

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	169,129	177,181	177,181	177,181	354,362
Recommended	169,129	177,181	238,845	239,856	478,701
Change		0	61,664	62,675	124,339
% Biennial Change from 2006-07					38.2%
Misc Special Revenue					
Current Appropriation	3,000	0	0	0	0
Recommended	3,000	0	0	0	0
Change		0	0	0	0
% Biennial Change from 2006-07					-100%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	154,604	191,896	238,920	239,906	478,826
Misc Special Revenue	0	3,000	0	0	0
Statutory Appropriations					
Misc Special Revenue	597	511	398	340	738
Federal	4,000	5,329	4,772	4,767	9,539
Miscellaneous Agency	218	0	0	0	0
Office Of Higher Education	142,974	150,404	156,341	162,384	318,725
Total	302,393	351,140	400,431	407,397	807,828
<u>Expenditures by Category</u>					
Total Compensation	4,093	4,909	4,946	5,040	9,986
Other Operating Expenses	16,872	17,672	17,844	18,564	36,408
Payments To Individuals	143,021	179,177	226,199	227,351	453,550
Local Assistance	11,192	14,344	11,404	11,404	22,808
Other Financial Transactions	127,215	135,038	140,038	145,038	285,076
Total	302,393	351,140	400,431	407,397	807,828
<u>Expenditures by Program</u>					
Student Financial Aid-Outreach	146,086	183,638	230,417	231,394	461,811
State Student Loans	141,880	149,093	155,013	161,033	316,046
Fiscal Policy & Research	3,019	6,316	2,801	2,745	5,546
Libraries And Technology	9,195	9,035	9,581	9,581	19,162
Agency Administration	2,213	3,058	2,619	2,644	5,263
Total	302,393	351,140	400,431	407,397	807,828
Full-Time Equivalents (FTE)	61.9	66.3	68.3	68.3	

OFFICE OF HIGHER EDUCATION

Change Summary

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Fund: GENERAL				
FY 2007 Appropriations	177,181	177,181	177,181	354,362
Subtotal - Forecast Base	177,181	177,181	177,181	354,362
Change Items				
ACHIEVE Grants	0	39,452	39,452	78,904
"Minnesota GI Bill" Program	0	15,000	15,000	30,000
State Grant Program	0	5,598	6,568	12,166
State Grant Pell Savings	0	0	0	0
Interstate Tuition Reciprocity	0	1,000	1,000	2,000
Learning Network of Minnesota	0	575	575	1,150
Compensation Adjustment	0	39	80	119
Total Governor's Recommendations	177,181	238,845	239,856	478,701
Fund: MISC SPECIAL REVENUE				
FY 2007 Appropriations	0	0	0	0
Subtotal - Forecast Base	0	0	0	0
Total Governor's Recommendations	0	0	0	0
Fund: MISC SPECIAL REVENUE				
Planned Statutory Spending	511	398	340	738
Total Governor's Recommendations	511	398	340	738
Fund: FEDERAL				
Planned Statutory Spending	5,329	4,772	4,767	9,539
Total Governor's Recommendations	5,329	4,772	4,767	9,539
Fund: OFFICE OF HIGHER EDUCATION				
Planned Statutory Spending	150,404	156,341	162,384	318,725
Total Governor's Recommendations	150,404	156,341	162,384	318,725
<u>Revenue Change Items</u>				
Fund: MISC SPECIAL REVENUE				
Change Items				
Rewrite Regulatory Statute- 136A.61	0	(10)	(10)	(20)

OFFICE OF HIGHER EDUCATION

Program: STUDENT FINANCIAL AID-OUTREACH

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	157,134	165,531	165,531	165,531	331,062
Subtotal - Forecast Base	157,134	165,531	165,531	165,531	331,062
Governor's Recommendations					
ACHIEVE Grants		0	39,452	39,452	78,904
"Minnesota GI Bill" Program		0	15,000	15,000	30,000
State Grant Program		0	5,598	6,568	12,166
State Grant Pell Savings		0	0	0	0
Interstate Tuition Reciprocity		0	1,000	1,000	2,000
Compensation Adjustment		0	5	12	17
Total	157,134	165,531	226,586	227,563	454,149
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	143,420	179,566	226,636	227,613	454,249
Statutory Appropriations					
Misc Special Revenue	24	0	0	0	0
Federal	2,642	4,072	3,781	3,781	7,562
Total	146,086	183,638	230,417	231,394	461,811
<u>Expenditures by Category</u>					
Total Compensation	1,459	1,774	1,799	1,814	3,613
Other Operating Expenses	1,145	1,815	1,783	1,583	3,366
Payments To Individuals	143,021	179,167	226,189	227,351	453,540
Local Assistance	439	857	621	621	1,242
Other Financial Transactions	22	25	25	25	50
Total	146,086	183,638	230,417	231,394	461,811
<u>Expenditures by Activity</u>					
State Grants	129,791	163,343	211,046	212,016	423,062
Mn College Savings Program	287	1,753	1,020	1,020	2,040
Interstate Tuition Reciprocity	525	1,475	2,000	2,000	4,000
State Work Study	12,412	12,476	12,444	12,444	24,888
Outreach Programs	2,623	4,109	3,420	3,420	6,840
Student Financial Aid Services	448	482	487	494	981
Total	146,086	183,638	230,417	231,394	461,811
Full-Time Equivalents (FTE)	25.1	26.1	28.1	28.1	

OFFICE OF HIGHER EDUCATION**PROGRAM: STUDENT FINANCIAL AID-OUTREACH****Change Item: ACHIEVE Grants**

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$39,452	\$39,452	\$39,452	\$39,452
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$39,452	\$39,452	\$39,452	\$39,452

Recommendation

The Governor recommends the establishment of a new grant program for higher education called ACHIEVE (Academic Competitiveness Highlighting Individual Excellence and Valuing Education). This program would provide grants to students at high school graduation to be used for post-secondary education costs. To be eligible, students must come from families with incomes of \$100,000 or less. The grants are earned each time a qualifying student enrolls in and passes a rigorous course (for example, courses through programs like Advanced Placement, International Baccalaureate, Post Secondary Enrollment Options, or College Level Examination Program). The state will pay \$314 for each course and deposit the funds into an account established for the student. Funds would accumulate and be made available to the student upon graduation from high school, to be used at a Minnesota higher education institution of his or her choice.

Background

The competition for business and economic development no longer comes only from other states; it comes from other nations across the globe. At the same time the economy is more driven by rapid technological change in products and services. Minnesota and the U.S. can never compete on costs with these foreign competitors nor can we compete on sheer numbers with countries like China and India. These countries are so large they can compete globally by only training a small percentage of their population. In order to be competitive Minnesota students must work harder and work smarter. The structure of the ACHIEVE program addresses these issues. It promotes rigorous course taking by rewarding students with funds to help pay for college. By focusing on families with a household income below \$100,000 it may make it more likely that many children, including children from groups that have historically been underrepresented in higher education, will attend college.

The appropriation includes funds for administrative costs. They would cover one support staff position, computer programming costs associated with the implementation of a new program, printing, advertising, postage and training costs. Administrative expenses for the first year are higher because of the initial computer programming necessary to establish this new financial aid program.

Relationship to Base Budget

This is a new program.

Key Measures

The Office of Higher Education (OHE) will monitor improvements in enrollment levels of students from qualifying families and changes in course taking at the secondary level.

- ⇒ The office will be able to administer this new program with only one additional staff person because it will be able to leverage the experience of the current financial aid staff. OHE will be able to use the current connections and relationships already established through the existing financial aid programs.
- ⇒ Depending on how the program is structured OHE will be able use the current electronic funds transfer accounts and other administrative structures already in place.
- ⇒ OHE may be able to use the existing State Grant electronic communication channels to send data back and forth between the state and the higher education institutions.

Statutory Change: New statutory language is required in Minnesota Statutes chapter 136A.

OFFICE OF HIGHER EDUCATION

Change Item: State Grant Pell Savings

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends that the savings to the State Grant financial aid program that will result when the federal Pell Grant program's maximum per-student award amount increases by \$260.00 on July 1, 2007 be retained in the State Grant program. To retain the savings, the Governor recommends changing one of the program's cost parameters. The Governor recommends reducing the program's assigned student responsibility percentage from the current 46% by 1.5 percent, down to a new level of 44.5%. The cost of this change is \$10.5 million each year in FY 2008 and FY 2009; it will be funded using the savings generated from the federal Pell change.

Background

Federal legislation was signed into law in February of this year that increases the maximum Pell Grant by \$260 to \$4,310, effective July 1, 2007.

When the amount of an eligible student's State Grant stipend is calculated, state law specifies that "the amount of a federal Pell grant award for which the grant applicant is eligible" must be deducted and excluded from the calculation. This provision means that when the federal Pell grant award amount increases, that increase is offset by a corresponding decrease in an eligible student's State Grant award.

The Governor recommends recognizing this cost savings and retaining it in the State Grant program by lowering the program's assigned student responsibility percentage. The State Grant program contains a number of eligibility requirements and cost parameters that determine a student's final grant award. One of the parameters is the "assigned student responsibility," which set in statute at 46 percent of the recognized cost of attending the institution of the student's choosing. The assigned student responsibility percentage does not vary based on income; it is the same percentage for all applicants.

Lowering the assigned student responsibility to 44.5% benefits all State Grant recipients. This recommendation helps students facing the high cost of postsecondary tuition because it reduces the share of recognized costs that a student is expected to cover through his or her own resources. (This change will also increase the number of applicants receiving State Grant awards, especially among students currently receiving a Pell grant but no State Grant, and among those students who are currently near the eligibility cut-off point.)

The Office of Higher Education estimates that the federal Pell grant increase will result in a savings of \$10.9 million each year in the State Grant program. Forecasted increases in household income also affect the Office's estimates for State Grant spending. February forecast increases in projected household income led to small decreases in projected spending for the State Grant program.

The table below identifies the fiscal impact of each element of this new recommendation.

(\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
Savings from Pell increase	\$(10,900)	\$(10,900)	\$(10,900)	\$(10,900)
Savings from increases in family incomes	(750)	(500)	(500)	(500)
Cost to lower Assigned Student Responsibility to 44.5%	10,500	10,500	10,500	10,500

Relationship to Base Budget

This recommendation does not change the General Fund base budget for the State Grant program.

Key Measures

The Office of Higher Education will monitor changes in the number of recipients in the program to measure the impact of this change.

Statutory Change: Minnesota Statutes 136A.121, subdivision 5.

OMBUD FOR MENTAL HEALTH & DD

Change Item: Maintain Current Services & FY 2007 Deficiency

Fiscal Impact (\$000s)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund					
Expenditures	\$66	\$79	\$106	\$106	\$106
Revenues	0	0	0	0	0
Net Fiscal Impact	\$66	\$79	\$106	\$106	\$106

Recommendation

The Governor recommends a deficiency appropriation for the Ombudsman for Mental Health and Development Disabilities of \$66,000 for FY 2007 due to unanticipated operating costs, as well as \$79,000 for FY 2008 and \$106,000 in FY 2009 and beyond to maintain the agency's current level of services.

Background

The ombudsman's office has experienced increases in costs for non-compensation related costs, including things like rent, utilities, and supplies. Until now, these increases have been absorbed.

The shortfall in FY 2007 is due to two factors, unanticipated retirement costs and an increase in rent expenses. Until recently, the Ombudsman for Mental Health and Developmental Disabilities shared office space with another ombudsman. When the decision to relocate the other ombudsman was made, it meant the additional rent expense would also have to be absorbed. Rent costs increased 38% since assuming the additional rent expense. The agency also had two long-serving employees retire, creating a liability that cannot be accommodated with current resources.

The nature of the ombudsman's workload has also changed, creating new cost pressures. The downsizing of regional treatment centers has resulted in additional travel time, cost, and effort by staff as clients are placed in smaller, more widely-dispersed facilities. No additional funding has been added to supplement these cost increases.

Finally, the agency is heavily dependent on staff to complete its statutory mandate. Their expenses are largely fixed costs limiting the ability to achieve savings, other than reducing staff. Reducing staff results in fewer and less thorough reviews and assistance for clients, and diminished civil commitment training. These services likely save the state in the long run, reducing the number of lawsuits and minimizing the use of civil commitment. Quantifying the amount saved is not possible, but if their services were reduced, it is likely litigation and civil commitment costs would increase.

Relationship to Base Budget

The agency's base budget for FY 2008 and FY 2009 is \$2.924 million – the request represents an increase of approximately 6.3%. Within the agency's base level of funding, two fixed costs consume 97% of the budget: 91% is attributable to compensation and 6% for rent.

Key Measures

⇒ Reports of serious injury reviews continue to increase, on average, of 100 per year.

Statutory Change: Not Applicable

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	6,623	6,623	6,623	6,623	13,246
Recommended	6,623	6,623	6,808	6,955	13,763
Change		0	185	332	517
% Biennial Change from 2006-07					3.9%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	6,217	7,078	6,695	7,068	13,763
Statutory Appropriations					
Misc Special Revenue	896	1,487	916	887	1,803
Federal	0	374	449	349	798
Miscellaneous Agency	19	30	30	30	60
Gift	47	42	0	0	0
Total	7,179	9,011	8,090	8,334	16,424
<u>Expenditures by Category</u>					
Total Compensation	4,908	5,451	5,385	5,632	11,017
Other Operating Expenses	1,971	3,245	2,396	2,393	4,789
Capital Outlay & Real Property	7	9	6	6	12
Payments To Individuals	14	25	19	19	38
Local Assistance	260	251	254	254	508
Other Financial Transactions	19	30	30	30	60
Total	7,179	9,011	8,090	8,334	16,424
<u>Expenditures by Program</u>					
Center For Arts Educ	7,179	9,011	8,090	8,334	16,424
Total	7,179	9,011	8,090	8,334	16,424
Full-Time Equivalents (FTE)	73.7	73.7	72.8	72.8	

PERPICH CENTER FOR ARTS EDUC

Change Summary

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Fund: GENERAL				
FY 2007 Appropriations	6,623	6,623	6,623	13,246
Subtotal - Forecast Base	6,623	6,623	6,623	13,246
Change Items				
High School to College Transition	0	81	122	203
Compensation Adjustment	0	104	210	314
Total Governor's Recommendations	6,623	6,808	6,955	13,763
Fund: MISC SPECIAL REVENUE				
Planned Statutory Spending	1,487	916	887	1,803
Total Governor's Recommendations	1,487	916	887	1,803
Fund: FEDERAL				
Planned Statutory Spending	374	449	349	798
Total Governor's Recommendations	374	449	349	798
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	30	30	30	60
Total Governor's Recommendations	30	30	30	60
Fund: GIFT				
Planned Statutory Spending	42	0	0	0
Total Governor's Recommendations	42	0	0	0

PERPICH CENTER FOR ARTS EDUC

Agency Revenue Summary

Dollars in Thousands

	Actual FY2006	Budgeted FY2007	Governor's Recomm. FY2008 FY2009		Biennium 2008-09
<u>Non Dedicated Revenue:</u>					
Total Non-Dedicated Receipts	0	0	0	0	0
<u>Dedicated Receipts:</u>					
Departmental Earnings:					
Misc Special Revenue	80	85	85	85	170
Grants:					
Misc Special Revenue	71	75	75	75	150
Federal	103	374	449	349	798
Other Revenues:					
Misc Special Revenue	520	810	641	628	1,269
Miscellaneous Agency	19	30	30	30	60
Gift	47	0	0	0	0
Other Sources:					
Misc Special Revenue	11	15	13	13	26
Total Dedicated Receipts	851	1,389	1,293	1,180	2,473
Agency Total Revenue	851	1,389	1,293	1,180	2,473

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Fund</u>					
Open Appropriations					
Public Employees Retirement	786,303	850,000	910,000	980,000	1,890,000
Pera Correctional Plan	1,968	2,200	2,300	2,500	4,800
Police And Fire	265,665	295,000	335,000	375,000	710,000
Statutory Appropriations					
Pera Defined Contribution Plan	1,391	1,600	1,600	1,600	3,200
Retirement System Building	910	1,303	1,330	1,355	2,685
Total	1,056,237	1,150,103	1,250,230	1,360,455	2,610,685
<u>Expenditures by Category</u>					
Total Compensation	6,112	6,150	6,600	6,700	13,300
Other Operating Expenses	3,821	5,241	5,268	5,293	10,561
Other Financial Transactions	1,046,304	1,138,712	1,238,362	1,348,462	2,586,824
Total	1,056,237	1,150,103	1,250,230	1,360,455	2,610,685
<u>Expenditures by Program</u>					
Public Empl Retr Asn	1,056,237	1,150,103	1,250,230	1,360,455	2,610,685
Total	1,056,237	1,150,103	1,250,230	1,360,455	2,610,685
Full-Time Equivalents (FTE)	88.7	91.0	93.0	93.0	

PUBLIC EMPLOYEES RETIRE ASSOC

Agency Revenue Summary

Dollars in Thousands

	Actual FY2006	Budgeted FY2007	Governor's Recomm. FY2008 FY2009		Biennium 2008-09
<u>Non Dedicated Revenue:</u>					
Other Revenues:					
Pera Defined Contribution Plan	2,658	2,800	3,000	3,100	6,100
Public Employees Retirement	493,982	545,000	600,000	655,000	1,255,000
Pera Correctional Plan	19,438	21,000	22,000	23,000	45,000
Police And Fire	112,805	120,000	135,000	150,000	285,000
Total Non-Dedicated Receipts	628,883	688,800	760,000	831,100	1,591,100
<u>Dedicated Receipts:</u>					
Other Revenues:					
Retirement System Building	865	1,303	1,330	1,355	2,685
Total Dedicated Receipts	865	1,303	1,330	1,355	2,685
Agency Total Revenue	629,748	690,103	761,330	832,455	1,593,785

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	5,851	6,297	6,297	6,297	12,594
Recommended	5,851	6,297	11,721	10,196	21,917
Change		0	5,424	3,899	9,323
% Biennial Change from 2006-07					80.4%
Misc Special Revenue					
Current Appropriation	45,663	44,968	44,968	44,968	89,936
Recommended	45,663	44,968	47,950	49,038	96,988
Change		0	2,982	4,070	7,052
% Biennial Change from 2006-07					7%
Trunk Highway					
Current Appropriation	73,377	73,338	73,338	73,338	146,676
Recommended	73,377	73,338	80,916	85,166	166,082
Change		0	7,578	11,828	19,406
% Biennial Change from 2006-07					13.2%
Highway Users Tax Distribution					
Current Appropriation	8,443	8,513	8,513	8,513	17,026
Recommended	8,443	8,513	8,813	9,113	17,926
Change		0	300	600	900
% Biennial Change from 2006-07					5.7%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	4,774	6,322	11,721	10,196	21,917
Misc Special Revenue	39,033	45,703	46,789	47,877	94,666
Trunk Highway	68,150	75,187	80,916	85,166	166,082
Highway Users Tax Distribution	6,062	8,242	8,813	9,113	17,926
Statutory Appropriations					
General	911	953	985	1,014	1,999
State Government Spec Revenue	993	1,406	1,406	1,406	2,812
Misc Special Revenue	10,519	12,690	11,264	11,011	22,275
Trunk Highway	199	60	55	55	110
Federal	33,298	43,316	29,961	29,579	59,540
Reinvest In Minnesota	9	10	10	10	20
Miscellaneous Agency	0	1,975	3,950	3,950	7,900
Gift	69	143	60	60	120
Total	164,017	196,007	195,930	199,437	395,367
<u>Expenditures by Category</u>					
Total Compensation	100,357	111,480	115,592	120,961	236,553
Other Operating Expenses	44,592	54,341	55,742	53,718	109,460
Payments To Individuals	1,469	1,584	1,731	1,899	3,630
Local Assistance	17,560	26,716	16,991	16,985	33,976
Other Financial Transactions	39	1,886	3,756	3,756	7,512
Transfers	0	0	2,118	2,118	4,236
Total	164,017	196,007	195,930	199,437	395,367

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Program</u>					
Admin & Related Services	11,161	11,676	17,499	16,053	33,552
State Patrol	88,429	96,140	100,051	104,019	204,070
Driver & Vehicle Services	44,793	57,807	57,608	58,554	116,162
Traffic Safety	17,719	28,387	18,454	18,454	36,908
Pipeline Safety	1,915	1,997	2,318	2,357	4,675
Total	164,017	196,007	195,930	199,437	395,367
<i>Full-Time Equivalents (FTE)</i>	1,487.2	1,560.3	1,602.9	1,622.2	

PUBLIC SAFETY DEPT
Program: STATE PATROL

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	2,871	3,183	3,183	3,183	6,366
Technical Adjustments					
One-time Appropriations			(312)	(312)	(624)
Subtotal - Forecast Base	2,871	3,183	2,871	2,871	5,742
Governor's Recommendations					
Capitol Security Increase		0	1,500	1,500	3,000
Compensation Adjustment		0	129	196	325
Total	2,871	3,183	4,500	4,567	9,067
Trunk Highway					
Current Appropriation	67,084	67,075	67,075	67,075	134,150
Subtotal - Forecast Base	67,084	67,075	67,075	67,075	134,150
Governor's Recommendations					
State Patrol Enhancements		0	3,395	4,988	8,383
Compensation Adjustment		0	3,972	6,526	10,498
Total	67,084	67,075	74,442	78,589	153,031
Highway Users Tax Distribution					
Current Appropriation	92	92	92	92	184
Subtotal - Forecast Base	92	92	92	92	184
Total	92	92	92	92	184
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	2,719	3,852	4,500	4,567	9,067
Trunk Highway	62,266	68,505	74,442	78,589	153,031
Highway Users Tax Distribution	49	135	92	92	184
Statutory Appropriations					
General	911	953	985	1,014	1,999
State Government Spec Revenue	993	1,406	1,406	1,406	2,812
Misc Special Revenue	8,084	8,813	8,150	7,869	16,019
Trunk Highway	199	53	55	55	110
Federal	13,203	12,372	10,416	10,422	20,838
Gift	5	51	5	5	10
Total	88,429	96,140	100,051	104,019	204,070
<u>Expenditures by Category</u>					
Total Compensation	66,984	71,784	75,561	79,872	155,433
Other Operating Expenses	18,529	21,683	21,842	21,499	43,341
Payments To Individuals	38	24	24	24	48
Local Assistance	2,878	2,649	2,624	2,624	5,248
Total	88,429	96,140	100,051	104,019	204,070
<u>Expenditures by Activity</u>					
Patrolling Highways	73,276	78,223	81,695	85,316	167,011
Commercial Vehicle Enforcement	11,437	13,493	12,908	13,159	26,067
Capitol Complex Security	3,716	4,424	5,448	5,544	10,992
Total	88,429	96,140	100,051	104,019	204,070
Full-Time Equivalents (FTE)	902.0	922.0	953.9	973.9	

PUBLIC SAFETY DEPT

Program: STATE PATROL

Activity: CAPITOL COMPLEX SECURITY

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	2,834	2,834	2,834	2,834	5,668
Subtotal - Forecast Base	2,834	2,834	2,834	2,834	5,668
Governor's Recommendations					
Capitol Security Increase		0	1,500	1,500	3,000
Compensation Adjustment		0	129	196	325
Total	2,834	2,834	4,463	4,530	8,993
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	2,539	3,471	4,463	4,530	8,993
Statutory Appropriations					
General	911	953	985	1,014	1,999
Federal	266	0	0	0	0
Total	3,716	4,424	5,448	5,544	10,992
<u>Expenditures by Category</u>					
Total Compensation	3,121	3,989	4,564	4,709	9,273
Other Operating Expenses	595	435	884	835	1,719
Total	3,716	4,424	5,448	5,544	10,992
Full-Time Equivalents (FTE)	54.2	62.7	78.4	78.2	

PUBLIC SAFETY DEPT

Agency Revenue Summary

Dollars in Thousands

	Actual FY2006	Budgeted FY2007	Governor's Recomm. FY2008 FY2009		Biennium 2008-09
<u>Non Dedicated Revenue:</u>					
Departmental Earnings:					
General	26,179	28,187	16,490	16,490	32,980
Trunk Highway	884	1,588	1,588	1,588	3,176
Environmental	0	0	11,750	11,750	23,500
Other Revenues:					
General	55	42	42	42	84
Trunk Highway	6,194	6,221	6,221	6,221	12,442
Highway Users Tax Distribution	892	959	959	959	1,918
Taxes:					
General	249,460	241,060	179,719	136,510	316,229
Highway Users Tax Distribution	656,909	634,564	673,008	718,454	1,391,462
Greater Minnesota Transit	7,691	7,329	0	0	0
Total Non-Dedicated Receipts	948,264	919,950	889,777	892,014	1,781,791
<u>Dedicated Receipts:</u>					
Departmental Earnings (Inter-Agency):					
General	1,043	985	1,014	1,014	2,028
Departmental Earnings:					
General	25	20	20	20	40
State Government Spec Revenue	1,357	1,406	1,406	1,406	2,812
Misc Special Revenue	62,534	64,446	68,688	68,941	137,629
Trunk Highway	9	15	15	15	30
Grants:					
Misc Special Revenue	0	192	0	0	0
Federal	33,929	42,079	29,761	29,374	59,135
Other Revenues:					
General	2	3	3	3	6
State Government Spec Revenue	21	0	0	0	0
Misc Special Revenue	4,660	5,064	4,545	4,589	9,134
Trunk Highway	145	40	40	40	80
Reinvest In Minnesota	3,606	3,600	3,600	3,600	7,200
Gift	110	80	80	80	160
Other Sources:					
Miscellaneous Agency	0	1,975	3,950	3,950	7,900
Taxes:					
Misc Special Revenue	1	0	0	0	0
Total Dedicated Receipts	107,442	119,905	113,122	113,032	226,154
Agency Total Revenue	1,055,706	1,039,855	1,002,899	1,005,046	2,007,945

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	81,433	85,222	85,222	85,222	170,444
Recommended	81,433	86,329	89,625	94,062	183,687
Change		1,107	4,403	8,840	13,243
% Biennial Change from 2006-07					9.5%
State Government Spec Revenue					
Current Appropriation	44,375	44,642	41,578	41,578	83,156
Recommended	44,375	44,642	55,688	50,392	106,080
Change		0	14,110	8,814	22,924
% Biennial Change from 2006-07					19.2%
Misc Special Revenue					
Current Appropriation	590	589	3,421	7,921	11,342
Recommended	590	589	6,791	9,857	16,648
Change		0	3,370	1,936	5,306
% Biennial Change from 2006-07					1312%
Trunk Highway					
Current Appropriation	361	361	361	361	722
Recommended	361	361	367	374	741
Change		0	6	13	19
% Biennial Change from 2006-07					2.6%
Environmental					
Current Appropriation	49	49	49	49	98
Recommended	49	49	69	71	140
Change		0	20	22	42
% Biennial Change from 2006-07					42.9%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	76,929	96,072	89,625	94,062	183,687
State Government Spec Revenue	31,909	34,244	55,688	50,392	106,080
Misc Special Revenue	545	631	6,791	9,857	16,648
Trunk Highway	345	377	367	374	741
Environmental	49	49	69	71	140
Statutory Appropriations					
General	1,594	2,011	1,929	1,995	3,924
State Government Spec Revenue	96	96	0	0	0
Misc Special Revenue	11,823	14,354	11,050	11,022	22,072
Federal	94,093	113,813	40,274	39,022	79,296
Gift	60	20	4	4	8
Total	217,443	261,667	205,797	206,799	412,596
<u>Expenditures by Category</u>					
Total Compensation	34,790	44,262	43,072	45,145	88,217
Other Operating Expenses	52,227	62,830	65,622	55,738	121,360
Capital Outlay & Real Property	2	0	0	0	0
Local Assistance	130,274	154,575	85,751	88,860	174,611
Other Financial Transactions	150	0	0	0	0
Transfers	0	0	11,352	17,056	28,408
Total	217,443	261,667	205,797	206,799	412,596

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Program</u>					
Homeland Security Emerg. Mgmt	68,046	86,258	26,122	25,959	52,081
Criminal Apprehension	47,962	57,562	57,160	59,278	116,438
Fire Marshal	4,079	4,789	7,913	10,960	18,873
Alcohol & Gambling Enforcement	2,510	3,188	2,760	2,807	5,567
Office Of Justice Programs	62,693	75,434	56,161	57,410	113,571
911 Emergency Services/Armer	32,153	34,436	55,681	50,385	106,066
Total	217,443	261,667	205,797	206,799	412,596
<i>Full-Time Equivalents (FTE)</i>	485.6	529.8	553.3	562.2	

PUBLIC SAFETY DEPT

Change Summary

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Fund: GENERAL				
FY 2007 Appropriations	85,222	85,222	85,222	170,444
Technical Adjustments				
Fund Changes/consolidation		(2,832)	(2,832)	(5,664)
One-time Appropriations		(4,203)	(4,233)	(8,436)
Subtotal - Forecast Base	85,222	78,187	78,157	156,344
Change Items				
Disaster Assistance State Match	1,107	250	250	500
Pandemic Flu Preparations	0	1,100	1,100	2,200
CriMNet Justice Information Integration	0	6,955	8,584	15,539
Forensic Scientists	0	1,018	1,871	2,889
Crime Victim Reparations	0	250	250	500
Gang and Drug Task Force	0	600	1,900	2,500
School Safety Centers	0	200	200	400
Victim Notification System	0	455	455	910
Compensation Adjustments	0	610	1,295	1,905
Total Governor's Recommendations	86,329	89,625	94,062	183,687
Fund: STATE GOVERNMENT SPEC REVENUE				
FY 2007 Appropriations	44,642	41,578	41,578	83,156
Subtotal - Forecast Base	44,642	41,578	41,578	83,156
Change Items				
ARMER System Implement & Upgrades	0	14,110	8,814	22,924
Total Governor's Recommendations	44,642	55,688	50,392	106,080
Fund: MISC SPECIAL REVENUE				
FY 2007 Appropriations	589	3,421	7,921	11,342
Subtotal - Forecast Base	589	3,421	7,921	11,342
Change Items				
Fire Safety Account	0	3,330	1,800	5,130
Compensation Adjustments	0	40	136	176
Total Governor's Recommendations	589	6,791	9,857	16,648
Fund: TRUNK HIGHWAY				
FY 2007 Appropriations	361	361	361	722
Subtotal - Forecast Base	361	361	361	722
Change Items				
Compensation Adjustments	0	6	13	19
Total Governor's Recommendations	361	367	374	741
Fund: ENVIRONMENTAL				
FY 2007 Appropriations	49	49	49	98
Subtotal - Forecast Base	49	49	49	98
Change Items				
Compensation Adjustments	0	20	22	42
Total Governor's Recommendations	49	69	71	140

PUBLIC SAFETY DEPT

Change Summary

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
<i>Fund: GENERAL</i>				
Planned Statutory Spending	2,011	1,929	1,995	3,924
Total Governor's Recommendations	2,011	1,929	1,995	3,924
<i>Fund: STATE GOVERNMENT SPEC REVENUE</i>				
Planned Statutory Spending	96	0	0	0
Total Governor's Recommendations	96	0	0	0
<i>Fund: MISC SPECIAL REVENUE</i>				
Planned Statutory Spending	14,354	11,050	11,022	22,072
Total Governor's Recommendations	14,354	11,050	11,022	22,072
<i>Fund: FEDERAL</i>				
Planned Statutory Spending	113,813	40,274	39,022	79,296
Total Governor's Recommendations	113,813	40,274	39,022	79,296
<i>Fund: GIFT</i>				
Planned Statutory Spending	20	4	4	8
Total Governor's Recommendations	20	4	4	8
<u>Revenue Change Items</u>				
<i>Fund: STATE GOVERNMENT SPEC REVENUE</i>				
Change Items				
ARMER System Implement & Upgrades	0	0	7,119	7,119

PUBLIC SAFETY DEPT

Program: HOMELAND SECURITY EMERG. MGMT

Program Summary

Dollars in Thousands					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	2,829	2,545	2,545	2,545	5,090
Subtotal - Forecast Base	2,829	2,545	2,545	2,545	5,090
Governor's Recommendations					
Disaster Assistance State Match		1,107	250	250	500
Pandemic Flu Preparations		0	1,100	1,100	2,200
Compensation Adjustments		0	0	6	6
Total	2,829	3,652	3,895	3,901	7,796
Environmental					
Current Appropriation	49	49	49	49	98
Subtotal - Forecast Base	49	49	49	49	98
Governor's Recommendations					
Compensation Adjustments		0	20	22	42
Total	49	49	69	71	140
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	3,213	6,969	3,895	3,901	7,796
Environmental	49	49	69	71	140
Statutory Appropriations					
Misc Special Revenue	2,114	2,204	2,651	2,608	5,259
Federal	62,670	77,036	19,507	19,379	38,886
Total	68,046	86,258	26,122	25,959	52,081
<u>Expenditures by Category</u>					
Total Compensation	3,693	4,854	4,921	4,890	9,811
Other Operating Expenses	2,828	7,530	4,661	2,464	7,125
Local Assistance	61,525	73,874	16,540	18,605	35,145
Total	68,046	86,258	26,122	25,959	52,081
<u>Expenditures by Activity</u>					
Emergency Mgmt Performance Grt	65,694	83,713	23,210	23,102	46,312
Nuclear Plant Preparedness	2,049	2,080	2,540	2,497	5,037
Community Right-To-Know	303	465	372	360	732
Total	68,046	86,258	26,122	25,959	52,081
Full-Time Equivalents (FTE)	55.7	64.9	67.0	67.0	

PUBLIC SAFETY DEPT

Program: HOMELAND SECURITY EMERG. MGMT

Activity: EMERGENCY MGMT PERFORMANCE GRT

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	2,959	6,553	3,592	3,612	7,204
Statutory Appropriations					
Misc Special Revenue	65	124	111	111	222
Federal	62,670	77,036	19,507	19,379	38,886
Total	65,694	83,713	23,210	23,102	46,312
<u>Expenditures by Category</u>					
Total Compensation	3,067	4,066	4,112	4,065	8,177
Other Operating Expenses	2,367	7,134	4,162	1,995	6,157
Local Assistance	60,260	72,513	14,936	17,042	31,978
Total	65,694	83,713	23,210	23,102	46,312
Full-Time Equivalents (FTE)	46.6	55.6	55.8	55.8	

PUBLIC SAFETY DEPT

Program: CRIMINAL APPREHENSION

Program Summary

Dollars in Thousands					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	39,520	40,860	40,860	40,860	81,720
Technical Adjustments					
One-time Appropriations			(1,090)	(1,120)	(2,210)
Subtotal - Forecast Base	39,520	40,860	39,770	39,740	79,510
Governor's Recommendations					
CrimNet Justice Information Integration		0	6,955	8,584	15,539
Forensic Scientists		0	1,018	1,871	2,889
Compensation Adjustments		0	582	1,210	1,792
Total	39,520	40,860	48,325	51,405	99,730
State Government Spec Revenue					
Current Appropriation	7	7	7	7	14
Subtotal - Forecast Base	7	7	7	7	14
Total	7	7	7	7	14
Misc Special Revenue					
Current Appropriation	440	439	439	439	878
Subtotal - Forecast Base	440	439	439	439	878
Governor's Recommendations					
Compensation Adjustments		0	6	22	28
Total	440	439	445	461	906
Trunk Highway					
Current Appropriation	361	361	361	361	722
Subtotal - Forecast Base	361	361	361	361	722
Governor's Recommendations					
Compensation Adjustments		0	6	13	19
Total	361	361	367	374	741
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	35,227	46,378	48,325	51,405	99,730
State Government Spec Revenue	1	13	7	7	14
Misc Special Revenue	399	480	445	461	906
Trunk Highway	345	377	367	374	741
Statutory Appropriations					
General	1,539	1,683	1,756	1,822	3,578
Misc Special Revenue	4,172	5,873	4,984	4,984	9,968
Federal	6,219	2,738	1,272	221	1,493
Gift	60	20	4	4	8
Total	47,962	57,562	57,160	59,278	116,438

PUBLIC SAFETY DEPT

Program: CRIMINAL APPREHENSION

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Category</u>					
Total Compensation	22,771	29,307	28,389	30,319	58,708
Other Operating Expenses	23,719	28,255	28,446	28,034	56,480
Capital Outlay & Real Property	2	0	0	0	0
Local Assistance	1,470	0	325	925	1,250
Total	47,962	57,562	57,160	59,278	116,438
<u>Expenditures by Activity</u>					
Forensic Science Service	12,372	13,994	13,712	14,451	28,163
Criminal Justice Inform. Sys.	16,363	23,297	18,572	18,780	37,352
Criminal Investigations	10,976	13,602	12,388	12,343	24,731
Police Training & Development	1,052	1,216	1,083	1,102	2,185
Criminal Apprehension Support	744	787	657	686	1,343
Crimnet	6,455	4,666	10,748	11,916	22,664
Total	47,962	57,562	57,160	59,278	116,438
Full-Time Equivalents (FTE)	312.9	342.7	359.6	369.2	

PUBLIC SAFETY DEPT**Program: CRIMINAL APPREHENSION**

Activity: FORENSIC SCIENCE SERVICE

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	9,735	10,841	11,449	12,479	23,928
Misc Special Revenue	321	371	352	368	720
Trunk Highway	345	377	367	374	741
Statutory Appropriations					
General	15	40	40	40	80
Misc Special Revenue	1,011	1,478	1,190	1,190	2,380
Federal	945	887	314	0	314
Total	12,372	13,994	13,712	14,451	28,163
<u>Expenditures by Category</u>					
Total Compensation	6,566	7,578	7,774	8,784	16,558
Other Operating Expenses	5,806	6,416	5,938	5,667	11,605
Total	12,372	13,994	13,712	14,451	28,163
Full-Time Equivalents (FTE)	95.3	98.6	102.3	110.8	

PUBLIC SAFETY DEPT
Program: FIRE MARSHAL

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	2,845	2,832	2,832	2,832	5,664
Technical Adjustments					
Fund Changes/consolidation			(2,832)	(2,832)	(5,664)
Subtotal - Forecast Base	2,845	2,832	0	0	0
Total	2,845	2,832	0	0	0
Misc Special Revenue					
Current Appropriation	0	0	2,832	7,332	10,164
Subtotal - Forecast Base	0	0	2,832	7,332	10,164
Governor's Recommendations					
Fire Safety Account		0	3,330	1,800	5,130
Compensation Adjustments		0	34	111	145
Total	0	0	6,196	9,243	15,439
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	2,664	3,043	0	0	0
Misc Special Revenue	0	0	6,196	9,243	15,439
Statutory Appropriations					
General	19	92	92	92	184
Misc Special Revenue	1,353	1,574	1,619	1,619	3,238
Federal	43	80	6	6	12
Total	4,079	4,789	7,913	10,960	18,873
<u>Expenditures by Category</u>					
Total Compensation	3,284	3,781	3,715	3,792	7,507
Other Operating Expenses	795	1,008	868	868	1,736
Local Assistance	0	0	3,330	6,300	9,630
Total	4,079	4,789	7,913	10,960	18,873
<u>Expenditures by Activity</u>					
Fire Prev, Protect & Inspect	4,079	4,789	4,583	4,660	9,243
Fire Safety Account	0	0	3,330	6,300	9,630
Total	4,079	4,789	7,913	10,960	18,873
Full-Time Equivalents (FTE)	44.6	47.9	48.3	48.4	

PUBLIC SAFETY DEPT**Program: FIRE MARSHAL**

Activity: FIRE SAFETY ACCOUNT

Budget Activity Summary

	<i>Dollars in Thousands</i>				
	Current FY2006	FY2007	Governor's Recomm. FY2008	FY2009	Biennium 2008-09
<u>Expenditures by Fund</u>					
Direct Appropriations					
Misc Special Revenue	0	0	3,330	6,300	9,630
Total	0	0	3,330	6,300	9,630
<u>Expenditures by Category</u>					
Local Assistance	0	0	3,330	6,300	9,630
Total	0	0	3,330	6,300	9,630

PUBLIC SAFETY DEPT

Change Item: Fire Safety Account

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
Special Revenue Fund				
Expenditures	3,330	1,800	1,800	1,800
Revenues	0	0	0	0
Net Fiscal Impact	3,330	1,800	1,800	1,800

Recommendation

The Governor is recommending an increase in the appropriation from the fire safety account in the Special Revenue Fund by \$3,330,000 in FY 2008 and \$1,800,000 in FY 2009 to fund the MN Board of Firefighter Training and Education; additional funding for the State Fire Marshal; and for fire-related regional response team programs and other fire service programs with statewide impact.

Background

The Fire Safety Account was established during the 2006 legislative session to fund the programs identified above. The Fire Safety Account is used to deposit the revenue received from the Fire Safety Surcharge collected from insurance companies, and to distribute those funds to the programs and entities authorized to receive those funds upon the recommendation of the Fire Service Advisory Committee and with the approval of the Commissioner of Public Safety.

Relationship to Base Budget

The base funding for this program from the Fire Safety Account in the Special Revenue Fund is \$2,832,000 for each year of the 2008-09 biennium. An estimated \$7.4M in FY 2008 and \$11.6M in FY 2009 will be collected from surcharges on fire safety premiums as provided in 2006 Minn. Stat. 297I.06.

Of the collections, \$468,000 in FY 2008 and \$2,268,000 in FY 2009 must be transferred to the General Fund to offset the loss revenue from the repeal of the one-half of one percent tax on fire insurance premiums.

The base budget included an estimated \$4,500,000 in FY 2009 and beyond for this purpose so this change item would increase expenditures from the fire safety account for the three authorized purposes to a total of \$3,300,000 in FY2008 and \$6,300,000 in FY 2009 and beyond.

Key Measures

This new account, which is established as of 7/1/07, will be measured by the following statistics:

- ◆ Number of firefighters trained and number of training hours provided using “approved” instructors and curriculum developed by the Firefighter Training & Education Board
- ◆ Number of increased fire inspections, fire investigations, plan reviews, fire code advisories, and fire safety programs provided by the State Fire Marshal Division
- ◆ Number of new regional fire service related response teams established and/or number of new programs established which have a statewide impact.

Statutory Change: Not Applicable.

PUBLIC SAFETY DEPT

Agency Revenue Summary

Dollars in Thousands

	Actual FY2006	Budgeted FY2007	Governor's Recomm. FY2008 FY2009		Biennium 2008-09
<u>Non Dedicated Revenue:</u>					
Departmental Earnings:					
General	3,301	3,963	3,963	3,963	7,926
Other Revenues:					
General	63	41	41	41	82
Total Non-Dedicated Receipts	3,364	4,004	4,004	4,004	8,008
<u>Dedicated Receipts:</u>					
Departmental Earnings:					
General	1,471	1,370	1,370	1,370	2,740
State Government Spec Revenue	46,230	46,931	46,738	53,393	100,131
Misc Special Revenue	3,574	3,754	11,154	15,354	26,508
Grants:					
Misc Special Revenue	1,537	1,561	1,368	1,368	2,736
Federal	96,633	107,622	40,081	38,862	78,943
Other Revenues:					
General	33	143	143	143	286
Misc Special Revenue	4,949	5,136	5,567	5,524	11,091
Federal	188	458	160	160	320
Gift	58	4	4	4	8
Total Dedicated Receipts	154,673	166,979	106,585	116,178	222,763
Agency Total Revenue	158,037	170,983	110,589	120,182	230,771

AGENCY: Public Safety, Department of (DPS)**PROGRAM: Administration & Related Services****PROGRAM DESCRIPTION:**

National Highway Traffic Safety Administration (NHTSA) grant. This program receives a small amount of grant money to pay for a portion of the financial services provided to the traffic safety program.

NHTSA Highway Safety Grants. These programs are designed to reduce the number and severity of traffic crashes that occur in Minnesota by changing driver behavior. They include funding to the communications activity for an information and public education alcohol awareness campaign.

NHTSA Highway Safety Paid Media Grant. This grant was designed to reduce the number and severity of traffic crashes that occur in Minnesota by changing driver behavior through advertising.

Homeland Security. This program provides grant monies to fund homeland security preparedness and prevention activities through external communication dealing with homeland security topics.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

No changes are anticipated.

FUNDS AT RISK:

None

PROGRAM: Homeland Security and Emergency Management**PROGRAM DESCRIPTION:**

Comprehensive Environmental Response Compensation and Liability Act (CERCLA). This program supports attendance by state representatives at Federal Response Plan-related coordination and planning meetings regarding state agency response to hazardous materials incidents.

Disaster Assistance Grants. These grants are provided to the state after a presidential declaration of a major disaster. The public assistance program provides assistance to local governments, state agencies, Indian Tribes and eligible private-non-profit entities to cover 75% of emergency costs and infrastructure repair/replacement costs resulting from the disaster.

Individuals and Households Program (IHP). Following a presidential declaration of a major disaster, this program provides assistance to eligible disaster victims for serious needs and necessary expenses caused by the disaster. Other individual assistance programs are also available for disaster unemployment and crisis counseling. The federal government contribution to the IHP is 75%; the state is obligated to pay the remaining 25% share.

Emergency Management Performance Grant (EMPG). This funding supports state emergency planning, training, and exercise programs. It also supports hazard mitigation, operational readiness, and regional support, including grants to counties to support local emergency management programs.

Hazardous Materials Emergency Preparedness (HMEP). This program supports hazardous materials incident preparedness-related planning, training, and exercises, local public safety support group development, and special projects that involve hazardous materials accident/incident preparedness.

Hazard Mitigation Grant Program (HMGP). This program provides assistance to local governments, state agencies, and eligible private, non-profit entities to fund activities/projects that will reduce the impact of future disasters.

PROGRAM: Homeland Security and Emergency Management (cont'd)

Pre-Disaster Hazard Mitigation Program. This Program provides funding to States and communities for cost-effective hazard mitigation activities that reduce injuries, deaths, and property damage.

National Oceanic and Atmospheric Administration (NOAA) Weather Radio. This program provides funding to maintain transmitter sites, located throughout the state, for NOAA weather radio broadcasts.

Homeland Security. This program provides grant monies to fund a number of homeland security preparedness and prevention activities, including: planning, equipment acquisitions, training, and exercises.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

No changes are anticipated.

FUNDS AT RISK:

None

PROGRAM: Bureau of Criminal Apprehension (BCA)**PROGRAM DESCRIPTION:**

Forensic DNA Programs. The goals and objectives of these programs are to improve infrastructure and analysis capacity so that DNA samples can be processed efficiently and cost-effectively and to provide needed support to allow the lab to process backlogged DNA cases that would otherwise not be analyzed in a timely manner.

National Forensic Science Improvement Act (NFSIA). This program provides funding to the forensic science laboratory for improved efficiency and productivity of operations. This funding is available for non-DNA related casework.

Edward Byrne Justice Assistance Grant Program (JAG), Computerized Incident Based Reporting System (CIBRS). This program provides for the creation and sharing of a law enforcement incident database to be used as a tool for Minnesota law enforcement agencies to aid investigations.

Computerized Criminal History (CCH) - Byrne. This program provides for re-engineering the computerized criminal history (CCH) and Automated Fingerprint Identification System (AFIS) to support CriMNet (statewide integration) and provide additional functionality for document control, applicant E-print and identification services. The first step is the development of a concept of operations (ConOps) document and the production of a Requirements document for business and technical requirements.

Local Law Enforcement Block Grant (LLEBG). These funds are provided for use in seven purpose areas for preventing and controlling crime.

National Criminal History Improvement Program (NCHIP). This program enables States to provide accurate and useful criminal records and improve the nation's public safety by facilitating accurate and timely identification of persons who work in positions of trust with children and vulnerable adults by enhancing the quality, completeness, and accessibility of the nation's criminal history record systems.

Community Oriented Policing Services (COPS). These funds provide for the continued development of technologies and automated systems to assist state and local law enforcement agencies in investigating, responding to and preventing crime.

Marijuana Eradication. These funds are used in locating and eradicating illicit cannabis plants and in the investigation and prosecution of cases before the courts of the United States and the courts of the state of Minnesota involving controlled substances.

PROGRAM: Criminal Apprehension (cont'd)

Homeland Security. This program provides funding used to enhance BCA's efforts to investigate and respond to terrorist incidents within the State of Minnesota. The purchase of this equipment will enhance the BCA investigative capabilities to conduct surveillance, investigate acts of terrorism, collect evidence, respond to terrorist incidents, and communicate with other federal, state and local units of government. This program provides BCA personnel with the training and equipment necessary to respond to and mitigate a Chemical, Biological, Radiological, Nuclear and Explosive (CBRNE) event or to aid in anti-terrorism actions in cooperation with the FBI, US Attorney's Office and other law enforcement agencies.

CriMNet - Congressional Earmark. These funds are to implement the statewide framework and blueprint to integrate criminal justice information.

Safe Neighborhood – Project Safe Trails. These funds are used to combat gang, drug and related violent crimes on Indian Reservations in northern Minnesota through coordinated, multi-jurisdictional and multi-agency investigations.

National Highway Traffic Safety Administration NHTSA 164 Repeat DWI Offender: Provide business analysis for an integrated, statewide DWI offender tracking system which will be a component of a statewide electronic charging service.

High Speed Digital Video Analysis of Bloodstain Patterns. High-speed digital video will be used to analyze and document the dynamics of common blood transfer events. Video clips of common blood transfer events will be compiled to be used by instructors in a bloodstain pattern course.

Evaluation of StreetLab ® Raman for Testing of Drugs. This research project proposes to ease some of the backlog problems by evaluating a portable drug identification system using laser Raman technology. The evaluation of the Raman StreetLab ® will be performed in the laboratory and in the field.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

No changes are anticipated.

FUNDS AT RISK:

None

PROGRAM: Fire Marshal**PROGRAM DESCRIPTION:**

Homeland Security Preparedness Grant. This program provides assistance to purchase equipment for protecting and facilitating communication among emergency responders. This assistance will also strengthen terrorism response capabilities by providing funding for exercises, training, planning and organizational activities. The grants are awarded by the federal Department of Homeland Security through the MN Department of Public Safety's Homeland Security and Emergency Management (HSEM) Division.

Assistance to Firefighters Grant Program – Fire Prevention and Safety Grant. This program provides an awareness campaign and several educational plans to reduce fire deaths and injuries for vulnerable segments of the population. This program includes billboard campaigns, radio and television public service announcements, supporting materials for fire and safety agencies, development and dissemination of in-school curriculum, dissemination of firesetter intervention materials and supplies, and training for fire safety professionals. The grants are awarded by the Federal Department of Homeland Security, Office of Domestic Preparedness Assistance to Firefighters Grant Program, Fire Prevention and Safety Grants directly to the Minnesota State Fire Marshal Division.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

No changes are anticipated.

FUNDS AT RISK:

None

PROGRAM: State Patrol**PROGRAM DESCRIPTION:**

Motor Carrier Safety Assistance Program (MCSAP). This is an assistance program for state commercial vehicle enforcement activities, including roadside driver and vehicle inspections, traffic enforcement, motor carrier review audits, public safety data management, and training. The Federal Motor Carrier Safety Administration (FMCSA) may have high priority projects to target, and it allows States to compete for special supplemental research and development projects. Individual grants are requested and approved throughout the year. New Entrant Safety Assurance Program (NESAP) grant establishes requirements to improve the safety performance of new US and Canadian motor carriers. Border Grants ensure that commercial motor vehicles operating within the international border region perform in a safe manner and do not transport contraband materials. Commercial Vehicle Analysis Reporting System (CVARS) ensure that commercial motor vehicle crash data is accurate and is moved from the state to the federal office in a timely manner.

National Highway Traffic Safety Administration (NHTSA) grants. These are grants issued through the traffic safety program. It provides funding for various traffic safety programs such as Safe and Sober, Operation NightCAP, Drug Recognition Experts and target speed enforcement. The State Patrol also administers grants to local agencies under operation NightCAP and e-Heat (speed) to enforce traffic safety laws.

Surface Transportation Act - Red-dyed fuel grant. This is a grant issued through the Minnesota Department of Transportation from the Surface Transportation Act funding to facilitate the inspection of fuel used in motor vehicles for on-highway use to ensure proper fuel taxes have been applied.

Federal Transit Authority. This grant provides funding to obtain consultants services to perform a review and analysis of the safety and security of Minnesota's Light Rail Transit (LRT) operations and procedures.

Homeland Security / Federal Emergency Management Administration grants. This grant is an assistance program to the state for expenses related to improving the state's ability to prevent and respond to acts of terrorism. Grants are available for purchase of equipment and/or technology. Individual grants are requested and approved throughout the year.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

The MCSAP has been authorized from 2005 through 2009 by (Safe, Accountable, Flexible, Efficient Transportation Safety Equity Act: A Legacy for Users (SAFETY LU). Each year the FMCSA requests Congress to allocate the funds that were authorized. Requests are usually approved for an amount lower than requested. Congress has also earmarked certain funds dedicated to certain activities within truck and bus safety. Special projects and dedicated funds have been combined in the basic grant allocations. MCSAP funds have been authorized to increase 10% by 2009.

FUNDS AT RISK:

The status of the MCSAP program for FFY 2007 and beyond is not known for certain pending action by the Congress.

PROGRAM: Driver and Vehicle Services (DVS)

PROGRAM DESCRIPTION:

Improved Minnesota Driver's License Information System (IMDLIS) Project Description. The purpose of the grant is to redesign the Minnesota Driver License Information System for enhanced access, accuracy and utility of Driver Services information, thereby improving problem driver management and traffic safety, customer service, and Driver Services operational efficiencies.

Specific project objectives include:

1. Focusing on a "paperless" e-Government systems approach.
2. Ensure 24/7 access to information by law enforcement and court systems when needed, to improve public safety operations and customer service.
3. Automate problem driver case management to enable removal of problem drivers from Minnesota roads by authorities and improve public safety.
4. Provide interaction between DVS databases and those used by court, law enforcement, and other agencies to ensure that all of the information appropriate to ensuring public safety can be available through a single interface.
5. Improve license issuance process to limit opportunity for applicants to obtain fraudulent driver licenses and to improve customer service. Improve reporting and records management to facilitate law enforcement and court systems access, customer service, responsiveness to changing conditions, and to support decision analysis. Encourage data entry at the source of data to improve availability and accuracy of information.
6. Automate Driver Services workflow wherever possible to improve operational efficiency.

Commercial Drivers License (CDL). The Minnesota Department of Public Safety's Driver Services office is responsible for administering the CDL (Commercial Driver's License) Grant. The major goal is improving safety on highways by working to improve the licensing, monitoring, and data collection related to the CDL system and correct identified deficiencies so that we are consistent with national CDL priorities. The grant money allows for the purchase of hardware, software, electronic data links with web sites, and staff training, as well as programming. The key to the success of the grant is the collaboration of state agencies (DVS, State Patrol and Minnesota Department of Transportation (MNDOT) as well as business partners including the MN Court System, MN County Attorney Association, and a representative from the state's driver license agent association.

Performance and Registration Information Systems Management (PRISM). The purpose of the grant is the implementation of the PRISM program in the State of Minnesota. PRISM is a federal program measuring the safety fitness of motor carriers and to link this information to the motor vehicles registration and licensing system in the state.

The information is provided and made available to law enforcement agents when conducting motor carrier enforcement and allows enforcement to be more proactive targeting carriers and vehicles that have safety issues. Those carriers and vehicles having continued poor safety fitness ratings can be placed out of service by the Federal government. This action by the Federal government results in state action to remove registration and licensing from the carrier and prohibits the carrier from obtaining new registration. Further, the information is linked to a national system so any state can view data and record status on motor carriers and their vehicles registered in Minnesota.

Overall, this program strives to improve 1. accountability of the carrier and the vehicles they are responsible for by linking the carrier to the vehicle by use of the U.S. Department of Transportation (USDOT) number; 2. rating carrier safety fitness in a performance based program; 3. productivity of staff engaged in the enforcement of motor carrier safety by targeting efforts on carriers with a history of safety violations; 4. data quality that States share with each other, carriers, law enforcement, and other business partners by linking safety data to carrier and vehicle data; 5. Motor Carrier safety by providing carriers the opportunity to improve their operations through identification and incentives to improve.

Social Security Number Verification grant objective is to reduce, detect and prevent license fraud and improve traffic safety. Verifications will be performed online that will allow for real-time verifications at the applicants first

point of service. If the process is timed out or connectivity is down the application will be accepted and the verification will be done via a weekly batch report.

Project expenditure is expected to extend into SFY 2008. Total grant amount awarded was \$600,500 with a federal share of \$480,400 and state share of \$120,100. Eighty percent will be spent in SFY 2007 and twenty percent in SFY 2008.

Facial Characteristic Recognition (FCR) grant objective is to reduce, detect and prevent license fraud and improve traffic safety. Implementing the FCR system will assist in identifying current database fraud and prevent future applicants from obtaining false identification documents. This action will be performed during the audit

PROGRAM: Driver and Vehicle Services (DVS) (cont'd)

phase of the application process. The facial recognition verification method will use the existing photo image database. When fraud is identified, the driver's status will be cancelled. IMDLIS, Problem Driver Pointer System (PDPS) and Commercial Drivers License Information System (CDLIS) will stop future activity for that assumed name. Project expenditure is expected to extend into SFY 2008. Total grant amount awarded was \$800,000. The federal share is 100%. Eighty percent will be spent in SFY 2007 and twenty percent for SFY 2008.

The Accident Records System Upgrade grant will allow the production of a web-based electronic accident report application that will be used by law enforcement agencies and other local units of government who use this type of information.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

No changes are anticipated.

FUNDS AT RISK:

None

PROGRAM: Alcohol & Gambling Enforcement

PROGRAM DESCRIPTION:

Youth and Alcohol Prevention. This program provides assistance to local law enforcement to conduct compliance checks of liquor retailers, investigate and charge adult providers of alcohol to minors, and conduct surveillance of under age drinking at events.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

No changes are anticipated.

FUNDS AT RISK:

None

PROGRAM: Traffic Safety

PROGRAM DESCRIPTION:

The vast majority of programs conducted by the Office of Traffic Safety are designed to reduce the number and severity of traffic crashes that occur in Minnesota by changing driver behavior.

National Highway Traffic Safety Administration NHTSA 402 Traditional: Plan, coordinate, implement, encourage, monitor, and evaluate traffic safety programs designed to change driver behavior; provide grant funds to governmental agencies to they can develop related programs. Also includes: **NHTSA 402 (2003B Child Passenger Safety):** Support specific innovative programs related to child seats and booster seats; and **NHTSA 402 (157 Innovative):** Support specific activities related to enforcement of the seat belt law during the month of May.

NHTSA 164AL and 164PM Repeat DWI Offender: Provide grants to state agencies and local governments to improve operations related to DWI or to improved hazardous road locations.

NHTSA 157 Seat Belt Performance Incentive: Funds may be used for any program eligible for 402 Traditional activities.

NHTSA 410 Impaired Driving: Support state and local activities related to reducing the incidence of impaired driving.

NHTSA 411 Data: Support state and local activities related to improving crash data systems.

PROGRAM: Traffic Safety (cont'd)

NHTSA CODES: Link Minnesota DPS, MNDOT, and Minnesota Department of Health databases to hospital databases to provide data for more complete analysis of traffic crash causes and results.

Fatal Accident Reporting System (FARS): Collect, analyze, code, and contribute information on Minnesota's fatal traffic crashes to the national FARS database maintained by NHTSA.

NHTSA 2010 Motorcycle: Support state and local activities related to motorcycle safety.

NHTSA 408 Information Systems: Support state and local activities related to improving traffic crash data collection, analysis, and reporting systems.

Department of Justice, (DOJ), Office of Juvenile Justice & Delinquency Prevention (OJJDP): Support state and local activities related to limiting minors' access to alcohol and upholding underage drinking laws.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

NHTSA programs are currently provided to states under the guidelines developed in SAFETY LU (Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users). Those basic guidelines describe the hard and soft matching funds required for each program, set the minimum amount of program expenditures that must be for the benefit of local units of government, define what states must do to qualify for each program, and establish the amount of funds potentially available to states under the program. The current congressional authorization for SAFETY LU ends on October 30, 2009.

FUNDS AT RISK:

NHTSA 164AL and 164PM Repeat DWI Offender: Funds are available to DPS because they were transferred from DOT. This transfer will not continue if prescribed sanctions for repeat DWI offenders are enacted.

DOJ/OJJDP: Unlike the majority of NHTSA programs, this program is authorized on a year-to-year basis. Funding beyond FFY2006 is not promised or guaranteed.

All NHTSA Programs: The re-authorization completed in 2006 authorizes the programs for NHTSA to fund; however, the amount of funding is set annually by an appropriation of Congress. Therefore, future funding levels may change from year to year.

PROGRAM: Pipeline Safety

PROGRAM DESCRIPTION:

Pipeline Safety Operations. This program inspects intrastate and interstate pipelines and investigates pipeline failures, incidents and accidents.

Damage Prevention. This program is to increase enforcement and education about the Gopher State One Call Law.

Homeland Security Preparedness Grant. This program provides assistance to purchase equipment for protecting and facilitating communication among emergency responders. This assistance will also strengthen terrorism response capabilities by providing funding for exercises, training, planning and organizational activities. The grants are awarded by the federal Department of Homeland Security through the MN Department of Public Safety's Homeland Security and Emergency Management Division (HSEM).

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

No changes are anticipated.

FUNDS AT RISK:

None

PROGRAM: Office of Justice Programs (OJP), Crime Victim Services (CVS)

PROGRAM DESCRIPTION:

OJP CVS is responsible for the administration of federal funds for victims of crime. This program distributes grants to local programs and offers technical assistance and training to grantees. Additionally, the crime victim reparations board provides direct financial assistance to victims of violent crime. Federal funds are critical to all of this program's activities. Most local victim services programs funded by OJP CVS receive a combination of state and federal funding, but a large portion of each program's grant comes from federal sources. Several projects are supported by federal funding entirely. In addition, federal dollars make up a large percentage of the funds distributed by the board.

Victims of Crime Act (VOCA), Victim's Compensation Grant is received annually from the U.S. Department of Justice. Funds are used to reimburse crime victims and their family members for financial losses incurred due to a crime involving personal injury or death. The VOCA compensation grant is a match of state spending, and the match level is 60%.

Victims of Crime Act (VOCA) grant is received annually from the U.S. Department of Justice, Office for Victims of Crime. This grant funding is distributed to victims services programs for direct services such as crisis intervention, counseling, transportation and advocacy. The award has decreased 7% over the last two years. VOCA requires a 20% match.

Violence Against Women Act (VAWA) grant is received annually from the U.S. Department of Justice, Office of Victims of Crime. These funds are for projects to improve law enforcement and prosecution strategies and victim services in cases involving violence against women. VAWA requires a 25% match.

Minnesota Department of Health grant has been awarded to OJP CVS over the past several years to support rape prevention programs and services for victims of sexual assault. The funding originates from the U.S. Department of Health and Human Services. The Minnesota Department of Health is reevaluating the use of this funding beyond this current year.

Family Violence Prevention Services Act (FVPSA) grant is received annually from the U.S. Department of Health and Human Services. Grant funds are for emergency shelter and related assistance for battered women and their children. The amount of the grant has remained at approximately the same level for several years. FVPSA requires a 20% match.

State Academy Grant. This three year grant supports the development of a state crime victims training academy and requires a 25% match.

Red Lake Emergency Assistance. Reparations funding to address the needs of the victims of the Red Lake School shooting.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

The amount of federal funding varies from year to year. Both reparations and victims assistance programs rely on the Victims of Crime Act (VOCA) funds which are derived from the amount of fine money collected by the federal

government and deposited into the dedicated federal crime victims fund. Although deposits have increased in recent years, Congress has put a cap on the amount that can be spent.

FUNDS AT RISK:

The State Academy Grant ends 8/31/08.

PROGRAM: Office of Justice Programs (OJP), Law Enforcement & Community Grants

PROGRAM DESCRIPTION

Edward Byrne Justice Assistance Grant Program (JAG), Bureau of Justice Assistance (BJA). These funds may be used to support activities to prevent and control crime and improve the functioning of the criminal justice system. This program has been reduced by 64% since FFY 2004. A 25% match was required until the FFY 2005 award.

Project Safe Neighborhood (PSN). These funds are administered by BJA is a comprehensive, strategic approach to reducing gang and gun violence.

Residential Substance Abuse Treatment for State Prisoners (RSAT). These funds are provided for developing and implementing residential substance abuse treatment programs in correctional facilities. This program was eliminated in FFY 2004 and restored in FFY 2005. The FFY 2006 award is \$88,835 which is a reduction from FFY 2005. RSAT requires a 25% match.

Statistical Analysis Center. This \$50,000 annual award is designed to maintain and enhance the state's capacity to address criminal justice issues through collection and analysis of data.

Executive Office of Weed and Seed (EOWS). The purpose of this program is to assist neighborhoods in "weeding out crime" and "seeding" community livability and vitality.

Paul Coverdell Forensics Grant. The purpose of this grant program is to improve forensics laboratory and medical examiner services.

Juvenile Justice Title II. This is an annual formula award to assist states to reach goals established in a Three-Year Plan, to comply with the four core requirements of the federal Juvenile Justice and Delinquency Prevention Act, and to fund a State Advisory Group that advises the Governor on juvenile justice issues. A dollar for dollar match is required for the administrative portion of this award.

Juvenile Accountability Block Grant (JABG). This is an annual formula award to help states establish programs that promote greater juvenile justice system accountability. Seventy-five percent of this funding must be distributed to local units of government in a formula that weighs crime data and juvenile justice expenditures. Minnesota's JABG funds have been reduced by 73% since FFY 2004. JABG requires a 10% match.

Juvenile Justice Title V. The purpose of this program is to fund collaborative, community-based delinquency prevention efforts. The FFY 2006 award is \$56,250 which is a decrease of 77% since the FFY 2004 award.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

FUNDS AT RISK:

Most federal grant programs have been significantly reduced since FFY 2004 and all are at risk. The JAG and RSAT programs have the highest risk of elimination.

PROGRAM: 911 Emergency Services/ Allied Radio Matrix for Emergency Response (ARMER)

PROGRAM DESCRIPTION

Homeland Security. Provide for update of the statewide Public Safety Radio Plan and for Minnesota's participation in the National Governor's Association (NGA) Center for Best Practices for Public Safety Wireless Communications Interoperability Policy Academy.

CHANGES TO PROGRAM FUNDING OR GUIDELINES:

No changes are anticipated.

FUNDS AT RISK:

None

Federal Funds Summary

Federal Program (\$ in Thousands)	Related SFY 2006 Spending	Primary Purpose	SFY 2006 Revenues	SFY 2007 Revenues	Estimated SFY 2008 Revenues	Estimated SFY 2009 Revenues
Financial Services	18	SO	18	6	6	6
Information and Public Education – National Highway Traffic Safety Administration (NHTSA)	0	SO	393	276	254	265
Paid Media	0	SO	1,470	481	481	481
Homeland Security Public Information	0	SO	60	55	61	66
01 Administration & Related	18		1,941	818	802	818
Comprehensive Environmental Response Compensation and Liability Act (CERCLA)	0	GPS	0	3	3	3
Disaster Assistance Grants & Individuals and Households Program (IHP)	1,157	SO/GPS/GI/ GCBO	14,578	24,130	181	187
Emergency Management Performance (EMPG)	859	SO/GPS	1,019	3,187	3,154	3,154
Hazardous Materials Emergency Preparedness (HMEP)	0	SO/GPS	275	94	262	262
Hazard Mitigation Grants (HMGP)	12	SO/GPS	2,911	10,206	99	106
National Oceanic and Atmospheric Administration (NOAA) Weather Radio	0	SO	79	47	56	56
Homeland Security Grants	0	SO/GPS	43,794	39,352	15,752	15,611
02 Emergency Management	2,028		62,656	77,019	19,507	19,379
Forensic Laboratory – DNA Programs	0	SO	794	712	234	0

Federal Funds Summary

Federal Program (\$ in Thousands)	Related SFY 2006 Spending	Primary Purpose	SFY 2006 Revenues	SFY 2007 Revenues	Estimated SFY 2008 Revenues	Estimated SFY 2009 Revenues
National Forensic Science Improvement Act (NFSIA)	0	SO	139	135	16	0
Edward Byrne Justice Assistance CCH Improvement	391	SO/GPS	1,902	320	0	0
Edward Byrne Justice Assistance CIBRS	0	SO	245	72	0	0
Local Law Enforcement Block Grants (LLEBG)	45	SO	463	11	0	0
National Criminal History Improvement Program (NCHIP)	124	SO/GPS	1,521	213	0	0
Community Oriented Policing Services (COPS)	0	SO	362	164	169	0
Marijuana Eradication	0	SO	77	77	77	77
Homeland Security	0	SO	557	92	0	0
CriMNet	0	SO	16	615	665	144
Safe Neighborhood	0	SO	123	124	47	0
National Highway Traffic Safety Administration (NHTSA) DWI Tracking	0	SO	0	150	0	0
High Speed Digital Video Analysis of Bloodstain Pattern	0	SO	0	0	55	0
Evaluation of StreetLab® Raman for Testing Drugs	0	So	0	30	9	0
03 Criminal Apprehension	560		6,199	2,715	1,272	221
Homeland Security Preparedness	0	SO	43	6	6	6
Public Fire Awareness	0	SO	0	74	0	0
04 Fire Marshal	0		43	80	6	6
Motor Carrier Assistance						

Federal Funds Summary

Federal Program (\$ in Thousands)	Related SFY 2006 Spending	Primary Purpose	SFY 2006 Revenues	SFY 2007 Revenues	Estimated SFY 2008 Revenues	Estimated SFY 2009 Revenues
Program (MCSAP)	5,998	SO/GPS	5,342	6,693	5,767	5,767
National Highway Traffic Safety Administration (NHTSA)	0	SO/GPS	3,120	4,074	4,000	4,000
NHTSA (402-164) Alcohol -50 Troopers	312	SO	3,923	0	0	0
Surface Transportation Act -Red-dyed fuel grant	0	SO	111	110	110	110
Police Corps (OJP)	0	SO	488	0	0	0
Office of Justice Programs (OJP)	0	SO	577	0	0	0
Federal Transit Authority	0	SO	60	60	60	60
Homeland Security	0	SO	266	280	280	280
Federal Emergency Management (FEMA)	0	SO	23	0	0	0
05 State Patrol	6,310		13,910	11,217	10,217	10,217
Improved MN Driver's License Information System (IMDLIS)	0	SO	3	0	0	0
Commercial Drivers License (CDL)	0	SO	239	866	147	0
Performance and Registration Information System (PRISM)	0	SO	22	0	0	0
Social Security Number Verification (SSNV)	0	SO	1	383	96	0
Facial Characteristic Recognition (FCR)	0	SO	0	640	160	0
Accident Records System Upgrade	0	SO	0	140	0	0
07 Driver & Vehicle Services	0		265	2,029	403	0

Federal Funds Summary

Federal Program (\$ in Thousands)	Related SFY 2006 Spending	Primary Purpose	SFY 2006 Revenues	SFY 2007 Revenues	Estimated SFY 2008 Revenues	Estimated SFY 2009 Revenues
Youth & Alcohol	0	SO/GPS	192	225	192	192
10 Alcohol & Gambling Enforcement	0		192	225	192	192
NHTSA 402 Traditional	287	SO/GPS	7,614	13,538	9,038	9,038
NHTSA 164AL & 164PM Repeat DWI Offender	0	SO/GPS	7,426	9,710	4,710	4,710
NHTSA 157 Seat Belt Performance Incentive	0	SO/GPS	218	50	50	50
NHTSA 410 Impaired Driving	0	SO/GPS	1,028	2,405	2,205	2,205
NHTSA 411 Data	0	SO/GPS	20	0	0	0
NHTSA CODES	0	SO/GPS	74	66	66	66
Fatal Accident Reporting System (FARS)	0	SO	74	82	82	82
NHTSA 2010 Motorcycle	0	SO	0	121	121	121
NHTSA 408 Information Systems	0	GPS	0	789	789	789
DOJ-OJJDP Under-Age Drinking	0	SO/GPS	377	355	355	355
11 Traffic Safety	287		16,831	27,116	17,416	17,416
Pipeline Safety Operations	918	SO	895	873	873	873
Damage Prevention	0	SO	50	26	50	50
Homeland Security Preparedness	0	SO	37	0	0	0
20 Pipeline Safety	918		982	899	923	923
Victims Compensation (VOCA)	1,462	GI	1,066	927	1,050	1,050
Victims Of Crime	4,356	SO/GPS/ GCB0	6,129	12,809	6,814	6,814

Federal Funds Summary

Federal Program (\$ in Thousands)	Related SFY 2006 Spending	Primary Purpose	SFY 2006 Revenues	SFY 2007 Revenues	Estimated SFY 2008 Revenues	Estimated SFY 2009 Revenues
Assistance (VOCA)						
Violence Against Women Act (VAWA)	19,143	SO/GPS/ GCBO	1,979	576	2,049	2,049
MN Department of Health	0	GCBO	127	117	124	124
Family Violence Prevention Services Act (FVPSA)	0	SO/GPS/ GCBO	1,609	1,636	1,550	1,550
Victim Assistance Academy	28	SO/GCBO	28	95	93	93
Edward Byrne Memorial Anti-Drug Grants, Bureau of Justice Assistance (BJA)	1,576	SO/GPS/ GCBO	11,912	7,355	3,222	3,182
Project Safe Neighborhoods (BJA)	0	SO/GCBO	638	1,443	1,220	1,220
Residential Substance Abuse Treatment (RSAT)	4	SO/GPS	128	313	89	89
Statistical Analysis Center	0	SO	54	22	50	50
Executive Office of Weed & Seed (EOWS)	0	SO/GPS	1,028	791	950	950
Paul Coverdell Forensics	0	GPS	191	71	165	165
Juvenile Justice Title II	103	SO/GCBO	1,193	1,130	932	932
Juvenile Accountability Block Grant (JABG)	7	SO/GPS	889	123	770	770
Juvenile Justice Title V	0	GPS	174	252	56	56
Red Lake Emergency Assistance	0	SO	188	130	130	130
Local Law Enforcement Block Grants (LLEBG)	0	SO/GPS	5	0	0	0
Safe Haven (VAWA Supplemental)	0	SO/GCBO	146	46	0	0
WEGO Grants	0	SO	2	0	0	0

Federal Funds Summary

Federal Program (\$ in Thousands)	Related SFY 2006 Spending	Primary Purpose	SFY 2006 Revenues	SFY 2007 Revenues	Estimated SFY 2008 Revenues	Estimated SFY 2009 Revenues
Management System						
Office of Justice Programs	26,679		27,486	27,836	19,264	19,224
Homeland Security	0	SO	245	205	0	0
911 Emergency Services/ Allied Radio Matrix for Emergency Response (ARMER)	0		245	205	0	0
Agency Total	36,800		130,750	150,159	70,002	68,396

Key:

Primary Purpose

SO = State Operations

GPS = Grants to Political Subdivision

GI = Grants to Individuals

GCBO = Grants to Community Based Organizations

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	4,163	4,163	4,163	4,163	8,326
Recommended	4,163	4,163	5,268	5,342	10,610
Change		0	1,105	1,179	2,284
% Biennial Change from 2006-07					27.4%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	3,844	4,666	5,268	5,342	10,610
Statutory Appropriations					
Misc Special Revenue	2,560	3,065	2,354	1,896	4,250
Total	6,404	7,731	7,622	7,238	14,860
<u>Expenditures by Category</u>					
Total Compensation	3,512	3,685	4,182	4,372	8,554
Other Operating Expenses	1,559	2,532	1,884	1,268	3,152
Local Assistance	1,333	1,514	1,556	1,598	3,154
Total	6,404	7,731	7,622	7,238	14,860
<u>Expenditures by Program</u>					
Public Utilities Comm	6,404	7,731	7,622	7,238	14,860
Total	6,404	7,731	7,622	7,238	14,860
Full-Time Equivalents (FTE)	41.6	41.6	43.6	43.6	

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Fund: GENERAL				
FY 2007 Appropriations	4,163	4,163	4,163	8,326
Subtotal - Forecast Base	4,163	4,163	4,163	8,326
Change Items				
Reliability Administrator Staff	0	782	788	1,570
Additional Staffing	0	189	191	380
National Regulatory Research Institute	0	23	23	46
Credit Trading system	0	47	48	95
Compensation Adjustment	0	64	129	193
Total Governor's Recommendations	4,163	5,268	5,342	10,610
Fund: MISC SPECIAL REVENUE				
Planned Statutory Spending	3,065	2,354	1,896	4,250
Total Governor's Recommendations	3,065	2,354	1,896	4,250
<u>Revenue Change Items</u>				
Fund: GENERAL				
Change Items				
Reliability Administrator Staff	0	782	788	1,570
Additional Staffing	0	189	191	380
National Regulatory Research Institute	0	23	23	46
Credit Trading system	0	47	48	95
Compensation Adjustment	0	62	125	187

PUBLIC UTILITIES COMM

Change Item: Credit Trading system

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$47	\$48	\$48	\$48
Revenues	\$47	\$48	\$48	\$48
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor recommends \$95 thousand in the 2008-2009 biennium to create and maintain the credit trading system and to establish the renewable energy credit programs passed into law as chapter 3 of the 2007 session. These costs will be recovered through the PUC's normal assessment.

Background

Minnesota Laws 2007, Chapter 3 (SF4/HF4) modified existing law on renewable energy objectives by making them requirements, increasing the amount of renewable energy required to meet the standards, directing the Commission to require utilities to participate in a credit tracking system, requiring the Commission to establish a program for tradable renewable energy credits, and providing for compliance.

The Commission has devoted staff resources of approximately ½ FTE, since 2003 to implement Minn. Stat. 216B.1691. Chapter 3 will require a continuing dedication of those staff resources, plus an increase of ½ FTE to meet the general increase in oversight responsibilities, apply the new standards for modification or delay of obligations, develop a renewable energy trading system, and review renewable transmission reports.

Relationship to Base Budget

This amount is approximately 1% of the PUC's annual base.

Key Measures

- ◆ Renewable energy will be tracked and verified.
- ◆ Regulated utilities will participate in the credit trading system.

Statutory Change: Not Applicable.

RACING COMMISSION

Agency Revenue Summary

Dollars in Thousands

	Actual FY2006	Budgeted FY2007	Governor's Recomm. FY2008 FY2009		Biennium 2008-09
<u>Non Dedicated Revenue:</u>					
Other Revenues:					
General	14	10	10	10	20
Taxes:					
General	221	221	221	221	442
Total Non-Dedicated Receipts	235	231	231	231	462
<u>Dedicated Receipts:</u>					
Departmental Earnings:					
Misc Special Revenue	722	698	807	868	1,675
Other Revenues:					
Misc Special Revenue	572	597	952	977	1,929
Miscellaneous Agency	37	35	35	35	70
Taxes:					
Misc Special Revenue	59	57	57	57	114
Miscellaneous Agency	1,229	1,218	1,218	1,218	2,436
Total Dedicated Receipts	2,619	2,605	3,069	3,155	6,224
Agency Total Revenue	2,854	2,836	3,300	3,386	6,686

REVENUE DEPT**Program: TAX SYSTEM MANAGEMENT****Change Item: County Recorder and Registrar Fees**

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$900	\$900	\$900	\$900
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$900	\$900	\$900	\$900

Recommendation

The Governor recommends an additional appropriation of \$900,000 a year to the Department of Revenue to fund property tax related technological enhancements. This appropriation would support the development and maintenance of a statewide electronic Certificate of Real Estate Value (eCRV) system, the modernization of state deed processes, and the on-going modernization of various data transfers between the department and counties as part of the oversight and administration of the property tax system.

Background

This funding reflects a portion of the state share of recording and registrar fees. Most county recorders impose a \$46 flat fee, of which \$10.50 is remitted to the state's General Fund. Prior to law changes effective in 2005, the fees charged for recording services were lower and varied between counties. In raising and standardizing these fees, the Legislature also required that a significant portion of the local share go toward modernization and technological improvements that would enable counties to meet new standards in the processing and recording of deeds. These changes were adopted with the support of industry groups and the counties to increase the efficiency, accuracy, and services relating to recorded documents.

The eCRV project is a closely related effort to increase the efficiency and accuracy of Certificates of Real Estate Value by moving from a paper-based system to an electronic system. It is an important component in the recording of deeds. In prior years, a 50-cent portion of the state's share of recording fees was appropriated to support the Electronic Real Estate Recording (ERER) Task Force, which has been slowly working towards an eCRV system. The Department of Revenue has accelerated the development of this system, but lacks current resources to provide stable support for the development and maintenance of the system.

Other property tax related systems, such as the state deed process associated with tax forfeited lands, and a wide variety of data exchanges with counties are also in need of modernization to increase their efficiency and accuracy. Modernization of these systems and data exchanges will enable greater utilization and sharing of data between counties and the state.

Relationship to Base Budget

The General Fund base level for the property tax budget activity is \$2.61 million per year. These funds would increase the total activity to \$3.51 million (a 34% increase). Most of the new funds (approximately \$728,000) will be directed toward funding approximately 7.5 additional FTE.

Key Measures

- ⇒ The successful establishment of the eCRV system and the resulting conversion of paper processing to electronic processing will be measurable outcomes of this proposal.
- ⇒ The successful development of a state deed system that allows for gains in efficiency and accuracy, while also enabling better tracking and oversight, is another anticipated outcome to follow.

Statutory Change: Not applicable.

	PAGE
Transmittal Letter	2
Agency Profile	3
Agency Fiscal Page (Gov Rec)	6
Change Summary	7
Programs	
Secretary Of State	
Program Summary	8
➤ Compensation Adjustment	9
Agency Transmittal Letter	10
➤ Instant Runoff Voting Task Force	10a
➤ Additional Business Service Positions	10b
➤ Website Improvement Funding	10c
➤ Increase to Bluebook Funding	10d
➤ Improvement to Business Center Tech.	10e
➤ HAVA Account Fund	10h
➤ Safe at Home Implementation	10k
Appendix	
Agency Revenue Summary Fiscal Page	11

➤ Designates that this item is a change item

SECRETARY OF STATE

Change Item: Instant Runoff Voting Task Force

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$50	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$50	\$0	\$0	\$0

Recommendation

Funds are being requested for FY 2008 to establish an IRV (Instant Runoff Voting) Task Force. This task force would examine standards and procedures used by other jurisdictions that already use or are about to use instant runoff voting to develop recommended procedures for Minnesota. The task force would also analyze current Minnesota statutes and rules to identify areas that need to be modified, and solicit input on their recommendations from local governments around the state. The task force's recommendations would be turned into a bill for the legislature's consideration in the 2008 session.

Background

The Office of the Secretary of State is responsible for administration of elections and this new form of voting is one that needs careful analysis so that all Minnesota election laws are followed and that voters feel that the process is secure and the results accurate. The instant runoff voting process is new to the state and local election administrators may not, working on their own, have sufficient time to anticipate all potential problems. The funding would allow local and state officials and interested community members to work with experts with experience in this form of voting to develop agreed upon processes for them to follow. The standards can then be given to software developers so that they can develop programs that conform with the state's expectations. Eventually adopting state standards will ensure that voters in jurisdictions that adopt this method of voting around the state receive equal treatment. Also having one set of standards will make the job of developing software easier and will cut down on the costs for all jurisdictions.

Relationship to Base Budget

For the FY 2008-09 biennium there would be a \$50,000 increase to the General Fund base budget.

Alternatives Considered

Allow local jurisdictions to develop their own plans in isolation from one-another.

Statutory Change: Not applicable.

SECRETARY OF STATE

Change Item: Additional Business Services Positions

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$205	\$205	\$85	\$85
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$205	\$205	\$85	\$85

Recommendation

Funds are being requested for the FY 2008-09 biennium in order to maintain two positions in the Business Services Division to provide the current one-day turn-around for business filings. In addition, one position is requested to provide assistance to non-profit corporations and incorporators of various profit and non-profit entities who are deaf, blind or use English as a second language

2 Customer Service Specialist Intermediates @ \$65,000 each - Total = \$120,000

1 State Program Administrator Principal - \$85,000

Background

Business Services is responsible for filing a wide variety of corporate, non-profit, business entities and financial transactions under the uniform commercial code. Current base level funding will require a reduction in staff in the division which handles those transactions.

The Office of the Secretary of State is in the process of developing additional online business services filing and the two positions are needed to maintain current staffing levels until the electronic filing systems are fully functioning and the public has shifted from mail and in-person filing to a significantly higher level of electronic filing.

There are many small groups, such as Parent Teacher Associations, who may not become incorporated because of a lack of knowledge on how to file articles of incorporation and related tax documents. Persons whose primary language is not English or who have physical restrictions in hearing or seeing are, in many cases, in need of assistance and advice beyond what is currently able to be provided. The position requested will provide the assistance to these groups.

Relationship to Base Budget

For the FY 2008-09 biennium there would be a \$410,000 increase to our General Fund base budget with the two clerical positions anticipated to be ending by 2010-2011 and more customers take advantage of the on-line filing options for various transactions.

Alternatives Considered

Allow business filing processing to take two to three days rather than the current one-day turnaround until such time as on-line filing processes reduce the mail and in-person filings to a level that can be handled by base level staffing.

Statutory Change: Not applicable.

SECRETARY OF STATE

Change Item: Website Improvement Funding

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$75	\$75	\$75	\$75
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$75	\$75	\$75	\$75

Recommendation

Funds are being requested to staff a web master position to oversee the design and operation of the Office of the Secretary of State's web site.

1 Management Analyst 3 - \$75,000

Background

The Office of the Secretary of State is responsible for a variety of different activities including voter registration, elections administration, business filings, open appointments, election night reporting, Legislative Manual, official documents and much of this information is either currently available on the department's web site or will be when the existing systems migrate to web based applications. The complexity and volume of traffic to the site is increasing rapidly and the office is in need of a staff assignment that can monitor what is added, ensure compatibility and consistency and ensure that the site provides the citizens what they need in order to conduct their business or obtain information. In addition, the department envisions both an Intranet and Extranet functionality that would allow internal users and external users such as county auditors and recorders a higher level of access to information than is currently the case.

Relationship to Base Budget

For the FY 2008-09 biennium there would be a \$150,000 increase to the General Fund base budget and on an ongoing basis.

Alternatives Considered

Provide improvements and upgrades on an ad-hoc, time-available basis.

Statutory Change: Not applicable.

SECRETARY OF STATE

Change Item: Increase to Bluebook Funding

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$0	\$50	\$0	\$50
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$50	\$0	\$50

Recommendation

Funds are being requested to cover additional Legislative Manual (Bluebook) costs including the production of a CD version of the book which can be provided along with the book.

Background

The Office of the Secretary of State is responsible for publishing the Legislative Manual on a bi-annual schedule following the even year election. The book is widely circulated to libraries and other governmental office holders and units throughout the state. The amount of information that can be included in the book has been reduced over the past 12 years due to a fixed funding level which required elimination of a variety of information which has, in the past, been deemed valuable by those entities and elected officials. The additional funding will allow for that information to be reinstated to the book and for a CD version to be provided along with the book and also provided to those who do not need the book, but have need of the information it contains. Schools, in particular, are expected to find the CD version a useful tool for integrating content into the curriculum.

Relationship to Base Budget

For the FY 2008-09 biennium there would be a \$50,000 increase to the General Fund base budget and on an ongoing basis every other year.

Alternatives Considered

Continue to publish a book with a reduced amount of information and without the added functionality that would be provided by the CD.

Statutory Change: Not applicable.

SECRETARY OF STATE

Change Item: Improvements to Business Center Tech.

I Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011 Fiscal
General Fund				
Expenditures	\$1,000	\$1,000	\$500	\$500
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$1,000	\$1,000	\$500	\$500

Recommendation

Funds are being requested for the FY 2008-09 biennium and on an ongoing basis to cover technology related expenses for the modernization and automation of business services functionality at the OSS (Office of the Secretary of State.) The requested amount will fund five FTEs, consultants, and the OSS hardware and software infrastructure, to support the redesign and web-enablement of all business services functions.

Technology Funding Detail (Dollars in Thousands)

Funding Distribution	2008-2009 Biennium		2010-2011 Biennium		2012-2013 Biennium	
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personnel	\$500	\$500	\$300	\$300	\$300	\$300
Supplies	0	0	0	0	0	0
Hardware	100	100	100	100	100	100
Software	0	0	0	0	0	0
Facilities	0	0	0	0	0	0
Services	400	400	100	100	100	100
Training	0	0	0	0	0	0
Grants	0	0	0	0	0	0
TOTAL	\$1,000	\$1,000	\$500	\$500	\$500	\$500

Background

The OSS performs many functions related to business filings, notary registration, uniform commercial code, and central notification system. Prior to 2001, much of this functionality existed in a mainframe application and was costly to maintain and provided limited access by counties and the public. 2001 saw the completion of a substantial redesign effort and migration of mainframe-based functions to a client-server architecture that reduced cost for OSS and provided increased access by counties and OSS staff. Since 2001, some web-enabling of various functions have occurred such as UCC (Uniform Commercial Code), annual business renewals, change of registered office filings for businesses, and notary renewals which continue to save the office and the state funds. A key example of customer service and efficiencies is the Annual Business Renewal (ABR) process. In 2001 all 185,000 businesses had to come to OSS or mail in a renewal form; by 2006 85% of these were done online with a credit card, and required reduced OSS office staff involvement.

It is the mission of the office to continue to expand the availability of services for our customers in particular the business community, allowing 24x7 access over the Internet. This process reduces staffing needs, improves customer service, and is in line with the Governor's direction for Minnesota.

But such changes require technology funds, both to web-enable new functionality, and also to improve systems to allow for robust, secure, scalable operations. The OSS has recently been engaged in a redesign of the Statewide Voter Registration System using n-tier architecture and web servers, improving the performance, security and scalability of that system. The requested funds will allow a similar redesign of the business services functions, and complete the migration from the mainframe and client-server architecture to state-of-the-art web design.

The OSS has begun this process in January 2007 by initiating the framework design and will be focusing on UCC XML Batch Filings and providing Central Notification System (CNS) on the web.

Listed are the filing types that we would like to make available to the public as Business Services Online Filings:

- ◆ Assumed Name, Trademarks & Service Marks (Chapter 333)
- ◆ Business Trust (Business Trust Act Chapter 318)
- ◆ Domestic Business, Professional, Banks, and Insurance Companies (Chapters 302A and 319B)
- ◆ Domestic Cooperatives (Chapter 308A and 308B)
- ◆ Credit Union (Chapter 52)
- ◆ Domestic and Foreign Limited Liability Partnership (Chapter 323A)
- ◆ Foreign Business, Cooperative, and Non-Profit Corporations (Chapter 303)
- ◆ Domestic and Foreign Limited Liability Companies (Chap 322B)
- ◆ Domestic and Foreign Limited Partnerships (Chapter 321)
- ◆ Municipal Power Agent (Minnesota Power Assoc Act Chapter 453A)
- ◆ Domestic Non Profit Corporation (Chapter 317A)
- ◆ Reservation of Name
- ◆ Non Resident Agent for Service of Process (Chapter 557.01)
- ◆ Unique Filing Types, not referenced above, come into our office and must be recorded.

Programming costs for specific systems include:

- ⇒ The programming, design and creation of the underlying framework and infrastructure to fully support all business services functionality, including both business and notary functions: \$300,000

FY 2008 - \$300,000

- ⇒ MAPPER data conversion, which includes the development and testing of database scripts to move Corporate MAPPER data to SQL Server, expansion of the existing database to support this data, and conversion testing. \$200,000

FY 2008 - \$100,000**FY 2009 - \$100,000**

- ⇒ MAPPER program conversion: Re-writing of Corporate and Annual Business Renewal functionality to the .NET platform, which will result in the decommissioning of the MAPPER system. Included in this group is good standing certificates, online business reinstatements, online assumed names, online domestic corp filings, and online all other filing types such as LLCs and LLPs: \$500,000.

FY 2009 - \$500,000

- ⇒ Profile database redesign to fully support the Business Services functionality, resulting in a SQL 2005 implementation that is scalable and robust: \$200,000.

FY 2008 - \$200,000

- ⇒ Re-design and development of current Profile functionality (Back end scanning, Submitter Batch, Federal Tax Liens, UCC): \$400,000

FY 2008 - \$300,000**FY 2009 - \$100,000**

SECRETARY OF STATE

Change Item: Improvements to Business Center Tech.

⇒ Conversion of all Profile images (Unisys UeWI) and converted images (files) to Filenet imaging system, and programming to integrate with new BS Online system: \$400,000.

FY 2008 - \$100,000

FY 2009 - \$300,000

Relationship to Base Budget

There would be a \$2,000,000 increase to our base budget each biennium and on-going maintenance and improvements in 2010 and 2011.

Alternatives Considered

The Office of Enterprise Technology (OET), created in 2005, is making great strides towards statewide support of hardware, security standards, and promoting industry best practices. One alternative is to outsource this work to OET. However, even if OSS hardware was consolidated with OET, the need for the agency to develop and improve the Business Services platform and delivery would still exist due to business domain knowledge by OSS staff.

Another common alternative is to completely contract out this work. The model used by the agency for SVRS development, which was to build the system in house with staff augmentation support from a consultant, provided a lower cost system that more fully met the needs of the state. The Business Services development model is similar to the development in-house with staff augmentation support in order to create a system that meets Minnesota's needs.

Statutory Change: Not Applicable.

SECRETARY OF STATE

Change Item: HAVA Account Funds

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	0	\$160	\$160
Revenues	0	0	0	0
Other Fund				
Expenditures	\$2,524	\$320	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$2,524	\$320	\$160	\$160

Recommendation

A Help America Vote Account appropriation is requested for the 2008/2009 biennium to utilize funds in the HAVA account in order to cover various HAVA related expenses as outlined in the Background section of the change request.

These funds are available to the state through the accumulation of approximately \$2.2 million in interest earned on all prior Federal funds and through the grant of approximately \$194,000 in funds to the state from the U.S. Department of Health and Human Services. The remaining funds are unspent from prior appropriations of HAVA funds by the Legislature.

There will need to be legislative language changing Laws 2005, Chapter 162, Section 24, Subd. 7 to allow for these funds to be used on items other than purchasing more machines as well as to carry forward the balance of any HAVA Interest funds to FY2010/2011.

We are requesting that 2 Training FTE's to be added to our General Fund base budget beginning with FY 2010. These two positions, in addition to 2 Technical Support FTEs' are funded in FY 2008-09 using HAVA funds.

Technology Funding Detail (Dollars in Thousands)

Funding Distribution	2008-2009 Biennium		2010-2011 Biennium		2012-2013 Biennium	
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personnel	1,330	320	160	160	160	160
Supplies	0	0	0	0	0	0
Hardware	100	0	0	0	0	0
Software	0	0	0	0	0	0
Facilities	0	0	0	0	0	0
Services	600	0	0	0	0	0
Training	300	0	0	0	0	0
Grants	194	0	0	0	0	0
TOTAL	2,524	320	160	160	160	160

Background

The Statewide Voter Registration System was developed with HAVA funding and is still under construction in a number of areas. Continuation of funding would allow improvements and enhancements, including:

- ⇒ System Performance: Upgrade system servers/performance to handle peak volume usage during voter registration cut-off periods, absentee voting periods and input of election registration applications. Users currently encounter downtimes and degraded system response time during these critical time periods.
FY 2008 - \$300,000 (Note: \$100,000 of this is for Hardware upgrades).
- ⇒ Absentee Module Upgrade: Analyze absentee module application to enhance keystroke and workflow efficiencies, label generation and report printing to improve current system performance and allow expanded use of absentee module by local municipal and school district election officials. Use of module by county and

SECRETARY OF STATE

Change Item: HAVA Account Funds

local election officials would provide them with information on previously processed absentee applications to prevent multiple absentee ballots being issued.

FY 2008 - \$300,000

- ⇒ Reports: Transition existing reports from Crystal to SQL for improved performance. Program additional reports/search queries to improve useful functionality of the system. Current limited number of reports and search criteria prevent election officials from utilizing the information contained in the database and would allow them to monitor and track system data in a functional manner.

FY 2008 - \$140,000

- ⇒ Election Reporting System: Rewrite ERS using C#/.NET and SQL 2005, and fully integrate with SVRS. This will improve the performance, reliability, maintainability, and integration of SVRS and ERS as the functions pertain to candidate filing, ballot generation, results reporting, and public/media access.

FY 2008 \$550,000

- ⇒ SVRS Maintenance: Ongoing updates to the system to improve usability, fix defects, improve data integrity, and improve system security.

FY 2008 - \$200,000

- ⇒ Electronic Voter Pollbook at Polling Place: Creation of a subsystem that could interface to a vendor product to be used at the polling place: look up voters, sign-in voters, capture voting history, and capture Election Day Registration data.

FY 2008 - \$120,000

HAVA requires a number of additional functions, including:

- ⇒ Social Security Number verification: Enhancements to the verification process to include verification of the last four digits of an SSN, in conjunction with the Department of Vehicle Services.

FY 2008 - \$20,000

- ⇒ Courts Interface: Continuing to develop and complete the interface between SVRS and the Minnesota Courts.

FY 2008 - \$80,000

Training: 2 FTE for Election staff to train local election administrators on use of SVRS and the disabled accessible voting equipment, and to do outreach to traditionally under-voting populations.

FY 2008 - \$160,000, FY 2009 - \$160,000 (Note: Paid from HAVA funding in FY 2008-09 and General Fund beginning with FY 2010 and continue through 2011.)

Technical Support: 2 FTE for Technical Staff will respond to technical requests from Local Election Officials relating to the SVRS system.

FY 2008 – \$160,000, FY 2009 - \$160,000. (Note: Paid from HAVA funding in FY 2008-09 and the positions will end after FY 2009).

Training: Additional Local Election Official Training including expanded use of SVRS and absentee module. Outreach to disability community for voter registration and use of voting equipment.

FY 2008 - \$300,000

HHS Grant funds: The Help America Vote Act (HAVA), Public Law 107-252, Title II, Subtitle D, Part 2 provides grants for making polling places accessible to persons with disabilities and for providing information about accessibility to those persons. Minnesota has applied for and been granted grants under this authority for grant years 2003, 2004, 2005 and 2006. The funds requested in this change item are new funds that were granted to Minnesota in 2006, approximately \$163,000, and approximately \$31,000 in funds that remain unspent from the 2003 grant year, but which the legislature must again appropriate as the original appropriation has expired. These funds are restricted by federal law to the above stated purposes, see HAVA section 261.

FY 2008 - \$194,000

Relationship to Base Budget

These are federal funds allocated for the improvement of the voting systems in the states. The funding from the Federal allocation will cover all the remaining requirements for compliance and then, if further Federal funding is

SECRETARY OF STATE

Change Item: HAVA Account Funds

not forthcoming, on-going state funding will be necessary to continue the high level of service and oversight developed through the implementation of the HAVA requirements.

Alternatives Considered

Funding from state resources rather than interest from the Federal HAVA funds held by the state.

Statutory Change:

SECRETARY OF STATE

Change Item: Safe at Home Implementation

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$368	\$518	\$641	\$792
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$368	\$518	\$641	\$792

Recommendation

This change item funds the implementation of the Safe At Home legislation which was passed in 2006 without an appropriation. The legislation provides for a person who fears for their or their family's safety to have his or her actual address be protected through a process of receiving and forwarding the person's mail from a secure location with a generic address which cannot be traced to the person. The statute requires all entities, public and private, to accept this address as valid and it will take considerable educational efforts to make various agencies and private businesses aware of this requirement. In addition, it provides for voter registration and absentee voting procedures which allow for the secrecy of a person's address while still allowing them to register and vote without fear of discovery.

Background

The Office of the Secretary of State is responsible for implementation of the Safe At Home law. The following is a list of some of the items necessary for the implementation of the law:

- ⇒ Lease a physical location for the mail to be delivered to and re-sorted for mailing to the secure address.
- ⇒ Various expenses: rent, utilities, phone, data connection, postage, printing, staff salary and benefits, travel to post office and training sessions, interpreter phone services, etc.
- ⇒ Various set up and operational costs: office furniture, desks, chairs, fax, phones, computers, application forms, cancellation forms, etc.
- ⇒ Training (or notification) of agencies on procedures and issues related to the program and taking the address (P.O. Box) on ID
 - ◆ (in-person training plus printing of materials and video)
 - ◆ Social Service Agencies (welfare, food stamps, child-support payments)
 - ◆ Police and Law Enforcement
 - ◆ Driver's license centers - driver's license and car license
 - ◆ Women's shelters
 - ◆ Schools
 - ◆ Landlords
 - ◆ Courts for child support processing, protection orders, service of process,
 - ◆ Auditors for land records & registration/absentee voting/voting
 - ◆ Utilities, cell phones and cable companies
 - ◆ Landlords for address info for rental purposes.
 - ◆ Passport issuance
 - ◆ Licensing boards, like realtors, barber/cosmetology board, electrician, boiler licenses
 - ◆ Draft board for males turning 18
 - ◆ Banks, checking account address
 - ◆ Post office personnel
- ⇒ Marketing of program to make people aware of it if they have a need for a secure address.
- ⇒ Print marketing materials and forms in different languages.
- ⇒ Security issues for location and employees, rental of PO box.

SECRETARY OF STATE

Change Item: Safe at Home Implementation

The following chart indicates the projected expenses for this program:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Number of Program Participants at end of year	1,000	1,500	2,000	2,500
Salaries	\$155,294	\$180,257	\$201,043	\$241,975
FTE	3.0	3.5	4.0	5.0
Postage used to forward program participant mail	\$104,000	\$260,000	\$364,000	\$468,000
P.O. Box Rental	\$700	\$700	\$700	\$700
Office Lease	\$18,128	\$18,128	\$18,128	\$18,128
Office Furniture	\$11,200			
Office Equipment and ID consumables	\$24,638	\$18,080	\$24,880	\$31,251
Training	\$15,000	\$10,000	\$5,000	\$5,000
Education/Aware	\$16,750	\$8,375	\$3,350	\$1,675
Office Supplies	<u>\$22,500</u>	<u>\$22,500</u>	<u>\$23,625</u>	<u>\$24,800</u>
Totals	\$368,210	\$518,040	\$640,726	\$791,529

Relationship to Base Budget

For the FY 2008-09 biennium there would be a \$886,250 increase to the General Fund base budget with additional increases likely in 2010 and 2011 as the number of program participants grows by a projected 500 participants each year during this time.

Alternatives Considered

None, implementation is required by the legislation by September 2007.

Statutory Change: Not applicable.

SECRETARY OF STATE

Agency Revenue Summary

Dollars in Thousands

	Actual FY2006	Budgeted FY2007	Governor's Recomm. FY2008 FY2009		Biennium 2008-09
<u>Non Dedicated Revenue:</u>					
Departmental Earnings:					
General	14,403	13,885	13,836	14,075	27,911
Other Revenues:					
General	1	2	3	4	7
Taxes:					
General	1	1	1	1	2
Total Non-Dedicated Receipts	14,405	13,888	13,840	14,080	27,920
<u>Dedicated Receipts:</u>					
Departmental Earnings:					
General	1	1	1	1	2
Misc Special Revenue	1,022	1,060	1,072	1,079	2,151
Miscellaneous Agency	-1	0	0	0	0
Grants:					
Misc Special Revenue	172	290	0	0	0
Other Revenues:					
Misc Special Revenue	1,155	300	50	0	50
Total Dedicated Receipts	2,349	1,651	1,123	1,080	2,203
Agency Total Revenue	16,754	15,539	14,963	15,160	30,123

Agency Purpose

The State Auditor is a constitutional officer elected to a four-year term in the statewide general election. The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Core Functions

The core functions of all the office's divisions are to oversee and ensure that local government funds are used for the purposes intended by law and include the following:

- ◆ examining whether local government resources are spent in an appropriate manner;
- ◆ developing methods to provide quality audits, data collection, and investigative services; and
- ◆ promoting compliance with Minnesota law.

Operations

The State Auditor's staff of 115 reviews financial documents of local government entities, including counties, cities, school districts, townships, public pension funds, and tax increment financing districts. Services are primarily delivered by direct interaction with these entities. 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.

Budget

The office is funded by the General Fund but generates significant non-dedicated receipts. The FY 2006-07 biennial budget for the office is approximately \$18 million in direct and statutory General Funds. During the same period, the office anticipates returning more than three-fourths of this amount in revenues and offsets to the General Fund.

M.S. 6.58 requires that audit costs of the State Auditor's Office be recovered. This non-dedicated revenue is received through audit fees charged for the audits of local governments conducted by audit staff. In addition to audit fees, other sources of revenue, which offset the appropriations of the office, are listed as follows:

- ⇒ The review of single audit reports by the Audit Practice Division is financed by reimbursements to the General Fund through the statewide indirect cost process.
- ⇒ The Government Information Division and Pension Division are supported in part through reductions to aid distributions made by the Minnesota Department of Revenue for: 1) local government aids; and 2) peace officers and fire state aids pursuant to M.S. 477A.014, subd. 4, and M.S. 69.021, subd. 5, respectively.
- ⇒ The Tax Increment Financing, Investment, and Finance Division is funded by 0.36% of tax increment distributed to authorities that administer tax increment financing districts.
- ⇒ The office also generates miscellaneous revenue by conducting training seminars.

At A Glance

Annual Business Functions:

- ◆ Oversees finances of approximately 3,300 local governmental units.
- ◆ Completes approximately 160 financial and compliance audits and reviews approximately 400 single audit reports.
- ◆ Handles over 100 special investigative matters.
- ◆ Reviews investment and regular reporting of approximately 730 public pension funds.
- ◆ Maintains financial reporting databases on approximately 3,300 local units of government.
- ◆ Reviews expenditures of the estimated 2,200 tax increment financing (TIF) districts.

Contact

Rebecca Otto
Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103

Web site: <http://www.auditor.state.mn.us/>
Phone: (651) 296-2551
Fax: (651) 296-4755

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	8,273	8,273	8,273	8,273	16,546
Recommended	8,273	8,273	8,438	8,605	17,043
Change		0	165	332	497
% Biennial Change from 2006-07					3%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	8,036	8,792	8,287	8,756	17,043
Statutory Appropriations					
General	625	623	642	660	1,302
Misc Special Revenue	31	31	31	31	62
Total	8,692	9,446	8,960	9,447	18,407
<u>Expenditures by Category</u>					
Total Compensation	7,696	8,247	7,893	8,371	16,264
Other Operating Expenses	996	1,199	1,067	1,076	2,143
Total	8,692	9,446	8,960	9,447	18,407
<u>Expenditures by Program</u>					
State Auditor	8,692	9,446	8,795	9,115	17,910
Other	0	0	165	332	497
Total	8,692	9,446	8,960	9,447	18,407
Full-Time Equivalents (FTE)	110.7	119.3	101.8	102.6	

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Fund: GENERAL				
FY 2007 Appropriations	8,273	8,273	8,273	16,546
Subtotal - Forecast Base	8,273	8,273	8,273	16,546
Change Items				
Compensation Adjustment	0	165	332	497
Total Governor's Recommendations	8,273	8,438	8,605	17,043
Fund: GENERAL				
Planned Statutory Spending	623	642	660	1,302
Total Governor's Recommendations	623	642	660	1,302
Fund: MISC SPECIAL REVENUE				
Planned Statutory Spending	31	31	31	62
Total Governor's Recommendations	31	31	31	62

Program Description

The purpose of the State Auditor's Office (Office) is to oversee local government finances by performing professional level audits and reviews of local government financial statements, documents, data, reports, and complaints submitted to or gathered by the Office; to endeavor to provide consistent review and comments on the accuracy of financial data and the legal compliance of entities reviewed; and to strive to adhere to the highest governmental accounting principles and auditing standards in the work performed.

Budget Activities

This program's budget activities correspond to the six operational divisions:

- ⇒ **The Constitutional Office** oversees the management of all divisions and official functions, provides senior level planning and administration, and coordinates the training of staff in audit and investigative methods, technology, and other required professional skills. The Constitutional Office oversees and supports the contribution to six state boards on which the State Auditor serves.
- ⇒ **Audit Practice** conducts annual financial and legal compliance audits of most Minnesota counties, the cities of Duluth, Minneapolis, and St. Paul, component units affiliated with these counties and cities, the Metropolitan Council, cities, townships, school districts, and other entities as required by statute or chosen by the Office. The Division performs approximately 160 audits per year. This Division establishes uniform reporting standards and provides technical assistance and education to local units of government, which strengthens local accounting practices and promotes efficiency in local government. This Division also conducts audits of federal funds in accordance with the Federal Single Audit Act
- ⇒ **Government Information** collects, examines, and disseminates information on the financial condition of nearly 3,300 different local units of government and the financial trends affecting government at the local level. This Division issues eight annual reports containing information on local government expenditures, as well as two to three special studies per year. This Division also manages the information technology and network administration needs of the Office.
- ⇒ **Legal/Special Investigations** works to ensure integrity and accountability in local governments by investigating allegations of malfeasance, misfeasance, or nonfeasance on behalf of taxpayers in the state of Minnesota. This Division supports field staff auditors when evidence of suspected wrongdoing is discovered during financial and compliance audits of local governments. Public employees and elected officials are required by law to report evidence of theft, embezzlement, and unlawful use of public funds or property to the State Auditor's Office. The Division evaluates allegations brought to its attention and, when appropriate, provides specialized auditing services, initiates independent investigations, or refers the matter to the appropriate oversight authority.
- ⇒ **Pension** is responsible for monitoring investment, financial, and actuarial reporting for approximately 730 public pension funds in Minnesota. This Division tracks local tax dollars that are contributed to these funds and promotes fiscally sound management and compliance with state law. The Division issues annual compilation and investment performance reports.
- ⇒ **Tax Increment Financing, Investment and Finance** promotes legal compliance and accountability through examination and audit of political subdivisions' use of tax increment financing (TIF). To achieve this end, the Division reviews annual reports containing financial information from the estimated 2,200 TIF districts and performs legal compliance audits on TIF districts throughout the state. In addition, this Division answers citizens' and government officials' questions regarding tax increment financing and provides training on compliance with state TIF laws.

STATE AUDITOR

Program: STATE AUDITOR

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	8,273	8,273	8,273	8,273	16,546
Subtotal - Forecast Base	8,273	8,273	8,273	8,273	16,546
Total	8,273	8,273	8,273	8,273	16,546
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	8,036	8,792	8,122	8,424	16,546
Statutory Appropriations					
General	625	623	642	660	1,302
Misc Special Revenue	31	31	31	31	62
Total	8,692	9,446	8,795	9,115	17,910
<u>Expenditures by Category</u>					
Total Compensation	7,696	8,247	7,728	8,039	15,767
Other Operating Expenses	996	1,199	1,067	1,076	2,143
Total	8,692	9,446	8,795	9,115	17,910
<u>Expenditures by Activity</u>					
Constitutional Office	293	306	315	325	640
Audit Practice	5,550	6,032	5,784	6,009	11,793
Government Information	629	809	550	566	1,116
Legal/Special Investigations	452	571	475	489	964
Pension	453	427	403	422	825
Tax Increment Financing	625	623	642	660	1,302
Operations Mgmt	690	678	626	644	1,270
Total	8,692	9,446	8,795	9,115	17,910
Full-Time Equivalents (FTE)	110.7	119.3	101.8	102.6	

STATE AUDITOR

Program: STATE AUDITOR

Activity: CONSTITUTIONAL OFFICE

Narrative

Activity Description

The Constitutional Office provides senior level management for the State Auditor's Office, overseeing all the Office's divisions, their supervisors, and staff. This budget includes the costs of the state auditor's administrative and official operations.

Population Served

The Constitutional Office provides management review and support for the regular and special audits of the Audit Practice Division, Legal/Special Investigations Division, and the Tax Increment Financing, Investment and Finance Division. The Constitutional Office directs the planning for educational programs held for staff and hosted for clients. In addition, the Constitutional Office supports the State Auditor's contribution to, and the Office's role on, the Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

This activity coordinates the dissemination of information regarding the financial condition of local governments, working with local officials to improve the quality of their financial operations to make services more efficient and cost-effective. The Constitutional Office introduces advances in technology, which facilitate the efficient transfer of information among the Government Information Division, Pension Division, and Tax Increment Financing, Investment and Finance Division and to local governments and citizens.

Services Provided

The Constitutional Office furnishes the following services:

- ⇒ Provides supervisory oversight and direction for all staff.
- ⇒ Assists with the development, drafting, and distribution of special reports requested by the legislature.
- ⇒ Offers training programs and conferences for supervisors, staff, clients, and other interested parties, including internal staff training in the areas of audit practice, technical issues, customer service, and human resources.
- ⇒ Reviews projects to improve the efficiency and effectiveness of the electronic collection and dissemination of local government financial information.
- ⇒ Supervises the distribution of information collected by the Government Information Division on the financial condition of local governments and the financial trends affecting government at state and local levels.
- ⇒ Monitors local entities' reporting requirements on a regular basis.
- ⇒ Oversees policies and practices of the six state boards on which the State Auditor serves.
- ⇒ Establishes policies and procedures for the Office regarding proper financial controls and administrative procedures.
- ⇒ Provides assistance and information to citizens, local government officials, and state agencies concerning the operation of the Office.
- ⇒ Serves as the Office's primary contact with the legislature, citizens, and the media.
- ⇒ Assists in reviewing regulatory and legal compliance guidance offered by the State Auditor's Office.

Key Measures

- ⇒ Communicate with local government officials and citizens at board meetings, speaking engagements, and through the release of regular and special audit reports and press advisories.
- ⇒ Provide continuing education of office staff to ensure a professional and trained audit staff.
- ⇒ Provide oversight of local government finances through the management of staff responsible for auditing, reviewing, investigating, and collecting data on local entities.
- ⇒ Monitor the six state boards on which the State Auditor serves.
- ⇒ Monitor legislation relating to local governments and work to preserve and enhance laws relating to financial accountability.

Activity at a Glance

- ◆ Monitors activities of six state boards
- ◆ Supervises all the State Auditor's Office divisions
- ◆ Provides official and administrative functions

STATE AUDITOR

Program: STATE AUDITOR

Activity: CONSTITUTIONAL OFFICE

Narrative

Activity Funding

The Constitutional Office activity is funded by the General Fund.

Contact

Rebecca Otto
State Auditor
Phone: (651) 296-2551

STATE AUDITOR**Program: STATE AUDITOR**

Activity: CONSTITUTIONAL OFFICE

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	293	306	315	325	640
Total	293	306	315	325	640
<u>Expenditures by Category</u>					
Total Compensation	269	274	283	292	575
Other Operating Expenses	24	32	32	33	65
Total	293	306	315	325	640
Full-Time Equivalents (FTE)	2.7	2.7	2.7	2.7	

STATE AUDITOR

Program: STATE AUDITOR

Activity: AUDIT PRACTICE

Narrative

Activity Description

Audit Practice plays a primary role in the ability of the State Auditor's Office (Office) 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.

Activity at a Glance

- ◆ Conducts approximately 160 financial and legal compliance audits per year
- ◆ Reviews approximately 400 single audits per year
- ◆ Conducts annual training for staff and clients on new accounting procedures

Population Served

Audit Practice helps ensure integrity and accountability at the local level by annually conducting approximately 160 financial and legal compliance audits for most counties; the cities of Duluth, Minneapolis, and St. Paul; organizations affiliated with counties and cities; the Metropolitan Council, cities, townships, and school districts and other local entities as required by statute or chosen by the Office. In addition, this Division annually reviews approximately 400 single audit reports submitted by cities, counties, school districts, nonprofit agencies, regional development commissions, housing redevelopment authorities, and other agencies for compliance with federal reporting requirements and generally accepted government auditing standards. The Office then issues a single audit report to the U.S. Department of Agriculture (federal agency responsible for single audit), Department of Finance, the Legislative Auditor, and state agencies receiving federal funding.

Services Provided

Audit Practice provides the following services:

- ⇒ Audit Practice plans to issue approximately 160 audit reports of counties, cities, organizations affiliated with counties and cities, and other local governments during each of the 2007, 2008, and 2009 fiscal years.
- ⇒ Audit Practice reports on the condition of local governments' revenues and expenditures, comments on irregularities and deficiencies in local government financial statements, notes issues of legal noncompliance, and recommends changes in local government accounting practices and procedures.
- ⇒ The Division utilizes the experience of its auditors to make the audit process the most efficient possible, works to enable clients to assist in the audit process, and employs technology for downloading data for analysis at field offices and other computer methods to streamline audits.
- ⇒ The Division conducts joint staff and client education programs on accounting principles that impact local governments. Client education is of vital importance as new accounting principles adopted by the Governmental Accounting Standards Board are implemented, fundamentally changing the overall accounting practices of local governments.

Key Measures

- ◆ 160 audit examinations conducted per year;
- ◆ 400 single audit reports reviewed;
- ◆ Petition audits completed as requested (averaging two to five per year); and
- ◆ Training held for staff and clients on new accounting principles.

Activity Funding

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 work is billed on an hourly basis, plus reimbursable travel expenses, for each client. Besides audit fees, the review of single audit reports is financed by reimbursements to the General Fund by the Department of Finance indirect cost process.

STATE AUDITOR

Program: STATE AUDITOR

Activity: AUDIT PRACTICE

Narrative

Contact

Rebecca Otto
State Auditor
Phone: (651) 296-2551

Greg Hierlinger
Deputy State Auditor
Phone: (651) 296-7003

STATE AUDITOR**Program: STATE AUDITOR**

Activity: AUDIT PRACTICE

Budget Activity Summary

	<i>Dollars in Thousands</i>				
	Current FY2006	FY2007	Governor's Recomm. FY2008	FY2009	Biennium 2008-09
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	5,519	6,001	5,753	5,978	11,731
Statutory Appropriations					
Misc Special Revenue	31	31	31	31	62
Total	5,550	6,032	5,784	6,009	11,793
<u>Expenditures by Category</u>					
Total Compensation	5,077	5,453	5,248	5,469	10,717
Other Operating Expenses	473	579	536	540	1,076
Total	5,550	6,032	5,784	6,009	11,793
Full-Time Equivalents (FTE)	71.9	77.1	68.6	68.6	

STATE AUDITOR

Program: STATE AUDITOR

Activity: GOVERNMENT INFORMATION

Narrative

Activity Description

The Government Information Division promotes financial accountability for approximately 3,300 Minnesota local governments. This Division prescribes the chart of accounts and reporting requirements for the 855 cities and 1,788 towns, and collects, verifies, and analyzes financial information for cities, towns, special districts, and counties. This local government financial data is compiled into databases and 10 to 12 annual reports or special studies.

Activity at a Glance

- ◆ Issues 10 to 12 reports or special studies on local government finances per year
- ◆ Issues annual Best Practice Review of local government service delivery
- ◆ Maintains financial information on approximately 3,300 local governments

Population Served

The information collected by the Government Information Division provides state and local policymakers with significant data useful in making sound public policy decisions. It also provides local officials and citizens with a better understanding of their financial condition relative to other local governments. The users of the information include local government officials, citizens, the Minnesota Legislature, U.S. Bureau of the Census, and most state agencies.

Services Provided

The Government Information Division collects data and works to effectively disseminate local government financial information to assist with public discussions and policy decisions. This Division continually works to improve the usefulness of the information and enhance the data with meaningful analysis, while improving the overall access to that data. The Government Information Division:

- ◆ offers interactive databases and electronic reporting forms on the State Auditor's Office web site;
- ◆ revises reporting forms and instructions used to collect routine financial information from local governments;
- ◆ reviews and resolves inconsistencies, discrepancies, and reporting errors in financial statements, audits, and reporting forms filed by 87 counties, 855 cities, 564 special districts and 1,788 townships;
- ◆ maintains extensive databases of local government financial data within the state, including total revenues, expenditures, and outstanding debt;
- ◆ assists with special projects requested by the legislature, including coordinating the collection of data into databases, preparing charts and tables, analyzing data, and publishing reports; issues annual Best Practice Review of local government service delivery;
- ◆ maintains the Small Cities and Towns Accounting System (CTAS) software used by over 1,300 small cities and towns throughout the state;
- ◆ manages all information technology needs and makes recommendations directly to the State Auditor on technology requirements of the Office;
- ◆ provides research and strategic planning support on technology issues to other divisions of the Office;
- ◆ makes recommendations on equipment and software purchases;
- ◆ provides network and personal computer installation, support, and maintenance;
- ◆ procures common network equipment; and
- ◆ supervises the local area network, database, and website technical staff.

Key Measures

- ⇒ Local government financial data is summarized consistently in annual reports with discrepancies and reporting errors corrected.
- ⇒ Local government financial data is readily available to users in various formats.
- ⇒ Issues annual Best Practice Review of local government service delivery.
- ⇒ Manage technology needs, including hardware, software, support and maintenance of the Office network.
- ⇒ Maintain and support the CTAS software.

STATE AUDITOR

Program: STATE AUDITOR

Activity: GOVERNMENT INFORMATION

 Narrative

Activity Funding

This Division is funded by the General Fund with supplemental funding, thereby reducing the use of General Fund appropriations. Pursuant to M.S. 477A.014, subd. 4, the commissioner of Revenue deducts \$217,000 each year from local government aids for the costs related to the government information function, which reduces this activity's use of the General Fund by a like amount.

Contact

Rebecca Otto
State Auditor
Phone: (651) 296-2551

Celeste Grant
General Counsel/Deputy State Auditor
Phone: (651) 297-3673

STATE AUDITOR**Program: STATE AUDITOR**

Activity: GOVERNMENT INFORMATION

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	629	809	550	566	1,116
Total	629	809	550	566	1,116
<u>Expenditures by Category</u>					
Total Compensation	535	610	437	453	890
Other Operating Expenses	94	199	113	113	226
Total	629	809	550	566	1,116
Full-Time Equivalents (FTE)	9.7	10.7	6.5	6.5	

STATE AUDITOR

Program: STATE AUDITOR

Activity: LEGAL/SPECIAL INVESTIGATIONS

Narrative

Activity Description

The Legal/Special Investigations Division promotes integrity and accountability in local government by providing legal compliance expertise to the State Auditor's several divisions, and by providing legal compliance information and training to local government officials and private sector accountants. The Legal/Special Investigations Division also investigates allegations of theft or misuse of public funds on behalf of local government officials, law enforcement agencies, private sector accountants, and the citizens of Minnesota. Pursuant to M.S. 6.65, this Division drafts and annually updates the Minnesota Legal Compliance Audit Guide for Local Government which prescribes the minimum procedures and audit scope for audits of local units of government in Minnesota.

Activity at a Glance

- ◆ Provides legal compliance expertise to all divisions of the State Auditor's Office.
- ◆ Handles over 100 investigative matters per year
- ◆ Annually promulgates the Legal Compliance Audit Guide for Local Government which prescribes the scope for audits of local governments in Minnesota.
- ◆ Investigates five to ten fraud cases per year

Population Served

The Legal/Special Investigations Division provides legal support to the Constitutional Office, Audit Practice, Government Information, Pension, and Tax Increment, Investment and Finance Divisions. It provides legal compliance information and training to local government officials. The Division investigates allegations of malfeasance, misfeasance, and nonfeasance for Minnesota's 4,300 local units of government in a thorough and timely manner. It communicates findings of wrongdoing to the appropriate agencies and to the public. The Division annually revises the Minnesota Legal Compliance Audit Guide for Local Government and responds to concerns and requests made by private citizens, public officials and employees, legislators, and private sector accountants.

Services Provided

The Legal/Special Investigations Division works to help ensure that Minnesota's 4,300 local units of government administer public funds and property as required by law.

The Legal/Special Investigations Division has expertise in laws applicable to local governmental units, including municipalities, counties and school districts. The Legal/Special Investigations Division provides information and training on public indebtedness, data practices, public sector finance, public contracting, local taxation and special assessments, public purpose, and public sector pension law. The Division reviews audits and special reports for legal compliance. It serves the Office's other divisions, provides the Office with legal compliance support, and prepares annual updates of the Minnesota Legal Compliance Audit Guide for Local Government.

M.S. 609.456 requires local government officials and employees to report evidence of theft, embezzlement, or unlawful use of public funds or property to the State Auditor. The Legal/Special Investigations Division has specialized training in fraud auditing, investigation, criminology, and ethics. This Division investigates allegations that public funds have been stolen or misused to determine whether malfeasance, misfeasance, or nonfeasance have occurred within local governments. When appropriate, the Division provides specialized auditing techniques, initiates an independent investigation, or refers the matter to appropriate prosecutorial or other oversight authorities. In cases that require complex financial investigation, the Division has assisted local law enforcement agencies, county attorneys, the Bureau of Criminal Apprehension, and the Office of the Attorney General.

The Legal/Special Investigations Division supports the Office's audit practice staff and responds to a high volume of inquiries and requests from citizens, government officials, and employees. It recommends corrective action to prevent future illegal or improper spending and activity. Legal/Special Investigations Division staff members speak at training seminars to help local government officials and employees serve as knowledgeable and responsible stewards of public funds and property.

STATE AUDITOR

Program: STATE AUDITOR

Activity: LEGAL/SPECIAL INVESTIGATIONS

Narrative

The Legal/Special Investigations Division comments on major policy issues of statewide impact that relate to assessing the integrity, stewardship, and performance of local government finance, such as audit and competitive bidding requirements, potential conflicts of interest, and public purpose or authority for expenditures. When, in the course of performing the duties of the Office, the State Auditor determines that legislative changes are needed to promote good government and serve the public interest, the Legal/Special Investigations Division drafts proposed legislation for presentation to the legislature.

Key Measures

- ⇒ Provide high quality legal advice and legal compliance support to all of the Office's divisions.
- ⇒ Handle in a thorough and timely manner over 100 investigative matters each year, generated by requests for assistance from citizens and law enforcement agencies, formal notification by local government officials and employees pursuant to M.S. 609.456, and by public accountants, pursuant to M.S. 6.67.
- ⇒ Define the scope of local government legal compliance audits by drafting and annually revising the Minnesota Legal Compliance Audit Guide for Local Government.
- ⇒ Continue to train and educate local government officials, employees, and auditors on legal compliance and the detection and the prevention of fraud and abuse, as well as violations of law and policy, with the objective of helping local governments evaluate and improve their internal control systems.

Activity Funding

The investigations function of this Division receives funding from the General Fund.

Contact

Rebecca Otto
State Auditor
Phone: (651) 296-2551

Celeste Grant
General Counsel/Deputy State Auditor
Phone: (651) 297-3673

STATE AUDITOR

Program: STATE AUDITOR

Activity: LEGAL/SPECIAL INVESTIGATIONS

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	452	571	475	489	964
Total	452	571	475	489	964
<u>Expenditures by Category</u>					
Total Compensation	405	520	423	436	859
Other Operating Expenses	47	51	52	53	105
Total	452	571	475	489	964
Full-Time Equivalents (FTE)	5.9	7.7	5.1	5.1	

STATE AUDITOR

Program: STATE AUDITOR

Activity: PENSION

Narrative

Activity Description

The Pension Division monitors investment, financial and actuarial reporting for approximately 730 public pension plans. Its objective is to ensure compliance with state statutes governing the administration of plans covering approximately 20,000 members.

Activity at a Glance

- ♦ Monitors approximately 730 public pension funds
- ♦ Produces annual financial and investment performance reports

Population Served

The Pension Division mainly serves small volunteer fire relief associations administered by part-time boards and officers, who work with state laws affecting benefit levels, financing, actuarial methods, investment practices, and pension plan administration. The Division plays an important role in the plan review process by attempting to deliver the highest quality service to pension plan members, municipal representatives, policymakers, and taxpayers through: 1) promoting consistent interpretation and application of statutes and bylaws; 2) providing a uniform basis for calculating and reporting investment returns for all public plans; and 3) monitoring plan operations and administration of benefits to effectively measure for compliance with state laws.

Services Provided

The Division's activities fall under the following four categories:

Financial Review – Because financial review is this Division's core function, the Division must:

- ♦ manage reporting processes that give pension members, pension boards, local jurisdictions and state policymakers reliable information on the status and funding requirements of local pension plans;
- ♦ review all financial reporting forms, actuarial reports, defined contribution allocation tables, and audits for accuracy and completeness; and
- ♦ annually develop and distribute reporting forms on financial, investment and administrative matters via hard copies, the Fire Relief Pension Accounting System, and the internet for data entry, form submission, and scenario testing.

Investment Performance Reporting – Responsibilities in this area require the Division to:

- ♦ manage reporting processes for time-weighted rate-of-return data collected from approximately 730 pension plans; and
- ♦ collect and review investment report submissions, compile and analyze rate-of-return data, and report investment performance information to policymakers, pension plan members, and the public.

Research and Communications – Due to complex pension laws, significant technical resources are required to:

- ♦ provide assistance to pension plans on issues relating to state statutes, form submissions, investment policies and valuation of benefits;
- ♦ prepare regular reports to policymakers on pension plan status and investment performance; and
- ♦ conduct training sessions each year and respond to requests for information from state elected officials and their staff, local officials, and taxpayers.

Compliance Monitoring and Investigation – When monitoring for legal compliance, the Division must:

- ♦ evaluate submitted reporting forms and contact pension plan officers, municipal officials, actuaries, attorneys, auditors or investment advisors regarding any technical irregularities or administrative or investment policy concerns; and
- ♦ assist the State Auditor's Legal and Audit Practice staff when pension issues arise and prepare reports to the Commissioner of Revenue certifying individual relief associations that are eligible to receive various state aid distributions.

STATE AUDITOR

Program: STATE AUDITOR

Activity: PENSION

Narrative

Key Measures

- ⇒ Annually review financial documents of approximately 720 public pension plans and produce a compilation report setting forth and explaining the financial condition of the plans.
- ⇒ Annually review the investment performance reports of approximately 730 pension plans and compile investment performance information into a report for review by policymakers, pension plan members, and the public.
- ⇒ Prepare reports to the Department of Revenue certifying individual relief associations as eligible to receive various state aid distributions.
- ⇒ Provide client services, technical resources, and training to public pension plan administrators.

Activity Funding

Under M.S. 356.219, the costs for investment performance reporting (approximately 40% in FY 2006) must be funded from the General Fund. Under M.S. 69.021, subd. 5, the remaining General Fund costs of the Division for this same fiscal year (approximately 60%) will be offset through dollar-for-dollar reductions against state pension-related aids distributed by the Department of Revenue. These costs vary annually based upon the allocation of payroll and other costs between investment and other financial monitoring activities.

Contact

Rebecca Otto
State Auditor
Phone: (651) 296-2551

Celeste Grant
General Counsel/Deputy State Auditor
Phone: (651) 297-3673

STATE AUDITOR
Program: STATE AUDITOR
Activity: PENSION

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	453	427	403	422	825
Total	453	427	403	422	825
<u>Expenditures by Category</u>					
Total Compensation	370	352	330	348	678
Other Operating Expenses	83	75	73	74	147
Total	453	427	403	422	825
Full-Time Equivalents (FTE)	6.1	6.5	5.2	6.0	

STATE AUDITOR

Program: STATE AUDITOR

Activity: TAX INCREMENT FINANCING

Narrative

Activity Description

In 1996, the legislature transferred all oversight and audit responsibilities for tax increment financing (TIF) districts to the State Auditor's Office. Tax increment financing is a statutory tool used by local governments to encourage economic development, redevelopment, and housing projects, and its use by local governments is subject to complex statutory requirements and limitations.

Activity at a Glance

- ◆ Oversees the estimated 2,200 TIF districts administered by 451 TIF authorities
- ◆ Conducts in-depth reviews of annual TIF reports on a rotational basis
- ◆ Produces annual TIF compliance report

Development and redevelopment of parcels in a TIF district increases the property tax revenue from the parcels. A portion of this revenue can be used to pay associated costs of the development. In 2005, the estimated 2,200 TIF districts throughout the state generated more than \$254 million of tax increment revenue to be used for this assistance.

Oversight by the State Auditor's Tax Increment, Investment and Finance Division results in greater statutory compliance with TIF laws by local governments by working to promote consistent and uniform TIF usage. In addition, gathering TIF financial information allows local government personnel, legislators, and citizens access to uniform TIF financial data.

In 2005, the Legislature passed legislation giving the responsibility of auditing "Job Opportunity Business Zones" (JOBZ) to the TIF Division of the State Auditor's Office. However, the Attorney General issued an opinion that the State Auditor could not use the statutory General Fund appropriation generated by deducting 0.36% of tax increment to conduct these audits.

Population Served

The Division promotes legal compliance and accountability of local governments' uses of TIF and related development tools through financial reviews and audits. It collects and analyzes financial information that local governments are required to report annually regarding their uses of tax increment. The Division also performs legal compliance audits on TIF districts throughout the state, answers questions from citizens and local government officials regarding TIF, and conducts and participates in numerous TIF educational programs around the state.

Services Provided

The Division provides the following services:

- ⇒ Reviews all annual financial reports for TIF districts for substantial completeness; conducts an in-depth review of TIF annual reports; and identifies and advises TIF authorities of problems or issues relating to their annual reports.
- ⇒ Provides information to local government officials and citizens who request information regarding the lawful uses of TIF.
- ⇒ Investigates citizen information regarding unlawful uses of TIF and conducts onsite TIF legal compliance audits, as warranted.
- ⇒ Identifies TIF non-compliance issues, notifies municipalities of such issues, and forwards information regarding violations of TIF law to county attorneys and the Attorney General for possible enforcement action.
- ⇒ Provides chairs of the legislative committees with jurisdiction over TIF with an annual report describing TIF legal compliance issues.
- ⇒ Works in cooperation with state agencies, local government associations, local government officials, and other stakeholders to provide training and education to individuals administering TIF districts in the state.

Key Measures

- ⇒ Collect and review annual TIF reports from the estimated 2,200 TIF districts to determine substantial completeness.
- ⇒ Conduct in-depth reviews of TIF reports on a four-year rotational basis.

STATE AUDITOR

Program: STATE AUDITOR

Activity: TAX INCREMENT FINANCING

Narrative

- ⇒ Issue initial and final notices of noncompliance resulting from audits of TIF authorities.
- ⇒ Analyze and prepare reports on the use of TIF and related development tools.
- ⇒ Prepare and present educational materials on TIF compliance issues.

Activity Funding

The Division is funded exclusively by a statutory appropriation of revenue generated by deducting 0.36% of tax increment distributed to authorities that administer TIF districts. Counties pay the deducted revenue to the Treasury Division of the Department of Finance, which transfers the funds to the State Auditor's Office. The annual revenue from the enforcement deduction will vary depending on the number of active TIF districts and the amount of tax increment generated by those districts.

The tax increment that funds the Division is dedicated revenue that covers the costs of all operations. This activity does not receive a direct General Fund appropriation.

Contact

Rebecca Otto
State Auditor
Phone: (651) 296-2551

Celeste Grant
General Counsel/Deputy State Auditor
Phone: (651) 297-3673

STATE AUDITOR**Program: STATE AUDITOR**

Activity: TAX INCREMENT FINANCING

Budget Activity Summary

	<i>Dollars in Thousands</i>				
	Current FY2006	FY2007	Governor's Recomm. FY2008	FY2009	Biennium 2008-09
<u>Expenditures by Fund</u>					
Statutory Appropriations					
General	625	623	642	660	1,302
Total	625	623	642	660	1,302
<u>Expenditures by Category</u>					
Total Compensation	534	537	555	572	1,127
Other Operating Expenses	91	86	87	88	175
Total	625	623	642	660	1,302
<i>Full-Time Equivalents (FTE)</i>	8.0	8.1	8.1	8.1	

STATE AUDITOR**Program: STATE AUDITOR**

Activity: OPERATIONS MGNT

Budget Activity Summary

	<i>Dollars in Thousands</i>				
	Current FY2006	FY2007	Governor's Recomm. FY2008	FY2009	Biennium 2008-09
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	690	678	626	644	1,270
Total	690	678	626	644	1,270
<u>Expenditures by Category</u>					
Total Compensation	506	501	452	469	921
Other Operating Expenses	184	177	174	175	349
Total	690	678	626	644	1,270
Full-Time Equivalents (FTE)	6.4	6.5	5.6	5.6	

STATE AUDITOR

Change Item: Compensation Adjustment

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$165	\$332	\$332	\$332
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$165	\$332	\$332	\$332

Recommendation

The Governor recommends additional funding for compensation related costs associated with the operation of the State Auditor's office. This amount represents an annual increase of 2% for General Fund supported personnel costs.

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 complete balanced budget.

As with the executive branch, the Governor suggests that these offices and institutions receive a compensation adjustment to reflect rising costs due to labor contract settlements, growing insurance costs, and other items such as pension obligations and step increases. For agencies receiving appropriations from the General Fund, the Governor recommends adding an amount that totals 2% of each agency's employee wage and benefit costs, based on projected cost increases for FY 2008-09.

Relationship to Base Budget

This proposal is an increase to the operating funds for each agency. Detailed fiscal pages in the budget reflect this increase as it relates to specific activities and programs of the agency. Such changes are not reflected in the agency "base," but instead, are shown as a change item for specific discussion and decision.

Statutory Change: Not Applicable



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-Mail)
1-800-627-3529 (Relay Service)

January 22, 2007

To the 2007 Minnesota

The Office of the State Auditor is requesting a 13 percent increase in the State Auditor's General Fund Base Expenditure Appropriation for the following two change items.

The State Auditor is requesting a 9.2 percent increase to retain current staff. Over two-thirds of the increase in funding would be revenue-neutral to the state General Fund, as it would be recovered through audit fees of Audit Practice division.

The State Auditor is also requesting an increase to fund the statutory requirement to audit Job Opportunity Building Zones (JOBZ). The budget request for this purpose is a 3.8 percent increase in General Fund Base Expenditure Appropriation.

As required by law, the Audit Practice division recovers its costs through fees charged to audit clients and therefore, any increase in the appropriation for Audit Practice would be completely offset through additional revenues for the state General Fund. Thus, an increase to the Audit Practice appropriation will not have a negative effect on the bottom line of the state General Fund.

The Office of the State Auditor is charged with overseeing more than twenty billion dollars that is spent annually by local governments in Minnesota. The State Auditor's Office does this by performing audits of local government financial statements, and reviewing documents, data, reports, and complaints submitted to or gathered by the Office. The State Auditor's Office performs approximately 160 audits per year, and collects, verifies, and/or analyzes financial information for approximately 3,300 local governments (87 counties, 855 cities, 1788 towns, 564 special service districts), approximately 730 public pension funds, and an estimated 2,200 tax increment financing districts. In addition, more than 100 special investigation cases are reviewed annually. This financial information that is received from local governments, pension funds, and tax increment financing districts is analyzed and is the basis of statutory required reports issued by the State Auditor's Office. These reports are used at the legislative and local level for policy and planning purposes.

Staff Retention

The Office of the State Auditor is proposing an increase of \$751,000 and \$787,000 to the State Auditor's budget for 2008 and 2009, respectively, to retain current staff. Ninety (90) percent of the State Auditor's expenditures are related to salaries and benefits. Increasing salary and health care costs have put and continue to put pressure on the State Auditor's ability to retain staff to meet the mission of the Office. Currently, all of the divisions within the Office of the State Auditor are at the minimal level of staffing. The ability or inability to retain current staff levels will have a direct impact on the number of audits performed by the Office. Also, staff retention will impact the number and timing of reports that are prescribed by State law.

The effect of this Staff Retention request is minimized by the requirement under Minn. Stat. § 6.58, that all audit costs be recovered through audit fees. This request would generate audit fees of approximately \$519,000 in 2008 and \$546,000 in 2009. The audit fees would be non-dedicated revenues deposited in the General Fund and would reduce the effect of this request to \$232,000 in 2008 and \$241,000 in 2009, which represents a Net Fiscal Impact in the State Auditor's General Fund Appropriation of 2.8 percent and 2.9 percent, respectively.

Job Opportunity Building Zones (JOBZ)

During the 2005 legislative session, a law was passed that required the TIF division of the Office of the State Auditor to provide oversight by annually auditing the creation and operation of all job opportunity building zones (JOBZ) and business subsidy agreements entered into under the JOBZ Act. Funding for these new responsibilities was not included at the time of the legislation was enacted. In addition, the Attorney General recently issued an opinion that the State Auditor could not use the statutory General Fund appropriation generated by deducting 0.36% of tax increment to conduct these audits. The Office of the State Auditor is proposing an increase of \$340,000 and \$285,000 to the State Auditor's budget for 2008 and 2009, respectively, to perform these duties. This request represents a 4.1 and 3.4 percent increase in the State Auditor's budget for 2008 and 2009, respectively, and will have a direct impact on whether or not these new responsibilities will be able to be performed.

Audit Practice Division

The core function of the State Auditor's Audit Practice division is the auditing of local governments as required by state law. Audit Practice 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, the Audit Practice division "may" audit other cities, school districts, towns, development authorities, and soil/water conservation districts if it is determined these audits are in the best interest of the public.

Many local government officials hold the Audit Practice division in high regard for its auditing standards. Local governments who "may" be audited often prefer to be audited by State Auditor's Audit Practice division. Currently, we are not always able to accommodate them due to staffing levels. Additionally, petition audits by citizens add to the important work that the Office performs, and staff retention is critical to be able to perform these audits in a timely manner. They could be delayed or limited in scope due to personnel limitations, which would not be in the public's best interest.

Currently there are more than 2,000 local governments that are required to have an annual audit of some type. Of these, the State Auditor audits 160 or 7.9%. Private certified public accounting firms audit the rest of the local governments. For the State Auditor's Office to remain efficient and effective in its oversight of local government spending it is important to retain current staff so the State Auditor can continue performing the current number of audits.

Although funded through the General Fund, Minnesota statutes require the Office of the State Auditor to recover its audit costs through fees charged to the entities it audits. Those fees are deposited back into the General Fund essentially resulting in Audit Practice expenses not having a financial impact on the state General Fund.

The budget request for the Audit Practice division is \$11,731,000 or 71% 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, special districts and public pension funds. The Constitutional Office oversees the management of all the divisions. The budget request for these divisions is \$4,815,000 or 29% of the biennial budget.

Sincerely,



Rebecca Otto
State Auditor

STATE AUDITOR

Change Item: Staff Retention

Preliminary Proposal

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$751	\$787	\$804	\$823
Revenues	568	596	610	624
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$183	\$191	\$194	\$199

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 oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities. The state auditor's staff audits and reviews documents relating to the finances of local government entities, including counties, cities, school districts, townships, public pension funds, tax increment financing districts, and 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. The increasing salary 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 effect of this change item is minimized by the requirement under Minn. Stat. § 6.58, that all audit costs be recovered through fees. Fees of approximately \$568,000 in 2008 and \$596,000 in 2009 are non-dedicated revenues deposited in the General Fund.

The effect 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 because they are a reduction in state pension related aids paid by the state to local governments and therefore reduce the effect of this change item by \$27,000 in 2008 and \$28,000 in 2009.

Relationship to Base Budget

This change item represents an increase in the State Auditor's General Fund Appropriation of 9.1% in 2008 and 9.5% in 2009. The Net Fiscal Impact of \$183,000 in 2008 and \$191,000 in 2009 represents an increase in the State Auditor's General Fund Appropriation of 2.2% and 2.3%, respectively.

Key Measures

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

Statutory Change: Not Applicable

STATE AUDITOR

Change Item: JOBZ Audits

Preliminary Proposal

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$210	\$160	\$167	\$173
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$210	\$160	\$167	\$173

Recommendation

The State Auditor recommends additional staffing for the Tax Increment Financing (TIF) Division to audit Job Opportunity Building Zones (JOBZ). The increase in staffing levels requires an increase in the Direct General Fund Expenditure Appropriation for the TIF Division that will not be offset by any revenues.

Background

The TIF Division promotes legal compliance and accountability of local governments' uses of TIF and related development tools through financial reviews and audits. It collects and analyzes financial information that local governments are required to report annually regarding their uses of tax increment. The Division also performs legal compliance audits on TIF districts throughout the state, answers questions from citizens and local government officials regarding TIF, and conducts and participates in numerous TIF educational programs around the state.

Minnesota Session Laws 2005, 1st Special Session, Chapter 3, Article 7, Section 19 required the TIF Division of the Office of the State Auditor to annually audit the creation and operation of all job opportunity building zones (JOBZ) and business subsidy agreements entered into under the JOBZ Act. Funding for these new responsibilities of the Office of the State Auditor was not included at the time of the requirement. In addition, the Attorney General recently issued an opinion that the State Auditor could not use the statutory General Fund appropriation generated by deducting 0.36% of tax increment to conduct these audits.

The Office of the State Auditor determined the scope and nature of the JOBZ audits after meeting with House and Senate Taxes Committees legal staff and committee members, as well as with administrative staffs of the Department of Revenue and Department of Employment and Economic Development. We are not aware of any opponents of the proposed audit or possible controversies. The request for the audit was first included in the Senate version of the 2003 Omnibus Tax Bill. That bill was not enacted in 2003. In 2005, the request for the audit was included and enacted in the 2005 Omnibus Tax Bill.

Relationship to Base Budget

This change item represents a 2.5% and 1.9% increase in the State Auditors General Fund Base Expenditure Appropriation for 2008 and 2009, respectively. This change item represents the first direct General Fund Appropriation for the TIF Division.

Key Measures

The TIF Division of the Office of the State Auditor plans to hire one intermediate auditor and one full-time intern (i) to investigate and analyze the data with respect to the creation and operation of JOBZ and (ii) to prepare an annual report to the legislature. Current support and supervisory staff of the Office of the Auditor will provide the necessary support and supervision. The State Auditor believes the new staff will provide the necessary personnel needed to carry out the legislative request to the TIF Division, enacted in the 2005 Omnibus Tax Bill.

Alternatives Considered

This change item has two alternatives. First, the Law could be changed to allow for the collection of a fee to manage the collected data and conduct audits. This alternative would still require an increase in the State Auditor's General Fund Appropriation for the Office of the State Auditor but would be offset by an equal increase

STATE AUDITOR

Change Item: JOBZ Audits

in revenue collected for the state General Fund. This means that an increased appropriation for the State Auditor's Office would have no effect on the bottom line of the General Fund.

As a second alternative, if this change item is not funded, the State Auditor recommends that the Minnesota Session Laws 2005, 1st Special Session, Chapter 3, Article 7, Section 19 requiring the TIF Division of the Office of the State Auditor to annually audit the creation and operation of all job opportunity building zones (JOBZ) and business subsidy agreements entered into under the JOBZ Act be repealed.

Statutory Change: Not Applicable

Dollars in Thousands

	Actual FY2006	Budgeted FY2007	Governor's Recomm. FY2008	FY2009	Biennium 2008-09
<u>Non Dedicated Revenue:</u>					
Departmental Earnings:					
General	5,962	6,011	6,153	6,390	12,543
Other Revenues:					
General	0	3	0	0	0
Total Non-Dedicated Receipts	5,962	6,014	6,153	6,390	12,543
<u>Dedicated Receipts:</u>					
Other Revenues:					
Misc Special Revenue	33	31	31	31	62
Total Dedicated Receipts	33	31	31	31	62
Agency Total Revenue	5,995	6,045	6,184	6,421	12,605

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	42,196	43,211	43,211	43,211	86,422
Recommended	42,196	43,211	44,682	46,585	91,267
Change		0	1,471	3,374	4,845
% Biennial Change from 2006-07					6.9%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	40,393	44,975	44,682	46,585	91,267
Statutory Appropriations					
General	418	163	0	0	0
Misc Special Revenue	1,348	1,224	1,111	1,126	2,237
Federal	4,512	4,564	4,475	4,550	9,025
Miscellaneous Agency	1	1	1	1	2
Gift	55	64	70	49	119
Total	46,727	50,991	50,339	52,311	102,650
<u>Expenditures by Category</u>					
Total Compensation	19,069	21,244	21,027	21,027	42,054
Other Operating Expenses	14,399	16,115	15,985	17,957	33,942
Local Assistance	13,259	13,632	13,327	13,327	26,654
Total	46,727	50,991	50,339	52,311	102,650
<u>Expenditures by Program</u>					
Supreme Court Operations	33,573	37,466	37,119	39,091	76,210
Civil Legal Services	13,154	13,525	13,220	13,220	26,440
Total	46,727	50,991	50,339	52,311	102,650
Full-Time Equivalents (FTE)	239.3	249.1	249.1	249.1	

SUPREME COURT

Change Summary

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Fund: GENERAL				
FY 2007 Appropriations	43,211	43,211	43,211	86,422
Technical Adjustments				
One-time Appropriations		(1,040)	(1,040)	(2,080)
Subtotal - Forecast Base	43,211	42,171	42,171	84,342
Change Items				
Judicial Branch Increase	0	2,511	4,414	6,925
Total Governor's Recommendations	43,211	44,682	46,585	91,267
Fund: GENERAL				
Planned Statutory Spending	163	0	0	0
Total Governor's Recommendations	163	0	0	0
Fund: MISC SPECIAL REVENUE				
Planned Statutory Spending	1,224	1,111	1,126	2,237
Total Governor's Recommendations	1,224	1,111	1,126	2,237
Fund: FEDERAL				
Planned Statutory Spending	4,564	4,475	4,550	9,025
Total Governor's Recommendations	4,564	4,475	4,550	9,025
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	1	1	1	2
Total Governor's Recommendations	1	1	1	2
Fund: GIFT				
Planned Statutory Spending	64	70	49	119
Total Governor's Recommendations	64	70	49	119

SUPREME COURT

Program: SUPREME COURT OPERATIONS

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	29,876	30,891	30,891	30,891	61,782
Technical Adjustments					
One-time Appropriations			(1,040)	(1,040)	(2,080)
Subtotal - Forecast Base	29,876	30,891	29,851	29,851	59,702
Governor's Recommendations					
Judicial Branch Increase		0	2,511	4,414	6,925
Total	29,876	30,891	32,362	34,265	66,627
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	28,376	32,352	32,362	34,265	66,627
Statutory Appropriations					
General	418	163	0	0	0
Misc Special Revenue	211	322	211	226	437
Federal	4,512	4,564	4,475	4,550	9,025
Miscellaneous Agency	1	1	1	1	2
Gift	55	64	70	49	119
Total	33,573	37,466	37,119	39,091	76,210
<u>Expenditures by Category</u>					
Total Compensation	19,069	21,244	21,027	21,027	42,054
Other Operating Expenses	14,397	16,115	15,985	17,957	33,942
Local Assistance	107	107	107	107	214
Total	33,573	37,466	37,119	39,091	76,210
<u>Expenditures by Activity</u>					
Supreme Court Operations	5,086	5,424	7,770	9,652	17,422
State Court Administration	26,538	29,930	27,315	27,405	54,720
Law Library Operations	1,949	2,112	2,034	2,034	4,068
Total	33,573	37,466	37,119	39,091	76,210
Full-Time Equivalents (FTE)	239.3	249.1	249.1	249.1	

SUPREME COURT

Change Item: Judicial Branch Increase

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$2,511	\$4,414	\$4,414	\$4,414
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$2,511	\$4,414	\$4,414	\$4,414

Recommendation

The Governor recommends a general funding increase for the major judicial branch agencies to recognize compensation-related, caseload, and other cost pressures in the criminal justice area. The Governor makes no specific recommendations on judicial branch agency change requests.

Background

The Governor respects the separation of powers and the desire of officials in the judicial branch and legislative branches and other constitutional officers to independently present their 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 and balanced budget.

Relationship to Base Budget

Base funding for state courts in the judicial branch in the FY 2008-09 biennium is \$563 million. The funding increase recommended is about 8.2% for the biennium.

Agency Purpose

The mission of the Teachers Retirement Association (TRA) is to administer retirement benefits for Minnesota public school educators. Educators and their employers contribute to TRA during their working years and obtain TRA benefits only upon retirement, disability, or termination of employment. Benefits can take the form of monthly payments to retired members or refunds of employee contributions plus interest to members who leave the teaching profession prior to retirement.

Core Functions

TRA serves over 157,000 active, inactive, and retired members using retirement provisions governed under Minnesota statutes. Core functions include:

- ◆ payment of retirement, survivor, and disability benefits, to eligible members;
- ◆ payment of member contributions, plus interest, for members leaving the teaching profession, and requesting this benefit option;
- ◆ benefit counseling and information services to members regarding their benefit rights and options; and
- ◆ receipt, verification, and posting of salary, service credit, and other demographic information from the member's employer.

At A Glance

(data as of June 30, 2006)

79,164	Active Members
33,729	Inactive Members
44,683	Retired/Disabled Members
573	Employers
\$3.43 billion	Covered Payroll of Active Members
5.50%	Member Contribution Rate of Covered Salary
5%	Employer Contribution Rate of Covered Salary
\$19.04 billion	Actuarial Value of Assets
\$20.68 billion	Actuarial Liabilities
92.05%	Funding Ratio
\$1.22 billion	Annual Benefits and Refunds Paid
\$11.9 million	Annual Administrative Expenses
86	Employees

Operations

Management of the association is vested in a board of trustees, which consists of eight members, five of whom are elected from either the active or retired membership. The Board of Trustees appoints an executive director to administer the daily operations of the association. TRA is divided into six main areas of service to its members:

- ⇒ *Processing Services Division* pays over \$104 million monthly of retirement benefits and provides other post-retirement services to over 44,000 recipients.
- ⇒ *Customer Services Division* provides pre-retirement planning and other benefit counseling services to over 113,000 active and inactive teachers.
- ⇒ *Data Integrity Division* receives and records member payroll and human resource information from TRA employers and verifies for accuracy.
- ⇒ *Support Division* provides a pool of skilled and versatile employees who can assist the other divisions to manage varied seasonal workload demands.
- ⇒ *Systems Services Division* maintains computerized processing and data management services for agency operations, including the TRA home page on the world wide web.
- ⇒ *Accounting and Records Services Division* supports other operating divisions with document imaging and file maintenance activity in addition to accounts payable, procurement, and financial reporting functions.

In 2006, TRA implemented its business reengineering project (called FROST), designed to replace its aging computer systems with a state-of-the-art, fully-integrated information system that will enable TRA to provide prompt, accurate, and efficient service to our members. As of March 2006, TRA members have online access to their account information and future benefit estimates.

Under legislation passed in 2006, TRA has assumed the assets and liabilities of the former Minneapolis Teachers Retirement Fund Association (MTRFA). Approximately 14,000 active, inactive, and retired former MTRFA members were transferred to TRA effective 6/30/2006.

Key Measures

TRA's operating values in providing payments and services to its members are guided by the following principles:

- ⇒ **Accuracy:** Ensuring that all information received, maintained, and provided is clear and accurate.
- ⇒ **Quality:** Making high-quality services accessible to our customers.
- ⇒ **Timeliness:** Providing timely receipt and dissemination of information.
- ⇒ **Efficiency:** Making efficient use of technological and human resources in a team environment.
- ⇒ **Employee excellence:** Providing ongoing employee development that encourages cooperation and mutual respect, focuses on common goals, and recognizes superior performance.

Specific definitions of performance measurements and reporting were developed as part of the FROST Project.

Budget

TRA operates within a dedicated pension trust fund designed for the exclusive use of its members and beneficiaries. The TRA Board of Trustees annually approves an operating budget. The commissioner of Finance maintains an open appropriation account to fund expenditures. For FY 2007, TRA employed a staff of 86 full-time equivalent employees and expenditures are budgeted at \$1.36 billion, including \$11 million for administrative expenses. About 99% of the expenditure budget is for the payment of benefits and refunds. The main sources of fund revenues are employee contributions, employer contributions, and net income from investments held in trust.

Contact

Teachers Retirement Association
Laurie Fiori Hacking, Executive Director
60 Empire Drive, Suite 400
Saint Paul, Minnesota 55103-4000
Phone: (651) 296-2409
Fax: (651) 297-5999

Web site: <http://www.tra.state.mn.us>

TEACHERS RETIREMENT ASSOC

Agency Overview

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Fund</u>					
Open Appropriations					
Teachers Retirement	1,110,666	1,355,301	1,434,992	1,505,366	2,940,358
Total	1,110,666	1,355,301	1,434,992	1,505,366	2,940,358
<u>Expenditures by Category</u>					
Total Compensation	5,943	6,690	6,920	7,140	14,060
Other Operating Expenses	2,647	3,771	5,072	5,226	10,298
Other Financial Transactions	1,102,076	1,344,840	1,423,000	1,493,000	2,916,000
Total	1,110,666	1,355,301	1,434,992	1,505,366	2,940,358
<u>Expenditures by Program</u>					
Teachers Retire Asn	1,110,666	1,355,301	1,434,992	1,505,366	2,940,358
Total	1,110,666	1,355,301	1,434,992	1,505,366	2,940,358
Full-Time Equivalents (FTE)	82.0	86.0	86.0	86.0	

TEACHERS RETIREMENT ASSOC

Agency Revenue Summary

Dollars in Thousands

	Actual FY2006	Budgeted FY2007	Governor's Recomm. FY2008 FY2009		Biennium 2008-09
<u>Non Dedicated Revenue:</u>					
Other Revenues:					
Teachers Retirement	331,848	412,130	442,380	463,380	905,760
Total Non-Dedicated Receipts	331,848	412,130	442,380	463,380	905,760
<u>Dedicated Receipts:</u>					
Total Dedicated Receipts	0	0	0	0	0
Agency Total Revenue	331,848	412,130	442,380	463,380	905,760

	PAGE
Transmittal Letter	3
Agency Fiscal Page (Gov Rec)	5
Change Summary	7
Agency Profile	10
Programs	
Multimodal Systems	12
Program Summary	13
Budget Activities	
Aeronautics	15
Budget Activity Summary	18
➤ Airport Development/Assistance Increase	19
Transit	20
Budget Activity Summary	23
Freight	24
Budget Activity Summary	26
State Roads	27
Program Summary	28
➤ State Road Construction Realignment	30
Budget Activities	
Infrastructure Invest & Planning	32
Budget Activity Summary	34
➤ Trunk Highway Funding and Bonding	35
➤ State Road Construction Timing Change	36
➤ TRLF Repayment	37
➤ Medtronic Land Sale	38
Infrastructure Operations and Maintenance	39
Budget Activity Summary	43
Electronic Communications	44
Budget Activity Summary	47
➤ Metro Radio System to 911 Fund	48
Local Roads	50
Program Summary	51
Budget Activities	
County State Aid Roads	52
Budget Activity Summary	55
➤ Truck size and weights	
Municipal State Aid Roads	56
Budget Activity Summary	58
General Support & Services	59
Program Summary	60
Budget Activities	
Department Support	61
Budget Activity Summary	63
Buildings	64
Budget Activity Summary	66

- CONTENTS (Continued)

PAGE

➤ Dedicate Sales Tax to Transportation	67
➤ Trunk Highway Fund Sales Tax Exemption	70
➤ Compensation Adjustment	71

Appendix

Agency Revenue Summary Fiscal Page	72
Federal Funds Summary	73

➤ Designates that this item is a change item

Dollars in Thousands

	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	19,221	19,601	19,601	19,601	39,202
Recommended	19,221	20,123	19,230	19,239	38,469
Change		522	(371)	(362)	(733)
% Biennial Change from 2006-07					-2.2%
State Airports					
Current Appropriation	19,408	19,408	19,408	19,408	38,816
Recommended	19,408	19,408	25,474	25,542	51,016
Change		0	6,066	6,134	12,200
% Biennial Change from 2006-07					31.4%
Municipal State Aid Street					
Current Appropriation	117,127	120,841	120,841	120,841	241,682
Recommended	117,127	120,841	116,860	121,281	238,141
Change		0	(3,981)	440	(3,541)
% Biennial Change from 2006-07					0.1%
County State Aid Highway					
Current Appropriation	427,056	453,948	453,948	453,948	907,896
Recommended	427,056	453,948	432,966	449,352	882,318
Change		0	(20,982)	(4,596)	(25,578)
% Biennial Change from 2006-07					0.1%
Trunk Highway					
Current Appropriation	1,074,065	1,186,381	1,186,361	1,186,361	2,372,722
Recommended	1,074,065	1,186,381	1,074,166	1,152,057	2,226,223
Change		0	(112,195)	(34,304)	(146,499)
% Biennial Change from 2006-07					-1.5%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	19,138	20,224	19,230	19,239	38,469
State Airports	17,166	21,650	25,474	25,542	51,016
Municipal State Aid Street	117,051	120,841	116,860	121,281	238,141
County State Aid Highway	416,038	445,088	432,966	449,352	882,318
Trunk Highway	1,067,397	1,245,518	1,074,166	1,152,057	2,226,223
Building	5,000	0	0	0	0
Open Appropriations					
State Airports	54	50	50	50	100
Trunk Highway	4,998	4,555	4,555	4,555	9,110
Highway Users Tax Distribution	737	401	401	401	802
Statutory Appropriations					
Misc Special Revenue	17,973	49,976	24,634	24,734	49,368
State Airports	1,301	2,147	1,203	1,203	2,406
Municipal State Aid Street	2,402	2,633	2,355	2,439	4,794
County State Aid Highway	8,849	12,482	12,665	13,117	25,782
Trunk Highway	16,830	56,435	50,214	50,214	100,428
Federal	194,385	270,783	311,853	288,863	600,716
Greater Minnesota Transit	7,627	7,423	0	0	0
Miscellaneous Agency	662	602	467	467	934
Transit Assistance	0	0	8,399	9,371	17,770
Total	1,897,608	2,260,808	2,085,492	2,162,885	4,248,377

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Category</u>					
Total Compensation	308,101	319,478	324,259	330,586	654,845
Other Operating Expenses	202,479	321,136	280,052	274,258	554,310
Capital Outlay & Real Property	618,331	780,253	634,698	693,698	1,328,396
Payments To Individuals	98	70	68	68	136
Local Assistance	755,238	767,238	791,297	790,992	1,582,289
Other Financial Transactions	7,679	72,628	55,113	73,278	128,391
Non-Cash Transactions	5,682	5	5	5	10
Total	1,897,608	2,260,808	2,085,492	2,162,885	4,248,377
<u>Expenditures by Program</u>					
Multimodal Systems	158,528	248,730	277,684	256,765	534,449
State Roads	1,046,284	1,262,593	1,079,095	1,155,546	2,234,641
Local Roads	635,244	681,288	665,571	686,914	1,352,485
General Support & Services	57,552	68,197	63,142	63,660	126,802
Total	1,897,608	2,260,808	2,085,492	2,162,885	4,248,377
<u>Full-Time Equivalents (FTE)</u>	4,541.5	4,498.2	4,498.2	4,498.2	

TRANSPORTATION DEPT

Change Summary

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Fund: GENERAL				
FY 2007 Appropriations	19,601	19,601	19,601	39,202
Technical Adjustments				
One-time Appropriations		(380)	(380)	(760)
Subtotal - Forecast Base	19,601	19,221	19,221	38,442
Change Items				
FY 2007 MVST Deficiency	522	0	0	0
Compensation Adjustment	0	9	18	27
Total Governor's Recommendations	20,123	19,230	19,239	38,469
Fund: STATE AIRPORTS				
FY 2007 Appropriations	19,408	19,408	19,408	38,816
Subtotal - Forecast Base	19,408	19,408	19,408	38,816
Change Items				
Airport Development/Assistance Increase	0	6,000	6,000	12,000
Compensation Adjustment	0	66	134	200
Total Governor's Recommendations	19,408	25,474	25,542	51,016
Fund: MUNICIPAL STATE AID STREET				
FY 2007 Appropriations	120,841	120,841	120,841	241,682
Technical Adjustments				
End-of-session Estimate		(5,469)	(1,340)	(6,809)
Subtotal - Forecast Base	120,841	115,372	119,501	234,873
Change Items				
Dedication of Vehicle Leasing Sales Tax	0	1,488	1,780	3,268
Total Governor's Recommendations	120,841	116,860	121,281	238,141
Fund: COUNTY STATE AID HIGHWAY				
FY 2007 Appropriations	453,948	453,948	453,948	907,896
Technical Adjustments				
End-of-session Estimate		(26,646)	(11,373)	(38,019)
Subtotal - Forecast Base	453,948	427,302	442,575	869,877
Change Items				
Dedication of Vehicle Leasing Sales Tax	0	5,664	6,777	12,441
Total Governor's Recommendations	453,948	432,966	449,352	882,318
Fund: TRUNK HIGHWAY				
FY 2007 Appropriations	1,186,381	1,186,361	1,186,361	2,372,722
Technical Adjustments				
Approved Transfer Between Appr		0	0	0
February Forecast Adjustment		129	(329)	(200)
November Forecast Adjustment	0	(7,687)	(680)	(8,367)
One-time Appropriations		(129,750)	(129,750)	(259,500)
Subtotal - Forecast Base	1,186,381	1,049,053	1,055,602	2,104,655
Change Items				
State Road Construction Realignment	0	0	0	0
Trunk Highway Funding and Bonding	0	101,260	12,876	114,136
State Road Construction Timing Change	0	(77,000)	77,000	0
Metro Radio System to 911 Fund	0	(1,160)	(1,160)	(2,320)
Trunk Highway Fund Sales Tax Exemption	0	(4,125)	(4,660)	(8,785)

TRANSPORTATION DEPT

Change Summary

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Compensation Adjustment	0	6,138	12,399	18,537
Total Governor's Recommendations	1,186,381	1,074,166	1,152,057	2,226,223
Fund: STATE AIRPORTS				
Planned Open Spending	50	50	50	100
Total Governor's Recommendations	50	50	50	100
Fund: TRUNK HIGHWAY				
Planned Open Spending	4,555	4,555	4,555	9,110
Total Governor's Recommendations	4,555	4,555	4,555	9,110
Fund: HIGHWAY USERS TAX DISTRIBUTION				
Planned Open Spending	401	401	401	802
Total Governor's Recommendations	401	401	401	802
Fund: MISC SPECIAL REVENUE				
Planned Statutory Spending	49,976	24,034	24,134	48,168
Change Items				
Truck size and weights	0	600	600	1,200
Total Governor's Recommendations	49,976	24,634	24,734	49,368
Fund: STATE AIRPORTS				
Planned Statutory Spending	2,147	1,203	1,203	2,406
Total Governor's Recommendations	2,147	1,203	1,203	2,406
Fund: MUNICIPAL STATE AID STREET				
Planned Statutory Spending	2,633	2,355	2,439	4,794
Total Governor's Recommendations	2,633	2,355	2,439	4,794
Fund: COUNTY STATE AID HIGHWAY				
Planned Statutory Spending	12,482	12,665	13,117	25,782
Total Governor's Recommendations	12,482	12,665	13,117	25,782
Fund: TRUNK HIGHWAY				
Planned Statutory Spending	56,435	50,214	50,214	100,428
Total Governor's Recommendations	56,435	50,214	50,214	100,428
Fund: FEDERAL				
Planned Statutory Spending	270,783	311,853	288,863	600,716
Total Governor's Recommendations	270,783	311,853	288,863	600,716
Fund: GREATER MINNESOTA TRANSIT				
Planned Statutory Spending	7,423	0	0	0
Total Governor's Recommendations	7,423	0	0	0
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	602	467	467	934
Total Governor's Recommendations	602	467	467	934
Fund: TRANSIT ASSISTANCE				
Planned Statutory Spending	0	0	0	0
Change Items				
Dedicate Sales Tax to Transportation	0	8,399	9,371	17,770
Total Governor's Recommendations	0	8,399	9,371	17,770
Revenue Change Items				

TRANSPORTATION DEPT

Change Summary

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Fund: MISC SPECIAL REVENUE				
Change Items				
Truck size and weights	0	600	600	1,200
Fund: TRUNK HIGHWAY				
Change Items				
Trunk Highway Funding and Bonding	0	100,000	0	100,000
TRLF Repayment	0	4,600	0	4,600
Medtronic Land Sale	0	1,221	0	1,221
Fund: HIGHWAY USERS TAX DISTRIBUTION				
Change Items				
Dedication of Vehicle Leasing Sales Tax	0	17,400	20,820	38,220
Fund: TRANSIT ASSISTANCE				
Change Items				
Dedicate Sales Tax to Transportation	0	8,399	9,371	17,770

TRANSPORTATION DEPT

Program: STATE ROADS

Program Summary

Dollars in Thousands					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	9	389	389	389	778
Technical Adjustments					
One-time Appropriations			(380)	(380)	(760)
Subtotal - Forecast Base	9	389	9	9	18
Total	9	389	9	9	18
Trunk Highway					
Current Appropriation	1,011,949	1,124,265	1,124,245	1,124,245	2,248,490
Technical Adjustments					
Approved Transfer Between Appr			400	400	800
February Forecast Adjustment		0	129	(329)	(200)
November Forecast Adjustment		0	(7,687)	(680)	(8,367)
One-time Appropriations			(129,750)	(129,750)	(259,500)
Subtotal - Forecast Base	1,011,949	1,124,265	987,337	993,886	1,981,223
Governor's Recommendations					
State Road Construction Realignment		0	(2,000)	(2,000)	(4,000)
Trunk Highway Funding and Bonding		0	101,260	12,876	114,136
State Road Construction Timing Change		0	(77,000)	77,000	0
Metro Radio System to 911 Fund		0	(1,160)	(1,160)	(2,320)
Trunk Highway Fund Sales Tax Exemption		0	(3,691)	(4,169)	(7,860)
Compensation Adjustment		0	5,451	11,029	16,480
Total	1,011,949	1,124,265	1,010,197	1,087,462	2,097,659
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	2	409	9	9	18
Trunk Highway	1,010,200	1,176,686	1,010,197	1,087,462	2,097,659
Building	5,000	0	0	0	0
Statutory Appropriations					
Misc Special Revenue	8,265	20,286	11,916	12,016	23,932
Trunk Highway	16,829	56,432	50,214	50,214	100,428
Federal	5,580	8,688	6,707	5,793	12,500
Miscellaneous Agency	408	92	52	52	104
Total	1,046,284	1,262,593	1,079,095	1,155,546	2,234,641
<u>Expenditures by Category</u>					
Total Compensation	264,598	273,126	276,153	281,731	557,884
Other Operating Expenses	163,204	161,755	134,521	128,229	262,750
Capital Outlay & Real Property	605,259	755,637	614,761	673,761	1,288,522
Payments To Individuals	2	2	0	0	0
Local Assistance	1,173	7,504	1,267	1,267	2,534
Other Financial Transactions	6,309	64,564	52,388	70,553	122,941
Non-Cash Transactions	5,739	5	5	5	10
Total	1,046,284	1,262,593	1,079,095	1,155,546	2,234,641

TRANSPORTATION DEPT
Program: STATE ROADS

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Expenditures by Activity</u>					
Infrastructure Invest & Plng	821,688	1,025,462	845,638	920,406	1,766,044
Infrastructure Oper & Maint	210,488	229,357	227,555	229,162	456,717
Electronic Communications	14,108	7,774	5,902	5,978	11,880
Total	1,046,284	1,262,593	1,079,095	1,155,546	2,234,641
<i>Full-Time Equivalents (FTE)</i>	3,982.3	3,955.4	3,956.5	3,956.5	

TRANSPORTATION DEPT

Program: STATE ROADS

Activity: INFRASTRUCTURE INVEST & PLNG

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
Trunk Highway					
Current Appropriation	801,247	913,563	913,543	913,543	1,827,086
Technical Adjustments					
Approved Transfer Between Appr			(500)	(500)	(1,000)
February Forecast Adjustment		0	129	(329)	(200)
November Forecast Adjustment		0	(7,687)	(680)	(8,367)
One-time Appropriations			(129,750)	(129,750)	(259,500)
Subtotal - Forecast Base	801,247	913,563	775,735	782,284	1,558,019
Governor's Recommendations					
State Road Construction Realignment		0	(13,000)	(13,000)	(26,000)
Trunk Highway Funding and Bonding		0	101,260	12,876	114,136
State Road Construction Timing Change		0	(77,000)	77,000	0
Trunk Highway Fund Sales Tax Exemption		0	(903)	(1,021)	(1,924)
Compensation Adjustment		0	2,738	5,541	8,279
Total	801,247	913,563	788,830	863,680	1,652,510
<u>Expenditures by Fund</u>					
Direct Appropriations					
Trunk Highway	805,357	955,419	788,830	863,680	1,652,510
Statutory Appropriations					
Misc Special Revenue	4,085	12,783	6,401	6,401	12,802
Trunk Highway	9,815	49,219	44,648	44,648	89,296
Federal	2,402	7,949	5,707	5,625	11,332
Miscellaneous Agency	29	92	52	52	104
Total	821,688	1,025,462	845,638	920,406	1,766,044
<u>Expenditures by Category</u>					
Total Compensation	134,771	137,805	139,201	142,004	281,205
Other Operating Expenses	76,141	60,533	38,290	33,090	71,380
Capital Outlay & Real Property	599,981	755,051	614,487	673,487	1,287,974
Local Assistance	1,173	7,504	1,267	1,267	2,534
Other Financial Transactions	3,883	64,564	52,388	70,553	122,941
Non-Cash Transactions	5,739	5	5	5	10
Total	821,688	1,025,462	845,638	920,406	1,766,044
Full-Time Equivalents (FTE)	1,889.3	1,881.5	1,882.6	1,882.6	

TRANSPORTATION DEPT

Program: STATE ROADS

Change Item: Trunk Highway Funding and Bonding

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Transfer out	\$100,000	\$0	\$0	\$0
Revenues	0	0	0	0
Trunk Highway Fund				
Expenditures	101,260	12,876	23,014	46,987
Transfer in	100,000	0	0	0
Net Fiscal Impact	\$101,260	\$12,876	\$23,014	\$46,987

Recommendation

The Governor recommends a total of \$1.7 billion of trunk highway bond authorizations over a 10 year period beginning in 2008. This proposal would provide a needed infusion of funding to accelerate many highway construction projects that will preserve the value of existing highway investments and improve safety and mobility on the system throughout the state. Debt service on this proposal is estimated to cost \$14.136 million in this biennium.

The Governor also proposes that \$100 million be transferred from the General Fund in FY 2008 to the trunk highway fund to accelerate the completion of important highway projects throughout the state. Of this amount, \$95 million is for state road construction and \$5 million is for a pilot project to demonstrate technologies that will allow for the future replacement of the gas tax with a fuel-neutral mileage charge.

Background

Many badly needed highway preservation and expansion projects have languished on the drawing boards for too long. The combination of increasing vehicle volumes, aging infrastructure, and inflation in construction costs has dramatically increased the need for investment in the trunk highway system in Minnesota. The recent passage of the constitutional amendment to phase in a dedication of 100% of motor vehicle sales tax (MVST) revenues for transportation purposes provides additional revenue to fund highway construction.

Using bonds to accelerate the construction of these highway projects will provide benefits to Minnesota travelers much more quickly than would be possible if the additional MVST revenues were used for construction on a pay-as-you-go basis. In addition, it will avoid the corrosive effect of inflation on the purchasing power of this new transportation revenue source.

Although interest rates have risen modestly in the last few years, the rate of interest the state pays on general obligation debt is still below the inflation rate on construction costs experienced in the state in recent history.

The bond authorizations proposed under this proposal begin at \$100 million in 2008, increase to \$150 million for 2009 and 2010, then increase to \$200 million for 2011 through 2015. In 2016 and 2017 authorizations go back to \$150 million. The trunk highway fund has sufficient fiscal capacity to meet expected debt service requirements on this bond program under this proposal.

Relationship to Base Budget

Total appropriations from the trunk highway fund are expected be over \$2.2 billion during the 2008-2009 biennium. The expected debt service payments under this proposal will total \$14.136 million, or an increase in appropriation from the fund of around 0.6% for this biennium.

Key Measures

Key department measures include bridge condition, pavement quality, and congestion. The projects that will be constructed under this proposal will improve these measures considerably for the affected locations.

Statutory Change: Not Applicable

TRANSPORTATION DEPT
Program: LOCAL ROADS

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
Municipal State Aid Street					
Current Appropriation	117,127	120,841	120,841	120,841	241,682
Technical Adjustments					
End-of-session Estimate			(5,469)	(1,340)	(6,809)
Subtotal - Forecast Base	117,127	120,841	115,372	119,501	234,873
Governor's Recommendations					
Dedication of Vehicle Leasing Sales Tax		0	1,488	1,780	3,268
Total	117,127	120,841	116,860	121,281	238,141
County State Aid Highway					
Current Appropriation	427,056	453,948	453,948	453,948	907,896
Technical Adjustments					
End-of-session Estimate			(26,646)	(11,373)	(38,019)
Subtotal - Forecast Base	427,056	453,948	427,302	442,575	869,877
Governor's Recommendations					
Dedication of Vehicle Leasing Sales Tax		0	5,664	6,777	12,441
Total	427,056	453,948	432,966	449,352	882,318
<u>Expenditures by Fund</u>					
Direct Appropriations					
Municipal State Aid Street	117,051	120,841	116,860	121,281	238,141
County State Aid Highway	416,038	445,088	432,966	449,352	882,318
Statutory Appropriations					
Misc Special Revenue	0	244	725	725	1,450
Municipal State Aid Street	2,402	2,633	2,355	2,439	4,794
County State Aid Highway	8,849	12,482	12,665	13,117	25,782
Federal	90,904	100,000	100,000	100,000	200,000
Total	635,244	681,288	665,571	686,914	1,352,485
<u>Expenditures by Category</u>					
Total Compensation	5,215	5,344	5,014	5,014	10,028
Other Operating Expenses	6,124	10,015	10,131	10,667	20,798
Capital Outlay & Real Property	2,836	15,000	10,000	10,000	20,000
Local Assistance	621,126	650,929	640,426	661,233	1,301,659
Non-Cash Transactions	(57)	0	0	0	0
Total	635,244	681,288	665,571	686,914	1,352,485
<u>Expenditures by Activity</u>					
County State Aid Roads	515,791	557,814	546,356	563,194	1,109,550
Municipal State Aid Roads	119,453	123,474	119,215	123,720	242,935
Total	635,244	681,288	665,571	686,914	1,352,485
Full-Time Equivalents (FTE)	60.9	60.8	60.8	60.8	

TRANSPORTATION DEPT

Program: LOCAL ROADS

Activity: COUNTY STATE AID ROADS

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
County State Aid Highway					
Current Appropriation	427,056	453,948	453,948	453,948	907,896
Technical Adjustments					
End-of-session Estimate			(26,646)	(11,373)	(38,019)
Subtotal - Forecast Base	427,056	453,948	427,302	442,575	869,877
Governor's Recommendations					
Dedication of Vehicle Leasing Sales Tax		0	5,664	6,777	12,441
Total	427,056	453,948	432,966	449,352	882,318
<u>Expenditures by Fund</u>					
Direct Appropriations					
County State Aid Highway	416,038	445,088	432,966	449,352	882,318
Statutory Appropriations					
Misc Special Revenue	0	244	725	725	1,450
County State Aid Highway	8,849	12,482	12,665	13,117	25,782
Federal	90,904	100,000	100,000	100,000	200,000
Total	515,791	557,814	546,356	563,194	1,109,550
<u>Expenditures by Category</u>					
Total Compensation	3,867	3,969	3,709	3,709	7,418
Other Operating Expenses	5,070	8,757	9,081	9,533	18,614
Capital Outlay & Real Property	2,836	15,000	10,000	10,000	20,000
Local Assistance	504,075	530,088	523,566	539,952	1,063,518
Non-Cash Transactions	(57)	0	0	0	0
Total	515,791	557,814	546,356	563,194	1,109,550
Full-Time Equivalents (FTE)	44.8	44.7	44.7	44.7	

TRANSPORTATION DEPT

Change Item: Truck size and weights

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
Special Revenue Fund				
Expenditures	600	600	600	600
Revenues	600	600	600	600
Net Fiscal Impact	0	0	0	0

Recommendation

The Governor proposes that legislation be enacted to overhaul Minnesota's existing Truck Size and Weight (TS&W) laws. An extensive study was done during the last seven months of 2005, which resulted in numerous recommendations to streamline existing law. Revenue from these fees will be used for inspection and identification of local bridges to be posted, as well as erecting weight posting signs on local bridges.

Background

A major thrust of the proposed changes is to allow heavier trucks to use Minnesota's non-interstate highways, if they have additional axles to distribute the extra weight. Research has shown that heavier trucks equipped with additional axles do less damage to road pavements than lighter trucks with fewer axles. These laws affect the cost of transportation for Minnesota's freight shippers and carriers. Allowing heavier payloads means fewer truck trips and lower transportation costs. Changes to these laws will improve productivity and local access, allow for more direct routing of freight, all the while promoting uniformity. Allowing heavier vehicles also means that some additional bridges would need to be posted. This proposal addresses that concern by setting annual permit fees for the heavier trucks; these fees are estimated to raise approximately \$600,000 per year.

The most prominent of the proposals to increase allowable truck weights would allow 90,000 pound trucks with six axles. They would be the same dimensions as today's five axle combinations. They would be allowed to reach 99,000 pounds during winter and seasonal harvest periods. Additionally it is proposed to allow 97,000 pound trucks with seven axles and 108,000 pound twin-trailer trucks with 8 axles. The legislation would also change spring load restrictions, remove the 73,280 pound limit for 5 axle semi-trailers on 9-ton roads, clean up a few selected truck size and weight regulations in statute and, in a few cases, bring state law into conformance with federal requirements.

Alternatives Considered

Minnesota's laws regarding allowable weight limits, lengths, and widths of commercial motor vehicles are designed to ensure safe vehicle operation on Minnesota's roadways, and to preserve the state's investment in highway and bridge infrastructure.

In recent years, the Legislature has approved many exceptions and special provisions to state laws governing TS&W on state and local roads. In light of changing patterns of economic growth and logistics, continued increases in truck traffic, and numerous requests for changes to laws, a comprehensive review of Minnesota's state TS&W laws was needed.

Accordingly, Mn/DOT undertook a substantial study of TS&W laws during the last seven months of 2005. Mn/DOT developed a list of recommended changes to Minnesota's TS&W laws for consideration by the 2006 legislature. However, the 2006 legislature chose not to consider proposed legislation developed to implement these recommendations.

Statutory Change: Changes to Minnesota Statutes chapter 169.

TRANSPORTATION DEPT

Program: LOCAL ROADS

Activity: MUNICIPAL STATE AID ROADS

Budget Activity Summary

<i>Dollars in Thousands</i>					
	Current		Governor's Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
Municipal State Aid Street					
Current Appropriation	117,127	120,841	120,841	120,841	241,682
Technical Adjustments					
End-of-session Estimate			(5,469)	(1,340)	(6,809)
Subtotal - Forecast Base	117,127	120,841	115,372	119,501	234,873
Governor's Recommendations					
Dedication of Vehicle Leasing Sales Tax		0	1,488	1,780	3,268
Total	117,127	120,841	116,860	121,281	238,141
<u>Expenditures by Fund</u>					
Direct Appropriations					
Municipal State Aid Street	117,051	120,841	116,860	121,281	238,141
Statutory Appropriations					
Municipal State Aid Street	2,402	2,633	2,355	2,439	4,794
Total	119,453	123,474	119,215	123,720	242,935
<u>Expenditures by Category</u>					
Total Compensation	1,348	1,375	1,305	1,305	2,610
Other Operating Expenses	1,054	1,258	1,050	1,134	2,184
Local Assistance	117,051	120,841	116,860	121,281	238,141
Total	119,453	123,474	119,215	123,720	242,935
Full-Time Equivalents (FTE)	16.1	16.1	16.1	16.1	

TRANSPORTATION DEPT

Change Item: Dedicate Sales Tax to Transportation

Fiscal Impact (\$000s)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
General Fund					
Expenditures	\$8,369				
Revenues		(29,000)	(34,700)	(39,200)	(45,000)
Other Fund					
Expenditures, County State Aid Fund		5,664	6,777	7,656	8,789
Expenditures, Municipal State Aid Fund		1,488	1,780	2,011	2,309
Expenditures, transit, metro		129,783	158,174	187,644	221,966
Expenditures, transit, Greater Minnesota		8,399	9,371	10,343	11,847
Revenues, Highway User Tax Distribution Fund		17,400	20,820	23,520	27,000
Revenues, Transit Assistance Fund		11,600	13,880	15,680	18,000
Net Fiscal Impact	\$8,369	145,334	176,102	207,654	244,911

Recommendation

The Governor recommends enacting legislation to implement the constitutional amendment that fully dedicates motor vehicle sales tax (MVST) revenues to transportation purposes. The enabling legislation will allocate MVST revenues 60% to highway purposes and 40% to transit purposes phased-in over a five year period. After the phase-in, 38% of MVST would be for metropolitan transit and 2% would be for Greater Minnesota transit.

The Governor also recommends statutorily dedicating the sales tax on motor vehicle leases on the same basis as the constitutional dedication of MVST.

The Governor also recommends FY 2007 deficiency appropriations from the General Fund of \$7.847 million to the Metropolitan Council and \$522,000 to Mn/DOT to reflect the decline in MVST revenues for FY 2007 from the February 2006 forecast to the November 2006 forecast.

Background

On November 7, 2006, the citizens of Minnesota authorized changing the Minnesota Constitution to dedicate 100% of MVST revenues to transportation purposes. Statutory enabling legislation is required to implement this change. This proposal would change the existing deposit of MVST revenues in M. S. 297B.09 subdivision 1, to provide a five-year phase-in dedicating 60% of MVST revenues to the highway user tax distribution fund (HUTDF) and 40% of MVST revenues to a transit assistance fund. The transit assistance fund would have two accounts, one for metropolitan transit purposes and one for Greater Minnesota transit purposes. The final split between these two accounts would be 38% of MVST for metropolitan transit programs and 2% for Greater Minnesota programs (95%/5% of the 40%). Legislation must be passed to distribute the revenues to the HUTDF and to a newly created transit assistance fund and also to distribute the transit funds to the metropolitan and Greater Minnesota transit accounts.

Under current law motor vehicle leases are taxed based on the provisions of Minnesota Statutes Chapter 297A; accordingly, this revenue is deposited in the General Fund. The Governor proposes that the provision for depositing this revenue be statutorily changed such that this revenue would be treated the same as revenue from MVST, since purchasing a motor vehicle compared with acquiring the use of a vehicle through a lease are conceptually similar. This proposal would change how sales tax revenue on motor vehicle leases is deposited from the GF to transportation funds and would be phased in from 2008 to 2012 (the same as for MVST) such that in 2012 60% of the revenue would be deposited in the highway user tax distribution fund and 40% would be deposited in a transit assistance fund.

Revenue received in the highway user tax distribution fund is further distributed to the trunk highway fund (58.9%), the county state aid highway fund (32.55%), and the municipal state aid street fund (8.55%), in accordance with Article XIV of the Minnesota Constitution.

TRANSPORTATION DEPT

Change Item: Dedicate Sales Tax to Transportation

Relationship to Base Budget

The November 2006 forecast assumed the following with respect to the dedication of sales tax for transportation:

- ◆ 60% of MVST to the HUTD and 40% of MVST to a transit assistance fund;
- ◆ No current law authority for spending from transit assistance fund;
- ◆ Discontinuation of spending from metropolitan area transit fund and Greater Minnesota transit fund from FY 2008; and
- ◆ Change in revenue to GF from MVST dedication to transportation.

This proposal changes the February 2007 forecast as follows

- ◆ Highways: addition of revenue from dedication of sales tax on leases, same basis as MVST;
- ◆ Additional direct appropriations for CSAH and MSAS spending on roads and highways to reflect the additional transfer of funds from the HUTD from the proposed dedication of sales tax on leasing;
- ◆ Transit: provide statutory dedication of transit assistance fund to metropolitan and Greater Minnesota transit, including \$408,000 in FY 2008 and \$416,000 in FY 2009 and beyond for administration of the Greater Minnesota program at Mn/DOT;
- ◆ Transit: addition of revenue from dedication of sales tax on leases, same basis as MVST; and
- ◆ Change in revenue to GF from dedication of sales tax on leases (shown in the Governor's tax initiatives).

The proposed phase in schedule from both MVST and sales tax on leases is shown in the following table.

	General Fund	HUTD	Transit Fund	Of which, Metropolitan	Of which, Greater Minnesota
FY 2008	36.25%	38.25%	25.50%	23.95%	1.55%
FY 2009	26.25%	44.25%	29.50%	27.85%	1.65%
FY 2010	16.25%	50.25%	33.50%	31.75%	1.75%
FY 2011	6.25%	56.25%	37.50%	35.60%	1.90%
FY 2012	0%	60.00%	40.00%	38.00%	2.0%

The impact of this proposal in terms of additional revenues and/or spending to highway and transit funds, using the phase in above, and compared to the February 2007 forecast, is as follows:

Fiscal Impact (\$000s), compared to February 2007 forecast	FY 2008	FY 2009	FY 2010	FY 2011
HUTD, additional revenue				
Dedication of sales tax on leasing	\$17,400	\$20,820	\$23,520	\$27,000
Highway spending changes				
CSAH additional appropriation	5,664	6,777	7,656	8,789
MSAS additional appropriation	1,488	1,780	2,011	2,309
Transit Assistance Fund, additional revenue				
Dedication of sales tax on leasing	11,600	13,880	15,680	18,000
Note: 40% of constitutional dedication already in Transit Assistance Fund in November 2006 forecast				
Transit, Metropolitan, additional spending				
Constitutional Amendment	118,888	145,071	172,784	204,878
Dedication of sales tax on leasing	10,895	13,104	14,861	17,088
Transit, Greater Minnesota, additional spending				
Constitutional Amendment	7,694	8,595	9,524	10,935
Dedication of sales tax on leasing	705	776	819	912

TRANSPORTATION DEPT

Change Item: Dedicate Sales Tax to Transportation

Statutory Change: Change the deposit of MVST revenues in M.S. 297B.09, subdivision 1, to phase-in a 100% dedication to transportation purposes over five years. Dedicate the sales tax on leased vehicles in M.S. 297A.815 on the same basis as changes in M.S. 297B. Pass legislation creating a new transit assistance fund and establishing a metropolitan transit account to receive, by 2012 and thereafter, 38% of the total MVST and leased vehicle sales tax revenues and a Greater Minnesota transit account to receive 2% of the total MVST and leased vehicle sales tax revenues. Statutorily appropriate revenues in the transit accounts.

TRANSPORTATION DEPT

Agency Revenue Summary

Dollars in Thousands

	Actual FY2006	Budgeted FY2007	Governor's Recomm. FY2008	FY2009	Biennium 2008-09
<u>Non Dedicated Revenue:</u>					
Departmental Earnings:					
General	199	165	165	165	330
Trunk Highway	7,536	5,661	111,161	6,561	117,722
Grants:					
Municipal State Aid Street	151	179	179	179	358
County State Aid Highway	202	300	300	300	600
Trunk Highway	391,872	456,000	271,103	394,442	665,545
Other Revenues:					
General	116	0	0	0	0
State Airports	797	362	679	719	1,398
Municipal State Aid Street	4,772	5,600	6,000	6,200	12,200
County State Aid Highway	13,547	14,400	15,000	15,400	30,400
Trunk Highway	18,916	15,925	18,346	17,325	35,671
Highway Users Tax Distribution	1,486	2,000	2,050	2,100	4,150
Other Sources:					
General	14	0	0	0	0
Taxes:					
General	2,170	0	0	0	0
State Airports	9,316	13,516	14,106	14,106	28,212
Municipal State Aid Street	914	871	0	0	0
County State Aid Highway	3,496	3,331	0	0	0
Trunk Highway	110	0	0	0	0
Highway Users Tax Distribution	0	0	17,400	20,820	38,220
Total Non-Dedicated Receipts	455,614	518,310	456,489	478,317	934,806
<u>Dedicated Receipts:</u>					
Departmental Earnings:					
Misc Special Revenue	1,036	1,483	2,300	2,400	4,700
State Airports	401	500	500	500	1,000
Trunk Highway	4,918	3,900	3,900	3,900	7,800
Miscellaneous Agency	0	1	1	1	2
Grants:					
Misc Special Revenue	6,559	17,612	7,040	7,040	14,080
Trunk Highway	83,632	39,900	39,900	39,900	79,800
Federal	193,219	267,695	311,684	288,697	600,381
Other Revenues:					
Misc Special Revenue	12,492	14,396	13,294	13,294	26,588
State Airports	0	3	3	3	6
Trunk Highway	2,719	2,143	2,143	2,143	4,286
Federal	1,087	133	169	166	335
Miscellaneous Agency	254	416	416	416	832
Other Sources:					
Misc Special Revenue	2,686	2,000	2,000	2,000	4,000
State Airports	564	700	700	700	1,400
Trunk Highway	9,686	7,819	4,247	4,247	8,494
Miscellaneous Agency	30	50	50	50	100
Taxes:					
Transit Assistance	0	0	8,399	9,371	17,770
Total Dedicated Receipts	319,283	358,751	396,746	374,828	771,574
Agency Total Revenue	774,897	877,061	853,235	853,145	1,706,380

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2006	FY2007	FY2008	FY2009	2008-09
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	230,973	231,253	231,253	231,253	462,506
Recommended	230,973	231,253	245,019	255,461	500,480
Change		0	13,766	24,208	37,974
% Biennial Change from 2006-07					8.3%
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	219,020	243,151	245,019	255,461	500,480
Statutory Appropriations					
General	205	584	769	769	1,538
Misc Special Revenue	154	135	135	135	270
Federal	511	411	412	412	824
Miscellaneous Agency	837	214	198	198	396
Gift	55	92	0	0	0
Total	220,782	244,587	246,533	256,975	503,508
<u>Expenditures by Category</u>					
Total Compensation	182,330	193,409	193,013	193,013	386,026
Other Operating Expenses	37,416	51,138	53,495	63,937	117,432
Local Assistance	215	25	25	25	50
Other Financial Transactions	821	15	0	0	0
Total	220,782	244,587	246,533	256,975	503,508
<u>Expenditures by Program</u>					
Trial Courts	220,782	244,587	246,533	256,975	503,508
Total	220,782	244,587	246,533	256,975	503,508
Full-Time Equivalents (FTE)	1,906.9	2,745.6	2,745.6	2,745.6	

TRIAL COURTS

Change Summary

<i>Dollars in Thousands</i>				
	FY2007	Governor's Recomm.		Biennium
		FY2008	FY2009	2008-09
Fund: GENERAL				
FY 2007 Appropriations	231,253	231,253	231,253	462,506
Subtotal - Forecast Base	231,253	231,253	231,253	462,506
Change Items				
Judicial Branch Increase	0	13,766	24,208	37,974
Total Governor's Recommendations	231,253	245,019	255,461	500,480
Fund: GENERAL				
Planned Statutory Spending	584	769	769	1,538
Total Governor's Recommendations	584	769	769	1,538
Fund: MISC SPECIAL REVENUE				
Planned Statutory Spending	135	135	135	270
Total Governor's Recommendations	135	135	135	270
Fund: FEDERAL				
Planned Statutory Spending	411	412	412	824
Total Governor's Recommendations	411	412	412	824
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	214	198	198	396
Total Governor's Recommendations	214	198	198	396
Fund: GIFT				
Planned Statutory Spending	92	0	0	0
Total Governor's Recommendations	92	0	0	0

TRIAL COURTS

Change Item: Judicial Branch Increase

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$13,766	\$24,208	\$24,208	\$24,208
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$13,766	\$24,208	\$24,208	\$24,208

Recommendation

The Governor recommends a general funding increase for the major judicial branch agencies to recognize compensation-related, caseload, and other cost pressures in the criminal justice area. The Governor makes no specific recommendations on judicial branch agency change requests.

Background

The Governor respects the separation of powers and the desire of officials in the judicial branch and legislative branches and other constitutional officers to independently present their 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 and balanced budget.

Relationship to Base Budget

Base funding for state courts in the judicial branch in the FY 2008-09 biennium is \$563 million. The funding increase recommended is about 8.2% for the biennium.

PAGE

Transmittal Letter	2
Summary – Tax Policy, Aids and Credits Budget Presentation	3
Governor's Recommended Tax Initiatives for the 2008-09 Biennium	4
Change Items	
➤ Enhanced Homestead Market Value Credit	5
➤ Operating Capital: Increasing the Equalizing Factor	6
➤ Local Government Aid Increase	7
➤ Enhancing the PTR Program	8
➤ Increased Payments to Counties	9
➤ Property Tax Refund Interaction	9a
➤ Utility Value Replacement Transition Aid	9b
➤ Military Income Tax Subtraction	10
➤ Federal Conformity	11
➤ Expand Section 125 Plans	13
➤ Accelerate Single Sales	14
➤ Capital Equipment Upfront Exemption	15
➤ Dairy Investment Credit	16
➤ JOBZ Extension	17
➤ Sales Tax Exemption for a Large Corporate Expansion	18
➤ Tax Credit for Investors in Emerging Businesses	19
➤ Lease Sales Tax to Transportation	20
➤ Sales Tax Exemption for the Trunk Hwy Fund	21
➤ Commuter Rail Sales Tax Exemption	22
➤ Adjustment for Pollution Control Facilities	23
➤ Streamlined Sales Tax Changes	24
➤ Increase the Budget Reserve	25

➤ Designates that this item is a change item

Tax Policy, Aids and Credits Budget Presentation

Summary

The Governor's tax initiatives for the 2008-09 biennium include several changes to tax policy and local aids and credits expenditures. These initiatives focus on the following strategic outcomes:

- permanent property tax relief for homeowners;
- targeted income tax relief for individuals;
- strategic tax relief to improve the competitiveness of Minnesota businesses; and
- tax changes that help direct more money to transportation financing.

The table on the next page and the succeeding narratives describe the Governor's recommended tax changes and their fiscal impact. Some of the tax-related items affect other policy areas and more information on them can be found in other parts of the state budget presentation. In those cases, the sponsoring agency is identified.

Below, is a table that helps to summarize the Governor's tax initiatives by separating out the total dollars by tax and expenditure type. The positive numbers represent expenditures or revenue losses.

Table: Governor's 2008-09 Tax Policy, Aids and Credits Budget Summary Separated by Tax Type

Expenditure/Revenue Type (dollars in 000s)	Gov's Rec. 2008	Gov's Rec. 2009	Gov's Rec. 2010	Gov's Rec. 2011
Tax Aids and Credits	-	\$58,837	\$59,543	\$59,336
Individual Income Tax	\$36,585	\$19,910	\$27,325	\$46,950
Corporate Franchise Tax	\$12,955	\$17,255	\$22,610	\$27,410
Sales and Use Tax	\$48,695	\$48,950	\$48,060	\$52,140

The Governor is also recommending an increase in the General Fund Budget Reserve from \$653 to \$800 million in FY 2008. At this level, the reserve would equal approximately 4.5 percent of proposed General Fund spending for FY 2009.

TAX POLICY, AIDS AND CREDITS

Governor's Recommended Tax Initiatives for the 2008-09 Biennium

Governor's Recommendations*	Fund	2008 Gov Rec	2009 Gov Rec	2008-09 Gov Rec
Property Tax Relief				
Enhanced Market Value Credit	General	-	44,100	44,100
<i>Operating Capital Levy Replacement</i>	<i>General</i>	-	<i>40,163</i>	<i>40,163</i>
LGA Increase (2%)	General	-	10,000	10,000
Enhancing the PTR Program	General	-	9,100	9,100
<i>Short Term Offender Reimbursement (County Relief)</i>	<i>General</i>	<i>2,190</i>	<i>2,190</i>	<i>4,380</i>
<i>Targeted Case Management (County Relief)</i>	<i>General</i>	<i>40,000</i>	-	<i>40,000</i>
Property Tax Refund Interaction	General		(4,700)	(4,700)
Utility Value Replacement Transition Aid	General		337	337
Subtotal		42,190	101,190	143,380
Tax Relief for Individuals				
Military Income Tax Subtraction	General	5,800	12,100	17,900
Federal Conformity (Includes Tuition Deduction)	General	25,985	3,010	28,995
<i>Section 125 Mandate</i>	<i>HCAF</i>	-	<i>2,300</i>	<i>2,300</i>
Subtotal		31,785	17,410	49,195
Tax Relief for Businesses				
Accelerate Single Sales	General	4,300	16,000	20,300
Capital Equipment Upfront Exemption	General	7,150	4,130	11,280
Dairy Investment Tax Credit	General	4,800	4,800	9,600
JOBZ Extension	General	100	300	400
Sales Tax Exemption for MN Company	General	3,815	2,295	6,110
Tax Credits for Emerging Businesses	General	6,000	-	6,000
Federal Conformity	General	2,555	955	3,510
Subtotal		28,720	28,480	57,200
Tax Changes to Help Transportation Funding				
Lease Sales Tax to Transportation	General	29,000	34,700	63,700
Sales Tax Exemption for Trunk Hwy. Fund	General	4,125	4,660	8,785
Commuter Rails Sales Tax Exemption	General	4,600	3,100	7,700
Subtotal		37,725	42,460	80,185
Miscellaneous Changes For Administrative Ease				
Adjustment for Pollution Control Facilities	General	50	(20)	30
Streamlined Sales Tax Changes	General	5	65	70
Subtotal		55	45	100
Changes to the Budget Reserve				
Increase the Budget Reserve to \$700 Million	General	147,000		

* Recommended items in italics are primarily being carried in other budget areas and are presented here to give an overall view of all the tax-related budget initiatives.

Change Item: Enhanced Homestead Market Value Credit

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	\$44,100	\$42,800	\$40,700
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	\$44,100	\$42,800	\$40,700

Recommendation

The Governor recommends changing the market value credit program so that more homes are included, and most homeowners get an increased credit. This would provide a statewide reduction in property taxes for more than 1.45 million homeowners.

Background

Residential homesteads benefit from a state-funded market value homestead credit. Currently, 1.45 million homeowners receive a market value credit. The credit amount is equal to 0.4% of market value up to a maximum credit of \$304, which occurs on a home valued at \$76,000. The credit begins to decrease on homes valued at more than \$76,000. Homes valued above \$414,000 receive no credit. The credit is shown on the property tax statement as a subtraction after the gross property tax has been computed.

Local governments, whose revenues would be affected by the state credit, are “made whole” by a direct aid payment from the state. The cost of the credit reimbursement was \$272.5 million in 2006 (FY2007) paid by out general fund.

The Governor’s proposal would increase the market value credit on homes valued between \$76,000 and \$414,000 by an additional \$38 in credit. The maximum credit would remain at \$304. Homes valued between \$414,000 and \$455,778 would receive the market value credit for the first time. Homes valued above \$455,778 would not receive a credit.

Relationship to Base Budget

This proposal would increase projected homestead market value credit expenditures by 17% in FY 2009.

Statutory Change: Minn. Stat. 273.1384

Change Item: Local Government Aid Increase

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	\$10,000	\$10,000	\$10,000
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	\$10,000	\$10,000	\$10,000

Recommendation

The Governor recommends increasing local government aid (LGA) by \$10 million, which is approximately a two percent increase. In cities with a population of more than 100,000, the increase would be dedicated to public safety purposes in order to help address public safety concerns raised in larger metropolitan cities. Increasing state funding for LGA reduces the pressure on local governments to raise property taxes when they choose to increase local spending. With less reliance on property tax increases for funding, the burden on property taxpayers would also be reduced.

The Governor also recommends adjusting the distribution of LGA to mitigate aid volatility from year-to-year that has been a concern of some cities.

Background

Minnesota has a history of supplementing local government revenues with state general fund aid payments. For 2006, \$485 million in aid was dispersed to 747 cities; 106 cities did not receive any LGA. LGA is distributed based on a needs-based formula incorporating many statistical factors beyond the control of the individual cities.

Advocates of state aid payments have advanced several reasons for this financial relationship including:

- ⇒ State aid payments help communities with limited property wealth to provide basic local services without undue property tax burden.
- ⇒ State aid payments help offset the cost of state mandates.
- ⇒ State aid payments help limit the overall property tax burden.

Critics of state aid payment have also advanced several concerns about this financial relationship including:

- ⇒ State aid distribution formulas are often based more on historical spending patterns than need.
- ⇒ State aid programs do not have specific objectives or accountability measures.
- ⇒ State aid drives increased spending by local governments; it does not reduce property taxes.

Because the LGA formula is based on several statistical factors, and those factors do change from year to year, LGA payments to individual local units of government can vary significantly from year-to-year. This variability makes it harder for cities to plan their budgets. To help alleviate this LGA volatility, the Governor recommends that 50% of local government aid for a current year be based on the previous year's formula. Eliminating this volatility is expected to have no state fiscal impact.

Relationship to Base Budget

This proposal would increase local government aid spending by approximately 2%.

Statutory Change: Minn. Stat. § 477A.03

Change Item: Enhancing the PTR Program

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$0	\$9,100	\$10,500	\$11,900
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$0	\$9,100	\$10,500	\$11,900

Recommendation

The Governor recommends increasing the maximum property tax refund available to eligible homeowners. This would provide additional property tax relief directly to homeowners who are experiencing high property tax burdens as compared to their incomes.

Background

The homeowner's property tax refund program (sometimes called the "circuit breaker" or the PTR) is a state-paid refund that provides tax relief to homeowners whose property taxes are high relative to their incomes. If property tax obligations exceed a threshold percentage of income, a capped refund is provided equal to a percentage of the tax over the threshold. As income increases:

- ⇒ the threshold percentage increases;
- ⇒ the share of tax over the threshold that the taxpayer must pay increases; and
- ⇒ the maximum refund decreases.

Currently, there are about 300,000 homeowners who benefit from the property tax refund program. Approximately 40 percent of those homeowners are seniors or disabled. The current program is available to homeowners with incomes less than \$91,120 in 2006. To receive a refund, eligible homeowners file a property tax refund form with the Department of Revenue each year and receive their refund around the end of September (usually in time to help pay the second-half of their annual property tax payment). Under current law, the state will refund about \$214.1 million¹ in property taxes to homeowners in FY2007 through the property tax refund program.

The Governor's proposal would increase the maximum refund by 25 percent for taxpayers with incomes of approximately \$0 to \$10,000; 20 percent for incomes \$10,000 to \$20,000; 15 percent for incomes \$20,000 to \$40,000; and 10 percent for incomes more than \$40,000. The maximum refund amounts would increase as follows:

Income	Current maximum refund	New maximum refund
\$0 - \$10,000	\$1,630 - \$1,740	\$2,040 - \$2,180
\$10,000 - \$20,000	\$1,450 - \$1,570	\$1,740 - \$1,880
\$20,000 - \$40,000	\$1,280 - \$1,390	\$1,470 - \$1,610
\$40,000 and more	\$390 - \$1,280	\$350 - \$1,160

Relationship to Base Budget

This proposal would increase the estimated expenditures for the homeowner's property tax program by 3.9% in FY 2009.

Statutory Change: Minn. Stat. § 290A.04

¹ From February 2007 forecast.

TAX POLICY, AIDS, AND CREDITS

Change Item: Property Tax Refund Interaction

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	(\$4,700)	(\$4,600)	(\$4,450)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	(\$4,700)	(\$4,600)	(\$4,450)

Recommendation

Several of the Governor's recommended tax initiatives will reduce the growth of homestead property taxes. Enacting these initiatives could also result in lower financial obligations for property tax refund program payments.

Background

The property tax refund program provides property tax relief to homeowners whose property taxes are high relative to their incomes. The Governor's recommended tax initiatives increasing local government aid, setting levy limits, increasing the equalizing factor for the operating capital levy, and enhancing the market value credit all contribute to reduced growth in homeowner property taxes. Reduced growth in property taxes will mean lower expenditures from the property tax refund program relative to February forecast assumptions.

Relationship to Base Budget

The Governor's recommended tax initiatives decrease estimated expenditures for the homeowner's property tax refund program by 2% in FY 2009.

Statutory Change: Not Applicable.

TAX POLICY, AIDS AND CREDITS

Change Item: Utility Value Replacement Transition Aid

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	\$337	\$843	\$1,686
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	0	\$337	\$843	\$1,686

Recommendation

The Governor recommends providing aid to certain local governments whose property tax revenues are adversely affected by a recent rule change regarding the valuation of utility property.

Background

The Department of Revenue has recently adopted administrative rule changes relating to the valuation of utility property. The new rule will be phased in over a three-year period. These valuation adjustments will result in lower utility property values. This means that less local property tax revenue will come from utility properties, possibly shifting taxes to other property types, such as homesteads.

The recommended replacement aid will reduce the pressure to increase homeowner property taxes in those cities, towns, and school districts most affected by the rule change. It will offset any net revenue loss associated with the rule change that exceeds 5.0% of a jurisdiction's revenue base. As currently constituted, this aid would go to 6 cities, 10 towns, and 4 school districts. This is a four-year transitional aid that will end in fiscal year 2012.

Relationship to Base Budget

This proposal would result in a very small increase to total tax aid and credit expenditures.

Statutory Change: New statute necessary.

Change Item: Military Income Tax Subtraction

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	(\$5,800)	(\$12,100)	(\$19,100)	(\$26,800)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$5,800	\$12,100	\$19,100	\$26,800

Recommendation

The Governor recommends exempting all military pay and military pensions and retirement payments from Minnesota income tax if they are not currently exempt under federal or state laws. This would be given to current members of the military, military retirees, and survivors of military retirees, and would be phased-in over four years. The pay exemption would reward current members of the military for their service and help recruit future soldiers. The pension and retirement exemptions would help attract and keep veterans in Minnesota.

Background

Military pay: Under current law, active-duty members of the military (generally Army, Navy, Air Force, Marines, Coast Guard, and active-duty National Guard and Reservists) are allowed a subtraction of their federal active-duty military pay for services performed outside Minnesota to the extent it is federally taxable. National Guard and Reservists are also allowed a subtraction for certain active-duty service performed in Minnesota, such as for natural disasters and airport security. The subtraction does not apply to compensation received for drill, training, summer camp, and some other active-duty services.

The Governor's proposal would allow a subtraction for military compensation that is not currently exempt under federal or state laws, and therefore would apply to compensation received for active-duty services such as drill, training, and summer camp.

Military pensions: Military pensions are currently taxed in Minnesota. This proposal would exempt military pensions and retirement payments from Minnesota income tax.

The Governor's proposed exemption would be in the form of a subtraction from Minnesota taxable income and alternative minimum taxable income.

Relationship to Base Budget

This proposal would result in a revenue loss to the General Fund.

Statutory Change: Minn. Stat. § 290.01, subd. 19(b)

Change Item: Federal Conformity

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	(\$28,540)	(\$4,850)	(\$4,900)	(\$16,605)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$28,540	\$3,965	\$4,035	\$15,860

Recommendation

The Governor recommends that Minnesota law be amended to conform to federal tax laws passed in the Heroes Earned Retirement Opportunities Act, the Pension Protection Act of 2006, and the Tax Relief and Health Care Act of 2006 for all of tax years affected by these federal law changes. Enacted on January 20, 2007, Minnesota Session Laws 2007, Chapter 1 adopted the provisions of these federal tax laws for tax year 2006 only. The Governor's recommendation is to conform to the following federal tax laws for all other affected tax years:

The Heroes Earned Retirement Opportunities Act

- Allows military personnel who have tax-exempt combat pay to use the exempt pay as earned income for the purpose of qualifying to make tax-favored individual retirement account contributions. Enacted May 29, 2006. Effective retroactively to 2004.

The Pension Protection Act of 2006

- Makes a large number of changes to federal provisions on employer-provided defined benefit or contribution plans, IRAs, and KEOGH plans. The most significant change is removing the 2010 sunset of a number of pension and IRA liberalizations that were enacted federally in 2001 (higher employee contribution limits, high IRA limits and more liberal catch-up contributions for those over 50). This Act also includes a number of provisions dealing with deductible charitable contributions. Enacted August 17, 2006.

Tax Relief and Health Care Act of 2006

- Extends a number of tax deductions that expire at the end of 2005 for an additional two years (including the higher education tuition deduction and the educator expense deduction), a number of new provisions dealing with health savings accounts, and a new itemized deduction for mortgage insurance premiums for 2007. Enacted December 20, 2006.

Background

In Minnesota, 2.4 million individuals file individual income tax returns each year. In our tax filing system, individuals are required to correctly calculate and pay the correct amount of Minnesota individual income tax. This system only works effectively if the computation of the income tax for the vast majority of taxpayers is easy enough that the taxpayer can simply compute the correct amount of Minnesota tax.

Under current Minnesota law, the starting point for computing the Minnesota income tax is "federal taxable income" as defined in the Internal Revenue Code of 1986 as amended through May 18, 2006. Technically this means any taxpayer who has an item of income or a deduction that is changed because of post May 18, 2006 federal changes in the code needs to completely recalculate their federal taxable income before they can start their Minnesota return. For taxpayers in this position, the recalculation of federal taxable income is a difficult task even with the help of a tax professional.

In general, it has been the position of past administrations and past legislatures to conform to the federal tax code as soon as possible and to the maximum extent possible. Keeping the Minnesota system aligned is often called "federal conformity." Federal conformity is not automatic. The legislature is required to act to incorporate new federal changes into the Minnesota tax laws. The Governor's proposal adopts the current code and eliminates the need for taxpayers to recalculate their federal taxable income.

Relationship to Base Budget

Change Item: Federal Conformity

This proposal would result in a revenue loss to the General Fund.

Statutory Change: Minn. Stat. §§ 289A.02, subd. 7; 290.01, subd. 19; 290.01, subd. 19b; 290.01, subd. 31; 290.03, subd. 15; 291.005, subd. 1.

Change Item: Accelerate Single Sales

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	0	0	0
Revenues	(\$4,300)	(\$16,000)	(\$21,300)	(\$25,700)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$4,300	\$16,000	\$21,300	\$25,700

Recommendation

The Governor recommends accelerating the current transition to a single sales factor method of apportionment for the Minnesota corporate franchise tax from an eight-year period (complete in 2014) to a five-year period (complete in 2011). A faster transition to a single sales factor would allow Minnesota to be more competitive and attractive for businesses to locate and grow within the state.

Background

Many multi-state corporations generate income in more than one state. For these corporations, a formula must be used to determine what portion of the total income should be taxed by each individual state. This is called an apportionment formula. Minnesota's formula has been based on sales, property and payroll factors. The trend in many states is to move toward an apportionment formula based totally on percentage of sales within the state. The states that have done so believe this encourages businesses to expand within their state.

Legislation was passed in the 2006 session to phase in a single sales factor over eight years:

Taxable years beginning in calendar year	Sales factor (%)	Property factor (%)	Payroll factor (%)
2007	78	11	11
2008	81	9.5	9.5
2009	84	8	8
2010	87	6.5	6.5
2011	90	5	5
2012	93	3.5	3.5
2013	96	2	2
2014 and later	100	0	0

The Governor's recommendation would allow the single sales factor to be phased in by 2011:

Taxable years beginning in calendar year	Sales factor (%)	Property factor (%)	Payroll factor (%)
2007	78	11	11
2008	85	7.5	7.5
2009	90	5	5
2010	95	2.5	2.5
2011 and later	100	0	0

Relationship to Base Budget

When the sales only apportionment is fully phased in (2011), it is expected to reduce corporate franchise tax collections by approximately \$30-40 million annually.

Statutory Change: Minn. Stat. § 290.191, subds. 2 and 3

Change Item: Capital Equipment Upfront Exemption

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	0	0	0
Revenues	(\$7,150)	(\$4,130)	(\$2,480)	(980)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$7,150	\$4,130	\$2,480	\$980

Recommendation

The Governor recommends an upfront sales tax exemption for capital equipment purchased or leased by small businesses and the forest products industry.

Background

Under current law, Minnesota provides a sales and use tax exemption for capital equipment as defined in the sales tax statute. The exemption applies to machinery and equipment used for:

- ◆ manufacturing, fabricating, mining, or refining tangible personal property to sell at retail;
- ◆ transmitting results by a customer of an online computerized data-retrieval system to sell at retail; or
- ◆ generating electricity or steam to sell at retail.

However, the exemption is administered as a tax refund. Businesses pay the sales tax at the time of purchase and then file a refund claim with the Department of Revenue. For several years, business have expressed concerns that this process is inefficient and sometimes creates financial hardship for the affected business.

The forest products industry includes businesses such as pulp, paper, and paperboard manufacturers; and wood product manufacturers. The latter category includes sawmills; veneer, plywood, and engineered wood products; millwork; and prefabricated wood building manufacturing. The upfront exemption for the forest products industry was a recommendation from the Governor's Task Force on the Competitiveness of Minnesota's Forest Industry in order to help retain and increase the competitiveness of Minnesota's forest industry. This upfront sales tax exemption would ease the administrative burden for businesses in this industry and improve their cash flow.

This proposal would also apply to businesses that meet the statutory definition of "small business", which in the production industry generally includes businesses with annual gross revenues of less than \$1 million and 20 or fewer employees. This upfront sales tax exemption would ease the administrative burden for small businesses that are upgrading their capital equipment and improve their cash flow.

Relationship to Base Budget

Since this proposal only shifts the timing of the capital equipment sales tax exemption for small businesses and the forest products industry, it will result in a one-time loss of revenue to the General Fund.

Statutory Change: Minn. Stat. § 297A.68, subd.
Minn. Stat. § 297A.75, subds. 1 and 3

Change Item: Dairy Investment Tax Credit

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	0	0	0
Revenues	(\$4,800)	(\$4,800)	(\$4,800)	(\$4,800)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$4,800	\$4,800	\$4,800	\$4,800

Recommendation

The Governor recommends providing a nonrefundable tax credit against the individual income and corporate franchise taxes to producers who invest in dairy operations. The credit would be equal to 10 percent of the first \$500,000 of qualifying dairy investments made in 2007 through 2012. Credit that exceeds tax liability could be carried forward up to 15 years.

Background

Dairy farming in Minnesota faces serious economic challenges. In the current economic environment, dairy farmers are reluctant to make new capital investments in their farms and facilities. The Governor believes a tax credit will help stimulate capital investment in this sector, helping dairy farmers sustain or grow production.

Expenditures that qualify for the dairy investment tax credit include amounts spent for the acquisition, construction, or improvement of buildings or facilities; or the acquisition of equipment for dairy animal housing, confinement, feeding, milk production, and waste management.

Relationship to Base Budget

This tax credit would result in a revenue loss to the General Fund.

Key Measures

Because this creates a new credit, the Department of Revenue will be able to report on the number of people claiming the credit and the total cost of the credit. The Department of Agriculture will be responsible for monitoring the trends within the state dairy industry and determining if the credit is creating a positive impact for the industry.

Statutory Change: New sections of statutes.

Change Item: Lease Sales Tax to Transportation

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	(\$29,000)	(\$34,700)	(\$39,200)	(\$45,000)
Other Fund				
Expenditures	0	0	0	0
Revenues	\$29,000	\$34,700	\$39,200	\$45,000
Net Fiscal Impact	\$0	\$0	\$0	\$0

Information Only

This recommendation is discussed in the Transportation budget presentation.

Recommendation

The Governor recommends statutorily dedicating the revenues from the sales tax on motor vehicle leases to transportation purposes. The dedication of the lease sales tax will be on the same basis as the constitutional dedication of the motor vehicle sales tax. This proposal will result in a loss of revenue to the General Fund and an offsetting gain to the Highway funds.

Change Item: Streamlined Sales Tax Changes

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Expenditures	0	0	0	0
Revenues	(\$5)	(\$65)	(\$65)	(\$70)
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	\$5	\$65	\$65	\$70

Recommendation

The Governor recommends two sales tax changes to conform to the Streamlined Sales Tax Program (SSTP). One is to conform to the definition of “bundled transaction” as adopted by the SSTP Governing Board in December 2006. Bundled transactions are transactions that include both taxable and nontaxable items. The other change is to conform the definition of fur clothing for purposes of making it subject to the sales and use tax.

Background

The Streamlined Sales Tax Program is a multi-state effort to simplify and modernize the administration of various state and local sales taxes in order to substantially reduce the burden of tax compliance. It includes developing uniform tax definitions of items that may be subject to sales tax. Minnesota is a full participating member of the SSTP and has fully complied with the Streamlined Sales and Use Tax Agreement.

Under current law, sellers pay use tax on the purchase price of the taxable component when the entire transaction is not subject to sales tax. According to this proposal, if a transaction meets the SSTP definition, the department recommends that the entire purchase be subject to sales tax. In addition, the department recommends language that would address bundled items that don't meet the SSTP definition of a bundled transaction. For these transactions, the seller would be required to pay use tax on the taxable component of the bundled transaction if the purchase price of the component is \$100 or more.

Currently, fur clothing is subject to a 6.5% gross receipts tax. Changing its definition to make it subject to the general sales and use tax instead will have a slight fiscal impact. The current quarterly payment under the gross receipts tax would become a monthly payment under the sales and use tax.

Relationship to Base Budget

This proposal would result in a small loss of sales tax revenue to the General Fund.

Statutory Change: Minn. Stat. § 297A.61 and Minn. Stat. § 297A.63

Change Item: Increase the Budget Reserve

Fiscal Impact (\$000s)	FY 2008	FY 2009	FY 2010	FY 2011
General Fund				
Budget Reserve	\$147,000	\$0	\$0	\$0
	0	0	0	0
Other Fund				
Expenditures				
Revenues	0	0	0	0
Net Fiscal Impact	\$147,000	\$0	\$0	\$0

Recommendation

The Governor recommends increasing the General Fund Budget Reserve from \$653 million to \$800 million in FY 2008. At the recommended level the reserve will be equal to approximately 4.5 percent of proposed general fund spending in FY 2009. The Governor supports this level as the minimum necessary to manage forecast risks inherent in state revenues and spending for the upcoming biennium.

The Governor further recommends that the current statutory ceiling on the budget reserve be removed from statute, and that the legislature enact a goal for budget reserve funding equal to five percent of authorized general fund spending for the second year of a biennium. Based on \$17.564 billion proposed spending for FY 2009, the goal for full funding of the budget reserve would be approximately \$878 million.

The Governor proposes that the reserve goal be met over the next several years by allocating a portion of any forecast general fund balances to the reserve as a first priority. If a general fund forecast balance exceeds 125 million - then the commissioner of finance would transfer up to \$50 million to the budget reserve. These automatic transfers would occur in successive positive forecasts until the reserve is funded at the 5.0 percent statutory goal.

Background

The state has two distinct general fund reserve accounts. The largest is the \$653 million Budget Reserve Account, sometimes referred to as the "rainy day fund". The Cash Flow Account of \$350 million is designed to offset potential cash shortages caused by the mismatch of monthly revenue collections and expenditure payments. It may be thought of as a checking account's minimum balance to avoid overdrafts. Both the budget reserve and the cash flow accounts were entirely depleted in 2002 as part of a solution to projected budget shortfalls. Both accounts were subsequently restored to current levels by a combination of legislative action and statutory allocation of forecast balances.

At the current level of \$653 million, the budget reserve represents approximately 3.7 percent of proposed second-year expenditures for the biennium. Nationally, five percent of *yearly* spending is generally regarded as a prudent level of rainy day funds for state budgets. The Council of Economic Advisors has consistently recommended that policy makers consider establishing a reserve as high as five percent of *biennial* revenues as a conservative cushion against economic downturns and unanticipated budget shortfalls.

The Governor's recommendation reflects the original intent when the budget reserve was first created in 1981. At that time, the annual budget was \$3.6 billion and a statutory goal of two and one-half percent of *biennial* appropriations was enacted in law. In 1983, the target percentage was removed, and in the last twenty-five years the reserve has not been systematically increased to keep up with the growth in the general fund budget.

Statutory Change: M.S. 16A.152 subdivision 1 and 2