor's general fund budget for Transportation totals \$161 million – a 64 percent decrease from the current biennium. The budget for all funds totals \$4.5 billion, a decrease of 11 percent. The major portion of the general fund decrease is related to the one-time funding that was available in FY2002-03 for road construction projects.

Key Elements of the Budget Recommendations

- The recommended reductions in the appropriation from the Trunk Highway Fund, for Mn/DOT operations, reflects an aggressive effort to realign spending priorities in the department. Emphasis is on significantly decreasing administration and overhead costs throughout the agency while preserving the department's ability to develop and deliver construction projects. The Governor intends that these savings will provide the resources to allow for the development of a transportation investment package that will address the substantial needs of the state.
- The reductions recommended for transit programs at the Department of Transportation and Metropolitan Council are aimed at minimizing the impact on service. While this reduction will result in some level of service reduction, the Governor's budget continues a significant investment in both rural and metro transit.
- Included in the Governor's budget is a new appropriation of \$2,240,000 in FY 2004 and \$3,120,000 in FY2005 to support part of the operating costs for the Hiawatha Light Rail Transit. This recommendation assumes that local funding in the amount of \$3,360,000 in FY 2004 and \$4,860,000 will be provided by local units of government in the area benefiting from the Hiawatha Light Rail line.
- The Governor is recommending a General Fund appropriation reduction of \$2,095,000 each year for the operating costs of the transportation activities of the Department of Public Safety. Included in this is a reduction in capitol security activities. Security will be maintained at the State Capitol, the State Office Building and the Judicial Building.



Criminal Justice

The criminal justice system in Minnesota is composed of many federal, state and local agencies working together to investigate crime, apprehend suspects, adjudicate criminal cases, assist crime victims, and sanction offenders to reduce the future risk of crime. This section of the budget includes funding for the Department of Corrections, the criminal justice-related portions of the Department of Public Safety, the courts, the Board of Public Defense, and the Department of Human Rights. The financing for Criminal Justice agencies comes from the general fund, federal grants, and other state funds.

Criminal Justice Funding (\$ in millions)			
	<u>FY 2002-03</u>	<u>FY 2004-05</u>	<u>Percent Change</u>
General Fund	1,368	1,387	1%
All Operating Funds	1,654	1,561	-6%

The Governor's general fund budget for these agencies totals \$1.4 billion – a 1 percent increase from the current biennium. The budget for all funds totals \$1.6 billion, a decrease of 6 percent. Net spending growth in this area is due to the state takeover of county-funded court functions, caseload increases, and a rising prison population.

Key Elements of the Budget Recommendations

The Governor's criminal justice recommendations focus state spending on core activities in order to maintain public safety while still achieving spending reductions. Areas that were spared from the deepest reductions include funding for state prisons, courts, and the Bureau for Crime Apprehension (BCA). Other activities, while important, were less directly tied to public safety and were reduced significantly or even eliminated. This budget attempts to maintain the core services that make Minnesota's judicial and correctional system very cost effective and the model for other states.

Elements of the criminal justice budget include:

- Increase capacity at existing prisons. At selected prisons, up to 50% of the cells will be double-bunked to help meet a growing demand for prison space.
- Shift short-term offenders – those with less than six months left on their sentence - to local jails for remainder of term. The current system needlessly moves around these inmates, increasing state transportation, intake, and other costs. This move will free up as many as 200 beds in the state system.
- Reduce funding for courts and public defenders. As with executive and legislative branch activities, it is expected that judicial branch agencies will need to review costs, consider system changes, and develop other ways to manage within reduced resources.
- Reduce grants for county corrections and crime victims services and battered women per diems. Minnesota is already heavily invested in some of these activities and reductions were made to preserve core functions.
- Refinement of the CriMNet strategy towards a decentralized model will allow budget savings to be realized while maintaining the project's ability to achieve success through enhanced local and federal partnerships.



State Government

The State Government budget includes the constitutional officers and the Legislature, the five major staff agencies (Administration, Employee Relations, Finance, Planning and Revenue) as well as Military Affairs, Veterans Affairs, and a number of other smaller agencies. Collectively, these offices and agencies provide the basic infrastructure for state policy development and business operations. This area of the budget is financed largely through the general fund, internal service fund charges to agencies for business operations, and other fees and charges.

State Government Funding (\$ in millions)			
	<u>FY 2002-03</u>	<u>FY 2004-05</u>	<u>Percent Change</u>
General Fund	678	561	(17)%
All Operating Funds	963	872	(9)%

The Governor's FY 04-05 general fund budget for these agencies totals \$561 million – a 17 percent decrease from the current biennium.

Key Elements of the Budget Recommendations

- Funding for most agencies in this budget area, including the constitutional officers and the legislature, is reduced by 15 percent from the forecast funding level. When viewed on a biennial basis, the reduction percentages vary widely, with some agencies showing much larger reductions from FY 02-03 reflecting the removal of one-time appropriations from their budget in FY 04-05.
- Reductions to Military Affairs and Veterans Affairs emphasize one-time and administrative decreases, reflecting the Governor's commitment to avoiding cuts that might impair military readiness.
- The Governor asked the departments of Administration, Employee Relations and Finance to decrease the amount they bill to other agencies for computer and telecommunication services, building maintenance, state employee insurance administration and financial systems. These reductions help all state agencies by allowing them to better focus their resources on core functions rather than support activities.
- The Governor's budget expands tax compliance activities in the Department of Revenue, even as other activities are pared back in that budget. The investment of \$5.4 million into new compliance efforts is expected to yield \$32.4 million in additional revenues. These activities will be similar to those funded in the past two years, which were confirmed to be effective by a recent Legislative Auditor report.
- Funding is reduced overall by 24 percent for Public Broadcasting in the Governor's budget. Within that total, some entities are reduced by greater or lesser proportions, depending on their reliance on state funds. Legislative Television and college-based public radio (AMPERS) are reduced by 15 percent, Public Television is reduced by 25 percent and Minnesota Public Radio is reduced by 35 percent.



- The Governor's budget reflects several proposals to reorganize and restructure activities in this area, including:
 - ▷ The Capitol Area Architectural and Planning Board (CAAPB) will be folded into the Department of Administration. Admin's Real Estate Management Division already works closely with the CAAPB in the Board's work overseeing planning and design for the Capitol Complex.
 - ▷ The office of the State Treasurer was abolished by a 1998 constitutional amendment. An executive order issued by Governor Ventura transferred its duties to the Department of Finance, effective January 6, 2003 and that transfer is reflected in the Governor's recommendations.
 - ▷ Funding to several small veterans organizations--the Military Order of the Purple Heart, Disabled American Veterans and the Veterans of Foreign Wars—is integrated into the Department of Veterans Affairs in order to allow these smaller organizations to take advantage of the Department's resources.
 - ▷ The Governor will announce a reorganization of the Office of Strategic and Long-Range Planning (Minnesota Planning) in the next couple weeks. This budget lays the foundation for that proposal by maintaining the core services of the agency while reducing administrative overhead.
 - ▷ In order to expedite agency reorganizations and downsizing, the Governor's budget includes \$500,000 for relocation costs that may be incurred as the need for agency space is reduced or changes.
- The Governor's budget changes the financing structure for several agencies, including the Lawful Gambling Control Board, the Amateur Sports Commission, the Campaign Finance and Public Disclosure Board and the Minnesota Racing Commission. Fees will be increased to cover the activities of the agencies.
 - ▷ For Gambling Control, general fund support for the agency's activities will cease, with fees to the lawful gambling industry restructured and deposited in a special account to cover the agency's operational costs.
 - ▷ The Amateur Sports Commission will be required to recover its operating costs by collecting fees from non-profit organizations with which the commission is affiliated as well as from other private sources.
 - ▷ For Campaign Finance, fees will be collected from candidates, political parties, political committees and lobbyists in order to recover the costs of the Campaign Finance Board's regulatory activities.
 - ▷ The Racing Commission will be authorized to collect fees sufficient to recover its operational costs, rather than receiving a General Fund appropriation.
- In order to avoid future deficiency requests and to recognize the limited resources available to agencies, the Governor's budget includes \$5 million each year for general contingencies and emergencies.



The following summary tables provide additional detail on the current and recommended level of general fund revenues and spending for the FY 2004-05 budget.

The tables are presented to provide commonly requested comparisons and financial data for the general fund. The tables present information displayed by major legislative spending bills.

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- Governor's FY 2003 Actions and Recommendations
 - FY 2004–05 Recommendations by Year
 - Annual Percent Change
 - Comparison: Governor's Budget – November 2002 Forecast
 - Comparison: Governor's Budget – Increase over Current Biennium (FY 2002-03)
 - FY 2006-07 Planning Estimates
-

Complete detailed budget information on individual agency recommendations can be found in companion Governor's detailed budget books that are prepared for each omnibus appropriation area.

These documents and related background materials on the Governor's budget can be viewed on the web at:

www.finance.state.mn.us/budget/operating



**Governor's FY 2003 Actions and Recommendations
Compared to November 2002 Forecast
FY 2002-03 Biennium
(\$ in thousands)**

	11-02 Fcst FY 2002-03	2-03 Gov Rec FY 2002-03	\$ Difference
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	1,574,200	1,574,200	0
Current Resources:			
Tax Revenues	23,330,813	23,330,813	0
Non-Tax Revenues	1,318,313	1,318,313	0
Dedicated Revenue	102,968	102,968	0
Transfers In	375,393	375,393	0
Prior Year Adjustments	66,261	66,261	0
Budget Changes - Taxes	0	50,000	50,000
Budget Changes - Non-Taxes	0	147,203	147,203
Subtotal-Current Resources	25,193,748	25,390,951	197,203
Total Resources Available	26,767,948	26,965,151	197,203
<u>Actual & Estimated Spending</u>			
E-12 Education	10,724,994	10,688,869	(36,125)
Property Tax Recog/Payment Change	(444,642)	(442,350)	2,292
Property Tax Aids & Credits	3,389,225	3,387,629	(1,596)
Higher Education	2,806,480	2,756,173	(50,307)
Health & Human Services	6,527,444	6,502,882	(24,562)
Environment & Agriculture	486,037	445,972	(40,065)
Economic Development	432,564	413,984	(18,580)
Transportation	450,828	318,013	(132,815)
Criminal Justice	1,367,726	1,349,668	(18,058)
State Government	677,963	667,595	(10,368)
Debt Service & Borrowing	581,047	581,047	0
Capital Projects	2,146	2,146	0
Deficiencies/Other	14,612	14,612	0
Estimated Cancellations	(15,000)	(5,000)	10,000
Subtotal Expenditures & Transfers	27,001,424	26,681,240	(320,184)
Dedicated Expenditures	98,164	98,164	0
Total Expenditures & Transfers	27,099,588	26,779,404	(320,184)
Balance Before Reserves	(331,640)	185,747	517,387
Budget Reserve	23,900	0	(23,900)
Budgetary Balance	(355,540)	185,747	541,287



**Governor's Proposed Budget
Recommendations by Year
FY 2004-05 Biennium
(\$ in thousands)**

	FY 2004	FY 2005	Biennial Total
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	185,747	400,471	185,747
Current Resources:			
Tax Revenues	12,248,322	13,159,899	25,408,221
Non-Tax Revenues	566,074	587,884	1,153,958
Dedicated Revenue	90,128	93,357	183,485
Transfers In	45,906	44,855	90,761
Prior Year Adjustments	10,100	10,100	20,200
Budget Changes - Taxes	153,070	18,897	171,967
Budget Changes - Non-Taxes	1,138,284	271,199	1,409,483
Subtotal-Current Resources	14,251,884	14,186,191	28,438,075
Total Resources Available	14,437,631	14,586,662	28,623,822
<u>Actual & Estimated Spending</u>			
E-12 Education	6,320,340	6,261,382	12,581,722
Property Tax Recog/Payment Change	(345,962)	(13,782)	(359,744)
Property Tax Aids & Credits	1,406,436	1,226,083	2,632,519
Higher Education	1,281,558	1,270,898	2,552,456
Health & Human Services	3,551,093	3,470,464	7,021,557
Environment & Agriculture	210,097	208,522	418,619
Economic Development	163,407	162,146	325,553
Transportation	80,099	80,955	161,054
Criminal Justice	682,042	704,549	1,386,591
State Government	278,887	281,854	560,741
Debt Service & Borrowing	331,655	353,752	685,407
Estimated Cancellations	0	(5,000)	(5,000)
Subtotal Expenditures & Transfers	13,959,652	14,001,823	27,961,475
Dedicated Expenditures	77,508	81,127	158,635
Total Expenditures & Transfers	14,037,160	14,082,950	28,120,110
Balance Before Reserves	400,471	503,712	503,712
Budget Reserve	300,000	500,000	500,000
Budgetary Balance	100,471	3,712	3,712



Governor's Proposed Budget
Annual Percent Change
(\$ in thousands)

	FY 2003	FY 2004	% Change	FY 2005	% Change
<u>Actual & Estimated Resources</u>					
Balance Forward From Prior Year	1,130,269	185,747	-83.6%	400,471	115.6%
Current Resources:					
Tax Revenues	11,909,401	12,248,322	2.8%	13,159,899	7.4%
Non-Tax Revenues	562,375	566,074	0.7%	587,884	3.9%
Dedicated Revenue	68,369	90,128	31.8%	93,357	3.6%
Transfers In	307,808	45,906	-85.1%	44,855	-2.3%
Prior Year Adjustments	35,770	10,100	-71.8%	10,100	0.0%
Budget Changes - Taxes	50,000	153,070	nm	18,897	nm
Budget Changes - Non-Taxes	147,203	1,138,284	nm	271,199	nm
Subtotal-Current Resources	13,080,926	14,251,884	9.0%	14,186,191	-0.5%
Total Resources Available	14,211,195	14,437,631	1.6%	14,586,662	1.0%
<u>Actual & Estimated Spending</u>					
E-12 Education	6,143,145	6,320,340	2.9%	6,261,382	-0.9%
Property Tax Recog/Payment Change	(442,350)	(345,962)	-21.8%	(13,782)	-96.0%
Property Tax Aids & Credits	1,607,882	1,406,436	-12.5%	1,226,083	-12.8%
Higher Education	1,361,241	1,281,558	-5.9%	1,270,898	-0.8%
Health & Human Services	3,456,941	3,551,093	2.7%	3,470,464	-2.3%
Environment & Agriculture	207,342	210,097	1.3%	208,522	-0.7%
Economic Development	192,703	163,407	-15.2%	162,146	-0.8%
Transportation	108,487	80,099	-26.2%	80,955	1.1%
Criminal Justice	710,253	682,042	-4.0%	704,549	3.3%
State Government	320,941	278,887	-13.1%	281,854	1.1%
Debt Service & Borrowing	295,494	331,655	12.2%	353,752	6.7%
Estimated Cancellations	(5,000)	0	-100.0%	(5,000)	nm
Subtotal Expenditures & Transfers	13,957,079	13,959,652	0.0%	14,001,823	0.3%
Dedicated Expenditures	68,369	77,508	13.4%	81,127	4.7%
Total Expenditures & Transfers	14,025,448	14,037,160	0.1%	14,082,950	0.3%
Balance Before Reserves	185,747	400,471		503,712	
Budget Reserve	0	300,000		500,000	
Budgetary Balance	185,747	100,471		3,712	



**Governor's Proposed Budget
Compared to November 2002 Forecast
FY 2004-05 Biennium
(\$ in thousands)**

	11-02 Fcst FY 2004-05	Gov Rec FY 2004-05	\$ Difference	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	(331,640)	185,747	517,387	
Current Resources:				
Tax Revenues	25,408,221	25,408,221	0	
Non-Tax Revenues	1,153,958	1,153,958	0	
Dedicated Revenue	183,485	183,485	0	
Transfers In	90,761	90,761	0	
Prior Year Adjustments	20,200	20,200	0	
Budget Changes - Taxes	0	171,967	171,967	
Budget Changes - Non-Taxes	0	1,409,483	1,409,483	
Subtotal-Current Resources	26,856,625	28,438,075	1,581,450	
Total Resources Available	26,524,985	28,623,822	2,098,837	
<u>Actual & Estimated Spending</u>				
E-12 Education	12,876,472	12,581,722	(294,750)	-2.3%
Property Tax Recog/Payment Change	(2,969)	(359,744)	(356,775)	nm
Property Tax Aids & Credits	3,270,757	2,632,519	(638,238)	-19.5%
Higher Education	2,910,948	2,552,456	(358,492)	-12.3%
Health & Human Services	7,840,289	7,021,557	(818,732)	-10.4%
Environment & Agriculture	514,299	418,619	(95,680)	-18.6%
Economic Development	390,662	325,553	(65,109)	-16.7%
Transportation	184,932	161,054	(23,878)	-12.9%
Criminal Justice	1,524,986	1,386,591	(138,395)	-9.1%
State Government	606,346	560,741	(45,605)	-7.5%
Debt Service & Borrowing	694,972	685,407	(9,565)	-1.4%
Estimated Cancellations	(20,000)	(5,000)	15,000	-75.0%
Subtotal Expenditures & Transfers	30,791,694	27,961,475	(2,830,219)	-9.2%
Dedicated Expenditures	183,485	158,635	(24,850)	-13.5%
Total Expenditures & Transfers	30,975,179	28,120,110	(2,855,069)	-9.2%
Balance Before Reserves	(4,450,194)	503,712	4,953,906	
Budget Reserve	79,200	500,000	420,800	
Dedicated Reserves	30,619	0	(30,619)	
Budgetary Balance	(4,560,013)	3,712	4,563,725	



Governor's Proposed FY 2004-05 Budget Increase Over Current Biennium (\$ in thousands)

	11-02 Fcst * FY 2002-03	Gov Rec FY 2004-05	\$ Difference	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	1,574,200	185,747	(1,388,453)	nm
Current Resources:				
Tax Revenues	23,330,813	25,408,221	2,077,408	8.9%
Non-Tax Revenues	1,318,313	1,153,958	(164,355)	-12.5%
Dedicated Revenue	102,968	183,485	80,517	78.2%
Transfers In	375,393	90,761	(284,632)	-75.8%
Prior Year Adjustments	66,261	20,200	(46,061)	-69.5%
Budget Changes - Taxes	0	171,967	171,967	nm
Budget Changes - Non-Taxes	0	1,409,483	1,409,483	nm
Subtotal-Current Resources	25,193,748	28,438,075	3,244,327	12.9%
Total Resources Available	26,767,948	28,623,822	1,855,874	6.9%
<u>Actual & Estimated Spending</u>				
E-12 Education	10,724,994	12,581,722	1,856,728	17.3%
Property Tax Recog/Payment Change	(444,642)	(359,744)	84,898	-19.1%
Property Tax Aids & Credits	3,389,225	2,632,519	(756,706)	-22.3%
Higher Education	2,806,480	2,552,456	(254,024)	-9.1%
Health & Human Services	6,527,444	7,021,557	494,113	7.6%
Environment & Agriculture	486,037	418,619	(67,418)	-13.9%
Economic Development	432,564	325,553	(107,011)	-24.7%
Transportation	450,828	161,054	(289,774)	-64.3%
Criminal Justice	1,367,726	1,386,591	18,865	1.4%
State Government	677,963	560,741	(117,222)	-17.3%
Debt Service & Borrowing	581,047	685,407	104,360	18.0%
Capital Projects	2,146	0	(2,146)	-100.0%
Deficiencies/Other	14,612	0	(14,612)	-100.0%
Estimated Cancellations	(15,000)	(5,000)	10,000	-66.7%
Subtotal Expenditures & Transfers	27,001,424	27,961,475	960,051	3.6%
Dedicated Expenditures	98,164	158,635	60,471	61.6%
Total Expenditures & Transfers	27,099,588	28,120,110	1,020,522	3.8%
Balance Before Reserves	(331,640)	503,712	835,352	
Budget Reserve	23,900	500,000	476,100	
Budgetary Balance	(355,540)	3,712	359,252	

* Does not reflect unallotment reductions and administrative actions taken to eliminate FY 2003 deficit.



Governor's Proposed Budget
FY 2002 - FY 2007 Planning Horizon
(\$ in thousands)

	FY 2002-03	FY 2004-05	FY 2006-07
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	1,574,200	185,747	503,712
Current Resources:			
Tax Revenues	23,330,813	25,408,221	28,486,392
Non-Tax Revenues	1,318,313	1,153,958	1,203,560
Dedicated Revenue	102,968	183,485	188,238
Transfers In	375,393	90,761	89,323
Prior Year Adjustments	66,261	20,200	20,200
Budget Changes - Taxes	50,000	171,967	967,284
Budget Changes - Non-Taxes	147,203	1,409,483	248,753
Subtotal-Current Resources	25,390,951	28,438,075	31,203,750
Total Resources Available	26,965,151	28,623,822	31,707,462
<u>Actual & Estimated Spending</u>			
E-12 Education	10,688,869	12,581,722	12,440,257
Property Tax Recog/Payment Change	(442,350)	(359,744)	(40,916)
Property Tax Aids & Credits	3,387,629	2,632,519	2,756,292
Higher Education	2,756,173	2,552,456	2,537,848
Health & Human Services	6,502,882	7,021,557	8,581,030
Environment & Agriculture	445,972	418,619	412,435
Economic Development	413,984	325,553	324,420
Transportation	318,013	161,054	163,165
Criminal Justice	1,349,668	1,386,591	1,481,043
State Government	667,595	560,741	560,197
Debt Service & Borrowing	581,047	685,407	742,654
Capital Projects	2,146	0	0
Deficiencies/Other	14,612	0	0
Estimated Cancellations	(5,000)	(5,000)	(5,000)
Subtotal Expenditures & Transfers	26,681,240	27,961,475	29,953,425
Dedicated Expenditures	98,164	158,635	162,032
Total Expenditures & Transfers	26,779,404	28,120,110	30,115,457
Balance Before Reserves	185,747	503,712	1,592,005
Budget Reserve	0	500,000	500,000
Budgetary Balance	185,747	3,712	1,092,005

