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The Governor's 2006-07 Biennial Budget can be viewed at the Department of Finance's web site at:
www.budget.state.mn.us/budget/operating/index.shtml

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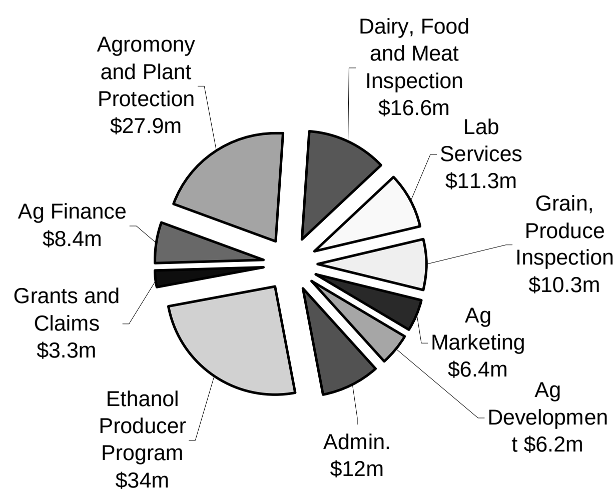
Transmittal Letter

January 25, 2005

To the 2005 Minnesota Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the budget recommendation for the Minnesota Department of Agriculture (MDA) for the 2006-07 biennium. This budget includes $76.4 million from the state General Fund, $39.5 million from the Agricultural Fund (money collected from Ag-related fees), $9.4 million in Federal money and $11.2 million dollars from a variety of other sources. The Governor recommends maintaining current law funding levels.

Department of Agriculture
$136.4 million 2006-07 Budget



Included in the General Fund recommendation is $34 million for the continuation of the ethanol producer program at current payment rates. The cost of the program for the 2006-07 biennium will be lower than for the current biennium because some producers are leaving the program as they reach their ten-year limits.

Also included in the General Fund recommendation is a lease cost adjustment. In the fall of 2005, the Department will move into new facilities that will be jointly occupied with the Minnesota Department of Health. This move will greatly improve the Department's working space, the most important change being new lab facilities that can handle our increased challenges in protecting the food supply chain from the threats posed by disease and global terrorism.

Protection is one of MDA's core functions, and MDA's protection programs span the range of activities from the farm to your family. Because threats have increased in recent years, the governor's budget provides funding to keep our protection programs strong. Working with the industries involved, several fee structure changes are proposed that will keep regulatory programs responsive to the needs of the changing marketplace.

Another core function of the Department is promotion. Today's farmers face more complex challenges than ever as they adapt to the global marketplace of the 21st century. MDA is able to help farmers by working to expand access to international markets and to help producers maintain and enhance their ability to compete with producers in other countries. The Department can help to educate producers about new marketing strategies and risk management tools. We can also help farmers add value to raw commodities through assisting in the development of value-added enterprises such as renewable fuel production.

In all these ways and more, this budget will allow MDA to continue to work to make agriculture in Minnesota a safe, diverse, economically strong industry that enhances the lives of all Minnesotans. We look forward to discussing our budget, our programs and our mission with you as the session proceeds.

Sincerely,

Gene Hugoson

Gene Hugoson
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
Environment & Natural Resource					
Current Appropriation	156	154	154	154	308
Recommended	**156**	**154**	**300**	**300**	**600**
Change		0	146	146	292
% Biennial Change from 2004-05					93.5%
General					
Current Appropriation	41,828	40,194	40,194	40,194	80,388
Recommended	**41,828**	**40,194**	**39,355**	**36,997**	**76,352**
Change		0	(839)	(3,197)	(4,036)
% Biennial Change from 2004-05					-6.9%
Remediation					
Current Appropriation	353	353	353	353	706
Recommended	**353**	**353**	**388**	**388**	**776**
Change		0	35	35	70
% Biennial Change from 2004-05					9.9%
Expenditures by Fund					
Carry Forward					
Environment & Natural Resource	0	0	28	0	28
Direct Appropriations					
Environment & Natural Resource	58	243	300	300	600
General	39,935	41,409	39,355	36,997	76,352
Remediation	351	355	388	388	776
Statutory Appropriations					
Public Facilities Authority	6,699	671	683	1,321	2,004
Special Revenue	2,751	3,230	3,181	3,240	6,421
Agriculture Fund	18,793	19,632	19,685	19,779	39,464
Federal	2,815	5,296	4,799	4,615	9,414
Remediation	550	4,222	955	500	1,455
Rural Finance Administration	29	130	130	130	260
Miscellaneous Agency	483	102	52	52	104
Gift	64	102	67	61	128
Total	**72,528**	**75,392**	**69,623**	**67,383**	**137,006**
Expenditures by Category					
Total Compensation	27,150	29,256	30,740	31,628	62,368
Other Operating Expenses	13,421	20,449	16,824	16,573	33,397
Payments To Individuals	545	833	680	665	1,345
Local Assistance	23,777	23,563	20,206	16,724	36,930
Other Financial Transactions	7,635	1,286	1,168	1,788	2,956
Transfers	0	5	5	5	10
Total	**72,528**	**75,392**	**69,623**	**67,383**	**137,006**
Expenditures by Program					
Protection Services	29,608	37,053	33,434	32,932	66,366
Ag Marketing & Development	5,342	7,183	6,581	6,448	13,029
Ethanol Producer Payments	22,339	22,051	18,745	15,268	34,013
Admin & Financial Assist	15,239	9,105	10,863	12,735	23,598
Total	**72,528**	**75,392**	**69,623**	**67,383**	**137,006**
Full-Time Equivalents (FTE)	**422.6**	**445.2**	**439.1**	**434.6**	

	Dollars in Thousands			
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: ENVIRONMENT & NATURAL RESOURCE				
FY 2005 Appropriations	**154**	**154**	**154**	**308**
Technical Adjustments				
One-time Appropriations		(154)	(154)	(308)
Subtotal - Forecast Base	**154**	**0**	**0**	**0**
Change Items				
LCMR Projects	0	300	300	600
Total Governor's Recommendations	**154**	**300**	**300**	**600**
Fund: GENERAL				
FY 2005 Appropriations	**40,194**	**40,194**	**40,194**	**80,388**
Technical Adjustments				
Approved Transfer Between Appr		0	0	0
Forecast Open Appr Adjustments		(2,683)	(6,160)	(8,843)
Subtotal - Forecast Base	**40,194**	**37,511**	**34,034**	**71,545**
Change Items				
Apiary Fees	0	29	29	58
New Building Lease Costs	0	1,815	2,934	4,749
Total Governor's Recommendations	**40,194**	**39,355**	**36,997**	**76,352**
Fund: REMEDIATION				
FY 2005 Appropriations	**353**	**353**	**353**	**706**
Subtotal - Forecast Base	**353**	**353**	**353**	**706**
Change Items				
MERLA Administration	0	35	35	70
Total Governor's Recommendations	**353**	**388**	**388**	**776**

	Dollars in Thousands			
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: ENVIRONMENT & NATURAL RESOURCE				
Planned Statutory Spending	**0**	**28**	**0**	**28**
Total Governor's Recommendations	**0**	**28**	**0**	**28**
Fund: PUBLIC FACILITIES AUTHORITY				
Planned Statutory Spending	**671**	**683**	**1,321**	**2,004**
Total Governor's Recommendations	**671**	**683**	**1,321**	**2,004**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**3,230**	**3,181**	**3,240**	**6,421**
Total Governor's Recommendations	**3,230**	**3,181**	**3,240**	**6,421**
Fund: AGRICULTURE FUND				
Planned Statutory Spending	**19,632**	**18,982**	**19,062**	**38,044**
Change Items				
Agronomy Program Fees	0	437	449	886
Nursery and Phytosanitary Fees	0	152	152	304
ACRRA Administration	0	50	50	100
Grain Buyer and Storage Fees	0	55	55	110
Ag BMP Loan Application Fees	0	9	11	20
Total Governor's Recommendations	**19,632**	**19,685**	**19,779**	**39,464**
Fund: FEDERAL				
Planned Statutory Spending	**5,296**	**4,799**	**4,615**	**9,414**
Total Governor's Recommendations	**5,296**	**4,799**	**4,615**	**9,414**
Fund: REMEDIATION				
Planned Statutory Spending	**4,222**	**955**	**500**	**1,455**
Total Governor's Recommendations	**4,222**	**955**	**500**	**1,455**
Fund: RURAL FINANCE ADMINISTRATION				
Planned Statutory Spending	**130**	**130**	**130**	**260**
Total Governor's Recommendations	**130**	**130**	**130**	**260**
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	**102**	**52**	**52**	**104**
Total Governor's Recommendations	**102**	**52**	**52**	**104**
Fund: GIFT				
Planned Statutory Spending	**102**	**67**	**61**	**128**
Total Governor's Recommendations	**102**	**67**	**61**	**128**

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Revenue Change Items				
Fund: GENERAL				
Change Items				
Apiary Fees	0	29	29	58
Fund: AGRICULTURE FUND				
Change Items				
Agronomy Program Fees	0	437	449	886
Nursery and Phytosanitary Fees	0	152	152	304
Grain Buyer and Storage Fees	0	55	55	110
Ag BMP Loan Application Fees	0	9	11	20

Change Item: Agronomy Program Fees

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Agricultural Fund				
Expenditures	$437	$449	$449	$449
Revenues	437	449	449	449
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends adjustments to six agronomy program fee structures. These changes will increase dedicated revenue and spending by approximately $450,000 per year. These adjustments are needed in order to cover administrative costs of providing effective programs. The adjustments also allow for fees to be charged in a way that is more consistent and fair to the industries involved.

Background

Two core areas of the department's agronomy and plant protection activities need fee increases to cover costs:

⇒ Most pesticide fees have not been increased since 1987 and revenues are not keeping up with the costs of providing key regulatory activities. Fees for pesticide dealer licenses, structural pesticide control company licenses, and aquatic pest control company licenses would be increased by $100. Pesticide chemigation permit fees would be increased by $200 and a reinspection fee of $150 would be added. Late fees on commercial, noncommercial and aquatic pesticide licenses would be changed to 50% of the original fee, and late fees of $100 per product would be added on pesticide registration gross sales fees.

⇒ The fertilizer inspection fee was last raised in 1989, from $.10 to $.15 per ton. Since then, costs of providing the program have increased and General Fund support for the program has been eliminated. The fee would be raised to $.30 in order to support the core regulatory and environmental activities of this program.

Four activities would have new fees established or otherwise adjusted for consistency and fairness:

⇒ The Manure Analysis Proficiency (MAP) Program, which is important in certifying manure labs for farmers to use in meeting feedlot rules, received start-up funding from the U.S. Environmental Protection Agency. This funding ends in FY 2006. Fees would be charged to cover the $47,000 cost of providing the MAP Program.

⇒ Free sale certificates are often necessary for the export of commercial feeds and are currently provided by the Department on request. A new $75 application fee would cover the costs of providing this service.

⇒ Currently, any feed manufacturer that distributes feed interstate can request a tonnage fee exemption. Those who sell intrastate are not eligible for this exemption. Changes would require that a majority of an entity's distribution be interstate/international and would charge a $100 annual application fee to cover the cost of administration and oversight for the program.

⇒ Commercial feed license late fees are currently not charged for 15 days for newly-operational entities but are charged at twice the license fee for renewals that are one day late. Changes would make the late fee $50 for all late licenses.

Relationship to Base Budget

New fee revenues (in thousands of dollars) would be as follows:

	FY 2006	FY 2007
Pesticide Fees	$92	$92
Fertilizer Inspection Fees	300	300
Manure Lab Certification Fees	35	47
Feed Free Sale Certificates	8	8
Feed Tonnage Fee Exemption	1	1
Commercial Feed Late Fees	1	1
Total	$437	$449

Key Measures

New federal fumigation label requirements are being implemented. The increase in structural pesticide control applicator fees would allow the department to increase fumigation inspections from 5 -10 inspections to 35 -40 fumigation inspections annually.

Approximately six pesticide chemigation site inspections are conducted annually. The increase in fees would allow an additional 30 inspections to be conducted in accordance with federal worker protection requirements.

Fertilizer spills are associated with approximately 50% of the 80-100 agricultural chemical emergencies the department responds to annually. In addition to response work, nitrogen fertilizer Best Management Practices guidelines need to be updated to incorporate new technology and agronomic practices. These BMPs were developed in 1992 to protect water quality and provide for maximum economic return.

Eighty-one laboratories have participated in the quality control manure check program in Minnesota.

Alternatives Considered

Maintaining inspections of pesticide chemigation and pesticide fumigation sites at current levels was considered. Reduction of regulatory and non-regulatory fertilizer activity, which would occur without the increased funding, was considered. Discontinuing the national quality control manure check sample program and the associated manure laboratory certification program was considered.

Statutory Change: M.S. 18B.08, .26, .31, .315, .32, .33, .34 (pesticide fees); M.S. 18C.141 (manure lab analysis); M.S. 18C.425 (fertilizer fees); M.S. 25.341 (commercial feed licenses); M.S. 25.342 (feed free sale certificates); M.S. 25.39 (interstate tonnage exemption).

Change Item: Nursery and Phytosanitary Fees

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Agricultural Fund				
Expenditures	$152	$152	$152	$152
Revenues	152	152	152	152
Net Fiscal Impact	0	0	0	0

Recommendation
The Governor recommends a revision of nursery and phytosanitary fees in order to support the inspection and export certification programs associated with Minnesota's growing nursery industry.

Background
In 2003, as part of the department's strategic plan, these two programs were removed from General Fund to be funded by user fees. However, revenues have been insufficient to cover the costs of the programs.

Relationship to Base Budget
Revenues from nursery and phytosanitary fees in FY 2004 were approximately $700,000.

Key Measures
The Nursery Industry has grown 4% annually over the last decade to a $2.1 billion industry. The department will conduct approximately 1,000 inspections for 350 growers and 460 dealers that receive stock from outside Minnesota to protect Minnesota from invasive pests and to ensure quality stock.

Export certification has increased so that the department now annually issues approximately 3,000 export documents to 140 companies, up from approximately 70 companies a decade ago. Complexity of the export certification process has also increased due to increasing concerns regarding pest movement across international borders.

Alternatives Considered
Reducing services for an expanding nursery industry would increase vulnerability to invasive pests. Ceasing export certification would delay international export capabilities for Minnesota companies. Meetings with industry representatives have achieved an agreement that fees need to be revised in order to provide adequate inspection and export certification programs.

Statutory Change: M.S. 18G.10 (phytosanitary), M.S. 18H.07 (nursery).

Change Item: Apiary Fees

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$29	$29	$29	$29
Revenues	29	29	29	29
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends an increase in the fees charged to apiarists (beekeepers) in order to continue to provide adequate inspection and protection activities.

Background

A $10 fee per apiarist has been in existence since 1943. This fee is charged equally to commercial beekeepers that may own thousands of hives and hobbyists that may own only a few. Commercial beekeepers want to know that their bees are pest-free before they ship them to another state. Beekeepers and commercial pesticide applicators will benefit from having the locations of colonies known.

Relationship to Base Budget

Apiary fees are non-dedicated revenues deposited into the General Fund. The appropriation for this activity has been supplemented by additional General Fund dollars. The base budget for FY 2006 is $76,000 supported by $12,000 in non-dedicated fees. With the new fee structure, the appropriation would be supported by $41,000 in non-dedicated fees, meaning apiarists would bear a larger share of the program.

Key Measures

Approximately 100 inspections of hobbyists and commercial beekeepers are conducted annually. In continuing this program, the department plans to develop a web-based geographic information system (GIS) for the location of the approximately 3,800 registered apiaries maintained by approximately 500 beekeepers.

Alternatives Considered

Elimination of the program was considered.

Statutory Change: M.S. 19.64.

Change Item: MERLA Administration

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Remediation Fund				
Expenditures	$35	$35	$35	$35
Revenues	0	0	0	0
Net Fiscal Impact	$35	$35	$35	$35

Recommendation

The Governor recommends increasing the amount appropriated for the Agricultural Voluntary Investigation and Cleanup (AgVIC) program under the Minnesota Environmental Response and Liability Act (MERLA) to cover the cost of administrative functions and provide for more effective program delivery.

Background

One of the goals of MERLA (also known as the state Superfund) is to locate and cleanup sites contaminated by abandoned agricultural chemicals. This program also allows for expedited environmental assessment to enable property transfers. The department's appropriation to administer this activity was last increased in 2000. Increasing workload now calls for another increase.

Relationship to Base Budget

The base budget for this activity is $353,000 per year. The change would increase the appropriation by 10%, to $388,000 per year.

Key Measures

The AgVIC program receives approximately 25 requests for participation annually. In addition, the MDA is currently administering two large Superfund sites. Workload in both of these areas is expected to continue to increase.

Alternatives Considered

Maintaining the current level of funding would decrease the timely processing of AgVIC requests and thus delay clients' property transfers. Maintaining the current level of funding would also decrease the amount of staff resources that can be committed to superfund cleanup projects.

Statutory Change: Not Applicable (change amount appropriated in session law rider language).

Change Item: ACRRA Administration

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Agricultural Fund				
Expenditures	$50	$50	$50	$50
Revenues	0	0	0	0
Net Fiscal Impact	$50	$50	$50	$50

Recommendation
The Governor recommends an increase in the maximum amount allowed for administrative costs from the Agricultural Chemical Response and Reimbursement Account (ACRRA).

Background
The administrative appropriation for this program has not been changed since 1993, when it was initiated. This increase is necessary to address the increasing workload and provide funds to upgrade outdated information technology for timely and accurate processing of applications.

Relationship to Base Budget
The maximum allowed for administrative costs would increase from $175,000 per year to $225,000 per year.

Key Measures
Applications for reimbursements, which are representative of the program workload, have increased from 57 in 2000 to 67 in 2002 and to 85 in 2004.

Alternatives Considered
Leaving the appropriation at its current level is likely to result in slower and less accurate processing of applications.

Statutory Change: M.S. 18E.03.

Change Item: Grain Buyer and Storage Fees

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Agricultural Fund				
Expenditures	$55	$55	$55	$55
Revenues	55	55	55	55
Net Fiscal Impact	0	0	0	0

Recommendation
The Governor recommends changes be made to fees for licenses to buy grain, store grain, and store general merchandise to cover the costs of administrative functions and provide for more effective program delivery.

Background
Fees for licenses were last changed in 2001. Fee changes are requested for two reasons: to offset increased legal expenses for administering claims against grain bonds and to offset declining license numbers. This initiative places fees that were previously set by rule into statute.

Relationship to Base Budget
The department currently collects approximately $540,000 per year in grain buyer and storage fees. This change would increase revenues by approximately 10%.

Key Measures
This program is required to pay for attorney general and administrative law judge costs when a contested case hearing is requested in grain bond cases. There have been more of these cases of late, partly due to difficulties small operators have in competing with the large consolidated grain companies. At the same time, consolidation in the grain industry has seen an overall reduction in the number of grain licenses applied for, with the biggest drop associated with small operators. An example of this is the grain buyer's license. Since 1998 there has been an 11% decrease in the number of licenses issued. The department has five levels of license fees, based on the dollar volume of grain purchased each year. The biggest decrease (32%) has been in the number of buyers who have purchased less than $100,000. A telling sign is that it is not just small buyers getting bigger but also big buyers getting bigger. License fees, on the other hand, do not increase after an entity reaches $3 million in annual volume. Also, there are fewer buyers overall.

Alternatives Considered
Leaving the fees as they are could hinder the effective and timely regulation of buying and storing activities.

Statutory Change: M.S. 223.17, M.S. 231.16, M.S. 232.22, M.S. 236.02.

Change Item: Ag BMP Loan Application Fees

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Agricultural Fund				
Expenditures	$9	$11	$14	$18
Revenues	9	11	14	18
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends the establishment of an application fee for the Agricultural Best Management Practices (BMP) Program. The fee will be set at $50 to cover the cost of administrative functions and provide for more effective program delivery.

Background

The Ag BMP loan program is a revolving loan program which has received $51 million in capitalization to date. The purpose of the program is to provide low interest loans to producers and others to adopt practices that protect the environment. Statutory changes, made to the program in 2001, streamlined and simplified the program for local governments and lenders, while shifting more of the responsibility for administering the program to the department. With these changes, the number of loans processed by the department will increase from 200 to 800 per year and there will be additional participating lending institutions. Additional staff are needed to handle the increased workload.

Relationship to Base Budget

Administration for the Ag BMP loan program is currently supported by an appropriation of $164,000 per year from the General Fund.

Key Measures

The key performance measure is the length of time it will take the department to process disbursement requests for lenders. Currently these take five to seven days. We intend to reduce the processing time to no more than one week, a standard that is acceptable to the lenders. These additional resources will allow us to maintain that standard as we experience the increase in volume of transactions due to the growth and evolution of the program.

Alternatives Considered

Budgetary constraints preclude the appropriation of additional General Fund dollars to this program. Another fee that could be assessed would be a loan origination fee.

Statutory Change: M.S. 17.117.

Change Item: New Building Lease Costs

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$1,815	$2,934	$2,934	$2,934
Revenues	0	0	0	0
Net Fiscal Impact	$1,815	$2,934	$2,934	$2,934

Recommendation

The Governor recommends adjusting the General Fund appropriation to the department to cover the increased lease costs associated with relocation to new buildings near the Capitol in St. Paul. This move will take place during FY 2006.

Background

Laws of 2002, Chapter 393, provided for the construction of joint office and laboratory facilities for the Departments of Health and Agriculture and the Board of Animal Health. For the Department of Agriculture, the strongest driving factor was that existing lab facilities were inadequate and could not be upgraded to meet the increasing needs associated with food safety and other significant activities. The new laboratory building is being constructed with state general obligation bond proceeds. The new office building is being constructed through a lease-purchase agreement with the St. Paul Port Authority. These new facilities will meet the increased needs of the two departments and the board but will require larger lease payments than the existing budgets can support.

Relationship to Base Budget

The Department of Agriculture currently pays $1.965 million in rent for the two locations it will vacate in St. Paul. The department will move out of these locations during a two to three month period in FY 2006. Total rent for FY 2006 (all locations with overlap) is estimated to be $4.273 million and for FY 2007 is estimated to be $4.899 million.

	FY 2006	FY 2007
New Rent	$4.273	$4.899
Base Budget	(1.965)	(1.965)
Transition Rent (Deficiency Bill)	(0.493)	0
Difference	$1.815	$2.934

Included in a separate request is $493,000 to cover rent costs at existing locations for the period the department is moving into the new buildings.

Alternatives Considered

Upgrading the existing leased laboratory facilities was ruled out due to limitations of the current building. Co-locating lab facilities with more state lab facilities was considered, but it was determined that the best fit for co-location would be just the labs of departments of Health and Agriculture. During the 2002 legislative session, financing options for construction of the new facilities were discussed and the agreement with the St. Paul Port Authority was agreed upon for the office building.

Change Item: LCMR Projects

Preliminary Proposal

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Environment and Natural Resources Trust Fund				
Expenditures	$300	$300	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$300	$300	0	0

Recommendation
The projects recommended by the Legislative Commission on Minnesota Resources (LCMR) are displayed as part of the Department's Biennial Budget Request. The Governor is not making specific recommendations on these projects.

Background
Improving Impaired Watersheds: Conservation Drainage Research $300,000
To analyze conservation drainage systems at the University of Minnesota research and outreach centers and for opportunities to retrofit drainage infrastructure with water quality improvement technologies.

Manure Methane Digester Compatible Wastes and Electrical Generation $100,000
To research the potential for a centrally located, multi-farm digester and the potential use of compatible waste streams with manure digesters.

Minnesota Children's Pesticide Exposure Reduction Initiative $200,000
To reduce children's pesticide exposure through parent education on alternative pest control methods and safe pesticide use.

Relationship to Base Budget
Project funding is available for FY 2006-07.

Key Measures
See LCMR website at http://lcmr.leg.mn/lcmr.htm

MINNESOTA
DEPARTMENT OF
COMMERCE

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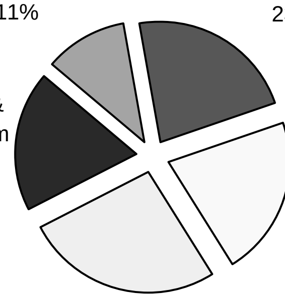
January 25, 2005

To the 2005 Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Department of Commerce budget recommendation for the FY 2006-07 budget. This budget includes a total expenditure request of $310,282,000. The request includes $46,510,000 from the state's General Fund and $263,732,000 from all other funds.

The accompanying chart indicates that our General Fund activities are carried out in five major program areas, including Market Assurance, Financial Examinations, Energy and Telecommunications, Weights and Measures, and Administration.

Department of Commerce



In very broad terms, the department deploys its general fund resources to ensure the security, stability, equitability and reliability of commercial, financial, and utility transactions and services in Minnesota. Additionally, the department uses dedicated funds for petroleum cleanup, and federal funds for low income household heating assistance.

The Department of Commerce regulates more than 20 industries. We license 349,000 individuals and businesses operating in Minnesota. Demand for department services continues to grow as Minnesota's economy grows. One of the challenges facing the department today is to effectively use our resources to provide more online functionality for our customers, and more internal electronic systems to enable our staff to better serve our customers. We've made significant progress toward these goals through sound financial management. Much work remains to be done.

It is important to note that, during the biennium, the department receives $443,639,000 through fees, assessments, registrations, unclaimed property, special revenue, and federal funds. This amount represents 143% of the department's budget from all sources. The reductions contained in this budget are taken from the few budget areas that are not directly offset by these revenues.

We look forward to working with the Legislature during the next several months to discuss this budget, and to continue to progress toward our common goal of providing the best possible services to the people of Minnesota.

Sincerely,

Glenn Wilson
Commissioner

	Current		Governor Recomm.		Biennium
Dollars in Thousands	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
Environment & Natural Resource					
Current Appropriation	0	0	0	0	0
Recommended	**0**	**0**	**400**	**300**	**700**
Change		0	400	300	700
% Biennial Change from 2004-05					n.m.
General					
Current Appropriation	24,157	23,430	23,430	23,430	46,860
Recommended	**24,157**	**23,430**	**22,955**	**22,955**	**45,910**
Change		0	(475)	(475)	(950)
% Biennial Change from 2004-05					-3.5%
Petroleum Tank Release Cleanup					
Current Appropriation	1,611	1,084	1,084	1,084	2,168
Recommended	**1,611**	**1,084**	**1,084**	**1,084**	**2,168**
Change		0	0	0	0
% Biennial Change from 2004-05					-19.6%
Workers Compensation					
Current Appropriation	615	835	835	835	1,670
Recommended	**615**	**835**	**835**	**835**	**1,670**
Change		0	0	0	0
% Biennial Change from 2004-05					15.2%
Expenditures by Fund					
Direct Appropriations					
Environment & Natural Resource	0	0	400	300	700
General	23,812	23,907	22,955	22,955	45,910
Petroleum Tank Release Cleanup	1,394	1,272	1,084	1,084	2,168
State Government Spec Revenue	55	464	0	0	0
Workers Compensation	611	839	835	835	1,670
Open Appropriations					
General	4,272	4,838	300	300	600
Petroleum Tank Release Cleanup	14,612	15,176	15,176	15,176	30,352
Statutory Appropriations					
State Government Spec Revenue	0	10	183	0	183
Special Revenue	12,733	19,085	20,555	19,168	39,723
Federal	85,862	94,542	94,838	94,838	189,676
Miscellaneous Agency	11	89	0	0	0
Gift	1	1	0	0	0
Total	**143,363**	**160,223**	**156,326**	**154,656**	**310,982**
Expenditures by Category					
Total Compensation	22,462	24,197	24,412	24,967	49,379
Other Operating Expenses	37,610	42,372	36,898	35,230	72,128
Local Assistance	82,991	93,193	94,808	94,251	189,059
Other Financial Transactions	300	461	200	200	400
Transfers	0	0	8	8	16
Total	**143,363**	**160,223**	**156,326**	**154,656**	**310,982**

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Expenditures by Program					
Financial Examinations	9,307	10,024	9,909	9,909	19,818
Petroleum Tank Cleanup Fund	15,508	16,448	16,260	16,260	32,520
Administrative Services	5,798	5,804	5,670	5,680	11,350
Market Assurance	7,340	9,186	10,865	10,582	21,447
Energy & Telecommunications	95,956	106,790	101,663	100,262	201,925
Tam	6,355	8,730	8,734	8,738	17,472
Weights & Measures	3,087	3,141	3,125	3,125	6,250
Telecommunications	12	100	100	100	200
Total	**143,363**	**160,223**	**156,326**	**154,656**	**310,982**
Full-Time Equivalents (FTE)	**315.2**	**325.1**	**329.3**	**328.2**	

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: ENVIRONMENT & NATURAL RESOURCE				
FY 2005 Appropriations	**0**	**0**	**0**	**0**
Subtotal - Forecast Base	**0**	**0**	**0**	**0**
Change Items				
LCMR - Clean Energy Resource Teams	0	400	300	700
Total Governor's Recommendations	**0**	**400**	**300**	**700**
Fund: GENERAL				
FY 2005 Appropriations	**23,430**	**23,430**	**23,430**	**46,860**
Technical Adjustments				
Transfers Between Agencies		(250)	(250)	(500)
Subtotal - Forecast Base	**23,430**	**23,180**	**23,180**	**46,360**
Change Items				
Contractor Recovery Fund	0	(100)	(100)	(200)
Energy and Telecommunications Reduction	0	(125)	(125)	(250)
Total Governor's Recommendations	**23,430**	**22,955**	**22,955**	**45,910**
Fund: PETROLEUM TANK RELEASE CLEANUP				
FY 2005 Appropriations	**1,084**	**1,084**	**1,084**	**2,168**
Subtotal - Forecast Base	**1,084**	**1,084**	**1,084**	**2,168**
Total Governor's Recommendations	**1,084**	**1,084**	**1,084**	**2,168**
Fund: WORKERS COMPENSATION				
FY 2005 Appropriations	**835**	**835**	**835**	**1,670**
Subtotal - Forecast Base	**835**	**835**	**835**	**1,670**
Total Governor's Recommendations	**835**	**835**	**835**	**1,670**

Fund: GENERAL				
Planned Open Spending	**4,838**	**4,838**	**4,838**	**9,676**
Change Items				
Renewable Energy Incentive Payment	0	(4,538)	(4,538)	(9,076)
Total Governor's Recommendations	**4,838**	**300**	**300**	**600**
Fund: PETROLEUM TANK RELEASE CLEANUP				
Planned Open Spending	**15,176**	**15,176**	**15,176**	**30,352**
Total Governor's Recommendations	**15,176**	**15,176**	**15,176**	**30,352**

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: STATE GOVERNMENT SPEC REVENUE				
Planned Statutory Spending	**10**	**183**	**0**	**183**
Total Governor's Recommendations	**10**	**183**	**0**	**183**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**19,085**	**20,455**	**19,068**	**39,523**
Change Items				
Contractor Recovery Fund	0	100	100	200
Total Governor's Recommendations	**19,085**	**20,555**	**19,168**	**39,723**
Fund: FEDERAL				
Planned Statutory Spending	**94,542**	**94,838**	**94,838**	**189,676**
Total Governor's Recommendations	**94,542**	**94,838**	**94,838**	**189,676**
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	**89**	**0**	**0**	**0**
Total Governor's Recommendations	**89**	**0**	**0**	**0**
Fund: GIFT				
Planned Statutory Spending	**1**	**0**	**0**	**0**
Total Governor's Recommendations	**1**	**0**	**0**	**0**
Revenue Change Items				
Fund: GENERAL				
Change Items				
Sale of Unclaimed Securities	0	25,000	5,000	30,000
License Fee Changes	0	734	734	1,468
Insurance Certificate of Authority Fee	0	18	18	36

Change Item: Contractor Recovery Fund

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($100)	($100)	($100)	($100)
Revenues	0	0	0	0
Other Fund				
Expenditures	100	100	100	100
Revenues	0	0	0	0
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends a shift of applicable administrative expenses from the General Fund to the Contractor Recovery Fund. This change will result in a General Fund expenditure reduction of $100,000 per fiscal year. The expense of administering the Contractor Recovery Fund will be drawn directly from the fund.

Background

⇒ The department incurs administrative costs to manage the Contractor Recovery Fund, and to authorize payments from the fund.

⇒ Currently, these administrative expenses are paid from the department's General Fund appropriation.

⇒ The department proposes to pay applicable administrative expenses directly from the Contractor Recovery Fund.

Relationship to Base Budget

This recommended change will reduce the department's General Fund expenditure by $100,000 in each fiscal year. Applicable administrative expenses will be drawn directly from the Contractor Recovery Fund.

Change Item: Energy and Telecommunications Reduction

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($125)	($125)	($125)	($125)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($125)	($125)	($125)	($125)

Recommendation

The Governor recommends a reduction of $125,000 in each fiscal year from the Energy and Telecommunications Division budget. The department will reduce the division's expenses in budget areas where costs are not recovered by assessments or fees.

Background

The department will carry out the recommendation by reducing expenses in the Energy and Telecommunications Division. There will be no lost fee revenue because the reduction will be taken from budget areas where costs are not recovered by assessments or fees. The General Fund balance will increase by the full amount of the recommended reduction.

Relationship to Base Budget

This recommended reduction represents 3% of the base budget for the Energy and Telecommunications Division.

Change Item: Renewable Energy Incentive Payment

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($4,538)	($4,538)	($4,538)	($4,538)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($4,538)	($4,538)	($4,538)	($4,538)

Recommendation

The Governor recommends that the full expenditure for small wind generator incentive payments be made from the Renewable Development Fund (RDF). RDF funds come from ratepayers. The funds are distributed as grants by an independent board. The grants are administered by Xcel Energy. The change will reduce General Fund expenditures by $4.538 million per fiscal year. Because there is a sufficient balance in the RDF, no reductions or changes in incentives paid to qualifying facilities that are currently receiving incentive payments will occur.

Background

Payments to small wind generators are currently split between the General Fund and Xcel Energy's Renewable Development Fund (see M.S. Section 116C.779).

Relationship to Base Budget

This recommended change will reduce General Fund expenditures for small wind generators by $4.538 million per fiscal year, but will result in no reductions or changes in incentives paid to qualifying facilities that currently receive incentive payments.

Statutory Change: Section 116C.779

Change Item: Sale of Unclaimed Securities

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	25,000	5,000	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($25,000)	($5,000)	$0	$0

Recommendation

The Governor recommends reducing the statutorily required retention time for unclaimed securities. Currently, the department retains unclaimed securities for three years before liquidating them and depositing the proceeds in the General Fund. This recommendation reduces the retention time to one year. This change will increase General Fund revenues by $25 million in FY 2006, and $5 million in FY 2007. It will not harm the owners of unclaimed securities because they will always be able to claim and recover the liquidated value of the securities. The department's experience indicates that most of the owners of unclaimed securities prefer to receive a liquidated cash payment instead of receiving the actual securities.

Background

The recommended change will:

- Reduce workload required to maintain securities.
- Reduce custodial charges.
- Allow the department to reallocate any administrative cost savings to fund technology improvements for the unclaimed property group.

Relationship to Base Budget

The recommended change will provide one time increases to General Fund revenue in the amounts of $25 million in FY 2006 and $5 million in FY 2007.

Statutory Change: Section 345.47

Change Item: License Fee Changes

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	734	734	734	734
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($734)	($734)	($734)	($734)

Recommendation

The Governor Recommends:

⇒ An adjustment of eight insurance-related license fees. This adjustment will create a simplified, uniform fee structure that will reduce the department's administrative costs by reducing the number of errors on insurance agent applications.

⇒ An increase of the insurance business entity license fee to more accurately reflect the cost of administering and issuing the license.

⇒ Requiring annual renewal of continuing education courses and coordinators, and setting a fee of $10 for each renewal. This system will help the department improve customer service by maintaining accurate records of currently active courses and coordinators.

⇒ Increasing the fee to upgrade a real estate appraiser license. The increased fee will more accurately reflect the cost of administering and issuing the license upgrade.

The net impact of these recommended changes is an increase in General Fund revenue of $734,000 per fiscal year.

Background

Existing and recommended fees include:

Type	Current Fee	Current Revenue	Proposed Fee	Proposed Revenue
Limited Lines of Authority	$80.00	$359,440	$50.00	$224,650
Personal Lines	80.00	63,040	50.00	39,400
Insurance Adjuster	80.00	154,240	50.00	96,400
Variable Annuities	75.00	174,225	50.00	116,150
Life	40.00	965,240	50.00	1,206,550
Accident and Health	40.00	940,000	50.00	1,175,000
Property	40.00	716,120	50.00	895,150
Casualty	40.00	715,840	50.00	894,800
Insurance Business Entity	150.00	109,200	200.00	145,600
CE Course Renewal	0.00	0	10.00	76,000
CE Coordinator Renewal	0.00	0	10.00	10,000
Appraiser License Upgrade	100.00	16,000	150.00	24,000
TOTALS:		**$4,213,345**		**$4,947,700**

Relationship to Base Budget

- The recommended fee changes will increase General Fund revenues by $734,000 in each fiscal year.
- The department designed the insurance license fee changes to:
  - ⇒ Create a single uniform fee.
  - ⇒ Reduce the number of incorrect payments received with insurance agent applications.
  - ⇒ Minimize impact on the General Fund, while ensuring that there will be no loss of revenue.

Statutory Change
The following statutes must be amended to effect the changes detailed above:
Section 45.22, Subdivisions 1 and 2
Section 60K.55, Subdivision 2
Section 72B.04, Subdivision 10
Section 82B.09, Subdivision 1

Change Item: Insurance Certificate of Authority Fee

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	18	18	18	18
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($18)	($18)	($18)	($18)

Recommendation

The Governor recommends establishing a $1,500 fee for a certificate of authority to sell insurance in Minnesota. This recommended fee will increase General Fund revenues by approximately $18,000 per fiscal year. The recommended fee will deter insurance companies from submitting applications that are not serious attempts to open business operations in Minnesota.

Background

⇒ Insurance companies are required to apply for and receive a certificate of authority before they can sell insurance in Minnesota.

⇒ Currently, the department does not charge for this certificate.

⇒ The recommended fee is a one-time charge to an insurance company at the time the company commences business operations in Minnesota.

⇒ The recommended fee will not affect insurance companies already authorized to conduct business in Minnesota. The fee will be charged for new applications only.

⇒ Most other states charge a fee for issuance of a certificate of authority.

⇒ The recommended fee will deter companies from submitting applications that are not serious attempts to open business operations in Minnesota.

Relationship to Base Budget

The recommended fee will provide an additional $18,000 of revenue per year to the General Fund.

Key Measures

The department expects to issue approximately 12 new certificates of authority each year.

Change Item: LCMR - Clean Energy Resource Teams

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Environmental Trust Fund				
Expenditures	$400	$300	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$400	$300	$0	$0

Recommendation

The projects recommended by the Legislative Commission on Minnesota Resources are displayed as part of the department's biennial budget request. The Governor is not making specific recommendations on these projects.

Background

Clean Energy Resource Teams and Community Wind Energy Rebate Programs

To provide technical assistance to implement cost effective conservation, energy efficiency and renewable energy projects and to assist two Minnesota communities in developing locally owned wind energy projects by offering financial assistance rebates.

Relationship to Base Budget

This is one time funding.

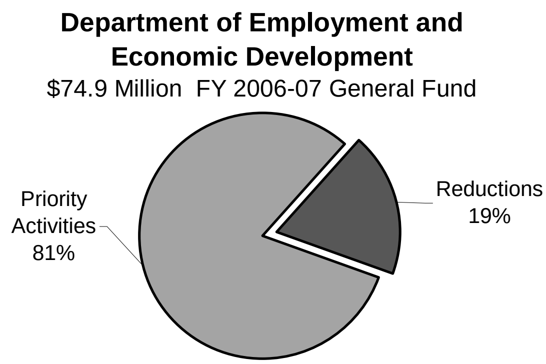
PAGE

January 25, 2005

To the 2005 Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Department of Employment and Economic Development's (DEED) budget recommendation for the FY 2006-07 budget. This budget consists of $74.9 million from the state's General Fund and $1,210.0 million from other funds, and represents an 11.3% decrease from FY 2004-05 spending.

The Minnesota Department of Employment and Economic Development is the state's principal economic development agency, with programs promoting business recruitment, expansion, and retention; workforce development; international trade; and community development. The agency's primary mission is to support the economic success of individuals, businesses, and communities by providing opportunities for growth. The department's ability to support this mission served as the basis against which all budget decisions were made.

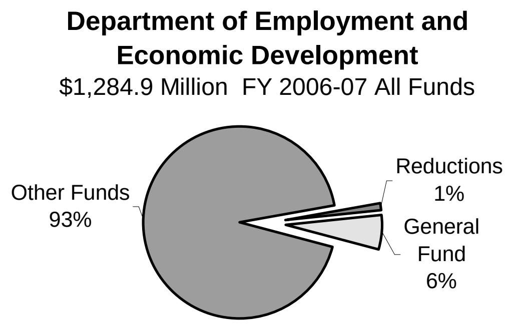


Graph 1 depicts the proposed 2006-07 General Fund budget of $74.86 million. This budget is $17.11 million (18.6%) less than the base budget. In developing our budget, the department's programs were ranked according to priority in support of the legislative directive. Tough choices were made. In the end, those programs recommended for reduction or elimination were deemed less central to the agency's core mission.

Because additional funding is provided from other sources, the proposed reductions will not result in the elimination of any services. For example, approximately $15 million, located at the community level, in Minnesota Investment Funds is currently available for further development activity, and the state's youth program will continue to operate with the $10.5 million received annually from the federal Workforce Investment Act. The Vocational Rehabilitation and State Services for the Blind programs will continue to receive full funding. Additionally, all business development programs will continue, although at a slightly lower scale.

This proposed budget includes one spending initiative for the capitalization of a methamphetamine laboratories cleanup revolving loan fund. Methamphetamine laboratories generate extremely toxic waste materials that can penetrate into porous surface. The sites need to be clean before any reuse. The growth of meth labs is one of the fastest growing drug-related problems in the state with well over 400 lab sites discovered last year. The clean up requires hazardous material trained personnel to remove and clean up the toxic chemical byproducts. The loan program is designed to cover the cleanup cost of the city or county doing the cleapup with revenues from the special assessment or sale of the property repaying the loan. The revolving loan fund will be on a first come first serve basis and will reimburse local units of government the cost of clean up once the clean up has been verified.

The state General Fund provides just 7%of the total cost of programs provided by this department. As shown in Graph 2, DEED's total funding from all sources for the 2006-07 budget is $1,284.9 million. The change in general fund spending amounts to a 1.31% reduction in overall spending. Constituents will continue to receive services through the funding provided from other, primarily federal, sources.



The actions proposed in this budget are sound business decisions that will allow DEED to focus our attention on our core mission of supporting economic success in the state of Minnesota. We look forward to working with the legislature in the coming months.

Sincerely,

Matt Kramer
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	56,919	54,849	46,790	46,790	93,580
Recommended	**56,919**	**54,849**	**37,428**	**37,428**	**74,856**
Change		0	(9,362)	(9,362)	(18,724)
% Biennial Change from 2004-05					-33%
Petroleum Tank Release Cleanup					
Current Appropriation	750	0	0	0	0
Recommended	**750**	**0**	**0**	**0**	**0**
Change		0	0	0	0
% Biennial Change from 2004-05					-100%
Workforce Development					
Current Appropriation	8,750	8,670	8,670	8,670	17,340
Recommended	**8,750**	**8,670**	**7,820**	**7,820**	**15,640**
Change		0	(850)	(850)	(1,700)
% Biennial Change from 2004-05					-10.2%
Remediation					
Current Appropriation	700	700	700	700	1,400
Recommended	**700**	**700**	**700**	**700**	**1,400**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
General	61,638	49,266	37,428	37,428	74,856
Petroleum Tank Release Cleanup	750	0	0	0	0
Workforce Development	8,901	8,787	7,820	7,820	15,640
Remediation	700	700	700	700	1,400
Open Appropriations					
Petroleum Tank Release Cleanup	6,248	6,515	6,200	6,200	12,400
Statutory Appropriations					
Public Facilities Authority	192,860	280,318	209,238	211,626	420,864
Drinking Water Revolving Fund	50,327	95,350	79,614	80,014	159,628
General	498	503	422	422	844
Special Revenue	9,480	38,361	33,027	7,680	40,707
Workforce Development	47,796	36,214	29,033	23,194	52,227
Transportation Revolving Fund	4,786	32,893	13,415	11,076	24,491
Federal	40,558	79,161	42,750	41,598	84,348
Workforce Federal	190,984	202,392	195,604	198,755	394,359
Federal Tanf	559	544	0	0	0
Gift	125	705	1,041	221	1,262
Total	**616,210**	**831,709**	**656,292**	**626,734**	**1,283,026**

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	**FY2005**	**FY2006**	**FY2007**	**2006-07**
Expenditures by Category					
Total Compensation	114,979	111,353	111,534	111,557	223,091
Other Operating Expenses	56,214	67,715	58,222	52,811	111,033
Payments To Individuals	36,749	39,322	40,348	40,513	80,861
Local Assistance	157,773	181,547	126,737	117,454	244,191
Other Financial Transactions	250,480	431,757	319,436	304,384	623,820
Transfers	15	15	15	15	30
Total	**616,210**	**831,709**	**656,292**	**626,734**	**1,283,026**
Expenditures by Program					
Business & Community Developmt	296,457	497,847	347,659	350,403	698,062
Workforce Partnerships	114,158	108,825	84,098	78,026	162,124
Workforce Services	136,013	147,657	149,813	147,083	296,896
Unemployment Insurance	56,512	72,725	71,425	47,925	119,350
State Funded Administration	4,341	4,655	3,297	3,297	6,594
Tourism History	8,729	0	0	0	0
Total	**616,210**	**831,709**	**656,292**	**626,734**	**1,283,026**
Full-Time Equivalents (FTE)	**1,810.5**	**1,735.7**	**1,712.6**	**1,703.1**	

Dollars in Thousands

	FY2005	Governor's Recomm. FY2006	FY2007	Biennium 2006-07
Fund: GENERAL				
FY 2005 Appropriations	**54,849**	**46,790**	**46,790**	**93,580**
Technical Adjustments				
Current Law Base Change		(13)	(13)	(26)
One-time Appropriations		(1,000)	(1,000)	(2,000)
Transfers Between Agencies		(41)	(41)	(82)
Subtotal - Forecast Base	**54,849**	**45,736**	**45,736**	**91,472**
Change Items				
Eliminate Minnesota Investment Fund	0	(1,203)	(1,203)	(2,406)
Methamphetamine Cleanup Fund	0	250	250	500
Reduce Program Costs	0	(329)	(329)	(658)
Reduction to Administrative Costs	0	(444)	(444)	(888)
Changes to State-Funded Youth Program	0	(6,582)	(6,582)	(13,164)
Total Governor's Recommendations	**54,849**	**37,428**	**37,428**	**74,856**
Fund: PETROLEUM TANK RELEASE CLEANUP				
FY 2005 Appropriations	**0**	**0**	**0**	**0**
Subtotal - Forecast Base	**0**	**0**	**0**	**0**
Total Governor's Recommendations	**0**	**0**	**0**	**0**
Fund: WORKFORCE DEVELOPMENT				
FY 2005 Appropriations	**8,670**	**8,670**	**8,670**	**17,340**
Technical Adjustments				
One-time Appropriations		(100)	(100)	(200)
Subtotal - Forecast Base	**8,670**	**8,570**	**8,570**	**17,140**
Change Items				
Eliminate Displaced Homemakers Program	0	(750)	(750)	(1,500)
Total Governor's Recommendations	**8,670**	**7,820**	**7,820**	**15,640**
Fund: REMEDIATION				
FY 2005 Appropriations	**700**	**700**	**700**	**1,400**
Subtotal - Forecast Base	**700**	**700**	**700**	**1,400**
Total Governor's Recommendations	**700**	**700**	**700**	**1,400**
Fund: GENERAL				
Planned Open Spending	**0**	**250**	**250**	**500**
Change Items				
Eliminate Grant Mortgage Credit Program	0	(250)	(250)	(500)
Total Governor's Recommendations	**0**	**0**	**0**	**0**
Fund: PETROLEUM TANK RELEASE CLEANUP				
Planned Open Spending	**6,515**	**6,200**	**6,200**	**12,400**
Total Governor's Recommendations	**6,515**	**6,200**	**6,200**	**12,400**

Dollars in Thousands

	FY2005	Governor's Recomm. FY2006	Governor's Recomm. FY2007	Biennium 2006-07
Fund: PUBLIC FACILITIES AUTHORITY				
Planned Statutory Spending	**280,318**	**209,238**	**211,626**	**420,864**
Total Governor's Recommendations	**280,318**	**209,238**	**211,626**	**420,864**
Fund: DRINKING WATER REVOLVING FUND				
Planned Statutory Spending	**95,350**	**79,614**	**80,014**	**159,628**
Total Governor's Recommendations	**95,350**	**79,614**	**80,014**	**159,628**
Fund: GENERAL				
Planned Statutory Spending	**503**	**422**	**422**	**844**
Total Governor's Recommendations	**503**	**422**	**422**	**844**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**38,361**	**33,207**	**7,834**	**41,041**
Change Items				
Methamphetamine Cleanup Fund	0	0	26	26
Sale of Promotional Marketing Materials	0	20	20	40
Eliminate Displaced Homemakers Program	0	(200)	(200)	(400)
Total Governor's Recommendations	**38,361**	**33,027**	**7,680**	**40,707**
Fund: WORKFORCE DEVELOPMENT				
Planned Statutory Spending	**36,214**	**29,033**	**23,194**	**52,227**
Total Governor's Recommendations	**36,214**	**29,033**	**23,194**	**52,227**
Fund: TRANSPORTATION REVOLVING FUND				
Planned Statutory Spending	**32,893**	**13,415**	**11,076**	**24,491**
Total Governor's Recommendations	**32,893**	**13,415**	**11,076**	**24,491**
Fund: FEDERAL				
Planned Statutory Spending	**79,161**	**42,750**	**41,598**	**84,348**
Total Governor's Recommendations	**79,161**	**42,750**	**41,598**	**84,348**
Fund: WORKFORCE FEDERAL				
Planned Statutory Spending	**202,392**	**195,604**	**198,755**	**394,359**
Total Governor's Recommendations	**202,392**	**195,604**	**198,755**	**394,359**
Fund: FEDERAL TANF				
Planned Statutory Spending	**544**	**0**	**0**	**0**
Total Governor's Recommendations	**544**	**0**	**0**	**0**
Fund: GIFT				
Planned Statutory Spending	**705**	**1,041**	**221**	**1,262**
Total Governor's Recommendations	**705**	**1,041**	**221**	**1,262**

Revenue Change Items

	FY2005	FY2006	FY2007	Biennium 2006-07
Fund: SPECIAL REVENUE				
Change Items				
Methamphetamine Cleanup Fund	0	0	26	26

Change Item: Eliminate Grant for Mortgage Credit Program

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($250)	($250)	($250)	($250)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($250)	($250)	($250)	($250)

Recommendation

The Governor recommends the elimination of the grant for the administrative support for the Mortgage Credit Program.

Background

The grant provides administrative support to the cities of Minneapolis, St. Paul, and Dakota County to defray the cost of issuing Mortgage Credit Certificates to low income homebuyers. The aid received must be used to provide homeownership programs to families or individuals whose incomes are at or below 80% of the area median income.

As a budget cutting measure for FY 2004-05, the administrative support provided through DEED for this program was eliminated.

Alternatives Considered

This program was selected as a budget cutting initiative because it is not core to the department's mission.

Change Item: Eliminate Funding for the Minnesota Investment Fund

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($1,203)	($1,203)	($1,203)	($1,203)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($1,203)	($1,203)	($1,203)	($1,203)

Recommendation
The Governor recommends eliminating the state General Fund support for the Minnesota Investment Fund (MIF).

Background
The MIF provides financial assistance for expanding businesses with a focus on industrial, manufacturing, and technology-related industries. Grants are awarded to local units of government who provide loans to assist expanding businesses. Cities, counties, townships, and recognized Indian tribal governments are eligible. These investments are usually low interest loans, and, when paid back, provide local units of government a resource for further economic development activity. (The first $100,000 repaid is retained by the local unit of government.)

General Fund support for MIF has been reduced from a high of $6.0 million in 1998 to the current level of $1.2 million per year in the FY 2004-05 biennium. Over its lifetime, MIF has generated loans in over 200 communities. Roughly $15 million is currently available for further development activity in those communities.

Based on historical data, the $2.4 million that would have been spent in FY 2006-07 would have produced approximately 10 projects, 480 jobs, and leveraged $15 million in private investment. To put this into context, Minnesota businesses borrow about $5 billion each year from commercial banks and savings associations. The Minneapolis office of the federal Small Business Administration loans more than $400 million each year.

Relationship to Base Budget
DEED has other programs that can assist companies looking to locate or expand operations in Minnesota.

⇒ The JOBZ program has generated considerable economic development activity since its inception. Through the end of 2004, 123 projects pledging 1,743 new jobs that pay an average of $11.83 per hour, will leverage $145 million in private investment.

⇒ The department will continue to allocate 15% of its federal Community Development Block Grant award ($3.4 million to funding for 2004) to economic development projects in rural Minnesota.

⇒ The Minnesota Agricultural and Economic Development Board (MAEDB) makes small business loans through the issuance of industrial development bonds backed by a state-funded reserve of 25%. Eligible applicants are manufacturing and industrial businesses located or intending to locate in Minnesota, as defined by Small Business Administration size and eligibility standards (generally, those with 500 or fewer employees).

⇒ Through the Minnesota Indian Business Loan Program, loans support the development of Indian-owned and -operated businesses and promote economic opportunities for Native American people throughout Minnesota.

Alternatives Considered
Eliminating funding for the MIF during the FY 2006-07 biennium was decided upon as an acceptable budget savings measure because of the availability of other state programs that support business development.

Change Item: Methamphetamine Cleanup Fund

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$250	$250	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	26	55	55
Revenues	0	26	55	55
Net Fiscal Impact	$250	$250	$0	$0

Recommendation
The Governor recommends $500,000 to capitalize a methamphetamine (meth) laboratory cleanup revolving loan fund.

Background
Methamphetamine laboratories generate extremely toxic waste that can penetrate porous surfaces. These sites must be cleaned before reuse can occur. Meth labs are one of the fastest growing drug-related problems in the state, with well over 400 labs discovered last year. Cleanup requires hazardous material teams to remove the toxic chemicals.

Many sites are cleaned up by property owners. Local units of government pay for the rest. This is a financial hardship for many. Those localities that have passed ordinances may assess the cleanup costs back to the property in the form of a special assessment, but they must bear these costs until repaid by property owners.

The loan program is designed to cover the cleanup cost, with revenues from the special assessment or sale of the property repaying the loan. The fund will operate on a first come-first-served basis, and will reimburse local units of government for the clean up costs, once they have been verified. Estimated costs and the source of repayment (e.g. special assessments or sale of the property) must be identified to obtain a loan. These loans are secured by the local unit of government with revenue notes from the property itself (either through special assessments or sale of the property).

Relationship to Base Budget
Due to its experience with municipal debt and lending practices, the Public Facilities Authority will manage the fund. This expertise will allow for efficient administration and distribution of the funds. Since the commissioner of DEED is the chair of the Public Facilities Authority Board and is responsible for the administrative duties of the Authority, the Governor recommends the appropriation be made to DEED. Revenues from loan repayments will be lent out as they are received. The Authority will charge a two percent fee on each loan repayment to cover administrative costs.

Key Measures
⇒ Annually, an estimated 20 structures requiring cleanup will be cleaned-up, inspected, and certified for reuse using the revolving loan fund.
⇒ The revolving loan fund will be self-sufficient after 10 years, barring unpredictable growth in meth labs requiring cleanup.

Alternatives Considered
Doing nothing will leave structures uninhabitable, and the potential for deadly consequences resulting from exposure to toxic waste. Another alternative is provide grants and not recoup the state's investment. The loan program will allow an affordable tool when the property owner alone can't afford to pay the clean up cost.

Statutory Change: The Governor has proposed legislation to amend M.S. 446A.083.

Change Item: Reduce Program Costs

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($329)	($329)	($329)	($329)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($329)	($329)	($329)	($329)

Recommendation
The Governor recommends reducing Business and Community Development Division program costs. Marketing and business development costs will be reduced $110,000, the foreign trade office in Japan will be closed, saving $104,000, and promotions and administrative costs of the Minnesota Trade Office will be curtailed by $444,000.

Background
Reductions are being made in marketing and business development expenditures, as these costs represent discretionary General Fund expenses which include publications, advertising, staff travel related to marketing, advertising, and other expenses related to promotion of the state. In the current fiscal environment these discretionary expenses, however valuable, cannot be sustained.

The trade office in Japan will be closed at the end of FY 2005. The Minnesota Trade Office has been scaling back operations of the Japan office for several months in anticipation of the final closure. With the closure of the Japan office, the state will no longer have any trade offices overseas. To compensate for the closure of the Japan office, the Minnesota Trade Office has arranged for minimal representation from an Honorary Trade Representative in Tokyo (an unpaid position). Also, we will better leverage the services provided by the U.S. Foreign Commercial Service throughout Japan, and will develop additional referral arrangements with in-county consultants and service providers.

The Minnesota Trade Office also will reduce promotional expenses primarily by limiting its international trade development activities, namely trade missions. Rather than continuing a broad-based market approach, future trade development initiatives will focus mostly on China in support of the Governor's new strategy. This new strategy called "Minnesota – China Partnership", is intended to expand the state's relationship with the world's largest emerging market.

Relationship to Base Budget
Proposed cuts in marketing and business development represent about two percent of the BCD operations budget, which are principally costs related to staffing and corollary expenses. The cuts represent about half of the discretionary expenses related to the promotional and publishing activities of the division. With the cuts the division will need to be leaner in its decisions about which specific marketing opportunities it will undertake. The proposed cuts to the Minnesota Trade Office represent approximately 15% of the office's budget. The key measure for the Minnesota Trade Office will continue to be the growth of the state's exports.

Alternatives Considered
In developing its budget, the department's programs were ranked according to priority in support of the legislative directive. Tough choices were made. In the end, those programs recommended for reduction or elimination were deemed less central to the agency's core mission.

The Minnesota Trade Office will develop additional partnerships with private service providers, seek additional grants, and charge companies higher fees for services provided.

Change Item: Reduction to Administrative Costs

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($444)	($444)	($444)	($444)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($444)	($444)	($444)	($444)

Recommendation
The Governor recommends $888,000 in administrative cost reductions resulting from the merger and relocation to the 1st National Bank building.

Background
The merger of the Departments of Economic Security (DES) and Trade and Economic Development (DTED) and the consolidation and relocation of the merged department from three locations to a single location in the 1st National Bank building has made it possible to consolidate several administrative operations and realize rent savings.

Relationship to Base Budget
The overall state-funded administrative costs for the department have been reduced by more than 11%. Information technology costs have been reduced by nearly 20%, and rent costs were reduced by over 11%. The Communications and Marketing Office, which includes the Analysis and Evaluation Office, will experience a 21% budget reduction.

Alternatives Considered
In developing its budget, the department's programs were ranked according to priority based on the legislative directive. Tough choices were made. In the end, those programs recommended for reduction were deemed less central to the agency's core mission.

Change Item: Sale of Promotional and Marketing Materials

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	20	20	20	20
Revenues	20	20	20	20
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends granting the authority to sell promotional and marketing materials to economic development organizations and others on a cost recovery basis and to deposit the proceeds into a special revolving fund.

Background

The Minnesota Trade Office is currently authorized by M.S. 116J.966, subd. 1, paragraph (12) to deposit the proceeds from the sale of trade-related materials into a special revolving account. M.S. 116J.63, subd. 2 currently requires that the proceeds from the sale of other publicity or promotional materials be deposited into the General Fund. This proposal will allow the department to sell promotional and marketing material at cost to economic development organizations and others and to deposit the proceeds from the sale into a special revolving account.

Relationship to Base Budget

It is estimated that the sale of promotional and marketing material will be approximately $20,000 per year.

Statutory Change: Add M.S. 116J.63, subd. 5.

Change Item: Changes to State-Funded Youth Programs

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($6,582)	($6,582)	($6,582)	($6,582)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($6,582)	($6,582)	($6,582)	($6,582)

Recommendation
The Governor recommends multiple changes to the State Youth Programs. Transfer the Youth Intervention Program (YIP) to the Department of Public Safety, and eliminate state funding for the Minnesota Youth Program (MYP), the YouthBuild program, and the Learn-to-Earn Program.

Background
YIP provides prevention and early intervention services for at risk youth, including leadership development, mentoring, restorative justice services, pre-court diversion services, counseling services, education programs, and gender or culturally specific services. The Governor recommends that YIP be transferred to the Department of Public Safety at the current funding level of $1.452 million each year.

Minnesota is one of only 13 states that fund youth programs through its General Fund. The state-funded MYP received $10.5 million in federal funding through the Workforce Investment Act in SFY 2004. It also receives $4.19 million each year from the general fund. Funding from both sources serve economically disadvantaged and at risk youth between the ages of 14 and 21.

Administered through 10 local service organizations, the YouthBuild program provides approximately 250 at-risk youth ages 16 to 24 with specialized training in the construction and building trades, leadership and basic academic skills, and construction-based work experience. The state recently received a $400,000 grant under the federal Youthbuild program in 2004. These local organizations will continue to be eligible for federal funding. For additional information see the DEED web site at http://www.deed.state.mn.us/youth/ybuild.htm, and the U.S. Code, Title 42, section 5091. The amount eliminated under this proposal is $757,000 each year.

The Learn-to-Earn grant is a pass-through to the city of Minneapolis Department of Parks and Recreation Board that provides summer employment, academic enrichment and recreational opportunities to approximately 120 unemployed or underemployed youth ages 14 to 18. This proposal eliminates $183,000 each year.

Relationship to Base Budget
The removal of state support for the Minnesota Youth Program, YouthBuild, and Learn-to-Earn will not result in the elimination of any services. The Minnesota Youth Program will continue to receive $10.5 million annually through the federal Workforce Investment Act. The local Youthbuild service organizations will continue to be eligible for funding through the federal Youthbuild program and will continue to receive federal funding. Funding for the Learn-to-Earn program will continue through the City of Minneapolis. As the Youth Intervention Program is being transferred in whole to the Department of Public Safety, there will be no change to this program.

Alternatives Considered
In developing the budget, the department's programs were ranked according to priority based on the legislative directive. Tough choices were made. In the end, those programs recommended for reduction or elimination were deemed less central to the agency's core mission.

Statutory Change: M.S. 116L.30.

Change Item: Eliminate State Funding for Displaced Homemakers

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	(200)	(200)	(200)	(200)
Revenues	0	0	0	0
Net Fiscal Impact	($200)	($200)	($200)	($200)

Recommendation

The Governor recommends eliminating state funding for the Displaced Homemakers Program. This will result in an additional $1.5 million for the Dislocated Workers Program and the revocation of that portion of the marriage license fee dedicated to the Displaced Homemakers Program.

Note: The revenue reduction resulting from the change to the marriage license fee amount is reflected in the Department of Revenue's budget. Because the $750 reduction to the Displaced Homemakers program is offset by an increase of the same amount in the Dislocated Worker program, these changes cancel each other out in the table above.

Background

The Displaced Homemakers Program provides pre-employment services that assist participants to enter or re-enter the labor market after having been homemakers. Customers are generally women who have worked in the home for a minimum of two years caring for home and family but, due to a change in circumstances, must support themselves and their families. Eligibility is based on income guidelines.

For additional information refer to http://www.positivelyminnesota.com/programs/disphome.htm.

Relationship to Base Budget

The annual funding for the Displaced Homemakers Program is provided through the Workforce Development Fund ($750,000) and a special marriage license fee ($200,000). The $750,000 provided annually to this program would be returned to the WDF and used to pay for dislocated worker program activities. The special marriage license fee would be rescinded.

This proposed budget action will eliminate state support for the six vendors currently providing this service. Prior to the FY 2004-05 biennium, there were 12 programs serving all 87 counties, but a budget cut reduced this number to the current six vendors. Individuals currently receiving services through the Displaced Homemaker Program are eligible for similar services through the department's network of 50 WorkForce Centers located throughout the state. We believe that the WorkForce Centers can provide adequate services more efficiently.

Alternatives Considered

In developing the budget, the department's programs were ranked according to priority based on the legislative directive. Tough choices were made. In the end, those programs recommended for reduction or elimination were deemed less central to the agency's core mission.

Statutory Change: M.S. 517.08.

PAGE

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January 25, 2005

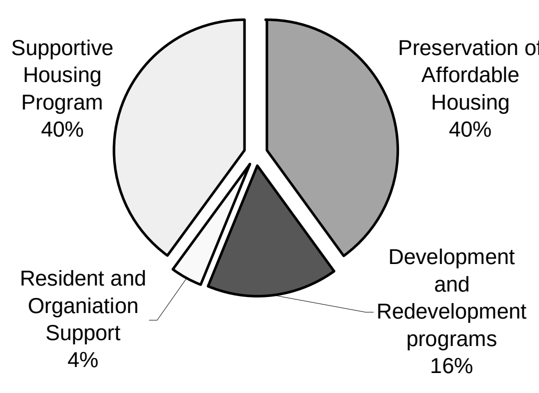
The 2005 Minnesota Legislature:

On behalf of Governor Pawlenty, I am pleased to submit recommendations for the FY 2006-2007 budget for the Minnesota Housing Finance Agency (MHFA). This budget includes a total of $56,540,000 in expenditures from the General Fund. State appropriations currently constitute 8% of the total MHFA program budget. MHFA revenue bond proceeds represent the largest source of funding for MHFA activities and comprise approximately 46% of the total MHFA program budget. Federal funds and Agency resources make up the balance of the budget. The MHFA does not use state appropriations for its operating budget, but self-funds operations.

With the Governor's budget recommendations, the Agency will continue its efforts to strategically target its housing resources consistent with the Agency's mission of meeting Minnesotans' needs for decent, safe, affordable homes and stronger communities. Due to the state's strong commitment to housing, the state currently enjoys the highest homeownership rate in the nation at nearly 77% and the second lowest percentage of households with critical housing needs (paying more than 50% for housing).

Under the proposed budget, the Agency will maintain all current activities, although some activities will continue at a lower volume. The primary activities of the MHFA fall into five broad categories. The graphic indicates how state appropriations are proportioned among four of the activities. The fifth activity, homeownership loan programs, will be funded primarily through repayments of loans made with previous state appropriations and mortgage revenue bond proceeds. Other programs, such as the Rehabilitation Loan program, similarly are able to operate in the short-term with a smaller investment of new state monies due to repayment or prepayment of previously made loans.

Minnesota Housing Finance Agency
$56.5 Million FY 2006-07 General Fund



The proposed budget was guided by the following principles:

1) Priority should be given to programs that serve the most vulnerable populations.

2) Priority should be given to activities that directly assist the Agency in achieving its five strategic goals: ending long-term homelessness, preserving affordable housing, increasing minority homeownership, increasing housing choices for workers, and establishing the Agency as a housing partner of choice.

3) Priority should be given to activities that optimize the contribution of non-state resources to affordable housing.

4) Priority should be given to activities for which there is little or no other funds to support the same or very similar activity.

5) Lower priority should be given to programs to the extent that non-financial tools are available to help accomplish the program objectives.

The Agency will fulfill its commitment under the state's Business Plan to End Long-Term Homelessness by increasing funding for the Housing Trust Fund program by $4 million for FY 2006-2007. This increase is accomplished by a reallocation of appropriated funds. The Agency is continuing to develop strategies to make progress on all of its strategic goals with reduced resources. Enhanced alignment of housing resources and strategies, increased targeting of resources, and authority for additional financing tools will assist the Agency to advance its strategic goals with fewer state funds.

Please feel free to contact me via telephone at (651) 296-5738 or e-mail at tim.marx@state.mn.us or Tonja Orr via telephone at (651) 296-9820 or e-mail at tonja.orr@state.mn.us if you have any questions or would like to discuss these proposals with us.

Sincerely,

Timothy E. Marx
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	35,385	34,885	34,885	34,885	69,770
Recommended	**35,385**	**34,885**	**28,270**	**28,270**	**56,540**
Change		0	(6,615)	(6,615)	(13,230)
% Biennial Change from 2004-05					-19.5%
Expenditures by Fund					
Direct Appropriations					
General	0	0	28,270	28,270	56,540
Statutory Appropriations					
Housing Finance Agency	255,557	251,730	197,753	198,064	395,817
Total	**255,557**	**251,730**	**226,023**	**226,334**	**452,357**
Expenditures by Category					
Total Compensation	13,129	14,107	14,596	15,083	29,679
Other Operating Expenses	7,415	7,752	6,292	6,116	12,408
Payments To Individuals	168,400	168,362	165,889	165,889	331,778
Local Assistance	3,835	4,423	4,118	4,118	8,236
Other Financial Transactions	62,778	57,086	35,118	35,118	70,236
Transfers	0	0	10	10	20
Total	**255,557**	**251,730**	**226,023**	**226,334**	**452,357**
Expenditures by Program					
Appropriated Programs	81,055	65,773	41,418	41,418	82,836
Non Appropriated Programs	174,502	185,957	184,605	184,916	369,521
Total	**255,557**	**251,730**	**226,023**	**226,334**	**452,357**
Full-Time Equivalents (FTE)	**182.9**	**190.4**	**190.4**	**190.4**	

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	**34,885**	**34,885**	**34,885**	**69,770**
Technical Adjustments				
Current Law Base Change		885	885	1,770
Subtotal - Forecast Base	**34,885**	**35,770**	**35,770**	**71,540**
Change Items				
Budget Reductions	0	(3,000)	(3,000)	(6,000)
Challenge Budget Cut & Consolidation	0	(6,500)	(6,500)	(13,000)
HTF-Ending Long-Term Homeless Initiative	0	2,000	2,000	4,000
Total Governor's Recommendations	**34,885**	**28,270**	**28,270**	**56,540**
Fund: HOUSING FINANCE AGENCY				
Planned Statutory Spending	**251,730**	**197,753**	**198,064**	**395,817**
Total Governor's Recommendations	**251,730**	**197,753**	**198,064**	**395,817**

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($3,000)	($3,000)	($2,115)	($2,115)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($3,000)	($3,000)	($2,115)	($2,115)

Recommendation

The Governor recommends a reduction in state General Fund appropriations totaling $6 million to the following programs:

Affordable Rental Investment Fund – Preservation (PARIF) -- $1,484,000
Rehabilitation Loan Program - $2,636,000
Homeownership Assistance Fund (HAF) - $1,770,000
Non-Profit Capacity Building Program - $110,000

These reductions are 40% of the total reductions proposed for MHFA. The reductions are consistent with the 5 principles that MHFA developed to guide budget decisions. These principles are:

- Priority should be given to programs that serve the most vulnerable populations.
- Priority should be given to activities that directly assist the Agency in achieving its five strategic goals.
- Priority should be given to activities that optimize the contribution of non-state resources to affordable housing.
- Priority should be given to activities for which there is little or no other funds to support the same or very similar activity.
- Lower priority should be given to programs to the extent non-financial tools (such as land use planning) are available to help accomplish the program objectives.

Background

Preservation Programs:

The PARIF program leverages considerable federal funds. On average, $1 of PARIF funds secures future federal expenditures of $5. The rental housing being preserved serves the very lowest income households and the elderly.

Unless other strategies are employed, approximately 150 fewer units of federally assisted housing or supportive housing will be preserved as compared to the previous biennium. Repayments of earlier loans may offset approximately one-third of the reduction.

The Rehabilitation Loan program receives approximately $2.5 million in repayments each biennium. These repayments are reinvested in the new deferred loans. Combining the reduced level of state appropriations and expected repayments will allow the program to operate at a level equivalent to the previous base level. The long-term consequences of reduced funding for this program is that repayments will dwindle resulting in an even smaller amount of assistance available in the future.

Approximately 132 fewer low-income homeowners will receive a deferred loan to address needed repairs to their home.

Homeownership Loan Programs:

The Homeownership Assistance Fund program provides deferred loans to first time homebuyers to help with the down payment and entry costs. The activity is expected to be one of the primary focuses of efforts to increase the homeownership rate among emerging markets. In the last three years, the program has experienced unprecedented levels of repayments due to high levels of refinancing. As a consequence, the program is able to sustain a level of activity comparable to that of a base level funding even when no appropriations are made. It is expected that repayment levels will be returning to normal levels over the next two years. If funding is not restored for the FY 2008-09 biennium, a substantial reduction in activities will occur. Approximately 327 fewer first-time homebuyers will be assisted as a result of the base not being restored for the FY 2006-07 biennium.

Resident and Organizational Support Programs:

The Non-Profit Capacity Building Program funds are used for a variety of activities including increasing or developing the capacity of non-profit organizations to provide housing for low- and moderate-income households that is not being provided by the for-profit sector. Some of the activities are necessary in order to draw down federal funds to support housing and services for the homeless. Activities that leverage other resources will be prioritized for the remaining funding.

Relationship to Base Budget

PARIF will be reduced by 8%; the program would be funded at $17,062,000 for the FY 2006-07 biennium.

Rehabilitation Loan Program – This program will be reduced by 33% to $5,308,000 for the biennium.

Homeownership Assistance Fund (HAF) – State appropriations for this program would be temporarily suspended for the next biennium. The funding for this program was suspended for the FY 2004-05 biennium and scheduled to be restored in the upcoming biennium. Suspended funding is proposed in order to accommodate the increase in the Housing Trust Fund and avoid even deeper cuts to the Challenge program.

Non-Profit Capacity Building Program – Funding for this program will be reduced by 18%; program funding would be $500,000 for the biennium.

Key Measures

See key measures for the relevant budget activity under Appropriated Programs.

Alternatives Considered

Smaller reductions were considered for the homeownership loan programs; however, adherence to the principles directs the proposed distribution of reductions.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($6,500)	($6,500)	$0	$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($6,500)	($6,500)	$0	$0

Recommendation

The Governor recommends that the appropriations to the Economic Development and Housing Challenge (Challenge) program be reduced to $8,814,000 for FY 2006-07. In addition, it is recommended that the Challenge program and the Tribal Indian Housing and Urban Indian programs be consolidated. The impact of this recommendation on the consolidated program is a nearly 60% reduction in state appropriations. In FY 2004, Challenge program funds were awarded to 50 separate housing projects. Approximately half as many workforce housing projects will be assisted in the next biennium compared to the last biennium due to the reduced state appropriations.

Background

The following principles were used to guide the development of the state appropriations budget. Principles were ranked in descending order of importance as follows:

- Priority should be given to programs that serve the most vulnerable populations.
- Priority should be given to activities that directly assist the Agency in achieving its five strategic goals.
- Priority should be given to activities that optimize the contribution of non-state resources to affordable housing.
- Priority should be given to activities for which there is little or no other funds to support the same or very similar activity.
- Lower priority should be given to programs to the extent non-financial tools (such as land use planning) are available to help accomplish the program objectives.

The Challenge program provides funds for a wide variety of housing activities including gap financing for new construction and rehabilitation of both rental and owner-occupied housing. The Challenge program is the primary state appropriated program that assists in increasing the housing choices for low and moderate-income working Minnesotans. The deferred loan funds available through the Challenge program are frequently used in combination with the federal housing tax-credit program to assist properties in setting rents that are affordable to workers in the area.

The MHFA is exploring strategies for mitigating the impact of the reduction to the program. These strategies may include improved coordination of housing resources appropriated to other state agencies with the MHFA's strategic goals, incenting efficient land use, other local regulatory actions that reduce costs, and increased private sector contribution to the development and redevelopment of affordable housing.

The two state funded programs designed to assist American Indians with their housing needs – the Tribal Indian program, and the Urban Indian program - have existed in essentially the same form for more than 25 years. The types of housing assistance needed by American Indians has changed, as have the lending practices on tribal land. The proposed consolidation is consistent with MHFA's efforts over the last five years to consolidate programs into a fewer number of flexible programs.

MHFA proposes to consolidate the two programs and the Challenge program. The consolidation of the two American Indian housing programs into the Challenge program has the potential to increase the level of activity for American Indians. It will also encourage more innovative uses of state appropriations.

Change Item: Challenge Program Budget Reduction and Consolidation

Relationship to Base Budget

In FY 2004-05 the base of the Challenge program was $19,244,000, the base from the Tribal Housing program was $2,210,000, and for the Urban Indian Housing program was $360,000. For the last three biennia, the Challenge program has been the largest state-appropriated MHFA program. The recommended reduction represents a 60% decrease in funding for the consolidated program. The reduction to the Challenge program reflects the higher priority given to efforts to end long-term homelessness and serve the most vulnerable populations.

Key Measures

See Key Measures for the Challenge program under Appropriated programs.

Alternatives Considered

Smaller reductions were considered for this program; however, given the extent of the total reductions and the principles developed to guide budget decisions, the proposed distributions of reductions is appropriate.

Statutory Change: M. S. 462A.33; 462A.07, subds. 14 and 15.

Change Item: Housing Trust Fund (HTF) - Ending Long-Term Homeless Initiative

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$2,000	$2,000	$4,000	$4,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$2,000	$2,000	$4,000	$4,000

Recommendation
The Governor recommends that the Housing Trust Fund (HTF) program be increased by $4 million in order to assist with the capital costs and operating costs of supportive housing units for families and individuals experiencing long-term homelessness. The increase fulfills the commitment made in the Business Plan to End Long-Term Homelessness. The goal to provide 4,000 housing opportunities by the end of the decade. The increased funding results from a reallocation of state appropriations from other housing programs.

Background
The Business Plan to End Long-Term Homelessness recognized that additional resources would need to be identified for the services component of supportive housing. Among the strategies identified in the Business Plan were: 1) exploring opportunities to increase the use of mainstream services; and 2) targeting resources to the needs of persons experiencing long-term homelessness. The reductions proposed to MHFA's budget will help alleviate some pressures on and leverage additional resources of the Department of Human Services so that one or more strategies for filling the services gap in supportive housing can be implemented. The Business Plan to End Long-Term Homelessness can be found at: www.mhfa.state.mn.us/multifamily/LTH.htm.

Relationship to Base Budget
The recommended increase will bring the base for the HTF program to $12,610,000 or a 46.5% increase to the base of this program. The $4 million in new money will be targeted to persons and households who have experienced long-term homelessness.

Key Measures
See Key Measures for the relevant budget activity under Appropriated Programs.

Alternatives Considered
Preserving the supportive housing programs which serve the most vulnerable populations and implementing the Business Plan to End Long-Term Homelessness are the agency's highest priority. Since no new funds are available to provide an increase to this program, a reallocation of other program funds was the only action Considered.

	PAGE

January 25, 2005

The 2005 Minnesota Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the FY 2006-07 biennial budget of Iron Range Resources.

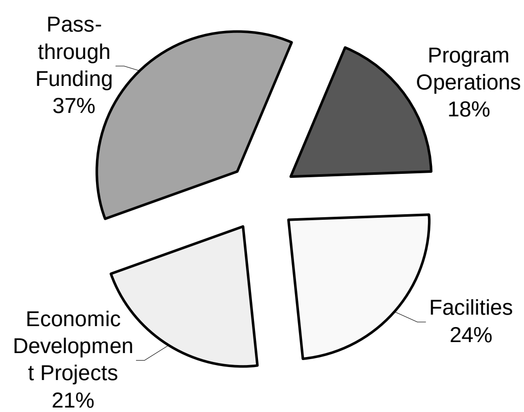
Iron Range Resources is funded by a portion of the taconite production taxes paid by mining companies on each ton of taconite produced. These taxes are paid in lieu of property taxes. The agency also receives funding from non-mining sources such as facilities revenue, interest earnings and interest generated from loan programs. Unlike other state agencies, the agency receives no direct operational funding from the state's General Fund.

Iron Range Resources is challenged by the fact that the agency's revenues are dependent on cyclical mining production levels and investment earnings. In response to declines in the last biennium, the agency has successfully moved through a significant budget-driven reorganization which allowed us to focus more clearly on our core mission and the goals we intend to pursue. These initiatives have resulted in a flattened, more nimble organization that has a more defined customer emphasis. In addition, special task forces have assisted us in identifying strategies for enhancing the long-term sustainability of agency-owned facilities.

Based on current forecast of revenues, the agency's budget totals $63.286 million for the biennium. This amount includes an operating and program budget of $40.066 million and $23.220 million in pass-through funding to the agency. The agency credits the pass-through amount to special accounts, including: the Mining Rebate Program, M.S. 298.227, a rebate of production taxes to mining companies for capital improvement projects; Region III Projects, M.S. 298.17, grants to Koochiching and Carlton counties for economic and environmental development projects; and the USDA Intermediary Relending Program for small business loans.

The core mission of Iron Range Resources is to diversify the economy of the Taconite Assistance Area, a geographical region encompassing approximately 13,000 square miles. As part of its mission of economic development, the agency reclaims mining impacted lands and owns and operates two facilities, Giants Ridge Golf & Ski Resort and Ironworld Discovery Center. As the graphic indicates, our primary activities fall into four major areas: program operations, facilities, economic development projects and pass-through funds.

Iron Range Resources
FY 2006-07 Biennial Budget



Four principle goals guide the agency's activities. To assist Iron Range Resources in fulfilling its mission of "Advancing Regional Growth," the four goals serve as broad boundaries within which all divisional, operational and individual employee goals are managed:

- Position the agency to be a leader in developing and implementing a strategy for the long-term economic viability of the northeastern Minnesota region.
- Sustain the region's economic base by working with existing businesses to retain existing jobs and expand to create new jobs.
- Diversify the region's economy by growing new businesses and recruiting expanding businesses from outside of the area.
- Reclaim mining impacted lands to create a diverse regional economic development resource.

During the past biennium, the agency made significant progress with several major economic development initiatives. Nearly $18 million in agency financing leveraged over $111 million in new investments for area projects. Significant developments in value-added iron products, like that produced by Mesabi Nugget, hold tremendous long-term potential for the region. The Minnesota Steel Industries, Excelsior Energy and Laurentian Energy Authority projects also offer exciting opportunities for significant job creation. In addition, Iron Range Resources has helped diversify the area economy by spurring growth in service sector employment and small manufacturing in communities across our entire service area. Nearly 1,500 new jobs will be added as a result of these efforts, and we remain excited about the prospects for additional economic growth in the future.

Sincerely,

Sandy Layman

Sandy Layman
Commissioner

	Current FY2004	Current FY2005	Governor Recomm. FY2006	Governor Recomm. FY2007	Biennium 2006-07
	Dollars in Thousands				
Expenditures by Fund					
Statutory Appropriations					
Iron Range Resources & Rehab	26,104	22,919	21,338	23,239	44,577
Giants Ridge Golf & Ski Resort	5,440	5,965	5,874	5,874	11,748
Ne Mn Economic Protection	5,023	16,381	4,381	2,580	6,961
Total	**36,567**	**45,265**	**31,593**	**31,693**	**63,286**
Expenditures by Category					
Total Compensation	5,581	5,782	5,782	5,782	11,564
Other Operating Expenses	6,239	8,304	6,843	6,843	13,686
Capital Outlay & Real Property	228	732	0	0	0
Local Assistance	11,344	13,719	13,564	13,664	27,228
Other Financial Transactions	13,175	16,728	5,404	5,404	10,808
Total	**36,567**	**45,265**	**31,593**	**31,693**	**63,286**
Expenditures by Program					
Administrative Services	2,119	7,313	2,311	2,311	4,622
Facilities	6,684	7,834	7,533	7,533	15,066
Development Strategies	1,423	1,729	1,726	1,726	3,452
Agency Roll Over	734	8,527	0	0	0
Mining Rebate Program	9,731	9,731	10,342	10,442	20,784
Marketing Comm & Ext Affairs	1,200	1,429	1,429	1,429	2,858
Agency Projects	14,326	8,323	7,873	7,873	15,746
Attorney General	350	379	379	379	758
Total	**36,567**	**45,265**	**31,593**	**31,693**	**63,286**
Full-Time Equivalents (FTE)	**90.8**	**94.6**	**93.3**	**93.3**	

PAGE

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St. Paul, Minnesota 55155
www.doli.state.mn.us

L&I
Minnesota Department of Labor and Industry

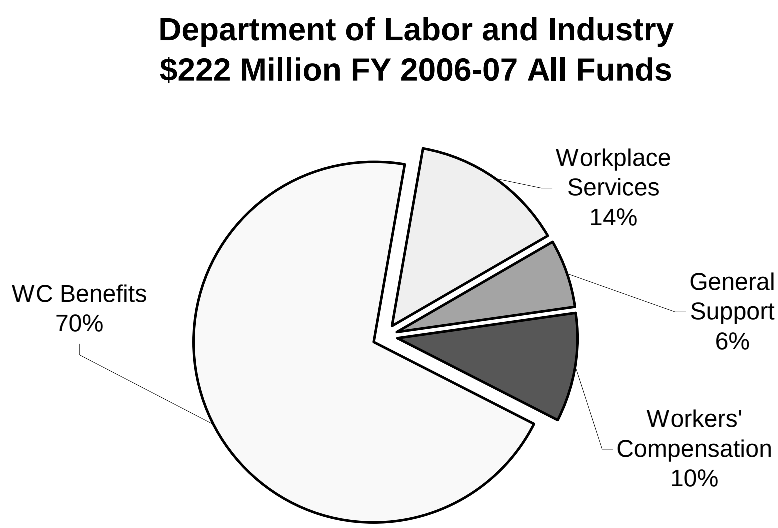
651-284-5000
TTY: 651-297-4198
1800-DIAL-DLI

January 25, 2005

The 2005 Minnesota Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Department of Labor and Industry's budget recommendation for the FY 2006-07 budget. This budget consists of $5,744,000 from the state's General Fund, $201,888,000 from the workers' compensation fund, $14,786,000 from other funds, and is a 5% decrease from FY 2004-05 spending.

As the graphic indicates, the majority of DLI's budget is for payments of workers' compensation benefits. The remaining budget is administered through three program areas: workers' compensation, workplace services, and general support.



With this budget recommendation, DLI will continue to ensure a safe and equitable work environment for Minnesota employees and employers. The agency will continue priority activities designed to assure that: (1) workplaces are free from injury and illness; (2) workers injured on the job are provided treatment and benefits required by law; (3) workers from all communities have the opportunity to receive critical skills through apprenticeship training; (4) boilers and high-pressure-piping systems are properly constructed, installed, and operated; and (5) workers, potential workers, and employers have a clear understanding of their rights and responsibilities in the workplace.

Sincerely,

M. Scott Brener
Commissioner

	Current		Governor Recomm.		Biennium
Dollars in Thousands	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	2,905	2,839	2,839	2,839	5,678
Recommended	**2,905**	**2,839**	**2,872**	**2,872**	**5,744**
Change		0	33	33	66
% Biennial Change from 2004-05					0%
Workforce Development					
Current Appropriation	450	450	450	450	900
Recommended	**450**	**450**	**450**	**450**	**900**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Workers Compensation					
Current Appropriation	19,797	19,272	19,272	19,272	38,544
Recommended	**19,797**	**19,272**	**19,272**	**19,272**	**38,544**
Change		0	0	0	0
% Biennial Change from 2004-05					-1.3%
Expenditures by Fund					
Direct Appropriations					
General	2,565	3,140	2,872	2,872	5,744
Workforce Development	419	482	450	450	900
Workers Compensation	18,387	20,585	19,272	19,272	38,544
Open Appropriations					
Workers Compensation	77,751	87,473	79,610	77,454	157,064
Statutory Appropriations					
Special Revenue	1,264	1,670	1,605	1,575	3,180
Federal	5,026	5,344	5,262	5,414	10,676
Workers Compensation	6,489	3,345	3,140	3,140	6,280
Miscellaneous Agency	11	19	15	15	30
Total	**111,912**	**122,058**	**112,226**	**110,192**	**222,418**
Expenditures by Category					
Total Compensation	22,327	23,476	24,261	24,513	48,774
Other Operating Expenses	6,501	9,134	6,469	6,339	12,808
Payments To Individuals	80,901	87,339	79,476	77,320	156,796
Local Assistance	2,183	2,109	2,020	2,020	4,040
Total	**111,912**	**122,058**	**112,226**	**110,192**	**222,418**
Expenditures by Program					
Workers Compensation Division	91,075	98,678	90,138	87,952	178,090
Workplace Services Division	14,164	16,371	15,292	15,444	30,736
General Support Division	6,673	7,009	6,796	6,796	13,592
Total	**111,912**	**122,058**	**112,226**	**110,192**	**222,418**
Full-Time Equivalents (FTE)	**342.8**	**355.0**	**351.6**	**344.6**	

	Dollars in Thousands			
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	**2,839**	**2,839**	**2,839**	**5,678**
Technical Adjustments				
One-time Appropriations		(345)	(345)	(690)
Subtotal - Forecast Base	**2,839**	**2,494**	**2,494**	**4,988**
Change Items				
Code Enforcement	0	378	378	756
Total Governor's Recommendations	**2,839**	**2,872**	**2,872**	**5,744**
Fund: WORKFORCE DEVELOPMENT				
FY 2005 Appropriations	**450**	**450**	**450**	**900**
Subtotal - Forecast Base	**450**	**450**	**450**	**900**
Total Governor's Recommendations	**450**	**450**	**450**	**900**
Fund: WORKERS COMPENSATION				
FY 2005 Appropriations	**19,272**	**19,272**	**19,272**	**38,544**
Subtotal - Forecast Base	**19,272**	**19,272**	**19,272**	**38,544**
Total Governor's Recommendations	**19,272**	**19,272**	**19,272**	**38,544**
Fund: WORKERS COMPENSATION				
Planned Open Spending	**87,473**	**79,610**	**77,454**	**157,064**
Total Governor's Recommendations	**87,473**	**79,610**	**77,454**	**157,064**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**1,670**	**1,605**	**1,575**	**3,180**
Total Governor's Recommendations	**1,670**	**1,605**	**1,575**	**3,180**
Fund: FEDERAL				
Planned Statutory Spending	**5,344**	**5,262**	**5,414**	**10,676**
Total Governor's Recommendations	**5,344**	**5,262**	**5,414**	**10,676**
Fund: WORKERS COMPENSATION				
Planned Statutory Spending	**3,345**	**3,140**	**3,140**	**6,280**
Total Governor's Recommendations	**3,345**	**3,140**	**3,140**	**6,280**
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	**19**	**15**	**15**	**30**
Total Governor's Recommendations	**19**	**15**	**15**	**30**

Revenue Change Items

	FY2005	FY2006	FY2007	2006-07
Fund: GENERAL				
Change Items				
Code Enforcement	0	810	810	1,620

Change Item: Code Enforcement

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$378	$378	$378	$378
Revenues	810	810	708	708
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($432)	($432)	($330)	($330)

Recommendation

The Governor recommends an appropriation of $756,000 for the FY 2006-07 biennium to improve the regulatory enforcement and safety of boilers, pressure vessels, hobby boilers, boats-for-hire, and high-pressure-piping systems. This will be financed by an increase in license, permit, penalty, and inspection fees.

Background

The purpose of this initiative is to ensure that the Department of Labor and Industry (DLI) can fulfill its statutory mission set forth in M.S. Chapter 183 and M.S. Sections 326.46 to 326.521 to ensure the safety of boilers, pressure vessels, hobby boilers, boats-for-hire, and high-pressure-piping (HPP) in use throughout the state. DLI is unable to fulfill its statutory mission given its current resources. This initiative arose from the following challenges faced by DLI:

Boiler and pressure vessel inspections – One out of five active, registered boilers and pressure vessels were at least 30 days past due for inspection at the end of FY 2004, and nearly three quarters (72.8%) of those 18,155 vessels were more than six months past due for inspection.
Registered and inspected boilers and pressure vessels – An estimated 3,950 to 7,900 boilers and pressure vessels – 5 to 10% of active, registered vessels – are not registered and inspected as required by M.S. 183.38, with most of these vessels located in the Minneapolis and Saint Paul metropolitan area.
Code compliance – Compliance with the applicable boiler and HPP license and inspection laws relies heavily on voluntary compliance by regulated parties. Several incidents during FY 2003 and 2004 indicate a need for a more proactive, preventive approach focused on improving the quality of inspections, code knowledge, boiler operations, and corrective action compliance.
Enforcement – Enforcement of Minnesota's boiler and HPP license and inspection laws is inadequate. DLI does not have the financial and human resources needed to seal or compel an inspection of a boiler or pressure vessel, as directed in statute, or compel compliance with the HPP code.
Triennial audits – DLI provided a quality assurance service to about 75 private-sector firms that fabricate or repair boilers and pressure vessels until 7-1-02. These firms are certified by the American Society of Mechanical Engineers (ASME) as acceptable for fabricating or constructing boilers, or certified by the National Board of Boiler and Pressure Vessel Inspectors (National Board) to repair boilers and pressure vessels. Subjecting its quality assurance processes to a triennial audit of compliance certifies a firm. DLI ceased these triennial audits in July 2002 when this service was suspended to focus limited, available resources on statutorily mandated activities. The result has been increased audit costs for the fabricators and repair firms. Over the long-term, this will adversely affect the depth and breadth of DLI's knowledge and understanding of the ASME Boiler and Pressure Vessel Code. This knowledge is central to Minnesota's regulation of boilers and pressure vessels.
HPP compliance and enforcement – Central to the HPP code is voluntary compliance and an effective inspection program. With three HPP inspectors, DLI provides minimum inspection coverage for the 266 annual permits and inadequate coverage at locations with HPP, but no permit.

This initiative would couple the state's recent investments in inspection technology with the human capital essential for conducting inspections and enforcing the boiler and high-pressure-piping codes. DLI would hire two new boiler inspectors, one new HPP inspector, and one administrative support employee. Specific changes that would result from these hires would be a significant increase in boiler and pressure-vessel inspections, a decrease in the inspection past-due rate, an increase in the number of boilers and pressure vessels identified and added to the inspection database, reinstatement of the ASME/NB Triennial Audit Program, and improved enforcement of the boiler and HPP code. Qualified, capable people must conduct inspections. There is no substitute.

The 2003 legislature instituted a temporary surcharge of $5 on boiler licenses and inspections. This surcharge and related appropriation is scheduled to expire 6-30-05. Under this request, the surcharge would become a permanent source of revenue for the state. In addition, DLI proposes increasing the HPP license and permit fees to fund the additional HPP inspector.

This initiative will enable DLI to assess penalties to owners of boilers and pressure vessels who do not obtain the inspections required by law, and to insurers for failure to conduct inspections and file required information with DLI in a timely manner.

In addition to improving code enforcement, this initiative would improve the validity, reliability, and availability of DLI occupational license exams by contracting with a third party, expert in occupational testing, to develop and administer valid, reliable exams. Another objective is to make license exams available more frequently throughout the state, in contrast to the limited exam schedule currently in place. The revenue estimates assume a decrease in revenue from licensing exams, which is more than offset by an increase in inspection revenue.

Relationship to Base Budget

This change represents a 21% increase to the Code Administration and Inspection Services unit's base operating budget. It represents a 36% increase in fee revenue.

Key Measures

Percentage of registered, active boilers and pressure vessels more than 90 days past due for inspection will decline. Number of boilers and pressure vessels added to the DLI boiler and pressure-vessel database will increase. Violation rates for code compliance, license compliance, and permit/registration compliance will decrease. Number of enforcement actions commenced by DLI will increase. ASME/NB triennial audit activities will be resumed. Percentage of HPP locations subject to a survey inspection (no permit) will increase.

Alternatives Considered

No change to base funding level. This alternative would keep the boiler and pressure vessel past-due inspection rate at about 20 to 25% and generally hinder DLI's efforts to ensure compliance with the boiler and HPP laws.

Statutory Change

This initiative would require amendments to M.S. Chapter 183 to reflect the increased license, permit, penalty, and inspection fees.

PAGE

BMS

BUREAU OF MEDIATION SERVICES

State of Minnesota

January 25, 2005

To the 2005 Minnesota Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Bureau of Mediation Service's budget recommendation for the FY 2006-07 budget. This budget includes a total of $3,546,000 in expenditures from the state's General Fund.

With this budget recommendation, we will be able to maintain our commitment to delivering quality services to state agencies and to the public. The proposed budget will support our statutory and core functions, which include:

- Assisting parties in resolving collective bargaining disputes.
- Resolving questions of labor union representation and bargaining unit structure.
- Supporting, training and facilitating joint labor management committees.
- Providing technical training.
- Developing and maintaining a roster of labor arbitrators.
- Promoting the use of alternative dispute resolution and mediation programs by state agencies for non-labor disputes.

The need for the labor-management cooperative efforts and services that the Bureau provides has increased in many areas as the complexity of labor-management issues has grown.

This budget recommendation will assist us in accomplishing our mission of promoting stable and constructive labor-management relations throughout the state.

I would appreciate your support and consideration of this budget request. Please feel free to contact me if you have any questions, or if there is any other information that I can provide.

Sincerely,

James A. Cunningham, Jr.
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	1,773	1,773	1,773	1,773	3,546
Recommended	**1,773**	**1,773**	**1,773**	**1,773**	**3,546**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
General	1,865	1,794	1,773	1,773	3,546
Statutory Appropriations					
Special Revenue	3	3	3	3	6
Total	**1,868**	**1,797**	**1,776**	**1,776**	**3,552**
Expenditures by Category					
Total Compensation	1,433	1,404	1,392	1,392	2,784
Other Operating Expenses	338	290	284	284	568
Local Assistance	97	103	100	100	200
Total	**1,868**	**1,797**	**1,776**	**1,776**	**3,552**
Expenditures by Program					
Mediation Services	1,868	1,797	1,776	1,776	3,552
Total	**1,868**	**1,797**	**1,776**	**1,776**	**3,552**
Full-Time Equivalents (FTE)	**17.0**	**17.0**	**17.0**	**17.0**	

Metropolitan Council

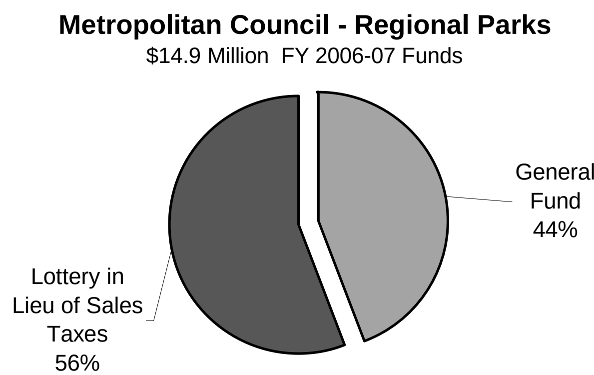
January 25, 2005

To the 2005 Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Metropolitan Council's recommendation for regional parks operating and maintenance funding for the FY 2006-07 budget.

This budget consists of $8.3 million from Lottery in Lieu of Sales Tax revenues, and $6.6 million from the state General Fund.

The Twin Cities regional park system consists of 52,000 acres, of which 21,000 have been acquired with State and Metropolitan Council funds. In 2003, there were over 30.5 million visits. Forty percent of those visits are by persons residing outside the jurisdiction of the ten local agencies that own and operate the park system. Those agencies are Anoka, Carver, Dakota, Ramsey, Scott and Washington Counties; the cities of Bloomington and St. Paul; the Minneapolis Park & Recreation Board; and Three Rivers Park District.



The Metropolitan Council distributes State appropriations to supplement local property taxes and user fees to operate and maintain the regional parks in the metropolitan area. In SFY 2004 and 2005, these funds provided about 10% of the total operating and maintenance costs of these regional assets.

In the 2004/2005 biennium, this appropriation was handled through the DNR budget. To streamline operations, this appropriation is being made directly to the Metropolitan Council in the 2006/2007 biennium.

We look forward to working with the legislature in the coming months.

Sincerely,

Peter Bell

Peter Bell
Chair, Metropolitan Council

Dollars in Thousands	Current		Governor Recomm.		Biennium
	FY2004	**FY2005**	**FY2006**	**FY2007**	**2006-07**
Direct Appropriations by Fund					
General					
Current Appropriation	0	0	0	0	0
Recommended	**0**	**0**	**3,300**	**3,300**	**6,600**
Change		0	3,300	3,300	6,600
% Biennial Change from 2004-05					n.m.
Natural Resources					
Current Appropriation	0	0	0	0	0
Recommended	**0**	**0**	**4,152**	**4,152**	**8,304**
Change		0	4,152	4,152	8,304
% Biennial Change from 2004-05					n.m.
Expenditures by Fund					
Direct Appropriations					
General	0	0	3,300	3,300	6,600
Natural Resources	0	0	4,152	4,152	8,304
Total	**0**	**0**	**7,452**	**7,452**	**14,904**
Expenditures by Category					
Local Assistance	0	0	7,452	7,452	14,904
Total	**0**	**0**	**7,452**	**7,452**	**14,904**
Expenditures by Program					
Metro Parks	0	0	7,452	7,452	14,904
Total	**0**	**0**	**7,452**	**7,452**	**14,904**

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	**0**	**0**	**0**	**0**
Technical Adjustments				
Transfers Between Agencies		3,300	3,300	6,600
Subtotal - Forecast Base	**0**	**3,300**	**3,300**	**6,600**
Total Governor's Recommendations	**0**	**3,300**	**3,300**	**6,600**
Fund: NATURAL RESOURCES				
FY 2005 Appropriations	**0**	**0**	**0**	**0**
Technical Adjustments				
Transfers Between Agencies		4,152	4,152	8,304
Subtotal - Forecast Base	**0**	**4,152**	**4,152**	**8,304**
Total Governor's Recommendations	**0**	**4,152**	**4,152**	**8,304**

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Minnesota Department of Natural Resources

OFFICE OF THE COMMISSIONER
500 Lafayette Road
St. Paul, Minnesota 55155-4037

January 25, 2005

To the 2005 Minnesota Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Governor's recommended FY 2006 - 07 biennial budget for the Department of Natural Resources (DNR). The recommended request is $636,254,000. The recommended budget includes a General Fund reduction of $11,634,000 to include both direct and open appropriations.

The DNR recommended budget consists of a variety of funds. Funds include: General Fund (33%), Game and Fish Fund (29%), Natural Resources Fund (20%), Special Revenue (6%), and Federal (5.6%). These funds are not evenly distributed to DNR programs. Some programs are almost entirely General Fund (Lands and Minerals, Waters and Forestry) and others are almost entirely dedicated funds (Fish and Wildlife and Trails and Waterways).

In the budget process, the Governor asked agencies to develop "priority based budgets" focused on their missions. The mission of DNR is to work with the citizens to conserve our natural resource heritage and to provide for sustainable recreation and economic opportunities. As our management team approached General Fund spending, priority was given to the conservation of natural resources.

This "Conservation First" approach is followed in priority by critical needs for sustainable commercial and recreational use of natural resources. The DNR goal is to conserve a solid natural resource base upon which economic and recreational activities might take place.

The Governor's recommended FY 2006 - 07 biennial budget request will allow DNR to carryout the following activities:

1. Division of Lands and Minerals will lease lands for exploration and mining, regulate mineral exploration, conduct essential mineral research as well as oversee DNR land transactions.

2. Division of Waters will guide and regulate the physical integrity of Minnesota's lakes, rivers and water supplies.

3. Division of Forestry will sustain Minnesota forest ecosystems, provide a sustainable supply of forest resources and protect lives and property from wildfires.

4. Division of Parks and Recreation will provide open access to all state parks, including park and forest campgrounds, and conserve Minnesota's natural and cultural resources.

5. Division of Trails and Waterways will provide a system of trails and water recreation facilities.

6. Division of Fish and Wildlife will protect and manage aquatic resources and associated fish communities for their ecological, commercial and recreational values. They will conserve, manage and enhance wildlife populations and their habitats with an emphasis on maintaining Minnesota's hunting and trapping heritage.

7. Division of Ecological Services will collect and link ecological data and manage fish, wildlife and native plant populations and their habitats.

8. Division of Enforcement will provide natural resource protection and public safety through information, education and law enforcement services.

9. Operations Support (e.g., Facilities, Equipment, Financial, Human Resources, Information Systems, Information and Education and the Commissioner's Office) will provide essential support services.

Over the past twenty-two months, the DNR management team has spent considerable time examining and changing the DNR spending patterns. We have made changes to enhance efficiency and allow more dollars to be used in field-based programs.

The recommended budget includes increased appropriations from dedicated funds where additional effort is needed and fund balances allow. This has been done with particular attention to ensuring the dedicated funds are being spent only for the purposes for which they were received. There are recommendations that move some dedicated fund spending from direct appropriations to statutory. This would allow more timely and effective spending of dedicated dollars.

In the area of open appropriations, the Governor is recommending that funding made available for payment in-lieu of taxes be held constant at the projected FY 2006 level (estimated at approximately $13,000,000). The Governor believes that this is a vital program, but in FY 2007 there is a projected increase of $3,000,000. This would be a 23% increase over FY 2006. He has requested that funding be held at the FY 2006 level.

As you review the Governor's recommendations, I look forward to working with you.

Sincerely,

Gene Merriam
Commissioner

	Dollars in Thousands				
	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
Environment & Natural Resource					
Current Appropriation	12,610	12,861	12,861	12,861	25,722
Recommended	**12,610**	**12,861**	**14,981**	**14,982**	**29,963**
Change		0	2,120	2,121	4,241
% Biennial Change from 2004-05					17.6%
General					
Current Appropriation	91,817	85,977	85,977	85,977	171,954
Recommended	**91,817**	**85,977**	**74,761**	**74,761**	**149,522**
Change		0	(11,216)	(11,216)	(22,432)
% Biennial Change from 2004-05					-15.9%
Natural Resources					
Current Appropriation	54,387	55,762	55,762	55,762	111,524
Recommended	**54,387**	**55,762**	**50,958**	**49,402**	**100,360**
Change		0	(4,804)	(6,360)	(11,164)
% Biennial Change from 2004-05					-8.9%
Game And Fish					
Current Appropriation	82,350	82,292	82,292	82,292	164,584
Recommended	**82,350**	**82,292**	**79,911**	**82,058**	**161,969**
Change		0	(2,381)	(234)	(2,615)
% Biennial Change from 2004-05					-1.6%
Remediation					
Current Appropriation	100	100	100	100	200
Recommended	**100**	**100**	**100**	**100**	**200**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Permanent School					
Current Appropriation	0	0	0	0	0
Recommended	**0**	**0**	**350**	**350**	**700**
Change		0	350	350	700
% Biennial Change from 2004-05					n.m.

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Expenditures by Fund					
Direct Appropriations					
Environment & Natural Resource	16,436	16,657	14,981	14,982	29,963
General	89,010	92,134	74,761	74,761	149,522
Minnesota Resources	1,662	1,407	0	0	0
Natural Resources	46,204	65,246	50,958	49,402	100,360
Game And Fish	73,610	91,052	79,911	82,058	161,969
Remediation	59	141	100	100	200
Permanent School	0	0	350	350	700
Open Appropriations					
General	17,355	17,482	30,129	29,419	59,548
Natural Resources	176	254	434	333	767
Game And Fish	725	818	812	807	1,619
Statutory Appropriations					
General	2	382	22	0	22
Natural Resources	2,223	4,681	12,654	12,647	25,301
Special Revenue	20,292	21,895	19,284	19,184	38,468
Game And Fish	2,823	3,810	10,735	10,585	21,320
Federal	13,967	20,593	18,222	17,169	35,391
Remediation	37	3,000	2,000	1,169	3,169
Reinvest In Minnesota	2,060	2,860	2,441	2,441	4,882
Miscellaneous Agency	99	60	45	45	90
Gift	1,510	2,626	1,463	1,462	2,925
Permanent School	3	537	19	19	38
Total	**288,253**	**345,635**	**319,321**	**316,933**	**636,254**
Expenditures by Category					
Total Compensation	154,904	160,310	153,128	154,653	307,781
Other Operating Expenses	68,099	103,914	90,297	90,014	180,311
Capital Outlay & Real Property	15,321	24,068	16,712	15,654	32,366
Payments To Individuals	3	0	0	0	0
Local Assistance	47,966	55,736	45,023	43,223	88,246
Other Financial Transactions	1,960	1,582	767	1	768
Transfers	0	25	13,394	13,388	26,782
Total	**288,253**	**345,635**	**319,321**	**316,933**	**636,254**
Expenditures by Program					
Land & Minerals Resource Mgmt	8,181	10,102	23,607	23,542	47,149
Water Resources Mgmt	14,016	14,900	14,172	13,023	27,195
Forest Management	58,700	66,953	61,832	61,411	123,243
Parks & Recreation Mgmt	41,728	44,635	38,668	38,756	77,424
Trails & Waterways Mgmt	26,197	35,270	29,069	28,870	57,939
Fish & Wildlife Management	67,687	81,983	79,521	80,853	160,374
Ecological Services	11,416	20,046	16,762	15,921	32,683
Enforcement Nr Laws&Rules	24,395	33,272	30,180	30,702	60,882
Operations Support	35,933	38,474	25,510	23,855	49,365
Total	**288,253**	**345,635**	**319,321**	**316,933**	**636,254**
Full-Time Equivalents (FTE)	**2,510.2**	**2,530.9**	**2,399.5**	**2,358.9**	

		Dollars in Thousands		
		Governor's Recomm.		**Biennium**
	FY2005	**FY2006**	**FY2007**	**2006-07**
Fund: ENVIRONMENT & NATURAL RESOURCE				
FY 2005 Appropriations	**12,861**	**12,861**	**12,861**	**25,722**
Technical Adjustments				
One-time Appropriations		(12,861)	(12,861)	(25,722)
Subtotal - Forecast Base	**12,861**	**0**	**0**	**0**
Change Items				
LCMR Projects	0	14,981	14,982	29,963
Total Governor's Recommendations	**12,861**	**14,981**	**14,982**	**29,963**
Fund: GENERAL				
FY 2005 Appropriations	**85,977**	**85,977**	**85,977**	**171,954**
Technical Adjustments				
Approved Transfer Between Appr		0	0	0
One-time Appropriations		(39)	(39)	(78)
Transfers Between Agencies		(3,300)	(3,300)	(6,600)
Subtotal - Forecast Base	**85,977**	**82,638**	**82,638**	**165,276**
Change Items				
General Fund Reduction Plan	0	(3,171)	(3,171)	(6,342)
Minerals Management Fee	0	(1,526)	(1,526)	(3,052)
Road Easement Application Fee	0	(20)	(20)	(40)
Surcharge on Summer Water Use	0	330	330	660
Trust Land Management Costs	0	(3,500)	(3,500)	(7,000)
Water Permit Fee Increases	0	10	10	20
Total Governor's Recommendations	**85,977**	**74,761**	**74,761**	**149,522**
Fund: NATURAL RESOURCES				
FY 2005 Appropriations	**55,762**	**55,762**	**55,762**	**111,524**
Technical Adjustments				
Approved Transfer Between Appr		0	0	0
One-time Appropriations		(1,489)	(1,489)	(2,978)
Transfers Between Agencies		(4,152)	(4,152)	(8,304)
Subtotal - Forecast Base	**55,762**	**50,121**	**50,121**	**100,242**
Change Items				
All Terrain Vehicle (ATV) Gas Tax Study	0	75	0	75
Fishing Pier Adjustments	0	(154)	(154)	(308)
LCMR Projects	0	1,600	0	1,600
Lottery in-Lieu Sales Tax	0	1,637	1,756	3,393
Minerals Management Fee	0	1,946	1,946	3,892
Nongame Wildlife Educ, Info, & Promotion	0	100	100	200
Off-Highway Vehicle Funding Levels	0	100	100	200
Statutory Appropriation for Parks	0	(8,971)	(8,971)	(17,942)
Trust Land Management Costs	0	3,500	3,500	7,000
Water Recreation Funding Levels	0	1,004	1,004	2,008
Total Governor's Recommendations	**55,762**	**50,958**	**49,402**	**100,360**
Fund: GAME AND FISH				
FY 2005 Appropriations	**82,292**	**82,292**	**82,292**	**164,584**
Technical Adjustments				
Approved Transfer Between Appr		0	0	0
One-time Appropriations		(242)	(242)	(484)
Subtotal - Forecast Base	**82,292**	**82,050**	**82,050**	**164,100**
Change Items				

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Comprehensive Lakes Management	0	85	85	170
Fishing Pier Adjustments	0	154	154	308
Heritage Enhancement	0	325	325	650
Maintenance of Service - Game and Fish	0	2,065	4,213	6,278
Prairie Wetland Complexes and Monitoring	0	925	925	1,850
Red Lake Fisheries Management	0	100	100	200
Shoreland Habitat Management Program	0	200	200	400
Special Mgt. Species - Sturgeon Tagging	0	25	28	53
Statutory Approp. - Fish and Wildlife	0	(6,135)	(6,135)	(12,270)
Stream Restoration	0	64	64	128
Wallop-Breaux Water Access Funding	0	253	249	502
Water Recreation Funding Levels	0	(200)	(200)	(400)
Total Governor's Recommendations	**82,292**	**79,911**	**82,058**	**161,969**
Fund: REMEDIATION				
FY 2005 Appropriations	**100**	**100**	**100**	**200**
Subtotal - Forecast Base	**100**	**100**	**100**	**200**
Total Governor's Recommendations	**100**	**100**	**100**	**200**
Fund: PERMANENT SCHOOL				
FY 2005 Appropriations	**0**	**0**	**0**	**0**
Subtotal - Forecast Base	**0**	**0**	**0**	**0**
Change Items				
Aggregate Inventory on School Trust Land	0	50	50	100
Revenue Enhancements on School Lands	0	300	300	600
Total Governor's Recommendations	**0**	**350**	**350**	**700**
Fund: GENERAL				
Planned Open Spending	**17,482**	**30,892**	**33,948**	**64,840**
Change Items				
General Fund Reduction Plan	0	(763)	(4,529)	(5,292)
Total Governor's Recommendations	**17,482**	**30,129**	**29,419**	**59,548**
Fund: NATURAL RESOURCES				
Planned Open Spending	**254**	**434**	**333**	**767**
Total Governor's Recommendations	**254**	**434**	**333**	**767**
Fund: GAME AND FISH				
Planned Open Spending	**818**	**812**	**807**	**1,619**
Total Governor's Recommendations	**818**	**812**	**807**	**1,619**
Fund: GENERAL				
Planned Statutory Spending	**382**	**22**	**0**	**22**
Total Governor's Recommendations	**382**	**22**	**0**	**22**
Fund: NATURAL RESOURCES				
Planned Statutory Spending	**4,681**	**2,943**	**2,936**	**5,879**
Change Items				
Cross-Country Ski Pass Fee Increase	0	140	140	280
Electronic Open Burning Permits	0	80	80	160
Road Easement Application Fee	0	20	20	40
Sale of Tax-forfeited Riparian Lands	0	500	500	1,000
Statutory Appropriation for Parks	0	8,971	8,971	17,942
Total Governor's Recommendations	**4,681**	**12,654**	**12,647**	**25,301**
Fund: SPECIAL REVENUE				

	FY2005	Governor's Recomm. FY2006	Governor's Recomm. FY2007	Biennium 2006-07
		Dollars in Thousands		
Planned Statutory Spending	**21,895**	**19,034**	**18,934**	**37,968**
Change Items				
State Forest Nursery Stock Surcharge	0	250	250	500
Total Governor's Recommendations	**21,895**	**19,284**	**19,184**	**38,468**
Fund: GAME AND FISH				
Planned Statutory Spending	**3,810**	**2,622**	**2,622**	**5,244**
Change Items				
License Center - Full Funding ELS Costs	0	75	75	150
Statewide Electronic Registration	0	312	312	624
Statutory Approp. - Fish and Wildlife	0	7,726	7,576	15,302
Total Governor's Recommendations	**3,810**	**10,735**	**10,585**	**21,320**
Fund: FEDERAL				
Planned Statutory Spending	**20,593**	**18,222**	**17,169**	**35,391**
Total Governor's Recommendations	**20,593**	**18,222**	**17,169**	**35,391**
Fund: REMEDIATION				
Planned Statutory Spending	**3,000**	**2,000**	**1,169**	**3,169**
Total Governor's Recommendations	**3,000**	**2,000**	**1,169**	**3,169**
Fund: REINVEST IN MINNESOTA				
Planned Statutory Spending	**2,860**	**2,330**	**2,330**	**4,660**
Change Items				
Critical Habitat License Plate Sales	0	111	111	222
Total Governor's Recommendations	**2,860**	**2,441**	**2,441**	**4,882**
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	**60**	**45**	**45**	**90**
Total Governor's Recommendations	**60**	**45**	**45**	**90**
Fund: GIFT				
Planned Statutory Spending	**2,626**	**1,463**	**1,462**	**2,925**
Total Governor's Recommendations	**2,626**	**1,463**	**1,462**	**2,925**
Fund: PERMANENT SCHOOL				
Planned Statutory Spending	**537**	**19**	**19**	**38**
Total Governor's Recommendations	**537**	**19**	**19**	**38**
<u>Revenue Change Items</u>				
Fund: GENERAL				
Change Items				
Administrative Penalty Order (APO)	0	2	5	7
Minerals Management Fee	0	(137)	(112)	(249)
Surcharge on Summer Water Use	0	330	330	660
Trust Land Management Costs	0	(3,500)	(3,500)	(7,000)
Water Permit Fee Increases	0	261	261	522
Fund: NATURAL RESOURCES				
Change Items				
Cross-Country Ski Pass Fee Increase	0	140	140	280
Electronic Open Burning Permits	0	80	80	160
Fee Increase - Special Fuelwood Permits	0	2	2	4
Minerals Management Fee	0	3,112	3,644	6,756
Road Easement Application Fee	0	20	20	40
Sale of Tax-forfeited Riparian Lands	0	500	500	1,000

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Trust Land Management Costs	0	3,500	3,500	7,000
Fund: SPECIAL REVENUE				
Change Items				
Fee Increase - Special Fuelwood Permits	0	1	1	2
State Forest Nursery Stock Surcharge	0	250	250	500
Fund: GAME AND FISH				
Change Items				
Special Mgt. Species - Sturgeon Tagging	0	25	28	53
Fund: REINVEST IN MINNESOTA				
Change Items				
Critical Habitat License Plate Sales	0	111	111	222
Fund: MISCELLANEOUS AGENCY				
Change Items				
Minerals Management Fee	0	(1,134)	(1,389)	(2,523)
Fund: PERMANENT SCHOOL				
Change Items				
Fee Increase - Special Fuelwood Permits	0	3	3	6
Minerals Management Fee	0	(1,841)	(2,143)	(3,984)
Revenue Enhancements on School Lands	0	0	200	200

Change Item: General Fund Reduction Plan

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($3,934)	($7,700)	($8,100)	($8525)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($3,934)	($7,700)	($8,100)	($8,525)

Recommendation
The Governor recommends General Fund expenditure reductions of $3.934 million in FY 2006 and $7.700 million FY 2007 from current level funding.

Background
In the budget process, the Governor asked agencies to develop “priority based budgets” focused on their missions. The mission of DNR is to work with the citizens to conserve our natural resource heritage and to provide for sustainable recreation and economic opportunities. As the DNR management team approached General Fund spending, priority was given to the conservation of our natural resources.

This “Conservation First” approach is followed in priority by critical needs for sustainable commercial and recreational use of natural resources. The DNR goal is to conserve a solid natural resource base upon which economic and recreational activities might take place.

The DNR General Fund expenditure reduction plan by program is as follows:

	FY 2006 ($ in thousands)	FY 2007 ($ in thousands)
Direct Appropriations		
Waters	(52)	(52)
Forestry	(1,187)	(1,187)
Fish and Wildlife	(109)	(109)
Ecological Services	(31)	(31)
Enforcement	(641)	(641)
Operations Support	(1,151)	(1,151)
Total Reduction to Direct Appropriations	($3,171)	($3,171)
Open Appropriations		
Lands and Minerals	0	(3,000)
Forestry	(763)	(1,529)
Total Reduction to Open Appropriations	(763)	(4,529)
TOTAL AGENCY REDUCTION	($3,934)	(7,700)

Direct Appropriations

Administrative Efficiency
The change item reflects that DNR is making changes to enhance its administrative efficiency and increase program accountability. Reductions are proposed to historical spending levels in the areas of attorney fees, departmental fleet expenditures and office space operations. The reduction to attorney fees reflects an ongoing effort to resolve issues through early intervention, education, mediation and negotiation. DNR fleet expenditures have been reduced by 10% and further gains are expected. The DNR is developing an office facilities master plan to enhance both efficiency and effectiveness. Focusing on these administrative efficiencies allows spending reductions without impact to field-based programs.

The paragraphs below identify the specific program results of the General Fund expenditures:

Change Item: General Fund Reduction Plan

The paragraphs below identify the specific program results of the General Fund expenditures:

Lands and Minerals will lease lands for exploration and mining, regulate mineral exploration, conduct essential mineral research and oversee DNR land transactions.

Waters will guide and regulate the physical integrity of Minnesota's lakes, rivers and water supplies.

Forestry will sustain Minnesota forest ecosystems, provide a sustainable supply of forest resources, and protect lives and property from wildfires. The U.S. Forest Service is taking over the lead in wildfire response in northeast blow-down area, eliminating the need for one helicopter contract for wild fire response. This accounts for part of the reduction. In addition, reductions in its cooperative forest management activity means professionally-prepared stewardship plans will not be completed on 10,000 acres of private forestlands, and forestry assistance will no longer be provided to some local communities.

Parks and Recreation will provide access to state parks, including park and forest campgrounds, and preserves Minnesota's natural and cultural resources.

Trails and Waterways will provide a system of trails (both motorized and non-motorized) and water recreation facilities (to include water access sites, safe harbors, canoe and boating routes and fishing piers).

Fish and Wildlife will protect and manage aquatic resources and associated fish communities for their ecological, commercial, and recreational benefits; conserve, manage, and enhance wildlife populations and their habitats, with an emphasis on maintaining Minnesota's hunting and trapping heritage; and license hunters and anglers through a network of agents as well as through a central location.

Ecological Services will collect and link ecological data in the management of fish, wildlife, and native plant populations and their habitats.

Enforcement will provide natural resource protection and public safety through training, information, education and law enforcement services. Spending on the program's recruitment effort will be curtailed as officers, supervisors and managers integrate recruiting into their participation in community events. Officers will decrease their response to calls where coverage overlaps with other law enforcement agencies, specifically, in areas involving response to hazardous material and controlled substance situations and to citizen complaints on nuisance wildlife.

Operations Support will provide essential support services to the entire agency. Services will include facilities planning and management; purchasing and asset management; financial management; human resources; information systems; information and education; and the commissioner's office. Of the total reduction to Operations Support, $600,000 previously funded the DNR's maintenance shop operations. The full cost of running the maintenance shops is now included in the DNR's fleet rate. Reductions in Regional Operations will limit multi-disciplinary projects and other community-based projects, and lessen the DNR assistance to local governments on development and land use issues.

Open Appropriations

Land and Minerals receives an annual open appropriation for PILT (payment in lieu of taxes), calculated by formula and paid to counties for each acre of state-owned land in their jurisdiction. Under current law, counties make an inflationary adjustment once every five years. This change item recognizes the ongoing importance of PILT, but holds funding levels at the amount projected for payment in FY 2006. Without this change item, the PILT payment for FY 2007 was projected to increase by 23%. This change item assumes a re-examination of the statutory provisions that allow inflationary adjustments to be made to the land market values upon which PILT is calculated.

Forestry will reduce its debt service obligation. Debt service payments for the two CL-215 air tankers will end in FY 2006, eliminating a payment of $763,000 in FY 2006 and $1.529 million in FY 2007 from the General

Fund direct appropriation for Forest Management. Without this debt service expense, Forestry will be able to use direct appropriated funds for firefighting expenses and decrease the amount needed from the General Fund open appropriation for firefighting.

Relationship to Base Budget

An expenditure reduction of $3.934 million in FY 2006 is a 3.4% decrease from the General Fund direct and open appropriations of $113.552 million. A reduction of $7.7 million in FY 2007 is a 6.6% decrease from General Fund direct and open appropriation funding of $116.586 million.

Key Measures

The DNR has in place its “Strategic Conservation Agenda” that describes priorities and measures progress. It uses 75 measurable indicators and targets to paint a picture of natural resource conditions, DNR activities and the expected results. The agenda will be updated on a regular basis as progress is made toward existing targets. New indicators and targets will be added.

Alternatives Considered

In preparing its General Fund reduction proposal, the DNR has reviewed its operating priorities. The expenditure reductions detailed in this change item fall in the lower priority rankings.

Statutory Change:

This change item requires amendments to the following statutes:

M.S. 477A.12, subdivisions 1 and 3
M.S. 477A.145

Change Item: Heritage Enhancement

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Game and Fish – Heritage				
Expenditures	$325	$325	$325	$325
Revenues	0	0	0	0
Net Fiscal Impact	$325	$325	$325	$325

Recommendation

The Governor recommends appropriating $250,000 from the Heritage Enhancement Account in the Game and Fish Fund to the Forest Management Program in FY 2006 and FY 2007 for continued development and application of DNR's Ecological Classification System (ECS). These appropriations fund the second phase in field level implementation of the ECS.

The Governor also recommends an appropriation of $75,000 from the Heritage Enhancement Account to the Fish and Wildlife Management Program in FY 2006 and FY 2007 to manage the gray wolf population in Minnesota. This funding allows the DNR to prepare for delisting the gray wolf from the Endangered Species Act, as proposed by the U.S. Fish and Wildlife Service.

Background

Forestry Management

Implementing the Ecological Classification System (ECS) was funded in its first phase with appropriations in the FY 2004-05 biennium. DNR completed the field guide for the Laurentian Mixed Forest Province and provided training to DNR staff working in this region.

Funding from the requested appropriations in FY 2006-07 will allow the Division of Forestry to continue this effort and complete the field guide for the Eastern Broadleaf Province. Continuing the development and application of ECS tools is critical to adding value to traditional forest inventory efforts by using native plant community classifications that more effectively address wildlife habitat, biodiversity, and forest production issues. The native plant community field guides will help field managers make better management decisions by identifying specific site capabilities for producing valued forest products, wildlife habitat, and other natural resource values.

Wolf Delisting and Management

In July 2004 the U.S. Fish and Wildlife Service proposed delisting the eastern distinct population of the gray wolf from the Endangered Species Act. The DNR will take on new responsibilities as the delisting process begins and management authority reverts to the state. The additional funding under this change item allows the DNR to start work now in preparation for the delisting process.

In anticipation of delisting, the *Minnesota Wolf Management Plan (February 2001)* was prepared by DNR in consultation with the Minnesota Department of Agriculture. The management plan can be found on the DNR Web site at http://files.dnr.state.mn.us/natural_resources/animals/mammals/wolves/wolfplan2000.pdf The plan was developed by holding public information meetings, convening a wolf management roundtable to develop consensus recommendations, and by utilizing the wealth of biological, sociological, cultural, and economic data, reports and experience available to the DNR.

The wolf management plan details staffing needs including a wolf specialist position to provide overall coordination of wolf management activities. This change item provides funding for the DNR wolf specialist position beginning in FY 2006 along with non-salary support costs. Other costs recommended in the wolf management plan will not be incurred until delisting is finalized.

Relationship to Base Budget

Forestry: this change item will increase the direct appropriations to the Forestry Management Program in FY 2006 by $250,000, which is less than 1% of direct appropriations to Forestry from all funding sources. This is the only appropriation requested to Forestry from the Game and Fish Fund.

Fish and Wildlife: this change item will annually increase the appropriations to the Fish and Wildlife Management Program by $75,000 for wolf delisting. This is less than a 1% increase in direct appropriations to Fish and Wildlife from the Game and Fish Fund.

Key Measures

Forestry - ECS implementation.
Funding in FY2006 and FY2007 will be used to:

- Complete the native plant community field guide for the Eastern Broadleaf Province of the DNR's ECS.
- Provide complete introductory field guide training to DNR staff and other field managers working within the Eastern Broadleaf Province.
- Complete statewide ECS silvicultural interpretations to complement the native plant community field guides. These interpretations are needed to help match the right forest management practices to the right sites and more effectively achieve forest product, wildlife habitat, and other natural resource values.
- Provide training to DNR field staff in the use of the ECS silvicultural interpretations.
- Map native plant communities and land types, and
- Begin identifying forest productivity by native plant community.

Fish and Wildlife – Wolf delisting. This change item will allow DNR to manage wolf populations as management authority reverts back to the state. Wolf management programs will include monitoring and management of wolf and prey populations and habitats, research on wolf populations, public information and education pertaining to wolves, coordination and support of wolf depredation management, and enforcement of wolf protection laws.

Alternatives Considered

Forestry – ECS implementation. Continued development and implementation of the ECS is important to a number of department programs. If additional funding is not provided from the Heritage Enhancement account to continue this effort, it would have to be funded from other Forest Management direct appropriations, resulting in decreased accomplishments in other priority activities.

Fish and Wildlife – Wolf delisting. Increased wolf management responsibilities are mandated by law. If additional funding is not appropriated, these responsibilities would have to be funded at the expense of other wildlife species and public/private habitat management programs.

Change Item: LCMR Projects

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Environmental Trust Fund				
Expenditures	$14,981	$14,982	0	0
Revenues	0	0	0	0
State LAWCON Fund				
Expenditures	1,600	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$16,581	$14,982	0	0

Recommendation

The projects recommended by the Legislative Commission on Minnesota Resources (LCMR) are displayed as part of the Department's Biennial Budget request. The Governor is not making specific recommendations on these projects.

Background

Contract Administration $150,000
For pass through project agreement administration activities assigned to the commissioner in this section.
Development of Scientific and Natural Areas $134,000
To develop and enhance lands designated as scientific and natural areas.
Prairie Stewardship of Private Lands $100,000
To develop stewardship plans and implement prairie management on private prairie lands on a cost share basis with private or federal funds.
Local Initiative Grants-Conservation Partners and Environmental Partnerships $500,000
To provide matching grants of up to $20,000 to local government and private organizations for enhancement, restoration, research, and education associated with natural habitat and environmental service projects.
Minnesota ReLeaf Community Forest Development and Protection $500,000
To protect forest resources, develop inventory-based management plans, and provide matching grants to communities to plant native trees. At least $390,000 of this appropriation must be used for grants to communities.
Biological Control of European Buckthorn and Garlic Mustard $200,000
To research potential insects for biological control of invasive European buckthorn species for the second biennium and to introduce and evaluate insects for biological control of garlic mustard
State Park and Recreation Area Land Acquisition $2,000,000
To acquire in-holdings for state park and recreation areas. Land acquired with this appropriation must be sufficiently improved to meet at least minimum management standards as determined by the commissioner of natural resources.
LAWCON Federal Reimbursements $1,600,000
For priorities established by the Commissioner for eligible state projects and administrative and planning activities consistent with M.S. 116P.14, and the federal Land and Water Conservation Fund Act.
State Park & Recreation Area Revenue-Enhancing Development $200,000
To enhance revenue generation in the state park and recreation system.
Gitchi-Gami State Trail $500,000
To design and construct approximately two miles of Gitchi-Gami state trail segments
Casey Jones State Trail $1,200,000
For land acquisition and development of the Casey Jones State Trail in southwest Minnesota.
Paul Bunyan State Trail Connection $400,000
To acquire land to connect the Paul Bunyan State Trail within the City of Bemidji.
Local Initiative Grants-Parks and Natural Areas $1,200,000
To provide matching grants to local governments for acquisition and development of natural and scenic areas and local parks as provided in M.S.85.019 Subds. 2 and 4a, and regional parks outside of the metropolitan area. Grants may provide up to 50% of the nonfederal share of the project cost, except non-metropolitan regional park grants may provide up to 60% of the nonfederal share of the project cost. Of this appropriation, $500,000 is for land acquisition for a proposed county regional park on Kraemer Lake in Stearns County.

Local and Regional Trail Grant Initiative Program $700,000
To provide matching grants to local units of government for the cost of acquisition, development, engineering services, and enhancement of existing and new trail facilities.
Development and Rehabilitation of Minnesota Shooting Ranges $300,000
To provide technical assistance and matching grants to local communities and recreational shooting and archery clubs for the purpose of developing or rehabilitating shooting and archery facilities for public use. Recipient facilities must be open to the general public at reasonable times and for a reasonable fee on a walk-in basis.
Minnesota County Biological Survey $1,000,000
To accelerate the survey that identifies significant natural areas and systematically collects and interprets data on the distribution and ecology of native plant communities, rare plants, and rare animals.
Completing Third-Party Certification of DNR Forest Lands $250,000
For third party assessment and certification of 4.47 million acres of DNR administered lands under forest sustainability standards established by two internationally recognized forest certification systems, the Forest Stewardship Council system and the Sustainable Forestry Initiative system.
Sustainable Management of Private Forest Lands $874,000
To develop stewardship plans for private forested lands, implement stewardship plans on a cost-share basis and for conservation easements matching federal funds.

Partial Pass Through Projects

Restoring Minnesota's Fish and Wildlife Habitat Corridors - Phase III $4,062,000
For direct expenditure by DNR and for agreements with Pheasants Forever, Minnesota Deer Hunters Association, Ducks Unlimited Inc., National Wild Turkey Federation, the Nature Conservancy, Minnesota Land Trust, the Trust for Public Land, Minnesota Valley National Wildlife Refuge Trust Inc., U.S. Fish and Wildlife Service, Red Lake Band of Chippewa, Leech Lake Band of Chippewa, Fond du Lac Band of Chippewa, and U.S.D.A. Natural Resources Conservation Service to plan, restore, and acquire fragmented landscape corridors that connect areas of quality habitat to sustain fish, wildlife, and plants. Expenditures are limited to 11 project areas as defined in the work program. Land acquired with this appropriation must be sufficiently improved to meet at least minimum habitat and facility management standards as determined by the commissioner of natural resources.
Metropolitan Area Wildlife Corridors – Phase II $3,530,000
For direct expenditure by DNR and for agreements with the Trust for Public Land, Ducks Unlimited Inc., Friends of the Mississippi River, Great River Greening, Minnesota Land Trust, Minnesota Valley National Wildlife Refuge Trust Inc., Pheasants Forever Inc., and Friends of the Minnesota Valley to plan, improve, and protect important natural areas in the metropolitan region, as defined by M.S. 473.121 Subd. 2, and portions of the surrounding counties through grants, contracted services, conservation easements, and fee acquisition. Land acquired with this appropriation must be sufficiently improved to meet at least minimum management standards as determined by the commissioner of natural resources.
Hydrology, Habitat and Energy Potential of Mine Lakes $500,000
For direct expenditure by DNR and for agreements with Architectural Resources Inc., Northeast Technical Services Inc., Minnesota Geological Survey, and University of Minnesota to coordinate an effort of the Central Iron Range Initiative establishing ultimate mine water elevations, outflows, and quality; designing optimum future mine land configurations for fish habitat and lakeshore development; and evaluating wind pumped hydropower potential and to assessing the geology and mine pit morphometry.

Pass Through Projects

Land Exchange Revolving Fund for Aitkin, Cass, and Crow Wing Counties $500,000
For an agreement with Aitkin County for a six-year revolving loan fund to improve public and private land ownership patterns, increase management efficiency, and protect critical habitat in Aitkin, Cass, and Crow Wing counties. By 6-30-11, Aitkin County shall repay the $500,000 to the Commissioner of Finance for deposit in the Environment and Natural Resources Trust Fund.
Best Management Practices for Parks and Outdoor Recreation $200,000
For an agreement with Minnesota Recreation and Park Association to develop and evaluate opportunities to more efficiently manage Minnesota's parks and outdoor recreation areas.

Metropolitan Regional Parks Acquisition, Rehabilitation, and Development $2,000,000
For an agreement with Metropolitan Council for sub-grants for the acquisition, development, and rehabilitation in the metropolitan regional park system, consistent with the metropolitan council regional recreation open space capital improvement plan.
Minnesota River Trail Planning $200,000
For an agreement with University of Minnesota to provide trail planning assistance to three communities along the Minnesota River state trail.
Regional Park Planning for Nonmetropolitan Urban Areas $86,000
For an agreement with University of Minnesota to develop a plan for a system of regional recreation areas for major out-state urban complexes in Minnesota.
Mesabi Trail $1,000,000
For an agreement with St. Louis and Lake Counties Regional Rail to acquire and develop segments of the Mesabi Trail.
Cannon Valley Trail Belle Creek Bridge Replacement $300,000
For an agreement with Cannon Valley Trail Joint Powers Board for replacement of the Belle Creek bridge on the Cannon Valley Trail. This appropriation must be matched by at least $44,000 of non-state funds.
Arrowhead Regional Bike Trail Connections Plan $83,000
For an agreement with Arrowhead Regional Development to analyze the Arrowhead's major bike trails and plan new trail connections
Birding Maps $100,000
For an agreement with Audubon Minnesota to create a new birding trail guide for the North Shore/Arrowhead region and reprint and distribute guides for three existing birding trails.
Recycling Treated Municipal Wastewater for Industrial Water Use $300,000
For an agreement with Metropolitan Council to determine the feasibility of recycling treated municipal wastewater for industrial use, characterize industrial water demand and quality, and determine the costs to treat municipal wastewater to meet specific industrial needs.
Green Roof Cost Share and Monitoring $350,000
For an agreement with Ramsey Conservation District to install green, vegetated roofs on four commercial or industrial buildings in Roseville and Falcon Heights and to monitor their effectiveness for storm water management, flood reduction, water quality, and energy efficiency. The cost of the installations must be matched by at least 50% non-state money.
Woodchip Biofilter Treatment of Feedlot Runoff $270,000
For an agreement with Stearns County Soil & Water Conservation District and the University of Minnesota to treat feedlot runoff with woodchip bio-filters to remove pollutants and assess improvements to surface water quality.
Improving Water Quality on the Central Sands $587,000
For an agreement with University of Minnesota and the Central Lakes College Agricultural Center to reduce nitrate and phosphorus losses to groundwater and surface waters of sandy eco-regions through the development, promotion, and adoption of new farming and land management practices and techniques.
Hennepin County Beach Water Quality Monitoring Project $100,000
For an agreement with Hennepin County to develop a predictive model for on-site determination of beach water quality to prevent outbreaks of waterborne illnesses and provide related water-safety outreach to the public.
Southwest Minnesota Floodwater Retention Projects $500,000
For an agreement with Area II MN River Basin Projects, Inc. to acquire easements and construct four floodwater retention projects in the Minnesota River Basin to improve water quality and waterfowl habitat.
Bassett Creek Valley Channel Restoration $175,000
For an agreement with City of Minneapolis for design and engineering activities for habitat restoration and water quality and channel improvements for Bassett Creek Valley.
Restoration of Indian Lake $200,000
For an agreement with MN Environmental Services and Bemidji State University to demonstrate the removal of excess nutrients from Indian Lake in Wright County.
Land Cover Mapping for Natural Resource Protection $250,000
For an agreement with Hennepin County to develop GIS tools for prioritizing natural areas for protection and restoration and to update and complete land cover classification mapping.

Open Space Planning and Protection $250,000
For an agreement with Anoka Conservation District to protect open space by identifying high-priority natural resource corridors through planning, conservation easements, and land dedication as part of development processes.
3rd Crops for Water Quality - Phase 2 $500,000
For an agreement with Rural Advantage and the University of Minnesota to accelerate adoption of 3rd crops to enhance water quality, diversify cropping systems, supply bio-energy, and provide wildlife habitat through demonstration, research and education.
Bio-conversion of Potato Waste into Marketable Biopolymers $350,000
For an agreement with Bemidji State University to evaluate the bioconversion of potato waste into marketable biopolymers, plant based plastics.
Planning for Economic Development via Energy Independence $240,000
For an agreement with the University of Minnesota – Duluth to evaluate the socioeconomic benefits of statewide and community renewable energy production and distribution by analyzing system installation, technical capabilities, cost-competitiveness, economic impacts, and policy incentives.
Dairy Farm Digesters $336,000
For an agreement with The Minnesota Project for a pilot project to evaluate anaerobic digester technology on average size dairy farms of 50-300 cows.
Wind to Hydrogen Demonstration $800,000
For an agreement with University of Minnesota, West Central Research and Outreach Center to develop a model, community-scale wind to hydrogen facility.
Natural Gas Production from Agricultural Biomass $100,000
For an agreement with Sebesta Blomberg and Associates to demonstrate potential natural gas yield using anaerobic digestion of blends of chopped grasses or crop residue with hog manure and determine optimum operating conditions for conversion to natural gas.
Phillips Biomass Community Energy System $900,000
For an agreement with Phillips Community Energy Cooperative to assist in the distribution system equipment and construction costs for a biomass district energy system. This appropriation is contingent on all appropriate permits being obtained and a signed commitment of financing for the biomass electrical generating facility being in place.
Laurentian Energy Authority Biomass Project $466,000
For an agreement with Virginia Public Utility to lease land and plant approximately 1,000 acres of trees to support a proposed conversion to a biomass power plant.
Enhancing Civic Understanding of Groundwater $150,000
For an agreement with Science Museum of Minnesota to create ground water exhibits and a statewide traveling groundwater classroom program.
Cedar Creek Natural History Area Interpretive Center and Restoration $400,000
For an agreement with University of Minnesota, Cedar Creek Natural History Area to restore 400 acres of savanna and prairie; construct a Science Interpretive Center to publicly demonstrate technologies for energy efficiency; and create interpretive trails.
Environmental Problem-Solving Model for Twin Cities Schools $75,000
For an agreement with Eco Education to train high school students and teachers on environmental problem solving.
Tamarack Nature Center Exhibits $95,000
For an agreement with Ramsey County Parks and Recreation Department to develop interactive ecological exhibits at Tamarack Nature Center.

Relationship to Base Budget
Project funding is available for FY 2006-07.

Key Measures
See individual project proposals. Also, see LCMR Web site at http://www.lcmr.leg.mn/lcmr.htm

Change Item: Lottery in-Lieu Sales Tax

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Natural Resources Fund				
Expenditures	$1,637	$1,756	$1,597	$1,597
Net Fiscal Impact	$1,637	$1,756	$1,597	$1,597

Recommendation

The Governor recommends an FY 2006-07 appropriation of $2.779 million to the Trails and Waterways Management Program from the Natural Resources Fund. These appropriations will help maintain service in Trails and Waterways at or near FY 2004-05 levels.

The Governor also recommends an FY 2006-07 appropriation of $614,000 from the Natural Resources Fund to the Parks and Recreation Management Program to fund the incremental increase over the level of funding appropriated to Parks from the State Parks and Trails Account in FY 2004-05.

These recommendations are based on Lottery revenue increases projected for the FY 2006-07 biennium.

Background

Of total Lottery in-lieu receipts deposited to the Natural Resources Fund and the Heritage Enhancement Account in the Game and Fish Fund, 22.5% is credited to an account to be spent only for state parks and state trails, 3% is credited to an another account to be spent only on local trail grants. (The total distribution of Lottery in-lieu receipts and corresponding use of these receipts is specified in M.S. 297A.94, paragraph e.)

The Minnesota State Lottery prepares the projection of lottery sales, and the estimated revenues for FY 2005 through FY 2007 have been incorporated into the state budget forecast for the Natural Resources Fund. The Lottery's revenue projection for FY 2005 has been adjusted upward. In-lieu-of-sales tax receipts above the amounts appropriated for FY 2005 are reflected in the year-end account balances and are available for appropriations in FY 2006 and FY 2007.

Relationship to Base Budget

Appropriations to the Trails and Waterways Management Program in FY 2004 and FY 2005 from the State Parks and Trails Account and from the Local Trail Grants Account—a total of $1.243 million each year—were specified as one-time appropriations. The Department of Natural Resources (DNR) requests that the appropriations be continued in FY 2006 and FY 2007. Since the Lottery's sales projections are higher, more revenues are available for appropriation: $1.374 million in FY 2006, increasing to $1.405 million in FY 2007.

The previous appropriations to the Parks and Recreation Management Program were not one time; the appropriations to the program continue in FY 2006-07 budget plan. The new appropriations to Parks, as referenced in the second paragraph above, will be in addition to current level funding in FY 2006-07 from the State parks and Trails Account.

Key Measures

The Lottery in-lieu-of-sales tax is an important funding source for the two DNR programs included in this change item, as it is for local governments who apply for the local trail grants. Outcomes from the use of Lottery in-lieu funding in FY 2006 and FY 2007 covered under this change item are as follows:

Parks **$263,000 (FY 2006)** **$351,000 (FY 2007)**

⇒ Additional appropriations from the Lottery in-lieu will be used to provide camping and other public services in state parks.

Trails and Waterways

State Trails **$742,000 (FY 2006)** **$760,000 (FY 2007)**

⇒ This appropriation is for operation and maintenance of 418 miles of paved state trails and associated facilities.
⇒ The funds will make it possible to extend the maintenance seasons on state trails.

Local Trail Grants **$632,000 (FY 2006)** **$645,000 (FY 2007)**

⇒ In each year of the biennium, the appropriation will assist in funding about 6-10 local trail projects that provide connections where people live to significant resources (e.g. state parks, state trails). The number of projects is based on a historical average project request of about $65,000.

Alternatives Considered

Reduced operation and maintenance of state trails and facilities would result if the annual appropriation to the Trails and Waterways Management Program from the State Parks and Trails Account were not authorized.

Funds deposited to the Local Trail Grants Account are restricted by statute for use only on local trail grants. The DNR has not considered alternatives for this account.

Change Item: Maintenance of Service - Game and Fish

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund – Game and Fish				
Expenditures	$2,065	$4,213	$4,213	$4,213
Revenues	0	0	0	0
Net Fiscal Impact	$2,065	$4,213	$4,213	$4,213

Recommendation

The Governor recommends an increased appropriation of $6.278 million from the Game and Fish Fund in FY 2006-07 to allow user fees to finance the increasing costs of supporting resource management projects, protecting fish and wildlife habitat, conducting scientific research on populations, providing law enforcement activities, assuring administration, and ensuring public participation.

(in $000s)	FY 2006	FY 2007	Total
Fish and Wildlife	$1,329	$2,710	$4,039
Ecological Services	61	125	186
Enforcement	547	1,117	1,664
Lands and Minerals	35	71	106
Operations Support	93	190	283
Total	$2,065	$4,213	$6,278

Background

In 2000, fish and wildlife stakeholders supported and the legislature passed hunting and fishing license fee increases to restore and enhance fish and wildlife management programs and services. Those increases in user fees were used in consultation with stakeholders to enhance specific fish and wildlife management programs and services. If this initiative is not approved, it will result in a scaling back of those services, despite the fact that the user fees continue to be collected and to build a balance in the Game and Fish Fund that could be used to support those services.

The Game and Fish Fund Budgetary Oversight Committee expressed support for maintaining the existing programs and complement of department employees in its August 2004 letter to the Department of Natural Resources (DNR) Commissioner, "Recommendations for FY 2006-07 Game and Fish Fund Budget". The Committee recommended that, "…sufficient funds [be] appropriated to cover step raises and projected insurance increases agreed to by the administration during employee contract negotiations. This will help maintain funding for necessary programs." (The recommendations of the Committee are available at DNR's website at (http://files.dnr.state.mn.us/aboutdnr/gamefishoversight/2003boc_budget_recom_fy0607.pdf).

Relationship to Base Budget

The Department's biennial budget includes $139.3 million from the Game and Fish Fund (excluding stamp, surcharge and Heritage Enhancement funds.) The $6.3 million appropriation represents a 4.5% increase in Game and Fish Funds to the department over the biennium.

Key Measures

This appropriation will allow the department to maintain level of effort and seek the outcomes found in *A Strategic Conservation Agenda 2003-2007.*

Alternatives Considered

Without this appropriation the department would have to reduce services amounting to $2.065 million in FY 2006 and $4.213 million in FY 2007. Money is currently available in the unappropriated balance of the Game and Fish Fund to sustain these services. The General Fund was not considered to be an option given the current status of General Fund revenues and budgets in state government.

Change Item: Off-Highway Vehicle Funding Levels

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Natural Resources Fund				
Expenditures	$100	$100	$100	$100
Revenues	0	0	0	0
Net Fiscal Impact	$100	$100	$100	$100

Recommendation

The Governor recommends $200,000 per year for the Off-Highway Vehicle Safety and Conservation Grant Program in the Enforcement Program. The Governor also recommends that the funding level in the Off-Road Vehicle Account in the Natural Resources Fund be reduced by $100,000 per year for the Trails and Waterways Management Program in order to sustain the account. Impacts to those programs are as follows:

Account Name ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Trails and Waterways				
Off-road Vehicle Account	($100)	($100)	($100)	($100)

Account Name ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Enforcement				
Off-road Vehicle Account	10	10	10	10
Off-highway Motorcycle Account	10	10	10	10
All-terrain Vehicle Account	180	180	180	180
Total	$200	$200	$200	$200

Background

The $200,000 increase to the Enforcement Program, will be used to fund and implement the Off-Highway Vehicle Safety and Conservation Grant Program established by 2003 legislation under M.S. 84.901.

The $100,000 annual reduction in Trails and Waterways Management Program expenditures from the Off-Road Vehicle account is proposed to sustain the account.

Relationship to Base Budget

Currently, the Off-Highway Vehicle Safety and Conservation Grant Program is not funded nor implemented.

The reduction of Off-Road Vehicle in the Trails and Waterways Management Program expenditures will more closely align current activity levels with the funding source.

Key Measures

With this appropriation, the Off-Highway Vehicle Safety and Conservation Grant Program will be implemented through a volunteer program administered through the Enforcement Program. Key measures will be: improved safety and responsibility of riders and reduced environmental impacts on state forestland and other public lands.

Alternatives Considered

Presently under consideration, changes to M.S. 84.901 to establish a grant program patterned after a similar program in Wisconsin.

Statutory Change:
Changes will be needed to M.S. 84.901.

Change Item: Operations Support Funding

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends the appropriations from the General Fund, Natural Resources Fund, and Game and Fish Fund used to fund certain administrative support services in Operations Support be redirected to the operating divisions. This initiative seeks to raise the awareness of agency program managers and hold them accountable for total program costs. This change item is budget neutral to the General Fund, Natural Resources Fund, and the Game and Fish Fund.

Background

Many of the costs associated with operating natural resource programs are detached from the operating budget of that specific program. Costs for human resource management, facilities and some fleet management, safety, computing and network services historically have been expended as central support costs. The reported costs of specific natural resource programs therefore have not included expenditures on these central services.

Under this proposal, the direct appropriations that have paid for the centralized support services would be redirected to the operating divisions. The operating divisions would in turn be billed internally for services provided by central support units.

The table below details the direct appropriations budgeted in FY 2006 to each of these support units:

(in $000s)	General Fund	Natural Resources Fund	Game and Fish Fund
Human Resources	$1,140	$19	$666
Facilities and Operations Support (FOS)	3,982	345	1,798
Management Information Systems (MIS)	1,732	745	1,228
Total Budgeted FY 2006 Direct Appropriations	6,854	1,109	3,682
Proposed FY 2006 General Fund Reduction	(714)	0	0
TOTAL FY 2006 Direct Appropriations	$6,140	$1,109	$3,692

In each of FY 2006 and FY 2007 the $6.14 million, $1.109 million, and $3.692 million from the three funds will be redistributed to the DNR's eight operating divisions. The agency will develop a set of indices with which to bill the operating divisions for the cost of the central support services. For example, one formula will determine how to distribute facilities management funding based on number and type of buildings, square footage, and extent of other facilities to be maintained. A program may be assessed quarterly based on number of FTEs to pay for human resource management services, to include payroll processing oversight, position audits and classification evaluations, recruitment and hiring assistance, and succession planning. Operating divisions will also billed based on number of computers, data lines, and servers for MIS network services, computer support staffing, system applications development and maintenance, and software and user-licensing services.

Relationship to Base Budget

This change item is budget neutral to the agency and each of the funds noted. The initiative is a redistribution of the direct appropriations requested to fund a portion of Operations Support.

Alternatives Considered

The alternative considered is essentially the status quo. In prior budget requests support services have been funded through Operations Support. The weakness of that approach is that the full costs of significant support services remain detached from natural resource program delivery. As a result, both external audiences and agency managers find it more difficult to know the true costs of operating programs. More of the overhead or indirect costs will be captured when reporting on the costs of natural resource program delivery under this approach.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Heritage Account				
Expenditures	$925	$925	$925	$925
Revenues	0	0	0	0
Net Fiscal Impact	$925	$925	$925	$925

Recommendation

The Governor recommends increasing the appropriation to the Department of Natural Resources (DNR) from the Heritage Enhancement Account in the Game and Fish Fund by $1,850,000 in the FY 2006-07 biennium in order to accelerate protection and restoration of prairie wetland habitat complexes and begin implementation of a comprehensive wetland-monitoring program.

This effort includes appropriating $600,000 annually to the Fish and Wildlife Management Program for protection and restoration of prairie wetland complexes on public and private lands. It also includes appropriating $325,000 annually to the Ecological Services Program. Of the amount appropriated to Ecological Services, $75,000 is to the Prairie Stewardship program for protection and restoration of native grassland habitats and $250,000 is to a comprehensive wetland-monitoring program to evaluate whether the state is achieving its goals of no-net-loss of wetlands and increasing wetlands area around the state.

Background

The conversion of Minnesota's prairie pothole region to one of the most productive agricultural areas in the world has not been without cost. Less than 10% of the region's wetlands and 1% of its native grasslands remain. Recognizing this loss, and the impact on water quality, flooding, and fish and wildlife habitat, state and federal agencies have implemented conservation programs including acquisition, easements, set aside, and cost sharing of habitat management practices. Although successful, these programs have fallen far short of the state's conservation needs. The backbone of the prairie pothole region was prairie wetland complexes – native grasslands mixed with a range of wetland types and sizes in four to nine square mile blocks. Few such areas remain protected in Minnesota. The *Minnesota Wetland Conservation Plan (1997)* identifies the restoration of wetland complexes in the prairie pothole region as high priority. The future success of conservation programs in this region depends on targeting program efforts to restore and protect these complexes through information sharing, coordination, and accelerated funding.

The DNR, Board of Water and Soil Resources, U.S. Fish and Wildlife Service, and nonprofit conservation organizations are working as partners to develop a common vision and coordinated strategy of conservation, protection, restoration, enhancement, and monitoring of prairie wetland complexes. Strategies include but are not limited to providing technical assistance and cost sharing to private landowners to implement such things as sustainable grazing and sediment control; long-term easements or fee title from willing landowners; fish management as related to wetlands; and restoration, improvement, and enhancement of native grasslands, wetlands, stream banks, and lakeshore on public and private lands. Monitoring efforts will be directed at implementing a systematic statewide program to track changes in wetland abundance and distribution. Minnesota will be the first state in the nation to launch such a comprehensive monitoring effort.

The DNR proposes to accelerate and target its prairie wetland and grassland conservation efforts by: 1) accelerating funding for the Prairie Stewardship program to assist private landowners to restore and manage native prairie; 2) protecting and restoring critical prairie wetland habitat through acquisition and management of prairie wetland complexes on public and private lands; and 3) initiating an assessment of wetland status and trends to measure our state's progress in achieving a net gain of wetland acres. The U.S. Fish and Wildlife Service and The Nature Conservancy have pledged to provide at least $3.36 million. A total of $247,770 in federal funds and $83,140 in state funds have already been provided to help develop the methodology for the comprehensive wetland-monitoring program. Additional federal dollars are expected to help implement the monitoring program; an annual commitment of $50,000 has already been secured and an additional $200,000 per year is being sought. About $375,000 of federal funds have been received for grants to private landowners to improve prairie habitat. Additional dollars are also likely to be leveraged from other state conservation partners.

Relationship to Base Budget

The long-term funding request of $925,000 of Heritage Enhancement funds per year increases the DNR allocation of Heritage dollars from the current $8.985 million by approximately 11%.

Key Measures

The DNR's *A Strategic Conservation Agenda 2003-2007* identifies prairie wetland complexes and wetland quantity as key indicators of measuring the department's progress in achieving its natural resource conservation mission. The department is committed to working with other agencies, organizations, and landowners to target the restoration and protection of high quality prairie wetland complexes. WMA acquisition, Prairie Stewardship efforts and other conservation efforts (RIM, CREP, WRP, WREP) will be coordinated and geographically focused to promote the development of contiguous blocks of wetland/grassland habitats that provide optimum wildlife benefits, including waterfowl production. Wetland monitoring data is critically needed to assess and report progress toward 1) the state's statutory goals of achieving no net loss and increasing wetland quantity and quality (M.S. 103A.201); and 2) achieving the state's objectives for prairie wetland wildlife.

Alternatives Considered

The state is already making an investment in wetland and grassland protection, but some key indicators, such as populations of waterfowl and other important wildlife species dependent on these habitats, continue to decline. An expanded and integrated investment in key areas is needed to reverse these trends.

Change Item: Water Recreation Funding Levels

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Game and Fish Fund				
Expenditures	($200)	($200)	($200)	($200)
Revenues	0	0	0	0
Natural Resources Fund				
Expenditures	1,004	1,004	1,004	1,004
Revenues	0	0	0	0
Net Fiscal Impact	$804	$804	$804	$804

Recommendation

The Governor recommends annual spending from the Water Recreation Account in the Natural Resources Fund be increased to the Trails and Waterways Management Program by $650,000 to address increasing costs of public water access facility management and rehabilitation.

Annual appropriations to the Ecological Services Program from the Water Recreation Account will increase by $204,000. Of that, $154,000 is for a grant program to increase invasive species management and to develop and implement comprehensive vegetation management plans; and $50,000 is to fund current aquatic plant management activities, with a corresponding decrease in annual appropriation from the Game and Fish Fund for this same purpose.

Annual appropriations to the Fish and Wildlife Management Program from the Water Recreation Account will increase by $150,000, also to fund current aquatic plant management activities, with a corresponding decrease in annual appropriation from the Game and Fish Fund for this same purpose.

Background

The Department of Natural Resources (DNR) has increased the number of public water access sites by 200 in the last decade. Boat registrations increased by approximately 50,000 from 1999 to 2003. Demand for and use of public water access have increased, with corresponding effects on public water access facilities. Additional funding is needed for the increasing costs of maintaining existing facilities. Greater boat, trailer and vehicle size has resulted in the need to expand parking spaces and maneuvering areas and to lengthen boat launch ramps. The increased expenditures will be used for improved maintenance and enhancements to high and medium use water access sites. These enhancements include additional dock facilities and ramp extensions to facilitate boat launching and landing and sanitary facilities.

Eurasian watermilfoil, curly-leaf pondweed, and other invasive species are infesting more lakes each year. Existing grant dollars are focused on management and control of Eurasian watermilfoil, but additional dollars are needed to address the growing problems caused by other invasive species such as curly-leaf pondweed and nuisance growths of native plant species, and to develop comprehensive aquatic vegetation management plans.

The DNR's aquatic plant management program regulates the removal of aquatic plants through a permitting system, to ensure that fish and wildlife habitat is protected. Requests for plant removal permits generally come from lakeshore owners who are seeking improved access for watercraft and swimming. Program costs have been paid for with a variety of sources including Game and Fish, Water Recreation, Heritage Enhancement, General, and General Funds. Permit fees are deposited into the Game and Fish Fund; the annual revenue from those permits is approximately $260,000 but the annual program cost to the Game and Fish Fund is about $460,000. This recommendation would transfer $200,000 in expenditures from the Game and Fish Fund to the Water Recreation Account.

Relationship to Base Budget

An appropriation increase of $650,000 per year to the Trails and Waterways Management Program is a 13% increase in appropriations to the Program from the Water Recreation Account.

The additional $204,000 per year to the Ecological Services Program is a 12% increase in the amount appropriated to the Program from the Water Recreation Account. Of this amount, $154,000 is for a new grant program (not an expansion of current program activity) to manage invasive species and vegetation planning. The remaining $50,000 for aquatic plant management is a new annual appropriation from the Water Recreation Account to fund existing programs, but is offset by a reduced appropriation by the same amount from the Game and Fish Fund.

The additional $150,000 per year to the Fish and Wildlife Management Program is a 17% increase in the amount appropriated to the Program from the Water Recreation Account. This is a new annual appropriation from the Water Recreation Account to fund existing programs, but is offset by a reduced appropriation by the same amount from the Game and Fish Fund.

Key Measures

⇒ 25 to 30 additional public water-boarding docks at high and medium use sites.
⇒ 70 to 75 additional portable toilets at high and medium use sites.
⇒ Improved maintenance at 450 public water access sites.
⇒ Water access launch ramp extensions at high use sites.
⇒ Comprehensive vegetation management efforts to improve recreational use on at least 10 to 15 lakes per year.

Alternatives Considered

Legislation to regulate launching of boats, reduced operation and maintenance of facilities (including a number of portable toilets and boarding docks) was considered.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Natural Resources Fund				
Expenditures	$100	$100	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$100	$100	0	0

Recommendation

The Governor recommends an additional $200,000 appropriation in the FY 2006-07 biennium from the Non-game Wildlife Management Account in the Natural Resources Fund to improve the development of information and educational materials that promote wildlife observation and habitat management opportunities and expands promotion of the Non-game Wildlife Check-Off. Annual contributions to the Non-game Wildlife Management Account the past four years (FY 2001-04) have exceeded the annual appropriation level of $1.028 million, providing additional resources that are available for a two-year increased appropriation.

Background

The number of Minnesota citizens participating in bird watching, wildlife tourism, bird feeding and wildlife photography increased from 1.3 million in 1996 to 1.9 million in 2001 – an increase of 46% in five years (U.S. Fish and Wildlife Service, 2002). The amount of money spent in search of bald eagles, loons, and peregrine falcons in the wild, as well as cardinals and warblers at bird feeders, increased from $383.2 million in 1996 to $523.5 million in 2001 – an increase of 36.6% in five years. Along with this growth in participation, local communities are increasingly interested in learning how to provide wildlife watching opportunities that attract the birding community and private citizens are interested in providing habitat for wildlife on their property. The growing interest of local units of government in promoting lakeshore restoration is just one example of the type of work that cannot be adequately addressed with current funds but will be expanded with an increased appropriation.

Furthermore, the Non-game Wildlife program is largely dependent on private donations. In 1980 the legislature established the Non-game Wildlife Check-off (M.S. § 290.431), allowing citizens who file income tax or property tax refund claims to designate $1 or more for the management of non-game wildlife. Annual contributions to the account have averaged $1 million. Growth in contributions has been largely static for the past 15 years; in fact, the number of citizens contributing has declined while the average contribution has increased.

This targeted investment for two years is a two-fold effort to focus on the development and delivery of more information and education products and to target those products and other measures towards increasing tax check-off contributions.

Non-game Wildlife program staff in the Ecological Services Program will be responsible for this initiative. At the end of the biennium, program staff will evaluate the outcomes of this two-year pilot and assess program changes that may be necessary in the future.

This investment will have two primary outcomes:

1) a two-year focused effort to develop and produce more information and education materials that benefit citizens interested in non-game wildlife and local communities interested in exploring other recreational venues; and
2) development of new marketing venues for promoting the Non-game Wildlife Check-off.

DNR's Non-game Wildlife program has a proven record in this area and is recognized as a national leader in the development of educational materials and the promotion of wildlife observation opportunities.

The Non-game Wildlife program is broadly supported by a wide range of stakeholder groups and citizens.

Relationship to Base Budget

The current annual appropriation from the Non-game Wildlife Management Account is $1.028 million. At the close of FY 2004 the account balance was $1.078 million. Annual receipts into the account the last four years have averaged $1.131 million. As a result, the proposed increase of $100,000 for each of two years during the FY 2006-07 biennium should have a minimal impact on the overall fund balance as long as annual contributions remain steady. One of the major purposes of the initiative is to explore ways to actually increase revenues. This represents a 9.7% increase above FY 2004-05 appropriations levels.

In addition to the appropriation from the Non-game Management Account, the program also receives an annual appropriation from the General Fund ($218,000 in FY 2005) and the Heritage Enhancement Fund ($194,000 in FY 2005).

Key Measures

The Department of Natural Resources *A Strategic Conservation Agenda 2003-2007* identifies Wildlife Observation and Birding as a key indicator to measure the department's progress in achieving its natural resource outdoor recreation mission. The specific target is to assist local communities with four birding trail and wildlife festival events or products per year. Achieving this target will help serve the increasing numbers of wildlife observers.

Alternatives Considered

The alternative of using general fund dollars was considered, however, in order to match increasing revenue, general fund appropriations would need to be reduced in other priority areas of the department. Dollars from a dedicated fund with a current fund balance allows sufficient matching funds without impacting other programs.

Program: ECOLOGICAL SERVICES

Change Item: Stream Restoration

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Game and Fish Fund				
Expenditures	$64	$64	$64	$64
Revenues	0	0	0	0
Net Fiscal Impact	$64	$64	$64	$64

Recommendation

The Governor recommends $64,000 per year from the Game and Fish Fund to increase technical guidance for development, design and implementation of stream restoration projects.

Background

Rivers are among the most greatly impacted ecosystems in Minnesota. Degraded rivers provide degraded values: water quality, biological condition (e.g., loss of species diversity), erosion and sediment movement, hydrology (amount and timing of water flow) and aquatic habitat are all affected. Restoration of rivers will improve fish and wildlife habitat, recreational opportunities, water quality, and property values, while reducing erosion and downstream flooding.

Minnesota's rivers provide critical habitat for many fish and wildlife species of greatest conservation need. However, numerous waters have been negatively impacted by the channelization and construction of dams, many of which were built in the early 1900s. Channelization reduces stream length, eliminates fish and wildlife habitat, and disconnects a stream from its floodplain. Dams block migration of fish and other aquatic species and reduce the overall productivity of streams by interfering with sediment and nutrient transport. As these dams age, local communities need to make decisions about whether they should be repaired, modified, or removed. Dam removal or modification offers excellent opportunities for restoring critical fish and wildlife habitat. However, the increasing need to offer technical assistance for these types of projects cannot be met with current staff resources.

The Ecological Services Program has taken an active role in over 50 stream restoration projects by providing guidance on restoration practices, collecting stream channel data, making channel design recommendations and providing project funding. Division staff provides assistance on up to 25 projects a year.

This request will add one full-time field position in the stream habitat program to provide technical assistance and on-site guidance, collect and analyze data, and provide restoration design recommendations that follow natural channel design principles.

This investment will aid in the development of a priority list of potential restoration projects, increase the number of stream restoration projects for which design work and other assistance is provided, speed up the implementation process for projects, ensure projects are designed for long-term sustainability, and expand channel monitoring efforts.

Minnesota's stream habitat program is considered a national leader in the field of stream restoration ecology. Restoration returns a river to a condition where its dimensions, pattern and profile are matched with the water and sediment provided by its watershed, so that the channel neither accumulates nor removes sediment from its bed. The best blueprints for these design concepts come from scientific observations of the natural, stable channel form. This work requires specific knowledge and application of watershed hydrology, river morphology, sediment size, and channel behavior. When the design plans are completed, successful restoration requires constructing the channel to specifications in terms of its location and pattern on the land, bed and bank elevations, channel width and shape, bank sloping and floodplain grading, installation of tree revetments for bank stability, and landscaping.

Fish and Wildlife staff regularly consults with Ecological Services about the stream habitat program and trout stream habitat work. Staff in Ecological Services and Waters also converse regularly about restoration work associated with dam removal and modification projects. Requests for assistance with restoration projects also come from groups outside the agency, including the U.S. Fish and Wildlife Service, U.S. Army Corps of Engineers, U.S. Forest Service, watershed groups, and municipalities. A wide range of stakeholder groups and citizens supports the stream habitat program.

Relationship to Base Budget

The current annual appropriation to the stream habitat program is $411,400 from the Game and Fish Fund, $73,000 from the RIM General Fund and $61,500 from the Heritage Enhancement Fund. The initiative represents a 15.6% increase in the program's Game and Fish Fund appropriation.

Key Measures

The DNR's *A Strategic Conservation Agenda 2003-2007* identifies stream restoration as a key indicator to measure the DNR's progress in achieving its water resources management mission. Specific targets are to monitor stream physical characteristics, establish an information base to assist with restoration designs, complete a coordinated stream restoration priority list, and pursue capital bonding for restoration projects.

Alternatives Considered

The Game and Fish Fund is the most appropriate source of dollars for this initiative because it will have direct benefits to game fish populations and fishing.

Capital bonding has been considered for funding this position, but activities would be limited to only those directly associated with the projects funded through bonding.

Program: FISH & WILDLIFE MANAGEMENT

Change Item: Comprehensive Lakes Management

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Game and Fish				
Expenditures	$85	$85	$85	$85
Revenues	0	0	0	0
Net Fiscal Impact	$85	$85	$85	$85

Recommendation
The Governor recommends $170,000 from the Game and Fish Fund over the FY 2006-07 biennium to expand the Comprehensive Lake Management Planning Program. This request would cover costs associated with one staff position and associated operational costs to be the lead technical expert on comprehensive management plans and to help coordinate the Department of Natural Resources' (DNR's) implementation of the Governor's water quality and impaired waters initiatives.

Background
There has been general agreement that many aspects of lake management in Minnesota could be improved. In the mid 1960s, an ad hoc Statewide Lakes Committee was established by state agencies and the University of Minnesota to look at improving coordination between lake management authorities and information sharing. During the last decade, citizens, government agencies, and private organizations have made several attempts to better identify and define lake management issues. This culminated in a recommendation for increased funding for a variety of lake management activities, completion of a Generic Environmental Impact Study on Minnesota lakes, and formation of the Lakes Advisory Council administered by the Environmental Quality Board.

In 2003, the Pawlenty Administration launched what was to be known as the "Governor's Water Quality Initiative" and selected several pilot projects around the state. Staff from many agencies as well as the public was assigned to draft work plans for each pilot area. These plans are now completed and are ready for implementation. The work outlined in these plans is very progressive and will take considerable staff time and resources to complete.

Relationship to Base Budget
This change item would increase the Fish and Wildlife Management Program appropriation in FY 2006-07 from the Game and Fish Fund by $170,000.

Key Measures
The goal of this change level request is to accomplish the following:
1. Establish additional and more effective partnerships of citizen and governmental agencies to protect water resources;
2. Ensure land use decision-makers and developers have a greater understanding of the impacts of their decisions;
3. Oversee the development of Certified Lake Association Aquatic Plant Management Plans; and
4. Assist in coordinating, implementing and reporting successes of the Governor's Water Quality Initiative, including impaired waters.

Alternatives Considered
Use existing staff to implement Comprehensive Lakes Management, Existing staff does not have the necessary time or resources to effectively work on these issues without compromising other high priority management tasks.

Change Item: Critical Habitat License Plate Sales

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
RIM				
Expenditures	111	111	111	111
Revenues	111	111	111	111
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends Critical Habitat Match (CHM) license plates become available for recreational vehicles (RVs) and recreational trailer owners. The existing CHM program generates funds to protect critical habitat through a $30 contribution per plate for passenger automobiles, pick-up trucks, and vans.

Background

Minn. Stat. §168.1296. Subd. 1, provides authority to sell CHM license plates for passenger automobiles, pickup trucks, or vans. Allowing RV and recreational trailer owners to purchase the CHM plates will give them the opportunity to participate in this valuable program to help Minnesota's critical natural resources.

There are 39,700 RVs and 102,200 recreational trailers licensed in Minnesota. If participation is similar to the rate for passenger vehicles, the CHM plate program could anticipate selling an additional 3,700 CHM license plates to RV and recreational trailer owners. This would generate an additional $111,000 per year (3,700 plates times $30 contribution/plate) to the CHM plate program.

The CHM plate program has been successful with over 108,000 registered plates that generate over $3.2 million per year. Since its inception in 1996, conservation-minded motorists have contributed a total of $11 million to the plate program. The expansion of the program would strengthen partnerships to achieve habitat conservation.

CHM funds are appropriated to the commissioner of natural resources to acquire and improve critical wildlife and fish habitat as directed in Minn. Stat. § 84.943.

Relationship to Base Budget

The potential increased funding for the expansion of CHM to include recreational vehicles and trailers is $111,000, which represents a 3.5% increase over current revenues of $3.2 million.

Key Measures

The key measure for this initiative is the acquisition and development of critical habitats across the state as defined in Minn. Stat. § 84.944.

Alternatives Considered

The alternative to this program is to not expand the program. The disadvantage is that there are RV license purchasers who would like to participate in the CHM program, but are currently unable to so. This restriction also diminishes the ability of the DNR to fully implement CHM and protect critical habitats across the state.

Statutory Change:
Changes to be made to Minn. Stat. § 84.944.

Program: FISH & WILDLIFE MANAGEMENT

Change Item: License Center - Full Funding ELS Costs

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Game and Fish				
Expenditures	0	0	0	0
Statutory Expenditures	$75	$75	$75	$75
Revenues	0	0	0	0
Net Fiscal Impact	$75	$75	$75	$75

Recommendation

The Governor recommends a $150,000 increase over the biennium in the statutory appropriation from the Game and Fish Fund to cover the vendor operating costs of the electronic licensing system (ELS). This change is needed to provide funding to cover the vendor transaction costs for statutorily mandated free licenses issued through ELS.

Background

The funding to cover the ELS vendor operating costs typically comes from the ELS statutory account that receives a commission (4.7%) on game and fish licenses sold. This change is needed to provide funding to cover the vendor transaction costs for free licenses that do not provide a commission to the statutory account.

In game and fish license year 2003 a total of 18,314 licenses were issued with no fee. The ELS vendor transaction costs for these licenses were covered using either General Fund monies or reimbursement from the Game and Fish Fund appropriated to the Fish and Wildlife Management Program. These costs were not anticipated and were taken from funds already designated for other purposes. In license year 2004, three new licenses/applications (youth archery, firearm antlerless deer applications and the Northwest Youth Antlerless Season Permit) were added to the list of free licenses and/or applications issued through ELS. These additions increase the number of licenses that will not provide a commission to the statutory account.

Relationship to Base Budget

Ongoing new costs of $150,000 over the biennium will be required to cover ELS transaction costs for licenses that will not provide a commission to the statutory account.

Key Measures

With the additional appropriation of $75,000 annually, the transaction costs for free licenses issued through ELS will be covered and funds will not be needed from appropriations designated for other purposes.

Alternatives Considered

An alternative is to continue to use General Fund and/or other appropriated Game and Fish funds to cover these costs. This option would result in penalizing other high priority programs.

Statutory Change:

Changes need to be made to Minn. Stat. § 97A.485, Subd. 7.

Change Item: Red Lake Fisheries Management

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Game and Fish				
Expenditures	$100	$100	$100	$100
Revenues	0	0	0	0
Net Fiscal Impact	$100	$100	$100	$100

Recommendation

The Governor recommends $200,000 over the biennium be appropriated from the Game and Fish Fund to more intensively monitor, analyze and manage the Upper Red Lake recreational fishery. Funding would support two positions and associated operational costs to conduct creel and lake surveys and develop management strategies that will ensure that a fishable population is maintained after the lake is reopened to angling for walleye.

Background

Red Lake (Beltrami County) covers 275,000 acres. All of the Lower Lake (167,000 acres) and 60,000 acres of the Upper Lake are within the Red Lake Indian Reservation. Only members of the Red Lake Band of Chippewa Indians have access and harvest rights to reservation waters. The eastern portion of the upper lake (48,000 acres) is state water and available for recreational fishing by licensed anglers. The current regulations for the state portion of Upper Red Lake and its tributaries prohibit the angling for, taking of, or possession of walleye. This regulation has been in place since the year 2000 to allow the walleye population to recover to sustainable levels and to eventually allow recreational angling.

From 1994 to 1997, the average number of young-of-the-year walleye captured by shoreline seining declined to less than one per seine haul. These numbers indicated that the walleye population had collapsed. In 1997, the State and the Red Lake Band formed a Fisheries Technical Committee to investigate how to recover the walleye population. The Fisheries Technical Committee formulated a recovery plan and created a Memorandum of Agreement (April 1999 signed by Minnesota Department of Natural Resources (DNR), Red Lake Band, and the Bureau of Indian Affairs) to prohibit commercial and recreational harvest of walleye until the population recovered.

Lake-wide assessment data shows very promising progress towards walleye recovery. Walleye abundance has increased dramatically from the mid-1990s when the walleye population crashed. Walleye fry were stocked in the lake in 1999, 2001, and 2003 as part of the recovery plan. These stockings are largely responsible for the observed increase in walleye abundance and it is anticipated that these fish will start providing natural reproduction over the next year or so. Evaluations of the fishery indicate that angling could reopen to some limited harvest during the open-water season in 2006. Staff are assessing regulation options with a citizens advisory committee that would allow angling but still protect the recovering population by limiting harvest.

With the reopening of Red Lake to fishing, the DNR will need to do more intense monitoring and analysis to ensure a fishable walleye population is maintained and to make any necessary management adjustments. Red Lake and Cass Lake have shared staff and operational resources in the Large Lake Monitoring Program. However, once Red Lake is opened to angling, there will no longer be sufficient staff time or resources to continue to effectively monitor and manage both lakes.

Relationship to Base Budget

This appropriation would increase the Fish and Wildlife Management Program appropriation in FY 2006-07 from the Game and Fish Fund by $200,000 over the FY 2006-07 biennium.

Key Measures

The goal of this change level request is to ensure continued recovery of Red Lake walleye while allowing a sustainable level of angler harvest.

1. Maintain at a minimum at least 1 ½ lbs of walleye spawning stock biomass per acre of water.
2. Conduct annual creel surveys to monitor angler harvest levels so that harvest is maintained within a harvestable surplus level.

Alternatives Considered

One alternative would be to reassign current management staff to work on Red Lake. This would result in reduced management of other high priority fishing waters.

Change Item: Shoreland Habitat Management Program

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Game and Fish				
Expenditures	$200	$200	$200	$200
Revenues	0	0	0	0
Net Fiscal Impact	$200	$200	$200	$200

Recommendation

The Governor recommends $400,000 over the biennium from the Game and Fish Fund to expand the Shoreland Habitat Management Program to more intensively monitor and evaluate shoreland activities, to increase the technical support and the number of projects conducted in the northern half of the state, to develop incentives to maintain natural shorelands, to work closer with the horticulture and landscaping industries to provide services, and to control invasive species by conducting additional maintenance activities on existing shoreland habitat sites. This funding would cover costs associated with one position, invasive species control efforts, maintenance activities on existing sites, and operational costs to ensure the successful restoration of shoreland habitat.

Background

Minnesota's lakeshores have been impacted by environmental conditions that have limited the distribution and abundance of aquatic plants. Changes in hydrologic regimes, water quality degradation, and physical habitat structure changes result in conditions that may reduce the abundance and diversity of aquatic plant communities. Lakeshore owners frequently alter riparian and aquatic plant communities by physical destruction using chemical or other methods. The loss of aquatic vegetation affects fish and wildlife habitat, shoreline erosion, water quality, aesthetics and other lake-related values.

Healthy shorelands have long been recognized as critical for water quality, aquatic plants, and fish and wildlife that live in or near Minnesota's lakes and streams. In 2003, a Bemidji State University study showed that lake water clarity is significantly related to lakeshore property values. The study states that the worst land use practices include the removal of trees, native plants, and aquatic vegetation along shorelands. As native shoreland habitat is lost to development, shorelands lose their ability to support the fish, wildlife, and clean water that are appealing to people attracted to Minnesota's water resources.

As an outcome of the 1998 legislative session, the Department of Natural Resources (DNR) Division of Fish and Wildlife received $200,000 for activities related to aquatic plant restoration. This appropriation was increased to $300,000 in 2002. This funding provides education, technical assistance and grants to private citizens, conservation organizations, and local governments to restore altered shoreland habitat in order to expand diversity and abundance of native aquatic plants, improve and protect quality of shoreland habitat, and enhance and protect water quality. Since1998, the DNR has restored a total of 154 sites comprising 39,752 linear feet and 34.74 acres of shoreland habitat. Increased interest and demand for these types of services has exceeded the current resources. By expanding the program, the DNR will be able to work closer with the horticulture and landscaping industries to better meet the public's demand.

Relationship to Base Budget

This appropriation would increase the Fish and Wildlife Management Program appropriation in FY 2006-07 from the Game and Fish fund by $200,000 per year.

Key Measures

The goal of this change level request is to ensure enough resources are available to meet increasing demands for technical advice and financial support for shoreland habitat restoration. Success will be measured as follows: doubling the number of projects completed in the northern half of the state to ensure that the goals stated in the DNR's Strategic Conservation Agenda about shoreland habitat restoration are achieved (10-15,000 linear feet of shoreland each fiscal year), providing increased levels of technical assistance to lakeshore owners and industry representatives, and providing for invasive species control on ten existing shoreland habitat restoration sites.

Alternatives Considered

Reassign existing staff to have more of their time to be spent on shoreland habitat restoration at the expense of other components of the Aquatic Management Program.

Change Item: Special Management Species - Sturgeon Tagging

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Game and Fish Fund				
Expenditures	$25	$28	$31	$35
Revenues	25	28	31	35
Net Fiscal Impact	$0	$0	$0	$0

Recommendation
The Governor recommends revenues collected through the proposed initiation of special management species application and tagging authority be appropriated for the Fish and Wildlife Management Program to cover the costs of implementing a fish tagging management program. The first species to be managed under the proposal would be the lake sturgeon. It is estimated that from 5,000 to 7,000 tags will be issued to sturgeon anglers at an individual cost of $5 each and accruing an estimated $25,000 to $35,000 to the Game and Fish Fund.

Background
The Department of Natural Resources (DNR) is proposing to amend Minn. Stat. §§ 84.027, 97A.551, and 97C.085 so the commissioner of natural resources has the ability to require anglers to apply by application for a tag for certain fish species as another means of monitoring fish management efforts. This change item would result in an appropriation of revenues generated from the application process.

Chapter 14 Rule Making process will be used to identify species being managed under this system and details for reporting tagging of special management species.

Special management species applications and tags would be issued through the Electronic Licensing System (ELS). Reporting cards would be sent to registered anglers. These cards would be returned to the Department when special management species were harvested. Data would be generated on the numbers of anglers harvesting these species as well as the number, size and sex of fish harvested. This reporting data would be collated, analyzed, and summarized in an annual report. This management tool would provide additional information for managing specific fisheries and improve enforcement efforts. The appropriation would direct revenues collected for special management species to the Fish and Wildlife Management Program to cover the costs for implementing this effort including ELS programming changes, printing and mailing costs for registration materials, follow-up surveys for participating anglers, data collation and analysis, generation and distribution of an annual harvest report, and enforcement efforts. This proposal requests that the $5 application fee for special management species tags be appropriated to cover the basic costs for implementing this program.

Relationship to Base Budget
The potential increased funding for the special species management for a sturgeon tagging program is 0.04 – 0.06% of the FY 2005 budget for the Fish and Wildlife Management Program (total $57,150,300).

Key Measures
The key measure for this change item is healthy populations of special management species (e.g., lake sturgeon), which can provide sustainable harvest levels to meet to the growing interest of anglers.

Alternatives Considered

One alternative to this initiative is to not implement a special management species program. The disadvantage of this option would be reduced data necessary for making population management decisions and determining sustainable harvest levels for sport fishing. This could potentially result in the angling closure for a fishery. Further, a number of lake sturgeon anglers have asked the DNR to implement a program that would supplement other efforts to estimate sturgeon harvest.

A second alternative is to implement the program without an appropriation for implementation costs. The disadvantage of this option is that implementation would be at the expense of other existing programs.

Statutory Change:
Changes to be made to Minn. Stat. § 84.027, 97A.551, and 97C.085.

Change Item: Statewide Electronic Registration

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Game and Fish				
Expenditures	0	0	0	0
Statutory Expenditures	312	312	312	312
Revenues	0	0	0	0
Net Fiscal Impact	$312	$312	$312	$312

Recommendation

The Governor recommends an annual appropriation of $624,000 over the FY 2006-07 biennium for establishing an Electronic Licensing System (ELS) for registering deer harvested by hunters. This system will use technology more effectively to gather deer harvest data and will improve the Department of Natural Resources' (DNR's) ability to monitor and measure the results of deer season management quickly and efficiently.

Background

Currently, Minnesota uses a paper-based system to register data from hunters on the harvest of more than a quarter of a million deer annually. This paper-based system requires annual orders of supplies, multiple visits to license agents by Department staff to deliver and pick up forms, and hand entry of over 200,000 records of harvest data. By converting to an electronic registration system, data acquisition and availability will be immediate. The new system will allow Department staff to become more efficient due to the elimination of printing materials, supplying registration stations, and entering data.

The new system would enhance management capabilities by allowing deer harvests to be monitored during the season in real time and by reducing the current four-month wait for complete season harvest data to a matter of days.

The Department has been operating a pilot electronic deer registration pilot project in several regions of the state for the past three years and the technology has proven successful. There are currently 1,700 ELS vendors and 800 deer registration stations. Some combination of those two sets of vendors and stations will be required to assure effective statewide coverage and customer service.

Relationship to Base Budget

Ongoing new costs of $312,000 annually will be required to cover ELS transaction and agent payment fees. There is also a one-time startup cost of approximately $120,000 for additional terminals that will be covered out of existing dedicated funds for deer management.

Key Measures

The new system will produce instant access to harvest data on more than a quarter of a million deer annually, including date, age and sex, and permit area where taken. This information is invaluable in monitoring current harvests and planning future harvests to maintain deer populations within limits of habitat and social tolerance.

Alternatives Considered

Alternatives considered included use of portable handheld personal digital assistants (PDAs) and phone registration. Ultimately, costs of those approaches would be prohibitive because of the necessary new systems and equipment that would be required, whereas the current proposal uses a system of equipment and agents that is already in place.

Statutory Change: Changes to be made to MN Stat. § 97A.485, Subd. 7.

Recommendation

The Governor recommends appropriations for seven dedicated accounts or funds within the Game and Fish Fund be changed to be statutory appropriations. These funds include Deer/Bear Management and Computerized Licensing (231), Deer Habitat Improvement (232) Waterfowl Habitat Improvement (233), Trout and Salmon Management (234), Pheasant Habitat Improvement (235), Wildlife Acquisition (237), and Wild Turkey Management (238).

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
Fund 231/Deer Bear Management & Computerized Licensing				
Expenditures	($332)	($332)	($332)	($332)
Statutory Expenditures	397	397	397	397
Net Fiscal Impact	65	65	65	65
Fund 232/Deer Habitat Improvement				
Expenditures	(1,269)	(1,269)	(1,269)	(1,269)
Statutory Expenditures	1,411	1,411	1,411	1,411
Net Fiscal Impact	142	142	142	142
Fund 233/Waterfowl Habitat Improvement				
Expenditures	(808)	(808)	(808)	(808)
Statutory Expenditures	843	843	843	843
Net Fiscal Impact	35	35	35	35
Fund 234/Trout and Salmon Management				
Expenditures	(1,030)	(1,030)	(1,030)	(1,030)
Statutory Expenditures	1,030	880	810	810
Net Fiscal Impact	0	(150)	(220)	(220)
Fund 235/Pheasant Habitat Improvement				
Expenditures	(546)	(546)	(546)	(546)
Statutory Expenditures	890	890	890	890
Net Fiscal Impact	344	344	344	344
Fund 237/Wildlife Acquisition				
Expenditures	(2,030)	(2,030)	(2,030)	(2,030)
Statutory Expenditures	3,013	3,013	3,013	3,013
Net Fiscal Impact	983	983	983	983
Fund 238/Wild Turkey Management				
Expenditures	(120)	(120)	(120)	(120)
Statutory Expenditures	142	142	142	142
Net Fiscal Impact	22	22	22	22
ALL FUNDS				
Expenditures	(6,135)	(6,135)	(6,135)	(6,135)
Statutory Expenditures	7,726	7,576	7,506	7,506
Net Fiscal Impact	$1,591	$1,441	$1,371	$1,371

Change Item: Statutory Appropriation For Fish and Wildlife

Background

This change would make account balances more readily available for expenditure in accordance with statutory language for each fund (Minn. Stat. §§ 97A.075; 97A.071). The Game and Fish Fund Budgetary Oversight Committee supports using the balances in dedicated accounts for intended purposes (August 2004 letter to the Department of Natural Resources (DNR) Commissioner, "Recommendations for FY 2006-07 Game & Fish Fund Budget"). Revenues are generated through the sale of hunting and fishing licenses and stamps and deposited into the Game and Fish Fund. With fixed biennial appropriations, balances in the dedicated accounts are generated and are not available for spending. This change would allow the expenditure of fund balances in the accounts only for the purposes identified in statute without constantly seeking adjustments to direct appropriations. DNR expenditures would not be able to exceed the balances in the accounts. Expenditures from these dedicated accounts are controlled by statute and annually reviewed by citizen oversight committees.

A primary benefit of statutory appropriations is that funds generated through specific hunting and fishing license revenues would be used to benefit appropriate programs and activities in a more timely manner. A secondary benefit would be a reduction in administrative overhead.

Relationship to Base Budget

As of the close of the FY 2004-05 biennium, balances are projected in each account as follows: Deer/Bear Management and Computerized Licensing (231) $226,000; Deer Habitat Improvement (232) $556,000; Waterfowl Habitat Improvement (233) $195,000; Trout and Salmon Management (234) $291,000; Pheasant Habitat Improvement (235) $457,000; Wildlife Acquisition (237) $996,000; and Wild Turkey Management (238) $120,000. If this initiative passes, these balances would be used over several years.

Key Measures

The key measure is more timely utilization of user fees for authorized activities and purposes as follows.

- WMA acquisitions and management
- Deer population and habitat management
- Waterfowl habitat management
- Trout and salmon habitat management
- Trout waters acquisitions
- Pheasant habitat acquisition and management
- Wild turkey population surveys, monitoring and research
- Wild turkey habitat acquisition and management

Alternatives Considered

The alternative to this option is to maintain existing direct appropriations. The disadvantage with this option is that projected unused balances continue to accrue rather than be used for the intended purposes as identified in statute and as requested by the payers of the user fees.

Statutory Change:
Changes to be made to Minn. Stat. §§ 97A.075; 97A.071.

Change Item: Electronic Open Burning Permits

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Natural Resources Fund				
Expenditures	80	80	80	80
Revenues	80	80	80	80
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends allowing the DNR to recover the costs of operating an electronic burning permit system via the Internet. This system will provide an alternative to applying for permits through agents who currently issue other DNR permits and licenses through the Electronic Licensing System (ELS). Permits issued by volunteer fire wardens will still be available at no charge.

Background

Minnesota adopted the first open burning laws in 1918, in the aftermath of several disastrous forest fires. In 1993, the DNR was also given statutory responsibility for open burning in non-forest areas that had previously been regulated by MPCA rules.

Under present laws written burning permits are required statewide, except when the ground is snow covered. Only vegetative materials may be burned. Campfires are excluded.

The DNR is responsible to administer open burning laws statewide. Volunteer fire wardens and forestry field offices issue more than 60,000 burning permits on paper forms each year. This system costs about $170,000 a year to administer.

Although permits will still be available from the volunteer fire warden system at no charge, the addition of electronic permits benefits the public and improves wildfire protection in the following ways:

- The volunteer fire warden system is becoming more difficult to continue in certain geographic areas because fewer people are home during the day to issue permits and many people are concerned about admitting strangers to their homes.
- Paper permits cannot be tracked or revoked when extreme fire weather occurs. An electronic system allows improved ability to issue permits when appropriate.
- Nearly one third of the volunteer fire wardens are already ELS vendors.
- Citizens are requesting electronic access to burning permits over the Internet, so they can procure a permit from home at their convenience. An informal survey of customers indicated that approximately 85% would be willing to pay a small fee for the convenience of an annual electronic permit.

Specifics of the Proposal

To provide an electronic permit alternative, the DNR proposes to recover costs through fees for electronic permits. The fees would cover system operation and issuing vendor costs. Proposed fees:

- Five dollars for an annual, noncommercial open burning permit to an individual; and
- Five dollars each, up to a $50 maximum, for multiple permits to commercial enterprises.

Due to the fact that electronic permits would be valid for an entire year, fewer permits will likely be issued. The DNR estimates 20,000 electronic permits per year versus the 60,000 paper permits currently issued.

The proposed change will reduce administrative workload, increase customer convenience, bring additional management capability to the current system, provide for system cost reductions, and identify real-time fire permit activity to both DNR and fire protection cooperators (such as fire departments and county sheriffs).

Electronic permits offer an unprecedented convenience in that they are valid for an entire year and can be activated by phone through an automated 24-hour system.

Relationship to Base Budget

The base budget (direct, open, and statutory appropriations in all funds) is approximately $60 million in FY 2006.

Fees from the issuance of electronic burning permits will be deposited to a burning permit account within the Natural Resources Fund and used to operate the burning permit system. The fee structure is intended to cover the costs of this activity. Fees will not over-recover costs or build up excess funds in the account.

Key Measures

Presently the DNR issues over 60,000 paper permits per year. These are usually valid for one day to two weeks, with three days being the standard during periods of moderate fire danger. Electronic permits will be valid for an entire year, with a telephone activation system being used to track individual burning events for each permit. The DNR expects that permit numbers for the electronic system will be about 20,000 per year.

Permits will still be available at no charge from the volunteer fire warden system. However the convenience of electronic permits is expected to result in increased customer satisfaction among permit holders overall.

Alternatives Considered

The alternative is to continue the present paper permit system, with no electronic permit alternative. However, as stated above, the paper system is expensive and it is becoming increasingly difficult to recruit volunteers.

Statutory Change:

The change item will require an amendment to Minn. Stat. § 88.17, Subd. 1 to allow for electronic permits, a new subdivision to create a burning permit account within the natural resources fund, and a new subdivision to authorize a fee for the electronic permits.

Change Item: Fee Increase - Special Fuelwood Permits

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures				
Revenues				
Other Funds: **School Trust Fund**				
Expenditures				
Revenues	$3	$3	$3	$3
Other Funds: **FMIA**				
Expenditures				
Revenues	2	2	2	2
Other Funds: **Con-Con (counties)**				
Expenditures				
Revenues	1	1	1	1
Net Fiscal Impact	($6)	($6)	($6)	($6)

Recommendation

The Governor recommends amending Minn. Stat. § 90.195 to raise the minimum fee for special fuelwood permits from $5 to $25. Raising the minimum permit fee would reflect the current costs of issuing the permits, which average $24.55 each.

Background

The commissioner of natural resources may issue permits to salvage or cut a maximum of 12 cords of fuelwood for personal use from state-administered forest lands per year. This wood can be cut from either or both of the following sources:

- dead, down, and diseased trees; or
- other trees that are of negative value under good forest management practices.

Currently, fees are charged that are not less than $5 and not more than the current market value of the fuelwood. The Department of Natural Resources (DNR) Forestry offices issue 750 to 850 fuelwood permits each year. Based on FY 2004 data, the average fee charged for these permits was $22; however, 520 of the 820 permits issued in this fiscal year were for less than $20 each.

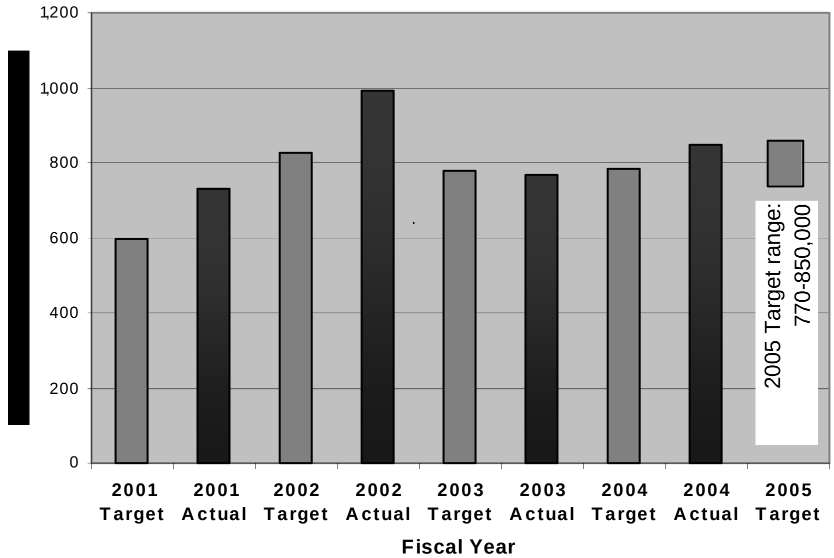
Relationship to Base Budget

The approximately $6,200 per year generated by increasing special fuelwood permits to a minimum of $25 is a small portion of the Division of Forestry's annual "base" direct appropriation of $33 million in FY 2006. However, the increase in the minimum charge of a permit from $5 to $25 is important in helping the Division of Forestry recoup the administrative costs of issuing these permits.

Key Measures

Special fuelwood permits are a component of the DNR's timber sales program. Allowing people to harvest trees that are down, diseased, or of negative value help to maintain a healthy forest.

DNR Timber Sales:



Indicator: Number of cords of wood offered for sale on DNR lands.

Target: Offer 770,000–850,000 cords of timber for sale from DNR lands in FY 2005.

Alternatives Considered
None.

Statutory Change:
Amends Minn. Stat. § 90.195.

Change Item: State Forest Nursery Stock Surcharge

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Other Fund: Forest Nursery Account				
Expenditures	250	250	250	250
Revenues	250	250	250	250
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends amending Minn. Stat. 89.37 to allow for a surcharge of $.025 to be added to the price of each tree seedling sold by state forest nurseries. The funds accumulated through the surcharge would be dedicated to the Department of Natural Resources (DNR) Division of Forestry's education and technical assistance programs. A legislative cap holds the state forest nurseries to producing a total of 10 million seedlings per year for sale to all ownerships, public and private. As a result, the $.025 surcharge per tree seedling will be expected to bring in $250,000 per year for forestry education and technical assistance programs.

Background

Education and outreach are important tools for developing a natural resource stewardship ethic among citizens and communities and providing them with the information they need to make sound natural resource decisions. For example, many of the private citizens who own 35% of Minnesota's forested land look to DNR Forestry for help in managing their property to attain desirable goals such as improved wildlife habitat, increased timber production, and recreational trail development. Teachers and other educators look to DNR Forestry for materials and instructional methods that can be effectively used to help students understand the forest environment and how it is intimately connected with their economic and social well-being and that of their communities.

The focus of the Forest Management Program has shifted to agency core priorities such as state land management and wildfire protection. However, some level of reliable funding is still needed to help maintain Forestry's education and technical programs. A surcharge on state forest nursery stock is a method that other states such as Wisconsin have used to provide a source of stable funding for similar programs. DNR is aware of and will monitor whether the additional surcharge discourages some landowners from buying tree seedlings from state forest nurseries. DNR anticipates that the targeted use of surcharge revenues for public education and technical assistance will be seen as a direct benefit to private landowners and offset the effects of the marginally higher cost of state forest nursery tree seedlings.

Relationship to Base Budget

The $250,000 generated annually by this surcharge on nursery stock represents a small portion of the Division of Forestry's annual "base" direct appropriation of $33 million in FY 2006. However, this amount is significant to the maintenance of the division's education and technical assistance programs. The $250,000 generated by this change item is equivalent to approximately 20% of the amount the Division of Forestry is currently spending on education and technical assistance efforts annually. This funding will be used to write stewardship plans for private landowners and to continue delivering education initiatives such as the School Forest and Project Learning Tree programs to educators statewide.

Key Measures

The DNR Strategic Conservation Agenda 2003-2007 provides a suite of indicators and targets that help gauge progress on DNR strategic priorities. The following two Conservation Agenda indicators and their respective targets are directly affected by this change item:

- Indicator: Public involvement in DNR forestry education programs.
- Target: Maintain involvement in DNR forestry education initiatives to ensure a knowledgeable public.

- Indicator: Acres of private forest lands with forest stewardship plans.
- Target: Long-term target to have Forest Stewardship plans on 50% (2.5 million acres) of non-industrial private forest land.

Alternatives Considered

Additional funding for Division of Forestry education and technical assistance initiatives has been sought through federal and state grants. This method of obtaining a stable source of funding for education and technical assistance initiatives was considered the most "workable" based on the success of a surcharge added to the price of nursery stock in other states such as Wisconsin.

Statutory Change:
Amends Minn. Stat. Chapter 89.37, subd. 4.

Change Item: Trust Land Management Costs

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($3,500)	($3,500)	($3,500)	($3,600)
Revenues	(3,500)	(3,500)	(3,500)	(3,600)
Natural Resources Fund				
Expenditures	3,500	3,500	3,500	3,600
Revenues	3,500	3,500	3,500	3,600
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends forest management costs on State Forest Trust Fund lands certified under Minn. Stat. § 16A.125 Cost Certification be returned to the Forest Management Investment Account (FMIA) established in Minn. Stat. § 89.039. Currently these certified costs are transferred from the Forest Suspense Account to the state General Fund for general state purposes. This change item is budget neutral because it exchanges revenues and expenditures from the General Fund to the FMIA in equal amounts.

Background

The Governor's Advisory Task Force on the Competitiveness of Minnesota's Primary Forest Products Industry recommended that the Legislature create a dedicated forest management fund to "provide long-term funding stability and an incentive for active forest management." The FMIA was created in the 2004 legislative session, directing the deposit of all timber sale revenues from forestry- acquired lands and a portion of timber sale revenues from Con-Con lands to the account. However, approximately 50% of FMIA appropriations are currently used to fund forest management activities on state forest trust fund lands. Management costs for trust fund lands are certified each year and transferred to the General Fund, not the FMIA. As a result, the FMIA is essentially funding increased investments on and returns from trust fund lands without any reimbursement for costs incurred. This weakens the integrity of the FMIA and discourages investments on trust fund lands. The intent of this proposal is to strengthen the integrity of the FMIA and to maintain and encourage increased investments on state-administered forestlands, both trust and non-trust.

The Department of Natural Resources (DNR) Division of Forestry administers approximately 1.7 million acres of state forest trust fund lands. These lands generate about one-half of the DNR's timber sales receipts, which are currently from $18 million to $20 million annually. These receipts are held in a Forest Suspense Account until the close of the fiscal year. Under Minn. Stat. § 16A.125 Cost Certification, the DNR certifies the cost of managing these trust lands. The amount of certified costs are transferred from the Forest Suspense Account to the state General Fund and the remainder is transferred to the corpus of the permanent trust funds. The DNR Forest Management Program does not receive any funding from the Forest Suspense Account or the Permanent Trust Funds for management of state forest trust fund lands.

This change item will not directly affect the amount of revenue that is transferred, net of certified costs, to the permanent trust funds. Certified costs consistent with the purposes of the FMIA that are currently transferred to the General Fund will instead be transferred to the FMIA. Likewise, there will be a respective shift of expenditures on trust fund lands from the General Fund to the FMIA.

Relationship to Base Budget

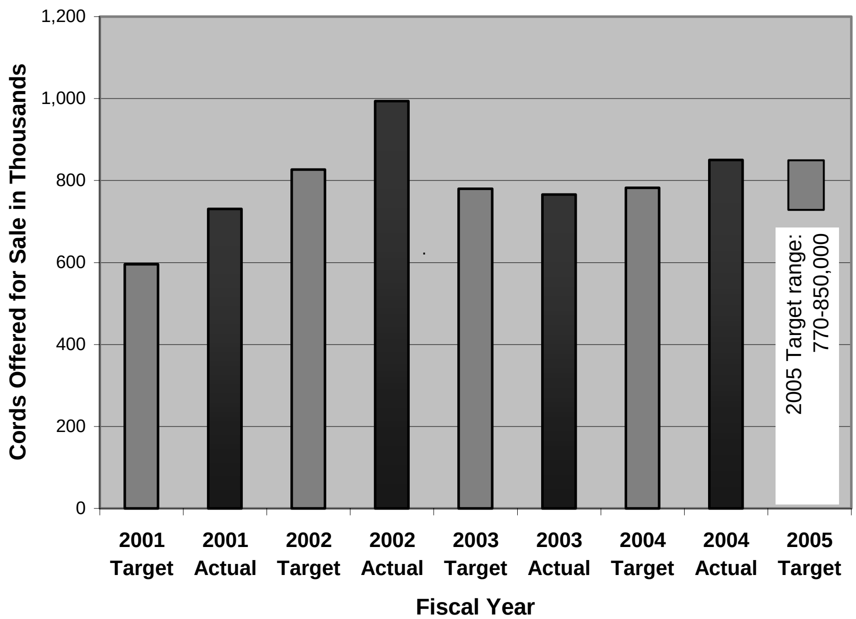
This change shifts approximately 10% of the Forest Management Program's projected "base" direct appropriations ($33 million) from the General Fund to the FMIA. Currently about 20% of the Forest Management Program direct appropriations come from the FMIA. Under this change item, that proportion would increase to about 30% (the remaining 70% continuing to come primarily from the state General Fund).

Average timber sales revenue from state forest trust fund lands has been about $10 million per year (FY 2002-04). Certified management costs have averaged about $6 million per year, of which about $3.5 million are costs consistent with the established purposes of the FMIA.

Key Measures

By strengthening the integrity of the FMIA, this change item will provide more reliable, stable, and diversified funding for the management of state forest lands. As such, it will help DNR move toward achieving key long-term program goals such as sustainable timber harvests, improved forest inventory information, and third-party certification of state forest lands.

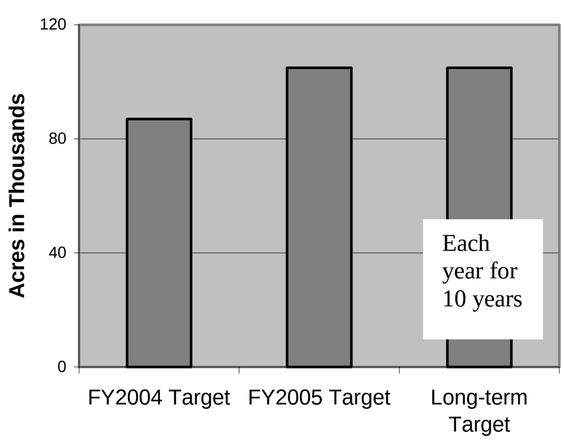
DNR Timber Sales:



Indicator: Number of cords of wood offered for sale on DNR lands.

Target: Offer 770,000–850,000 cords of timber for sale from DNR lands in FY05.

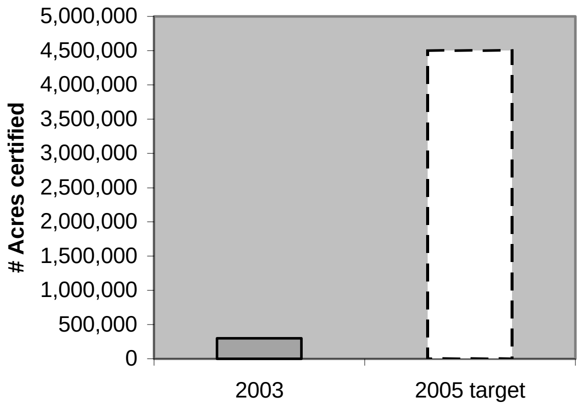
Acres of DNR Forest Lands Re-inventoried



Indicator: Acres of state forest land re-inventoried and updated each year.

Target: The long-term annual re-inventory target determined to be necessary by the DNR to continuously update and improve the CSA inventory is 105,000 acres per year.

Percent State-administered Lands Approved for Forest Certification



Indicator: Acres of state forest land approved by third-party certification as being sustainably managed.

Target: DNR plans to complete certification of all harvestable DNR forest lands in 2005.

Alternatives Considered

Transferring 25% of the net balance in the Forest Suspense Account (after M.S. § 16A.125 Cost Certification) each year to the FMIA for use by the Division of Forestry for forest management on state forest trust fund lands.

Statutory Change:
Minn. Stat. § 16A.125, subd. 5
Minn. Stat. § 89.039, subd. 1

Program: LAND & MINERALS RESOURCE MGMT

Change Item: Aggregate Inventory on School Trust Land

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
School Fund				
Expenditures	50	50	50	50
Revenues	0	0	75	150
Net Fiscal Impact	$50	$50	($25)	($100)

Recommendation

The Governor recommends $50,000 be appropriated annually to the commissioner of natural resources from the school trust fund forest suspense account for site-specific aggregate evaluations on school trust fund land.

Background

The goal is to increase revenues generated to the school trust by leasing sand and gravel resources. In addition the Department of Natural Resources (DNR) will develop mining and reclamation plans designed to protect the surrounding environment. The DNR has done site-specific resource evaluations for aggregate deposits on a small number of lands it manages, which have subsequently been leased for mining and are currently generating royalty revenues. The extent and quality of aggregate deposits is unknown until an evaluation is conducted. The evaluation provides information necessary to place a fair value on the deposit and to develop a mine plan that ensures protection of surrounding features such as wetlands and groundwater. There are only limited funds available for future evaluations. This proposal would allow a substantial increase in the number of lands that could be evaluated. Based on past experience, overall income from mining is expected be 10 to 20 times larger than the investment that is made.

Relationship to Base Budget

The change item is relatively small but should result in significant income increases for the Permanent School Fund. The DNR expectation is that the income generated from an investment of $50,000 per year will yield an income of $500,000 to $1 million over the life of the mining activity. The DNR will target the evaluation of aggregate deposits located on School Trust lands that are in high aggregate demand areas and we will look for areas of a size that will support production for several years (5 to 10 years on average, and sometimes much longer).

Key Measures

Fiduciary responsibilities established in the Constitution and several state laws require the DNR to consider the securing of maximum long-term economic return from its management of School Lands. Income from the mining of aggregates can be substantial. The wise management of School Trust Lands should include an evaluation of whether aggregates exist and if they can be economically developed. The measure of success will be in the income derived.

Alternatives Considered

There are no alternatives to doing an aggregate evaluation in order to determine if mining is feasible. The DNR believes that it has the responsibility to identify income generating potential, including aggregate mining feasibility.

Statutory Change:
The statute affected by the change item will be M.S. § 16A.125.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Revenues	($137)	($112)	($79)	($79)
Expenditures	(1,526)	(1,526)	(1,526)	(1,526)
Permanent School Fund				
Revenues	(1,841)	(2,143)	(1,960)	(1,440)
Return of Rev from Minerals Mgmt Acct			741	487
Permanent University Fund				
Revenues	(1,134)	(1,389)	(1,260)	(1,380)
Return of Rev from Minerals Mgmt Acct			476	466
Natural Resources Fund				
Minerals Management Account (new)				
Revenues (20% of Mineral Income)	3,112	3,644	3,299	2,899
Revenues: Return to School Trusts			(1,217)	(953)
Expenditures: Minerals Management	1,526	1,526	1,946	1,946
Expenditures: Minerals Enhancement	420	420		
Net Change: All Funds and Accounts	$420	$420	$420	$420

Recommendation

The Governor recommends the Department of Natural Resources (DNR) use a portion of the revenues produced from the mining of state-owned metallic minerals to fund the cost of the mineral management activities that are primarily related to the generation and collection of that revenue. The financial responsibility of providing such mineral management, currently funded by an appropriation from the General Fund, will instead be placed on the funds that receive the economic benefit from the minerals management operations.

Beginning in FY 2006, 20% of all mineral revenues generated on acquired, tax-forfeited, and school and university trust lands would be deposited to the new Minerals Management Account in the Natural Resources Fund. The costs of managing the state's minerals resources on tax-forfeited, acquired and trust lands will be annually appropriated from a new Minerals Management Account. An annual appropriation from the account for resource management will replace an equal appropriation from the General Fund. The net impact to the General Fund will be an expenditure reduction as shown above.

An additional annual appropriation of $420,000 from the Minerals Management Account will fund new mineral initiatives. This new level of funding would target projects intended to expand future mineral revenues.

The year-end account balance in the Minerals Management Account will be capped at $3 million. A portion of the 20% in annual mineral receipts will be returned to the funds and accounts where the revenues are generated as the account balance in the Minerals Management Account exceeds $3 million.

Background

The DNR currently manages mineral rights on about 12 million acres of land. In FY 2004 approximately $11 million in mineral income was generated from state-owned mineral lands. The majority of the mineral rights are located on lands that at one time were either granted to the state by the federal government for certain specified uses, or that were acquired by the state as a result of forfeiture related to the non-payment of taxes. In either case the DNR now serves as the mineral management trustee for these mineral rights and is responsible for prudently managing the leasing of minerals and ensuring that the income generated is credited to the appropriate accounts.

In its capacity as mineral management trustee the DNR performs a number of tasks including: the collection and maintenance of geologic data and samples used to promote future mineral development; conducting mineral lease sales; negotiating mineral leases, and preparing lease documents and other legal contracts; inspection of active mining and exploration areas to ensure lease compliance; cooperatively working with industry to identify cost effective methods and technologies to expand the value and uses of mineral resources; collaboration with mine operators to identify environmentally acceptable practices to ensure that mine areas have utility and value when mining ceases; and providing technical advice on mineral development proposals when state funds or minerals are involved.

Historically the legislature has appropriated General Fund money for state mineral management. In 1945 the legislature added the management of tax-forfeited minerals to the DNR's responsibility, and directed 20% of the income generated from tax-forfeited mineral sales into the General Fund, to cover management costs. This proposal recommends that 20% of revenue from the leasing of all state minerals be used to pay the mineral management costs. The annual General Fund appropriation will be replaced by an appropriation from the Minerals Management Account.

This proposal is to maintain the current level of mineral management activity and to provide additional funds to enhance mineral income potential. The DNR proposes to promote new opportunities such as the development of value-added iron products, conduct geological mapping projects to help identify new mineral resources, and conduct scientific research, such as on mercury collection, that could ultimately help increase the amount of state mineral resources that can be processed. Mineral income has grown substantially in recent years and there continues to be opportunities for future growth in iron ore and for expansion into other minerals. Providing additional funds to investigate income enhancement opportunities is consistent with recommendations in the recently completed Governor's Task Force Report on Minnesota's Mining Future.

Relationship to Base Budget

This initiative will shift the current costs of mineral management from the General Fund to those funds that receive the income from mineral leasing. The costs of management will remain unchanged but there will be $420,000 during each year of the biennium available to investigate ways of enhancing future income generation. Since the beginning of iron ore mining in the 1880s, the cost of mineral management for state-owned minerals has primarily come from the General Fund. The Funds that benefit from income generated off their lands have typically only funded management efforts associated with the land's surface interests, such as timber. Only on a few occasions have the trust funds paid the costs for managing the mineral rights.

In the mid-1950s an Attorney General's opinion held that the State Constitution does not allow the use of income generated from School and University Trust Fund Lands to be spent for mineral management purposes. The Attorney General in 1995 advised the DNR that it would be legal to assess mineral management costs against the mineral revenues from trust land, provided that the expenses were reasonable and related to the lands involved. Based on that advice, in fiscal years 1997 and 2002, when General Fund revenues were limited, a portion of the cost for mineral management was shifted to the trust funds. General Fund revenues are again limited. The DNR is proposing that the funds benefiting from management begin to permanently contribute to the mineral management efforts.

Key Measures

The DNR has fiduciary responsibilities established in the Constitution and several State Laws for managing state-owned minerals. One key trustee responsibility is to secure maximum long-term economic return from the sale of state minerals. Income from minerals is a substantial part of the annual income from state lands and therefore wise mineral management is essential. The measure of success will be in the continuation of income generation.

Alternatives Considered

The only current alternative is maintaining the status quo—using general fund dollars to finance mineral management on state trust lands. This alternative would reduce general fund dollars available for other DNR programs and would limit incentives for maximizing revenue generation on state trust lands.

Statutory Change:
Statutes to be amended include M.S. § 93.22 and M.S. § 93.2236.

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
School Fund				
Expenditures	300	300	250	250
Revenues	0	200	325	450
Net Fiscal Impact	$300	$100	($75)	($200)

Recommendation

The Governor recommends $600,000 over the FY 2006-07 biennium for identifying ways to enhance income generation for the Permanent School Fund (PSF) from management of School Trust Fund Lands. When revenue generation cannot be achieved, options to sell, condemn, or exchange the lands for others will be analyzed.

Background

This proposal is a new initiative for $300,000 each year of the biennium and somewhat less in future years. The funds will be appropriated from the forest suspense account. The appropriation will be spent on staff; professional and technical contracts; and for appraisal, abstract and survey costs.

The following table identifies activities, anticipated costs, and potential incomes.

Enhancing Revenue Generation from School Trust Fund Lands (in $000s)

Activity	FY 2006	FY 2007	FY 2008	FY 2009
EXPENDITURES				
School Land Inventory	$150	$125	$50	$50
New Income Opportunity Analysis	75	75		
Accelerated Exchanges	50	50	50	50
Additional Land Sales	25	50	75	75
Marketing New Income Opportunities	0	0	75	75
TOTAL	$300	$300	$250	$250
INCOME**				
Timber Sold on Land Acquired by Exchange			$25	$50
Land Sales	0	200	300	400
TOTAL	$0	$200	$325	$450

*** Opportunities identified in the study should result in additional income*

Relationship to Base Budget

Appropriation of $300,000 per year is a relatively small portion of the revenue earned on the trust fund lands annually. The Department of Natural Resources (DNR) base budget contains funds for mineral management, forest management and real estate management. The real estate management program includes funds to negotiate and manage leases, coordinate land exchange and sales and grant utility licenses and road easements.

Under this proposal, an inventory of school trust land and identification of additional income producing opportunities can be carried out. This proposal also would expand land exchanges and allow a modest increase in land sales and condemnations. Our current goal is to complete one exchange per biennium and sell seven to ten parcels per year. This funding would allow several more exchanges per biennium and double the land sales.

Key Measures

The DNR has fiduciary responsibilities established by the Constitution and several State Laws to manage various lands granted to Minnesota for the support of Schools. One of the key responsibilities required by law is to ensure long-term economic return from these lands. To ensure revenue generation, the DNR is proposing to inventory the lands to determine their income-earning capabilities and to evaluate both traditional and innovative methods that might be available to meet the state's obligation to the Permanent School Fund.

Alternatives Considered

The use of general fund dollars for financing revenue enhancement strategies was examined in the context of agency funding priorities and incentives provided for increasing revenue generation on trust lands. From both perspectives, the option of using funds from the Permanent School Fund to increase revenues to the fund is the most workable one.

Change Item: Road Easement Application Fee

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($20)	($20)	($20)	($20)
Revenues	0	0	0	0
Natural Resources (new account)				
Expenditures	20	20	20	20
Revenues	20	20	20	20
Net Fiscal Impact	($20)	($20)	($20)	($20)

Recommendation

The Governor recommends a $2,000 application fee to be submitted with each request from a private individual for an easement to cross state land in order to gain access to his or her property in order to cover the costs of inspection, analysis, and preparation of easements.

Background

The Department of Natural Resources (DNR) considers requests by individuals to cross state land in order to gain access to their property, in accordance with M.S. § 84.631. Road easements can be allowed if there is no reasonable alternative and if the roadway will not cause significant environmental or natural resource management impacts. The DNR analyzes the request and determines the impacts. This proposal would require a $2,000 application fee to be submitted with the request for easement to pay for inspection, analysis, and preparation of the easement terms. Based on recent experience, it is estimated that about 10 such requests will be made annually in the next few years.

Relationship to Base Budget

The DNR currently uses its General Fund operating appropriation to cover the administrative costs related to easements to cross state land. Currently a payment equal to the estimated market value of the land or $500 (whichever is greater) is collected when an easement is issued, and the amount goes to the fund for which the land is managed (for example to the Permanent School Fund if the land is School Trust Land). This proposal is to collect a $2,000 fee to cover the inspection, analysis, and easement preparation costs of the DNR. In addition, the estimated market value of the land would continue to be collected and directed to the Fund for which the land is managed.

Key Measures

Performance is not anticipated to change with the implementation of this initiative. This proposal will merely require an applicant to pay for administrative costs associated with an easement issuance, rather than have those costs subsidized by taxpayers through an appropriation from the General Fund.

Alternatives Considered

The only other option considered is to continue with the current practice. .

Statutory Change:

The statutes that would be modified are M.S. § 84.631 and a new section in chapter 92 to establish an account in the natural resources fund from which the costs for administration of the road easement program could be appropriated.

Change Item: Sale of Tax-forfeited Riparian Lands

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Natural Resources (New Account)				
Expenditures	500	500	500	500
Revenues	500	500	500	500
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends a grant program of up to $1 million over the FY 2006-07 biennium be created to direct a portion of the proceeds collected from the sale of tax-forfeited riparian lands. Grants would be used for the improvement or enhancement of the water resources in the vicinity of the tax-forfeited land. The commissioner of natural resources would be responsible for project selection based on advice from lake owners, watershed officials, county and local government officials and others.

Background

The state holds title to tax-forfeited lands in trust for the local taxing districts. The management of tax-forfeited land is the responsibility of the county. In some instances the county may determine that sale of the tax-forfeited land to get it back on the tax roles is in the public interest. If a determination to sell the land is made, the Department of Natural Resources (DNR) is responsible for reviewing the proposal and commenting on natural resource impacts. The commissioner can approve the sale of lands with less than 150 feet of shoreline. The legislature must approve the sale of lands with more than 150 feet of shoreline. In either case, restrictions to protect the natural resources may be required as part of the terms of the sale.

A county's decision to sell riparian tax-forfeited land is often based on the need to support the county's budget. The sale of land provides both short-term income, (the proceeds from the sale) and a very important continuing long-term income source (property taxes). This proposal addresses the sale proceeds portion of the income. The DNR believes that surface water resources are extremely important; providing aquatic habitat, public recreation, and high quality water for numerous purposes. This proposal uses a portion of the proceeds to enhance surrounding water resources. Under this proposal, the improvement activities could be conducted by the DNR, local units of government, or lake associations. Efforts will be made to seek matching funds.

Relationship to Base Budget

The DNR has several grant programs involving natural resource improvement activities. This proposal targets the sale of Riparian Tax-Forfeited land. Such parcels may be limited to a couple dozen each year across the state. This recommendation will have a limited impact from a statewide perspective, but it could have a very significant positive effect on the quality of water resources in the vicinity of an affected tax-forfeited parcel.

Key Measures

The DNR is required by statute to review proposals from counties regarding the sale of tax-forfeited land. The lands are reviewed from the perspective of the sale's impact on natural resources. As part of this review it is reasonable that recommendations will be made on how the resources might be protected or enhanced. This proposal will provide a funding source to pay for such improvements.

Alternatives Considered

No additional alternatives have been studied, other than use of the ongoing natural resource management programs of the DNR.

Statutory Change:
Statutes impacted by the proposal include M.S. § 84.976 to establish an account, and M.S. § 282.09 to redirect revenues from the sale of tax-forfeited lands.

Change Item: Statutory Appropriation for Parks

Recommendation

The Governor recommends:

I. Changing the annual direct appropriation to the Parks and Recreation Management Program from the Parks Operating Account in the Natural Resources Fund from to a statutory appropriation.

II. Providing Department of Natural Resources (DNR) with the ability to waive or reduce state park entrance fees in order to operate in a more entrepreneurial manner. From an overall budget perspective, this change item is budget neutral.

Background

I. Fees generated through park operations (park entrance fees, camping and parks facilities rentals) have been deposited to a Parks Operating Account since FY 2002. Spending from the account by the Parks and Recreation Management Program has been authorized by direct appropriation. Changing the annual appropriation from the Parks Operating Account from a direct to a statutory appropriation is consistent with the approach of linking spending on parks operations to annual receipts.

II. The Parks and Recreation Management Program has traditionally crafted marketing strategies that enhance system use and maintains a 95% customer satisfaction level. Entrance fees are a critical factor in attracting visitors, and the ability to adjust the fees based on season, service levels, special events, and type of unit would enhance the program's marketing strategies. In addition, the ability to charge lower fees during the week may attract additional state park users during lower demand periods.

Relationship to Base Budget

I. Parks direct appropriation is $29.284 million in FY 2006, with $16.211 million from the General Fund, $3.462 million from the Lottery in-lieu Parks and Trails Account, $8.971 million from the Parks Operating Account and $.640 million from the Water Recreation account. This budget initiative proposes changing the $8.971 million, about 31% of the base budget for parks operations, to a statutory from a direct annual appropriation.

II. No change to base budget.

Key Measures

The importance of this change is establishing the relationship between annual expenditures from the Parks Operating Account and actual receipts deposited to the Parks Operating Account. The challenge to the division is to take advantage of expenditures that result in increased revenues. When revenues are statutorily available to the Parks and Recreation Management Program, the division can be more responsive. Increased receipts will be more readily available for Parks to spend within the parks system and follow-up on additional revenue-generating opportunities. It may take a year or more to assess the degree to which this approach benefits parks operations.

Statutory Change:

I. Minn. Stat. § 85.055 Subd. 2 must be amended to state that money in the account is annually appropriated to the commissioner to operate and maintain the state park system.

II. Minn. Stat. § 85.055 Subd. 1 must be amended to state that, except as otherwise specified in law and notwithstanding section 16A.1285, subdivision 2, the commissioner may by written order authorize waiver or reduction of state park entrance fees.

Change Item: All-Terrain Vehicle (ATV) Gas Tax Study

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Natural Resources Fund				
Expenditures	75	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$75	$0	$0	$0

Recommendation
The Governor recommends a one-time appropriation of $75,000 from the All-Terrain Vehicle (ATV) Account in the Natural Resources Fund. The appropriation will fund a study of the amount of gasoline used each year by all-terrain vehicle riders in the state. The one-time study will cost $75,000. If supported by the results of the study the agency may propose a future legislative amendment to increase the percentage of gas tax transferred into the All-Terrain Vehicle Account (see Minn. Stat. § 84.927).

Background
The last ATV gas study was completed in 1985 when only 19,159 ATVs were registered in the state. Almost twenty years later, in 2003, about 205,800 ATVs are registered. The 1985 use study was the basis for designating in statute that 0.15% of total gas tax revenue relates to ATV operation. Given the significantly higher number of ATVs registered and operated around the state, an updated study may likely conclude that ATV gas consumption, as a percent of the total gasoline consumption, is much greater than 0.15%.

Relationship to Base Budget
In FY 2005 the Trails and Waterways Management Program received a direct appropriation of $2 million from the All-Terrain Vehicle Account in the Natural Resources Fund. The addition of $75,000 in the direct appropriation from this account is a one-time increase of 3.7%.

Key Measures
A study describing that portion of unrefunded gas tax receipts attributable to all-terrain vehicle use.

Alternatives Considered
The alternative is to not ask for funding to conduct the ATV use study and therefore not be able to answer the question of whether the appropriate amount of gas tax is transferred annually to the All-Terrain Vehicle Account.

Change Item: Cross-Country Ski Pass Fee Increase

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Natural Resources Fund				
Expenditures	140	140	140	140
Revenues	140	140	140	140
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends that the daily cross-country ski trail pass fee be increased from $3 to $5, the annual cross-country ski trail pass fee be increased from $10 to $15, and the three-year cross-country ski trail pass be increased from $25 to $40.

Background

The cross-country ski pass was established in 1983 and trail pass fees were last increased in 1999. The revenues are used to maintain 1,003 miles of grant-in-aid cross-country ski trails. Maintenance and grooming costs greatly exceed available fee revenues, which average $210,000 annually. This initiative would increase revenues generated from the sale of ski passes by approximately 67%. The increase would help Department of Natural Resources (DNR) meet the actual needs for maintenance and grooming of cross-country ski trails. The fee increases outlined above are supported by cross-country skiing representatives.

Relationship to Base Budget

Funds in the Cross-Country Ski Account of the Natural Resources Fund are appropriated to the commissioner based on projected revenues from the ski pass.

Key Measures

The increased appropriation will be used to meet the current level of need for maintenance and grooming in state units (including state trails) and grant-in-aid cross-country ski trails.

Alternatives Considered

No alternative revenue sources were evaluated.

Statutory Change:
Changes are needed to Minn. Stat. § 85.42.

Change Item: Fishing Pier Adjustments

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Natural Resources Fund				
Expenditures	(154)	(154)	(154)	(154)
Revenues	0	0	0	0
Game and Fish				
Expenditures	154	154	154	154
Revenues				
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends the conversion of $154,000 annually from the Water Recreation Account in the Natural Resources Fund to the Game and Fish Fund for operation and maintenance of public fishing piers.

Background

This proposal would fund installation and maintenance of fishing piers from the Game and Fish Fund, rather than funding this effort from the Water Recreation Account in the Natural Resources Fund. Presently, there are over 300 public fishing piers and platforms installed by Department of Natural Resources (DNR) statewide. More than 2/3 of these were purchased/installed prior to 1995, with more than 60 installed prior to 1990. FY 2004 data indicates that the DNR spent $104,000 annually on fishing pier spring installations, winter storage preparations, maintenance, installations, and assistance to local partners. Structural repair, which includes float replacement, bracket repairs, etc., is estimated at an additional $50,000 per year.

Relationship to Base Budget

This activity is currently funded through the Water Recreation Account in the Natural Resource Fund. This expenditure is not consistent with the purpose of the Water Recreation Account as established in Minn. Stat. § 296A.18 Subd. 2.

Key Measures

Continued operation and maintenance of 300 public fishing piers, structural repairs, and installation of new fishing piers.

Change Item: Wallop-Breaux Water Access Funding

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Game and Fish Fund				
Expenditures	253	249	249	249
Revenues	0	0	0	0
Net Fiscal Impact	$253	$249	$249	$249

Recommendation
The Governor recommends additional resources be appropriated from the Game and Fish Fund for expenditure on water access sites according to the requirements of the Federal Sport Fish Restoration Program. The request is for $253,000 for FY 2006 and $249,000 for FY 2007. This budget initiative will align the level of state expenditures through the Trails and Waterways Program with the required 15% of the federal apportionment.

Background
The Federal Sport Fish Restoration Program, administered by the U.S. Fish and Wildlife Service, requires the state to allocate 15% of the federal funds apportioned to the Department of Natural Resources (DNR) each fiscal year for expenditures on water access sites. Funds for this program are provided by boaters through a Federal gas tax based on boat usage, an excise tax on boating equipment and fishing tackle, and other related funding sources. According to federal program guidelines 15% of the federal apportionment must be used on expenditures for acquisition, development and renovation or improvement of public boat access facilities for recreational boating purposes.

Relationship to Base Budget
Funding from the Game and Fish Fund for this program is $1.684 million for FY 2005.

Key Measures
The additional resources will be used to upgrade and increase the number of boat access facilities through land acquisition and development of new access sites, and the expansion and renovation of existing boat access sites throughout the state. With the technological advances in boats, motors and equipment, and their cost to the customer, recreational boaters and anglers expect the DNR to provide boat launch facilities that can accommodate larger boats and trailers and more powerful motors.

Program: WATER RESOURCES MGMT

Change Item: Administrative Penalty Order (APO)

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	2	5	5	5
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($2)	($5)	($5)	($5)

Recommendation

The Governor recommends the commissioner be provided the authority to issue civil citations in the form of fines or orders for corrective action for egregious and repeat violations of Department of Natural Resources (DNR)-administered water resources management programs to provide for better protection of our water resources. Revenues resulting from this program would be deposited in the General Fund.

Background

DNR does have certain enforcement powers for dealing with water violations but they are limited to Cease and Desist Orders, Commissioner's Restoration Orders or criminal citations. This Administrative Penalty Order (APO) authority is above and beyond existing enforcement mechanisms, and as civil proceedings, would reduce the need for criminal proceedings to protect and manage the state's water resources.

The Departments of Health and Agriculture and the Pollution Control Agency already use APO authority and this provides greater flexibility in dealing with violations of pesticide, water well, feedlot and solid waste regulations.

This bill was developed using language from the Non-Felony Enforcement Advisory Committee that evaluated alternatives to traditional court actions about five years ago.

DNR will develop an implementation plan defining how APO will be administered before the authority is implemented. This plan will be developed in lieu of rules and will be completed by December 31, 2005.

Relationship to Base Budget

The revenue generated by this new authority is expected to be small, ranging from $2,000 to $5,000 per year. It is not expected that APO will be used very often but it is an important regulatory tool to have available.

Key Measures

It is important to have the option of large civil penalties to protect our valuable water resources and to provide an alternative to criminal proceedings.

Statutory Change:
This change requires an amendment to M.S. Chapter 103G for new statutory language.

Change Item: Surcharge on Summer Water Use

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$330	$330	$330	$330
Revenues	330	330	330	330
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$0	$0	$0	$0

Recommendation
The Governor recommends a surcharge be required in the amount of $20 per million gallons of water used by municipalities to supply summer peak demands for such uses as lawn watering, irrigation of golf courses, and landscape irrigation.

Background
In municipalities, summer water use for some communities is two to four times the winter use and adding a surcharge will help to encourage improvements in water use efficiency. There is a growing need to better evaluate the sustainability of the state's water resources and the impacts from peak demands caused by low priority water uses. This change would generate about $330,000 per year to the general fund and would encourage conservation of water.

The revenue generated from this surcharge is proposed for appropriation to the Department of Natural Resources (DNR). The $330,000 raised from this surcharge would be used to hire staff to conduct sustainability studies, conservation planning and provide technical assistance to large water appropriators.

Relationship to Base Budget
The amount of new money raised ($330,000) is relatively small when compared to the $3.5 million of water use fees collected for the general fund or the $10 million Water Resources general fund budget. A focus on sustainability and water conservation issues is, however, an important addition to the Water Resources Management Program budget.

Key Measures
- ♦ The difference between peak summer water use and winter use will decrease.
- ♦ The increase in funds directed toward sustainability studies will better prepare us for dealing with future water needs.

Statutory Change:
A new subdivision will need to be added to Minn. Stat. § 103G.701 as follows:
A surcharge of $20 per million gallons in addition to the fee prescribed in paragraphs (a) shall be applied to the volume of water used in June, July, and August that exceeds the volume of water used in January for municipal water use, irrigation of golf courses and landscape irrigation. Fees received must be deposited in the state treasury and credited to the general fund. Fees received are appropriated annually from the general fund to the commissioner of natural resources.

CHANGE ITEM

Program: Water Resources Management

Change Item: Water Permit Fee Increases

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures IV	$10	$10	$10	$10
General Fund				
Revenues I	63	63	63	63
Revenues II	150	150	120	80
Revenues III	48	48	48	48
Revenues IV	0	0	0	0
Net Fiscal Impact	($251)	($251)	($221)	($181)

Recommendation

The Governor recommends:

I. Increasing the permit application fee for public waters and appropriation permits to better cover the actual costs of processing applications;

II. Adjusting the fees charged for once-through cooling systems to reflect the increase due to inflation since 1990;

III. Eliminating the "no water used fee structure" for appropriation of water for irrigation of agricultural land and wild rice. This would mean those permits would pay the same minimum fee as all other users; and

IV. Appropriating the $10,000 in annual monitoring fees collected from CenterPoint Energy for the underground gas storage facility to the Water Resources Management Program for expenditure on analysis and monitoring.

Background

I. The permit application fees were set in 1988 and have not been adjusted since then. The inflation adjustment from 1988 to 2004 is about 60%. The recommendation is to raise the application fee from $75 to $150 and the application fee maximum from $500 to $1,000. These fees are deposited to the General Fund.

II. The fee increase for once-through cooing systems from $200 per million gallons to $300 per million gallons will generate about $160,000 in 2005. Water use fees were increased in 2003 to adjust for inflation and the once-through cooling fee was not increased at that time. Most once-through systems are scheduled to be converted to alternative cooling technologies by 2010. Consequently, the revenue collected will decrease over time as these systems convert.

III. Currently, about 600 agricultural irrigators and wild rice producers pay a minimum water use processing fee of $20 per year in years they don't appropriate any water or their permit is suspended. All other permitted appropriators pay a minimum water use processing fee of $101 per year.

IV. CenterPoint Energy started storing natural gas in an underground dome formation near the towns of Waseca and Waterville around 1968; approximately 6.5 billion cubic feet of natural gas is now stored at this facility. The DNR is required to review, analyze and monitor this storage activity to ensure that gas is not leaking into the aquifers or other formations. The DNR collects the information from CenterPoint Energy `and from water wells around the gas storage area. The results of this monitoring activity are sent to Dr. Paul Witherspoon at the University of California-Berkley, who is an expert on underground gas storage. The DNR has contracted with Dr. Witherspoon since the beginning for analysis of the monitoring data that are collected. DNR bills CenterPoint Energy for the actual costs of field inspections, meetings, monitoring activities and the contracted analysis. The recommendation is to appropriate these funds back to the Water Resources Management Program to cover these costs.

Relationship to Base Budget

I. This change in application fees is estimated to increase the revenue to the General Fund by $63,000. It is a small change in relation to the Water Resources Management Program's FY 2005 General Fund budget of $10 million.

II. This is a small change and the revenue to the General Fund will decrease over time. The $160,000 of additional revenue in 2005 is small compared to the Water Resources Management Program's $10 million budget in FY 2005.

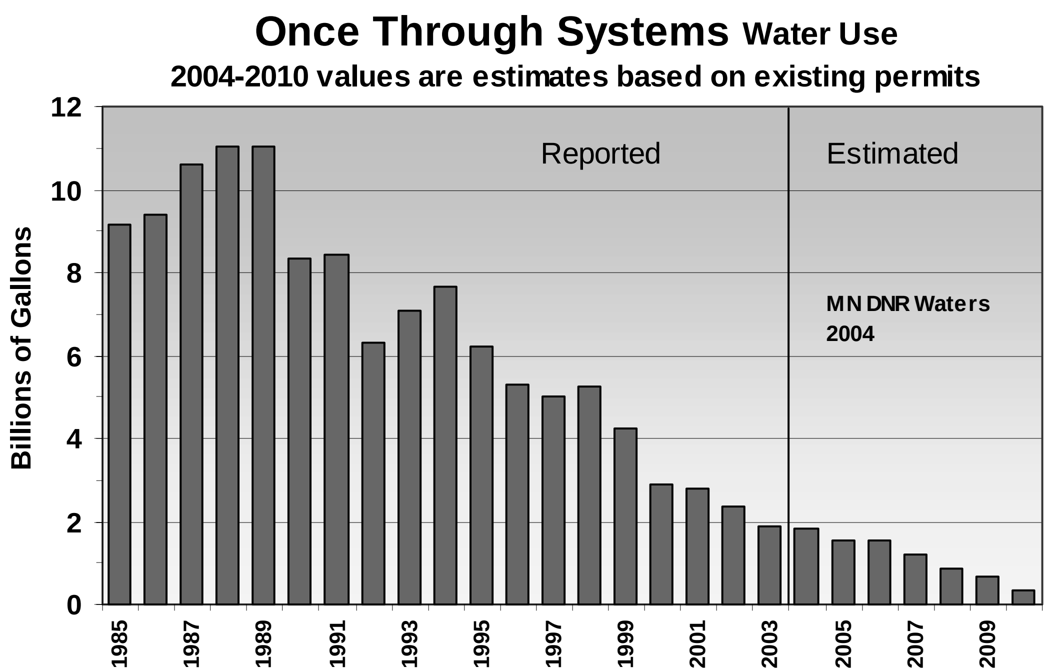
III. This change in fees is estimated to increase the revenue to the General Fund by $48,000. It is a small change in relation to the Water Resources Management Program's FY 2005 General Fund budget of $10 million.

IV. The fees currently received from CenterPoint Energy are currently deposited in the General Fund. Under this proposal the fees would still be deposited in the General Fund but would be appropriated to the DNR for expenditure on the costs of field inspections, monitoring and analysis of the underground gas storage facility.

Key Measures

I. This change item will generate more funds to the state General Fund. It is expected the number of permit applications will remain relatively constant at about 800 per year.

II. There are currently 22 once-through cooling facilities for which DNR has issued permits. Most of these remaining once-through cooling systems will be switched to alternative cooling technologies by 2010.



III. This change item will generate more funds for deposit to the General Fund.

IV. The DNR will continue to monitor the site to ensure that the gas does not leak into the aquifer or other geologic formations in the area of the facility.

Statutory Change:

Program: Water Resources Management

Change Item: Water Permit Fee Increases

I. Minn. Stat. § 103G.301, Subd. 2 (b) would be amended by deleting $75 and inserting $150 and by deleting $500 and inserting $1,000.

II. Minn. Stat. § 103G.271, Subd. 6 (2) would be amended by deleting $200 and inserting $300.

III. Minn. Stat. § 103G.271, Subd. 6 (f) would be deleted.

IV. This change requires an amendment to Minn. Stat. § 103I.681 Subd. 11.

PAGE

Minnesota Pollution Control Agency

Office of the Commissioner

January 25, 2005

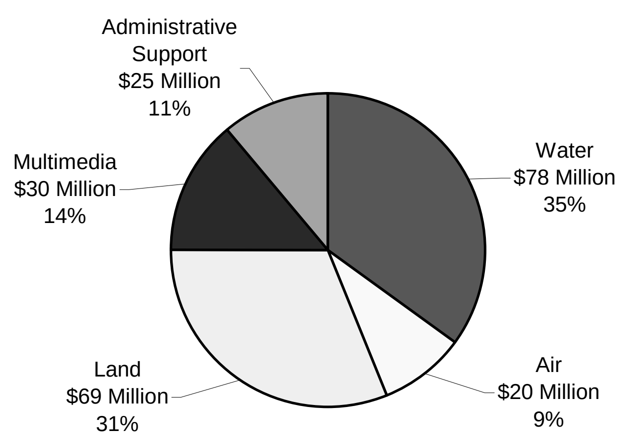
To the 2005 Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Pollution Control Agency's (PCA) budget recommendation for the FY 2006-07 budget. The most important aspect of this recommendation is the creation of a new Department of Environmental Protection. This new Department of Environmental Protection will combine the existing staff and authorities of the PCA with those of the Office of Environmental Assistance (OEA) and will be better positioned to meet the environmental challenges facing our state. The budget of the new Department consists of a total of $24 million in expenditures from the state's General Fund and $239 million from other funds. The FY 2006-07 budget submittals for both the PCA and the OEA include the change item for the new Department of Environmental Protection.

To provide context for the new Department of Environmental Protection's budget, we present you with information on the PCA contribution. The PCA's portion consists of $24 million from the state's General Fund and $198 million from other funds. These funds will be used to maintain the new Department of Environmental Protection's mission, core functions, and address the state's highest environmental priorities.

As the graphic indicates, PCA activities historically fall into the five program categories: Water, Air, Land, Multimedia and Administrative Support. These same categories will be maintained in the new Department of Environmental Protection's budget.

POLLUTION CONTROL AGENCY
FY 2006-07 Governor Recommendation Budget by Program less Department of Environmental Protection Change Item $222 Million Total all Funds



In building our portion of the Department of Environmental Protection's proposed budget, the PCA has avoided across-the-board reductions. Instead, the FY 2006-07 budget is the third biennial budget that is based on funding program priorities of the PCA and ensuring that activities link to the strategic plan. The program priorities are based on the following factors:

- Environmental conditions – both unaddressed emissions and to prevent areas from becoming impaired because that results in expensive restoration or cleanup activities.
- Lifecycle of the activity. For example, our remediation programs lead the nation in cleanups accomplished. We are finishing the last of the sites, classified as C and D level priority.
- Stakeholder input – PCA and OEA jointly put our budgeting dilemmas forward and our strategy to address them at a stakeholder meeting in July 2004.

In keeping with our prioritization, the proposed PCA portion of the Department of Environmental Protection's budget reflects the shift in PCA focus from larger, point sources of pollution (large industrial or municipal sources) to smaller more diverse nonpoint sources. However, we recognize that to maintain improvements it is critical to continue operating strong, core regulatory programs. Within each of these areas, the PCA will continue to monitor the health of our environment, measure the effectiveness of our programs, and report on our results.

Currently only 12% of the annual budget for the PCA is from the general fund. Citizens and the PCA rank maintaining or restoring water quality as the highest environmental priority. The water programs receive 82% of the PCA general fund budget, followed by administrative support and emergency response. None of the PCA's lowest priorities are funded by general fund. Because water quality is the citizen's and PCA's highest priority, this budget includes a proposal for reductions and reallocations from the lower priority land programs to address the current funding needs for the water programs at PCA which would maintain the current water activity at the same level for two more years.

The development of this budget proposal for the PCA portion of the Department of Environmental Protection provided an opportunity to look critically at our mission, core functions, program priorities, and results. The PCA defined priorities based on sound science, as well as input from citizens and stakeholders. Our new Department of Environmental Protection and the resource contributions from both PCA and OEA, will help maintain past environmental improvements, move priority programs forward, and continue to meet Minnesotan's expectations for a cleaner, healthier place to live and do business. I look forward to working with you in building the new Department of Environmental Protection and the implementation of this budget.

Sincerely,

Sheryl A. Corrigan
Commissioner

	Current FY2004	Current FY2005	Governor Recomm. FY2006	Governor Recomm. FY2007	Biennium 2006-07
				Dollars in Thousands	
Direct Appropriations by Fund					
Environment & Natural Resource					
Current Appropriation	762	518	518	518	1,036
Recommended	**762**	**518**	**300**	**300**	**600**
Change		0	(218)	(218)	(436)
% Biennial Change from 2004-05					-53.1%
General					
Current Appropriation	14,715	14,715	14,715	14,715	29,430
Recommended	**14,715**	**14,715**	**11,764**	**11,764**	**23,528**
Change		0	(2,951)	(2,951)	(5,902)
% Biennial Change from 2004-05					-20.1%
State Government Spec Revenue					
Current Appropriation	48	48	48	48	96
Recommended	**48**	**48**	**48**	**48**	**96**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Environmental					
Current Appropriation	26,812	26,812	26,812	26,812	53,624
Recommended	**26,812**	**26,812**	**58,800**	**59,107**	**117,907**
Change		0	31,988	32,295	64,283
% Biennial Change from 2004-05					119.9%
Remediation					
Current Appropriation	11,404	11,404	11,404	11,404	22,808
Recommended	**11,404**	**11,404**	**11,403**	**11,403**	**22,806**
Change		0	(1)	(1)	(2)
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
Environment & Natural Resource	599	681	300	300	600
General	13,358	16,285	11,764	11,764	23,528
State Government Spec Revenue	44	52	48	48	96
Special Revenue	87	0	0	0	0
Environmental	24,321	29,042	58,800	59,107	117,907
Remediation	10,705	11,703	11,403	11,403	22,806
Statutory Appropriations					
Public Facilities Authority	5,189	5,707	2,263	2,263	4,526
State Government Spec Revenue	0	1	1	1	2
Special Revenue	11,922	14,158	12,342	12,342	24,684
Federal	25,065	28,351	19,773	17,497	37,270
Environmental	104	329	2,390	2,393	4,783
Remediation	25,034	33,935	13,807	12,670	26,477
Gift	0	0	11	11	22
Total	**116,428**	**140,244**	**132,902**	**129,799**	**262,701**

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Expenditures by Category					
Total Compensation	53,258	54,862	59,068	61,208	120,276
Other Operating Expenses	47,785	67,473	52,066	47,925	99,991
Capital Outlay & Real Property	501	485	444	284	728
Local Assistance	10,762	12,607	25,865	24,924	50,789
Other Financial Transactions	4,122	4,817	1,408	1,411	2,819
Transfers	0	0	(5,949)	(5,953)	(11,902)
Total	**116,428**	**140,244**	**132,902**	**129,799**	**262,701**
Expenditures by Program					
Water	35,428	43,743	39,964	38,048	78,012
Air	9,011	10,421	10,047	10,354	20,401
Land	46,047	57,015	35,165	33,940	69,105
Multimedia	14,226	15,194	35,268	34,999	70,267
Administrative Support	11,716	13,871	12,458	12,458	24,916
Total	**116,428**	**140,244**	**132,902**	**129,799**	**262,701**
Full-Time Equivalents (FTE)	**758.0**	**759.4**	**812.7**	**803.8**	

Dollars in Thousands

	FY2005	Governor's Recomm. FY2006	FY2007	Biennium 2006-07
Fund: ENVIRONMENT & NATURAL RESOURCE				
FY 2005 Appropriations	**518**	**518**	**518**	**1,036**
Technical Adjustments				
One-time Appropriations		(518)	(518)	(1,036)
Subtotal - Forecast Base	**518**	**0**	**0**	**0**
Change Items				
LCMR Project	0	300	300	600
Total Governor's Recommendations	**518**	**300**	**300**	**600**
Fund: GENERAL				
FY 2005 Appropriations	**14,715**	**14,715**	**14,715**	**29,430**
Subtotal - Forecast Base	**14,715**	**14,715**	**14,715**	**29,430**
Change Items				
General Fund Reduction	0	(2,951)	(2,951)	(5,902)
Total Governor's Recommendations	**14,715**	**11,764**	**11,764**	**23,528**
Fund: STATE GOVERNMENT SPEC REVENUE				
FY 2005 Appropriations	**48**	**48**	**48**	**96**
Subtotal - Forecast Base	**48**	**48**	**48**	**96**
Total Governor's Recommendations	**48**	**48**	**48**	**96**
Fund: ENVIRONMENTAL				
FY 2005 Appropriations	**26,812**	**26,812**	**26,812**	**53,624**
Subtotal - Forecast Base	**26,812**	**26,812**	**26,812**	**53,624**
Change Items				
Department of Environmental Protection	0	19,754	19,754	39,508
General Fund Reduction	0	11,702	11,702	23,404
Air Fee Increase	0	532	839	1,371
Total Governor's Recommendations	**26,812**	**58,800**	**59,107**	**117,907**
Fund: REMEDIATION				
FY 2005 Appropriations	**11,404**	**11,404**	**11,404**	**22,808**
Subtotal - Forecast Base	**11,404**	**11,404**	**11,404**	**22,808**
Change Items				
General Fund Reduction	0	(1)	(1)	(2)
Total Governor's Recommendations	**11,404**	**11,403**	**11,403**	**22,806**

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: PUBLIC FACILITIES AUTHORITY				
Planned Statutory Spending	**5,707**	**2,263**	**2,263**	**4,526**
Total Governor's Recommendations	**5,707**	**2,263**	**2,263**	**4,526**
Fund: STATE GOVERNMENT SPEC REVENUE				
Planned Statutory Spending	**1**	**1**	**1**	**2**
Total Governor's Recommendations	**1**	**1**	**1**	**2**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**14,158**	**12,214**	**12,214**	**24,428**
Change Items				
Department of Environmental Protection	0	128	128	256
Total Governor's Recommendations	**14,158**	**12,342**	**12,342**	**24,684**
Fund: FEDERAL				
Planned Statutory Spending	**28,351**	**19,773**	**17,497**	**37,270**
Total Governor's Recommendations	**28,351**	**19,773**	**17,497**	**37,270**
Fund: ENVIRONMENTAL				
Planned Statutory Spending	**329**	**329**	**329**	**658**
Change Items				
Department of Environmental Protection	0	2,061	2,064	4,125
Total Governor's Recommendations	**329**	**2,390**	**2,393**	**4,783**
Fund: REMEDIATION				
Planned Statutory Spending	**33,935**	**25,507**	**24,370**	**49,877**
Change Items				
General Fund Reduction	0	(11,700)	(11,700)	(23,400)
Total Governor's Recommendations	**33,935**	**13,807**	**12,670**	**26,477**
Fund: GIFT				
Planned Statutory Spending	**0**	**0**	**0**	**0**
Change Items				
Department of Environmental Protection	0	11	11	22
Total Governor's Recommendations	**0**	**11**	**11**	**22**

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Revenue Change Items				
Fund: GENERAL				
Change Items				
Department of Environmental Protection	0	40	40	80
Fund: SPECIAL REVENUE				
Change Items				
Department of Environmental Protection	0	128	128	256
Fund: ENVIRONMENTAL				
Change Items				
Department of Environmental Protection	0	1,281	1,284	2,565
Air Fee Increase	0	532	839	1,371
Fund: GIFT				
Change Items				
Department of Environmental Protection	0	11	11	22

Change Item: Department of Environmental Protection

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($11,760)	($11,760)	($11,760)	($11,760)
Revenues	(12,107)	(12,310)	(12,561)	(12,837)
Environmental Fund				
Expenditures	11,760	11,760	11,760	11,760
Revenues	12,107	12,310	12,561	12,837
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends creating a Department of Environmental Protection and transferring all staff and authorities of the Pollution Control Agency (PCA) and the Office of Environmental Assistance (OEA) to the new Department. The Governor also recommends that funding for the new Department of Environmental Protection be supported through environmental fees and taxes whenever possible, including those now currently deposited in the General Fund. Specifically, the Governor recommends amending MS 297H.13 to deposit $33.760 million or 70% of the solid waste management tax, whichever is greater, into the Environmental Fund and that General Fund appropriations for the OEA would then be appropriated from the Environmental Fund.

Tremendous progress has been made in the past several decades to address the most obvious and critical of Minnesota's environmental problems. However, significant issues remain and they are often complex, with solutions requiring a range of activities affecting several environmental media. The new Department of Environmental Protection will be able to "blend" the best of technology, technical and financial assistance along with prevention, management (regulation) and cleanup or restoration solutions, to increase the efficiency of efforts to address complex environmental issues such as impaired waters or air toxics. Addressing and preventing these environmental problems requires the ability to use various strategies, as necessary, to achieve the best environmental outcome.

Background

The evolving nature of Minnesota's environmental challenges led to this proposal to create a new Department of Environmental Protection.

⇒ Through the creation of a new department, the PCA and OEA can better leverage each other's expertise and financial resources to deliver environmental protection as efficiently as possible.

⇒ Significant sources contributing to Minnesota's impaired waters and air pollution are not subject to regulation. Therefore, focusing on pollution prevention will be critical to restoring and protecting the quality of Minnesota's water and air.

⇒ Minnesota has made great strides in transforming from a disposal only method of managing resources to an integrated system of resource management. However, more work needs to be done in this area using new approaches that would be readily available in a new Department of Environmental Protection.

⇒ The recent Environmental Information Report identifies many stressors that are not under the sole purview of any governmental entity. The preferred way to address many of these stressors is through collaboration and partnerships.

Relationship to Base Budget

The new Department of Environmental Protection would be funded primarily through environmental fees and taxes, with reduced dependence on the General Fund. This proposal simplifies and stabilizes funding for environmental activities:

⇒ The majority of the solid waste tax (70%) would be deposited in the Environmental Fund, rather than half into the General Fund and half into the Environmental Fund.

⇒ The level of funding for state mandated activities in solid and household hazardous waste would be stabilized and consolidated. Currently, 43% of the SCORE recycling grants and all of the household hazardous waste management funds are appropriated from the Environmental Fund, with the remainder from the General Fund, which faces additional pressures. Consolidating funding support through the Environmental Fund will also make transparent, to citizens and the Legislature, the extent to which state support is provided for mandated environmental activities.

⇒ The OEA is appropriated $4.7 million each year from General Fund for environmental assistance programs. In addition, the OEA is appropriated $7.060 million each year from the General Fund for SCORE pass-through grants. Currently, the OEA receives appropriations from the General Fund and the Environmental Fund. As a result of this change item, all funding for OEA activities and grants would now be appropriated from the Environmental Fund.

⇒ Should additional revenues be generated by the Solid Waste Tax, the Legislature would have the opportunity to direct additional appropriations from the Environmental Fund to environmental activities, including support of state-local waste reduction and recycling partnerships.

Key Measures

The creation of a new Department of Environmental Protection would result in alignment of goals and objectives for preventing pollution to or restoring air, water and land and increased effectiveness in achieving desired environmental outcomes.

⇒ Continued support of the partnership approach by stabilizing existing funding levels to support local programs. This is likely to increase the willingness of local units of government to partner with the new department in other critical areas—such as impaired waters.

⇒ The new funding structure would be simple and understandable to the general public, fee payers and the legislature.

⇒ Linkage between revenue sources and uses.

Fund statements that detail revenues and legislative appropriations (available to the public at http://www.finance.state.mn.us) provide the linkage between revenue sources and uses. More detailed fund statements that identify current environmental revenues and appropriations to OEA, DNR, Health and PCA from the Environmental Fund are available on the PCA's web site http://www.pca.state.mn.us.

Statutory Change:
297H.13 Applicable general authority statutes for the MPCA and MOEA contained in
116.03; 115A; 115B; 400; and 473

Change Item: General Fund Reduction

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($2,950)	($2,950)	($2,950)	($2,950)
Revenues	0	0	0	0
Environmental Fund				
Expenditures	11,700	11,700	11,700	11,700
Revenues	0	0	11,700	11,700
Remediation Fund				
Expenditures	(11,700)	(11,700)	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($2,950)	($2,950)	($2,950)	($2,950)

Recommendation

The Governor recommends a reduction in General Fund expenditures of $2.95 million in FY 2006 and FY 2007. General funds would be reduced for the Water Program by $2.55 million and for the Administrative Support Program by $.4 million. The Governor also recommends the reallocation of $11.7 million in environmental funds, in FY 2006 and FY 2007 only, to address the current funding needs and the general fund reduction for the water programs at the Pollution Control Agency (PCA) which would maintain the current water activity at the same level.

Background

Funding the water programs will result in preserving the core regulatory programs at their current levels for two more years, which preserves activities associated with addressing impaired waters. Specifically, it will maintain current levels of activity in point source permitting, ISTS, feedlots and maintain levels of effort on monitoring, TMDLs, watershed basin activities and partnership funding through 319 and the Clean Water Partnership. In the past, the PCA has addressed funding needs for high priority water activities through biennial budget requests to redirect funds, the enactment of small water quality fee increases and a new storm water fee, using the flexibility of the federal Performance Partnership Grant and most recently, state funding flexibility through Environmental Fund Consolidation. In order to continue to operate the core regulatory programs, a long-term resolution needs to be developed for the FY 2008-09 biennium.

Currently, only 12% of the annual budget for the PCA is from the General Fund. Citizens and the PCA rank maintaining or restoring water quality as the highest environmental priority. The water quality programs receive 82% of the PCA General Fund budget, followed by administrative support and emergency response. None of the PCA's lowest priorities are funded by General Fund. Because water quality is the citizens' and PCA's highest priority, the Governor recommends reductions and reallocations from the lower priority land programs to cover the $11.7 million needed to maintain water programs at PCA. $5.1 million in reduced remediation site cleanups and $6.6 million of Closed Landfill Program (CLP) Reserves would be reallocated to the water programs in FY 2006 and FY 2007. Increased water quality permit fees, significant core regulatory program reductions, development of other funding sources or a combination of these options will be necessary beginning with FY 2008 to meet program needs. The reduction in remediation site cleanups will result in delays in the cleanup work at the lowest priority sites – five Superfund sites and 14 CLP sites, all of which are by law, the state of Minnesota's responsibility. This factor is exacerbated if bonding is not authorized for 12 remaining CLP sites.

The $.4 million reduction in Administrative Support represents 20% of the General Funds that currently support this program. The reduction would result in decreased services in fiscal management, human resources management, information systems management, organizational development and training, communication services and business systems.

Relationship to Base Budget

The federal funds in the water quality area have been significantly reduced and the lack of sufficient funding at the state and federal level erodes our ability to maintain staffing levels. Fee statutes are structured so that we can not address increased costs that result from a "same-level" or maintenance level program. The PCA will be unable to maintain the gains it has made in water quality permitting and monitoring. These are key activities associated with addressing impaired waters and the PCA will be unable to maintain the program at the current level. The reallocation of resources allowed through Environmental Fund Consolidation expires annually unless legislative action is taken.

Key Measures

This meets the Pawlenty/Molnau values, goals and principles in two areas:

⇒ Funding will be priority driven, rather than spending driven.
⇒ Change the focus from how government spends to how government meets citizen's needs.

This proposal also supports the PCA vision, goals and objectives related to "clean, sustainable ground water systems" and "clean, fishable, swimmable surface waters". Furthermore, it preserves our core regulatory programs at their current levels which prevent further impairments of our water resources. Specifically, it will:

⇒ Maintain staffing levels in point source permitting — enable permitting backlog to remain low and permit issuance within 180 days to continue its growth.
⇒ Maintain staffing level and activity related to ISTS — pilot projects, additional technical assistance to the counties and review of alternative technologies.
⇒ Maintain staffing level for feedlots—enable permitting and registration to occur in timely manner, inspections and enforcement actions taken, education/technical assistance to farmers, and funding and technical assistance to delegated counties
⇒ Maintain level of effort on monitoring, TMDLs, watershed basin activities and partnership funding through 319 and Clean Water Partnership.

Alternatives Considered

While the legislature has approved reallocations of a similar nature in the past, they have not been of this magnitude. In order to completely address water program funding needs the PCA would need significant increases in water quality permitting fees or inflationary increases and neither has been available in the past. The non-point source activities do not have a fee-based funding source.

Change Item: Air Fee Increase

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Environmental Fund				
Expenditures	532	839	1,147	1,457
Revenues	532	839	1,147	1,457
Net Fiscal Impact	$0	$0	$0	$0

Recommendation
The Governor recommends that the appropriation for air quality program efforts at the Pollution Control Agency (PCA) be increased to cover the current budget gap created by the increasing costs of maintaining the current level of program effort. The revenue for this appropriation would come from an increase in the annual air emission fee that is charged to major emitters of air pollution.

Background
The appropriation for the air program has not been increased since FY 2003. Salary, benefits (particularly health coverage) and program support costs increases, have created a significant budget gap for the air program over the last few years. Federal and state law provides for fees to be adjusted for program cost increases in order to ensure major air pollution sources are permitted. This change will enable the air program to maintain the same level of staffing and service capabilities.

This change item will not affect the general fund budget because the PCA proposes to increase fees to cover the budget gap. M.S. 116.07 Subd. 4d (b) directs the PCA to charge emission fees to cover the costs of the air quality program. The gap projected for FY 2006 includes the accumulation of program cost increases from FY 2004 and FY 2005, requiring a larger initial increase in FY 2006. The FY 2007 through FY 2009 increase covers the increasing program costs with an assumed annual increase of 4%. The PCA proposes to increase those air emission fees by approximately 7% for the biennium (depending on actual emissions during the year) to cover the program's budget costs. This appropriation increase will allow the PCA to continue to devote the level of effort necessary to meet requirements for air pollution regulation and monitoring activities. One of the most important of these activities is the permitting of new and expanding facilities, which accommodates economic development throughout the state and the issuance of federal operating permits.

Relationship to Base Budget
This change item is a small change in the PCA's budget, and represents an increase of 8% in the air quality program budget for the biennium.

Key Measures
This change initiative will allow the PCA to continue the same level of effort in its air quality regulatory and monitoring program. This current level of service includes maintaining support for the existing compliment, contracting for assistance in order to reduce the permitting backlog, and keeping state rules current with federal requirements. If the change is not approved, the PCA will need to cut back in the level of effort in this program which could result in falling further behind in air permitting, compliance efforts, reduced monitoring of air quality, and additional levels of federal oversight.

Alternatives Considered
Reduction in permitting, compliance, enforcement, monitoring and program support efforts.

Program: MULTIMEDIA

Change Item: LCMR Project – Accelerating and Enhancing Surface Water Monitoring for Lakes and Streams

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Environment and Natural Resources Trust Fund				
Expenditures	$300	$300	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$300	$300	0	0

Recommendation

The projects recommended by the Legislative Commission on Minnesota Resources (LCMR) are displayed as part of the Agency's Biennial Budget Request. The Governor is not making specific recommendations on these projects.

Background

LCMR has recommended that $600,000 will be available for acceleration of agency programs and cooperative agreements with the Minnesota Lakes Association, Rivers Council of Minnesota, and the University of Minnesota to accelerate monitoring efforts through assessments, citizen training, and implementation grants.

Relationship to Base Budget

Currently, the PCA only has surface water data for 8% of Minnesota's streams and 14% of its lakes. To complement the PCA's 3 part monitoring strategy of professionally collected information from lakes and streams on a 10 year rotating basis, obtaining state-wide remote sensing data every 5 years, and obtain citizen collected data to indicate trends has focused this LCMR continuation project on enhancing each part of the strategy. In the current FY04-05 LCMR project, the remote lake sensing project, the biological index project and development and piloting of a framework for a volunteer monitoring system will be completed to enhance surface water data collection. Through this continuation, we will improve the state's ability to assess Minnesota's waters.

Key Measures

The state's ability to assess Minnesota's waters will be improved by:

- Developing a progressive site selection approach to biological monitoring;
- Applying new remote sensing technologies to stream assessment; and
- Expanding the ability of individuals and organizations to collect useable data.

See LCMR web site at http://lclmr.leg.mn/lcmr.htm

Other Non Cabinet Agencies

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	577	577	577	577	1,154
Recommended	**577**	**577**	**487**	**487**	**974**
Change		0	(90)	(90)	(180)
% Biennial Change from 2004-05					-15.6%
Expenditures by Fund					
Direct Appropriations					
General	514	697	487	487	974
Total	**514**	**697**	**487**	**487**	**974**
Expenditures by Category					
Total Compensation	253	349	254	266	520
Other Operating Expenses	261	348	233	221	454
Total	**514**	**697**	**487**	**487**	**974**
Expenditures by Program					
Accountancy	514	697	487	487	974
Total	**514**	**697**	**487**	**487**	**974**
Full-Time Equivalents (FTE)	**4.4**	**5.4**	**4.6**	**4.6**	

	Dollars in Thousands			
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	**577**	**577**	**577**	**1,154**
Subtotal - Forecast Base	**577**	**577**	**577**	**1,154**
Change Items				
Consolidation of Administrative Function	0	(90)	(90)	(180)
Total Governor's Recommendations	**577**	**487**	**487**	**974**

ACCOUNTANCY BOARD

Change Item: Consolidation of Administrative Function

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($90)	($90)	($90)	($90)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($90)	($90)	($90)	($90)

Recommendation

The Governor recommends that the Board of Architecture and Engineering, and the Board of Accountancy consolidate their administrative functions to reduce state costs.

Background

The retirement of the executive director provides a unique opportunity to reduce state operating costs by consolidating the administrative functions of these two boards. Under this proposal, both appointed boards would remain intact, and both would maintain their status as separate state agencies. This proposal only consolidates the office and clerical functions.

Relationship to Base Budget

The proposed savings is 16% of the Accountancy Boards base budget.

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Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	1,600	1,600	1,600	1,600	3,200
Recommended	**1,600**	**1,600**	**1,600**	**1,600**	**3,200**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
General	1,587	1,587	1,600	1,600	3,200
Total	**1,587**	**1,587**	**1,600**	**1,600**	**3,200**
Expenditures by Category					
Local Assistance	1,587	1,587	1,600	1,600	3,200
Total	**1,587**	**1,587**	**1,600**	**1,600**	**3,200**
Expenditures by Program					
Ag Utilization Research Inst	1,587	1,587	1,600	1,600	3,200
Total	**1,587**	**1,587**	**1,600**	**1,600**	**3,200**

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Dollars in Thousands	Current FY2004	Current FY2005	Governor Recomm. FY2006	Governor Recomm. FY2007	Biennium 2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	2,803	2,803	2,803	2,803	5,606
Recommended	**2,803**	**2,803**	**2,959**	**2,961**	**5,920**
Change		0	156	158	314
% Biennial Change from 2004-05					5.6%
Expenditures by Fund					
Direct Appropriations					
General	2,536	2,986	2,959	2,961	5,920
Statutory Appropriations					
Special Revenue	1	91	46	46	92
Federal	760	924	804	804	1,608
Total	**3,297**	**4,001**	**3,809**	**3,811**	**7,620**
Expenditures by Category					
Total Compensation	2,217	2,595	2,434	2,444	4,878
Other Operating Expenses	1,080	1,406	1,375	1,367	2,742
Total	**3,297**	**4,001**	**3,809**	**3,811**	**7,620**
Expenditures by Program					
Livestock And Poultry Health	3,297	4,001	3,809	3,811	7,620
Total	**3,297**	**4,001**	**3,809**	**3,811**	**7,620**
Full-Time Equivalents (FTE)	**31.6**	**27.0**	**27.0**	**27.0**	

Dollars in Thousands	FY2005	Governor's Recomm. FY2006	FY2007	Biennium 2006-07
Fund: GENERAL				
FY 2005 Appropriations	**2,803**	**2,803**	**2,803**	**5,606**
Subtotal - Forecast Base	**2,803**	**2,803**	**2,803**	**5,606**
Change Items				
New Building Lease Costs	0	156	158	314
Total Governor's Recommendations	**2,803**	**2,959**	**2,961**	**5,920**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**91**	**46**	**46**	**92**
Total Governor's Recommendations	**91**	**46**	**46**	**92**
Fund: FEDERAL				
Planned Statutory Spending	**924**	**804**	**804**	**1,608**
Total Governor's Recommendations	**924**	**804**	**804**	**1,608**

Change Item: New Building Lease Costs

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$156	$158	$158	$158
Revenues	0	0	0	0
Net Fiscal Impact	$156	$158	$158	$158

Recommendation

The Governor recommends adjusting the General Fund appropriation to the Board of Animal Health to cover the increased lease costs associated with relocation to new buildings near the Capitol in St. Paul. This move will take place during FY 2006.

Background

Laws of 2002, Chapter 393, provided for the construction of joint office and laboratory facilities for the Departments of Health and Agriculture and the Board of Animal Health. It is important for the board to be located with the Department of Agriculture due to the close working relationship needed between the two organizations. The new office building is being constructed through a lease-purchase agreement with the St. Paul Port Authority. The new facilities will meet the increased needs of both departments as well as the board but will require larger lease payments than they currently have in their budgets.

Relationship to Base Budget

The Board of Animal Health currently pays $85,272 in rent for the location it will vacate in St. Paul. Rent for FY 2006 is estimated to be $242,000 and for FY 2007 is estimated to be $244,000.

	($ in thousands)	
	FY 2006	FY 2007
New Rent	$242	$244
Base Budget	85	85
Difference	$156	$158

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Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	785	785	785	785	1,570
Recommended	**785**	**785**	**785**	**785**	**1,570**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
General	795	1,059	785	785	1,570
Total	**795**	**1,059**	**785**	**785**	**1,570**
Expenditures by Category					
Total Compensation	424	539	507	529	1,036
Other Operating Expenses	371	520	278	256	534
Total	**795**	**1,059**	**785**	**785**	**1,570**
Expenditures by Program					
Aelsla	795	1,059	785	785	1,570
Total	**795**	**1,059**	**785**	**785**	**1,570**
Full-Time Equivalents (FTE)	**7.0**	**8.8**	**8.8**	**8.8**	

ARCHITECTURE, ENGINEERING BD

Change Item: Consolidation of Administrative Function

Recommendation
The Governor recommends that the Board of Architecture and Engineering, and the Board of Accountancy consolidate their administrative functions to reduce state costs. See the Board of Accountancy for the change item and the fiscal impact.

Background
The retirement of the executive director provides a unique opportunity to reduce state operating costs by consolidating the administrative functions of these two boards. Under this proposal, both appointed boards would remain intact, and both would maintain their status as separate state agencies. This proposal only consolidates the office and clerical functions.

Relationship to Base Budget
There is no fiscal impact to the Board of Architects and Engineering.

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	8,593	8,593	8,593	8,593	17,186
Recommended	**8,593**	**8,593**	**8,593**	**8,593**	**17,186**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
General	8,580	8,597	8,593	8,593	17,186
Statutory Appropriations					
Special Revenue	13	2	1	1	2
Federal	679	656	656	656	1,312
Gift	671	217	94	35	129
Total	**9,943**	**9,472**	**9,344**	**9,285**	**18,629**
Expenditures by Category					
Total Compensation	694	654	599	585	1,184
Other Operating Expenses	316	317	247	202	449
Local Assistance	8,933	8,501	8,498	8,498	16,996
Total	**9,943**	**9,472**	**9,344**	**9,285**	**18,629**
Expenditures by Program					
Operations & Services	1,491	1,036	911	852	1,763
Grant Programs	6,030	6,014	6,011	6,011	12,022
Region Arts Fisc Agent	2,422	2,422	2,422	2,422	4,844
Total	**9,943**	**9,472**	**9,344**	**9,285**	**18,629**
Full-Time Equivalents (FTE)	**9.7**	**9.5**	**9.5**	**9.5**	

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	127	699	699	699	1,398
Recommended	**127**	**699**	**699**	**699**	**1,398**
Change		0	0	0	0
% Biennial Change from 2004-05					69.2%
Expenditures by Fund					
Direct Appropriations					
General	126	699	699	699	1,398
Total	**126**	**699**	**699**	**699**	**1,398**
Expenditures by Category					
Total Compensation	107	125	125	125	250
Other Operating Expenses	19	574	574	574	1,148
Total	**126**	**699**	**699**	**699**	**1,398**
Expenditures by Program					
Barbers	126	699	699	699	1,398
Total	**126**	**699**	**699**	**699**	**1,398**
Full-Time Equivalents (FTE)	**2.0**	**8.0**	**8.0**	**8.0**	

CONTENTS

	Current		Governor Recomm.		Biennium
Dollars in Thousands	FY2004	FY2005	FY2006	FY2007	2006-07
Expenditures by Fund					
Statutory Appropriations					
Special Revenue	10,240	10,990	11,046	11,046	22,092
Total	**10,240**	**10,990**	**11,046**	**11,046**	**22,092**
Expenditures by Category					
Total Compensation	1,923	1,531	1,531	1,531	3,062
Other Operating Expenses	8,317	9,459	9,515	9,515	19,030
Total	**10,240**	**10,990**	**11,046**	**11,046**	**22,092**
Expenditures by Program					
Board Of Electricity	10,240	10,990	11,046	11,046	22,092
Total	**10,240**	**10,990**	**11,046**	**11,046**	**22,092**
Full-Time Equivalents (FTE)	**28.9**	**31.3**	**31.3**	**31.3**	

ELECTRICITY BOARD

Change Item: Transfer to General Fund

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Transfer In	4,000	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($4,000)	$0	$0	$0

Recommendation
The Governor recommends a one-time transfer of $4 million from the Electricity Boards special revenue fund account to the General Fund.

Background
The board has accumulated a $5.2 million balance over the past 10 years in excess of actual costs. The Governor is aware that the deposits for electrical inspections represent a future obligation of the board. He also recognizes that the board has been able to pay for these inspections out of the current year receipts in most years, and he expects that will continue.

Relationship to Base Budget
This transfer is equivalent to 18% of the board's biennial operating budget.

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Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	11,760	11,760	11,760	11,760	23,520
Recommended	**11,760**	**11,760**	**0**	**0**	**0**
Change		0	(11,760)	(11,760)	(23,520)
% Biennial Change from 2004-05					-100%
Environmental					
Current Appropriation	11,991	11,994	11,994	11,994	23,988
Recommended	**11,991**	**11,994**	**0**	**0**	**0**
Change		0	(11,994)	(11,994)	(23,988)
% Biennial Change from 2004-05					-100%
Expenditures by Fund					
Direct Appropriations					
General	11,699	11,740	0	0	0
Environmental	11,313	12,733	0	0	0
Statutory Appropriations					
Special Revenue	184	225	0	0	0
Federal	69	39	0	0	0
Environmental	9	4,115	0	0	0
Gift	24	51	0	0	0
Total	**23,298**	**28,903**	**0**	**0**	**0**
Expenditures by Category					
Total Compensation	4,254	4,151	0	0	0
Other Operating Expenses	1,078	1,626	0	0	0
Local Assistance	17,866	23,113	0	0	0
Other Financial Transactions	100	13	0	0	0
Total	**23,298**	**28,903**	**0**	**0**	**0**
Expenditures by Program					
Office Of Environmental Assist	23,298	28,903	0	0	0
Total	**23,298**	**28,903**	**0**	**0**	**0**
Full-Time Equivalents (FTE)	**65.6**	**59.1**	**0.0**	**0.0**	

Dollars in Thousands

		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	**11,760**	**11,760**	**11,760**	**23,520**
Subtotal - Forecast Base	**11,760**	**11,760**	**11,760**	**23,520**
Change Items				
Department of Environmental Protection	0	(11,760)	(11,760)	(23,520)
Total Governor's Recommendations	**11,760**	**0**	**0**	**0**
Fund: ENVIRONMENTAL				
FY 2005 Appropriations	**11,994**	**11,994**	**11,994**	**23,988**
Technical Adjustments				
Program/agency Sunset		(4,000)	(4,000)	(8,000)
Subtotal - Forecast Base	**11,994**	**7,994**	**7,994**	**15,988**
Change Items				
Department of Environmental Protection	0	(7,994)	(7,994)	(15,988)
Total Governor's Recommendations	**11,994**	**0**	**0**	**0**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**225**	**128**	**128**	**256**
Change Items				
Department of Environmental Protection	0	(128)	(128)	(256)
Total Governor's Recommendations	**225**	**0**	**0**	**0**
Fund: FEDERAL				
Planned Statutory Spending	**39**	**0**	**0**	**0**
Total Governor's Recommendations	**39**	**0**	**0**	**0**
Fund: ENVIRONMENTAL				
Planned Statutory Spending	**4,115**	**2,061**	**2,064**	**4,125**
Change Items				
Department of Environmental Protection	0	(2,061)	(2,064)	(4,125)
Total Governor's Recommendations	**4,115**	**0**	**0**	**0**
Fund: GIFT				
Planned Statutory Spending	**51**	**11**	**11**	**22**
Change Items				
Department of Environmental Protection	0	(11)	(11)	(22)
Total Governor's Recommendations	**51**	**0**	**0**	**0**

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Revenue Change Items				
Fund: GENERAL				
Change Items				
Department of Environmental Protection	0	(40)	(40)	(80)
Fund: SPECIAL REVENUE				
Change Items				
Department of Environmental Protection	0	(128)	(128)	(256)
Fund: ENVIRONMENTAL				
Change Items				
Department of Environmental Protection	0	(1,281)	(1,284)	(2,565)
Fund: GIFT				
Change Items				
Department of Environmental Protection	0	(11)	(11)	(22)

Change Item: Department of Environmental Protection

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($11,760)	($11,760)	($11,760)	($11,760)
Revenues	(12,107)	(12,310)	(12,561)	(12,837)
Environmental Fund				
Expenditures	11,760	11,760	11,760	11,760
Revenues	12,107	12,310	12,561	12,837
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends creating a Department of Environmental Protection and transferring all staff and authorities of the Minnesota Pollution Control Agency (PCA) and the Office of Environmental Assistance (OEA) to the new Department. The Governor also recommends that funding for the new Department of Environmental Protection be supported through environmental fees and taxes whenever possible, including those now currently deposited in the General Fund. Specifically, the Governor recommends amending MS 297H.13 to deposit $33.760 million or 70% of the solid waste management tax, whichever is greater, into the Environmental Fund and that General Fund appropriations for the OEA would then be appropriated from the Environmental Fund.

Tremendous progress has been made in the past several decades to address the most obvious and critical of Minnesota's environmental problems. However, significant issues remain and they are often complex, with solutions requiring a range of activities affecting several environmental media. The new Department of Environmental Protection will be able to "blend" the best of technology, technical and financial assistance along with prevention, management (regulation) and cleanup or restoration solutions, to increase the efficiency of efforts to address complex environmental issues such as impaired waters or air toxics. Addressing and preventing these environmental problems requires the ability to use various strategies, as necessary, to achieve the best environmental outcome.

Background

The evolving nature of Minnesota's environmental challenges led to this proposal to create a new Department of Environmental Protection.

⇒ Through the creation of a new department, the PCA and OEA can better leverage each other's expertise and financial resources to deliver environmental protection as efficiently as possible.

⇒ Significant sources contributing to Minnesota's impaired waters and air pollution are not subject to regulation. Therefore, focusing on pollution prevention will be critical to restoring and protecting the quality of Minnesota's water and air.

⇒ Minnesota has made great strides in transforming from a disposal only method of managing resources to an integrated system of resource management. However, more work needs to be done in this area using new approaches that would be readily available in a new Department of Environmental Protection.

⇒ The recent Environmental Information Report identifies many stressors that are not under the sole purview of any governmental entity. The preferred way to address many of these stressors is through collaboration and partnerships.

Relationship to Base Budget

The new Department of Environmental Protection would be funded primarily through environmental fees and taxes, with reduced dependence on the General Fund. This proposal simplifies and stabilizes funding for environmental activities:

⇒ The majority of the solid waste tax (70%) would be deposited in the Environmental Fund, rather than half into the General Fund and half into the Environmental Fund.

⇒ The level of funding for state mandated activities in solid and household hazardous waste would be stabilized and consolidated. Currently, 43% of the SCORE recycling grants and all of the household hazardous waste management funds are appropriated from the Environmental Fund, with the remainder from the General Fund, which faces additional pressures. Consolidating funding support through the Environmental Fund will also make transparent, to citizens and the Legislature, the extent to which state support is provided for mandated environmental activities.

⇒ The OEA is appropriated $4.7 million each year from General Fund for environmental assistance programs. In addition, the OEA is appropriated $7.060 million each year from the General Fund for SCORE pass-through grants. Currently, the OEA receives appropriations from the General Fund and the Environmental Fund. As a result of this change item, all funding for OEA activities and grants would now be appropriated from the Environmental Fund.

⇒ Should additional revenues be generated by the Solid Waste Tax, the Legislature would have the opportunity to direct additional appropriations from the Environmental Fund to environmental activities, including support of state-local waste reduction and recycling partnerships.

Key Measures

The creation of a new Department of Environmental Protection would result in alignment of goals and objectives for preventing pollution to or restoring air, water and land and increased effectiveness in achieving desired environmental outcomes.

⇒ Continued support of the partnership approach by stabilizing existing funding levels to support local programs. This is likely to increase the willingness of local units of government to partner with the new department in other critical areas—such as impaired waters.

⇒ The new funding structure would be simple and understandable to the general public, fee payers and the legislature.

⇒ Linkage between revenue sources and uses.

Fund statements that detail revenues and legislative appropriations (available to the public at http://www.finance.state.mn.us) provide the linkage between revenue sources and uses. More detailed fund statements that identify current environmental revenues and appropriations to OEA, DNR, Health and PCA from the Environmental Fund are available on the PCA's web site http://www.pca.state.mn.us.

Statutory Change:
297H.13 Applicable general authority statutes for the MPCA and MOEA contained in 116.03; 115A; 115B; 400; and 473.

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	0	0	8,059	8,059	16,118
Recommended	**0**	**0**	**7,626**	**8,626**	**16,252**
Change		0	(433)	567	134
% Biennial Change from 2004-05					n.m.
Expenditures by Fund					
Direct Appropriations					
General	0	8,909	7,626	8,626	16,252
Statutory Appropriations					
Special Revenue	0	977	3,000	3,000	6,000
Federal	0	29	0	0	0
Total	**0**	**9,915**	**10,626**	**11,626**	**22,252**
Expenditures by Category					
Total Compensation	0	3,069	2,358	2,433	4,791
Other Operating Expenses	0	5,876	7,298	8,223	15,521
Local Assistance	0	970	970	970	1,940
Total	**0**	**9,915**	**10,626**	**11,626**	**22,252**
Expenditures by Program					
Explore Minnesota Tourism	0	9,915	10,626	11,626	22,252
Total	**0**	**9,915**	**10,626**	**11,626**	**22,252**
Full-Time Equivalents (FTE)	**0.0**	**49.9**	**49.9**	**49.9**	

	Dollars in Thousands			
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	**0**	**8,059**	**8,059**	**16,118**
Technical Adjustments				
Current Law Base Change		567	567	1,134
Subtotal - Forecast Base	**0**	**8,626**	**8,626**	**17,252**
Change Items				
Base Reduction	0	(1,000)	(1,000)	(2,000)
Public/Private Enhancement Funding	0	0	1,000	1,000
Total Governor's Recommendations	**0**	**7,626**	**8,626**	**16,252**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**977**	**998**	**1,017**	**2,015**
Change Items				
Public/Private Enhancement Funding	0	2,002	1,983	3,985
Total Governor's Recommendations	**977**	**3,000**	**3,000**	**6,000**
Fund: FEDERAL				
Planned Statutory Spending	**29**	**0**	**0**	**0**
Total Governor's Recommendations	**29**	**0**	**0**	**0**
Revenue Change Items				
Fund: SPECIAL REVENUE				
Change Items				
Public/Private Enhancement Funding	0	2,002	1,983	3,985

Change Item: Base Reduction

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($1,000)	($1,000)	($1,000)	($1,000)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($1,000)	($1,000)	($1,000)	($1,000)

Recommendation

The Governor recommends a base budget reduction of $1 million per year.

Background

Explore Minnesota Tourism (EMT) became a separate agency in part to enable it to generate non-state funding from the industry that benefits from its activities. This reduction, along with the Public/Private Enhancement Funding initiative, moves the agency closer to full partnership with the tourism industry.

Relationship to Base Budget

This reduction represents a 13% reduction to EMT's operating budget.

Change Item: Public/Private Enhancement Funding

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$1,000	$1,000	$1,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	1,500	1,500	1,500	1,500
Net Fiscal Impact	($1,500)	($500)	($500)	($500)

Recommendation
The Governor recommends $1 million for Public/Private Enhancement funding for Explore Minnesota Tourism. This is funding for tourism marketing and is available annually beginning in FY 2007, for private sector contributions received in the previous fiscal year. This incentive appropriation will match private sector contributions that exceed the $4 million match requirement (up to half may be in-kind). The incentive is capped at $1 million per fiscal year.

Background
This is part of long-term funding strategy to ensure continued growth with reduced dependence on general funds. This strategy is industry driven, rewards innovative partnerships and increases the private sector's stake in the state's tourism marketing efforts. It is enhanced funding that builds on private sector involvement in tourism.

Lodging, amusement and recreation, and eating and drinking businesses generate nearly $3.8 billion is state taxes annually. Increased marketing activities will increase travel related sales and employment in Minnesota and generate additional sales tax revenue.

Relationship to Base Budget
This funding mechanism provides the opportunity to increase the annual operating budget by a maximum of 13%.

Key Measures
Explore Minnesota Tourism is currently required to develop public/private partnerships of $3.5 million. This change increases that requirement to $4 million. This concept provides a performance incentive for growth and relies on increased industry partnerships to expand the marketing reach. Agreements are developed to establish the value of the partnership and then documented to ensure that the goals are reached. The key measure is the number of non-state dollars in excess of $4 million raised by EMT.

Alternatives Considered
Additional funding options such as gaming revenues, lodging tax, performance based funding and rental car fees were alternatives that were considered. These and other options to generate funding from non-state sources will be explored through a series of industry outreach meetings held throughout the state in 2005.

Statutory Change: 116U.551 Partnership Incentive Appropriation.

Dollars in Thousands

	Current FY2004	Current FY2005	Governor Recomm. FY2006	Governor Recomm. FY2007	Biennium 2006-07
Direct Appropriations by Fund					
Environment & Natural Resource					
Current Appropriation	75	75	75	75	150
Recommended	**75**	**75**	**0**	**0**	**0**
Change		0	(75)	(75)	(150)
% Biennial Change from 2004-05					-100%
General					
Current Appropriation	22,407	22,280	22,280	22,280	44,560
Recommended	**22,407**	**22,280**	**21,850**	**21,723**	**43,573**
Change		0	(430)	(557)	(987)
% Biennial Change from 2004-05					-2.5%
Expenditures by Fund					
Direct Appropriations					
Environment & Natural Resource	75	75	0	0	0
General	21,722	22,965	21,850	21,723	43,573
Statutory Appropriations					
Special Revenue	931	931	931	931	1,862
Federal	293	333	333	333	666
Gift	12,501	12,501	12,501	12,501	25,002
Total	**35,522**	**36,805**	**35,615**	**35,488**	**71,103**
Expenditures by Category					
Total Compensation	19,807	20,342	20,704	21,577	42,281
Other Operating Expenses	12,994	13,879	12,216	11,360	23,576
Capital Outlay & Real Property	29	5	5	5	10
Local Assistance	575	462	573	429	1,002
Other Financial Transactions	2,117	2,117	2,117	2,117	4,234
Total	**35,522**	**36,805**	**35,615**	**35,488**	**71,103**
Expenditures by Program					
Education & Outreach	23,126	23,796	22,849	22,849	45,698
Preservation & Access	12,142	12,882	12,512	12,512	25,024
Pass Through Appropriations	254	127	254	127	381
Total	**35,522**	**36,805**	**35,615**	**35,488**	**71,103**
Full-Time Equivalents (FTE)	**354.4**	**357.0**	**356.8**	**356.5**	

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: ENVIRONMENT & NATURAL RESOURCE				
FY 2005 Appropriations	**75**	**75**	**75**	**150**
Technical Adjustments				
One-time Appropriations		(75)	(75)	(150)
Subtotal - Forecast Base	**75**	**0**	**0**	**0**
Total Governor's Recommendations	**75**	**0**	**0**	**0**
Fund: GENERAL				
FY 2005 Appropriations	**22,280**	**22,280**	**22,280**	**44,560**
Technical Adjustments				
Biennial Appropriations		127	0	127
Subtotal - Forecast Base	**22,280**	**22,407**	**22,280**	**44,687**
Change Items				
Budget Reduction	0	(557)	(557)	(1,114)
Total Governor's Recommendations	**22,280**	**21,850**	**21,723**	**43,573**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**931**	**931**	**931**	**1,862**
Total Governor's Recommendations	**931**	**931**	**931**	**1,862**
Fund: FEDERAL				
Planned Statutory Spending	**333**	**333**	**333**	**666**
Total Governor's Recommendations	**333**	**333**	**333**	**666**
Fund: GIFT				
Planned Statutory Spending	**12,501**	**12,501**	**12,501**	**25,002**
Total Governor's Recommendations	**12,501**	**12,501**	**12,501**	**25,002**

Change Item: Budget Reduction

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($557)	($557)	($557)	($557)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($557)	($557)	($557)	($557)

Recommendation
The Governor recommends a reduction of $557,000 per year with the intent that the Historical Society focus it's appropriated funding on maintaining it's highest priority programs and services.

Relationship to Base Budget
This reduction is equivalent to 2.5% of the Historical Society's General Fund base budget of $22.28 million per year.

	Dollars in Thousands				
	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	350	350	350	350	700
Recommended	**350**	**350**	**0**	**0**	**0**
Change		0	(350)	(350)	(700)
% Biennial Change from 2004-05					-100%
Natural Resources					
Current Appropriation	490	490	490	490	980
Recommended	**490**	**490**	**490**	**490**	**980**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
General	350	350	0	0	0
Natural Resources	490	490	490	490	980
Total	**840**	**840**	**490**	**490**	**980**
Expenditures by Category					
Local Assistance	840	840	490	490	980
Total	**840**	**840**	**490**	**490**	**980**
Expenditures by Program					
Minn Conservation Corps	840	840	490	490	980
Total	**840**	**840**	**490**	**490**	**980**

	Dollars in Thousands			
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	**350**	**350**	**350**	**700**
Subtotal - Forecast Base	**350**	**350**	**350**	**700**
Change Items				
Phased Privatization	0	(350)	(350)	(700)
Total Governor's Recommendations	**350**	**0**	**0**	**0**
Fund: NATURAL RESOURCES				
FY 2005 Appropriations	**490**	**490**	**490**	**980**
Subtotal - Forecast Base	**490**	**490**	**490**	**980**
Total Governor's Recommendations	**490**	**490**	**490**	**980**

Change Item: Phased Privatization of the MN Conservation Corps

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($350)	($350)	($350)	($350)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($350)	($350)	($350)	($350)

Recommendation
The Governor recommends that the Minnesota Conservation Corps' (MCC) General Fund subsidy be eliminated in order to continue to phase in the privatization of the Corp that began in the 2003 legislative session.

Background
MCC formerly operated as part of the Department of Natural Resources, offering hands-on environmental stewardship training and learning opportunities to youth and young adults (ages 15-25). During the 2003 legislative session, MCC was spun off into a private, non-profit organization. Currently, the Corps has an annual operating budget of $2,660,000 and receives annual direct appropriations of $350,000 from the General Fund and $490,000 from the Natural Resources Fund. Eliminating the General Fund portion of the subsidy would represent a 13% reduction in their current annual operating budget.

In the past five years, the MCC has gone from being totally dependent on state appropriations, to raising nearly 70% of its operating budget through fees for service, federal/state partnerships and other fundraising activities. The MCC is continuing to seek other funding sources for its activities, including a potential new partnership with MnDOT. As a private, non-profit organization, the MCC has the flexibility and the experience to raise additional revenues to compensate for declining state funding.

Relationship to Base Budget
This proposal reduces the state's financial involvement in the MCC by 42% and affects 13% of their total operating budget.

Alternatives Considered
None. This is a continuation of phased privatization of this non-profit organization.

	Current FY2004	Current FY2005	Governor Recomm. FY2006	Governor Recomm. FY2007	Biennium 2006-07
					Dollars in Thousands
Direct Appropriations by Fund					
General					
Current Appropriation	4,163	4,163	4,163	4,163	8,326
Recommended	**4,163**	**4,163**	**4,163**	**4,163**	**8,326**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
General	4,019	4,410	4,163	4,163	8,326
Statutory Appropriations					
Special Revenue	1,293	1,603	1,813	1,813	3,626
Total	**5,312**	**6,013**	**5,976**	**5,976**	**11,952**
Expenditures by Category					
Total Compensation	3,245	3,411	3,429	3,418	6,847
Other Operating Expenses	931	1,300	1,035	1,046	2,081
Local Assistance	1,136	1,302	1,512	1,512	3,024
Total	**5,312**	**6,013**	**5,976**	**5,976**	**11,952**
Expenditures by Program					
Public Utilities Comm	5,312	6,013	5,976	5,976	11,952
Total	**5,312**	**6,013**	**5,976**	**5,976**	**11,952**
Full-Time Equivalents (FTE)	**40.3**	**41.7**	**40.4**	**38.4**	

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Dollars in Thousands

	Current FY2004	Current FY2005	Governor Recomm. FY2006	Governor Recomm. FY2007	Biennium 2006-07
Direct Appropriations by Fund					
General					
Current Appropriation	750	750	750	750	1,500
Recommended	**750**	**750**	**750**	**750**	**1,500**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
General	750	750	750	750	1,500
Total	**750**	**750**	**750**	**750**	**1,500**
Expenditures by Category					
Local Assistance	750	750	750	750	1,500
Total	**750**	**750**	**750**	**750**	**1,500**
Expenditures by Program					
Science Museum Of Minn	750	750	750	750	1,500
Total	**750**	**750**	**750**	**750**	**1,500**

Dollars in Thousands	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
Environment & Natural Resource					
Current Appropriation	651	651	651	651	1,302
Recommended	**651**	**651**	**900**	**900**	**1,800**
Change		0	249	249	498
% Biennial Change from 2004-05					38.2%
General					
Current Appropriation	15,432	15,431	15,431	15,431	30,862
Recommended	**15,432**	**15,431**	**15,026**	**15,026**	**30,052**
Change		0	(405)	(405)	(810)
% Biennial Change from 2004-05					-2.6%
Expenditures by Fund					
Direct Appropriations					
Environment & Natural Resource	651	651	900	900	1,800
General	14,271	16,673	15,026	15,026	30,052
Statutory Appropriations					
Special Revenue	845	1,030	635	280	915
Federal	14	302	208	0	208
Total	**15,781**	**18,656**	**16,769**	**16,206**	**32,975**
Expenditures by Category					
Total Compensation	3,243	4,116	3,624	3,416	7,040
Other Operating Expenses	683	1,821	1,283	937	2,220
Local Assistance	11,855	12,719	11,862	11,853	23,715
Total	**15,781**	**18,656**	**16,769**	**16,206**	**32,975**
Expenditures by Program					
Water & Soil Resrcs Bd	15,781	18,656	16,769	16,206	32,975
Total	**15,781**	**18,656**	**16,769**	**16,206**	**32,975**
Full-Time Equivalents (FTE)	**42.3**	**40.3**	**38.3**	**38.3**	

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: ENVIRONMENT & NATURAL RESOURCE				
FY 2005 Appropriations	**651**	**651**	**651**	**1,302**
Technical Adjustments				
One-time Appropriations		(651)	(651)	(1,302)
Subtotal - Forecast Base	**651**	**0**	**0**	**0**
Change Items				
LCMR Projects	0	900	900	1,800
Total Governor's Recommendations	**651**	**900**	**900**	**1,800**
Fund: GENERAL				
FY 2005 Appropriations	**15,431**	**15,431**	**15,431**	**30,862**
Subtotal - Forecast Base	**15,431**	**15,431**	**15,431**	**30,862**
Change Items				
Administrative Reallocations	0	(300)	(300)	(600)
Area II	0	(105)	(105)	(210)
Total Governor's Recommendations	**15,431**	**15,026**	**15,026**	**30,052**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**1,030**	**635**	**280**	**915**
Total Governor's Recommendations	**1,030**	**635**	**280**	**915**
Fund: FEDERAL				
Planned Statutory Spending	**302**	**208**	**0**	**208**
Total Governor's Recommendations	**302**	**208**	**0**	**208**

Change Item: Administrative Reallocations

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($300)	($300)	($300)	($300)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($300)	($300)	($300)	($300)

Recommendation

The Governor recommends reallocation of $600,000 in administrative costs over the FY 2006-07 biennium to reduce costs and eliminate duplicative administrative functions and provide for more efficient program management.

Background

The Board of Soil and Water Resources (BWSR) will be co-locating with a larger agency in FY 2005. This relocation offers opportunity for both rent savings and shared administrative services. The agency anticipates eliminating 2.0 FTE and entering into an interagency agreement to perform required administrative work in fiscal, human resources and land and water grants management.

Relationship to Base Budget

This reduction represents a 7.5% reduction in BWSR's administrative budget and a 2.6% reduction in their overall General Fund appropriation.

Alternatives Considered

The agency reviewed all of its programs and determined that certain administrative activities were of lower priority than other programs providing direct services to clients.

Change Item: Area II

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	($105)	($105)	($105)	($105)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	($105)	($105)	($105)	($105)

Recommendation
The Governor recommends moving programs of the joint powers organization in Area II in order to eliminate duplication and facilitate more efficient use of the state's flood hazard mitigation grant programs. Program responsibilities have been assumed by other agencies including DNR and LCMR.

Background
The Area II joint powers board was formed to reduce recurrent flooding problems in the Minnesota River basin in southwestern Minnesota. The joint powers board has nine members representing Brown, Cottonwood, Lac qui Parle, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. The board provides 25% match to the state appropriation and makes small grants, primarily for road retention projects. In previous budget cycles other joint powers organizations under BWSR were eliminated in an effort to reduce duplication of services. Area II is the last one currently in operation.

The Department of Natural Resources (DNR) provides service of a similar nature on a statewide basis through the Flood Hazard Mitigation Grant Program. The economies of scale achieved by the DNR program likely yields more benefit at less cost and offers a broader framework for flood mitigation planning. Flood reduction programs will be available for competitive projects in Area II through the DNR.

Alternatives Considered
The agency examined all of its activities and determined that this program was a lower priority item.

Change Item: LCMR Projects

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Environment & Natural Resources				
Expenditures	$900	$900	0	0
Revenues	0	0	0	0
Net Fiscal Impact	$900	$900	0	0

Recommendation

The projects recommended by the Legislative Commission on Minnesota Resources (LCMR) are displayed as part of the Board's Biennial Budget request. The Governor is not making specific recommendations on these projects.

Background

Local Water Management Matching Challenge Grants - $1,000,000

To accelerate the local water management challenge grant program by providing matching grants to implement high-priority activities in state approved comprehensive water management plans.

Effects of Land Retirements on the Minnesota River - $300,000

To evaluate effects of retired or set aside agriculture lands on the water quality and aquatic habitat of streams in the Minnesota River basin in order to improve priority-setting for future land retirements.

Soil Survey - $500,000

To accelerate digitizing of completed soil surveys for web-based user application and for agreements with Pine and Crow Wing counties to begin soil surveys.

Relationship to Base Budget

Project funding is available for FY 2006-07.

Key Measures

See individual project proposals or visit the LCMR web site at http://www.lcmr.leg.mn/lcmr.htm

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Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
Direct Appropriations by Fund					
Workers Compensation					
Current Appropriation	1,618	1,618	1,618	1,618	3,236
Recommended	**1,618**	**1,618**	**1,618**	**1,618**	**3,236**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Expenditures by Fund					
Direct Appropriations					
Workers Compensation	1,437	1,799	1,618	1,618	3,236
Total	**1,437**	**1,799**	**1,618**	**1,618**	**3,236**
Expenditures by Category					
Total Compensation	1,244	1,494	1,320	1,320	2,640
Other Operating Expenses	193	305	298	298	596
Total	**1,437**	**1,799**	**1,618**	**1,618**	**3,236**
Expenditures by Program					
Workers Comp Ct Of Appeals	1,437	1,799	1,618	1,618	3,236
Total	**1,437**	**1,799**	**1,618**	**1,618**	**3,236**
Full-Time Equivalents (FTE)	**13.8**	**13.8**	**13.8**	**13.8**	

	Current FY2004	Current FY2005	Governor Recomm. FY2006	Governor Recomm. FY2007	Biennium 2006-07
	Dollars in Thousands				
Direct Appropriations by Fund					
General					
Current Appropriation	6,557	6,557	6,557	6,557	13,114
Recommended	**6,557**	**6,557**	**6,557**	**6,557**	**13,114**
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Natural Resources					
Current Appropriation	121	124	124	124	248
Recommended	**121**	**124**	**124**	**124**	**248**
Change		0	0	0	0
% Biennial Change from 2004-05					1.2%
Expenditures by Fund					
Direct Appropriations					
General	6,557	6,225	6,557	6,557	13,114
Natural Resources	121	124	124	124	248
Statutory Appropriations					
Special Revenue	8,629	9,448	9,242	9,543	18,785
Federal	56	0	0	0	0
Gift	1,042	753	986	1,128	2,114
Total	**16,405**	**16,550**	**16,909**	**17,352**	**34,261**
Expenditures by Category					
Total Compensation	10,595	10,725	11,140	11,618	22,758
Other Operating Expenses	4,628	4,689	4,669	4,669	9,338
Capital Outlay & Real Property	9	0	0	0	0
Other Financial Transactions	1,173	1,136	1,100	1,065	2,165
Total	**16,405**	**16,550**	**16,909**	**17,352**	**34,261**
Expenditures by Program					
Zoo Board	16,405	16,550	16,909	17,352	34,261
Total	**16,405**	**16,550**	**16,909**	**17,352**	**34,261**
Full-Time Equivalents (FTE)	**191.1**	**181.9**	**181.9**	**181.9**	

		Dollars in Thousands		
		Governor's Recomm.		Biennium
	FY2005	FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	**6,557**	**6,557**	**6,557**	**13,114**
Subtotal - Forecast Base	**6,557**	**6,557**	**6,557**	**13,114**
Total Governor's Recommendations	**6,557**	**6,557**	**6,557**	**13,114**
Fund: NATURAL RESOURCES				
FY 2005 Appropriations	**124**	**124**	**124**	**248**
Technical Adjustments				
Current Law Base Change		(124)	(124)	(248)
Subtotal - Forecast Base	**124**	**0**	**0**	**0**
Change Items				
Lottery in Lieu - Zoo	0	124	124	248
Total Governor's Recommendations	**124**	**124**	**124**	**248**
Fund: SPECIAL REVENUE				
Planned Statutory Spending	**9,448**	**9,242**	**9,543**	**18,785**
Total Governor's Recommendations	**9,448**	**9,242**	**9,543**	**18,785**
Fund: GIFT				
Planned Statutory Spending	**753**	**986**	**1,128**	**2,114**
Total Governor's Recommendations	**753**	**986**	**1,128**	**2,114**

Change Item: Lottery in Lieu - Zoo

Fiscal Impact ($000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	$0	$0	$0	$0
Revenues	0	0	0	0
Natural Resources Fund				
Expenditures	124	124	124	124
Revenues	0	0	0	0
Net Fiscal Impact	$124	$124	$124	$124

Recommendation
The Governor recommends $124,000 in FY 2006 and $124,000 in FY 2007 for the Minnesota Zoological Garden from the Natural Resources Fund. This appropriation is a continuation of the funding appropriated to the Zoo in FY 2002 and FY 2003.

Background
In the 2000 session, M.S. 297A.44 was amended to direct certain revenues collected under M.S. 297A.259 to dedicated accounts in the Natural Resources Fund. This revenue source has commonly been referred to as the lottery in lieu of funds. M.S. 297A.44 requires the commissioner of revenue to deposit 2% of the receipts into the Natural Resources Fund and restricts spending of this money for purposes of the Minnesota Zoological Garden, the Como Park Zoo, and the Duluth Zoo. The Minnesota Zoological Garden received an appropriation of $121,000 in FY 2004 and $124,000 in FY 2005.

Relationship to Base Budget
Appropriations made from the Lottery in Lieu are not included in the base budget.

Key Measures
If funding were not continued the Zoo would reduce maintenance of facilities.