

State Government**CABINET AGENCIES****ADMINISTRATION DEPT****EMPLOYEE RELATIONS DEPT****FINANCE DEPT****MILITARY AFFAIRS DEPT****REVENUE DEPT****VETERANS AFFAIRS DEPT****CONSTITUTIONAL OFFICES & LEGISLATURE****ATTORNEY GENERAL****GOVERNORS OFFICE****SECRETARY OF STATE****STATE AUDITOR****LEGISLATURE****OTHER NON CABINET AGENCIES****ADMINISTRATIVE HEARINGS****AMATEUR SPORTS COMM****ASIAN-PACIFIC COUNCIL****BLACK MINNESOTANS COUNCIL****CAMPAIGN FINANCE & PUB DIS BD****CAPITOL AREA ARCHITECT****CHICANO LATINO AFFAIRS COUNCIL****DISABLED AMERICAN VETS****GAMBLING CONTROL BOARD****INDIAN AFFAIRS COUNCIL****INVESTMENT BOARD****LOTTERY****MILITARY ORDER OF PURPLE HEART****MINN STATE RETIREMENT SYSTEM****PUBLIC EMPLOYEES RETIRE ASSOC****RACING COMMISSION****TEACHERS RETIREMENT ASSOC****VFW**

	PAGE
Transmittal Letter	1
Agency Overview	3
Change Summary	4
Change Items	
Agency Change Items	
Admin Operational Reductions	6
Land Mgmt Information Center Reduction	8
Local Planning Assistance Elimination	9
Office of Technology Restructuring	10



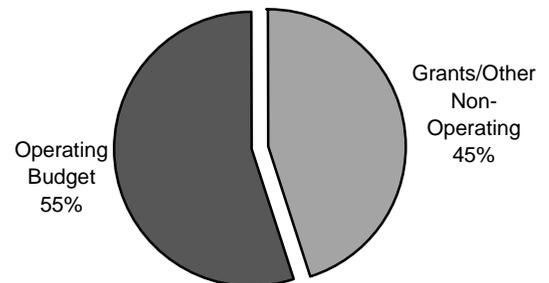
January 25, 2005

To the 2005 Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Administration Department's budget recommendation for the FY 2006-07 budget. The recommended budget for this agency is \$405 million with the general fund portion amounting to 11% of this total. As this graphic indicates, our general fund budget is split between operating funds and grants/other non-operating funds.

The Department of Administration, with nearly 850 employees working in 22 divisions, is responsible for providing services and goods to other state agencies, constitutional offices, K-12 and higher education and other units of government. These responsibilities include statewide leadership in developing electronic government services, purchasing and procurement of state goods and services, computer and telecommunications services, maintenance and operation of state buildings and infrastructure, state construction project management, building codes administration and recycling and resource management. The department is also the home of the State Archaeologist, State Demographic Center and North Star, the state's official address on the World Wide Web.

**Department of Administration
\$43.9 Million FY 2006-07 General Fund**



During the budgeting process, each division evaluated its service and product offerings as they relate to customer needs and the projected budget deficit. This evaluation occurred in the context of the goals and principles of the Pawlenty Administration and the mission of the department to lead Minnesota state government in delivering quality products and services faster, better and more cost-effectively.

The resulting budget reflects the Department of Administration as:

- A pivotal, positive and value-adding organization for its customers
- Minimizing unnecessary bureaucracy and breaking down barriers through responsible, innovative and collaborative actions.
- A trustworthy organization operating ethically and with integrity, honesty and compassion toward our clients and co-workers, and ensuring statutory and regulatory compliance.
- Tenacious, assertive and courageous in meeting department and division goals, rewarding positive performance and celebrating achievements.

The department's ongoing priority is to take the initiative to develop and implement solutions that result in better, faster and more cost-effective government. The following help illustrate the department's continuing initiatives.

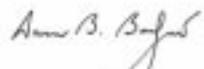
Measuring performance – The 22 divisions of the department are further aligning their business operational plans to the department's mission. All divisions are required to provide goals and measurements that track opportunities for improvement. More than 90 measures that align with the department's strategic plan are currently in place: 26 measure achievement toward the goal of delivering quality products and services better, 31 measure faster and 36 measure more cost-effective.

Leveraging information technology – Divisions throughout the department are leveraging Minnesotans' technological knowledge by providing more services and information over the Internet and through electronic business processes, which reduces costs for printing and mailing, provides instant access to information and allows the redeployment of resources for more critical work. Solicitations for goods and services, the State Register, newsletters, guidebooks and other publications are now available online. As an example, the Governor's Council on Developmental Disabilities has compiled and placed online a comprehensive 50-year history of Minnesota's efforts to move people with developmental disabilities from state institutions to community settings. This history includes a slide show, video clips from key figures and 7,000 pages of policy papers. Also, InterTechnologies Group is implementing a business process re-engineering project that utilizes the Internet for handling telephone service orders, which will cut in half the cost of processing an order, from \$30 to \$15.

Delivering cost efficiencies – As the primary support agency for state government, the department strives to deliver products and services that will assist its customers in meeting the needs of their constituents more cost-effectively. Through reverse auction procurement, Materials Management Division has delivered \$1.9 million in savings on items ranging from copier paper to high-visibility garments, with potential savings of \$4.6 million if all reverse auction contract options are exercised. Real Estate Management Division is delivering cost savings for agencies through lease negotiations with property owners and managers, identifying efficiencies in the utilization of office space and realizing significant results in the sale of state real estate that has been identified by the "owning" agency as surplus to its business needs. In FY2004, the division surpassed its goals of a 20 percent reduction in the amount of space used by state agencies and a 15 percent savings in lease costs through negotiated transactions. The division has also sold \$7.06 million in surplus real estate, exceeding a legislative mandate of \$5.05 million.

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

Sincerely,



Dana B. Badgerow
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	24,916	24,236	24,236	24,236	48,472
Recommended	24,916	24,236	21,941	21,941	43,882
Change		0	(2,295)	(2,295)	(4,590)
% Biennial Change from 2004-05					-10.7%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	23,615	24,743	21,941	21,941	43,882
Statutory Appropriations					
State Government Spec Revenue	5,978	6,417	6,859	7,038	13,897
Special Revenue	8,566	11,798	12,511	12,733	25,244
Federal	1,374	4,204	1,766	1,741	3,507
Risk Management	9,794	10,951	10,347	10,523	20,870
Miscellaneous Agency	9,007	58	87	117	204
Gift	3	104	6	6	12
Plant Management	22,416	24,640	25,208	25,929	51,137
Documents And Publications	1,895	1,839	1,912	1,989	3,901
Micrographics	694	75	82	0	82
Management Analysis	1,183	1,413	1,556	1,592	3,148
Central Motor Pool	13,508	13,545	14,618	14,774	29,392
State Printer	289	40	0	0	0
Central Stores	6,370	6,682	6,879	7,073	13,952
Materials Distribution	5,647	6,968	6,858	7,089	13,947
Intertechnologies	74,112	81,809	79,162	79,162	158,324
Central Mailing	833	11,796	11,821	11,849	23,670
Total	185,284	207,082	201,613	203,556	405,169
<u>Expenditures by Category</u>					
Total Compensation	60,136	62,734	64,772	67,407	132,179
Other Operating Expenses	119,537	135,865	130,552	129,428	259,980
Capital Outlay & Real Property	394	424	0	0	0
Payments To Individuals	2	4	4	4	8
Local Assistance	2,410	4,855	2,362	2,362	4,724
Other Financial Transactions	2,805	3,200	3,923	4,355	8,278
Total	185,284	207,082	201,613	203,556	405,169
<u>Expenditures by Program</u>					
Technology Services	76,491	84,494	80,965	80,965	161,930
State Facilities Services	35,658	41,638	43,128	44,145	87,273
State And Community Services	41,818	44,437	43,568	43,980	87,548
Administrative Mgmt Services	21,379	24,611	24,160	24,674	48,834
Fiscal Agent	9,938	11,902	9,792	9,792	19,584
Total	185,284	207,082	201,613	203,556	405,169
Full-Time Equivalents (FTE)	837.8	877.7	862.9	861.4	

ADMINISTRATION DEPT

Change Summary

	<i>Dollars in Thousands</i>			
	FY2005	Governor's Recomm. FY2006	FY2007	Biennium 2006-07
Fund: GENERAL				
FY 2005 Appropriations	24,236	24,236	24,236	48,472
Technical Adjustments				
One-time Appropriations		(50)	(50)	(100)
Subtotal - Forecast Base	24,236	24,186	24,186	48,372
Change Items				
Admin Operational Reductions	0	(507)	(507)	(1,014)
Land Mgmt Information Center Reduction	0	(837)	(837)	(1,674)
Local Planning Assistance Elimination	0	(299)	(299)	(598)
Office of Technology Restructuring	0	(602)	(602)	(1,204)
Total Governor's Recommendations	24,236	21,941	21,941	43,882
Fund: STATE GOVERNMENT SPEC REVENUE				
Planned Statutory Spending	6,417	6,859	7,038	13,897
Total Governor's Recommendations	6,417	6,859	7,038	13,897
Fund: SPECIAL REVENUE				
Planned Statutory Spending	11,798	12,511	12,733	25,244
Total Governor's Recommendations	11,798	12,511	12,733	25,244
Fund: FEDERAL				
Planned Statutory Spending	4,204	1,766	1,741	3,507
Total Governor's Recommendations	4,204	1,766	1,741	3,507
Fund: RISK MANAGEMENT				
Planned Statutory Spending	10,951	10,347	10,523	20,870
Total Governor's Recommendations	10,951	10,347	10,523	20,870
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	58	87	117	204
Total Governor's Recommendations	58	87	117	204
Fund: GIFT				
Planned Statutory Spending	104	6	6	12
Total Governor's Recommendations	104	6	6	12
Fund: PLANT MANAGEMENT				
Planned Statutory Spending	24,640	25,208	25,929	51,137
Total Governor's Recommendations	24,640	25,208	25,929	51,137
Fund: DOCUMENTS AND PUBLICATIONS				
Planned Statutory Spending	1,839	1,912	1,989	3,901
Total Governor's Recommendations	1,839	1,912	1,989	3,901
Fund: MICROGRAPHICS				
Planned Statutory Spending	75	82	0	82
Total Governor's Recommendations	75	82	0	82
Fund: MANAGEMENT ANALYSIS				
Planned Statutory Spending	1,413	1,556	1,592	3,148
Total Governor's Recommendations	1,413	1,556	1,592	3,148
Fund: CENTRAL MOTOR POOL				
Planned Statutory Spending	13,545	14,618	14,774	29,392
Total Governor's Recommendations	13,545	14,618	14,774	29,392
Fund: STATE PRINTER				

ADMINISTRATION DEPT

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Planned Statutory Spending	40	0	0	0
Total Governor's Recommendations	40	0	0	0
<i>Fund: CENTRAL STORES</i>				
Planned Statutory Spending	6,682	6,879	7,073	13,952
Total Governor's Recommendations	6,682	6,879	7,073	13,952
<i>Fund: MATERIALS DISTRIBUTION</i>				
Planned Statutory Spending	6,968	6,858	7,089	13,947
Total Governor's Recommendations	6,968	6,858	7,089	13,947
<i>Fund: INTERTECHNOLOGIES</i>				
Planned Statutory Spending	81,809	79,162	79,162	158,324
Total Governor's Recommendations	81,809	79,162	79,162	158,324
<i>Fund: CENTRAL MAILING</i>				
Planned Statutory Spending	11,796	11,821	11,849	23,670
Total Governor's Recommendations	11,796	11,821	11,849	23,670

ADMINISTRATION DEPT**Change Item: Admin Operational Reductions**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$507)	(\$507)	(\$507)	(\$507)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$507)	(\$507)	(\$507)	(\$507)

Recommendation

The Governor recommends an annual General Fund operating budget reduction for Admin of \$507,000. Admin will maintain core functions and manage change through productivity increases, while achieving or improving service levels.

Background

Admin's divisions operate within four service bureaus, many receiving General Fund operating appropriations, representing less than 7% of the overall agency budget. These divisions provide a wide range of services to state agencies, and internal administrative services for Admin.

Technology Services

- ◆ Office of Technology (OT) is charged with providing statewide leadership and direction for information and communication technology policy. OT's mission is to ensure that policy development surrounding information and communication technology improves how the state uses technology as well as how it can enhance the capabilities of Minnesota's citizens. OT is also the home of North Star, the state's official Internet portal.

State Facilities Services

- ◆ State Architect's Office is the central resource for Minnesota's predesign program, the design, construction and remodeling needs for most state agencies. It is also responsible for the administration of the Statewide Facilities Management Program.
- ◆ Plant Management-Energy Management conducts energy efficiency improvements and retrofit projects in millions of square footage of state-owned property.
- ◆ Plant Management-Resource Recovery operates the State Recycling center to prepare recyclables for market and administers the State Government Resource Recovery Program providing waste reduction and recycling assistance and education.
- ◆ Real Estate Management Division is responsible for the inventory, allocation, planning and leasing of office and storage space in nonstate-owned buildings, and in state-owned buildings under the custodial control of the Department of Administration. The division provides short-term leasing of state-owned property which is not needed for state use. The division also acquires and disposes of real property.

State & Community Services

- ◆ Information Policy Analysis Division promotes understanding of and compliance with laws regulating information. IPA helps define and interpret decisions about the classification of information as public or not public and answers questions about federal and state freedom of information and data practices.
- ◆ Central Mail provides a mailing service including metering and processing of all outgoing federal mail for agencies within the boundaries of St. Paul. This unit also provides inter-office services to all state agencies within St. Paul and has the responsibility for distributing the federal mail for the Capitol Complex.
- ◆ State Demographic Center, Minnesota's liaison with the U.S. Census Bureau, estimates, forecasts and investigates changes in the state's population, analyzes census data and distributes information.
- ◆ Land Management Information Center (LMIC) offers data, software, project consultation and coordination services that promote the effective use of geographic information and technology.
- ◆ Environmental Quality Board develops policy and reviews proposed projects that could significantly affect the environment. Admin provides support services for the board.

- ◆ Local Planning Assistance Center offers a variety of technical services and information and coordinates state assistance to communities regarding comprehensive planning and comprehensive plan implementation issues.

Admin Management Services

- ◆ Admin Management has overall management responsibility of the agency.
- ◆ Financial Management and Reporting Division provides a centralized and integrated accounting system for Admin and strives to provide timely and accurate financial services while conforming to the Generally Accepted Accounting Principles.
- ◆ Human Resources Division provides personnel services to all department employees, provides advice and consultation to management on human resource issues and administers labor agreements and plans. The HR staff is responsible for payroll and employee benefit services and maintains personnel records.
- ◆ Materials Management Division is responsible for purchasing, contracts, professional or technical services, surplus property acquisition, warehousing and disposal, and all other aspects of buying goods and services for state agencies. The mission of the Materials Management Division is to provide responsible material and service acquisition and property disposition through professional, timely and worthwhile services meeting customer expectations.
- ◆ Management Analysis Division is government's in-house, fee-for-service management consulting group. The Division's professional management consultants provide management consultation services to local, regional, state and federal government agencies and higher education using accepted tools and techniques.
- ◆ Office of Strategic Planning/Performance Management identifies and provides information to government officials on emerging trends, policies and innovations, and works with state cabinet departments in the creation and dissemination of performance measures for citizens.

Relationship to Base Budget

This proposal represents a 3% base level reduction to Admin's General Fund operating budget.

Key Measures

All divisions within Admin prepare operational plans that include performance measures tied to delivering quality products and services faster, better and more cost effectively. These measures are tracked and reported quarterly. Budget reduction proposals were developed to ensure that established measures and quality levels are maintained or improved.

Alternatives Considered

The agency reviewed all General Fund operations affected by this budget measure. In the process, we tried to determine whether they can still be most cost-effectively provided within Admin as a service to its agency customers, concluding that efficiencies, economies of scale and process uniformity are achieved by retaining the service within a centralized function.

ADMINISTRATION DEPT

Change Item: Land Mgmt Information Center Reduction

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$837)	(\$837)	(\$837)	(\$837)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$837)	(\$837)	(\$837)	(\$837)

Recommendation

The Governor recommends a direct General Fund appropriation of \$258,000 annually for the Land Management Information Center (LMIC), a reduction of \$837,000 annually. The remaining funding will be used to continue offering GIS Data Clearinghouse functions at a reduced level, however the GIS Decision Support Systems Unit will no longer be funded. LMIC will continue to offer GIS consulting services, customized data compilations, and GIS software and map products on a cost-recovery basis.

Background

The GIS Decision Support Systems unit of the Land Management Information Center develops and maintains Datanet, a centralized electronic information delivery system for demographic and economic data and EPPL, a software product used for map based data management and analysis.

These systems were originally created in the early stages of geographic information system development when early users did not have other tools or resources available to them. GIS professionals are now located in many areas of government and learning institutions and commercial GIS software has become available in the marketplace.

The clearinghouse is a web-based data portal that provides 'one stop shopping' for GIS data from state, regional, local and federal organizations.

Relationship to Base Budget

This proposal represents a 75% General Fund reduction to the Land Management Information Center.

Key Measures

GIS Clearinghouse activities will remain because of their statewide importance. New measures will be identified for these activities.

Alternatives Considered

Elimination of the entire General Fund budget for the Land Management Information Center was considered.

Statutory Change: M.S. 4A.01

ADMINISTRATION DEPT**Change Item: Local Planning Assistance Elimination**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$299)	(\$299)	(\$299)	(\$299)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$299)	(\$299)	(\$299)	(\$299)

Recommendation

The Governor recommends the elimination of the General Fund appropriation for Local Planning Assistance. Other entities exist which have resources to assist with local planning issues (e.g. Regional Development Commissions and private sector consultants). Consideration is being given to continue portions of these services under a fee for service agreement should demand be present.

Background

The Local Planning Assistance Center (LPAC) was created in 1997 and was largely responsible for administering federal and state grant money for local planning. Grant money was appropriated in FY 1997-98 and FY 1999-01. No grant money was appropriated in FY 2001-02 or FY 2003-04.

LPAC offers technical assistance, data and strategic planning advice to local governments and citizens. These services are in line with those provided by the Regional Development Commissions that exist across the state.

Relationship to Base Budget

This proposal eliminates the General Fund appropriation for Local Planning Assistance.

Alternatives Considered

Fee for Service funding is under consideration.

ADMINISTRATION DEPT**Change Item: Office of Technology Restructuring**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$602)	(\$602)	(\$602)	(\$602)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$602)	(\$602)	(\$602)	(\$602)

Recommendation

The Governor recommends a direct General Fund appropriation of \$1.8 million annually for the Office of Technology (OT), a reduction of \$602,000 each year. This represents a 25% reduction and would equate to a staffing reduction of approximately eight full-time equivalents or 40% of the current staff. This recommendation represents an initial phase of the dissolution of the Office of Technology. It is anticipated that a new governance structure for the enterprise management of information technology will be proposed under Drive to Excellence, which will in effect replace the Office of Technology.

Background

The Office of Technology is statutorily chartered to provide leadership for state information and communications technology policy. The OT is charged to coordinate strategic investments in information and communications technology to encourage the development of a technically literate society, and to ensure sufficient access to and efficient delivery of government services. The OT was chartered to ensure that state technology investments are aligned with an overall enterprise management approach, to accelerate the delivery of electronic government services, and to streamline service delivery through business process change. The OT has been somewhat ineffective at realizing its mission and legislative mandate, as a result of a number of factors including staff skill sets, staff composition, agency compliance and organizational positioning. This budget reduction will begin the process of realignment of personnel to a new enterprise governance structure.

Relationship to Base Budget

This proposal represents a 25% reduction to the Office of Technology General Fund budget.

Key Measures

The purpose of the Office of Technology is to enable state agencies to maximize services and minimize resources by aligning to defined technology standards, products, and procedures. The state would then benefit from an environment of interoperability, collaboration, and leveraging of shared services; and the state's citizens and business partners would find government services closer, more accountable, and more convenient.

Alternatives Considered

Expansion of staff to address deficiencies in performance to charter objectives was considered. It was felt that the issues were more fundamental and that expansion of staff without new governance would not suffice. Elimination of the entire function was also considered but the objectives of the office as well as some skill sets were considered as valuable in the anticipated new governance model.

Statutory Change: The action taken by this change will make the current statutory obligations of the Office of Technology more difficult to fulfill. However, we are hopeful that proposed new statutory authorization will emanate from Drive to Excellence recommendations establishing a new governance structure. If a new governance structure is not approved then current statute would need to be changed either to narrow the charter of the office or eliminate it entirely.

	PAGE
Transmittal Letter	1
Agency Overview	3
Change Summary	4
Change Items	
Agency Change Items	
Staff Restructuring	5
Online Affirmative Action and Pay Equity	6
Health and Safety Information Access-Rtk	7
Shared Funding for Technology	8

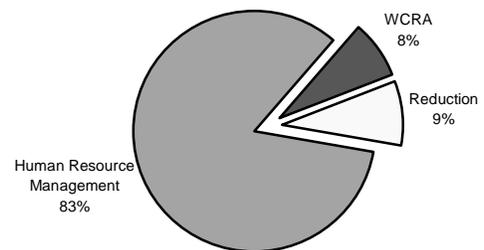
January 25, 2005

To the 2005 Minnesota Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Department of Employee Relations' recommendation for the FY 2006-07 budget. This consists of an operating budget of \$11,223,000 from the state's General Fund, an open appropriation of \$1,027,000 from the General Fund for the state's required Workers' Compensation Reinsurance Association (WCRA) premium, and \$1,384,843,000 from other funds.

As the graphic indicates, the General Fund appropriation primarily supports DOER's Human Resource Management Program which consists of labor relations, compensation, state agency and job applicant services, human resource technology and internal administrative support activities. The non-General Fund portion of DOER's budget is principally money collected from employees, state agencies, public employers and others for benefits such as health care and workers' compensation claims, insurance coverage and employees' pre-tax spending accounts.

**Department of Employee Relations
FY 2006-07 General Fund**



DOER serves as the human resource agency for the administration. It supports 120 executive branch state agencies, impacting over 50,000 state employees, by providing centralized human resource services, including labor negotiations for the executive branch. In addition, DOER provides insurance benefits to state employees, retirees, and their dependents - covering over 120,000 lives statewide. The agency's core mission is to:

- Establish an enterprise orientation to employment policy and maintain a single employer stance which places the state - not each agency - at manageable risk for employment and workplace issues.
- Maximize return on the state's human capital investment by negotiating labor agreements and designing and purchasing benefits that are cost effective yet comparable to the labor market in which agencies must compete to attract and retain quality employees.
- Oversee and enhance human resource infrastructure including compensation, classification and hiring structures and the HR data and technology backbone.

Two years ago, DOER identified four key directions in human resources that shaped our budget deliberations: focus on technology, partnering and collaboration, focusing on core business, and creating efficiencies. Those same criteria served as the basis for developing the DOER FY 2006-2007 budget proposal. DOER continues to use its resources to purchase and support enterprise-wide technology solutions. While technology spending is a significant investment, we believe these investments in electronic service delivery enable state service overall to achieve higher quality and lower the cost of HR administration.

In making budget decisions, DOER attempted to minimize the impact on its customers. Rather than eliminating entire programs or services, the agency sought to maintain core responsibilities and modify how business is done. In doing this, we are strategically choosing to continue to streamline and restructure internal services that support

the delivery of our core mission, rather than cutting into external services and impacting our customers. We are recommending elimination of positions and funding reductions where we have been able to combine functions based on redefining the delivery of certain programs and/or resources but will not negatively impact or jeopardize the overall programs.

Despite these budget reductions, we will continue to be in the forefront in the area of human resources management for all of state government. From the employee insurance benefits program to labor relations to human resources procedures, DOER will continue to adapt to meet changing expectations and the needs of our customers by providing efficient and effective policies that will allow agencies to move forward in accomplishing their individual missions.

The single most significant demand on our programs and services is health care. The effects are felt throughout the agency - from collective bargaining by Labor Relations to technology systems and support, from Workers' Compensation to meeting employee and agency needs for answers and assistance. The impact reaches far beyond the cost of the benefit itself and the demands placed on the agency's resources are unlikely to diminish in the coming biennium.

These budget reductions present a challenge that I believe DOER will meet. I look forward to working with you on the proposed changes.

Sincerely,

A handwritten signature in black ink, appearing to read "Cal R. Ludeman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Cal R. Ludeman
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	6,188	6,188	6,188	6,188	12,376
Recommended	6,188	6,188	5,667	5,556	11,223
Change		0	(521)	(632)	(1,153)
% Biennial Change from 2004-05					-9.3%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	6,093	6,002	5,667	5,556	11,223
Open Appropriations					
General	362	491	506	521	1,027
Statutory Appropriations					
Special Revenue	24,900	25,345	25,127	26,475	51,602
State Employees Insurance	487,352	534,623	606,817	689,566	1,296,383
Miscellaneous Agency	15,937	17,185	18,044	18,947	36,991
Total	534,644	583,646	656,161	741,065	1,397,226
<u>Expenditures by Category</u>					
Total Compensation	10,789	10,995	10,725	11,042	21,767
Other Operating Expenses	523,855	572,651	645,436	730,023	1,375,459
Total	534,644	583,646	656,161	741,065	1,397,226
<u>Expenditures by Program</u>					
Human Resource Mgmt	7,362	7,071	6,754	6,648	13,402
Employee Insurance Division	527,282	576,575	649,407	734,417	1,383,824
Total	534,644	583,646	656,161	741,065	1,397,226
Full-Time Equivalents (FTE)	151.3	150.1	142.6	141.6	

EMPLOYEE RELATIONS DEPT

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	6,188	6,188	6,188	12,376
Subtotal - Forecast Base	6,188	6,188	6,188	12,376
Change Items				
Staff Restructuring	0	(333)	(441)	(774)
Online Affirmative Action and Pay Equity	0	(84)	(87)	(171)
Health and Safety Information Access-RTK	0	(63)	(63)	(126)
Shared Funding for Technology	0	(41)	(41)	(82)
Total Governor's Recommendations	6,188	5,667	5,556	11,223
Fund: GENERAL				
Planned Open Spending	491	506	521	1,027
Total Governor's Recommendations	491	506	521	1,027
Fund: SPECIAL REVENUE				
Planned Statutory Spending	25,345	25,127	26,475	51,602
Total Governor's Recommendations	25,345	25,127	26,475	51,602
Fund: STATE EMPLOYEES INSURANCE				
Planned Statutory Spending	534,623	606,751	689,499	1,296,250
Change Items				
Staff Restructuring	0	25	26	51
Shared Funding for Technology	0	41	41	82
Total Governor's Recommendations	534,623	606,817	689,566	1,296,383
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	17,185	18,044	18,947	36,991
Total Governor's Recommendations	17,185	18,044	18,947	36,991

EMPLOYEE RELATIONS DEPT

Change Item: Staff Restructuring

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$333)	(\$441)	(\$441)	(\$441)
Revenues	0	0	0	0
Other Fund				
Expenditures	25	26	26	26
Revenues	0	0	0	0
Net Fiscal Impact	(\$308)	(\$415)	(\$415)	(\$415)

Recommendation

The Governor recommends a General Fund reduction of \$333,000 in FY 2006 and \$441,000 in FY 2007 to the department's General Fund forecast base of \$6.188 million per year. This reduction will be achieved through consolidation and restructuring of executive management, general clerical and administrative support activities including support for the Public Employers Insurance Program (PEIP), the elimination of a data collection position and the elimination of a position assisting the staffing, classification and job evaluation programs. Staff restructuring will result in the elimination of three currently vacant positions, two to three layoffs and at least one retirement that will lead to elimination of an additional position.

Background

If this recommendation is approved, the resulting changes will be:

- ⇒ During the first year of the biennium, the Department of Employee Relations (DOER) has one retirement among its senior executives and will use the opportunity to restructure agency management. This will eliminate at least one position vacated by retirement.
- ⇒ All remaining general clerical support positions in individual operating divisions will be merged with the existing administrative support unit to provide services on an agency-wide basis. Consolidating internal clerical staff will eliminate one vacant and one filled position and reduce the hours of a third. Impact of the cuts is primarily on internal staff, rather than agency customers.
- ⇒ The PEIP will reorganize program responsibilities, rather than permanently refilling a position vacated by retirement. This will include moving some activities to General Fund fiscal staff and, in exchange, PEIP will contribute toward staff costs, as reflected in the fiscal impact section. PEIP is funded by administrative fees paid by jurisdictions, which choose to participate in the program.
- ⇒ A position performing human resources data collection, surveys and reporting will be eliminated. This will result in one layoff. Analysis and reporting of key performance measurement information about state HR and DOER operations (e.g., Governor's Department Results) would continue.
- ⇒ A position assisting the staffing, classification and job evaluation programs will be abolished. The affected programs will have access to administrative assistance from the larger consolidated support unit being created. This will eliminate one vacant position.

Relationship to Base Budget

This recommendation represents a 6.3% reduction in the department's General Fund operating budget of \$6.188 million per year.

Alternatives Considered

Eliminate activities not directly linked to DOER's core mission of providing human resources for the state's Executive Branch (e.g., responsibilities related to local government, administering various payroll deduction programs) or implement/increase fees for those activities.

Statutory Change: The extent of executive management restructuring will be dictated, in part, by the retirements that actually occur in FY 2006. Because some of the agency's structure is specified in law, legislative approval may be required for the reorganization to be made permanent. If needed, statutory changes would be proposed in the 2006 session when the exact nature of the restructuring is known.

EMPLOYEE RELATIONS DEPT

Change Item: Online Affirmative Action and Pay Equity

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$84)	(\$87)	(\$87)	(\$87)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$84)	(\$87)	(\$87)	(\$87)

Recommendation

The Governor recommends a General Fund reduction of \$84,000 in FY 2006 and \$87,000 in FY 2007 to the department's General Fund forecast base of \$6.188 million per year, as the result of leveraging automated; web-based systems for local government pay equity compliance and state agency affirmative action plan approval. This change will result in one layoff.

Background

All local government pay equity reports and state agency affirmative action plans will be processed online. Automated, web-based completion, initial compliance verification and submission will provide simplified reporting and faster response on whether requirements have been met and will allow increased focus on improving initial compliance and working with non-compliant clients of both programs using fewer resources. The system for online local government pay equity reporting is already near completion; some initial work has been done that will support online completion and submission of affirmative action plans.

Relationship to Base Budget

This recommendation represents a 1.4% reduction in the department's General Fund operating budget.

Alternatives Considered

Make agency heads responsible for ensuring that their affirmative action plans comply with requirements without subsequent review and approval by the Department of Employee Relations (DOER).

Eliminate DOER compliance verification for the Local Government Pay Equity Act or combine it with oversight activities of the State Auditor.

EMPLOYEE RELATIONS DEPTProgram: **EMPLOYEE INSURANCE DIVISION**Change Item: **Health and Safety Information Access-RTK**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$63)	(\$63)	(\$63)	(\$63)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$63)	(\$63)	(\$63)	(\$63)

Recommendation

The Governor recommends a reduction of \$63,000 annually for a contract to assist agencies in meeting the requirements of the state Employee Right to Know law. The reduction would eliminate the annual contract without impacting any positions.

Background

The Employee Insurance Division uses this General Fund appropriation for a single statewide contract to assist agencies in meeting requirements of the state Employee Right to Know law by providing a 24-hour health and safety hotline and a limited number of training hours. The Department of Employee Relations (DOER) is currently leveraging the Minnesota Poison Center to provide information regarding exposure episodes in the workplace and DOER's Safety and Industrial Hygiene Unit will continue to assist agencies. State agencies wanting training and services beyond what DOER staff can supply may obtain them from external providers.

Relationship to Base Budget

This recommendation represents a 1.0% reduction in the department's General Fund operating budget of \$6.188 million per year.

Alternatives Considered

Assess a fee to state agencies to cover contract costs.

EMPLOYEE RELATIONS DEPT

Change Item: Shared Funding for Technology

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$41)	(\$41)	(\$41)	(\$41)
Revenues	0	0	0	0
State Employee Group Insurance Fund				
Expenditures	41	41	41	41
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation

The Governor recommends a reduction of \$41,000 annually from the General Fund through increased funding for statewide self-service technology from the Employee Insurance Division.

Background

The Department of Employee Relations (DOER) continues to enhance direct human resource services to employees, supervisors, job applicants and others by investing in enterprise technology solutions. The Employee Insurance Division (EID) continues to expand self-service access for employee benefits and will increase its funding for several statewide systems supporting effective deployment and use of HR direct services.

Relationship to Base Budget

This recommendation represents a 0.7% reduction in the department's General Fund operating budget of \$6.188 million per year.

Alternatives Considered

Reduce or eliminate DOER funding of enterprise technology and self-service solutions beyond those available through SEMA4.

	PAGE
Transmittal Letter	1
Agency Overview	2
Change Summary	3
Change Items	
Agency Change Items	
Operating Budget Reductions	4



**State of Minnesota
Department of Finance**

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St. Paul, Minnesota 55155
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January 25, 2005

To the 2005 Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Department of Finance budget recommendation for the FY 2006-07 biennium. This budget includes \$29.616 million from the state General Fund. The Governor also recommends that the statewide administrative systems billing authority be continued in the amount of \$13.706 million.

As the graphic indicates, our primary general fund activities fall into six major areas: accounting, budgeting, economic analysis, treasury, information services and management services. Billing authority provides additional resources for operating costs of the statewide administrative systems, primarily InterTech computer processing and storage costs. This is managed through a special revenue account where the Department of Finance charges agencies for operational costs for services provided primarily by InterTech.

Our 2006/2007 spending plans assume reductions will be accomplished by eliminating positions that will affect the following areas:

- Payable and reimbursement accounting;
- Support of accounting, procurement, payroll and data warehouse systems;
- Treasury management.

As part of the budget development process, we established our agency priorities by asking the question, "What would we do if we were building a Finance Department where there was none?" We then evaluated our core functions for their contribution to our twofold mission statement: to ensure the integrity of the state's fiscal resources, and to support and challenge state decision-makers to constantly increase the value per dollar of services provided to Minnesotans. Our top priority is maintaining the infrastructure to provide the core functions of payment and payroll processing, and accounting and reporting on the financial activities of the state. These functions are also critical to the value-added analysis work we perform. We looked at ways that we could perform core functions more cost effectively and continue to take advantage of past technology investments to lower our costs.

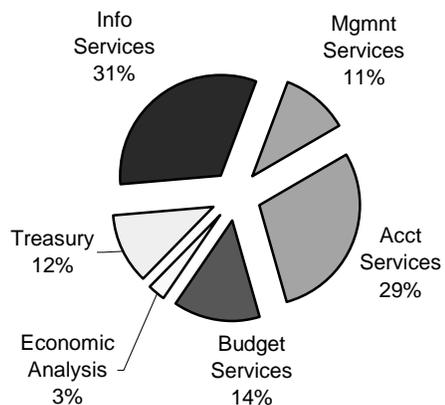
The reductions indicated above were chosen after comparing their relative risk to that of other potential reductions from all department business functions. Other reductions were perceived by the Governor to have unacceptable levels of risk to vendor payments, warrant processing, statewide payroll, budget analysis and management, financial reporting, economic forecasting, and state bond ratings.

With this budget recommendation, we will continue to maintain our commitment to delivering quality services to state agencies and to the public, recognizing that requires continual focus on our mission.

Sincerely,

Peggy Ingison
Commissioner

**Department of Finance
\$29.616 Million FY 2006-07 General
Fund**



Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	15,216	15,216	15,216	15,216	30,432
Recommended	15,216	15,216	14,808	14,808	29,616
Change		0	(408)	(408)	(816)
% Biennial Change from 2004-05					-2.7%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	14,920	15,896	14,808	14,808	29,616
Statutory Appropriations					
General	200	0	0	0	0
Special Revenue	5,562	8,269	6,853	6,853	13,706
Total	20,682	24,165	21,661	21,661	43,322
<u>Expenditures by Category</u>					
Total Compensation	12,471	12,650	12,691	12,691	25,382
Other Operating Expenses	8,064	11,515	9,177	9,177	18,354
Capital Outlay & Real Property	147	0	0	0	0
Transfers	0	0	(207)	(207)	(414)
Total	20,682	24,165	21,661	21,661	43,322
<u>Expenditures by Program</u>					
State-Financial Management	8,164	9,266	8,447	8,447	16,894
Information & Mgmt Services	12,518	14,899	13,214	13,214	26,428
Total	20,682	24,165	21,661	21,661	43,322
Full-Time Equivalent (FTE)	162.2	160.0	145.3	145.3	

Dollars in Thousands

	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
<i>Fund: GENERAL</i>				
FY 2005 Appropriations	15,216	15,216	15,216	30,432
Subtotal - Forecast Base	15,216	15,216	15,216	30,432
Change Items				
Operating Budget Reductions	0	(408)	(408)	(816)
Total Governor's Recommendations	15,216	14,808	14,808	29,616
<i>Fund: SPECIAL REVENUE</i>				
Planned Statutory Spending	8,269	6,853	6,853	13,706
Total Governor's Recommendations	8,269	6,853	6,853	13,706

FINANCE DEPT

Change Item: Operating Budget Reductions

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures:				
State Financial Management	(\$264)	(\$264)	(\$264)	(\$264)
Information & Mgmt Services	(144)	(144)	(144)	(144)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$408)	(\$408)	(\$408)	(\$408)

Recommendation

The Governor recommends an appropriation of \$14.808 million in FY 2006 and \$14.808 million in FY 2007 for the Department of Finance (DOF). This is a \$408,000 annual reduction in the General Fund appropriation.

Background

This change will impact agency staff, state agencies and the general public, as well as vendors and other customers of statewide accounting, payroll, financial reporting functions, treasury and supporting information systems. Savings will be accomplished by eliminating approximately eight positions. Salary progression and insurance increases are expected to result in additional budget pressure of \$600,000 in FY 2006-07 that will necessitate about seven additional position reductions. With these reductions, department staffing is estimated at 145 positions in FY 2006. Six positions were eliminated or held vacant in the FY 2004-05 biennium. These reductions were net of the 12 Office of the Treasurer positions added to Finance in January 2003.

If this recommendation is approved, the resulting changes will be:

- ⇒ Payable and reimbursement accounting:
 - ◆ Eliminating the expansion of the electronic fund transfer process;
 - ◆ Prolonging the production and mailing of paper warrants;
 - ◆ Reducing compliance testing of transfers, encumbrances, accounts payable and business expenses.
- ⇒ Support of accounting, procurement, payroll and information access data warehouse systems:
 - ◆ Reducing support for modifications, enhancements and problem resolution;
 - ◆ Limiting system changes to critical fixes only;
 - ◆ Reducing ability to respond to report requests for management and public information.
- ⇒ Treasury management:
 - ◆ Reducing the frequency of re-bidding state depository bank accounts based on the needs of state agencies.

Relationship to Base Budget

This change will provide DOF with \$816,000 less than the amount appropriated in the last biennium, a 2.7% reduction from the FY 2004-05 appropriation. This is in addition to the \$600,000 additional impact expected from absorbing compensation increases.

Positions	FY02	FY03	FY04	FY05	FY06	FY07
Finance Positions	176	168	160	160	145	145
Treasurer Positions*	-	10	-	-	-	-
Total Positions	176	178	160	160	145	145

* Treasurer's duties were combined with Finance in January 2003.

Key Measures

Key performance measures impacted by this change item will include:

- ◆ Percentage of electronic vendor payments;
- ◆ Repeat audit findings;
- ◆ Percentage of users “Satisfied” or “Very Satisfied” with the Statewide Administrative Systems.

Alternatives Considered

The department considered other reductions in financial reporting, payroll services, and budget planning, implementation and evaluation, but rejected those reductions due to the unacceptable level of risk to vendor payments, payroll processing, budget management and state bond ratings.

	PAGE
Transmittal Letter	1
Agency Overview	2
Change Summary	3
Change Items	
Agency Change Items	
100% Tuition Reimbursement	4
Eliminate Emergency Service Direct Appropriation	5
Reenlistment Bonus	6

DEPARTMENT OF MILITARY AFFAIRS
MINNESOTA ARMY AND AIR NATIONAL GUARD



OFFICE OF THE ADJUTANT GENERAL

VETERANS SERVICE BUILDING

STATE OF MINNESOTA

20 WEST 12TH STREET

ST. PAUL, MINNESOTA 55155-2098

January 25, 2005

The 2005 Minnesota Legislature:

On behalf of Governor Pawlenty, the 12,773 members of the Minnesota Army and Air National Guard, and the department's 258 state employees, I am pleased to submit the Department of Military Affairs budget recommendation for fiscal years 2006 and 2007. This budget consists of approximately \$132 million in federal funding, a request for \$35.258 million from the state's general fund, and \$1 million in dedicated receipts.

This budget reflects increases from our Fiscal Year 2004 – 2005 budget in the area of enlistment incentives for members of the Minnesota National Guard. The department should be able to provide funding for the next two years absent extraordinary tuition increases at the University of Minnesota. (Reimbursements are capped at the cost of tuition for lower division programs at the University of Minnesota.) Overhead costs to support this program remain extremely low – less than 1% of the total appropriation is used for employee compensation and administrative support.

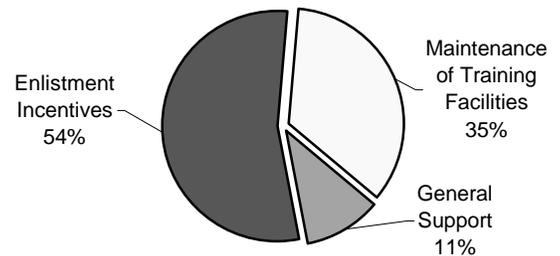
The other areas of the budget have remained stable. The core activities of the department are related to: implementation and execution of a series of cooperative agreements with the federal government; and operating, maintaining, and repairing state owned facilities used by the National Guard.

The cooperative agreements require human resources support for the 230 department employees whose salaries are at least partially reimbursed by the federal government, purchasing and contracting services to execute the \$35 to \$40 million dollars in federal funds received annually for construction and repair of supported facilities, and accounting and budgeting services. This budget maintains that support.

Finally, the proposed budget at least minimally provides the resources necessary to operate and maintain the facilities used to maintain the readiness of the soldiers and airmen of the Minnesota National Guard. We expect some shortfalls that will require reprioritizing facility support, but we expect to operate and maintain our facilities at a clean, safe, and functional level.

Larry W. Shellito
Major General, MN Army National Guard
The Adjutant General

Department of Military Affairs
\$32.1 Million FY 2006-07 General Fund



Dollars in Thousands

	Current		Governor Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	12,354	12,204	12,204	12,204	24,408
Recommended	12,354	12,204	17,554	17,554	35,108
Change		0	5,350	5,350	10,700
% Biennial Change from 2004-05					43%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	12,252	13,808	17,554	17,554	35,108
Open Appropriations					
General	144	730	382	471	853
Statutory Appropriations					
General	62	60	60	60	120
Special Revenue	658	661	667	672	1,339
Federal	27,034	46,787	47,753	48,147	95,900
Total	40,150	62,046	66,416	66,904	133,320
<u>Expenditures by Category</u>					
Total Compensation	13,852	14,588	15,502	15,963	31,465
Other Operating Expenses	20,349	25,957	23,183	23,210	46,393
Capital Outlay & Real Property	258	15,972	17,136	17,136	34,272
Payments To Individuals	5,366	5,023	10,089	10,089	20,178
Local Assistance	325	506	506	506	1,012
Total	40,150	62,046	66,416	66,904	133,320
<u>Expenditures by Program</u>					
Maint Training Facilities	31,949	53,586	53,398	53,794	107,192
General Support	2,254	2,588	2,429	2,432	4,861
Enlistment Incentives	5,653	5,142	10,207	10,207	20,414
Emergency Services	294	730	382	471	853
Total	40,150	62,046	66,416	66,904	133,320
Full-Time Equivalent (FTE)	250.9	249.2	249.2	249.2	

MILITARY AFFAIRS DEPT

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	12,204	12,204	12,204	24,408
Technical Adjustments				
Biennial Appropriations		75	75	150
Subtotal - Forecast Base	12,204	12,279	12,279	24,558
Change Items				
100% Tuition Reimbursement	0	3,850	3,850	7,700
Eliminate Emergency Service Direct Appr	0	(75)	(75)	(150)
Reenlistment Bonus	0	1,500	1,500	3,000
Total Governor's Recommendations	12,204	17,554	17,554	35,108
Fund: GENERAL				
Planned Open Spending	730	307	396	703
Change Items				
Eliminate Emergency Service Direct Appr	0	75	75	150
Total Governor's Recommendations	730	382	471	853
Fund: GENERAL				
Planned Statutory Spending	60	60	60	120
Total Governor's Recommendations	60	60	60	120
Fund: SPECIAL REVENUE				
Planned Statutory Spending	661	667	672	1,339
Total Governor's Recommendations	661	667	672	1,339
Fund: FEDERAL				
Planned Statutory Spending	46,787	47,753	48,147	95,900
Total Governor's Recommendations	46,787	47,753	48,147	95,900

MILITARY AFFAIRS DEPT

Change Item: 100% Tuition Reimbursement

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$3,850	\$3,850	\$3,850	\$3,850
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$3,850	\$3,850	\$3,850	\$3,850

Recommendation

The Governor recommends increasing the appropriation for tuition reimbursement from its current \$4.857 million to \$8.707 million – an increase of \$3.85 million per year. This increase will allow the department to reimburse Minnesota National Guard members at the 100% level as authorized by state statute.

Background

The number one goal for the Minnesota National Guard is to maintain its personnel strength. The National Guard incentives program is used to help attract and retain soldiers and airmen qualified to perform their federal, state, and community missions. It has been an excellent tool, enabling the Minnesota National Guard to achieve its recruiting and retention goals and to attract and retain women and minority members. Minnesota has been ranked number 1 in non-prior service recruiting for the last several years. The cornerstone of this program is the tuition reimbursement program.

This increase is important to avoiding erosion in personnel strength coupled with increased difficulties in attracting and retaining female and minority members. Personnel strength is the prime determinant in federal funding for most programs associated with the National Guard. Loss of personnel strength reduces funding and also negatively impacts the ability of its members to perform their federal, state, and community missions.

The department competes for National Guard members not only with other employers and programs within the state, but also with bordering states. Currently both Wisconsin and North Dakota offer tuition assistance to National Guard members at a level equivalent to 100% reimbursement when coupled with other programs.

Due to budgetary constraints, the department currently pays only about 80% of the lower division rate. This increase would allow the department to pay the 100% rate allowed under statute and adjusts for projected increases in the tuition rates of about 5.5% per year.

Relationship to Base Budget

This represents a \$3.85 million increase in the base appropriation for tuition reimbursement.

Key Measures

Funding at the requested levels will assist the National Guard in meeting its personnel strength objectives. These objectives are measurable by comparing year-end strength levels. The department also closely monitors and reports on its female and minority participation rates. We would expect these to continue to rise as reported in the budget narrative.

Alternatives Considered

Other incentives/changes considered include low interest home improvement loans, child care vouchers, other tax credits, and bonuses for services, however, the tuition reimbursement program is the departments number one tool for enlistment incentives and is our first priority.

MILITARY AFFAIRS DEPT**Change Item: Eliminate Emergency Service Direct Appropriation**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures				
Direct Appropriation	(\$75)	(\$75)	(\$75)	(\$75)
Open Appropriation	75	75	75	75
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation

The Governor recommends increasing the open appropriation for emergency services from the General Fund of \$75,000 annually to Military Affairs for FY 2006 and FY 2007 and reducing the direct appropriation from the General Fund by the same amount.

Background

The provisions of M.S. 192.52 provide open appropriation authority to pay the costs incurred by military personnel ordered to active service duty by the Governor. The statute requires the adjutant general to prepare a memo outlining how previous funds for the current biennium were spent, any reimbursements that have been made to the General Fund, as well as the current request to cover costs associated with the activation. This recommendation will simplify the process of tracking and forecasting expenditures associated with emergency services.

Relationship to Base Budget

The Governor's recommendation will not affect the operating budget of the Military Affairs Department.

MILITARY AFFAIRS DEPT

Change Item: Reenlistment Bonus

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$1,500	\$1,500	\$1,500	\$1,500
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$1,500	\$1,500	\$1,500	\$1,500

Recommendation

The Governor recommends expanding the National Guard Incentives Program to include a reenlistment bonus for mid-career enlisted members.

Background

The current enlistment incentives program for the Minnesota National Guard consists of the Tuition Reimbursement program. That program is focused on bringing new recruits into the Minnesota National Guard.

One of the comments both the Governor and National Guard leadership has heard from those National Guard members currently serving is the lack of a program to provide incentives for them to extend their enlistments in the organization. It is critical that the National Guard is able to retain those mid-career personnel (24 to 32 years old) who are making career decisions.

Since 9-11-01, over 5,950 Minnesota National Guard Soldiers and Airmen have been activated in support of military operations around the world, putting their personal lives and careers on hold. This is unprecedented. They have also responded to the call of the Governor, and in 2004 performed 1,195 days of state active duty for homeland security, natural disasters, and missing person searches. Guard members also contributed 34,567 hours of community service during 2004.

This program will be aimed at those personnel who have completed their initial six-year enlistment but have fewer than 12 years of creditable service. The rate currently anticipated will be \$1,000 per year with a maximum of \$5,000 per member. It is anticipated that the funding of \$1.5 million per year for the program will be sufficient for the next few years if the department has carry forward authority in this appropriation.

Relationship to Base Budget

This would be an addition of \$3 million to our base biennial budget.

Key Measures

To date, the impact of multiple deployments on the ability of the Minnesota National Guard to retain its trained soldiers and airmen is unknown. We expect this reenlistment bonus will, at a minimum, provide a tool to encourage continuing service by members and help maintain personnel strength. Every member lost prior to retirement represents another demand on the recruiting operations to maintain personnel strength. The National Guard's current goal for attrition (the measure of losses in the enlisted ranks) is 14% annually. This program will enhance the department's ability to meet that goal.

Alternatives Considered

Other incentives/changes considered include low interest home improvement loans, child care vouchers, other tax credits, and bonuses for services, however, the bonus program is seen as a critical tool in maintaining required personnel strength and encouraging reenlistment by our trained soldiers and airmen.

	PAGE
Transmittal Letter	1
Agency Overview	3
Change Summary	4
Change Items	
Agency Change Items	
Enhanced Tax Compliance Initiative	5
Operating Reduction	6

MINNESOTA • REVENUE

January 25, 2005

To the 2005 Legislature:

On behalf of Governor Pawlenty, I am pleased to submit the Department of Revenue's recommendation for the FY 2006-07 budget. This budget consists of \$198.262 million from the state's General Fund and \$12.184 million from other funds.

The department's budget includes a cut of \$6 million from the FY 2004-05 budget for support activities, and an increase of \$13.296 million for stepped-up tax enforcement activities that are expected to generate an added \$67.9 million in state revenue. In the absence of the increase in funds for new tax enforcement activities, the department's budget represents a reduction of about 3% from the FY 2004-05 budget.

Overall, this budget simultaneously makes cuts in the budget, generates additional revenue through increased tax enforcement and preserves current tax revenue-producing enforcement and support activities.

The resources the department is requesting, \$198.3 million for the biennium, permits us to achieve our mission of "making the revenue system work well for Minnesota."

To advance this mission, the department will continue to carry out its core functions:

- providing taxpayers with the services and information they need to meet their filing and paying obligation, including forms and instructions and telephone assistance;
- processing returns and payments, issuing refunds and managing taxpayer accounts;
- auditing to resolve discrepancies, discourage tax evasion and identify patterns of noncompliance;
- enforcing the tax laws for those who do not comply voluntarily; and
- identifying and recommending improvements to the revenue system.

The Governor's budget recommendation will allow us to continue performing these activities to ensure that citizens have the services they need to fulfill their tax obligations; the information they need to make informed decisions about their tax obligations; and confidence that the system is fair to all citizens.

The Department of Revenue's operational budget request includes two separate components.

Operating Budget Reduction

This budget request appropriates \$191.1 million over the biennium for current operations. This represents a \$6.0 million reduction in basic operations or a 3% reduction in resources from the previous biennium. In planning this reduction, the department preserved tax auditing, non-filer detection, criminal investigation and delinquent tax collection activities for all tax types. These activities are essential in order to forestall losses in the state's revenue. These revenue-producing activities make up the bulk of the agency's budget.

The department will make its reduction in activities that do not have a direct impact on state revenue collections. Briefly, these reductions include:

- cuts in technology development and infrastructure investments; and
- reductions in office rents for facilities that are not designated revenue-producing activities.

The department will still focus on four principal goals designed to improve filing and paying systems for citizens and businesses, increase revenues through expanded compliance, and deliver services at lower costs. The four goals are:

1. Continuing to transform tax filing and paying from high-cost paper processes to cost-saving electronic transactions. E-filing also increases the speed, accuracy, convenience and ease of taxpayer transactions.

2. Creating web-based self-service systems to enable taxpayers to get the information they need to file and pay their taxes, monitor the status of their refund or payment, make corrections to their records and view their filing and payment history.
3. Continuing to improve existing tax audit and collection efforts to generate added revenues from citizens and businesses that evade or under pay their tax.
4. Modernizing the tax system to keep pace with changes in the economy, demographics and technology. This includes making it easier for retailers, especially internet based and mail order companies, to collect and pay the state's sales and use tax obligations.

New Compliance Activities

Our budget proposal also requests an appropriation of \$13.3 million for new tax auditing and enforcement activities. This investment will generate \$67.9 million in additional revenues in the next biennium. These compliance activities will be similar to those funded in the prior two biennia, which were extremely successful.

In the 2002-03 biennium, the department was appropriated \$9.7 million to generate \$60.1 million through increased tax compliance activities. Those efforts generated \$97.2 million, or \$37.1 million more than expected. The department also received \$12.8 million in the 2004-05 biennium to generate an added \$59.8 million. As of December 1, 2004, this effort has generated \$63.9 million, or \$4.9 million more than anticipated with seven months remaining in the biennium.

In summary, the department intends to assist in solving the state's current budget problem by making reductions in tax compliance support activities and by raising significant new revenues through additional tax enforcement activities.

Respectfully,



Daniel A. Salomone
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	89,669	93,683	93,683	93,683	187,366
Recommended	89,669	93,683	95,869	98,593	194,462
Change		0	2,186	4,910	7,096
% Biennial Change from 2004-05					6.1%
Health Care Access					
Current Appropriation	1,693	1,654	1,654	1,654	3,308
Recommended	1,693	1,654	1,654	1,654	3,308
Change		0	0	0	0
% Biennial Change from 2004-05					-1.2%
Highway Users Tax Distribution					
Current Appropriation	2,097	2,097	2,097	2,097	4,194
Recommended	2,097	2,097	2,097	2,097	4,194
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Environmental					
Current Appropriation	0	291	291	291	582
Recommended	0	291	291	291	582
Change		0	0	0	0
% Biennial Change from 2004-05					100%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	85,271	97,601	95,869	98,593	194,462
Health Care Access	1,509	1,838	1,654	1,654	3,308
Highway Users Tax Distribution	1,999	2,195	2,097	2,097	4,194
Environmental	0	313	291	291	582
Open Appropriations					
General	1,856	1,900	1,900	1,900	3,800
Statutory Appropriations					
Special Revenue	2,409	2,960	2,050	2,050	4,100
Environmental	353	0	0	0	0
Total	93,397	106,807	103,861	106,585	210,446
<u>Expenditures by Category</u>					
Total Compensation	71,059	75,893	79,580	81,607	161,187
Other Operating Expenses	21,649	30,146	23,616	24,313	47,929
Capital Outlay & Real Property	592	665	665	665	1,330
Local Assistance	97	103	0	0	0
Total	93,397	106,807	103,861	106,585	210,446
<u>Expenditures by Program</u>					
Tax System Management	77,161	88,815	85,473	87,567	173,040
Debt Collection Management	16,236	17,992	18,388	19,018	37,406
Total	93,397	106,807	103,861	106,585	210,446
Full-Time Equivalent (FTE)	1,129.7	1,185.5	1,139.5	1,095.3	

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	93,683	93,683	93,683	187,366
Technical Adjustments				
One-time Appropriations		(100)	(100)	(200)
Subtotal - Forecast Base	93,683	93,583	93,583	187,166
Change Items				
Enhanced Tax Compliance Initiative	0	5,786	7,510	13,296
Operating Reduction	0	(3,500)	(2,500)	(6,000)
Total Governor's Recommendations	93,683	95,869	98,593	194,462
Fund: HEALTH CARE ACCESS				
FY 2005 Appropriations	1,654	1,654	1,654	3,308
Subtotal - Forecast Base	1,654	1,654	1,654	3,308
Total Governor's Recommendations	1,654	1,654	1,654	3,308
Fund: HIGHWAY USERS TAX DISTRIBUTION				
FY 2005 Appropriations	2,097	2,097	2,097	4,194
Subtotal - Forecast Base	2,097	2,097	2,097	4,194
Total Governor's Recommendations	2,097	2,097	2,097	4,194
Fund: ENVIRONMENTAL				
FY 2005 Appropriations	291	291	291	582
Subtotal - Forecast Base	291	291	291	582
Total Governor's Recommendations	291	291	291	582
Fund: GENERAL				
Planned Open Spending	1,900	1,900	1,900	3,800
Total Governor's Recommendations	1,900	1,900	1,900	3,800
Fund: SPECIAL REVENUE				
Planned Statutory Spending	2,960	2,050	2,050	4,100
Total Governor's Recommendations	2,960	2,050	2,050	4,100
Revenue Change Items				
Fund: GENERAL				
Change Items				
Enhanced Tax Compliance Initiative	0	26,200	41,800	68,000

REVENUE DEPARTMENT

Change Item: Enhanced Tax Compliance Initiative

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$5,786	\$7,510	\$7,510	\$7,510
Revenues	26,200	41,800	41,800	41,800
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact *	(\$20,414)	(\$34,290)	(\$34,290)	(\$34,290)

* Net Fiscal Impact is expenditure changes minus revenue changes. A positive Net Fiscal Impact is either an expenditure increase or a revenue decrease. A negative Net Fiscal Impact is either an expenditure reduction or a revenue increase.

Recommendation

The Governor recommends an appropriation of \$5.786 million in FY 2006 and \$7.510 million in FY 2007 to support 105 additional FTE to identify and collect tax liabilities from individuals and businesses that currently under-report their tax liabilities or do not file and pay at all.

Background

The first goal in the department's strategic plan is that everyone pays the right amount of tax, no more, no less. However, there are a significant number of individuals and businesses with Minnesota tax liability that do not pay all that is owed or do not file or pay anything. To create a fairer tax system for all taxpayers and to level the playing field for all businesses, these "under-reporters" and "non-filers" will be identified and brought permanently onto the tax rolls. Department of Revenue (DOR) wants to increase its focus on taxpayers that are furthest from compliance, with a special emphasis on businesses using Foreign Operating Corporation (FOC) status inappropriately.

Relationship to Base Budget

This change item will be funded by an on-going General Fund appropriation. The eventual \$7.51 million increase represents approximately 7.5% of the department's current General Fund appropriation. However, the increased appropriation will lead to additional General Fund tax collections well in excess of on-going funding. In conjunction with recent reductions in indirect compliance activities, this change item continues to reshape the department's budget by placing more emphasis on direct compliance activities. This initiative will have much greater impact than traditional one-time compliance initiatives by providing on-going revenue to the General Fund.

Key Measures

DOR will monitor the activities funded under this change item and will report the results to the legislature as part of the 2007 budget process. We fully expect to meet or exceed the performance outcome identified above. Performance Measures include:

- ◆ return on investment (revenues to expenditures);
- ◆ new businesses and individuals brought into the tax system; and
- ◆ cases resolved.

Alternatives Considered

The department considered many different types and configurations of compliance initiatives. The activities we have planned will derive the greatest revenue-to-expenditure ratio on a long-term basis.

REVENUE DEPARTMENT

Change Item: Operating Reduction

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$3,500)	(\$2,500)	(\$2,500)	(\$2,500)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$3,500)	(\$2,500)	(\$2,500)	(\$2,500)

Recommendation

The Governor recommends a General Fund budget reduction of \$3.5 million in FY 2006 and \$2.5 million in FY 2007 (3.2%) for the Department of Revenue (DOR).

Background

The proposed reduction will be made in two areas, neither of which is directly related to the department's growing emphasis on enforcing tax compliance.

- ⇒ Rents and leases. In FY 2006-07, the department will return \$2 million in savings related to rents and leases. The largest portion of that will be a one-time \$1.6 million reduction in rent due to a surplus of funds in the Department of Administration's building account for 600 North Robert Street. In FY 2008-09, the savings are expected to be \$.5 million per year as the department's conversion to electronic filing allows it to reduce the amount of space required for storage of paper records.
- ⇒ Computer hardware and systems. The balance of the reduction (\$2 million per year) will be made by delaying the purchase of computer hardware and software systems. While there are risks associated with aging equipment and systems, the department is making every effort to maintain the integrity of its highest priority activities—those that relate to ensuring full compliance with Minnesota's tax laws.

Relationship to Base Budget

The apportionment of the department's budget between voluntary and enforced tax compliance has been shifting over time. Prior to 2002, 52% of the budget was committed to taxpayer services that support voluntary compliance by citizens and businesses. It is worth noting that 90% to 95% of the state's revenues are collected through voluntary compliance. As additional funds have been appropriated for enforced compliance (tax auditing and enforcement activities) and reductions have been made in service and processing activities, the portion of the budget devoted to voluntary compliance is now closer to 37% (c. \$80 million).

Key Measures

- ◆ service-level indicators; and
- ◆ customer surveys.

Alternatives Considered

The agency considered reductions in direct compliance activities, but rejected them because of their negative impact on General Fund revenue collections.

	PAGE
Transmittal Letter	1
Agency Overview	2
Change Summary	3
Change Items	
Agency Change Items	
Veterans Claims Processing-Vietnam Vets	4
Rent Adjustment	5



**Office of the
Commissioner**

State of Minnesota
DEPARTMENT OF VETERANS AFFAIRS
 VETERANS SERVICE BUILDING
 ROOM 206C
 20 WEST 12TH STREET
 ST. PAUL, MINNESOTA 55155-2006
 (651) 296-2562

January 25, 2005

To the 2005 Legislature:

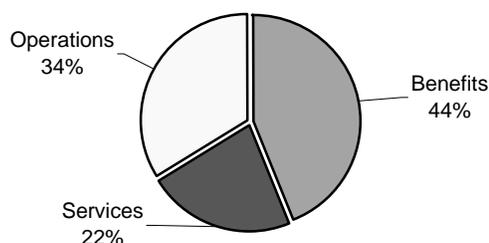
On behalf of Governor Pawlenty, I am pleased to submit the Department of Veterans Affairs' budget recommendation for the FY 2006-07 budget. The budget recommendation consists of \$8.076 million from the state's General Fund.

The graphic indicates the appropriation allocation to our three main programs. The mission and purpose of the Department of Veterans Affairs is to serve the veterans of Minnesota, their dependents and survivors, in securing all benefits and services provided by federal and state law. The department fulfills this mission by providing leadership and direction to the veteran's community, while exercising responsible management of available resources. Our key service strategies and core functions are as follows:

- Provide assistance to all eligible veterans, their dependents, and survivors;
- Collaborate with service providers whose efforts are coordinated by the department;
- Continually review, revise, and build upon proven business practices to ensure the most timely, cost effective delivery of benefits and services.
- Promote self-sufficiency and personal responsibility by providing a temporary safety net of benefits and services to Minnesota's veterans, their dependents and survivors;
- Provide representation to clients pursuing claims for federal veterans benefits;
- Provide professional, compassionate financial management of resources of persons under guardianship to the department;
- Prudently manage all budgets, accounts, financial transaction, information technology, and human resources programs to meet department needs; and
- Provide dignified and compassionate committal services at the Minnesota State Veterans Cemetery.

Department of Veterans Affairs

FY 2006-07 General Fund
(Total: \$8.076 Million)



Sincerely,

Michael Pugliese
Acting Commissioner

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	4,188	4,138	4,138	4,138	8,276
Recommended	4,188	4,138	4,038	4,038	8,076
Change		0	(100)	(100)	(200)
% Biennial Change from 2004-05					-3%
<u>Expenditures by Fund</u>					
Carry Forward					
General	0	0	10	10	20
Direct Appropriations					
General	3,808	4,871	4,038	4,038	8,076
Statutory Appropriations					
Special Revenue	89	296	283	220	503
Federal	169	494	400	400	800
Miscellaneous Agency	1,115	1,750	1,750	1,750	3,500
Gift	7	19	15	12	27
Total	5,188	7,430	6,496	6,430	12,926
<u>Expenditures by Category</u>					
Total Compensation	2,083	2,924	2,666	2,642	5,308
Other Operating Expenses	486	971	564	552	1,116
Capital Outlay & Real Property	54	50	50	20	70
Payments To Individuals	1,896	2,860	2,751	2,751	5,502
Local Assistance	669	625	465	465	930
Total	5,188	7,430	6,496	6,430	12,926
<u>Expenditures by Program</u>					
Benefits	1,755	2,243	1,782	1,782	3,564
Services	1,961	2,769	2,623	2,623	5,246
Departmental Operations	1,300	1,889	1,651	1,600	3,251
Vets Gulf Bonus	0	10	10	10	20
State Approving Agency	172	519	430	415	845
Total	5,188	7,430	6,496	6,430	12,926
Full-Time Equivalents (FTE)	33.3	34.2	34.2	34.2	

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	4,138	4,138	4,138	8,276
Technical Adjustments				
One-time Appropriations		(150)	(150)	(300)
Subtotal - Forecast Base	4,138	3,988	3,988	7,976
Change Items				
Veterans Claims Processing-Vietnam Vets	0	5	5	10
Rent Adjustment	0	45	45	90
Total Governor's Recommendations	4,138	4,038	4,038	8,076
Fund: GENERAL				
Planned Statutory Spending	0	10	10	20
Total Governor's Recommendations	0	10	10	20
Fund: SPECIAL REVENUE				
Planned Statutory Spending	296	283	220	503
Total Governor's Recommendations	296	283	220	503
Fund: FEDERAL				
Planned Statutory Spending	494	400	400	800
Total Governor's Recommendations	494	400	400	800
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	1,750	1,750	1,750	3,500
Total Governor's Recommendations	1,750	1,750	1,750	3,500
Fund: GIFT				
Planned Statutory Spending	19	15	12	27
Total Governor's Recommendations	19	15	12	27

VETERANS AFFAIRS DEPT

Change Item: Veterans Claims Processing-Vietnam Vets

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

Recommendation

The Governor recommends an additional \$5,000 per year for the Minnesota State Council of the Vietnam Veterans of America to be used to staff and maintain their claims office at the Bishop Henry Whipple Federal Building at Fort Snelling. This additional funding will help reduce cash flow challenges in funding the salaries of National Veterans Service Officers.

Background

The Vietnam Veterans of America had one part time service officer from 1997 to 2002. In 2002, staffing levels increased to two full time veterans' service officers. Additional staffing was necessary to adequately meet the needs of the veterans filing claims. Since 2002 the client base has increased by over 288%. There are currently over 800 claims on file. The Vietnam Veterans of America brings in \$3 million per year to Minnesota veterans and their families, and hopes to increase that on a yearly basis.

The recommendation for additional funding will ease cash flow challenges and enable the Vietnam Veterans of America to maintain current staffing at full time levels. In the past, budget pressures required a reduction in staff hours that significantly impacts direct services to veterans.

Relationship to Base Budget

The Governor's recommendation reflects an annual increase of \$5,000, which is a 33.3% increase in the 2006-07 forecast base budget for the Vietnam Veterans of America funded in the base appropriation to the Department of Veterans Affairs.

VETERANS AFFAIRS DEPT

Change Item: Rent Adjustment

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$45	\$45	\$45	\$45
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$45	\$45	\$45	\$45

Recommendation

The Governor recommends an appropriation of \$4.038 million per year, which includes an additional \$45,000 per year for increased rent expenditures for the Minnesota Department of Veterans Affairs. The Minnesota Department of Veterans Affairs leases the 2nd floor of the Veterans Service Building on the Capitol Mall. The Governor's FY 2005 deficiency bill includes \$39,000 for this same purpose for the department.

Background

The Veterans Service Building is currently in the process of being renovated. Prior to the renovation, the Department of Veterans Affairs shared the 2nd floor with two small Veterans Service Organizations. After a temporary relocation from the 2nd floor to the 5th floor during renovation, the department returned to the renovated space on the second floor as the sole occupant.

Small Veterans Service Organizations are not required to pay rent to be housed in the Veterans Service Building, however the Minnesota Department of Veterans Affairs does pay rent via a lease arrangement with the Department of Administration. When the Department of Veterans Affairs was sharing the floor with the Veterans Service Organizations, the Department of Administration did not allocate a cost to the Department of Veterans Affairs for shared space such as conference rooms, hallways, and bathrooms because these were common areas. Since the Department of Veterans Affairs is now the sole occupant of the 2nd floor, the costs for all common space have been included in their revised lease rates.

Relationship to Base Budget

The Governor's recommendation reflects an annual increase of \$45,000, which represents a 1.1% increase in the agency's FY 2006-07 forecast base budget.

Alternatives Considered

The department would consider a staff reduction without the annual increase of \$45,000 to pay increased lease costs.

Constitutional Offices & Legislature

	PAGE
Transmittal Letter	1
Agency Overview	2
Change Summary	3
Change Items	
Governor's Change Items	
Budget Reduction	4
<hr/>	
Agency Transmittal Letter	5
Governor's Change Items	
Additional Positions	7



**State of Minnesota
Department of Finance**

400 Centennial Building
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St. Paul, Minnesota 55155
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January 25, 2005

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the Governor's FY 2006-07 budget proposal for the Attorney General. The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

For the Attorney General, the Governor recommends a direct General Fund appropriation of \$22.270 million in FY 2006 and \$22.295 million in FY 2007. This budget recommendation reflects a biennial reduction of \$1.128 million, which is a 2.5% reduction from the agency's direct general fund appropriation, consistent with the recommendations for other constitutional officers and the legislature.

Sincerely,

A handwritten signature in cursive script that reads "Peggy S. Ingison".

Peggy Ingison
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	22,559	22,559	22,559	22,559	45,118
Recommended	22,559	22,559	22,270	22,295	44,565
Change		0	(289)	(264)	(553)
% Biennial Change from 2004-05					-1.2%
State Government Spec Revenue					
Current Appropriation	1,612	1,591	1,591	1,591	3,182
Recommended	1,612	1,591	1,778	1,794	3,572
Change		0	187	203	390
% Biennial Change from 2004-05					11.5%
Environmental					
Current Appropriation	145	145	145	145	290
Recommended	145	145	145	145	290
Change		0	0	0	0
% Biennial Change from 2004-05					0%
Remediation					
Current Appropriation	484	484	484	484	968
Recommended	484	484	484	484	968
Change		0	0	0	0
% Biennial Change from 2004-05					0%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	23,650	29,661	22,270	22,295	44,565
State Government Spec Revenue	2,240	2,416	1,778	1,794	3,572
Environmental	63	227	145	145	290
Remediation	116	852	484	484	968
Statutory Appropriations					
General	5,937	5,563	5,505	5,505	11,010
Special Revenue	343	218	219	219	438
Federal	1,033	1,283	1,283	1,283	2,566
Miscellaneous Agency	6,366	27	0	0	0
Total	39,748	40,247	31,684	31,725	63,409
<u>Expenditures by Category</u>					
Total Compensation	28,679	33,533	28,989	29,030	58,019
Other Operating Expenses	11,069	6,714	6,297	6,297	12,594
Transfers	0	0	(3,602)	(3,602)	(7,204)
Total	39,748	40,247	31,684	31,725	63,409
<u>Expenditures by Program</u>					
Attorney General	39,748	40,247	31,684	31,725	63,409
Total	39,748	40,247	31,684	31,725	63,409
Full-Time Equivalentents (FTE)	361.3	372.8	374.8	374.8	

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	22,559	22,559	22,559	45,118
Technical Adjustments				
Current Law Base Change		275	300	575
Subtotal - Forecast Base	22,559	22,834	22,859	45,693
Change Items				
Budget Reduction	0	(564)	(564)	(1,128)
Total Governor's Recommendations	22,559	22,270	22,295	44,565
Fund: STATE GOVERNMENT SPEC REVENUE				
FY 2005 Appropriations	1,591	1,591	1,591	3,182
Technical Adjustments				
End-of-session Estimate		187	203	390
Subtotal - Forecast Base	1,591	1,778	1,794	3,572
Total Governor's Recommendations	1,591	1,778	1,794	3,572
Fund: ENVIRONMENTAL				
FY 2005 Appropriations	145	145	145	290
Subtotal - Forecast Base	145	145	145	290
Total Governor's Recommendations	145	145	145	290
Fund: REMEDIATION				
FY 2005 Appropriations	484	484	484	968
Subtotal - Forecast Base	484	484	484	968
Total Governor's Recommendations	484	484	484	968
Fund: GENERAL				
Planned Statutory Spending	5,563	5,505	5,505	11,010
Total Governor's Recommendations	5,563	5,505	5,505	11,010
Fund: SPECIAL REVENUE				
Planned Statutory Spending	218	219	219	438
Total Governor's Recommendations	218	219	219	438
Fund: FEDERAL				
Planned Statutory Spending	1,283	1,283	1,283	2,566
Total Governor's Recommendations	1,283	1,283	1,283	2,566
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	27	0	0	0
Total Governor's Recommendations	27	0	0	0

ATTORNEY GENERAL

Change Item: Budget Reduction

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$564)	(\$564)	(\$564)	(\$564)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$564)	(\$564)	(\$564)	(\$564)

Recommendation

The Governor recommends a direct General Fund appropriation of \$22.270 million in FY 2006 and \$22.295 million in FY 2007, a reduction of \$564,000 annually.

Background

The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

As with the executive branch, the Governor suggests that these offices and institutions individually redesign their operations to increase efficiencies while minimizing the disruption to public services. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise cooperate to share services in order to reduce costs.

Relationship to Base Budget

The Governor's recommendation reflects an annual reduction of \$564,000, which is a 2.5% reduction from the agency's direct General Fund appropriation, consistent with the recommendations for other constitutional officers and the legislature.



MIKE HATCH
ATTORNEY GENERAL

STATE OF MINNESOTA

OFFICE OF THE ATTORNEY GENERAL

102 STATE CAPITOL
ST. PAUL, MN 55155-1002
TELEPHONE: (651) 296-6196

January, 2005

The 2005 Minnesota Legislature

Re: The Attorney General's Budget Request for FY 2006/2007

Dear Members:

Attached is the budget request for the Attorney General's Office (AGO) for Fiscal Years 2006 and 2007. Our Office proposes to carry out its mission to protect the interests of Minnesota's citizens by:

Agency Representation (the AGO serves as legal counsel to all state agencies)

- ◆ Enforcing state laws
- ◆ Protecting taxpayer dollars
- ◆ Protecting the public from unsafe health care and childcare providers, intoxicated drivers, sexual predators and unethical licensed professionals
- ◆ Providing legal advice and representation to state agencies
- ◆ Reviewing state contracts, grants and bond issues to safeguard state resources

Defense of Claims (the AGO serves as defense counsel for the legislature, the State)

- ◆ Defending legislation and constitutional challenges
- ◆ Representing agencies in litigation brought against the State
- ◆ Saving the state millions of dollars by successfully defending claims against the State

Public Protection

- ◆ Enforcing the State's consumer, charities, Medicaid and antitrust laws to protect its citizens from fraud and to ensure fair business practices
- ◆ Advocating for the interests of residential and small business utility customers before the Public Utilities Commission
- ◆ Assisting county attorneys in prosecuting serious crimes and upholding criminal convictions on appeal to safeguard the public interest

The AGO returns, saves and protects taxpayer dollars. The AGO accomplishes this by an ongoing effort to provide high quality cost-effective legal services. The AGO works with state agencies to help them avoid legal problems before they occur. It has aggressively used alternative dispute resolution to prevent costly litigation.

The AGO carries out its mission by:

- ◆ Attracting highly qualified attorneys, legal assistants and support staff who provide effective/efficient legal services
- ◆ Addressing threats to the public by working with local authorities in areas such as the civil commitment of sexual predators, equity stripping, felony crime and gang violence
- ◆ Working with state agencies, county attorneys and other constituent groups to enable them to carry out their programs more effectively
- ◆ Working with agencies to educate staff about issues such as employment law, tort claims and the implementation of new statutes to reduce exposure to claims and to prevent costly litigation for the State

January, 2005

Page 2

- ◆ Developing legislative proposals to address the concerns of Minnesota's citizens
- ◆ Regularly examining staffing levels to ensure the efficient delivery of legal services by a core group of employees. Since 1999 the AGO has significantly reduced staff. At this point the AGO has one-third fewer employees than in 1999.

The AGO is committed to operating in a fiscally responsible manner. Ongoing fiscal challenges to the AGO include:

- ◆ Maintaining adequate funding for the Office in light of increasing demand for quality legal services
- ◆ Meeting the constantly changing demand for AGO services driven by new initiatives, amended laws, increased litigation and concerns about public safety
- ◆ Developing necessary legal expertise, recruiting and retaining highly qualified attorneys

Currently the AGO is funded by a mix of general fund appropriations and by funding agreements with "partner agencies."

As you review our budget request, I will be available to discuss any issues or questions you have.

Very truly yours,

A handwritten signature in black ink, appearing to read "MIKE HATCH", written over a light gray rectangular background.

MIKE HATCH
Attorney General

ATTORNEY GENERAL

Agency Change Item: Additional Positions

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

Recommendation

The Attorney General Office (AGO) requests funding of \$810,000 for eight additional attorney positions and one investigator position to handle legal work involving: the civil commitment of sex offenders, recovery of funds from tobacco companies, equity stripping, antitrust violations, and illegal actions of the pharmaceutical industry. This work is directly related to public safety, pro-active legal services to protect the citizens of Minnesota and litigation on behalf of state agencies. It is expected that recoveries obtained from litigation with tobacco, pharmaceutical and lending industries will greatly exceed this budget request. Since 1999 the office has experienced the largest reduction in staff of any state agency. The office has absorbed these reductions to this point; however, it can no longer do so.

Background

Civil Commitment

Two attorney positions are requested to handle civil commitment cases. County attorneys from most counties in the state refer civil commitments for sex offenders to the AGO. Since the murder of Dru Sjodin in November 2003, the number of criminal commitment cases for sex offenders handled by the AGO has dramatically increased. In calendar year 2002, approximately ten cases were referred for civil commitment to counties assisted by the AGO. In calendar year 2003 the total number of cases referred was less than ten. In contrast, in calendar year 2004 the AGO worked with counties in 146 cases through 10-15-04. This office assists in all aspects of commitment litigation, including preparation of commitment petitions, handling of pre-trial matters, and litigation of the case at the hearing. It also is responsible for administrative hearings required by the Community Notification Act when a registered sex offender challenges an assessment of the offender's level of potential danger.

These attorney positions are necessary to handle the dramatic increase in cases. Even with the addition of two attorneys, the caseloads for these attorneys at current levels will be significantly higher than 2002 caseloads. Without additional help, it is unlikely that the office can continue to provide the current level of assistance to county attorneys in sex offender commitment cases.

Since 1-1-04, the Department of Corrections has made a significant procedural changes resulting in the case load increases. First, it has ignored its statutory mandate to make determinations of whether civil commitments might be appropriate for sex offenders prior to release from incarceration. Consequently, the AGO has assisted counties as they make their determinations in each commitment case. Second, the Corrections Department fails to give adequate notice to counties of upcoming releases of certain sex offenders. This policy often results in the need for an emergency hold order, and very tight time constraints for civil commitment cases. Third, the department has improperly released some dangerous sex offenders into the community without referring them for commitment, forcing the attorneys to expend resources to obtain an emergency hold order for these individuals.

Methamphetamine Cases

One attorney position is needed to assist with prosecuting methamphetamine cases. Methamphetamine use and methamphetamine manufacturing in Minnesota has reached epidemic proportions. Clandestine methamphetamine manufacturing laboratories exist in every county in the state. With the continuing emphasis among law enforcement agencies on finding and investigating methamphetamine labs, the number of cases reaching the court system will continue to grow. County attorneys with small offices rely on the AGO to handle these cases for them. The additional position will enable this office to address the rising demand statewide for methamphetamine prosecution.

Equity Stripping

One attorney and one investigator are needed to handle the increase in equity stripping cases. In recent years, there have been a record number of mortgage foreclosures in Minnesota. Some homeowners enter foreclosure following a job loss, death of a spouse, medical problems, or underemployment. At the same time, homes in many Minnesota communities have greatly appreciated in value. As a result, many foreclosed upon homeowners are unable to make their monthly mortgage payments, yet have substantial "equity" in their homes.

Unscrupulous mortgage foreclosure rescue counselors prey upon vulnerable homeowners in foreclosure. They contact homeowners and counsel them on how to save the equity in their homes. After earning the trust and confidence of the homeowner, however, these predators employ a variety of techniques to swindle homeowners out of their equity. In virtually all cases, the foreclosure counselor runs the clock on the redemption period in which the homeowner may sell or redeem their home. In some cases, after tricking the homeowner into sitting on his rights until the redemption period expires, the foreclosure counselor presents the homeowner with no choice other than to transfer title of the home to the foreclosure counselor. In other cases, foreclosure counselors misrepresent the documents being signed by the homeowner. For instance, they may represent that a document is a power of attorney or form needed to obtain refinancing for the homeowner, when in fact it is a warranty deed or mortgage which vests the counselor with title to the home. In yet other cases, the foreclosure counselor gives a loan to the homeowner, secured by a second mortgage on the property. After lulling the homeowners into sitting on their rights, the foreclosure counselor buys the property at the sale.

These schemes are particularly deplorable because home ownership is the way in which most consumers build a nest egg. These foreclosure scams not only wreak havoc on individual homeowner's financial situations and extract a heavy emotional toll, but they are destabilizing to the community.

Antitrust Cases

One attorney position is requested to handle antitrust cases. The number of corporate mergers and consolidations has increased dramatically in recent years and their impact on markets, competition and consumers in Minnesota requires prompt and in-depth evaluation. In addition, drug companies' manipulation of the introduction of generic drugs is a growing problem, which has damaged government Medicaid programs and consumers alike. In just the past two years, the state of Minnesota has initiated legal actions in such cases involving the drugs Cardizem, Taxol, Buspar and Remeron and is presently investigating manufacturers of certain other drugs. The level of activity in business consolidation and market manipulation by drug companies is expected to continue to increase.

Tobacco-Related Matters

One attorney position is requested to handle tobacco-related matters. These include representing the state of Minnesota in enforcement of: 1) State law which imposes a per-pack fee on "non-settlement cigarettes"; and 2) the provisions of the settlement agreement with certain tobacco companies which are attempting to circumvent payment to the state of Minnesota. The state faces losses of millions of dollars if the tobacco companies are successful in challenging the law and in their efforts to avoid payment under the settlement agreement.

Pharmaceutical Litigation

One attorney is requested to handle pharmaceutical litigation. It is estimated that Minnesota consumers, including the state of Minnesota and its Medicaid program, are losing millions of dollars to pharmaceutical companies as a result of their use of an "average wholesale price" as a basis upon which to price their drugs; through Medicaid rebate fraud; through the use of pharmaceutical benefit managers; through the use of various rebates and through various types of anticompetitive conduct. An additional attorney is needed to investigate and initiate legal action with respect to the actions of drug companies.

Relationship to Base Budget

Because the AGO provides legal services, its budget is 80% salary. In order to obtain results for Minnesota's citizens and state agencies, the AGO's base salary budget needs to be increased in order for the office to protect the public and obtain settlements on behalf of state agencies. Settlements are deposited to the General Fund.

Key Measures

- ◆ Settlements negotiated by the AGO are deposited to the General Fund.
- ◆ Sexual predators will be civilly committed in order to protect the public.
- ◆ Minnesota's citizens will be protected from equity strippers.
- ◆ The terms of the tobacco settlement will be aggressively enforced.
- ◆ Minnesota citizens and state institutions will be protected from unfair pricing of prescription drugs.

Alternatives Considered

Because of reductions in staff since 1999 when the office had 50% more attorneys on staff than it does today, the AGO is at a point at which it can no longer continue to absorb the growing need for legal services in its current budget.

	PAGE
Transmittal Letter	1
Agency Overview	2
Change Summary	3
Change Items	
Agency Change Items	
Recommended 2.5% Base Reduction	4



STATE OF MINNESOTA

Office of Governor Tim Pawlenty

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

January 25, 2005

The 2005 Minnesota Legislature:

Enclosed is the FY 2006-07 Budget for the Office of Governor Tim Pawlenty, totaling \$6.993 million in General Funds and \$522,000 in Special Revenue Funds. The general fund amount reflects a reduction of \$179,000, or 2.5%, compared to the last biennium. The special revenue funds are collected from eleven state agencies that wish to maintain the Washington, D.C., office of Federal Affairs.

Funding for the FY 2006-07 biennium will be used to provide support for Governor Pawlenty and provide information to the public and the Legislature. Along with his official duties, this includes support for his efforts to maintain a balanced budget, pursue a public policy agenda directed at education, jobs, health care, public safety, and transportation, and persistent communication with the people of Minnesota.

If you have any questions, please feel free to call me at (651) 296-0059.

Sincerely,

A handwritten signature in cursive script that reads "Dan McElroy".

Dan McElroy
Chief of Staff

Dollars in Thousands

	Current		Governor Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	3,586	3,586	3,586	3,586	7,172
Recommended	3,586	3,586	3,497	3,496	6,993
Change		0	(89)	(90)	(179)
% Biennial Change from 2004-05					-2.5%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	3,409	3,860	3,497	3,496	6,993
Statutory Appropriations					
Special Revenue	204	316	261	261	522
Total	3,613	4,176	3,758	3,757	7,515
 <u>Expenditures by Category</u>					
Total Compensation	2,908	3,273	2,956	2,956	5,912
Other Operating Expenses	705	903	802	801	1,603
Total	3,613	4,176	3,758	3,757	7,515
 <u>Expenditures by Program</u>					
Governors Office	3,613	4,176	3,758	3,757	7,515
Total	3,613	4,176	3,758	3,757	7,515
 Full-Time Equivalents (FTE)	 40.1	 41.9	 40.2	 40.2	

Dollars in Thousands

	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
<i>Fund: GENERAL</i>				
FY 2005 Appropriations	3,586	3,586	3,586	7,172
Subtotal - Forecast Base	3,586	3,586	3,586	7,172
Change Items				
Recommended 2.5% Base Reduction	0	(89)	(90)	(179)
Total Governor's Recommendations	3,586	3,497	3,496	6,993
<i>Fund: SPECIAL REVENUE</i>				
Planned Statutory Spending	316	261	261	522
Total Governor's Recommendations	316	261	261	522

GOVERNORS OFFICE

Change Item: Recommended 2.5% Base Reduction

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$89)	(\$90)	(\$89)	(\$90)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$89)	(\$90)	(\$89)	(\$90)

Recommendation

The Governor recommends a direct General Fund appropriation of \$3.497 million in FY 2006 and \$3.496 million in FY 2007, a biennial reduction of \$179,000.

Background

Funding for the FY 2006-07 biennium will be used to provide support for Governor Pawlenty and providing information to the public and the Legislature. Along with his official duties, this includes support for his efforts to maintain a balanced budget, pursue a public policy agenda directed at education, jobs, health care, public safety, and transportation, and persistent communication with the people of Minnesota.

To achieve the proposed budget reduction, the Governor's Office strategy will be to consider reductions in administrative and personnel costs.

Relationship to Base Budget

The Governor's recommendation reflects a biennial reduction of \$179,000, which is a 2.5% reduction from the agency's forecast budget and is consistent with the recommendations for other constitutional officers and the legislature.

	PAGE
Transmittal Letter	1
Agency Overview	2
Change Summary	3
Change Items	
Governor's Change Items	
Recommended 2.5% Base Reduction	4
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Agency Transmittal Letter	5
Agency Change Items	
Funding to Cover AAMVA and SSA Fees	7
Implementation of SVRS Statewide	9



**State of Minnesota
Department of Finance**

400 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155
Voice: (651) 296-5900
Fax: (651) 296-8685
TTY: 1-800-627-3529

January 25, 2005

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the Governor's FY 2006-07 budget proposal for the Secretary of State. The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

For the State Auditor, the Governor's recommendation is \$11.905 million in General Fund appropriations for the FY 2006-07 biennium. This budget recommendation reflects a biennial reduction of \$75,000, which is a 2.5% reduction from a portion of the agency's budget and is consistent with the recommendations for other constitutional officers and the legislature. This reduction is intended to affect non-revenue producing areas of the agency's budget.

Sincerely,

A handwritten signature in cursive script that reads "Peggy S. Ingison".

Peggy Ingison
Commissioner

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	5,912	6,169	6,169	6,169	12,338
Recommended	5,912	6,169	5,867	6,038	11,905
Change		0	(302)	(131)	(433)
% Biennial Change from 2004-05					-1.5%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	4,959	7,234	5,867	6,038	11,905
Statutory Appropriations					
General	2	2	1	1	2
Special Revenue	4,299	4,168	936	941	1,877
Miscellaneous Agency	0	2	1	1	2
Total	9,260	11,406	6,805	6,981	13,786
 <u>Expenditures by Category</u>					
Total Compensation	5,115	5,281	4,570	4,769	9,339
Other Operating Expenses	4,145	6,125	2,235	2,212	4,447
Total	9,260	11,406	6,805	6,981	13,786
 <u>Expenditures by Program</u>					
Secretary Of State	9,260	11,406	6,805	6,981	13,786
Total	9,260	11,406	6,805	6,981	13,786
 Full-Time Equivalent (FTE)	 80.7	 78.6	 63.4	 63.4	

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	6,169	6,169	6,169	12,338
Technical Adjustments				
Biennial Appropriations		(173)	(1)	(174)
One-time Appropriations		(137)	(137)	(274)
Transfers Between Agencies		45	45	90
Subtotal - Forecast Base	6,169	5,904	6,076	11,980
Change Items				
Recommended 2.5% Base Reduction	0	(37)	(38)	(75)
Total Governor's Recommendations	6,169	5,867	6,038	11,905
Fund: GENERAL				
Planned Statutory Spending	2	1	1	2
Total Governor's Recommendations	2	1	1	2
Fund: SPECIAL REVENUE				
Planned Statutory Spending	4,168	936	941	1,877
Total Governor's Recommendations	4,168	936	941	1,877
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	2	1	1	2
Total Governor's Recommendations	2	1	1	2

SECRETARY OF STATE

Change Item: Recommended 2.5% Base Reduction

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$37)	(\$38)	(\$37)	(\$38)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$37)	(\$38)	(\$37)	(\$38)

Recommendation

The Governor recommends a direct General Fund appropriation of \$5.867 million in FY 2006 and \$6.038 million in FY 2007, a biennial reduction of \$75,000.

Background

The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the governor. However, since the governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

As with the executive branch, the governor suggests that these offices and institutions redesign their operations to increase efficiencies while minimizing the disruption to public services. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise cooperate to share services in order to reduce costs.

Relationship to Base Budget

The Governor's recommendation reflects a biennial reduction of \$75,000, which is a 2.5% reduction from a portion of the agency's forecast budget and is consistent with the recommendations for other constitutional officers and the legislature. This reduction is intended to affect non-revenue producing areas of the agency's budget.



MINNESOTA SECRETARY OF STATE OFFICE

Mary Kiffmeyer, Secretary of State

January 11, 2005

To the 2005 Legislature:

Budget Request:

I am pleased to submit the Secretary of State's budget request for the FY 2006-07 budget. This budget includes a total of \$12.4 million in expenditures from the state's General Fund. The recommended funding level of \$12.4 represents a 1.5% increase from the FY 2004-05 projected spending of \$12.2 from the General Fund. The office also has a revolving fund of approximately \$900,000 each fiscal year. This increase in the budget request results from 2 change items from the General Fund as well as the assumption of a function from another state agency under 2004 legislation.

With this budget request, we will be able to maintain our commitment to delivering quality services to the general public, the business community, local government and other state agencies.

Constitutional Office:

The secretary of state is an independently elected constitutional officer who serves the people of Minnesota by administering fair and honest elections; promoting citizen participation in government; facilitating commerce by recording business documents regarding entities and financing statements for business loans; and preserving for history the records of the state entrusted to the office.

Revenue Production

The Office of the Secretary of State (OSS) is a revenue-producing agency and a net contributor to the General Fund, unlike the other constitutional offices and most other agencies:

- Contributing approx. \$13 million to the General Fund annually; and
- Receiving a general fund appropriation of only \$6 million annually.

The contribution to the general fund by this office increased by almost \$4 million during the current biennium alone.

Business Activity

Business activity in the general economy is increasing, and therefore the volume of transactions completed by the office for the general public and the business community has also been increasing in recent years. In the current biennium, we estimate well over 70 million Web hits and 1.1 million business transactions handled by Secretary of State staff and systems.

Online Functions

In this biennium, the office has successfully implemented major online functions. Online UCC filings now exceed mail filings with the office, and those numbers are growing. Over 138,000 online annual registrations were filed in 2004 alone. We have implemented remote payment options that make it possible for the general public to complete filings without any physical presence or document whatsoever, and continue to expand these options

and services. Another benefit to these online functions is that the information filed is placed on record immediately, bypassing the delays associated with handling paper.

We are similarly looking at automating the process of retrieving information from the OSS business systems, to provide complete remote access to members of the general public from Ada to Zumbrota.

Elections

Our elections function supports approximately 5,000 elections each biennium, and those elections occur almost continuously, not simply in September and November of the even-numbered year.

In the last biennium, the office received a 15% reduction. Under Federal law, elections expenditures may not be reduced below the base level of FY 2000, and thus virtually all of this reduction was taken from the business services side of the budget, resulting in an approximately 22% reduction for that function, which produces virtually all of the revenues for the office. In light of the federal law restrictions, I ask that no further reduction be made to the budget of the office.

Change Items

Therefore, the office is requesting two change items relating to the elections function. The first change item is to pay for part of the implementation of the Social Security Number verification of new mailed-in registrations required by Federal law under the Help America Vote Act, and consists of the fees to be paid to the American Association of Motor Vehicle Administrators for programming and maintenance of the interface between the Department of Public Safety, Driver and Vehicle Services unit and the Social Security Administration required under section 301 of HAVA. An initial fee and an ongoing fee are to be paid to that Association for those costs, which are permanent.

The second change item is for maintaining service of the Statewide Voter Registration System to city and township clerks as mandated in state law passed last session, see Minnesota Statutes, section 201.022, clauses (9) and (11). There are continuing staffing costs for implementation of this new function, which will add up to 2000 new municipal jurisdictions, some with multiple staff member users, to the 87 county auditors with over 200 county staff already using the SVRS system. This is a major increase in terms of setup, help desk assistance and similar functions within the SVRS system.

I ask that you fund the Office of the Minnesota Secretary of State to the degree necessary to fulfill its missions, which are of core importance to Minnesota citizens, businesses and governments.

Sincerely,



Mary Kiffmeyer
Secretary of State

SECRETARY OF STATE**Agency Change Item: Funding to Cover AAMVA and SSA Fees**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$36	\$7	\$7	\$7
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$36	\$7	\$7	\$7

Recommendation

The Office of the Secretary of State is requesting \$36,000 in FY2006 to cover fees set by the American Association of Motor Vehicle Administrators (AAMVA) and the Social Security Administration (SSA) for data verification required by Federal Law. There is \$7,000 requested each year for ongoing costs.

The Office of the Secretary of State recommends to the Legislature that those fees for the purpose of voter registration verification be appropriated from the General Fund.

Background

Under the Help America Vote Act of 2002 (HAVA), the American Association of Motor Vehicle Administrators (AAMVA) and the Social Security Administration (SSA) developed a new transaction set for use by the State Motor Vehicle Administration's (MVA) and election agencies to support the registration process of new voters. HAVA Sec. 303 (a) (5)(B)(ii) and (C)

This process allows election agencies to collect the name, date of birth and last four digits of the social security number. The transaction checks these data elements against the SSA database, and provides a response indicating whether the information verifies.

The fees set by the AAMVA are based on the following costs:

- ◆ Voter Registration Information Verification System development;
- ◆ Testing and implementation;
- ◆ Information Verification Search Transactions; and
- ◆ Ongoing maintenance/administration.

Based on the information we have so far, the spreadsheet shows the estimated fees for four years running. The first year would be FY 2006.

The SSA fees may be slightly higher, since when calculating the fee percentages, one state (ND) was inadvertently excluded.

Also, SSA may include a separate transaction fee, but no pricing information has been given.

SSA AND AAMVA Costs for HAVA Interface (SSN – last 4 digits)						
Item Description	Unit	1st Year	2nd Year	3rd Year	4th Year	Totals
AAMVA Start Up Fee	One time fee/\$5000	\$5,000	0	0	0	5,000
AAMVA Maintenance Fee	Per Quarter/ \$1000	4,000	4,000	4,000	4,000	16,000
SSA Start Up Fee	On time fee/\$24,076	24,212	0	0	0	24,212
SSA Transaction Fee *	Per trans/Per Quarter	0	0	0	0	0
SSA Maintenance Fee **	Per Quarter/\$2,710 yr	2,725	2,725	2,725	2,725	10,900
Grand Totals		\$35,937	\$6,725	\$6,725	\$6,725	\$56,112

**SSA has not provided any cost information on a per transaction fee.*

Relationship to Base Budget

The effect of this change item would be an increase to our General Fund appropriation in FY 2006 in the amount of \$36,000 and increase to our base budget of \$7,000 per fiscal year after that for the AAMVA Maintenance Fee & SSA Maintenance Fee.

Key Measures

The success of this change item will be measured by the ability of the office to verify information provided by a new voter.

Alternatives Considered

A manual check process of the last 4-digits of a voter's SSA would need to be developed.

Statutory Change: HAVA Sec 303 (a)(5)(B)(ii)

SECRETARY OF STATE

Agency Change Item: Implementation of SVRS Statewide

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$220	\$220	\$220	\$220
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$220	\$220	\$220	\$220

Recommendation

The Office of the Secretary of State is requesting \$220,000 in each year to cover ongoing funding for four positions that will handle customer support to local jurisdictions using the Statewide Voter Registration System (SVRS) as required pursuant to section 201.022, clauses (9) and (11). There is \$220,000 requested each year to cover ongoing costs for the positions.

The Office of the Secretary of State recommends to the Legislature that the funding for the positions be appropriated from the General Fund.

Background

The following positions will be needed to assist Minnesota cities, township and school district election officials with training and on-going usage of the SVRS.

Two Help Desk Specialists to answer calls and requests relating to the SVRS system that arise at the statewide, city, township and school district levels - \$50,000 each.

Two State Programmer Admin Intermediates to handle election-related issues that arise at the city, township and school district levels - \$60,000 each.

Relationship to Base Budget

The effect of this change item would be an increase to our general fund appropriation in FY 2006 and FY 2007 in the amount of \$220,000 in each year and an increase to our base budget of \$220,000 per year on an ongoing basis.

Key Measures

The success of this change item will be measured by the ability of the office to provide:

- ◆ access to SVRS to local jurisdictions;
- ◆ technical support and elections customer support to local jurisdictions; and
- ◆ that local jurisdictions have a stable environment and the ability to use the system to its fullest advantage.

Alternatives Considered

This expense cannot be absorbed within the existing budget of the Secretary of State; the service is mandated by law.

Statutory Change: SVRS access by local jurisdictions is required by M.S., Sect. 201.022, clauses (9) and (11).

	PAGE
Transmittal Letter	1
Agency Overview	2
Change Summary	3
Change Items	
Governor's Change Items	
Recommended 2.5% Base Reduction	4
<hr/>	
Agency Transmittal Letter	5
Agency Change Items	
Restoration of Audit Practice Staffing	7
Staff Retention	8



**State of Minnesota
Department of Finance**

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January 25, 2005

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the Governor's FY2006-07 budget proposal for the State Auditor. The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

For the State Auditor, the Governor's recommendation is \$16.512 million in General Fund appropriations for the FY2006-07 biennium. This budget recommendation reflects a biennial reduction of \$100,000, which is a 2.5% reduction from a portion of the agency's budget and is consistent with the recommendations for other constitutional officers and the legislature. This reduction is intended to affect non-revenue producing areas of the agency's budget.

Sincerely,

A handwritten signature in cursive script that reads "Peggy S. Ingison".

Peggy Ingison
Commissioner

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	8,306	8,306	8,306	8,306	16,612
Recommended	8,306	8,306	8,256	8,256	16,512
Change		0	(50)	(50)	(100)
% Biennial Change from 2004-05					-0.6%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	7,929	8,798	8,256	8,256	16,512
Statutory Appropriations					
General	704	949	973	1,009	1,982
Special Revenue	29	0	0	0	0
Total	8,662	9,747	9,229	9,265	18,494
 <u>Expenditures by Category</u>					
Total Compensation	7,705	8,727	8,303	8,338	16,641
Other Operating Expenses	957	1,020	926	927	1,853
Total	8,662	9,747	9,229	9,265	18,494
 <u>Expenditures by Program</u>					
State Auditor	8,662	9,747	9,229	9,265	18,494
Total	8,662	9,747	9,229	9,265	18,494
 <u>Full-Time Equivalent (FTE)</u>					
	112.6	112.2	112.2	112.2	

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	8,306	8,306	8,306	16,612
Subtotal - Forecast Base	8,306	8,306	8,306	16,612
Change Items				
Recommended 2.5% Base Reduction	0	(50)	(50)	(100)
Total Governor's Recommendations	8,306	8,256	8,256	16,512
Fund: GENERAL				
Planned Statutory Spending	949	973	1,009	1,982
Total Governor's Recommendations	949	973	1,009	1,982

STATE AUDITOR**Change Item: Recommended 2.5% Base Reduction**

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

Recommendation

The Governor recommends a direct General Fund appropriation of \$8.256 million each year of the FY 2006-07 biennium, a reduction of \$50,000 annually.

Background

The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

As with the executive branch, the Governor suggests that these offices and institutions redesign their operations to increase efficiencies while minimizing the disruption to public services. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise cooperate to share services in order to reduce costs.

Relationship to Base Budget

The Governor's recommendation reflects an annual reduction of \$50,000, which is a 2.5% reduction from a portion of the agency's forecast budget and is consistent with the recommendations for other constitutional officers and the legislature. This reduction is intended to affect non-revenue producing areas of the agency's budget.



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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January 12, 2005

2005 Minnesota Legislature:

The Office of the State Auditor is proposing a 15 and 19 percent increase in the State Auditors General Fund Base Expenditure Appropriation and revenues for 2006 and 2007, respectively. This change item would be revenue-neutral to the state General Fund as it would only apply to the Audit Practice Division, and represents a 20 and 25 percent increase in the Audit Practice Divisions General Fund Base Expenditure Appropriation and revenues for 2006 and 2007, respectively.

As required by law, the Audit Practice Division recovers its auditing costs and therefore any increase in the appropriation for Audit Practice would be completely off-set through additional revenues for the state General Fund. This means that an increase to Audit Practice will not have a negative effect on the bottom line of the state General Fund.

The purpose of this proposed change is to restore to 2003 levels the staffing in the Audit Practice Division to meet the auditing needs of Minnesota local governments.

The Office of the State Auditor is charged with overseeing the more than twenty billion dollars spent annually by local governments in Minnesota. The Office does this by performing audits of local government financial statements, and reviews of documents, data, reports, and complaints submitted to or gathered by the office. The State Auditor's Office performs approximately 250 audits per year, and collects, verifies, and/or analyzes financial information for 87 counties, 853 cities, 1790 towns, 343 school districts, 400 special service districts, and 730 public pension funds. In addition, over 300 special investigations files are reviewed annually.

Audit Practice Division

The core function of the Audit Practice division is the auditing of local governments and is required by state law. The State Auditor prescribes accounting systems, and audits, or reviews the audits, of the accounts and records of the 87 counties, all cities of the first class and their subdivisions, and various special service districts, including the Metropolitan Council. In addition, we "may" audit all other cities, school districts, towns, development authorities, and soil/water conservation districts.

Although funded through the General Fund, Minnesota statutes require the Office of the State Auditor to recover its audit practice costs through fees charged to the entities it audits. Those

fees are deposited back into the General Fund to meet the intent of state law essentially resulting in Audit Practice expenses having a \$0 impact on the state General Fund.

Without a restoration to 2003 audit staff levels, the State Auditor's Office will be unable to meet the demand for required audits by local governments in Minnesota. Because of the high regard by many local government officials for the auditing standards of the office, local governments will often prefer to be audited by the State Auditor. Also, many charter cities are required periodically to have an audit by the State Auditor. Current staffing levels will at the very least delay, and perhaps prohibit the office, from being able to do these audits. Additionally, petition audits by citizens maybe limited in scope or delayed due to personnel limitations.

Further, it is critical to the oversight function of the Office for the State Auditor to perform a certain number of audits each year. Currently there are at least 2,023 local governments that are required to have an annual audit of some type. Of these, the State Auditor only audits 250 or 12.4%. The rest are done by private CPA's. For the Auditor's office to remain efficient and effective in its oversight of local government spending it is important that this number not continue to decrease.

The budget request for the Audit Practice Division is \$ 15,481,000 or 78.4% of the biennial budget.

Other Divisions

The other divisions of the State Auditor's Office are Legal/Special Investigations, Government Information, Pension, and Constitutional Office. The Legal/Special Investigations, Government Information, and Pension divisions review special investigation cases, and collect, verify, and/or analyze financial information for counties, cities, towns, school districts, special districts and public pension funds. The Constitutional Office oversees the management of all the divisions. The budget request for these divisions is \$ 4,258,000 or 21.6% of the biennial budget.

Sincerely,



Patricia Anderson
State Auditor

STATE AUDITOR

Agency Change Item: Restoration of Audit Practice Staffing

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$1,010	\$1,047	\$1,096	\$1,148
Revenues	1,010	1,047	1,096	1,148
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	0	0	0

Recommendation

The State Auditor recommends the restoration of staffing levels for the Audit Practice Division to 2003 staffing levels. The increase in staffing levels requires an increase in the General Fund Expenditure Appropriation for the Audit Practice Division that will be equally offset by an increase in revenues. Because sufficient revenues are raised to cover the associated costs with no impact to the General Fund, the Governor supports this change item.

Background

Audit Practice plays a primary role in the State Auditor's Office ability to perform its oversight functions by examining the accounting systems of local governments. This division performs financial and legal compliance audits of local governments and provides them with an independent analysis of the financial effectiveness of their organization. In addition, Audit Practice audits for evidence of inappropriate expenditures and determines whether local government activities are being administered in accordance with certain Minnesota laws.

Under M.S. 6.58, all costs of the audit examination must be recovered through fees, generating a significant source of reimbursement for the state. These fees are non-dedicated revenues deposited in the General Fund. Audit fees generate a significant source of revenue for the state. Audit work is billed on an hourly basis, plus reimbursable travel expenses, for each client.

An increase of staff in the Audit Practice Division is needed to meet the demand by local governments and citizens for audits by the State Auditor. Already the State Auditor has had to turn down, or delay, requests from local governments that want (and in some cases need) an audit by the State Auditor. For example, some charter cities in Minnesota require that once in a given number of years that they are audited by the State Auditor. The State Auditor recently had to delay a required audit for the city of Faribault due to the lack of funds and personnel within the Audit Practice Division.

Because the Audit Practice Division recovers its costs, an increase in the Audit Practice Division's appropriation will be off set by an increase in revenue collected for the state General Fund, meaning that an increased appropriation for the Audit Practice Division will have no effect on the bottom line of the General Fund.

Relationship to Base Budget

This change item represents a 15% and 19% increase in the State Auditors General Fund Base Expenditure Appropriation and revenues for 2006 and 2007, respectively. This change item represents a 20% and 25% increase in the Audit Practice Divisions General Fund Base Expenditure Appropriation and revenues for 2006 and 2007, respectively.

Key Measures

This change item will help the State Auditor's Audit Practice division to meet the demands of local governments for audits by the State Auditor.

STATE AUDITOR

Agency Change Item: Staff Retention

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$350	\$720	\$1,111	\$1,524
Revenues	268	552	852	1,169
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$82	\$168	\$259	\$355

Recommendation

The State Auditor recommends an increase in the Office of the State Auditors General Fund Expenditure Appropriation to help retain current staff. Ninety percent of the State Auditor's expenditures are related to salaries and benefits and increasing salary and health care costs continue to put pressure on the State Auditor's ability to retain staff to meet the mission of the office.

Background

The mission of the State Auditor's Office is to serve as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governmental financial activities. The state auditor's staff reviews financial documents of local government entities, including counties, cities, school districts, townships, public pension funds, tax increment financing districts, and other special districts. The State Auditor's Office is organized into six divisions: Audit Practice; Legal/Special Investigations; Government Information; Pension; Tax Increment Financing, Investment and Finance; and the Constitutional Office.

The State Auditor's staff of 115 accounts for 90% of the Office's expenditures. Increasing staff and health care costs continue to put pressure on the State Auditor's ability to retain staff. This change item will help the State Auditor retain the necessary staff to meet the mission of the office.

The affect of this change item is minimized by the requirement under M.S. 6.58, which requires all costs of the audit examination must be recovered through fees. These fees are non-dedicated revenues deposited in the General Fund.

The affect of this change item is further minimized by the requirement under M.S. 69.021, subd. 5, which provides that for approximately 60% of the costs of the Pension division to be offset through dollar-for-dollar reductions against state pension-related aids distributed by the Department of Revenue. The dollar-for-dollar reductions are not represented in the Fiscal Impact table above and reduce the affect of this change item by an additional \$12,600 and 25,800 in 2006 and 2007, respectively.

Relationship to Base Budget

This change item represents an increase in the State Auditor's General Fund Appropriation of 4.2% in 2006 and 6.6% in 2007. It represents a net increase in the State Auditor's General Fund Appropriation of 1% and 2% for 2006 and 2007, respectively.

Key Measures

This change item will allow the State Auditor to continue providing services at their current level.

	PAGE
Transmittal Letter	1
Agency Overview	2
Change Summary	3
Change Items	
Agency Change Items	
Budget Reduction	4
Deplete Carry Forward Account Balances	5
Cancel Unspent EREER Task Force Fees	6



**State of Minnesota
Department of Finance**

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January 25, 2005

The Minnesota Legislature
State Capitol
St. Paul, Minnesota

Dear Legislators,

I respectfully submit for your consideration the Governor's FY 2006-07 budget proposal for the Legislature. The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete budget.

For the Legislature, the Governor's recommendation is \$56.597 million in General Fund appropriations for the FY 2006-07 biennium. This budget recommendation reflects a biennial reduction of \$2.902 million, which is a 2.5% reduction from the FY 2006-07 General Fund forecast base budget and is consistent with the recommendations for constitutional officers. The Governor's recommendation also includes a one-time direct General Fund reduction of accumulated carry forward funds of \$9.577 million in FY 2006, and a one-time transfer to the General Fund from the special revenue fund of \$1.764 million in unspent fees dedicated to the Electronic Real Estate Recording Task Force. This task force expired on June 30, 2004.

Sincerely,

A handwritten signature in cursive script that reads "Peggy S. Ingison".

Peggy Ingison
Commissioner

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	58,200	58,048	58,048	58,048	116,096
Recommended	58,200	58,048	56,597	56,597	113,194
Change		0	(1,451)	(1,451)	(2,902)
% Biennial Change from 2004-05					-2.6%
Health Care Access					
Current Appropriation	128	128	128	128	256
Recommended	128	128	128	128	256
Change		0	0	0	0
% Biennial Change from 2004-05					0%
<u>Expenditures by Fund</u>					
Carry Forward					
General	3,018	10,485	(9,577)	0	(9,577)
Direct Appropriations					
General	54,650	62,438	56,597	56,597	113,194
Health Care Access	128	128	128	128	256
Special Revenue	642	0	0	0	0
Federal	22	0	0	0	0
Gift	0	63	0	0	0
Statutory Appropriations					
Special Revenue	0	100	0	0	0
Miscellaneous Agency	299	440	291	291	582
Total	58,759	73,654	47,439	57,016	104,455
<u>Expenditures by Category</u>					
Total Compensation	10,524	10,990	10,095	10,095	20,190
Other Operating Expenses	48,235	62,664	37,344	46,921	84,265
Total	58,759	73,654	47,439	57,016	104,455
<u>Expenditures by Program</u>					
House Of Representatives	25,592	31,908	21,362	25,494	46,856
Senate	18,064	25,561	14,971	18,976	33,947
Legislative Coordinating Cmsn	9,975	10,746	6,359	7,799	14,158
Legislative Audit Comm	5,128	5,439	4,747	4,747	9,494
Total	58,759	73,654	47,439	57,016	104,455
Full-Time Equivalents (FTE)	139.4	139.3	139.3	139.3	

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	58,048	58,048	58,048	116,096
Subtotal - Forecast Base	58,048	58,048	58,048	116,096
Change Items				
Budget Reduction	0	(1,451)	(1,451)	(2,902)
Total Governor's Recommendations	58,048	56,597	56,597	113,194
Fund: HEALTH CARE ACCESS				
FY 2005 Appropriations	128	128	128	256
Subtotal - Forecast Base	128	128	128	256
Total Governor's Recommendations	128	128	128	256
Fund: GENERAL				
Planned Statutory Spending	10,485	0	0	0
Change Items				
Deplete Carry Forward Account Balances	0	(9,577)	0	(9,577)
Total Governor's Recommendations	10,485	(9,577)	0	(9,577)
Fund: SPECIAL REVENUE				
Planned Statutory Spending	100	0	0	0
Total Governor's Recommendations	100	0	0	0
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	440	291	291	582
Total Governor's Recommendations	440	291	291	582

LEGISLATURE

Change Item: Budget Reduction

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$1,451)	(\$1,451)	(\$1,451)	(\$1,451)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$1,451)	(\$1,451)	(\$1,451)	(\$1,451)

Recommendation

The Governor recommends a direct General Fund appropriation of \$56.597 million in FY 2006 and FY 2007, a reduction of \$1.451 million annually.

Background

The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

As with the executive branch, the Governor suggests that these offices and institutions individually redesign their operations to increase efficiencies while minimizing the disruption to public services. They should also consider collaboration with other agencies to consolidate operations, co-locate facilities, or otherwise cooperate to share services in order to reduce costs.

Relationship to Base Budget

The Governor's recommendation reflects an annual reduction of \$1.451 million, which is a 2.5% reduction from the FY 2006-07 General Fund forecast base budget and is consistent with the recommendations for constitutional officers.

LEGISLATURE

Change Item: Deplete Carry Forward Account Balances

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$9,577)	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$9,577)	\$0	\$0	\$0

Recommendation

The Governor recommends a one-time direct General Fund reduction of accumulated carry forward funds of \$9.577 million in FY 2006. Because the carry forward authority granted in M.S. 16A. 281 is unique to the legislature, it cannot be directly compared to other state agencies or constitutional officers.

Background

The Governor respects the separation of powers and the desire of constitutional officers and officials in the judicial and legislative branches to independently present their budget requests directly to the legislature without specific recommendations from the Governor. However, since the Governor is required by law to submit a balanced budget to the legislature, it is necessary to identify funding for those offices as part of preparing a complete balanced budget.

M.S. 16A.281 provides authority for the legislature to carry forward unexpended funds from one biennium into the next biennium. The carry forward funds are credited to special accounts to be used for nonrecurring expenditures on investments that enhance efficiency or improve effectiveness, to pay expenses associated with special sessions, interim activities, public hearings, or other public outreach efforts and related activities; and to pay severance costs of involuntary terminations. The accumulated balances in these special accounts dropped to a low of \$3 million in FY 2000, but have consistently been above \$8.7 million since FY 2003.

As with the executive branch, the Governor suggests that these offices share in the solution of delivering a balanced budget for the state of Minnesota by offering up this one-time accumulated balance.

Relationship to Base Budget

The Governor's recommendation reflects a one-time reduction of \$9,577,000, which is 8.25% of the recommended General Fund forecast FY 2006-07 base budget.

Statutory Change: M.S. 16A.281

LEGISLATURE**Change Item: Cancel Unspent ERE Task Force Fees**

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	\$0	\$0	\$0
Revenues (Transfer in)	\$1,764	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$1,764	\$0	\$0	\$0

Recommendation

The Governor recommends a one-time transfer to the General Fund from the special revenue fund of unspent fees dedicated to the Electronic Real Estate Recording Task Force (ERER) that expired on 6-30-04. The additional \$.50 fee that was imposed on real estate recording transactions to fund the work of the task force has unexpended funds of \$1.764 million.

Background

The Minnesota Legislature enacted the statute that authorized creation of the ERE Task Force in Laws 2000 Chapter 391, with an effective date of 8-1-2000. The mission of the task force was to study the paper based real estate record system and make recommendations on electronic filing of real estate documents. The task force was composed of members representing both public and private stakeholders. The original legislation creating the ERE Task Force imposed a 6-30-03 expiration date, however the ERE Task Force was extended in Laws 2002, Chapter 365 until 6-30-04. The ERE Task Force spent an estimated \$1.2 million prior to its expiration.

Relationship to Base Budget

The Governor's recommendation reflects a one-time special revenue reduction of \$1.764 million in FY 2006.

Other Non Cabinet Agencies

	PAGE
Agency Overview	1
Change Summary	2
Change Items	
Agency Change Items	
Hourly Rate Change	3
Information Technology Infrastructure	5

ADMINISTRATIVE HEARINGS

Agency Overview

Dollars in Thousands

	Current		Governor Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<u>Direct Appropriations by Fund</u>					
Workers Compensation					
Current Appropriation	7,186	7,249	7,249	7,249	14,498
Recommended	7,186	7,249	7,452	7,358	14,810
Change		0	203	109	312
% Biennial Change from 2004-05					2.6%
<u>Expenditures by Fund</u>					
Direct Appropriations					
Workers Compensation	6,729	7,878	7,452	7,358	14,810
Statutory Appropriations					
Special Revenue	0	65	65	65	130
Administrative Hearings	1,391	2,348	1,759	1,748	3,507
Workers Comp Transcript	1	87	6	6	12
Total	8,121	10,378	9,282	9,177	18,459
<u>Expenditures by Category</u>					
Total Compensation	6,874	7,189	7,321	7,530	14,851
Other Operating Expenses	1,247	3,189	1,961	1,647	3,608
Total	8,121	10,378	9,282	9,177	18,459
<u>Expenditures by Program</u>					
Administrative Hearings	8,121	10,378	9,282	9,177	18,459
Total	8,121	10,378	9,282	9,177	18,459
Full-Time Equivalent (FTE)	81.9	81.9	81.9	81.9	

ADMINISTRATIVE HEARINGS

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
<i>Fund: WORKERS COMPENSATION</i>				
FY 2005 Appropriations	7,249	7,249	7,249	14,498
Subtotal - Forecast Base	7,249	7,249	7,249	14,498
Change Items				
Information Technology Infrastructure	0	203	109	312
Total Governor's Recommendations	7,249	7,452	7,358	14,810
<i>Fund: SPECIAL REVENUE</i>				
Planned Statutory Spending	65	65	65	130
Total Governor's Recommendations	65	65	65	130
<i>Fund: ADMINISTRATIVE HEARINGS</i>				
Planned Statutory Spending	2,348	1,736	1,736	3,472
Change Items				
Information Technology Infrastructure	0	23	12	35
Total Governor's Recommendations	2,348	1,759	1,748	3,507
<i>Fund: WORKERS COMP TRANSCRIPT</i>				
Planned Statutory Spending	87	6	6	12
Total Governor's Recommendations	87	6	6	12
<u>Revenue Change Items</u>				
<i>Fund: ADMINISTRATIVE HEARINGS</i>				
Change Items				
Hourly Rate Change	0	286	286	572
Information Technology Infrastructure	0	23	12	35

ADMINISTRATIVE HEARINGS

Change Item: Hourly Rate Change

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Administrative Hearings Fund				
Expenditures	0	0	0	0
Revenues	\$286	\$286	\$286	\$286
Net Fiscal Impact	\$286	\$286	\$286	\$286

Recommendation

The Governor recommends the hourly rates charged by Office of Administrative Hearing's (OAH) Administrative Law Division be increased to \$151.51 per hour for the services of administrative law judges and \$75.00 per hour for the services of staff attorneys. The increase is necessary to prevent continued operating losses by bringing the Division's revenues in line with the actual costs of service. The change will result in a 12.9% increase from FY 2004-05 for state agencies and political subdivisions that refer matters to the Administrative Law Division for hearings and rulemaking review.

Background

Prior to FY 2004, the rates that OAH charged to referring agencies were \$150.00 for the services of administrative law judges and \$75.00 for the services of staff attorneys. Those rates had been previously established to reflect the actual cost of service. The 2003 State Government Omnibus Finance Bill required OAH to cut those rates by 10% - that is, to \$135.00 for administrative law judges and \$67.50 for staff attorneys. That placed the Division in the position of providing hearing services for state and local agencies at less than their actual cost during the FY 2004-05 biennium. As a result, the Division sustained a net operating loss of \$132,437 in FY 2004. If there had been no reduction in rates, the Division would only have sustained a \$6,234 operating loss in FY 2004 - a variance of 0.5% from what it cost to operate during that year.

Since the 10% rate reduction was established by the legislature for the biennium, OAH cannot raise its rates in FY 2005 to prevent any additional operating losses. The division's FY 2005 spending plan was based on actual revenue experience, increased only by an appropriation for the new Fair Campaign Practice Act proceedings during FY 2005. With the reduced billing rates and further increases in the cost of services during FY 2005, OAH is projecting a \$259,741 net operating loss for FY 2005, which would bring the revolving fund balance down to \$365,000. That would represent only 26% of projected annual revenues for FY 2005, a level that is precariously low.

Relationship to Base Budget

This change item will essentially restore the rate structure that produces revenue for the Administrative Law Division's revolving fund to FY 2003 levels. It will result in a 3.2% increase in OAH's total base budget for FY 2006 and FY 2007.

Key Measures

The impact of this change on OAH's revolving fund can be measured quantitatively by determining whether projected revenue increases bring the fund into balance in FY 2006 and FY 2007. OAH's 2002 judicial development survey program indicated that 81.3% of respondents rated OAH judges "good" or "excellent" in issuing decisions in a timely manner. Approval of this change item should enable OAH to maintain or improve that level of service.

Alternatives Considered

After cutting several positions in prior years, the operations of the Administrative Law Division are currently being conducted by only 13.8 FTEs, consisting of 6.7 administrative law judge FTEs, 4 staff attorney FTEs, and only 2.9 support staff positions. Eliminating all of the division's support staff positions would not come close to bringing the gap. So, a \$286,000 annual reduction in expenses would involve, for example, eliminating two ALJ positions and reclassifying one staff attorney position as a half-time position. But, administrative law judges and staff attorneys are revenue generators. And reducing the number of revenue-generators would actually aggravate the division's

ADMINISTRATIVE HEARINGS

Change Item: Hourly Rate Change

fiscal problems by reducing revenues and spreading unavoidable overhead expenses over a smaller base of revenue generators.

In other words, the division lacks any effective alternatives for reducing the cost of producing an hour of revenue.

ADMINISTRATIVE HEARINGS

Change Item: Information Technology Infrastructure

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
Workers Compensation Fund				
Expenditures	\$203	\$109	\$158	\$165
Revenues	0	0	0	0
Administrative Hearings Fund				
Expenditures	23	12	18	18
Revenues	23	12	18	18
Net Fiscal Impact	\$203	\$109	\$158	\$165

Recommendation

The Governor recommends expenditures of \$226,000 in FY 2006 and \$121,000 in FY 2007 to update Office of Administrative Hearings (OAH) information technology infrastructure. The increase is necessary to bring the majority of the office's technology infrastructure up to date in FY 2006 and then to maintain a program of regular, incremental technology updates in future fiscal years. The change will only have a minimal impact on the Administrative Law Division's hourly rates and result in only very marginal increases in the assessments made by the commissioner of Labor and Industry on workers' compensation insurers and self-insured employer to fund the Special Compensation Fund.

Background

OAH has actively cooperated with Office of Technology planning efforts, including participation in the Strategic Information Resource Planning process during the last six years, but funding requests have not been approved. As a consequence, vital portions of OAH's technology infrastructure are seriously outdated. Given tightened budgets over the last four years and with prospects of future tightening in FY 2006-07 and future biennia, it is unlikely that technology needs can be met by base level appropriations. As a result, without approval of a technology change item, OAH's technology infrastructure is likely to be seriously compromised within the next biennium.

The following are the major features of OAH's technology initiative: 1) replace 33% of network (e.g., LAN switches, servers, and routers) and workstations (e.g., computers) on an annual basis to maintain currency of technology; 2) upgrade network annually and work station software every three years to avoid major episodic upgrades; 3) install and maintain secure web and remote network access; 4) convert from conventional telephone service to voice over IP service; and 5) since new printer technology is incompatible with the imaging system we share with the Department of Labor and Industry (DLI), replace over the next four years the office's printers with compatible printers that still remain in stock.

Relationship to Base Budget

This change item will result in a 2.5% increase in OAH's total base for FY 2006 and a 1.3% increase in FY 2007. More specifically, it will result in a 2.8% increase in the base for FY 2006 and a 1.5% increase in FY 2007 for OAH's appropriation from the Special Compensation Fund, which funds the operations of the Workers' Compensation Division. It will result in a 1.3% increase in the base for FY 2006 and a .7% increase in FY 2007 for the revolving fund budget of the Administrative Law Division.

Key Measures

The impact of this change can be measured by maintaining network and workstation hardware and software that is no more than three years old, by significant reductions in the cost of telephone communications, and by having printers that remain compatible with the imaging and workers' compensation case management systems that OAH shares with DLI.

Alternatives Considered

Since compensation, benefits, and space comprise over 92% of OAH's budget, the alternative is to continue using network and workstation hardware until it is no longer useful and then rely on periodic reductions in our workforce to provide funding for episodic technology failures.

ADMINISTRATIVE HEARINGS

Change Item: Information Technology Infrastructure

Technology Funding Detail (Dollars in Thousands)

Funding Distribution	2006-2007 Biennium		2008-2009 Biennium		2010-2011 Biennium	
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personnel	0	0	0	0	0	0
Supplies	0	0	0	0	0	0
Hardware	\$127	\$74	\$113	\$80	\$123	\$87
Software	\$80	\$24	\$22	\$80	\$24	\$87
Facilities	0	0	0	0	0	0
Services	\$19	\$23	\$41	\$23	\$45	\$25
Training	0	0	0	0	0	0
Grants	0	0	0	0	0	0
TOTAL	\$226	\$121	\$176	\$183	\$192	\$199

Office of Technology Analysis

The Office of Technology recommends this work proceed in collaboration with the Drive to Excellence's work related to Sourcing. This work should integrate within the build-out of infrastructure that provides utility services and support to every entity within state government. This work needs to be explicitly coordinated to address the enterprise approach to managing technology and related purchases.

	PAGE
Agency Overview	1
Change Summary	2
Change Items	
Agency Change Items	
Eliminate Offsetting Fee Revenue	3

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	525	525	525	525	1,050
Recommended	525	525	300	300	600
Change		0	(225)	(225)	(450)
% Biennial Change from 2004-05					-42.9%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	374	300	300	300	600
Open Appropriations					
General	750	750	750	750	1,500
Statutory Appropriations					
Gift	4	1	0	0	0
Total	1,128	1,051	1,050	1,050	2,100
<u>Expenditures by Category</u>					
Total Compensation	362	301	300	300	600
Other Operating Expenses	16	0	0	0	0
Local Assistance	750	750	750	750	1,500
Total	1,128	1,051	1,050	1,050	2,100
<u>Expenditures by Program</u>					
Amateur Sports Commission	1,128	1,051	1,050	1,050	2,100
Total	1,128	1,051	1,050	1,050	2,100
Full-Time Equivalent (FTE)	4.8	3.0	3.0	3.0	

AMATEUR SPORTS COMM

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	525	525	525	1,050
Subtotal - Forecast Base	525	525	525	1,050
Change Items				
Eliminate Offsetting Fee Revenue	0	(225)	(225)	(450)
Total Governor's Recommendations	525	300	300	600
Fund: GENERAL				
Planned Open Spending	750	750	750	1,500
Total Governor's Recommendations	750	750	750	1,500
Fund: GIFT				
Planned Statutory Spending	1	0	0	0
Total Governor's Recommendations	1	0	0	0

AMATEUR SPORTS COMM

Change Item: Eliminate Offsetting Fee Revenue

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$225)	(\$225)	(\$225)	(\$225)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$225)	(\$225)	(\$225)	(\$225)

Recommendation

The Governor recommends reducing the General Fund appropriation to the Amateur Sports Commission by \$225,000 annually, bringing the recommended funding level to \$300,000 per year. The spending of this dollar amount was contingent upon a matching amount of offsetting fees generated by the commission.

Background

Minnesota Session Laws 2003, First Special Session granted the Amateur Sports Commission the authority to spend up to \$225,000 of General Fund dollars if offsetting fees were generated. The commission does not plan to generate fees to augment operating budget funds, and has requested that this authority be repealed.

Relationship to Base Budget

The Governor's recommendation reflects an annual reduction of \$225,000, which is a 42.9% decrease in the 2006-07 direct General Fund appropriation to the forecast base budget for the Amateur Sports Commission.

PAGE

Agency Overview

1

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	243	243	243	243	486
Recommended	243	243	243	243	486
Change		0	0	0	0
% Biennial Change from 2004-05					0%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	249	243	243	243	486
Statutory Appropriations					
Special Revenue	30	30	53	53	106
Gift	12	11	9	9	18
Total	291	284	305	305	610
 <u>Expenditures by Category</u>					
Total Compensation	230	234	248	261	509
Other Operating Expenses	61	50	57	44	101
Total	291	284	305	305	610
 <u>Expenditures by Program</u>					
Cncl Asian Pacific	291	284	305	305	610
Total	291	284	305	305	610
 Full-Time Equivalent (FTE)					
	4.0	4.0	4.0	4.0	

PAGE

Agency Overview

1

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	282	282	282	282	564
Recommended	282	282	282	282	564
Change		0	0	0	0
% Biennial Change from 2004-05					0%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	291	295	282	282	564
Statutory Appropriations					
Special Revenue	54	94	90	0	90
Gift	6	1	0	0	0
Total	351	390	372	282	654
 <u>Expenditures by Category</u>					
Total Compensation	278	281	250	225	475
Other Operating Expenses	73	109	122	57	179
Total	351	390	372	282	654
 <u>Expenditures by Program</u>					
Council On Black Minn	351	390	372	282	654
Total	351	390	372	282	654
 <u>Full-Time Equivalent (FTE)</u>					
	4.9	4.8	4.3	3.8	

	PAGE
Agency Overview	1
Change Summary	2
Change Items	
Agency Change Items	
Budget Reduction	3
Eliminate State Funded Campaign Checkoff	4

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	712	712	712	712	1,424
Recommended	712	712	694	694	1,388
Change		0	(18)	(18)	(36)
% Biennial Change from 2004-05					-2.5%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	684	777	694	694	1,388
Open Appropriations					
Special Revenue	103	3,929	80	1,950	2,030
Statutory Appropriations					
Special Revenue	26	0	0	0	0
Total	813	4,706	774	2,644	3,418
 <u>Expenditures by Category</u>					
Total Compensation	515	574	568	582	1,150
Other Operating Expenses	169	203	126	112	238
Payments To Individuals	26	3,705	0	1,790	1,790
Local Assistance	103	224	80	160	240
Total	813	4,706	774	2,644	3,418
 <u>Expenditures by Program</u>					
Campaign Finance	813	4,706	774	2,644	3,418
Total	813	4,706	774	2,644	3,418
 <u>Full-Time Equivalent (FTE)</u>					
	7.9	9.3	9.0	9.3	

CAMPAIGN FINANCE & PUB DIS BD

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
<i>Fund: GENERAL</i>				
FY 2005 Appropriations	712	712	712	1,424
Subtotal - Forecast Base	712	712	712	1,424
Change Items				
Budget Reduction	0	(18)	(18)	(36)
Total Governor's Recommendations	712	694	694	1,388
<i>Fund: GENERAL</i>				
Planned Open Spending	0	160	5,400	5,560
Change Items				
Eliminate State Funded Campaign Checkoff	0	(160)	(5,400)	(5,560)
Total Governor's Recommendations	0	0	0	0
<i>Fund: SPECIAL REVENUE</i>				
Planned Open Spending	3,929	0	0	0
Change Items				
Eliminate State Funded Campaign Checkoff	0	80	1,950	2,030
Total Governor's Recommendations	3,929	80	1,950	2,030
<u>Revenue Change Items</u>				
<i>Fund: SPECIAL REVENUE</i>				
Change Items				
Eliminate State Funded Campaign CheckOff	0	80	1,950	2,030

CAMPAIGN FINANCE & PUB DIS BD

Change Item: Budget Reduction

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

Recommendation

The Governor recommends a direct General Fund appropriation of \$694,000 each year of the FY 2006-07 biennium, a reduction of \$18,000 annually.

Background

Currently, board activities are supported by a direct general fund appropriation, which funds salaries, rent, and other operating expenses. The reduction will require cuts in other operating expenses and potentially in salaries. The agency should also seek operational efficiencies by redesigning their operations or collaborating with other agencies to share services.

Relationship to Base Budget

The recommended reduction represents 2.5% of the General Fund base budget.

CAMPAIGN FINANCE & PUB DIS BD

Change Item: Eliminate State Funded Campaign Checkoff

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$160)	(\$5,400)	(\$160)	(\$2,400)
Revenues	0	0	0	0
Special Revenue Fund				
Expenditures	80	1,950	80	450
Revenues	80	1,950	80	450
Net Fiscal Impact	(\$160)	(\$5,400)	(\$160)	(\$2,400)

Recommendation

The Governor recommends eliminating the state's contribution associated with the tax check-off campaign contributions under M.S. Ch. 10A.31 and allowing flexible contributions from \$1 to \$25 for individual filers and \$50 for joint filers. Because the "no cost to tax filer" provision has acted as an incentive to contribute, it is assumed that if it were eliminated, contributions to campaigns through state tax forms would decrease by 50%. Therefore, the payments in check-off subsidies to candidates and party units would be reduced to \$80,000 in FY 2006 and \$1.95 million in FY 2007.

The Governor also recommends eliminating the state General Fund appropriation to the Campaign Finance Board. This \$1.5 million appropriation, in the odd numbered fiscal year, is used to finance political party activities and campaigns.

This change item reflects only the reduced expenditure portion of the recommendation. There is an associated change item in the Department of Revenue budget recommendations because of the implications to Minnesota tax law.

Background

Current law allows taxpayers to designate that \$5 be paid from the General Fund into a political party or General Fund account for subsidizing state election campaigns in Minnesota for candidates and parties who comply with specific campaign finance laws including spending limit agreements. The Governor recommends continuing to allow taxpayers to contribute to public campaign accounts on state tax returns from \$1 to \$25, but the contributions would be at the cost of the filers.

This change item does not affect the Political Contribution Refund program.

Relationship to Base Budget

Current base estimates for tax check-off subsidies are forecast at \$160,000 in FY 2006 and \$3.9 million in FY 2007.

The board would not experience any reduction in workload associated with the proposal, because it is assumed that the number of expenditures as well as the distribution of rules and funds would continue. Therefore, there would be no decrease in operating expenditures for this change item.

Key Measures

It is possible that fewer candidates would request public campaign subsidies if the funding is reduced. Therefore, it is possible that compliance with public disclosure and the percentage of candidates who choose to agree to the spending limits in order to receive the subsidies would decline as well.

Statutory Change: M.S. Chapter 10A.31

PAGE

Agency Overview

1

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	262	262	262	262	524
Recommended	262	262	262	262	524
Change		0	0	0	0
% Biennial Change from 2004-05					0%
<u>Expenditures by Fund</u>					
Carry Forward					
General	0	0	73	5	78
Direct Appropriations					
General	263	332	262	262	524
Statutory Appropriations					
Special Revenue	3	12	0	0	0
Gift	0	3	0	0	0
Total	266	347	335	267	602
<u>Expenditures by Category</u>					
Total Compensation	220	238	228	221	449
Other Operating Expenses	46	106	107	46	153
Capital Outlay & Real Property	0	3	0	0	0
Total	266	347	335	267	602
<u>Expenditures by Program</u>					
Capitol Area Arch Planning Bd	266	347	335	267	602
Total	266	347	335	267	602
Full-Time Equivalent (FTE)	3.3	4.1	3.4	3.3	

PAGE

Agency Overview

1

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	275	275	275	275	550
Recommended	275	275	275	275	550
Change		0	0	0	0
% Biennial Change from 2004-05					0%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	285	327	275	275	550
Statutory Appropriations					
Gift	0	8	0	0	0
Total	285	335	275	275	550
 <u>Expenditures by Category</u>					
Total Compensation	215	255	226	227	453
Other Operating Expenses	70	80	49	48	97
Total	285	335	275	275	550
 <u>Expenditures by Program</u>					
Cncl Spanish Spkg	285	335	275	275	550
Total	285	335	275	275	550
 <u>Full-Time Equivalent (FTE)</u>					
	4.1	4.8	4.0	3.8	

	PAGE
Agency Overview	1
Change Summary	2
Change Items	3
Agency Change Items	
Vets Services Transportation and Claims	3

DISABLED AMERICAN VETS

Agency Overview

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	13	13	13	13	26
Recommended	13	13	53	53	106
Change		0	40	40	80
% Biennial Change from 2004-05					307.7%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	13	13	53	53	106
Total	13	13	53	53	106
<u>Expenditures by Category</u>					
Local Assistance	13	13	53	53	106
Total	13	13	53	53	106
<u>Expenditures by Program</u>					
Disabled American Veterans	13	13	53	53	106
Total	13	13	53	53	106

DISABLED AMERICAN VETS

Change Summary

Dollars in Thousands

	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	13	13	13	26
Subtotal - Forecast Base	13	13	13	26
Change Items				
Vets Services Transportation and Claims	0	40	40	80
Total Governor's Recommendations	13	53	53	106

DISABLED AMERICAN VETS

Change Item: Vets Services Transportation and Claims

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$40	\$40	\$40	\$40
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$40	\$40	\$40	\$40

Recommendation

The Governor recommends a General Fund appropriation of \$53,000 in FY 2006 and \$53,000 in FY 2007 to the Disabled American Veterans (DAV). The recommendation for additional spending authority will allow the DAV to spend an additional \$40,000 per fiscal year for veterans' transportation services and claims processing.

Background

The DAV provides support, encouragement, and a better life for men and women who became disabled while serving in the United States Military. The DAV represents the interests of disabled veterans, their families, their widowed spouses, and their orphans by providing free professional service in obtaining benefits and services to which they are entitled. The DAV provides direct assistance to veterans through the Older Veterans Assistance Program, Thrift Store Gift Certificate program, DAV Transportation Network program, and Veterans Service programs, all of which provide direct aid to veterans and their families.

The additional funding will provide ongoing support to significantly increase the DAV's Transportation Program. This program transports veterans in need of transportation to and from medical appointments at the St. Cloud and Minneapolis VA Medical Centers. This extended service would expand the radius of the service area to outer suburbs and enhance the integration of the DAV St. Cloud/Minneapolis metro programs with the MN County Veteran Transportation program.

The additional funding will also extend the reach and effectiveness of DAV service officers headquartered at Ft. Snelling VA Regional Office. In coordination with the transportation expansion, this investment will allow DAV service officers to be available to thousands of veterans being transported into VA medical facilities and those currently hospitalized veterans in need of service officer support.

Relationship to Base Budget

The Governor's recommendation reflects an annual increase of \$40,000, which is a 308% increase in the agency's FY 2006-07 forecast base budget.

Key Measures

- ⇒ In FY 2003, DAV representation before the U.S. Department of Veterans Affairs resulted in over \$61 million in new benefits to more than 2,200 Minnesota Veterans.
- ⇒ Over 1,400 veterans had their claims maintained (\$20 million) and 1,500 veterans had claims increased through our Minnesota DAV Service Officers representation in FY 2003 (\$22 million - more than a 10% increase in compensation from the prior year).
- ⇒ In FY 2003, the Transportation Network provided over 29,000 individual rides to VA medical appointments, comprising over 1.2 million miles traveled.

As a result of this investment, the DAV will significantly increase services to disabled veterans with the ongoing support of veterans' transportation services and additional benefits and claims processing.

	PAGE
Agency Overview	1
Change Summary	2
Change Items	
Agency Change Items	
Compliance And Technology Funding	3

GAMBLING CONTROL BOARD

Agency Overview

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	202	0	0	0	0
Recommended	202	0	0	0	0
Change		0	0	0	0
% Biennial Change from 2004-05					-100%
Special Revenue					
Current Appropriation	2,526	2,526	2,526	2,526	5,052
Recommended	2,526	2,526	2,800	2,800	5,600
Change		0	274	274	548
% Biennial Change from 2004-05					10.8%
<u>Expenditures by Fund</u>					
Direct Appropriations					
Special Revenue	2,305	2,747	2,800	2,800	5,600
Total	2,305	2,747	2,800	2,800	5,600
<u>Expenditures by Category</u>					
Total Compensation	1,929	2,095	2,289	2,289	4,578
Other Operating Expenses	376	652	511	511	1,022
Total	2,305	2,747	2,800	2,800	5,600
<u>Expenditures by Program</u>					
Lawful Gambling Control	2,305	2,747	2,800	2,800	5,600
Total	2,305	2,747	2,800	2,800	5,600
Full-Time Equivalent (FTE)	29.0	29.0	32.0	32.0	

GAMBLING CONTROL BOARD

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	0	0	0	0
Subtotal - Forecast Base	0	0	0	0
Total Governor's Recommendations	0	0	0	0
Fund: SPECIAL REVENUE				
FY 2005 Appropriations	2,526	2,526	2,526	5,052
Subtotal - Forecast Base	2,526	2,526	2,526	5,052
Change Items				
Compliance and Technology Funding	0	274	274	548
Total Governor's Recommendations	2,526	2,800	2,800	5,600

GAMBLING CONTROL BOARD

Change Item: Compliance and Technology 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	\$274	\$274	\$274	\$274
Revenues	0	0	0	0
Net Fiscal Impact	\$274	\$274	\$274	\$274

Recommendation

The Governor recommends a direct special revenue fund appropriation of \$2.8 million in FY 2006 and \$2.8 million in FY 2007. The recommendation will increase the Gambling Control Board's funding by \$274,000 annually to support increased compliance staffing and technology investments.

Background

The Gambling Control Board regulates lawful charitable gambling, which is a \$1.4 billion industry in Minnesota generating \$56 million in net state taxes and \$74 million in charitable contributions in FY 2004. Prior to FY 2004 the operating budget for the Gambling Control Board was appropriated from the General Fund. All license fees collected by the board were deposited as non-dedicated receipts into the General Fund. Legislation was enacted in 2003 that significantly revised the industry fee structure to support a dedicated funding source for board operating expenses.

This funding request will support three additional compliance specialists to increase the overall frequency of compliance reviews, site visits and create additional opportunities for training and mentoring of gambling managers and organizations. The funding will also support automation of operations at the Gambling Control Board. The board has been limited in its proficiency due to a significant reliance on manual paper processes. Much of the computer equipment in place at the board is surplus equipment from other agencies and is well beyond its useful life. The board made initial investments in FY 2005 in information systems upgrades, software/programming and hardware acquisitions. This investment will increase communication and automation of operations specifically related to on-line licensing, and data transfer and conversion of gambling tax records maintained by the Department of Revenue. The new software will also allow for on-line reporting and electronic filing of expenditure reports by the non-profit organizations enhancing the sophistication of compliance audits. Board employees are working with the Department of Administration on the acquisition and implementation of this new system. The operational changes and investments in technology are outlined in the Gambling Control Board's Strategic Plan.

Relationship to Base Budget

The Governor's recommendation reflects an annual increase of \$274,000, which is a 10.8% increase in the agency's FY 2006-07 forecast base budget.

Based on activity in the current biennium, the recommendation to fund an additional \$274,000 annually will continue to provide an adequate level of reserves as more experience is gained with the dedicated fee structure.

Key Measures

The three additional compliance staff will increase frequency of compliance reviews, site visits and create additional opportunities for training and mentoring of gambling managers and organizations. Currently Board employees are conducting approximately 550 compliance reviews per year or an average of approximately 40 reviews per compliance specialist. There are 1,420 licensed organizations and over 3,000 sites conducting some form of lawful gambling and 14 compliance specialists. The board will conduct an estimated 120 additional compliance reviews annually with the additional staff.

Increased oversight and added opportunities for training and mentoring charitable organizations will result in fewer license terminations of charitable organizations. Since FY 1996, over 500 non-profit organizations have

GAMBLING CONTROL BOARD

Change Item: Compliance and Technology Funding

terminated their gambling license. The increase in license terminations is in part a result of limited oversight and review by the Gambling Control Board.

When compared to the top ten states in the nation, Minnesota ranks number one in gross receipts from charitable gambling. When compared to regulatory budgets for the same group, Minnesota ranks 7th (Source: 2002 Annual Report Charity Gaming National Association of Fundraising Ticket Manufacturers – NAFTM). Additional funding may increase that regulatory budget ranking for Minnesota.

Technology Funding Detail (Dollars in Thousands)

Funding Distribution	2006-2007 Biennium		2008-2009 Biennium		2010-2011 Biennium	
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personnel	\$0	\$0	\$0	\$0	\$0	\$0
Supplies	0	0	0	0	0	0
Hardware	0	0	0	0	0	0
Software	0	0	0	0	0	0
Facilities	0	0	0	0	0	0
Services	94	94	94	94	94	94
Training	0	0	0	0	0	0
Grants	0	0	0	0	0	0
TOTAL	\$94	\$94	\$94	\$94	\$94	\$94

Further details of the technology funding allocation will be provided as they become available.

Office of Technology Analysis

The Office of Technology recommends this work proceed in collaboration with the Drive to Excellence's strategic transformation work related to Licensing and Regulation. This effort needs to be explicitly considered and aligned to integrate within the enterprise-wide architecture and service approach to managing the licensing of businesses in Minnesota.

PAGE

Agency Overview

1

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	482	482	482	482	964
Recommended	482	482	482	482	964
Change		0	0	0	0
% Biennial Change from 2004-05					0%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	446	570	482	482	964
Statutory Appropriations					
Federal	60	60	60	60	120
Gift	0	3	1	1	2
Total	506	633	543	543	1,086
 <u>Expenditures by Category</u>					
Total Compensation	377	402	417	417	834
Other Operating Expenses	129	231	126	126	252
Total	506	633	543	543	1,086
 <u>Expenditures by Program</u>					
Indian Affairs Council	506	633	543	543	1,086
Total	506	633	543	543	1,086
 <u>Full-Time Equivalent (FTE)</u>					
	5.5	5.4	5.4	5.4	

	PAGE
Agency Overview	1
Change Summary	2
Change Items	
Agency Change Items	
Funding Source Restructuring	4

INVESTMENT BOARD

Agency Overview

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	2,167	2,167	2,167	2,167	4,334
Recommended	2,167	2,167	217	217	434
Change		0	(1,950)	(1,950)	(3,900)
% Biennial Change from 2004-05					-90%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	2,097	2,305	217	217	434
Open Appropriations					
Supplmntl Invest Invest Index	11	25	25	25	50
Supplemental Invest Suppl Bond	5	15	15	15	30
Supplemental Invest Invest Gic	84	150	150	150	300
Supplmntl Invest Moneymarket	0	10	10	10	20
Supplemental Investment Income	22	50	50	50	100
Supplemental Investment Growth	8	50	50	50	100
Post Retirement Investment	651	1,100	1,100	1,100	2,200
Invest Ext Money Managers #2	611	1,000	1,000	1,000	2,000
Supplemental Intl Equity	2	10	10	10	20
Statutory Appropriations					
Invest Ext Money Managers #2	0	0	1,950	1,950	3,900
Total	3,491	4,715	4,577	4,577	9,154
<u>Expenditures by Category</u>					
Total Compensation	1,786	1,893	1,840	1,840	3,680
Other Operating Expenses	1,705	2,822	2,737	2,737	5,474
Total	3,491	4,715	4,577	4,577	9,154
<u>Expenditures by Program</u>					
Investment Of Funds	2,097	2,305	2,167	2,167	4,334
Refunds/Retire Funds	1,394	2,410	2,410	2,410	4,820
Total	3,491	4,715	4,577	4,577	9,154
Full-Time Equivalentents (FTE)	20.1	20.1	20.1	20.1	

INVESTMENT BOARD

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	2,167	2,167	2,167	4,334
Subtotal - Forecast Base	2,167	2,167	2,167	4,334
Change Items				
Funding Source Restructuring	0	(1,950)	(1,950)	(3,900)
Total Governor's Recommendations	2,167	217	217	434
Fund: SUPPLMNTL INVEST INVEST INDEX				
Planned Open Spending	25	25	25	50
Total Governor's Recommendations	25	25	25	50
Fund: SUPPLEMENTAL INVEST SUPPL BOND				
Planned Open Spending	15	15	15	30
Total Governor's Recommendations	15	15	15	30
Fund: SUPPLEMENTAL INVEST INVEST GIC				
Planned Open Spending	150	150	150	300
Total Governor's Recommendations	150	150	150	300
Fund: SUPPLMNTL INVEST MONEYMARKET				
Planned Open Spending	10	10	10	20
Total Governor's Recommendations	10	10	10	20
Fund: SUPPLEMENTAL INVESTMENT INCOME				
Planned Open Spending	50	50	50	100
Total Governor's Recommendations	50	50	50	100
Fund: SUPPLEMENTAL INVESTMENT GROWTH				
Planned Open Spending	50	50	50	100
Total Governor's Recommendations	50	50	50	100
Fund: POST RETIREMENT INVESTMENT				
Planned Open Spending	1,100	1,100	1,100	2,200
Total Governor's Recommendations	1,100	1,100	1,100	2,200
Fund: INVEST EXT MONEY MANAGERS #2				
Planned Open Spending	1,000	1,000	1,000	2,000
Total Governor's Recommendations	1,000	1,000	1,000	2,000
Fund: SUPPLEMENTAL INTL EQUITY				
Planned Open Spending	10	10	10	20
Total Governor's Recommendations	10	10	10	20
Fund: INVEST EXT MONEY MANAGERS #2				
Planned Statutory Spending	0	0	0	0
Change Items				
Funding Source Restructuring	0	1,950	1,950	3,900
Total Governor's Recommendations	0	1,950	1,950	3,900

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
<u>Revenue Change Items</u>				
<i>Fund: GENERAL</i>				
Change Items				
Funding Source Restructuring	0	(1,950)	(1,950)	(3,900)
<i>Fund: INVEST EXT MONEY MANAGERS #2</i>				
Change Items				
Funding Source Restructuring	0	1,950	1,950	3,900

INVESTMENT BOARD

Change Item: Funding Source Restructuring

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	(\$1,950)	(\$1,950)	(\$1,950)	(\$1,950)
Revenues	(1,950)	(1,950)	(1,950)	(1,950)
Other Fund				
Expenditures	1,950	1,950	1,950	1,950
Revenues	1,950	1,950	1,950	1,950
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation

The Governor recommends a change in the State Board of Investment's (SBI) budget process and funding sources.

This will allow the SBI to directly bill operating costs to the retirement systems and other funds for which assets are invested. This change will reduce both expenditures and non-dedicated receipts in the General Fund. Approximately 90% of the SBI's operating costs will be paid directly from the retirement systems and state funds other than the General Fund.

Background

- ⇒ The SBI and its Administrative Committee recommend that the portion of the SBI's budget related to the investment of the General Fund should be predetermined at the start of each biennium. This amount is \$217,000 annually in FY 2006 and 2007 and will require a direct General Fund appropriation.
- ⇒ The SBI's annual budget will continue to be reviewed by the legislature and the SBI Administrative Committee, and must be approved by the SBI Board.
- ⇒ The SBI will continue to charge entities that use its investment management services, but the proposed change will allow billing receipts to be deposited directly into the SBI's operating fund as dedicated receipts available for its use. This amount is anticipated to be approximately \$1.95 million annually in FY 2006 and 2007.
- ⇒ The three state retirement systems (Public Employees Retirement Association, Teachers Retirement Association, and Minnesota State Retirement System) support this change.

Relationship to Base Budget

This change will reduce the direct General Fund appropriation to the SBI from \$2.167 million per year to \$217,000. Dedicated receipts to the General Fund will be reduced accordingly. The net fiscal impact to the General Fund will be zero.

Key Measures

- ⇒ The cost to the state General Fund will be clearly defined at the beginning of each biennium.
- ⇒ The level of investment services offered by the SBI and associated costs must be generally acceptable to the three state retirement systems.
- ⇒ The investment performance of state-managed funds will be maintained at current levels or improved.

Alternatives Considered

Continuation of the status quo was considered as an option. However, this would result in lack of flexibility when managing state investments and may result in diminished investment performance.

Statutory Change: M.S. 11A.04, M.S. 11A.07

PAGE

Agency Overview

1

Change Items

Agency Change Items

Cancel Accumulated Unclaimed Prize Funds

3

**2004-09 Budget
Agency Fiscal Report
(\$ in thousands)**

	Actual FY2004 Audited	Budget FY2005	Budget 2006 Projected	Budget 2007 Projected	Budget 2008 Projected	Budget 2009 Projected
Revenue						
Scratch Ticket Sales	\$215,696	\$220,500	\$232,000	\$240,000	\$240,000	\$240,000
Online Ticket Sales	171,224	177,700	179,400	181,400	181,400	181,400
Total Sales Revenue	386,920	398,200	411,400	421,400	421,400	421,400
Less In-Lieu-of-Sales Tax	25,150	25,883	26,741	27,391	27,391	27,391
Gross Receipts	361,770	372,317	384,659	394,009	394,009	394,009
Non-operating Income	571	698	700	704	704	704
Gross Revenue	362,341	373,015	385,359	394,713	394,713	394,713
Direct Costs						
Prize Expense	225,529	232,225	240,956	247,595	247,595	247,595
Unclaimed Prizes Paid to State Treasury	6,961	7,734	7,959	8,223	8,223	8,223
Compulsive Gambling from Prize Fund	1,896	1,896	1,896	1,896	1,896	1,896
Retailer Commissions and Incentives	22,924	24,368	25,176	25,788	25,788	25,788
Ticket Costs	4,650	4,512	4,747	4,911	4,911	4,911
Online/Generation 3 Vendor Expense	10,507	10,914	10,914	11,142	11,142	11,142
Total Direct Costs	272,467	281,649	291,648	299,554	299,554	299,554
Operating Expense						
Advertising	5,070	5,923	6,000	6,000	6,000	6,000
Promotions	2,564	2,305	2,300	2,300	2,300	2,300
Game Development/New Initiatives	0	0	1,000	1,000	1,000	1,000
Salaries and Benefits	11,004	10,363	11,000	11,600	11,600	11,600
Occupancy Costs	1,932	1,740	1,700	1,700	1,700	1,700
Communications	470	601	600	600	600	600
Purchased Services	865	1,312	1,400	1,400	1,400	1,400
Depreciation	538	582	700	700	700	700
Supplies and Materials	562	989	1,100	1,100	1,100	1,100
Contrib: Public Safety Enforcement	0	0	0	0	0	0
Other	165	977	1,000	1,000	1,000	1,000
Total Operating Expense	23,170	24,790	26,800	27,400	27,400	27,400
Net Proceeds	\$ 66,705	\$ 66,575	\$ 66,911	\$ 67,759	\$ 67,759	\$ 67,759
Total Full Time Equivalent (FTE)	166	166	166	166	166	166

LOTTERY

Agency Overview

	Actual FY2004 Audited	Budget 2005 Projected	Budget 2006 Projected	Budget 2007 Projected	Budget 2008 Projected	Budget 2009 Projected
PAID TO STATE BENEFICIARY						
General Fund						
In-Lieu-of-Sales Tax	\$ 6,934	\$ 7,136	\$ 7,372	\$ 7,552	\$ 7,552	\$ 7,552
Net Proceeds	40,022	39,945	40,147	40,655	40,655	40,655
Unclaimed Prizes	6,961	7,734	7,959	8,223	8,223	8,223
Compulsive Gambling from Prize Fund	1,896	1,896	1,896	1,896	1,896	1,896
Gambling Enforcement from Operations	0	0	0	0	0	0
Total General Fund	55,814	56,711	57,374	58,326	58,326	58,326
Envir. and Natural Resources Fund						
Net Proceeds	26,682	26,631	26,764	27,104	27,104	27,104
Unclaimed Prizes	0	0	0	0	0	0
Total Envir and Natural Resources Fund	26,682	26,631	26,764	27,104	27,104	27,104
Game and Fish Fund						
	9,108	9,374	9,684	9,920	9,920	9,920
Natural Resources Fund						
	9,108	9,374	9,684	9,920	9,920	9,920
TOTAL PAID TO STATE BENEFICIARY	\$100,711	\$102,087	\$103,506	\$105,268	\$105,268	\$105,268
% of sales to State	26%	26%	25%	25%	25%	25%

Unclaimed Prizes (formerly unclaimed prizes available for new games) Held In Trust for the State of \$2,187 not included in any of the numbers above.

LOTTERY

Change Item: Cancel Accumulated Unclaimed Prize Funds

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	0	0	0	0
Transfer In	\$1,312	0	0	0
Other Fund				
Transfer In				
Environment and Natural Resources Trust Fund	875	0	0	0
Transfer Out				
Lottery Corpus Account	(2,187)	0	0	0
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation

The Governor recommends that all lottery unclaimed prize money accumulated prior to 7-1-03 cancel in accordance with the allocation formula in statute at that time. After 30% of unclaimed prize funds are returned to the basic prize pool, the remaining funds are redistributed 60% to the General Fund and 40% to the environment and natural resources trust fund.

Background

Upon initiating lottery games, a specific amount of money is set aside to pay prizes claimed against each game. People have one year from the drawing or from the final day of game sales to redeem winning tickets for prizes. After that date, all claims on prize money are forfeited. Under current law, all unclaimed prizes at the end of each fiscal year must be transferred from the lottery cash flow account to the General Fund. Because the \$2.187 million accumulated prior to the law change in 2003, the recommended redistribution is in accordance with the allocation formula in statute at that time.

Relationship to Base Budget

This change will not affect the operating budget of the Lottery. The change will simply provide additional non-dedicated revenues to the General Fund and the environment and natural resources trust fund.

	PAGE
Agency Overview	1
Change Summary	2
Change Items	
Agency Change Items	
Veterans Claims Processing	3

MILITARY ORDER OF PURPLE HEART

Agency Overview

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	20	20	20	20	40
Recommended	20	20	25	25	50
Change		0	5	5	10
% Biennial Change from 2004-05					25%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	20	20	25	25	50
Total	20	20	25	25	50
<u>Expenditures by Category</u>					
Local Assistance	20	20	25	25	50
Total	20	20	25	25	50
<u>Expenditures by Program</u>					
Military Order Purple Heart	20	20	25	25	50
Total	20	20	25	25	50

MILITARY ORDER OF PURPLE HEART

Change Summary

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	20	20	20	40
Subtotal - Forecast Base	20	20	20	40
Change Items				
Veterans Claims Processing	0	5	5	10
Total Governor's Recommendations	20	25	25	50

MILITARY ORDER OF PURPLE HEART

Change Item: Veterans Claims Processing

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

Recommendation

The Governor recommends an additional \$5,000 per year for the Military Order of the Purple to be used to staff and maintain their claims office, bringing the recommended appropriation to \$25,000 per year.

Background

The Military Order of the Purple Heart is made up of combat wounded veterans from all wars. The organization provides assistance to veterans and their dependents, regardless of their military service or records. The Military Order of the Purple Heart brings in \$1.9 million per year to Minnesota veterans and their families.

The recommendation for additional funding will ease budget pressures of the Military Order of the Purple Heart in providing adequate levels of service to veterans.

Relationship to Base Budget

The Governor's recommendation reflects an annual increase of \$5,000, which is a 25% increase in the FY 2006-07 forecast base budget for the Military Order of the Purple Heart.

PAGE

Agency Overview

1

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Open Appropriations					
General	967	1,149	1,176	1,205	2,381
Correctional Employees Retire	22,319	22,806	23,376	23,961	47,337
State Employees Retirement	346,519	353,215	362,045	371,097	733,142
Highway Patrol Retirement	35,576	36,409	37,319	38,252	75,571
Unclassified Employees Retire	6,409	6,150	6,150	6,150	12,300
Postretirement Health Care Ben	9,259	10,150	10,150	10,150	20,300
Judicial Retirement	13,566	13,872	14,266	14,670	28,936
Statutory Appropriations					
Legislative Annuities	5,135	5,237	5,368	5,502	10,870
Total	439,750	448,988	459,850	470,987	930,837
<u>Expenditures by Category</u>					
Total Compensation	3,720	5,513	5,513	5,513	11,026
Other Operating Expenses	3,844	3,020	3,020	3,020	6,040
Other Financial Transactions	432,186	440,455	451,317	462,454	913,771
Total	439,750	448,988	459,850	470,987	930,837
<u>Expenditures by Program</u>					
Mn State Retirement System	410,823	418,580	428,890	439,460	868,350
Elective Officers Plan	382	384	393	403	796
Judges Plan	13,566	13,872	14,266	14,670	28,936
Legislators Plan	5,720	6,002	6,151	6,304	12,455
Health Care Savings Fund	9,259	10,150	10,150	10,150	20,300
Total	439,750	448,988	459,850	470,987	930,837
Full-Time Equivalents (FTE)	56.3	84.8	85.5	85.5	

PAGE

Agency Overview

1

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Open Appropriations					
Public Employees Retirement	721,048	800,000	880,000	980,000	1,860,000
Pera Correctional Plan	1,402	1,600	2,000	2,500	4,500
Police And Fire	238,636	275,000	325,000	375,000	700,000
Statutory Appropriations					
Pera Defined Contribution Plan	1,155	1,300	1,350	1,400	2,750
Retirement System Building	942	1,352	1,352	1,352	2,704
Total	963,183	1,079,252	1,209,702	1,360,252	2,569,954
<u>Expenditures by Category</u>					
Total Compensation	5,992	6,362	6,362	6,362	12,724
Other Operating Expenses	3,296	5,870	5,870	5,870	11,740
Capital Outlay & Real Property	82	0	0	0	0
Other Financial Transactions	953,813	1,067,020	1,197,470	1,348,020	2,545,490
Total	963,183	1,079,252	1,209,702	1,360,252	2,569,954
<u>Expenditures by Program</u>					
Public Empl Retr Asn	963,183	1,079,252	1,209,702	1,360,252	2,569,954
Total	963,183	1,079,252	1,209,702	1,360,252	2,569,954
Full-Time Equivalent (FTE)	89.8	89.8	89.8	89.8	

PAGE

Agency Overview

1

RACING COMMISSION

Agency Overview

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	104	0	0	0	0
Recommended	104	0	0	0	0
Change		0	0	0	0
% Biennial Change from 2004-05					-100%
Special Revenue					
Current Appropriation	421	421	421	421	842
Recommended	421	421	421	421	842
Change		0	0	0	0
% Biennial Change from 2004-05					0%
<u>Expenditures by Fund</u>					
Direct Appropriations					
Special Revenue	409	433	421	421	842
Statutory Appropriations					
Special Revenue	623	631	621	621	1,242
Miscellaneous Agency	1,097	1,186	1,186	1,186	2,372
Total	2,129	2,250	2,228	2,228	4,456
<u>Expenditures by Category</u>					
Total Compensation	460	472	455	455	910
Other Operating Expenses	837	892	887	887	1,774
Local Assistance	832	886	886	886	1,772
Total	2,129	2,250	2,228	2,228	4,456
<u>Expenditures by Program</u>					
Racing Commission	2,129	2,250	2,228	2,228	4,456
Total	2,129	2,250	2,228	2,228	4,456
Full-Time Equivalents (FTE)	6.7	7.5	7.5	7.5	

PAGE

Agency Overview

1

TEACHERS RETIREMENT ASSOC

Agency Overview

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Expenditures by Fund</u>					
Open Appropriations					
Teachers Retirement	1,023,480	1,089,395	1,112,225	1,150,404	2,262,629
Total	1,023,480	1,089,395	1,112,225	1,150,404	2,262,629
<u>Expenditures by Category</u>					
Total Compensation	5,705	5,800	5,800	5,800	11,600
Other Operating Expenses	5,472	7,753	5,573	3,752	9,325
Local Assistance	2	2	2	2	4
Other Financial Transactions	1,012,301	1,075,840	1,100,850	1,140,850	2,241,700
Total	1,023,480	1,089,395	1,112,225	1,150,404	2,262,629
<u>Expenditures by Program</u>					
Teachers Retire Asn	1,023,480	1,089,395	1,112,225	1,150,404	2,262,629
Total	1,023,480	1,089,395	1,112,225	1,150,404	2,262,629
Full-Time Equivalents (FTE)	90.0	90.0	90.0	90.0	

	PAGE
Agency Overview	1
Change Summary	2
Change Items	
Agency Change Items	
Veterans Claims Processing - VFW	3

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2004	FY2005	FY2006	FY2007	2006-07
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	55	55	55	55	110
Recommended	55	55	85	85	170
Change		0	30	30	60
% Biennial Change from 2004-05					54.5%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	55	55	85	85	170
Total	55	55	85	85	170
<u>Expenditures by Category</u>					
Local Assistance	55	55	85	85	170
Total	55	55	85	85	170
<u>Expenditures by Program</u>					
Veterans Of Foreign Wars	55	55	85	85	170
Total	55	55	85	85	170

<i>Dollars in Thousands</i>				
	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
Fund: GENERAL				
FY 2005 Appropriations	55	55	55	110
Subtotal - Forecast Base	55	55	55	110
Change Items				
Veterans Claims Processing - VFW	0	30	30	60
Total Governor's Recommendations	55	85	85	170

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$30	\$30	\$30	\$30
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$30	\$30	\$30	\$30

Recommendation

The Governor recommends an additional \$30,000 per year for the Department of Veterans of Foreign Wars (VFW) to be used to staff and maintain their claims office. With this change, the VFW’s base budget would total \$85,000 per year.

Background

The VFW represents veterans, their dependants, widows, and orphans in securing funds and services to which they are entitled. Currently the VFW employs four full-time claims representatives and one part-time VA Hospital representative. The VFW recovered \$45.7 million in cash benefits for veterans in 2003, and hopes to increase the amount annually.

The recommendation for additional funding will ease cash flow challenges due to declining membership dues and increases in anticipated claims.

Relationship to Base Budget

The Governor’s recommendation reflects an annual increase of \$30,000, which is a 54.5% increase in the 2006-07 forecast base budget for the VFW.