

# ECONOMIC DEVELOPMENT

## 2002-03 Minnesota Biennial Budget

*Presented by  
Governor Jesse Ventura  
to the 82nd Legislature*

STATE OF MINNESOTA 2002-03 BIENNIAL BUDGET

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ECONOMIC DEVELOPMENT

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## TRADE & ECON DEVELOPMENT DEPT - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The statutory mission of the Department of Trade and Economic Development (DTED) is to employ all available state government resources to facilitate an economic environment that produces net new job growth in excess of the national average and to increase nonresident and resident tourism revenues. DTED envisions that this mission will be accomplished through business marketing, finance and technical assistance; through community development finance and technical assistance; through the expansion of foreign direct investment and exportation of Minnesota products; and through expanded workforce development and training activities.

### KEY STRATEGIES:

The department has primary leadership responsibility on five Big Plan initiatives:

- The Best Climate to Grow Business
- Commercialization of New Technologies
- Improving the Competitive Position of Rural Minnesota
- Trade: Tapping the World's Interest in Minnesota
- Jesse "The Tourism Governor" Ventura: Promoting Minnesota, Promoting the Industry

### OPERATING ENVIRONMENT:

The 1990s were good to Minnesota. Private employment grew 24% and solid wage growth helped 1999 per capita income to exceed the national average by 7% improving our ranking to 10<sup>th</sup>, up from 17<sup>th</sup> in 1990. Minnesota's improving business climate is one reason for this economic performance. However, slowing job growth (due in part to the labor shortage), mergers/acquisition activity and the emerging new economy highlight opportunities and challenges. Continued improvement in our business climate is key to embracing high wage job growth in key sectors including manufacturing, software development, and other high-tech industries.

One of the central organizing principles of the Governor's Big Plan initiatives is to build on the economic successes of the 1990s and this budget intends to put meat on the bones of those Big Plan initiatives for which DTED is responsible.

Moving into the new millennium, it is imperative that Minnesota retains its core businesses while simultaneously identifying and taking advantage of new business opportunities. This approach will be accomplished through continued financing and technical assistance for business development; by encouraging the commercialization of new technologies; and through support services and financing for creative entrepreneurs whose creative ideas today will spawn the

major corporations of tomorrow. All of this can only be accomplished in healthy, vital communities with adequate infrastructure, prosperous business districts, and a variety of suitable housing choices.

Increased business productivity and growing worker incomes are dependent on a well trained workforce. The time is now for Minnesota, through a variety of state agencies, to more effectively coordinate its workforce development efforts. DTED has taken an active role as a partner in the Governor's Workforce Development Council and the Governor's Workforce Development Mini-cabinet. The department's specific responsibilities in workforce development include: 1) partnering with Minnesota companies and Minnesota educational institutions to create custom training opportunities to meet specific business needs; 2) providing financing to create opportunities for people who need training in order to address worker shortages to support potential high growth industries; and 3) providing employment and training services to Minnesotans who have become unemployed through business dislocations.

Exports have driven the nation's economic boom in the 1990's, accounting for a significant share of the economic growth. Although Minnesota's exports did not increase as rapidly as the nation's during the last decade, recent quarterly statistics reflect robust growth that exceeds the national rate. Increased market and industry diversity as well as a strategy to capitalize on growing target markets have been important elements of Minnesota's performance. These efforts will be key to continued above-average growth in trade.

Strong travel conditions, both nationally and worldwide, have helped Minnesota maintain strong economic growth. Improved overall travel marketing efforts to resident and nonresident (domestic and international) will help increase Minnesota's share of several growing market segments. Minnesota's targeted marketing approach has been nationally recognized for its successful and measurable performance results. Sustaining this marketing effort will ensure that the state's travel and tourism industry and tourism related sales and tax revenues will continue to grow faster than the national average.

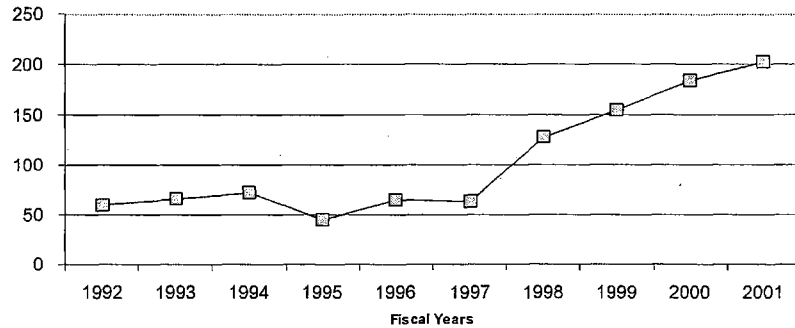
### ORGANIZATION/PROGRAM STRUCTURE:

Divisions	FTEs
Business and Community Development	69.32
Minnesota Trade Office	24.10
Minnesota Office of Tourism	83.36
Information and Analysis	21.02
Workforce Development (transferred from DES 7/1/00: 10.5 FTEs)	0
Administrative Support	27.96
6/30/00 Total Full-Time Employees (FTE)	225.75

TRADE & ECON DEVELOPMENT DEPT - EXECUTIVE SUMMARY (Continued)

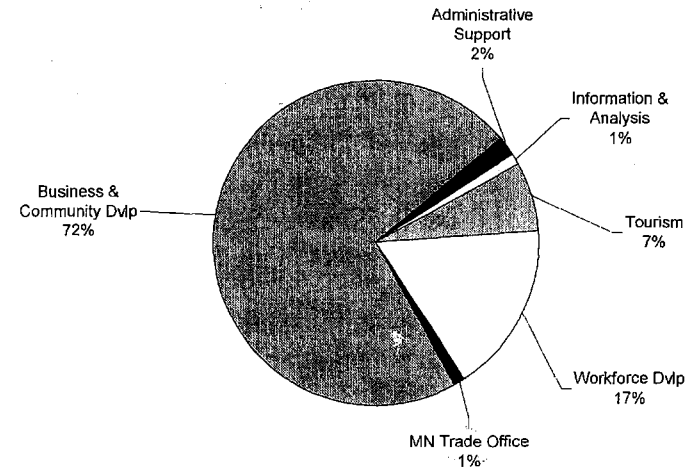
**TRENDS AND PERSPECTIVE:**

**Total Budget - All Funds**  
(\$ in Millions)

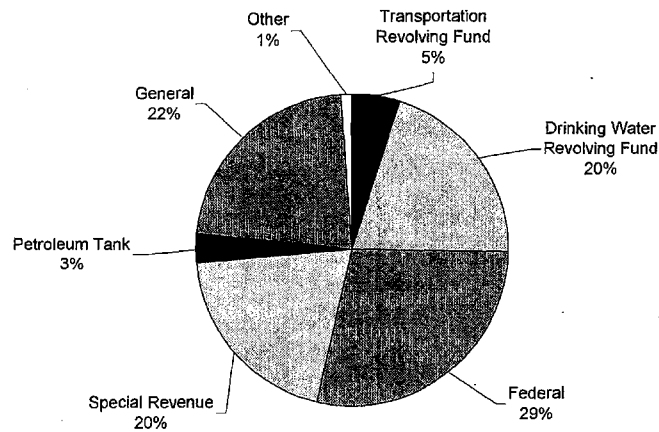


**2000-01 Expenditures by Program**

Total: \$387.418 Million

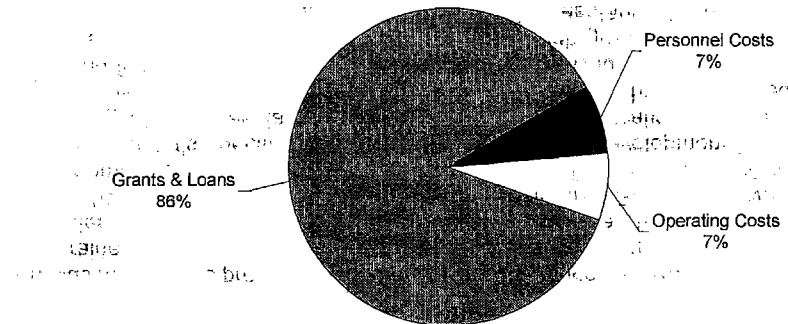


**2000-01 Expenditures by Fund**  
Total: \$387.418 Million



**2000-01 Expenditures by Category**

Total: \$387.418 Million



TRADE & ECON DEVELOPMENT DEPT - EXECUTIVE SUMMARY (Continued)

**GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends base funding levels as requested in the agency's budget, with the following adjustments:

- The Governor recommends an increase of \$155,000 per year for grants to the Metropolitan Economic Development Association.
- The Governor recommends a one-time appropriation of \$10 million for Technology Commercialization. These funds will be used to create a third-party entity to fully exploit commercial opportunities from biomedical research at the University of Minnesota.
- The Governor recommends that a one-time appropriation of \$1 million per year for 2002 and 2003 be made for transfer to the Metropolitan Council for a pilot Agricultural Land Preservation Program; and the Governor recommends \$500,000 per year for transfer to the Metropolitan Council for the Livable Communities Program.
- The Governor recommends that the base funding from the General Fund of \$5.941 million in 2002 and \$5.951 million in 2003 for the Job Skills Partnership, and the base funding of \$1.5 million for the Pathways Program in 2002 and 2003, be replaced by a single appropriation of \$10 million per year for Job Skills Partnership from the Workforce Development Fund.
- The Governor recommends the state Dislocated Worker's Program funding be eliminated, freeing up resources in the Workforce Development Fund for higher priority programs. Resources and services needed to support workers affected by economic dislocations will still be provided by the federal dislocated workers program.
- The Governor recommends that the special assessment levied on employers under M.S. 268.022 shall be suspended from 1-1-02 to 12-31-02.
- The Governor recommends an increase of \$300,000 per year from the Workforce Development Fund for Twin Cities Rise.
- The Governor recommends that, in order to implement the Minnesota Pollution Control Agency's Environmental Tax Reform Initiative, \$700,000 per year for Contaminated Site Cleanup grants be appropriated from a new Remediation Fund, rather than the Environmental Fund.

Agency: TRADE & ECON DEVELOPMENT DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Program:</b>									
BUSINESS & COMMUNITY DEVELOPME	138,382	164,864	114,700	116,152	127,807	109,166	110,821	(40,936)	(14.6%)
MINNESOTA TRADE OFFICE	2,527	2,457	3,327	3,132	3,132	3,318	3,318	666	11.5%
WORKFORCE DEVELOPMENT	0	0	66,579	36,868	19,073	37,479	19,073	(28,433)	(42.7%)
TOURISM	9,551	12,880	12,509	11,109	11,109	11,201	11,201	(3,079)	(12.1%)
INFORMATION & ANALYSIS	1,432	1,325	1,658	1,631	1,631	1,668	1,668	316	10.6%
ADMINISTRATIVE SUPPORT	3,245	2,855	4,264	3,620	3,620	3,901	3,901	402	5.6%
<b>Total Expenditures</b>	<b>155,137</b>	<b>184,381</b>	<b>203,037</b>	<b>172,512</b>	<b>166,372</b>	<b>166,733</b>	<b>149,982</b>	<b>(71,064)</b>	<b>(18.3%)</b>

<b>Financing by Fund:</b>							
<b>Direct Appropriations:</b>							
GENERAL	58,594	42,786	43,073	35,249	39,463	35,892	30,096
SPECIAL REVENUE	321	10,804	10,646	0	10,300	0	10,300
TRUNK HIGHWAY	723	742	3	0	0	0	0
TRANSPORTATION REVOLVING FUND	1,500	0	0	0	0	0	0
FEDERAL TANF	0	0	4,750	750	750	750	750
ENVIRONMENTAL	1,050	700	700	700	0	700	0
REMEDIATION	0	0	0	0	700	0	700
<b>Open Appropriations:</b>							
GENERAL	368	221	220	220	220	220	220
PETROLEUM TANK RELEASE CLEANUP	6,533	6,270	6,200	6,200	6,200	6,200	6,200
<b>Statutory Appropriations:</b>							
ENVIRONMENT & NATURAL RESOURCE	0	68	12	0	0	0	0
PUBLIC FACILITIES AUTHORITY	0	434	500	520	520	540	540
DRINKING WATER REVOLVING FUND	14,853	76,321	0	0	0	200	200
GENERAL	95	0	2	2	2	2	2
SPECIAL REVENUE	4,939	7,202	47,468	27,645	6,991	25,559	4,304
TRANSPORTATION REVOLVING FUND	22,897	141	18,424	12,599	12,599	17,377	17,377
FEDERAL	43,264	38,692	71,034	88,627	88,627	79,293	79,293
GIFT	0	0	5	0	0	0	0
<b>Total Financing</b>	<b>155,137</b>	<b>184,381</b>	<b>203,037</b>	<b>172,512</b>	<b>166,372</b>	<b>166,733</b>	<b>149,982</b>

<b>FTE by Employment Type:</b>							
FULL TIME	189.4	186.7	225.1	225.1	220.1	225.1	220.1
PART-TIME, SEASONAL, LABOR SER	32.5	30.3	27.8	22.3	22.3	22.3	22.3
OVERTIME PAY	0.3	0.3	0.2	0.1	0.1	0.1	0.1
<b>Total Full-Time Equivalent</b>	<b>222.2</b>	<b>217.3</b>	<b>253.1</b>	<b>247.5</b>	<b>242.5</b>	<b>247.5</b>	<b>242.5</b>



# TRADE & ECON DEVELOPMENT DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Budgeted Appropriations (FY 2001—Load)	\$71,127	\$71,127	\$142,254
<b><u>BASE ADJUSTMENT</u></b>			
Biennial Appropriations	3,358	3,358	6,716
Fund Change/Consolidation	(565)	(565)	(1,130)
One-Time Appropriations	(39,177)	(39,177)	(78,354)
Doc. Space Rental/Lease	208	546	754
2002-03 Sal. & Ben. Base	<u>298</u>	<u>603</u>	<u>901</u>
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$35,249</b>	<b>\$35,892</b>	<b>\$71,141</b>
<b><u>Agency Request Items</u></b>			
Metropolitan Econ. Dev. Association	155	155	310
Technology Commercialization	10,000	0	10,000
Livable Communities and Agricultural Land Preservation Pilot Program	1,500	1,500	3,000
Change funding for Job Skills Partnership and Pathways Programs	<u>(7,441)</u>	<u>(7,451)</u>	<u>(14,892)</u>
<b>Agency Request:</b>	<b>\$39,463</b>	<b>\$30,096</b>	<b>\$69,559</b>

## **BRIEF EXPLANATION OF BUDGET DECISIONS:**

- The department will spend approximately \$16 million annually, almost 44% of the base budget for grants to cities, counties, and nonprofit organizations.
- The remaining 56% of state operations funding pays for the core functions of the agency. This includes support for non-general funded activities. This excludes most federal funded activities.
- The base adjustment for biennial appropriations includes a biennial general fund increase of \$3.7 million for the Job Skills Partnership program and \$3.0 million for the Pathways program.
- The fund change/consolidation shifts the funding of the PFA administration from the General Fund to the Public Facilities Authority fund.
- The base adjustment for one-time appropriations includes an annual decrease of \$155,000 for the Metro Economic Development Association, an annual decrease of \$265,000 for WomenVenture, \$1.021 million for Tourism loans, \$220,000 for Microenterprise Technical Assistance, \$750,000 for Labor Force Assessments, \$1.0 million for catalyst grants, \$766,000 for

Travel Information Centers, \$30 million for the 21<sup>st</sup> Century Mineral Fund, and \$5 million for the Richfield Redevelopment project.

- Budget guidelines provided for a salary/benefit base and documented space rental increases.

## **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends base funding levels as requested in the agency's budget except for the following adjustments:

- The Governor recommends an increase of \$155,000 per year for grants to the Metropolitan Economic Development Association.
- The Governor recommends a one-time appropriation of \$10 million for Technology Commercialization. These funds will be used to create a third-party entity to fully exploit commercial opportunities from biomedical research at the University of Minnesota.
- The Governor recommends that a one-time appropriation of \$1 million per year for 2002 and 2003 be made for transfer to the Metropolitan Council for a pilot Agricultural Land Preservation Program; and the Governor recommends \$500,000 per year for transfer to the Metropolitan Council for the Livable Communities Program.
- The Governor recommends that the base funding from the General Fund of \$5.941 million in 2002 and \$5.951 million in 2003 for the Job Skills Partnership, and the base funding of \$1.5 million for the Pathways Program in 2002 and 2003, be replaced by a single appropriation of \$10 million per year for the Job Skills Partnership from the Workforce Development Fund.

# TRADE & ECON DEVELOPMENT DEPT - BUDGET BRIEF

## Fund: ENVIRONMENTAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Budgeted Appropriations (FY 2001-Load)	\$700	\$700	\$1,400
<b><u>BASE ADJUSTMENT</u></b>			
	-0-	-0-	-0-
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$700</b>	<b>\$700</b>	<b>\$1,400</b>
<b><u>CHANGE ITEMS</u></b>			
Change funding from Environmental Fund to new Remediation Fund.	(700)	(700)	(1,400)
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$-0-</b>	<b>\$-0-</b>	<b>\$-0-</b>

## **BRIEF EXPLANATION OF BUDGET DECISIONS:**

- The Laws of 1997, Chapter 246, Section 7 made a biennial appropriation of \$1.4 million from the Motor Vehicle Transfer (Environmental) Fund.

## **GOVERNOR'S RECOMMENDATION:**

The Governor recommends that, in order to implement the Minnesota Pollution Control Agency's Environmental Tax Reform Initiative, \$700,000 per year for Contaminated Site Cleanup grants be appropriated from a new Remediation Fund, rather than the Environmental Fund.

# TRADE & ECON DEVELOPMENT DEPT - BUDGET BRIEF

## Fund: MISCELLANEOUS SPECIAL REVENUE

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Budgeted Appropriations (FY 2001-Load)	\$-0-	\$-0-	\$-0-
<b><u>BASE ADJUSTMENT</u></b>			
	-0- (0)	-0- (0)	-0- (0)
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$-0-</b>	<b>\$-0-</b>	<b>\$-0-</b>
<b><u>CHANGE ITEMS</u></b>			
Twin Cities Rise	300	300	600
Job Skills Partnership	<u>10,000</u>	<u>10,000</u>	<u>20,000</u>
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$10,300</b>	<b>\$10,300</b>	<b>\$20,600</b>

### **GOVERNOR'S RECOMMENDATION(S):**

- The Governor recommends an increase of \$300,000 per year from the Workforce Development Fund for Twin Cities Rise.
- The Governor recommends that the base funding from the General Fund of \$5.951 million in 2002 and \$5.991 million in 2003 for the Job Skills Partnership, and the base funding of \$1.5 million for the Pathways Program in 2002 and 2003, be replaced by a single appropriation of \$10 million per year for the Job Skills Partnership from the Workforce Development Fund.

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## TRADE & ECON DEVELOPMENT DEPT - REVENUE SUMMARY

### **REVENUE SOURCES:**

DTED generates dedicated and non-dedicated revenue.

The dedicated revenue is generated from loan repayments, seminars and tourism marketing. Non-dedicated revenue is generated from loan and grant repayments.

On 7-1-2000 the Dislocated Worker Program transferred to DTED generating about \$30 million in state tax revenue in FY 2001 and \$8 million/year in federal funds.

Grants from the federal government represent about \$80 million/year from various agencies.

### **FORECAST BASIS:**

With the exception of the Dislocated Worker Program, DTED is expecting revenues to remain similar to 2000.

### **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends that the special assessment levied on employers under M.S. 268.022 for the Workforce Development Fund shall be suspended from 1-1-2002 to 12-31-2002.

Agency: TRADE & ECON DEVELOPMENT DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<b>Non-Dedicated Revenue:</b>									
<b>Departmental Earnings:</b>									
GENERAL	476	0	0	0	0	0	0	0	
CAMBRIDGE DEPOSIT FUND	1	0	0	0	0	0	0	0	
<b>Other Revenues:</b>									
GENERAL	1,195	1,837	1,011	1,011	1,011	1,011	1,011	(826)	(29.0%)
<b>Other Sources:</b>									
GENERAL	292	89	1,117	86	86	86	86	(1,034)	(85.7%)
PETROLEUM TANK RELEASE CLEANUP	71	130	100	100	100	100	100	(30)	(13.0%)
<b>Taxes:</b>									
GENERAL	5	4	0	0	0	0	0	(4)	(100.0%)
<b>Total Non-Dedicated Receipts</b>	<b>2,040</b>	<b>2,060</b>	<b>2,228</b>	<b>1,197</b>	<b>1,197</b>	<b>1,197</b>	<b>1,197</b>	<b>(1,894)</b>	<b>(44.2%)</b>

Agency: TRADE & ECON DEVELOPMENT DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<b>Dedicated Receipts:</b>									
<b>Departmental Earnings:</b>									
PUBLIC FACILITIES AUTHORITY	0	439	1,127	1,234	1,234	1,300	1,300	968	61.8%
DRINKING WATER REVOLVING FUND	0	25	77	133	133	140	140	171	167.6%
SPECIAL REVENUE	1,113	924	1,043	993	993	993	993	19	1.0%
TRANSPORTATION REVOLVING FUND	56	0	1	74	74	89	89	162	16,200.0%
<b>Grants:</b>									
DRINKING WATER REVOLVING FUND	14,853	50,694	0	0	0	0	0	(50,694)	(100.0%)
GENERAL	330	0	0	0	0	0	0	0	
SPECIAL REVENUE	40	40	40	40	40	40	40	0	0.0%
TRANSPORTATION REVOLVING FUND	6,634	16,000	12,000	0	0	0	0	(28,000)	(100.0%)
FEDERAL	43,145	37,431	71,023	88,627	88,627	79,293	79,293	59,466	54.8%
<b>Other Revenues:</b>									
DRINKING WATER REVOLVING FUND	176	4,385	0	0	0	0	0	(4,385)	(100.0%)
GENERAL	210	138	0	0	0	0	0	(138)	(100.0%)
SPECIAL REVENUE	1,803	3,469	2,950	1,428	1,428	1,434	1,434	(3,557)	(55.4%)
TRANSPORTATION REVOLVING FUND	1,025	1,386	2,689	2,600	2,600	2,272	2,272	797	19.6%
FEDERAL	139	1,252	0	0	0	0	0	(1,252)	(100.0%)
<b>Other Sources:</b>									
DRINKING WATER REVOLVING FUND	200	22,671	0	0	0	0	0	(22,671)	(100.0%)
GENERAL	0	0	2	2	2	2	2	2	100.0%
SPECIAL REVENUE	2,059	2,300	1,158	880	880	785	785	(1,793)	(51.9%)
TRANSPORTATION REVOLVING FUND	19,289	0	0	3,148	3,148	3,643	3,643	6,791	
<b>Taxes:</b>									
SPECIAL REVENUE	0	0	32,061	25,936	19,452	27,233	6,808	(5,801)	(18.1%)
<b>Total Dedicated Receipts</b>	<b>91,072</b>	<b>141,154</b>	<b>124,171</b>	<b>125,095</b>	<b>118,611</b>	<b>117,224</b>	<b>96,799</b>	<b>(49,915)</b>	<b>(18.8%)</b>
<b>Agency Total Revenues</b>	<b>93,112</b>	<b>143,214</b>	<b>126,399</b>	<b>126,292</b>	<b>119,808</b>	<b>118,421</b>	<b>97,996</b>	<b>(51,809)</b>	<b>(19.2%)</b>

## TRADE & ECON DEVELOPMENT DEPT - FEDERAL FUNDS SUMMARY

### **USEPA Clean Water SRF Program/Hardship Grants:**

#### *Importance:*

Wastewater, like drinking water, is a basic service to residents and business statewide. Without adequate treatment at affordable cost, the state would be forced to shut down business. Without wastewater treatment capacity, businesses could not expand in Minnesota.

Federal hardship grants may be provided to small, unserved communities meeting federal per capita income and unemployment criteria.

### **USEPA Clean Water Capitalization Grant/Drinking Water Capitalization Grant:**

#### *Importance:*

Wastewater and drinking water are basic services to political subdivisions of the state provided to residents and businesses statewide. Without adequate wastewater treatment and safe drinking water at affordable rates, the rural areas of the state could not compete for business expansion and relocations essential for rural diversification. Without adequate capacity, businesses could not expand and communities could not undertake smart growth principles. The results would be added pressure for sprawl-type developments on septic systems and private wells.

The drinking water fund is also used for improving operations, training, viability of the drinking water systems statewide with various set asides authorized in the Safe Drinking Water Act.

#### *Future Funding:*

The program has been authorized by the EPA through 2003.

There are no anticipated changes in funding levels at the present time. The Capitalization Grants were designed to operate in perpetuity as required under federal law. Once the federal funding ends, loan repayments and investment earnings will allow the Authority to continue to make loans, although the state may need to pay for the administrative costs once the grants end.

### **FHWA State Infrastructure Bank:**

#### *Importance:*

Transportation is an essential public service. With the growing gap between needs and funding, Congress authorized seed funds for the states to develop

infrastructure banks to accelerate projects and to seek other (additional) sources of revenues to help pay for transportation infrastructure.

#### *Future Funding:*

The momentum for this program has died in Congress over the application of the Davis Bacon Act, and it is unlikely that additional federal funds will be appropriated in the near future.

### **USHUD—Small Cities Community Development Block Grant Program:**

#### *Importance*

The federal Community Development Block Grant Program is the sole source of funding for DTED's Small Cities Development Program and an important source of funds for DTED's Minnesota Investment Fund. The program is central to the Big Plan initiative of Improving the Competitive Position of Rural Minnesota. Without the federal money, DTED would fund fewer sewer, water, and economic development projects and no new housing, commercial building or housing rehabilitation projects. This year the federal program will also provide DTED with nearly \$600,000 in administrative funds.

#### *Significant Changes:*

Program funding has changed by less than 1% in the past year. Program guidelines change continuously.

#### *Future Funding:*

Current information suggests the amount of federal CDBG funds will be close to amounts appropriated in the recent past.

### **USSBA—Small Business Development Centers:**

#### *Importance:*

The Small Business Development Center (SBDC) program enables DTED to deliver free one-on-one business management counseling and training programs at modest cost to small business owners and managers across Minnesota. DTED provides overall program management and grants federal and state funds to nine subcenters, primarily state colleges and universities, to deliver services. In 1999, the SBDCs delivered over 41,000 hours of counseling to 3,300 businesses and sponsored 154 training programs attended by 2,000 individuals. Clients indicated that as a result of SBDC assistance, they created or retained over 1,500 jobs, increased sales by more than \$80 million, and secured capital in excess of \$108 million. Without the resources supplied by the federal funds,



## TRADE & ECON DEVELOPMENT DEPT - FEDERAL FUNDS SUMMARY (Continued)

DTED would not be able to provide the assistance that helps small Minnesota companies achieve these results.

### *Significant Changes:*

No significant change in program funding is anticipated. Program guidelines change slightly from year to year.

### *Future Funding:*

No significant change anticipated. Program funds are awarded on a capitation basis. Minnesota is "at cap," meaning that absent significant new federal appropriation, no additional future funding is likely.

### **Workforce Investment Act (WIA) Title I of the Dislocated Worker Program:**

#### *Importance:*

The federal funded dislocated worker program is designed to provide workforce investment activities that will increase the employment, retention, and earnings of employees dislocated from work. The program seeks to improve the quality and skill of Minnesota's workforce in an effort to improve productivity while at the same time reducing the burden on other social service networks. The Dislocated Worker Program offers employers the skilled and retrained workers they need to remain competitive. This vital program provides needed funds to be used for both small (less than 50) and large (50 or more workers) layoffs. The state's rapid response team immediately investigates these layoffs and creates a plan for providing services to those workers. Service plans are designed to allow flexibility in tailoring specific services to the workers affected.

#### *Future Funding:*

It is projected that the current federal funding for the Dislocated Worker Program will remain at its present annual funding level or approximately \$8 million.

### **Temporary Assistance for Needy Families (TANF) Funding for The Pathways Program:**

#### *Importance:*

The Pathways program helps Minnesota businesses train and employ people making the transition from welfare-to-work. It is a matching grant program that allows educational institutions to assist employers in training individuals coming off public assistance. It requires that there be demonstrated career ladders and educational pathways.

### *Future Funding:*

The federal funds previously provided was one-time funding. It is anticipated that there will be no TANF funding for the Pathways program for the 2002-2003 biennium.

### **TANF Funding for The Health Care and Human Services Program:**

#### *Importance:*

The Health Care and Human Services Program was created to help alleviate the worker shortages in the health care and human services industries and also to help new or incumbent workers qualify for advanced employment opportunities in these industries. Grants are awarded to qualifying consortiums which include at least one educational institution, one eligible employer, and may include Workforce Centers and counties.

#### *Future Funding:*

TANF base funding for the Health Care and Human Services Program at \$750,000 per year is continued for the 2002-2003 biennium.

Funds appropriated under Minn. Law 1999, Chapter 223, Art. 1, Sec. 2, Sub. 2, will be carried forward under authority in Minn. Law 2000, Chapter 488, Sec. 16.

**TRADE & ECON DEVELOPMENT DEPT - FEDERAL FUNDS SUMMARY (Continued)**

<b>Federal Program (\$ in Thousands)</b>	<b>Related SFY 2000 Spending</b>	<b>Primary Purpose</b>	<b>SFY 2000 Revenues</b>	<b>SFY 2001 Revenues</b>	<b>Estimated SFY 2002 Revenues</b>	<b>Estimated SFY 2003 Revenues</b>
USEPA Federal Hardship Grants **	-0-	Grant Pol Subdiv	316	936	-0-	-0-
USEPA Clean Water SRF	***	Loans Pol Subdiv	-0-	-0-	24,668	24,668
USEPA Drinking Water SRF	***	Loans Pol Subdiv	1,154	3,023	15,947	15,957
USHUD Small Cities Comm Dev Block Grant	\$390	Grants Pol Subdiv	35,394	54,603	38,517	29,173
USSBA Small Business Devel Centers	\$441	State Op/Grts PS	1,466	1,349	1,350	1,350
WIA—Dislocated Wrks*	-0-	Training	-0-	8,023	8,023	8,023
EDWAA—Dislocated Wrks*	-0-	Training	-0-	2,636	-0-	-0-
TANF—Pathways**	-0-	Training	-0-	3,000	-0-	-0-
TANF—Health Care & HS	-0-	Training	-0-	1,750	750	750
USDA—Minn Rural Partners	-0-	SO	122	133	122	122
Minn Scenic Byways	\$7	SO	240	331	-0-	-0-
<b>Agency Total</b>			<b>38,692</b>	<b>75,784</b>	<b>89,377</b>	<b>80,043</b>

**KEY:**

SO—State Operations

GPS—Grants to Political Subdivisions

GI—Grants to Individuals

\*Transferred to Dept. 7/1/00

\*\* One-time appropriation available until spent

\*\*\*Usually bonding funds, overall match 20% of federal grant

NOTE: Related SFY 2000 spending includes required match only.

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## PROGRAM SUMMARY

**Program: BUSINESS & COMMUNITY DEVEL**  
**Agency: TRADE & ECON DEVELOPMENT DEPT**

### PROGRAM PROFILE:

The Business and Community Development Division is the Administration's lead agency for three Big Plan initiatives: The Best Climate to Grow Business, Rural Diversity/Improving the Competitive Position of Rural Minnesota, and Technology Commercialization. These initiatives involve new priorities and focus of the traditional DTED programs described below, as well as better coordination of these programs with federal, local, and regional initiatives. These initiatives will be discussed more thoroughly in the "Strategies and Performance" section.

The financing programs and technical services of this division are delivered directly to businesses and communities, or in partnership with economic development service providers, utilities, banks, local government and others. The division focuses its efforts on facilitating quality job creation and retention by Minnesota companies through the following program areas:

*Marketing and Business Development, and Business Finance* programs include the Minnesota Investment Fund, the Agricultural and Economic Development Boards tax exempt Revenue Bond Program, the Capital Access Program and the Tourism Loan Program. The office also maintains a marketing unit, including regionally assigned field staff and three marketing offices located in Duluth, Bemidji, and Mankato, providing outreach and first point of contact services to communities and businesses for all BCD programs and services. Staff representing this area work in partnership with other economic development organizations to expand Minnesota's economic base and create high-quality jobs.

It is projected that the efforts from this area will result in more than 9,000 new or retained jobs per annum, while leveraging more than \$100 million in private investments.

Marketing activities include coordination of the state's presence at conferences and trade shows, managing community and property data bases, training economic developers, and developing materials to market Minnesota to prospective businesses in Minnesota, nationally, and internationally.

*Community Development Programs* include financing for critical infrastructure, primarily sewer and water, commercial rehabilitation, and the rehabilitation and development of housing. Funds for these activities are received from the federally funded Small Cities Development Program. The Wastewater Infrastructure Funding Program is used to supplement wastewater loans to keep high-cost systems affordable. The office also administers Contaminated Site Cleanup Grants, Redevelopment Grants, Community Resource Program Grants,

Border City Enterprise Zone tax credits, and Mortgage Credit Certificate Aid Grants. The Minnesota Public Facilities Authority (PFA) manages a revenue bond pool to finance wastewater and drinking water projects originally capitalized through grants from the federal Environmental Protection Agency. The PFA coordinates closely with the Pollution Control Agency and the Minnesota Department of Health on these programs. The PFA is implementing a Transportation Revolving Loan Fund that is capitalized with federal and state funds.

*Small Business Assistance Office* serves as a point of first, and continuing, contact for businesses that are starting, operating, and expanding in Minnesota. The office provides "one-stop" information on business planning, financing, marketing, licensing and regulatory questions. The office also produces publications on a variety of topics on doing business in Minnesota, and administers, under federal law, the Small Business Development Centers at 20 locations around the state.

BCD provides a support role in the Governor's workforce development, telecommunications, tourism, transportation, housing, and world trade Big Plan initiatives.

BCD also administers special appropriations and disaster recovery grants.

### STRATEGIES AND PERFORMANCE:

The activities, programs and initiatives of the Business and Community Development Division are central to the Big Plan goals of Healthy, Vital Communities and Minnesota: World Competitor. The specific initiatives under the Healthy, Vital Community goal include Improving the Competitive Position of Rural Minnesota and Partnerships for Affordable Housing. The initiatives under Minnesota: World Competitor include The Best Climate to Grow Business and Commercialization of New Technologies. In addition, BCD has assumed a close support role in the Big Plan initiatives of Developing a Workforce for Tomorrow and Growing Smart in Minnesota. Following is a brief description of BCD's efforts to implement these important initiatives.

#### *Healthy, Vital Communities*

BCD is the Administration's lead entity for Improving the Competitive Position of Rural Minnesota initiative—commonly referred to as Rural Economic Diversification. This initiative was created in response to the realization that the depressed agricultural economy was the result of global market forces that are unlikely to change in the near future. Consequently, the future economic vitality of rural Minnesota is dependent on creating and nurturing a multi-sector economy.

## PROGRAM SUMMARY (Continued)

**Program: BUSINESS & COMMUNITY DEVEL**  
**Agency: TRADE & ECON DEVELOPMENT DEPT**

Through a collaborative effort with rural economic development leaders and several state agencies, economic diversification priorities have been established for six rural regions of the state. This was accomplished during the annual Rural Summit Meeting. The creation of these priorities will require state government and its agencies to change policies, administrative practices and, to a large degree, culture. Rural economic diversification includes workforce development, business development, affordable housing, applied technology, telecommunications and transportation activities.

BCD is also involved in Partnerships for Affordable Housing. Through the Small Cities Development Program, BCD partners with MHFA and the Greater Minnesota Housing Fund to create additional affordable housing units in rural Minnesota. BCD has modified its priority system for the program to assist communities with new affordable housing construction projects.

### *Minnesota: World Competitor*

BCD is also the Administration's lead entity for the Best Climate to Grow Business. BCD has increased counsel and assistance to businesses on the adoption and use of new electronic commerce (e-commerce) technology. This focus will be primarily business-to-business technology. BCD will also increase its counsel and assistance to previously underserved groups like minorities, new immigrants and veterans. Finally, the increased BCD activities support the recommendations of the Kaufman Foundation's Rural Initiatives and Entrepreneurship Academy to provide information, assistance, and financing for rural and new entrepreneurs statewide.

BCD is supporting the commercialization of new technologies through increased technical assistance to business on issues of intellectual property, technology adoption costs, due diligence and bringing productivity enhancing technology to market. BCD is also assisting with the discussion and creation of proposals for tax and other incentives to encourage the creation and use of new technology by Minnesota firms.

### *Supporting development in northeastern Minnesota*

With the recent closure of the LTV mine in Hoyt Lakes, DTED will continue to strengthen its efforts to support the development of new businesses and the expansion of existing businesses in northeastern Minnesota. DTED has a number of programs, such as the Minnesota Investment Fund, that support business development and expansion. Job training grants are also available through the Job Skills Partnership Board and specific assistance has been provided by the Dislocated Worker program. The Office of Marketing and

Business Development works to help businesses create and retain high-quality jobs. In all these efforts, DTED has worked closely with the Iron Range Rehabilitation and Resources Board to assist its efforts in supporting business development and employment growth.

### **BUDGET ISSUES:**

BCD recommends restoration in the biennial base budget of \$310,000 for the Metropolitan Economic Development Association in recognition of the continuing partnership the department has in encouraging and assisting minority entrepreneurial enterprises.

### **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends base funding levels as requested in the agency's budget except for the following adjustments:

- The Governor recommends an increase of \$155,000 per year for grants to the Metropolitan Economic Development Association.
- The Governor recommends a one-time appropriation of \$10 million for Technology Commercialization. These funds will be used to create a third-party entity to fully exploit commercial opportunities from biomedical research at the University of Minnesota.
- The Governor recommends that a one-time appropriation of \$1 million per year for 2002 and 2003 be made for transfer to the Metropolitan Council for a pilot Agricultural Land Preservation Program; and the Governor recommends \$500,000 per year for transfer to the Metropolitan Council for the Livable Communities Program.
- The Governor recommends that, in order to implement the Minnesota Pollution Control Agency's Environmental Tax Reform Initiative, \$700,000 per year for Contaminated Site Cleanup grants be appropriated from a new Remediation Fund, rather than the Environmental Fund.

Program: BUSINESS & COMMUNITY DEVELOPME  
Agency: TRADE & ECON DEVELOPMENT DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
BUSINESS FINANCE	18,745	12,180	14,670	9,277	9,277	6,552	6,552	(11,021)	(41.0%)
MRKTG & BUSINESS DEVELOPMENT	10,049	18,210	3,813	1,466	11,621	1,466	1,621	(8,781)	(39.9%)
COMMUNITY FINANCE	106,749	131,804	92,945	102,614	104,114	98,291	99,791	(20,844)	(9.3%)
SMALL BUSINESS ASSIST OFF	2,241	2,394	2,453	2,374	2,374	2,376	2,376	(97)	(2.0%)
PROGRAM SUPPORT	598	276	819	421	421	481	481	(193)	(17.6%)
<b>Total Expenditures</b>	<b>138,382</b>	<b>164,864</b>	<b>114,700</b>	<b>116,152</b>	<b>127,807</b>	<b>109,166</b>	<b>110,821</b>	<b>(40,936)</b>	<b>(14.6%)</b>

<b>Change Items:</b>	<b>Fund</b>				
(B) BIOMED INNOV & COMMERCIALIZATION	GEN			10,000	
(B) METRO ECONOMIC DEVEL ASSN	GEN			155	155
(B) LIVEABLE COMM. & AGRIC. LAND PRESERV.	GEN			1,500	1,500
(B) MPCA ENVIRONMENTAL TAX REFORM	ENV			(700)	(700)
(B) MPCA ENVIRONMENTAL TAX REFORM	REM			700	700
<b>Total Change Items</b>				<b>11,655</b>	<b>1,655</b>

<b>Financing by Fund:</b>							
<b>Direct Appropriations:</b>							
GENERAL	43,796	26,105	19,410	10,237	21,892	10,312	11,967
SPECIAL REVENUE	321	10,804	0	0	0	0	0
TRANSPORTATION REVOLVING FUND	1,500	0	0	0	0	0	0
ENVIRONMENTAL	1,050	700	700	700	0	700	0
REMEDIATION	0	0	0	0	700	0	700
<b>Open Appropriations:</b>							
GENERAL	368	221	220	220	220	220	220
PETROLEUM TANK RELEASE CLEANUP	6,533	6,270	6,200	6,200	6,200	6,200	6,200
<b>Statutory Appropriations:</b>							
PUBLIC FACILITIES AUTHORITY	0	434	500	520	520	540	540
DRINKING WATER REVOLVING FUND	14,853	76,321	0	0	0	200	200
GENERAL	95	0	2	2	2	2	2
SPECIAL REVENUE	3,705	5,416	9,200	5,070	5,070	2,345	2,345
TRANSPORTATION REVOLVING FUND	22,897	141	18,424	12,599	12,599	17,377	17,377
FEDERAL	43,264	38,452	60,044	80,604	80,604	71,270	71,270
<b>Total Financing</b>	<b>138,382</b>	<b>164,864</b>	<b>114,700</b>	<b>116,152</b>	<b>127,807</b>	<b>109,166</b>	<b>110,821</b>

Program: BUSINESS & COMMUNITY DEVELOPME  
 Agency: TRADE & ECON DEVELOPMENT DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003	
				Base	Governor Recomm.	Base	Governor Recomm.
<b><u>FTE by Employment Type:</u></b>							
FULL TIME	65.5	64.4	64.9	64.9	64.9	64.9	64.9
PART-TIME, SEASONAL, LABOR SER	5.9	3.1	1.5	1.5	1.5	1.5	1.5
<b>Total Full-Time Equivalent</b>	<b>71.4</b>	<b>67.5</b>	<b>66.4</b>	<b>66.4</b>	<b>66.4</b>	<b>66.4</b>	<b>66.4</b>

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** BUSINESS FINANCE  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

### ACTIVITY PROFILE:

The Office of Business Finance supports business development and expansion through a variety of financing programs. Financing activities are aimed at assisting in the creation of high-quality jobs, through statewide programs as well as through targeted programs aimed at serving a specific business financing need. Staff also employ financial expertise to assisting the department's clients in identifying financing sources and packaging the financing to meet their needs. Throughout all programs, a consistent theme is the leveraging of private investment and encouraging participation by others in realizing business development projects.

### STRATEGIES AND PERFORMANCE:

Most of the office's work is carried out through specific, legislatively created financing programs. The largest program in terms of dollars-the Minnesota Investment Fund and its federal counterpart-makes grants to local governments partnering with a business, to support an expansion which is adding new jobs. Assistance is provided throughout the state, but the majority of the Minnesota Investment Fund dollars, and the majority of the projects occur in greater Minnesota, thereby supporting the Rural Diversity initiative. The office strives to achieve the highest level possible in wages paid by the companies it assists, and has set minimum standards which the business must meet in terms of wages; thresholds vary depending on whether the business is in the metropolitan area or in greater Minnesota. Other funding programs are designed to serve specific niches in the financing spectrum, such as minority business development, rural small businesses, and tourism expansions.

<b>Impact of Loans: Minnesota Investment Fund (state &amp; federal)</b>			
	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>
Dollars Awarded (millions)	\$8.7	\$9.2	\$10.4
Number of Projects	42	40	44
Job Creation	2,024	2,302	2,710
Average wage (excluding benefits)	\$12.10	\$11.50	\$12.77

### *Grants Summary*

*Minnesota Investment Fund (M.S. 116J.8731) and Small Cities Development Program (M.S. 116J.403) Economic Development Set-Aside*

The purpose of this program is to help local units of government improve and strengthen their business and economic base by providing financing, through the community, for business expansions and relocations. The department proposes using up to \$300,000 per year of the appropriation for the Minnesota Investment Fund to market and promote Minnesota to out-of-state businesses seeking expansion sites in Minnesota. Funds may be available to third-party organizations upon evidence of at least a one-to-one match from non-state sources.

*Agricultural and Economic Development Program (M.S. 41A.022)*

The Agricultural and Economic Development Board makes direct loans, loan guarantees, and issues tax-exempt revenue bonds for business expansion. This program helps emerging manufacturers grow by providing lower cost credit than they could access through private means.

*Rural Challenge Grant Program (M.S. 116N)*

The Rural Challenge Grant Program helps provide job opportunities for low-income individuals, encourages private investment, and promotes economic development in rural areas of the state, in partnership with the six Minnesota Initiative Funds. Loans are drawn from an earlier state appropriation and matched by the same level of funding from the McKnight Foundation. The program operates as a revolving fund.

*Urban Initiative Program (M.S. 116M)*

The Urban Initiative Fund assists minority owned and operated businesses and others that will create jobs in low-income areas of the Twin Cities. The program was created by the legislature in 1993 with a \$6 million appropriation and is matched with funds provided by certified nonprofit organizations with whom the Urban Initiative Board partners in the Twin Cities area. To date, 302 loans have been made under the program creating 512 jobs with average wages of \$11 per hour and leveraging another \$23 million in other capital. The program operates as a revolving fund.

*Capital Access Program (M.S. 116J.876)*

The Capital Access Program targets assistance to small- and medium-sized businesses obtaining financing for start-up or expansion costs. The program enables bank lenders and other investors to address situations where a fundamentally good loan does not meet all of an investor's underwriting standards. Recent demand for the program has declined: FY 1996-7 \$196,790; FY 1998-9 \$95,901; FY 2000-1 \$71,156.



**BUDGET ACTIVITY SUMMARY (Continued)**

**Budget Activity:** BUSINESS FINANCE  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

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The scope of the program is proposed to be expanded to fund seed capital for emerging technology companies, supporting the technology commercialization initiative, and supporting the recommendation from the Minnesota Rural Entrepreneurship Academy.

*Tourism Loan Program (M.S. 116J.617)*

The Tourism Loan Program provides low-interest financing that would otherwise be unavailable, to existing tourism-related businesses who provide overnight lodging and are expanding or renovating their facilities. The program operates as a revolving fund whereby interest and principal payments by borrowers are made available for additional tourism-related loans.

Activity: BUSINESS FINANCE  
Program: BUSINESS & COMMUNITY DEVELOPME  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	400	424	426	419	419	419	419	(12)	(1.4%)
OTHER OPERATING EXPENSES	182	110	1,476	115	115	113	113	(1,358)	(85.6%)
OTHER FINANCIAL TRANSACTIONS	2,999	3,411	6,239	4,498	4,498	1,973	1,973	(3,179)	(32.9%)
Subtotal State Operations	3,581	3,945	8,141	5,032	5,032	2,505	2,505	(4,549)	(37.6%)
LOCAL ASSISTANCE	15,164	8,235	6,529	4,245	4,245	4,047	4,047	(6,472)	(43.8%)
<b>Total Expenditures</b>	<b>18,745</b>	<b>12,180</b>	<b>14,670</b>	<b>9,277</b>	<b>9,277</b>	<b>6,552</b>	<b>6,552</b>	<b>(11,021)</b>	<b>(41.0%)</b>

<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	14,526	6,987	5,806	4,377	4,377	4,377	4,377		
SPECIAL REVENUE	321	0	0	0	0	0	0		
Open Appropriations:									
PETROLEUM TANK RELEASE CLEANUP	336	70	0	0	0	0	0		
Statutory Appropriations:									
GENERAL	6	0	0	0	0	0	0		
SPECIAL REVENUE	3,556	5,123	8,864	4,900	4,900	2,175	2,175		
<b>Total Financing</b>	<b>18,745</b>	<b>12,180</b>	<b>14,670</b>	<b>9,277</b>	<b>9,277</b>	<b>6,552</b>	<b>6,552</b>		

<b>Revenue Collected:</b>									
Dedicated									
GENERAL	70	0	0	0	0	0	0		
SPECIAL REVENUE	8	16	0	0	0	0	0		
Nondedicated									
GENERAL	1,122	1,074	1,000	1,000	1,000	1,000	1,000		
PETROLEUM TANK RELEASE CLEANUP	71	130	100	100	100	100	100		
<b>Total Revenues Collected</b>	<b>1,271</b>	<b>1,220</b>	<b>1,100</b>	<b>1,100</b>	<b>1,100</b>	<b>1,100</b>	<b>1,100</b>		

<b>FTE by Employment Type:</b>									
FULL TIME	6.4	6.6	6.2	6.2	6.2	6.2	6.2		
PART-TIME, SEASONAL, LABOR SER	0.8	0.2	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>7.2</b>	<b>6.8</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>		

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** MRKTG AND BUSINESS DEVELOPMENT  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

### ACTIVITY PROFILE:

The Office of Marketing and Business Development is a primary agency supporting the Big Plan Goal of Best Climate to Grow Business, through a variety of marketing functions, technical assistance and information, and promotional programs.

The office ensures that growing businesses across Minnesota are aware of resources that could assist in creating and retaining high-quality jobs, and works with those businesses to see that the resources are delivered—whether they are provided by DTED or other agencies. The office has established nine regional account representatives for this purpose, including three field offices located in Duluth, Bemidji, and Mankato. Six of the staff also have industry assignments aimed at helping metro companies expand outside the Twin Cities. This effort and office structure supports the Big Plan initiative of Improving the Competitiveness of Rural Minnesota. Staff also administer special programs and grants aimed at improving the climate in which business expansion can occur. The office includes a marketing support unit which assists in compiling information and preparing proposals, doing background research on companies, managing the "MNPRO" database of Minnesota community profiles and available real estate, coordinating the annual Development Conference and the department's presence at targeted national trade shows, responding to inquiries received from companies interested in basic information on resources and the state's economy, and maintaining a family of publications and fact sheets to support marketing and outreach efforts.

### STRATEGIES AND PERFORMANCE:

The regional representatives have as their mission to be the preferred resource for growing businesses in order to create high-quality jobs. Although unemployment is generally low statewide, adding high-quality jobs can "raise the bar" for the types of positions that are available to Minnesota residents. Helping companies access training programs is also an important way to upgrade existing positions through greater productivity which can lead to increased wages.

The focus of the office's efforts is primarily Minnesota companies, especially those experiencing rapid sales and employment growth, and offering higher-quality wages. There is a new focus in FY 2001 to assist metro-based companies who have severe labor shortages and may be interested in expanding to greater Minnesota where pockets of skilled labor may be found; this serves the Governor's Rural Diversity goal. There is also an emerging

focus on attracting companies located elsewhere who could expand into Minnesota; this focus is now possible because of the extensive improvements in the business climate which have made Minnesota more competitive nationally and internationally for high-wage, high technology industries. The office will support a Minnesota presence at selective national trade shows and events for corporate site selectors during the next biennium.

The office, in coordination with the Minnesota Trade Office, responds to Foreign Direct Investment opportunities.

There is also a close partnership with local and regional development organizations. The office frequently assists in the preparation of coordinated funding packages and proposals so that businesses can experience the high level of collaboration which must occur to realize successful economic development projects.

Staff also serve as a resource for communities in their regions who want to access DTED resources. This role has recently diminished relative to the business marketing function, because past efforts have brought community awareness of DTED resources to a much greater level than before.

The internal marketing support tools, such as the "MNPRO" real estate and community data base, have been put in place to back the business development mission with quality, timely information that an expanding business can get nowhere else. The data base is heavily weighted toward greater Minnesota, where there are few comprehensive listings of land and buildings.

In addition, the office administers several grant and certification programs aimed at strengthening the climate in which growing businesses can flourish and create the best jobs possible. Several pass-through appropriations and bonding projects are also administered by the office, including technical assistance grants to WomenVenture and the Metropolitan Economic Development Association.

The following tables illustrate recent program activities.

<b>1) Impact of Technical Assistance for Business Development Projects</b>			
	<b>FY 2000</b>	<b>FY2001 estimate</b>	<b>FY 2002 estimate</b>
Number of business marketing visits	1,230	1,300	1,300
Number of business expansion projects	219	230	240
Number of jobs created in those projects	8,618	9,000	9,500
Percentage of business expansions in greater Minnesota	80%	80%	80%

**BUDGET ACTIVITY SUMMARY (Continued)**

**Budget Activity: MRKTG AND BUSINESS DEVELOPMENT**  
**Program: BUSINESS & COMMUNITY DEVELOPME**  
**Agency: TRADE & ECON DEVELOPMENT DEPT**

<b>2) Information on Minnesota Communities and Available Real Estate</b>			
	<b>FY2000</b>	<b>FY 2001 est.</b>	<b>FY 2002 est.</b>
Number of completed Community profiles	375	425	475
Number of building and property listings	1,150	1,500	2,000

**Grants/Certification Program Summary:**

*Technology Catalyst Grant Program (Laws of Minnesota 2000, Chapter 488, Article 1, Section 2(b))*

The program makes grants to local units of government and tribal governments to expand wireless Internet access in rural areas that would not otherwise have it. The grant program supports the Big Plan initiatives of Telecommunications as Economic Development and Improving the Competitive Position of Rural Minnesota.

*Labor Force Assessment Grant Program (Laws of Minnesota 2000, Chapter 488, Article 2, Section 1)*

The program makes grants to local and regional economic development organizations to identify skills and experience of underemployed workers so that the area can market itself more effectively to prospective businesses seeking specific skills in a tight labor market. The grant program supports the Big Plan initiative of Developing the Workforce for Tomorrow.

*E-Commerce Readiness Program (Minnesota Statutes 116J.037)*

The program certifies cities who have demonstrated achievement of standards which will allow them to engage in electronic commerce, including technological preparedness, community planning, and government and educational use of the Internet. The grant program supports the Big Plan initiative of Commercialization of New Technologies.

**BUDGET ISSUES:**

During the past biennium, internal reorganization within DTED led to a consolidation of the former Office of Professional and Technical Resources, into the Office of Marketing and Business Development. Business development services are now conducted more efficiently and effectively with the inclusion of marketing, database, and other outreach functions and services which had been managed by Professional and Technical Resources.

Activity: MRKTG & BUSINESS DEVELOPMENT  
Program: BUSINESS & COMMUNITY DEVELOPME  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,317	1,320	1,200	1,195	1,195	1,195	1,195	(130)	(5.2%)
OTHER OPERATING EXPENSES	645	602	438	266	266	266	266	(508)	(48.8%)
Subtotal State Operations	1,962	1,922	1,638	1,461	1,461	1,461	1,461	(638)	(17.9%)
LOCAL ASSISTANCE	8,087	16,288	2,175	5	10,160	5	160	(8,143)	(44.1%)
Total Expenditures	10,049	18,210	3,813	1,466	11,621	1,466	1,621	(8,781)	(39.9%)

<b>Change Items:</b>	<b>Fund</b>				
(B) BIOMED INNOV & COMMERCIALIZATION	GEN			10,000	
(B) METRO ECONOMIC DEVEL ASSN	GEN			155	155
Total Change Items				10,155	155

<b>Financing by Fund:</b>							
Direct Appropriations:							
GENERAL	9,680	7,117	3,344	1,174	11,329	1,174	1,329
SPECIAL REVENUE	0	10,804	0	0	0	0	0
Statutory Appropriations:							
GENERAL	70	0	0	0	0	0	0
SPECIAL REVENUE	149	167	336	170	170	170	170
FEDERAL	150	122	133	122	122	122	122
Total Financing	10,049	18,210	3,813	1,466	11,621	1,466	1,621

<b>Revenue Collected:</b>							
Dedicated							
GENERAL	210	136	0	0	0	0	0
SPECIAL REVENUE	3,349	4,940	3,143	1,283	1,283	1,134	1,134
FEDERAL	1,352	3,003	911	122	122	122	122
Nondedicated							
GENERAL	365	850	1,128	97	97	97	97
Total Revenues Collected	5,276	8,929	5,182	1,502	1,502	1,353	1,353

<b>FTE by Employment Type:</b>							
FULL TIME	21.1	21.2	19.0	19.0	19.0	19.0	19.0
PART-TIME, SEASONAL, LABOR SER	3.3	2.0	0.6	0.6	0.6	0.6	0.6
Total Full-Time Equivalent	24.4	23.2	19.6	19.6	19.6	19.6	19.6

**BUDGET CHANGE ITEM (62203)**

**Budget Activity:** MRKTG & BUSINESS DEVELOPMENT  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT  
**Item Title:** BIOMED INNOV & COMMERCIALIZATION

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
-Grants	\$10,000	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
If yes, statute(s) affected:				
<input checked="" type="checkbox"/> New Activity <input type="checkbox"/> Supplemental Funding <input type="checkbox"/> Reallocation				

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends a one-time appropriation of \$10 million for Technology Commercialization. These funds will be used to create a third-party entity to fully exploit commercial opportunities from biomedical research at the University of Minnesota.

**RATIONALE:**

It is important to the future of the state's economy to do more to help new technologies developed at the University of Minnesota to reach their full commercial potential in Minnesota, rather than somewhere else. Effective commercialization of new technologies must be a key component to the future state economic development strategy.

It is proposed to create a third-party entity to provide a leadership mechanism and a market for development capital targeted to promising ventures primarily in biomedical sciences. This proposal, the Biomedical Innovation and Commercialization Initiative (BICI), is based on collaboration among the University of Minnesota; public officials led by the Commissioner of the Department of Trade and Economic Development; and, key industry leaders from biomedical companies and the venture capital community.

Early seed capital for projects that are in the translation phase between patent and profitability would be provided under the BICI structure. The initiative would also establish a guide for worthwhile projects to navigate development from laboratory to marketplace. Experienced leadership as well as technical and entrepreneurial assistance will be necessary to accomplish the process.

**FINANCING:**

State funds would be provided by a \$10,000,000 one-time general fund appropriation to be matched 3:1 with private funds that would have to be committed before state funds were released.

**OUTCOMES:**

New commercial ventures in the biomedical field will stay in Minnesota instead of being exported elsewhere. High-wage, high-quality jobs will be created in the state in promising and emerging technology companies. The number of start-ups based on biomedical discoveries will be increased and developed to their full commercial, economic and employment potential. The track record of these outcomes will help to attract new talent and ideas to Minnesota's academic research laboratories and to the state's technology and investment industries.

**BUDGET CHANGE ITEM (62185)**

**Budget Activity:** MRKTG & BUSINESS DEVELOPMENT  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

**Item Title:** METRO ECONOMIC DEVEL ASSN

**OUTCOMES:**

MEDA will be able to continue to serve minority entrepreneurs through its Business Development Center through technical assistance and direct loans.

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
-Grants	\$155	\$155	\$155	\$155

Statutory Change? Yes \_\_\_\_\_ No   X  

If yes, statute(s) affected:

\_\_\_\_\_ New Activity      X   Supplemental Funding    \_\_\_\_\_ Reallocation

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends funding of \$155,000 per year for the Metropolitan Economic Development Association (MEDA) to assist in the fostering of minority economic self-sufficiency.

**RATIONALE:**

It is important to the future of the state's economy to assist private partners in developing minority entrepreneurs. By increasing the participation of successful minority-owned businesses into the state's economy, the linkage is strengthened between the majority and minority business communities. MEDA has a proven track record of success in this area of more than 28 years. Its leverage capability is strong. It has seen increased sales by the businesses it has assisted of 23% from 1998 to 1999 and a 20% increase in the number of clients served. MEDA also has exceeded its fund raising goals, which indicates strong private sector support.

**FINANCING:**

\$155,000 per year of General Fund appropriations will be matched 1:1 with private funds.



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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** COMMUNITY FINANCE  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

### ACTIVITY PROFILE:

The unit is the lead agency for the Rural Diversity Big Plan initiative and is coordinating a series of regional discussions that will establish priority for state development assistance. This initiative will help diversify the economy of the non-metro area. Achieving a growth rate above the metro area will help "close the gap" between the metro and non-metro areas.

This activity prepares communities for job creation and economic growth by providing financing to local units of government for wastewater treatment, drinking water, storm water systems, contamination cleanup, site clearance, housing rehabilitation and development, and commercial rehabilitation.

It also assists communities with critical, expensive development needs which help support urban and rural economic growth and diversification. Program funds are designed to fill gaps between the cost of individual projects and the amount local residents and businesses can afford to pay for the project. Funds for this activity are received from the federal government through the Environmental Protection Agency and the Department of Housing and Urban Development, the state general fund, state petro funds, and state bond proceeds.

### STRATEGIES AND PERFORMANCE:

The program financially assists local governments and local development agencies with capital improvement.

Performance Summary: Identified below are output measures for the various activities described in this Program.

Number of:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002 est.	FY 2003 est.
Wastewater Systems Financed	53	43	44	39	39	32
Water Systems Financed	7	98	32	27	27	30
Contaminated Sites Cleaned	18	18	17	15	15	15
Redevelopment Grants Awarded			12	10	10	10
Houses Rehabilitated	858	800	733	733	733	733
Commercial Bldgs.	69	100	118	118	118	118
Transportation Projects Funded			2	2	8	8

### **Grants Summary:**

#### *Small Cities Development Program (SCDP) (M.S. 116J.401)*

The SCDP assists Minnesota communities by providing federal Community Development Block Grant (CDBG) funds to rehabilitate owner-occupied or rental housing, construct new or rehabilitate existing public infrastructure, and rehabilitate commercial structures. SCDP funds may also be used for acquisition and clearance of dilapidated buildings, and in support of new housing construction.

#### *Contaminated Site Cleanup Program (M.S. 116J.551)*

The Contaminated Site Cleanup Grant Program provides grants to clean up soil and groundwater contamination.

#### *Redevelopment Program (M.S. 116J.561)*

The Redevelopment Grant program provides grants to assist in the "recycling" of land for a more productive use.

All three of these grant programs support the Big Plan initiatives of Growing Smart in Minnesota and Improving the Competitive Position of Rural Minnesota.

#### *Community Resource Program (M.S. 466.01)*

The Community Resource Program provides grants to Minneapolis, St. Paul, and Duluth.

#### *Special Appropriations*

This program provides administrative support to ensure proper management, contractual negotiation and monitoring of all special appropriations assigned to the Business and Community Development Division by the legislature. Special appropriations also include the Border City Enterprise Zone Program and the Review of County Capital Improvement Programs (no state dollars).

#### *Public Facilities Authority (M.S. 466A)*

The Public Facilities Authority (PFA) manages financing programs that provide financial assistance to state agencies, local units of government, and businesses to improve infrastructure related to water quality, drinking water, and transportation.

The following summarizes the funds and programs of the Authority:

- *Water Pollution Control Revolving Fund (M.S. 466A.07).* The fund can be used to finance water quality improvement projects. Although designed and intended primarily for wastewater treatment projects, it has been expanded to address a variety of nonpoint source pollution problems. Equity for the

## BUDGET ACTIVITY SUMMARY (Continued)

**Budget Activity:** COMMUNITY FINANCE  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

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fund is provided by Federal Capitalization Grant and state matching funds (\$1 state for every \$5 federal).

- The PFA has provided money to other state agencies for three different programs. The Department of Agriculture manages the *Agriculture Best Management Practices Program*, the Pollution Control Agency manages *Clean Water Partnership Loan Program* and DTED manages the *Tourism Septic System Loan Program*.
- *Drinking Water Revolving Fund (M.S. 446A.81)*. The PFA made its first loan in FY 1999 using a combination of federal capitalization grants, state matching funds, revenue bond proceeds. The Authority has made 55 loans for \$90 million in its first two years.
- The PFA provides the federal funding to the Department of Health for Technical Assistance to Small Systems, Public Water Supply Supervision program, Source Water Protection Programs, Technical Capacity Development, as well as source water protection assessment and well head protection programs necessary to comply with the Safe Drinking Water Act.
- *Transportation Revolving Loan Fund (M.S. 446A.085)*. The PFA has made three loans for \$36.5 million with eight additional projects having been approved by MnDOT for \$25.3 million. The fund has been capitalized by \$34.6 million federal funds and \$23.6 million state funds. PFA has issued \$17.1 million in Revenue Bonds to supplement state and federal equity.
- *Wastewater Infrastructure Funding*. This program provides grants to reduce the principal amount of loans provided to municipalities for the construction of wastewater projects.
- *County Credit Enhancement Program*. The County Credit Enhancement Program is used to enhance the bond ratings of county general obligation bonds (AA+ and Aa1 rated program) for specific types of projects related to corrections, health and human service facilities.

### **BUDGET ISSUES:**

In order to implement PCA Tax Reform proposal, \$700,000 per year is proposed to be appropriated for the Contaminated Site Cleanup Program from the new Remediation Fund, rather than the Environmental Fund.

Activity: COMMUNITY FINANCE  
Program: BUSINESS & COMMUNITY DEVELOPME  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	1,599	1,635	1,728	1,766	1,766	1,983	1,983	386	11.5%
OTHER OPERATING EXPENSES	695	648	593	558	558	562	562	(121)	(9.8%)
OTHER FINANCIAL TRANSACTIONS	43,490	76,280	18,382	50,134	50,134	54,912	54,912	10,384	11.0%
<b>Subtotal State Operations</b>	<b>45,784</b>	<b>78,563</b>	<b>20,703</b>	<b>52,458</b>	<b>52,458</b>	<b>57,457</b>	<b>57,457</b>	<b>10,649</b>	<b>10.7%</b>
LOCAL ASSISTANCE	60,965	53,241	72,242	50,156	51,656	40,834	42,334	(31,493)	(25.1%)
<b>Total Expenditures</b>	<b>106,749</b>	<b>131,804</b>	<b>92,945</b>	<b>102,614</b>	<b>104,114</b>	<b>98,291</b>	<b>99,791</b>	<b>(20,844)</b>	<b>(9.3%)</b>

<b>Change Items:</b>	<b>Fund</b>				
(B) LIVEABLE COMM. & AGRIC. LAND PRESERV.	GEN			1,500	1,500
(B) MPCA ENVIRONMENTAL TAX REFORM	ENV			(700)	(700)
(B) MPCA ENVIRONMENTAL TAX REFORM	REM			700	700
<b>Total Change Items</b>				<b>1,500</b>	<b>1,500</b>

<b>Financing by Fund:</b>							
<b>Direct Appropriations:</b>							
GENERAL	17,933	10,798	8,337	3,241	4,741	3,254	4,754
TRANSPORTATION REVOLVING FUND	1,500	0	0	0	0	0	0
ENVIRONMENTAL	1,050	700	700	700	0	700	0
REMEDIATION	0	0	0	0	700	0	700
<b>Open Appropriations:</b>							
GENERAL	368	221	220	220	220	220	220
PETROLEUM TANK RELEASE CLEANUP	6,197	6,200	6,200	6,200	6,200	6,200	6,200
<b>Statutory Appropriations:</b>							
PUBLIC FACILITIES AUTHORITY	0	434	500	520	520	540	540
DRINKING WATER REVOLVING FUND	14,853	76,321	0	0	0	200	200
GENERAL	19	0	2	2	2	2	2
SPECIAL REVENUE	0	125	0	0	0	0	0
TRANSPORTATION REVOLVING FUND	22,897	141	18,424	12,599	12,599	17,377	17,377
FEDERAL	41,932	36,864	58,562	79,132	79,132	69,798	69,798
<b>Total Financing</b>	<b>106,749</b>	<b>131,804</b>	<b>92,945</b>	<b>102,614</b>	<b>104,114</b>	<b>98,291</b>	<b>99,791</b>

Activity: COMMUNITY FINANCE  
Program: BUSINESS & COMMUNITY DEVELOPME  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003	
				Base	Governor Recomm.	Base	Governor Recomm.
<b>Revenue Collected:</b>							
<b>Dedicated</b>							
PUBLIC FACILITIES AUTHORITY	0	439	1,127	1,234	1,234	1,300	1,300
DRINKING WATER REVOLVING FUND	15,229	77,775	77	133	133	140	140
GENERAL	260	0	2	2	2	2	2
SPECIAL REVENUE	182	125	110	110	110	110	110
TRANSPORTATION REVOLVING FUND	27,004	17,386	14,690	5,822	5,822	6,004	6,004
FEDERAL	41,932	35,440	58,562	79,132	79,132	69,798	69,798
<b>Nondedicated</b>							
GENERAL	476	0	0	0	0	0	0
<b>Total Revenues Collected</b>	<b>85,083</b>	<b>131,165</b>	<b>74,568</b>	<b>86,433</b>	<b>86,433</b>	<b>77,354</b>	<b>77,354</b>
<b>FTE by Employment Type:</b>							
FULL TIME	26.4	26.3	27.3	27.3	27.3	27.3	27.3
PART-TIME, SEASONAL, LABOR SER	1.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>Total Full-Time Equivalent</b>	<b>28.2</b>	<b>27.1</b>	<b>28.1</b>	<b>28.1</b>	<b>28.1</b>	<b>28.1</b>	<b>28.1</b>

# BUDGET CHANGE ITEM (62673)

**Budget Activity:** COMMUNITY FINANCE  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

**Item Title:** LIVABLE COMMUNITIES & AGRIC. LAND PRESERV.

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
-Grants	\$1,500	\$1,500	\$500	\$500
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>X</u>				
If yes, statute(s) affected:				
_____ New Activity <u>X</u> Supplemental Funding _____ Reallocation				

## GOVERNOR'S RECOMMENDATION:

The Governor recommends \$1 million for Livable Communities related grant programs and a one-time appropriation of \$2 million for an Agricultural Land preservation pilot program. These funds would be transferred to the Metropolitan Council for these purposes.

## RATIONALE:

### *Livable Communities Related Grant*

The Council will use the \$1,000,000 for Livable Communities related grant programs. The funds will be granted to local units of government for projects which meet Council adopted criteria for smart growth implementation. The criteria will be established to encourage smart growth initiatives related to development along commercial and transportation corridors.

### *Agricultural Land Preservation Grant*

The Metropolitan Council will use the Agricultural Land Preservation grant (\$2,000,000 one-time) for grants to local governments (counties) in the metropolitan area for the purchase of agricultural preservation easements. The grants would be targeted for the implementation of locally designed agricultural

land preserve programs to keep productive farmland in operations and limit urban development in agricultural areas - meeting smart growth related guidelines developed by the Metropolitan Council.

## OUTCOMES:

### *Livable Communities Related Grant*

Among the key ideas of Smart Growth are the concentration of development along commercial and transportation corridors and the redevelopment of existing commercial corridors that may be less vibrant than in the past. These funds would be used by the Metropolitan Council to fund projects in three corridors as a demonstration of the benefits of Smart Growth. These projects would strengthen existing commercial corridors by:

- Integrating land use, transportation and environmental issues
- Establishing development criteria and outcomes/results for the following:
  - Community involvement
  - Economic development
  - Jobs/housing connection
  - Land use/transportation policies
  - Urban design principles and guidelines
  - Multimodal system strategies
- Identifying strategic investment opportunity sites for mixed-use development
- Identifying public infrastructure and public realm investment improvement needs, linkages and implementation priorities
- Setting project selection criteria
- Identifying funding/implementation sources, partnerships, and priorities for opportunity projects/investments
- Determining the market and financial feasibility of potential projects

### *Agricultural Land Preservation Grant*

This grant, along with programs in place at the local level, will maintain a critical mass of commercial farmland by defining a hard edge limiting urban development pressures from consuming high quality agricultural lands and threatening the viability of the agricultural community.

Preservation also discourages wasteful use of land resources, encourages more compact growth near infrastructure and services (Part of Big Plan: Growing Smart in Minnesota) and helps keep some of Minnesota's most productive farmland in operations (Minnesota: World Competitor).

**BUDGET CHANGE ITEM (62443)**

**Budget Activity:** COMMUNITY FINANCE  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT  
**Item Title:** MPCA ENVIRONMENTAL TAX REFORM

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
Environmental Fund	\$(700)	\$(700)	\$(700)	\$(700)
Remediation Fund	\$700	\$700	\$700	\$700
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes \_\_\_\_\_ No   X  

If yes, statute(s) affected:

\_\_\_\_\_ New Activity    \_\_\_\_\_ Supplemental Funding      X   Reallocation

**GOVERNOR'S RECOMMENDATION:**

As a part of the Pollution Control Agency's (PCA) Environmental Tax Reform Initiative, the Governor recommends that \$700,000 in FY 2002 and \$700,000 in FY 2003 be appropriated from the Remediation Fund, rather than the Environmental Fund.

**RATIONALE:**

In an effort to improve the ability of the legislature and affected agencies to direct money to the highest environmental priorities, the PCA is proposing to reform the way that the state funds certain environmental activities. Specifically, PCA is proposing to restructure the Environmental Fund, create a new Remediation Fund, and abolish the Solid Waste and the Metropolitan Landfill Contingency Action Trust Funds. For more information on this initiative, please see the PCA's budget.

This change item simply appropriates base level funding to the Trade & Economic Development Department from the Remediation Fund rather than the Environmental Fund. No change in the use or oversight of these funds is proposed.

**FINANCING:**

Funding will be changed from the Environmental Fund to the Remediation Fund.

**OUTCOMES:**

Please see PCA's budget document for a discussion of the outcomes expected from their tax proposal.

No change in funding level, use of funds, or oversight is proposed for the Department of Trade and Economic Development.

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** SMALL BUSINESS ASSIST OFF  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

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### ACTIVITY PROFILE:

The Small Business Assistance Office will support the Big Plan initiative of Best Climate to Grow Business by promoting entrepreneurial activity and facilitating the creation and survival of new businesses, jobs, and wealth by serving as a point of first and continuing contact for information and assistance regarding the start-up, operation, or expansion of a small business in Minnesota (M.S. 116J.68). The office works to reduce the cost of information to potential, new, and existing small businesses in four ways:

- By providing free-of-charge, publications which address topics and issues with the potential to affect the success of small business operations. This program presently has 12 publications. The two most frequently requested are *A Guide to Starting a Business in Minnesota* and *An Employer's Guide to Employment Law Issues in Minnesota*.
- By offering workshops and training programs on topics which cut across industry lines (e.g., capital formation), topics specific to particular industries (e.g., products liability for medical device manufacturers) and topics specific to business circumstances (e.g., the new European currency).
- By offering one-on-one counseling to small businesses on business planning, financing, marketing, regulations, and other areas of business management and operations.
- By working in cooperation with other key entrepreneurial initiatives such as the Kaufman Foundation's Rural Entrepreneurial Academy, and minority business development groups.

The demand for increasingly sophisticated counsel and assistance increases. Changing business, legal and economic factors create the need for ongoing updates of materials and services provided by the program.

### STRATEGIES AND PERFORMANCE:

The department leverages both information and financial resources through collaborative efforts with the private bar and through receipt of \$1.3 million yearly from the U.S. Small Business Administration. Private law firms contribute, *pro bono*, their expertise in content of some of the current publications and also join with the department to conduct topic-related workshops, also *pro bono*. For FY 2002 and FY 2003, approximately 37,000 hours of counseling to business clients will be provided through the department and the Small Business Development Centers (SBDCs). Counseling service is evaluated by improvements in the business operations due to the program. In

that same period, the department expects to distribute in excess of 110,000 copies of its publications provided on request.

### BUDGET ISSUES:

The department provides information on doing business in Minnesota to start up small and medium-sized businesses through the Small Business Assistance Office, which, in addition to the services noted above, also operates a network of 20 SBDCs funded in part by the federal government pursuant to 15 U.S.C. 638. These federal funds total \$1.3 million yearly, which are matched dollar-for-dollar by a combination of appropriation to DTED and instructional funds from the academic institutions housing the centers. The ability of academic institutions to provide this match is a recurring issue.

Activity: SMALL BUSINESS ASSIST OFF  
Program: BUSINESS & COMMUNITY DEVELOPME  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	463	468	584	587	587	589	589	124	11.8%
OTHER OPERATING EXPENSES	177	200	194	163	163	163	163	(68)	(17.3%)
Subtotal State Operations	640	668	778	750	750	752	752	56	3.9%
LOCAL ASSISTANCE	1,601	1,726	1,675	1,624	1,624	1,624	1,624	(153)	(4.5%)
Total Expenditures	2,241	2,394	2,453	2,374	2,374	2,376	2,376	(97)	(2.0%)
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	1,059	927	1,104	1,024	1,024	1,026	1,026		
Statutory Appropriations:									
SPECIAL REVENUE	0	1	0	0	0	0	0		
FEDERAL	1,182	1,466	1,349	1,350	1,350	1,350	1,350		
Total Financing	2,241	2,394	2,453	2,374	2,374	2,376	2,376		
<b>Revenue Collected:</b>									
Dedicated									
FEDERAL	0	0	560	1,350	1,350	1,350	1,350		
Total Revenues Collected	0	0	560	1,350	1,350	1,350	1,350		
<b>FTE by Employment Type:</b>									
FULL TIME	8.0	7.3	9.0	9.0	9.0	9.0	9.0		
Total Full-Time Equivalent	8.0	7.3	9.0	9.0	9.0	9.0	9.0		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** PROGRAM SUPPORT  
**Program:** BUSINESS & COMMUNITY DEVELOPME  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

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### **ACTIVITY PROFILE:**

Business and Community Development (BCD) administration includes the BCD Deputy Commissioner's office.

Costs associated with this activity include the deputy commissioner and executive secretary, and administrative services and support staff.

Revenue Summary: None

### **STRATEGIES AND PERFORMANCE:**

This office provides the transition from the policy development of the Commissioner's office, Cabinet, and Governor's office to the implementation stage as executed by the BCD units. Strategic planning and implementation activity has occurred in six Big Plan initiatives.

### **BUDGET ISSUES:**

None

Activity: PROGRAM SUPPORT  
Program: BUSINESS & COMMUNITY DEVELOPME  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	191	181	214	271	271	331	331	207	52.4%
OTHER OPERATING EXPENSES	374	95	605	150	150	150	150	(400)	(57.1%)
Subtotal State Operations	565	276	819	421	421	481	481	(193)	(17.6%)
LOCAL ASSISTANCE	33	0	0	0	0	0	0	0	
Total Expenditures	598	276	819	421	421	481	481	(193)	(17.6%)
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	598	276	819	421	421	481	481		
Total Financing	598	276	819	421	421	481	481		
<b>Revenue Collected:</b>									
Nondedicated									
GENERAL	0	2	0	0	0	0	0		
Total Revenues Collected	0	2	0	0	0	0	0		
<b>FTE by Employment Type:</b>									
FULL TIME	3.6	3.0	3.4	3.4	3.4	3.4	3.4		
PART-TIME, SEASONAL, LABOR SER	0.0	0.1	0.1	0.1	0.1	0.1	0.1		
Total Full-Time Equivalent	3.6	3.1	3.5	3.5	3.5	3.5	3.5		

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## PROGRAM SUMMARY

**Program:** MINNESOTA TRADE OFFICE  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

### PROGRAM PROFILE:

The Minnesota Trade Office (MTO) was created in 1983 (M.S. 1161.966) as a state initiative to help Minnesota businesses be more competitive in the global marketplace. The initiative was conceived to provide Minnesota companies international market information, export education services, and export promotion activities. Furthermore, the initiative created a means by which Minnesota could compete in attracting foreign companies to locate their U.S. based plants and operations in Minnesota, called Foreign Direct Investment (FDI). At the same time, the federal government significantly reduced its funding of export promotion and withdrew from FDI promotion.

It was realized that Minnesota's economic future was closely linked to the ability of its companies to market their products and services around the world. It also was recognized that select FDI could significantly contribute to the economic development in the state.

Since 1983, the role of international trade in our economy has grown significantly. Today, exports account for approximately 10% of our gross state product. With this new economy becoming increasingly globalized, it is imperative that Minnesota businesses be well-prepared to successfully compete on a worldwide stage.

The MTO program exists to help educate and promote Minnesota businesses internationally. The program also promotes Minnesota as a Foreign Direct Investment destination for overseas corporations. As of 1999, this program also includes the World Trade Center facility on the third and fourth floors of the World Trade Center Building, which today is used by the MTO as a signature facility for the state of Minnesota in providing its export education and export promotion services.

The objective of this program is to strengthen the state's economy by diversifying the markets for our companies, thus making them more innovative and competitive in today's global economy. Studies show that companies that export are more productive, enjoy faster employment growth, pay higher salaries and benefits, and are less likely to go out of business than companies that are strictly domestic.

### STRATEGIES AND PERFORMANCE:

The MTO offers a variety of export education and promotion services designed to make Minnesota companies competitive and to facilitate Foreign Direct Investment:

- export education and training programs
- international business intelligence services
- export finance assistance
- export counseling and technical assistance
- international trade shows and missions
- foreign trade representatives

The MTO is organized into two divisions--Export Education/Information and Export Promotion. For this biennial budget period, the MTO will concentrate on the following initiatives to improve the content/delivery of its services:

#### ***Export Education/Information:***

By providing export training programs that meet the defined needs of businesses, the state delivers a vital service to its businesses and communities, enhancing their prospects for significant economic growth and contributing substantially to the economic vitality of Minnesota. The MTO is the only organization providing such a comprehensive, practically oriented, training necessary to equip companies to "go international."

During this biennium, the MTO will:

- Increase the number of export training programs, in association with the WTCA of Minnesota, that provide companies with the knowledge to develop and implement export strategies.
- Build strategic partnerships with all providers of complementary international business education.
- Develop a "How To" series leading to a certificate (seek accreditation), and export education programs that address country market and topical trade issues.
- Provide briefings and training programs which help Minnesota companies use e-commerce to compete internationally.
- Provide export finance services for Minnesota companies through MEFA, SBA, and ExIm Bank liaison, and international insurance and credit reports.

#### ***Export Promotion***

The International Trade Representatives assigned to the Export Promotion division are organized into market and industry teams, which concentrate their efforts on those countries and industries that offer the greatest export potential for Minnesota companies. Specifically the MTO's strategic plan targets the

## PROGRAM SUMMARY (Continued)

**Program:** MINNESOTA TRADE OFFICE  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

markets of Canada, Mexico, Japan, Greater China, selected Southeast Asian countries (Malaysia, Philippines, Thailand, Singapore, Indonesia), United Kingdom, France, and Germany. The MTO's focus industries are information technology, medical products and services, processed foods, and agricultural commodities and equipment.

During this biennium, the MTO will:

- Implement aggressive and comprehensive marketing plans for each target country and focus industry. Attention initially will be devoted to capitalizing on the recovering Japanese market and significantly increasing exports to Mexico, and then on increasing exports to China and Europe.
- Conduct extensive outreach to small- and medium-sized businesses throughout the state to assess their export potential and to assist them in developing their skills and plans to export.
- Collaborate more with other export business entities, both public and private, to advise more businesses of the export services available and to encourage more businesses to export.
- Expand information and services available on the MTO website.
- Enhance the availability of promotional literature in target country languages.

### FINANCING INFORMATION:

The MTO receives revenue from participating companies to offset the variable costs associated with its education/training programs, trade shows, international credit reports, and trade related materials.

When seminars are provided throughout the state, costs such as attendee meals, meeting room expenses, and materials are recovered through registration fees.

When the MTO organizes Minnesota participation in trade shows, it recovers its variable costs for booth rental, graphics, publicity and administration from participating companies.

The MTO receives revenue to offset the cost of providing trade related materials (lists, certificates of free sale, select publications, credit reports, etc.).

The MTO is an active member of the Mid-America International Agri-Trade Council (MIATCO). As a member, the MTO can participate in MIATCO's international marketing and promotion events of food and agriculture and Minnesota companies can obtain federal funds for selected promotional activities. As a result of the MTO's membership in MIATCO, Minnesota

companies are expected to receive an estimated \$1 million in federal funds through this program in 2000.

### BUDGET ISSUES:

The MTO provides services that keep Minnesota businesses informed, trained and competitive in the global marketplace. Most economists expect that our dependence on international markets will increase in the years ahead as trade barriers are reduced and new markets open. The reduction of trade barriers and the opening of new markets present a significant opportunity to increase Minnesota's value-added manufacturing, agriculture, and service employment through international business. Minnesota needs to get its fair share of these opportunities.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Program: MINNESOTA TRADE OFFICE  
 Agency: TRADE & ECON DEVELOPMENT DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
MINNESOTA TRADE OFFICE	2,527	2,018	2,819	2,586	2,586	2,734	2,734	483	10.0%
WORLD TRADE CENTER	0	439	508	546	546	584	584	183	19.3%
<b>Total Expenditures</b>	<b>2,527</b>	<b>2,457</b>	<b>3,327</b>	<b>3,132</b>	<b>3,132</b>	<b>3,318</b>	<b>3,318</b>	<b>666</b>	<b>11.5%</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	2,390	1,919	2,663	2,466	2,466	2,614	2,614		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	137	538	659	666	666	704	704		
GIFT	0	0	5	0	0	0	0		
<b>Total Financing</b>	<b>2,527</b>	<b>2,457</b>	<b>3,327</b>	<b>3,132</b>	<b>3,132</b>	<b>3,318</b>	<b>3,318</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	22.9	22.9	32.2	32.2	32.2	32.2	32.2		
PART-TIME, SEASONAL, LABOR SER	1.3	1.4	1.5	1.5	1.5	1.5	1.5		
<b>Total Full-Time Equivalent</b>	<b>24.2</b>	<b>24.3</b>	<b>33.7</b>	<b>33.7</b>	<b>33.7</b>	<b>33.7</b>	<b>33.7</b>		



Activity: MINNESOTA TRADE OFFICE  
Program: MINNESOTA TRADE OFFICE  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,242	1,224	1,687	1,721	1,721	1,760	1,760	570	19.6%
OTHER OPERATING EXPENSES	1,124	723	1,002	785	785	894	894	(46)	(2.7%)
OTHER FINANCIAL TRANSACTIONS	2	0	0	0	0	0	0	0	
Subtotal State Operations	2,368	1,947	2,689	2,506	2,506	2,654	2,654	524	11.3%
LOCAL ASSISTANCE	159	71	130	80	80	80	80	(41)	(20.4%)
<b>Total Expenditures</b>	<b>2,527</b>	<b>2,018</b>	<b>2,819</b>	<b>2,586</b>	<b>2,586</b>	<b>2,734</b>	<b>2,734</b>	<b>483</b>	<b>10.0%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	2,390	1,919	2,663	2,466	2,466	2,614	2,614		
Statutory Appropriations:									
SPECIAL REVENUE	137	99	151	120	120	120	120		
GIFT	0	0	5	0	0	0	0		
<b>Total Financing</b>	<b>2,527</b>	<b>2,018</b>	<b>2,819</b>	<b>2,586</b>	<b>2,586</b>	<b>2,734</b>	<b>2,734</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	195	152	178	128	128	128	128		
Nondedicated									
CAMBRIDGE DEPOSIT FUND	1	0	0	0	0	0	0		
<b>Total Revenues Collected</b>	<b>196</b>	<b>152</b>	<b>178</b>	<b>128</b>	<b>128</b>	<b>128</b>	<b>128</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	22.9	22.9	28.2	28.2	28.2	28.2	28.2		
PART-TIME, SEASONAL, LABOR SER	1.3	1.4	1.5	1.5	1.5	1.5	1.5		
<b>Total Full-Time Equivalent</b>	<b>24.2</b>	<b>24.3</b>	<b>29.7</b>	<b>29.7</b>	<b>29.7</b>	<b>29.7</b>	<b>29.7</b>		

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WORLD TRADE CENTER  
**Program:** MINNESOTA TRADE OFFICE  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

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### ACTIVITY PROFILE:

The World Trade Center (WTC) facility, on the third and fourth floors of the World Trade Center building, is used as the signature facility for the export education and export promotion programs of the Minnesota Trade Office (MTO) for the state of Minnesota.

The WTC facility is a membership-based organization, franchised from the World Trade Centers Association (WTCA), headquartered in New York City. The WTCA is a global international business support network with more than 300 locations throughout the world.

The World Trade Centers Association (WTCA) of Minnesota was established to promote international business partnerships, foster increased participation in world trade and encourage mutual assistance and cooperation among its members. Membership provides global networking for Minnesota businesses.

In July 1999, the WTCA of Minnesota was merged with DTED, and continues to be managed by the Minnesota Trade Office (MTO). It works in collaboration and partnership with the MTO to deliver services that promote, facilitate, and develop international business ties between Minnesota businesses and international markets. An Advisory Council, representative of Minnesota's international business community, has been established to advise on programming and membership activities.

### STRATEGIES AND PERFORMANCE:

The WTCA of Minnesota was created by the legislature in 1988 and is a state asset. The MTO assumed the organization's operating responsibilities from 1993 until 1999, with an independent Board of Directors. As of 7-1-99, the WTCA was merged with DTED, and is managed by the MTO. Currently, the MTO education program director also serves as Director of the WTCA.

The goal of the WTCA is to improve Minnesota's economic position in the global marketplace. To satisfy this goal, the WTCA hosts international delegations and provides networking opportunities for its members.

### FINANCING INFORMATION:

Since the merger with the DTED, the WTC facility has been managed and operated successfully by the MTO, such that a loss of \$87,000 at the end of FY

1999 (which included a \$50,000 legislative appropriation) has been turned around into a \$16,000 surplus.

The WTCA of Minnesota is self-financing, generating revenues from conference center usage, membership dues and educational programming. Staffing, rent, vendor costs and all related daily operational expenses are paid from these dedicated revenues.

### BUDGET ISSUES:

The WTCA of Minnesota's dedicated revenues support its daily operations, but the facility has not seen any investment for physical upgrades (furniture, carpeting, etc.) for over a decade.

Activity: WORLD TRADE CENTER  
 Program: MINNESOTA TRADE OFFICE  
 Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	0	121	162	173	173	184	184	74	26.1%
OTHER OPERATING EXPENSES	0	318	346	373	373	400	400	109	16.4%
<b>Total Expenditures</b>	<b>0</b>	<b>439</b>	<b>508</b>	<b>546</b>	<b>546</b>	<b>584</b>	<b>584</b>	<b>183</b>	<b>19.3%</b>
<b>Financing by Fund:</b>									
Statutory Appropriations:									
SPECIAL REVENUE	0	439	508	546	546	584	584		
<b>Total Financing</b>	<b>0</b>	<b>439</b>	<b>508</b>	<b>546</b>	<b>546</b>	<b>584</b>	<b>584</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	0	456	555	615	615	675	675		
<b>Total Revenues Collected</b>	<b>0</b>	<b>456</b>	<b>555</b>	<b>615</b>	<b>615</b>	<b>675</b>	<b>675</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	0.0	0.0	4.0	4.0	4.0	4.0	4.0		
<b>Total Full-Time Equivalent</b>	<b>0.0</b>	<b>0.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>		

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## PROGRAM SUMMARY

**Program:** WORKFORCE DEVELOPMENT  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

### PROGRAM PROFILE:

The Workforce Development Division (WDD) is a new division of the Department of Trade and Economic Development. It provides policy, technical, and financial services directly and indirectly to a wide array of stakeholders. Its purpose is to focus on addressing the workforce needs of Minnesota's businesses, workers and communities.

WDD is divided into two operating units-the Job Skills Partnership Unit and the Dislocated Worker Program Unit. While the units serve differing purposes, they both address workforce education, training, and employment needs of Minnesota businesses and workers. The Job Skills Partnership programs address the need to add to or improve the skills of the Minnesota workforce and improve the competitiveness of Minnesota businesses. The Dislocated Worker Unit's programs address the needs to assist those workers dislocated from work by layoff and workers at risk of layoff. The Job Skills Partnership has been in operation for over 15 years and has added several programs over that time period. While the Dislocated Worker Programs (DWP) have been operating for a similar amount of time, they were previously administered by the Department of Economic Security until 7-1-2000.

#### ***Minnesota Job Skills Partnership (MJSP) Program Unit:***

The MJSP Unit's programs provide training grants and loans. The grant and loans assist Minnesota businesses with their education and training needs. The MJSP programs have the threefold purpose of ensuring the economic vitality of Minnesota's businesses, enabling Minnesota's workers to become economically self-sufficient, and establishing partnerships between Minnesota's educational institutions so that the institutions are more responsive to business needs. The MJSP programs improve worker skill level, productivity, and earnings potential; act as a change agent for educational institutions; and assist in developing a workforce that can assist Minnesota companies in becoming globally competitive.

The MJSP Unit's programs include the Partnership grant program which is used to train current and new workers; the Pathways grant program which is used to enable companies to employ persons in transition from welfare-to-work; the Distance Work grant program which is used to bring new economy IT jobs to Rural Minnesota; and the Health and Human Services grant program which is being used to address worker shortages in the healthcare and human service fields. In addition to the grant programs, the MJSP family of programs also includes the Hire Education Loan Program (HELP). The program is intended to provide businesses with loans which encourage cost competitive training among

educational and training providers. The programs have been funded by a combination of sources, including Workforce Development Fund (WDF) revenues and federal TANF funds. Grant funds are awarded on a competitive basis.

#### ***Dislocated Worker Program (DWP) Unit:***

The DWP Unit provides employment and training services to Minnesotans who have become unemployed through no fault of their own. The DWP program also serves as the administrator for the federal Workforce Investment Act (WIA) Title I Dislocated Worker Program. The DWP Unit provides a wide range of services including job or career counseling and assessment, job development, education and training, family support, and placement services. The DWP Unit, on a limited basis, also provides Pilot Project grants to train workers that are considered as at-risk of losing their jobs. The services are provided through a statewide network of local Workforce Service Areas and other independent providers. Funding for services is provided by both state and federal sources. Federal funds come from Title I of WIA while state funds are provided by the State's Workforce Development Fund (WDF). Funds are provided to service providers through formula allocations and by special project grants, which address particular dislocation events.

In addition, the DWP Unit contains the State's Rapid Response Team. The four member Rapid Response Team is responsible for providing quick intervention when mass layoffs occur. The unit is also the focal point for implementation of the federal WARN system which requires a business anticipating layoffs of fifty or more persons to notify cognizant state agencies. Within 48 hours the unit can meet with the affected company and its employees to initiate the process so that those affected by the layoff can receive services.

### STRATEGIES AND PERFORMANCE:

The Workforce Development Division addresses both the needs of individuals dislocated from employment and businesses needing to retrain current or train new employees. Recently there has been a shift in the economic environment where there has been lower unemployment as a result of fewer layoffs coupled with a higher demand for workers. As a result the administration is proposing a new strategy to respond to the new economy which places less emphasis on programs which serve those dislocated from employment and more emphasis on programs that serve the underemployed and insuring that those workers have the skills necessary to be productive employees. As part of this strategy, it is proposed to eliminate the state funded portion of the DWP program and suspend the Special Assessment funding the Workforce Development Fund for one year. Resources will be redirected to programs which address the skill needs of the overall workforce. DWP programs would continue to have federal WIA Title I funding. In addition the strategy also recommends consolidation of funding streams for the JSP program.

**PROGRAM SUMMARY (Continued)**

**Program: WORKFORCE DEVELOPMENT**  
**Agency: TRADE & ECON DEVELOPMENT DEPT**

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**FINANCING INFORMATION:**

The base level of funding for the Dislocated Workers Program is currently about \$37 million annually. This includes \$8 million of federal WIA funding. As proposed, implementation of the strategy would reduce revenues to the \$8 million of federal funding. Current funding for JSP and Pathways programs are approximately \$7.5 million annually from the General Fund. This would be replaced by \$10 million from the Workforce Development fund each year.

**GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends base funding as requested in the agency's budget except for the following adjustments:

- The Governor recommends that the base funding from the General Fund of \$5.951 million in 2002 and \$5.991 million in 2003 for the Job Skills Partnership, and the base funding of \$1.5 million for the Pathways Program in 2002 and 2003, be replaced by a single appropriation of \$10 million per year to the Job Skills Partnership from the Workforce Development Fund.
- The Governor recommends that funding for the state Dislocated Worker's Program be eliminated and that these resources be redirected to other higher priority programs.
- The Governor recommends that the special assessment levied on employers under M.S. 268.022 shall be suspended from 1-1-2002 to 12-31-2002.
- The Governor recommends an increase of \$300,000 per year from the Workforce Development Fund for Twin Cities Rise.

Program: WORKFORCE DEVELOPMENT  
Agency: TRADE & ECON DEVELOPMENT DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
JOB SKILLS PARTNERSHIP	0	0	19,530	8,191	11,050	8,201	11,050	2,570	13.2%
DISLOCATED WORKER	0	0	47,049	28,677	8,023	29,278	8,023	(31,003)	(65.9%)
<b>Total Expenditures</b>	<b>0</b>	<b>0</b>	<b>66,579</b>	<b>36,868</b>	<b>19,073</b>	<b>37,479</b>	<b>19,073</b>	<b>(28,433)</b>	<b>(42.7%)</b>
<b>Change Items:</b>	<b>Fund</b>								
(B) INCREASE JOB SKILLS PART FDS-WKFORCE FD	GEN				(7,441)		(7,451)		
(B) INCREASE JOB SKILLS PART FDS-WKFORCE FD	SR				10,000		10,000		
(B) TWIN CITIES RISE	SR				300		300		
(B) ELIMINATE STATE DISL WKR PG	SR				(20,654)		(21,255)		
<b>Total Change Items</b>					<b>(17,795)</b>		<b>(18,406)</b>		
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	0	0	4,134	7,441	0	7,451	0		
SPECIAL REVENUE	0	0	10,646	0	10,300	0	10,300		
FEDERAL TANF	0	0	4,750	750	750	750	750		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	0	0	36,390	20,654	0	21,255	0		
FEDERAL	0	0	10,659	8,023	8,023	8,023	8,023		
<b>Total Financing</b>	<b>0</b>	<b>0</b>	<b>66,579</b>	<b>36,868</b>	<b>19,073</b>	<b>37,479</b>	<b>19,073</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	0.0	0.0	20.0	22.0	17.0	22.0	17.0		
PART-TIME, SEASONAL, LABOR SER	0.0	0.0	0.7	0.7	0.7	0.7	0.7		
<b>Total Full-Time Equivalent</b>	<b>0.0</b>	<b>0.0</b>	<b>20.7</b>	<b>22.7</b>	<b>17.7</b>	<b>22.7</b>	<b>17.7</b>		



## BUDGET ACTIVITY SUMMARY

**Budget Activity:** JOB SKILLS PARTNERSHIP  
**Program:** WORKFORCE DEVELOPMENT  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

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### ACTIVITY PROFILE:

Minnesota Job Skills Partnership Program (M.S. 116L)

Programs of the Minnesota Job Skills Partnership (MJSP) assist Minnesota businesses, in partnership with educators and communities in meeting their need to develop and maintain skilled workers in order to compete in the global economy. This is accomplished by providing information, technical assistance and grants for the development of training and educational programs. The state has an interest in insuring that its educational systems have the capacity to respond to businesses' needs for a skilled workforce and that its citizens have education and training assistance available to assist them in obtaining quality jobs.

The programs administered by MJSP include Minnesota Job Skills Partnership Program, the Pathways Program, the Hire Education Loan Program (HELP), the Health Care and Human Services Training Program and the Distance Work Program.

MJSP grants, which must be matched by business contributions, are awarded to educational institutions to provide business or industry specific training that will enable Minnesota businesses to be more economically viable, workers to be more economically self-sufficient, and Minnesota educational institutions to be more responsive to the needs of business.

The Pathways Program grant program was created to assist Minnesota businesses in employing persons making the transition from welfare to work. It is a matching grant program that requires demonstrated career ladders and educational pathways.

HELP makes zero interest loans to businesses to assist them in training or retraining their workforce. The program is intended to assist companies in training current and prospective employees. It also promotes cost-effective job training by requiring a competitive bid process from prospective training providers.

The Health Care and Human Services Training Program was created to alleviate worker shortages in the health care and human services industries and to increase opportunities for current and potential direct care employees to qualify for advanced employment in the health care and human services fields. Grants are awarded to qualifying consortiums, which include at least one

educational institution, one eligible employer and may include workforce centers and counties. Consortiums must provide a 50% match for grant funds.

The Distance Work Program was created to promote distance-work training projects that involve implementing technology in rural areas. The projects would enable workers to Tele-work from their homes, or rural satellite offices.

The MJSP is governed by a twelve-member board including the commissioners of DTED and the Department of Economic Security (DES), and the chancellor of the MnSCU system. The MJSP was originally created to directly serve business retraining needs. Currently, the MJSP serves as part of the state's response to the workforce shortages.

### STRATEGIES AND PERFORMANCE:

DTED recommends that the program's criteria for awarding grants be adjusted to fund projects that reflect the emerging industries that have the most potential for high wages and that help the state compete globally, as well as to allow for small businesses to compete. Also, DTED recommends the Pathways program's mission and funding be fully merged with the Job Skills Partnership program.

Activity: JOB SKILLS PARTNERSHIP  
Program: WORKFORCE DEVELOPMENT  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	0	0	516	516	516	526	526	526	101.9%
OTHER OPERATING EXPENSES	0	0	185	134	134	134	135	84	45.4%
Subtotal State Operations	0	0	701	650	650	660	661	610	87.0%
LOCAL ASSISTANCE	0	0	18,829	7,541	10,400	7,541	10,389	1,960	10.4%
<b>Total Expenditures</b>	<b>0</b>	<b>0</b>	<b>19,530</b>	<b>8,191</b>	<b>11,050</b>	<b>8,201</b>	<b>11,050</b>	<b>2,570</b>	<b>13.2%</b>

<b>Change Items:</b>	<b>Fund</b>				
(B) INCREASE JOB SKILLS PART FDS-WKFORCE FD	GEN			(7,441)	(7,451)
(B) INCREASE JOB SKILLS PART FDS-WKFORCE FD	SR			10,000	10,000
(B) TWIN CITIES RISE	SR			300	300
<b>Total Change Items</b>				<b>2,859</b>	<b>2,849</b>

<b>Financing by Fund:</b>					
Direct Appropriations:					
GENERAL	0	0	4,134	7,441	0
SPECIAL REVENUE	0	0	10,646	0	10,300
FEDERAL TANF	0	0	4,750	750	750
<b>Total Financing</b>	<b>0</b>	<b>0</b>	<b>19,530</b>	<b>8,191</b>	<b>11,050</b>

<b>FTE by Employment Type:</b>					
FULL TIME	0.0	0.0	9.5	9.5	9.5
PART-TIME, SEASONAL, LABOR SER	0.0	0.0	0.7	0.7	0.7
<b>Total Full-Time Equivalent</b>	<b>0.0</b>	<b>0.0</b>	<b>10.2</b>	<b>10.2</b>	<b>10.2</b>

**BUDGET CHANGE ITEM (49465)**

**Budget Activity:** JOB SKILLS PARTNERSHIP  
**Program:** WORKFORCE DEVELOPMENT  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

**Item Title:** INCREASE JOB SKILLS PART FDS-WK FORCE FD

Wage increases for workers who complete training through these grant programs assist in elevating the 40% of the state's workforce earning less than \$10 per hour. These workers may lack the skills or financial resources necessary to proceed to higher career development and usually are not eligible for existing targeted programs.

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund	\$(7,441)	\$(7,451)	\$(7,451)	\$(7,451)
Special Revenue	\$10,000	\$10,000	\$10,000	\$10,000
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes \_\_\_\_\_ No   X  

If yes, statute(s) affected:

\_\_\_\_\_ New Activity      X   Supplemental Funding    \_\_\_\_\_ Reallocation

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends that the base funding from the General Fund of \$5.941 million in 2002 and \$5.951 million in 2003 for the Job Skills Partnership program, and the base funding of \$1.5 million for the Pathways program in 2002 and 2003, be replaced by a single appropriation of \$10 million per year to the Job Skills Partnership program from the Workforce Development Fund.

**RATIONALE:**

The Minnesota Job Skills Partnership and Pathways programs facilitate partnerships between employers with specific training needs for their employees and accredited educational institutions who can train the workers to meet the needs of employers. Employers must provide at least a 1:1 match of either cash or in-kind services to the Job Skills Partnership and Pathways program. Grants are then approved by the Job Skills Partnership Board, which is made up of representatives from business and labor groups.

**OUTCOMES:**

Expected outcomes include:

- This proposal would allow the agency to provide training to workers more efficiently by merging the funding and mission of the two programs.

**BUDGET CHANGE ITEM (62671)**

**Budget Activity:** JOB SKILLS PARTNERSHIP  
**Program:** WORKFORCE DEVELOPMENT  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

**Item Title:** TWIN CITIES RISE

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
Special Revenue Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
-Grants	\$300	\$300	\$300	\$300
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>  X  </u>				
If yes, statute(s) affected:				
<u>  X  </u> New Activity    _____ Supplemental Funding    _____ Reallocation				

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends funding of \$600,000 per biennium from the Workforce Development Fund for Twin Cities Rise to develop and administer job training for hard to employ individuals, many of whom are minorities.

**RATIONALE:**

The state's workforce is shrinking. It is important to ensure that every available human resource be developed in order to maximize the size of Minnesota's workforce. Twin Cities Rise has a good track record for training and finding jobs for young males who have had difficulties maintaining gainful employment. Funding for Twin Cities Rise had been through a business tax credit. By running the appropriation as a grant program, it is intended to be more straightforward for employers to take advantage of. Funding for Twin Cities Rise will go to pay for training programs and placement and retention fees. Twin Cities Rise provides education and training in basic skills and incentives for employers to hire the people they train.

**FINANCING:**

The Jobs Training credit was enacted during the 1997 legislative session. This credit was to be claimed against the Corporate Franchise (Income) tax. Employers of graduates of a qualifying training program would receive credits for placement and retention fees that they pay to the program. The maximum credit is \$20,000 per trainee - \$8,000 for a placement fee and \$12,000 (\$6,000 per year) for retention fees.

As part of the Governor's tax reform initiative, this tax credit is proposed to be eliminated and replaced by a biennial appropriation of \$600,000 from the Workforce Development Fund.

**OUTCOMES:**

Twin Cities Rise will be able to train more hard-to-employ people and businesses will be able to tap into an underutilized segment of the workforce.

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** DISLOCATED WORKER  
**Program:** WORKFORCE DEVELOPMENT  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

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### ACTIVITY PROFILE:

The federal Workforce Investment Act (WIA) and Minnesota's Dislocated Worker Program provide workforce development services to persons unemployed as a result of plant closures, permanent mass layoffs, skills obsolescence, technological change, international trade, and other economic disruptions. Among the specific services are: "core" services eligibility determination, outreach and intake, initial assessment of skill levels, aptitudes and abilities, job search and placement assistance; those classified as "intensive" which include comprehensive and specialized assessment, development of individual employment plan, group and individual counseling, career planning, case management for those who seek training and short-term pre-vocational services; and "training" services which include occupational skills training, on-the-job training, training programs operated by the private sector, skill upgrading and retraining, entrepreneurial training, job readiness training, adult education and literacy activities and customized training.

In addition to the annual allocation of federal funds, Minnesota may receive awards of federal National Emergency Grants to provide workforce development services in response to major plant closings, substantial layoffs and natural disasters.

The Minnesota Dislocated Worker Program, on a limited basis, provides skill training to workers at risk of losing their jobs and to provide dislocated workers with skills training targeted to specific employers and industries.

### STRATEGIES AND PERFORMANCE:

The following Core Performance indicators have been negotiated with the U.S. Department of Labor:

Entered Employment Rate:	80%
Employment Retention Rate at Six Months:	84%
Earnings Replacement Rate in Six Months:	85%
Employment and Credential Rate:	50%
Customer Satisfaction—Participant:	64%
Customer Satisfaction—Employer	66%

### FINANCING INFORMATION (GRANTS):

As governed by federal law, allocation of the state's WIA dislocated worker funds is 60% to sixteen Workforce Service Areas (WSAs); 15% for statewide activities, and up to 25% for rapid response activities.

In addition to the annual allocation of federal funds, Minnesota may receive awards of federal National Emergency Grants to provide workforce development services in response to major plant closings, substantial layoffs and natural disasters.

State dislocated worker funds as directed by law are to be used for state administration (5% of available funds); allocation to WSAs (40% of available funds); and allocations to eligible organizations with demonstrated performance on the basis of an RFP to address specific worker dislocation events, such as plant closings or mass layoffs, statewide activities, regional dislocations, and industry-wide projects (60% of available funds). Up to 5% of the state funds can be used to serve workers "at-risk" of layoff and for skill training targeted to specific employers and industries.

Activity: DISLOCATED WORKER  
Program: WORKFORCE DEVELOPMENT  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	0	0	847	997	506	997	506	165	19.5%
OTHER OPERATING EXPENSES	0	0	2,316	2,095	1,156	2,178	1,156	(4)	(0.2%)
Subtotal State Operations	0	0	3,163	3,092	1,662	3,175	1,662	161	5.1%
LOCAL ASSISTANCE	0	0	43,886	25,585	6,361	26,103	6,361	(31,164)	(71.0%)
Total Expenditures	0	0	47,049	28,677	8,023	29,278	8,023	(31,003)	(65.9%)

<b>Change Items:</b>	<b>Fund</b>				
(B) ELIMINATE STATE DISL WKR PG	SR			(20,654)	(21,255)
Total Change Items				(20,654)	(21,255)

<b>Financing by Fund:</b>							
<b>Statutory Appropriations:</b>							
SPECIAL REVENUE	0	0	36,390	20,654	0	21,255	0
FEDERAL	0	0	10,659	8,023	8,023	8,023	8,023
<b>Total Financing</b>	<b>0</b>	<b>0</b>	<b>47,049</b>	<b>28,677</b>	<b>8,023</b>	<b>29,278</b>	<b>8,023</b>

<b>Revenue Collected:</b>							
<b>Dedicated</b>							
SPECIAL REVENUE	0	0	32,061	25,936	19,452	27,233	6,808
FEDERAL	0	0	10,659	8,023	8,023	8,023	8,023
<b>Total Revenues Collected</b>	<b>0</b>	<b>0</b>	<b>42,720</b>	<b>33,959</b>	<b>27,475</b>	<b>35,256</b>	<b>14,831</b>

<b>FTE by Employment Type:</b>							
FULL TIME	0.0	0.0	10.5	12.5	7.5	12.5	7.5
<b>Total Full-Time Equivalent</b>	<b>0.0</b>	<b>0.0</b>	<b>10.5</b>	<b>12.5</b>	<b>7.5</b>	<b>12.5</b>	<b>7.5</b>

**BUDGET CHANGE ITEM (49440)**

**Budget Activity:** DISLOCATED WORKER  
**Program:** WORKFORCE DEVELOPMENT  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

**Item Title:** ELIMINATE STATE DISL WKR PG

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
Special Revenue	\$(20,654)	\$(21,255)	\$(21,255)	\$(21,255)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected:

☐ New Activity ☐ Supplemental Funding ☐ Reallocation

**GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends eliminating the state Dislocated Workers Program and redirecting those Workforce Development Fund resources to higher priority uses. Services for dislocated workers will continue with ongoing federal funds.

**RATIONALE:**

The state Dislocated Worker program began in 1991 to supplement the federal Dislocated Worker program. The state's economy has improved significantly over the past decade. The unemployment rate has fallen to half its 1991 peak of 5.2% to 2.5% and lower at times. While layoffs and job churning continue due to mergers and acquisitions and other factors, the state's unemployment continues to remain below 3%. Given the fact Minnesota has the lowest unemployment rate in the nation, it should discontinue being one of only 13 states which supplement the federal Dislocated Worker Program with state dollars. Regarding the Dislocated Worker Pilot program, less than \$250,000 has been spent, indicating a lack of interest or need in this program.

**FINANCING:**

Expenditures of \$41.909 million for the 2002-03 biennium would be eliminated by terminating the state portion of the Dislocated Worker Program, including \$1.2 million set aside for the pilot program.

**OUTCOMES:**

Expected outcomes include:

- The Dislocated Worker Program would be funded with federal funds only, estimated at \$8 million per year, which would continue to serve workers who are dislocated in Minnesota.

**BUDGET CHANGE ITEM (49490)**

**Budget Activity:** DISLOCATED WORKER  
**Program:** WORKFORCE DEVELOPMENT  
**Agency:** TRADE & ECON DEVELOPMENT DEPT  
**Item Title:** SUSPEND DISLOCATED WORKER TAX

**OUTCOMES:**

Tax reduction for employers coupled with a more strategic approach to directing the workforce development funds toward educating, training, and counseling that is most beneficial for businesses and employees.

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Special Revenue	\$(19,452)	\$(6,808)	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: M.S. 268.022

☐ New Activity ☐ Supplemental Funding ☐ Reallocation

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends that the special assessment levied on employers under M.S. 268.022 shall be suspended from 1-1-02 to 12-31-02. This assessment, known as the workforce development tax, funds the Workforce Development Fund.

**RATIONALE:**

The Workforce Development Fund (formerly the Dislocated Worker Fund) supported by a payroll tax on employers, should be used to fund programs aimed at improving the skills and abilities of all incumbent workers. Balances in the fund are sufficient to support the Governor's proposed Workforce Development initiatives and suspend collection of the tax from employers for one year.

**FINANCING:**

Employers pay the special assessment on a quarterly basis. Payments for the end of calendar year 2001 will continue into calendar 2002 even with the suspension of the special assessment. Revenues are projected to be 75% of existing estimates for FY 2002 and 25% of existing estimate for FY 2003, since payments will lag the resumption of the special assessment on 1-1-03.



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## PROGRAM SUMMARY

**Program:** TOURISM  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

### PROGRAM PROFILE:

The mission of the Minnesota Office of Tourism (MOT) is to market Minnesota as a travel destination, sustain and increase tourism revenues, and lead tourism policy and product development. MOT markets Minnesota in North America and internationally as a travel destination to consumers, tour operators, group tours, and travel agents; promotes coverage of Minnesota by domestic and international travel media, and initiates, develops, and coordinates activity with travel industry buyers and sellers. Minnesota tourism organizations and businesses participate in marketing efforts through a variety of partnership activities. MOT programs have been nationally recognized and performance measures have demonstrated results. The state's travel and tourism industry and tourism related sales and tax revenues have grown proportionately and greater than the national average.

In Minnesota, as well as nationally, tourism is gaining recognition as an engine for continued economic development, job growth, and prosperity. New and emerging destinations for visitors emerge as travelers are made aware of the travel product.

A 35-person, statewide Tourism Advisory Committee provides industry input, program direction and communication relative to program development.

A marketing plan is developed annually identifying strategies and tactics to achieve five program goals: increase non-resident travel, retain travel in-state by Minnesota residents, deliver high quality information and traveler services, provide strategic leadership for tourism initiatives, and facilitate product development. MOT is organized into the following program areas to accomplish its mission and achieve specific objectives.

*Destination Sales* markets and sells Minnesota as a travel destination to tour operator, group tour, and media clients. The program initiates, develops, and coordinates sales activities with travel industry buyers in North America and overseas international markets and consumer promotions in international target markets including Canada, Japan, the United Kingdom, German speaking and Scandinavian countries.

*Product Marketing* sells, markets, and promotes the state to domestic consumers. Marketing activities include seasonal advertising, media relations, promotion of destinations and activities, and marketing materials including publications, a web site, and photo images. Activities are primarily focused in the 12-state north central region. These states account for approximately 83% of Minnesota's domestic travel.

The *Consumer Marketing* program is responsible for handling customer inquiries and providing travel information, travel planning services, and marketing fulfillment services to prospective travelers. Consumer inquiries are handled via telephone, correspondence, fax, the Internet, and in response to consumer advertising programs. An extensive database including accommodations, attractions, and events is maintained and available to consumers via travel counselors and the Internet. The Consumer Marketing unit is also responsible for measurement and evaluation of MOT's programs.

The *Traveler Sales* program delivers person-to-person tourism information services to travelers who plan to, or are, traveling in Minnesota. The Traveler Sales program operates the network of statewide Travel Information Centers, supports interactive travel information computer kiosks and markets Minnesota tourism opportunities at sport, travel, camping, and vacation shows.

The *Industry Sales* program is responsible for facilitating two-way communications between MOT and the state's tourism industry, providing education and marketing planning assistance. Regional offices located in Brainerd, Duluth, Mankato and Thief River Falls are operated in partnership with regional tourism associations. This program is responsible for monitoring public policy issues that may affect tourism in Minnesota.

### STRATEGIES AND PERFORMANCE:

The Governor's *Big Plan* identified tourism as a key component in the World Competitor initiative.

Specifically the strategies for the tourism program are:

- Leverage the celebrity and widespread recognition of Governor Ventura to promote travel to and throughout the state.
- Create year-round tourism business via enhancing strengths and expanding promotion of shoulder seasons and non-peak travel periods.
- Provide easy-to-access travel information and services to achieve a competitive advantage in the marketplace.
- Seek new avenues for increased tourism promotion through new initiatives to specific audiences and facilitate product development.
- Increase international tourism by broadening promotion in primary markets.
- Maximize public/private marketing partnerships and co-op opportunities.

Market research is used to determine target audiences and how to reach them. Program evaluations measure the performance in achieving performance goals and of specific marketing tactics.

PROGRAM SUMMARY (Continued)

Program: TOURISM  
Agency: TRADE & ECON DEVELOPMENT DEPT

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Travel Expenditures by Travelers Influenced by MOT Materials (mailed spring/summer in millions)						
	1998	1999	2000	2001 est.	2002 est.	2003 est.
	\$64	\$104	\$109	\$115	\$121	\$127

Number of Minnesota Travel Itineraries in Tour Operator Catalogs						
1997	1998	1999	2000	2001 est.	2002 est.	2003 est.
383	422	459	482	506	531	557

Cash and In-kind Value of Private/Public Partnerships (in millions by FY)						
1997	1998	1999	2000	2001 est.	2002 est.	2003 est.
\$4.35	\$5.17	\$7.09	\$5.92	\$6.22	\$6.53	\$6.86

**FINANCING INFORMATION:**

*Grants Summary:*

In accordance with M.S. 116J.58, Subd. 3, the Minnesota Office of Tourism awards grants and enters into tourism-related marketing partnerships with nonprofit organizations to maximize both state and local resources to generate non-resident travel expenditures within Minnesota and to retain travel dollars from Minnesotans within the state. All grants and marketing partnerships must meet established criteria and strategic objectives and are based on performance outcomes.

**BUDGET ISSUES:**

Prior to their transfer to the Office of Tourism in 1988 operating costs for the Travel information Centers (TICs) were funded entirely from Trunk Highway Funds. At the time of the transfer, some, but not all of the cost continued to be funded from the Trunk Highway Fund and the remainder from the General Fund. During the 2000 legislative session the Legislature removed Trunk Highway Funding for the TICs (asserting the centers did not further a highway purpose), decreasing base level funding by \$766,000. These funds were replaced by one-time General Fund appropriations for 2001, eliminating most base level funding for the centers for FY 2002-03. Accordingly, the Minnesota Office of Tourism proposes to reallocate funding from other activities, reduce staffing and to restructure the services of lower priority TICs.

Activity: TOURISM MARKETING  
Program: TOURISM  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	3,389	3,654	3,627	2,975	2,975	3,067	3,067	(1,239)	(17.0%)
OTHER OPERATING EXPENSES	4,698	6,957	6,920	6,347	6,347	6,347	6,347	(1,183)	(8.5%)
OTHER FINANCIAL TRANSACTIONS	0	75	175	0	0	0	0	(250)	(100.0%)
<b>Subtotal State Operations</b>	<b>8,087</b>	<b>10,686</b>	<b>10,722</b>	<b>9,322</b>	<b>9,322</b>	<b>9,414</b>	<b>9,414</b>	<b>(2,672)</b>	<b>(12.5%)</b>
CAPITAL OUTLAY & REAL PROPERTY	21	0	0	0	0	0	0	0	
LOCAL ASSISTANCE	1,443	2,194	1,787	1,787	1,787	1,787	1,787	(407)	(10.2%)
<b>Total Expenditures</b>	<b>9,551</b>	<b>12,880</b>	<b>12,509</b>	<b>11,109</b>	<b>11,109</b>	<b>11,201</b>	<b>11,201</b>	<b>(3,079)</b>	<b>(12.1%)</b>

<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	7,800	10,650	11,119	10,019	10,019	10,111	10,111		
TRUNK HIGHWAY	723	742	3	0	0	0	0		
<b>Statutory Appropriations:</b>									
ENVIRONMENT & NATURAL RESOURCE	0	68	12	0	0	0	0		
SPECIAL REVENUE	1,028	1,180	1,044	1,090	1,090	1,090	1,090		
FEDERAL	0	240	331	0	0	0	0		
<b>Total Financing</b>	<b>9,551</b>	<b>12,880</b>	<b>12,509</b>	<b>11,109</b>	<b>11,109</b>	<b>11,201</b>	<b>11,201</b>		

<b>Revenue Collected:</b>									
<b>Dedicated</b>									
GENERAL	0	2	0	0	0	0	0		
SPECIAL REVENUE	1,116	947	1,040	1,040	1,040	1,040	1,040		
FEDERAL	0	240	331	0	0	0	0		
<b>Nondedicated</b>									
GENERAL	5	4	0	0	0	0	0		
<b>Total Revenues Collected</b>	<b>1,121</b>	<b>1,193</b>	<b>1,371</b>	<b>1,040</b>	<b>1,040</b>	<b>1,040</b>	<b>1,040</b>		

<b>FTE by Employment Type:</b>									
FULL TIME	51.1	51.3	49.5	47.5	47.5	47.5	47.5		
PART-TIME, SEASONAL, LABOR SER	24.9	23.7	22.6	17.1	17.1	17.1	17.1		
OVERTIME PAY	0.3	0.3	0.2	0.1	0.1	0.1	0.1		
<b>Total Full-Time Equivalent</b>	<b>76.3</b>	<b>75.3</b>	<b>72.3</b>	<b>64.7</b>	<b>64.7</b>	<b>64.7</b>	<b>64.7</b>		

## **PROGRAM SUMMARY**

**Program: INFORMATION & ANALYSIS**  
**Agency: TRADE & ECON DEVELOPMENT DEPT**

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### **PROGRAM PROFILE:**

The division supplies centralized communication, marketing, research, analysis, program evaluation and governmental liaison services to support the department's operating divisions, Advantage Minnesota, the legislature, the governor's office and sometimes local economic development partners.

Analysis and evaluation services promote job creation and create a positive environment for business formation and expansion in Minnesota by providing critical strategic information, analysis and research services.

Marketing and communication services are designed to coordinate the department's external relations efforts and provide professional public/media relations and communications services for all departmental divisions.

Governmental liaison support services offer a variety of services for governmental officials.

### **STRATEGIES AND PERFORMANCE:**

As a centralized function, the Information and Analysis Division (IAD) completes research and works closely with all operating divisions to ensure products are timely, address current issues, and are coordinated across divisions. Each fiscal year, clients served by the department's business specialists and the Information and Analysis Division will invest \$300 - \$400 million in Minnesota, create 4,000 - 5,000 high-quality jobs, export millions of dollars in manufactured products, and assist in the facilitation of tourism spending in the state. Key information provided by this division also supports economic development and business policies in other state and local levels (e.g., the Legislature, the Governor's Office).

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Activity: INFORMATION & ANALYSIS  
Program: INFORMATION & ANALYSIS  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Category:</u></b>									
State Operations									
COMPENSATION	1,060	1,138	1,434	1,461	1,461	1,498	1,498	387	15.0%
OTHER OPERATING EXPENSES	372	187	224	170	170	170	170	(71)	(17.3%)
<b>Total Expenditures</b>	<b>1,432</b>	<b>1,325</b>	<b>1,658</b>	<b>1,631</b>	<b>1,631</b>	<b>1,668</b>	<b>1,668</b>	<b>316</b>	<b>10.6%</b>
<b><u>Financing by Fund:</u></b>									
Direct Appropriations:									
GENERAL	1,432	1,325	1,658	1,631	1,631	1,668	1,668		
<b>Total Financing</b>	<b>1,432</b>	<b>1,325</b>	<b>1,658</b>	<b>1,631</b>	<b>1,631</b>	<b>1,668</b>	<b>1,668</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	20.4	19.6	24.0	24.0	24.0	24.0	24.0		
PART-TIME, SEASONAL, LABOR SER	0.1	1.5	1.0	1.0	1.0	1.0	1.0		
<b>Total Full-Time Equivalent</b>	<b>20.5</b>	<b>21.1</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>		

## PROGRAM SUMMARY

Program: ADMINISTRATIVE SUPPORT  
Agency: TRADE & ECON DEVELOPMENT DEPT

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### PROGRAM PROFILE:

The commissioner is responsible for establishing overall department policy and management systems to ensure that department resources are effectively and efficiently utilized.

Activities in this program are Information and Computer Services, and General Administration including fiscal services, human resources, and general support.

DTED's administrative offices work to provide cost efficient and effective administrative, fiscal, human resource, and information services (IS) and systems consistent with state and federal laws, policies, requirements, and procedures. Services are centralized to assure coordination, provide cost effective service, and ensure compliance with state and federal requirements. Administration develops and coordinates the implementation of organizational and operational policies, and provides staff support services in the designated areas.

This is a general support program for the entire agency.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Program: ADMINISTRATIVE SUPPORT  
Agency: TRADE & ECON DEVELOPMENT DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
GENERAL ADMINISTRATION	1,843	1,782	2,330	2,511	2,511	2,792	2,792	1,191	29.0%
INFO & COMPUTER SERVICES	1,402	1,073	1,934	1,109	1,109	1,109	1,109	(789)	(26.2%)
<b>Total Expenditures</b>	<b>3,245</b>	<b>2,855</b>	<b>4,264</b>	<b>3,620</b>	<b>3,620</b>	<b>3,901</b>	<b>3,901</b>	<b>402</b>	<b>5.6%</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	3,176	2,787	4,089	3,455	3,455	3,736	3,736		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	69	68	175	165	165	165	165		
<b>Total Financing</b>	<b>3,245</b>	<b>2,855</b>	<b>4,264</b>	<b>3,620</b>	<b>3,620</b>	<b>3,901</b>	<b>3,901</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	29.5	28.5	34.5	34.5	34.5	34.5	34.5		
PART-TIME, SEASONAL, LABOR SER	0.3	0.6	0.5	0.5	0.5	0.5	0.5		
<b>Total Full-Time Equivalent</b>	<b>29.8</b>	<b>29.1</b>	<b>35.0</b>	<b>35.0</b>	<b>35.0</b>	<b>35.0</b>	<b>35.0</b>		



## BUDGET ACTIVITY SUMMARY

**Budget Activity:** GENERAL ADMINISTRATION  
**Program:** ADMINISTRATIVE SUPPORT  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

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### **ACTIVITY PROFILE:**

The Fiscal Services unit performs accounting, budgeting, financial reporting, and purchasing functions. This unit also provides general oversight to ensure compliance with state and federal laws, rules, policies and guidelines for sound fiscal management.

The Human Resources (HR) office administers the department's personnel and labor relations programs, including recruitment, selection, classification and compensation, benefits administration, contract and plan administration, affirmative action, and other related HR activities. The office is also responsible for payroll functions, assisting managers in the legal administration of the state's personnel system, and agency employees in all aspects of their employment.

The Administrative Service unit provides broad agency support including reception services, mail processing, property management, fixed asset inventory, telecommunications support, and other types of general administrative services.

### **STRATEGIES AND PERFORMANCE:**

- Management of the budget to ensure proper allocation and expenditure of funds.
- Operational efficiencies and consistency through refined processes and procedures.
- Compliance with rules, regulations, laws, contracts and plans affecting departmental operations.

To date, this program has been meeting operational challenges within target spending levels through organization efficiencies and other initiatives. Inflation costs will continue to be absorbed through savings from these efficiencies. This program collects and generates dedicated and non-dedicated revenue through its indirect cost plan which supports a portion of this program.

### **BUDGET ISSUES:**

Administration will continue to meet the ongoing challenge of absorbing inflationary costs within target level funding.

Activity: GENERAL ADMINISTRATION  
Program: ADMINISTRATIVE SUPPORT  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,127	1,095	1,245	1,302	1,302	1,354	1,354	316	13.5%
OTHER OPERATING EXPENSES	716	687	1,085	1,209	1,209	1,438	1,438	875	49.4%
<b>Total Expenditures</b>	<b>1,843</b>	<b>1,782</b>	<b>2,330</b>	<b>2,511</b>	<b>2,511</b>	<b>2,792</b>	<b>2,792</b>	<b>1,191</b>	<b>29.0%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	1,774	1,714	2,155	2,346	2,346	2,627	2,627		
Statutory Appropriations:									
SPECIAL REVENUE	69	68	175	165	165	165	165		
<b>Total Financing</b>	<b>1,843</b>	<b>1,782</b>	<b>2,330</b>	<b>2,511</b>	<b>2,511</b>	<b>2,792</b>	<b>2,792</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	165	97	165	165	165	165	165		
<b>Total Revenues Collected</b>	<b>165</b>	<b>97</b>	<b>165</b>	<b>165</b>	<b>165</b>	<b>165</b>	<b>165</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	18.2	17.3	20.5	20.5	20.5	20.5	20.5		
PART-TIME, SEASONAL, LABOR SER	0.3	0.6	0.5	0.5	0.5	0.5	0.5		
<b>Total Full-Time Equivalent</b>	<b>18.5</b>	<b>17.9</b>	<b>21.0</b>	<b>21.0</b>	<b>21.0</b>	<b>21.0</b>	<b>21.0</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** INFO & COMPUTER SERVICES  
**Program:** ADMINISTRATIVE SUPPORT  
**Agency:** TRADE & ECON DEVELOPMENT DEPT

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### **ACTIVITY PROFILE:**

Through the department's Information Management Office (IMO), the department is supported by Information Resource Management (IRM) activities consistent with state policies, goals, and guidelines. This centralized support includes planning, analysis and management functions in support of IRM (e.g., strategic information planning; technology project planning, evaluation and management; data management and other activities such as disaster recovery, etc.) This office also manages departmental staff that provide information services (IS) support agency wide.

### **STRATEGIES AND PERFORMANCE:**

- Effective development and integration of information systems, consistent with statewide goals and objectives, through IRM.
- Operational efficiencies and consistency through refined processes and procedures

To date, this program has been meeting operational challenges within target spending levels through organization efficiencies and other initiatives. Inflation costs will continue to be absorbed through savings from these efficiencies. This program collects revenue through its indirect cost plan which supports a portion of this program.

This activity generates dedicated and non-dedicated revenue through the department's indirect cost plan. This revenue supports a portion of the services provided.

### **BUDGET ISSUES:**

Information and Computer Services will continue to work to meet the ongoing challenge of inflationary costs within target funding. Costs for IS personnel have increased significantly due to competitive issues within state government and the private sector.

Activity: INFO & COMPUTER SERVICES  
Program: ADMINISTRATIVE SUPPORT  
Agency: TRADE & ECON DEVELOPMENT DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	626	699	874	874	874	874	874	175	11.1%
OTHER OPERATING EXPENSES	776	374	1,060	235	235	235	235	(964)	(67.2%)
<b>Total Expenditures</b>	<b>1,402</b>	<b>1,073</b>	<b>1,934</b>	<b>1,109</b>	<b>1,109</b>	<b>1,109</b>	<b>1,109</b>	<b>(789)</b>	<b>(26.2%)</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	1,402	1,073	1,934	1,109	1,109	1,109	1,109		
<b>Total Financing</b>	<b>1,402</b>	<b>1,073</b>	<b>1,934</b>	<b>1,109</b>	<b>1,109</b>	<b>1,109</b>	<b>1,109</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	11.3	11.2	14.0	14.0	14.0	14.0	14.0		
<b>Total Full-Time Equivalent</b>	<b>11.3</b>	<b>11.2</b>	<b>14.0</b>	<b>14.0</b>	<b>14.0</b>	<b>14.0</b>	<b>14.0</b>		

## MINNESOTA TECHNOLOGY INC - CONTENTS

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<b>PROGRAMS, BUDGET ACTIVITIES, AND CHANGE ITEMS</b>	
MINNESOTA TECHNOLOGY	E-85

## MINNESOTA TECHNOLOGY - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The mission of Minnesota Technology is to contribute to the growth of the economy by assisting industry to apply, develop and commercialize technology.

Minnesota Technology (MTI) is part of the state's strategy to strengthen the economy and preserve and "grow" high-skill, high-wage jobs, thereby creating a strong climate to grow business and positioning Minnesota as a world competitor.

### KEY SERVICE STRATEGIES:

MTI works with companies to identify and implement new technologies that will improve their products and processes. Our field staff has extensive private sector backgrounds in manufacturing and technology fields. Not only do they provide companies with perspective and insight, they also identify technologies and technology resources that are available from federal labs, academic institutions and private sector resources.

Services are provided through field staff based in six offices throughout the state: Moorhead, Virginia, St. Cloud, Twin Cities, Rochester, and Redwood Falls. The services are a key strategy in diversifying the greater Minnesota economy towards advanced manufacturing and technology-based businesses.

MTI staff work *on-site* with manufacturing and technology based companies to 1) help companies identify and prioritize issues, 2) strategize how the issues will be resolved/what new technologies should be implemented, and 3) locate and oversee an outside resource to address the issues (paid for by the client company).

In addition, Minnesota Technology also works with other organizations to promote the technology industry and its growth – primarily in the Twin Cities – and provides public policy research and analysis on technology issues.

### OPERATING ENVIRONMENT:

As an economic development strategy, MTI works with industry sectors that tend to provide stable, high-wage jobs. These companies must compete in a world economy that is becoming more and more technology-based. Not only are their customers expecting them to have e-business competencies, they are also expecting new, better and cheaper products and processes.

The common factor in all these demands is improving a company's use of technology. Without doing so, companies quickly lose their place to competition.

Historically, MTI has served companies throughout the state, with a focus on greater Minnesota, because it is particularly difficult for these companies to find technology resources of any kind. However, high-growth oriented companies in the metro area have also yielded very significant economic impact.

Over time, the needs of companies have become more and more technology-intensive, and so have MTI's services. Primarily by reallocating internal resources, MTI has introduced e-business assistance and tech transfer from federal labs, and expanded technical assistance to match company needs with technology resources in academia. Over the next biennium the technology transfer and federal lab services will increase through internal reallocation, as will the organization's leadership in technology public policy.

There are several premises to our services:

- Today's – and tomorrow's – economy relies more and more on the effective implementation of technology. Without consistent improvements to products and processes, Minnesota's manufacturers and technology-based companies will be unable to compete in the world economy.
- When properly selected and implemented, continual advances in technology provide a platform for companies to be successful, and for companies to provide stable, high wage jobs to their employees.
- Experienced, objective field staff can help companies assess where they are, where they want to be, and what technologies can help get them there.

### ORGANIZATION/PROGRAM STRUCTURE:

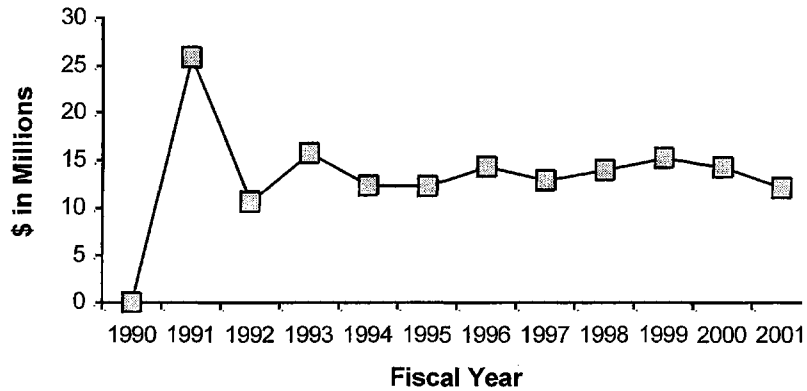
PRESIDENT AND EXECUTIVE MANAGEMENT		
Technology Services		
Customized Services		44.5
[Grt. Minn. 33.0]		
[Metro 11.5]		
Technology Transfer/Industry		
University Relations		9.5
eBusiness Institute		6.0
Technology Industry Promotion and Awareness		5.4
Technology Policy Research & Analysis		6.0
HR/Finance/Evaluation/MIS		5.8
Admin		4.0
IT & Web		6.5
		<u>87.7</u>

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

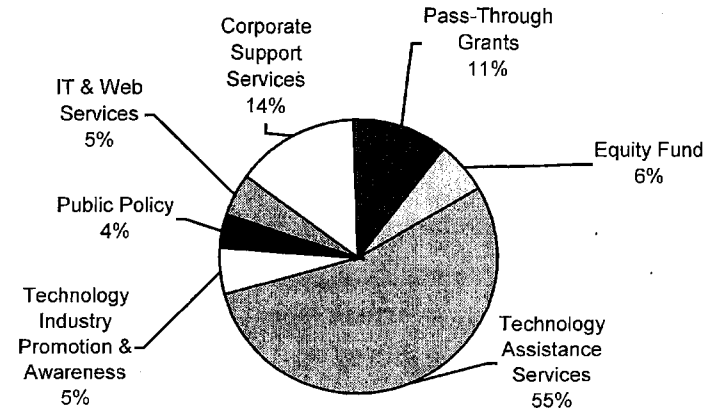
# MINNESOTA TECHNOLOGY - EXECUTIVE SUMMARY (Continued)

## TRENDS AND PERSPECTIVE:

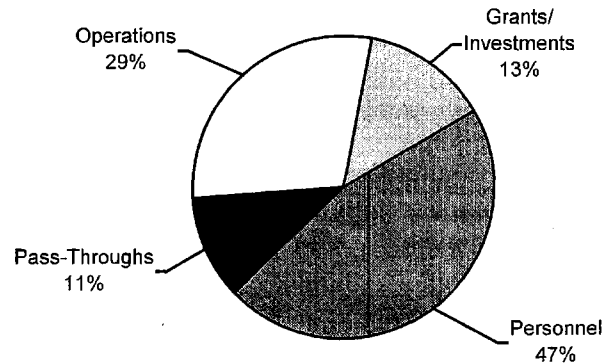


Minnesota Technology was formed in 1991.

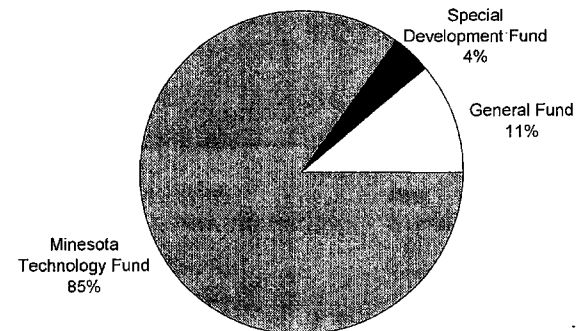
## 2000-01 Expenditures by Program Total: \$26,299 (\$ in thousands)



## 2000-01 Expenditures by Fund Total: \$26,299 (\$ in thousands)



## 2000-01 Expenditures by Fund Total: \$26,299 (\$ in thousands)



Program: MINNESOTA TECHNOLOGY  
Agency: MINNESOTA TECHNOLOGY INC

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
TECHNOLOGY SERVICES	13,248	12,405	10,954	10,334	10,334	10,402	10,402	(2,623)	(11.2%)
MINNESOTA PROJECT INNOVATION	694	700	500	0	0	0	0	(1,200)	(100.0%)
MINNESOTA INVENTORS CONGRESS	75	70	70	0	0	0	0	(140)	(100.0%)
NATURAL RESOURCES RESEARCH INS	950	850	350	0	0	0	0	(1,200)	(100.0%)
MINNESOTA COUNCIL FOR QUALITY	113	100	100	0	0	0	0	(200)	(100.0%)
COLD WEATHER RESEARCH CENTER	100	100	100	0	0	0	0	(200)	(100.0%)
<b>Total Expenditures</b>	<b>15,180</b>	<b>14,225</b>	<b>12,074</b>	<b>10,334</b>	<b>10,334</b>	<b>10,402</b>	<b>10,402</b>	<b>(5,563)</b>	<b>(21.2%)</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	1,932	1,820	1,120	6,105	6,105	6,105	6,105		
<b>Statutory Appropriations:</b>									
MINNESOTA TECHNOLOGY INC	12,524	11,291	10,919	4,194	4,194	4,297	4,297		
SPECIAL REVENUE	724	1,114	35	35	35	0	0		
<b>Total Financing</b>	<b>15,180</b>	<b>14,225</b>	<b>12,074</b>	<b>10,334</b>	<b>10,334</b>	<b>10,402</b>	<b>10,402</b>		



# MINNESOTA TECHNOLOGY INC - BUDGET BRIEF

**Fund: GENERAL**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001)</b> (\$000s)			
Appropriations	\$7,425	\$7,425	\$14,850
<b><u>BASE ADJUSTMENT</u></b>			
eBusiness one-time appropriation	(200)	(200)	(400)
Pass-through one-time appropriations	(1,120)	(1,120)	(2,240)
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$6,105</b>	<b>\$6,105</b>	<b>\$12,210</b>
<b><u>CHANGE ITEMS</u></b>			
	-0-	-0-	-0-
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$6,105</b>	<b>\$6,105</b>	<b>\$12,210</b>

## **BRIEF EXPLANATION OF BUDGET DECISIONS:**

- The budget accommodates all compensation increases, benefit cost increases and inflationary pressures over the next biennium without additional funding. Base adjustments are included for one-time appropriations for eBusiness Institute (\$200,000) and for one-time pass-through grants to Minnesota Project Innovation, Minnesota Inventors Congress, Natural Resources Research Institute, Minnesota Council for Quality, and Cold Weather Research Center (total of \$1.12 million).
- Minnesota Technology will spend approximately 70% of its budget on those services oriented to improving the competitive position of Minnesota's manufacturers and technology companies. Adjustments in these services, accommodated within the current base budget, include
  - devoting current resources to industry clusters,
  - shifting the focus of technology improvements to help companies expand without adding workers,
  - devoting more resources to identifying new technologies and partners among federal labs, NASA and academia, and
  - expanding the number of eBusiness Institute seminars offered to companies.

- The remainder of the budget will be directed to public policy issues, promoting and improving the awareness of technology and manufacturing in the economy, and administrative oversight. New offerings, accommodated within the current base budget, include
  - promoting the technology industry and its importance to the economy, with partners such as the MN High Technology Association, and
  - providing technology leadership to the state through such means as a report on the state of technology in Minnesota, an expanded technology directory delivered through the Internet, and assisting policy leaders in evaluating technology issues within Minnesota's economy.

## **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends the agency's base budget.

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## MINNESOTA TECHNOLOGY INC - REVENUE SUMMARY

### **REVENUE SOURCES:**

Minnesota Technology generates dedicated revenue and federal funds. The dedicated revenue comes from the sale of advertising from *Minnesota Technology* magazine, fees for its eBusiness Institute seminars, online information services, event attendance and corporate sponsorships, foundation grants, and repayments on technology investments.

Minnesota Technology also has a long-standing relationship with the US Department of Commerce's National Institutes of Standards and Technology. This relationship includes an annual grant of \$2 million per year of federal funds which Minnesota Technology expects to continue in the future. These funds represent approximately 20% of Minnesota Technology's operating budget. These funds are transferred to the Minnesota Technology account per statute.

### **FEE STRUCTURE:**

Minnesota Technology continually explores opportunities to generate revenue for its services. As noted above, there are charges for Information Services, e-Business Institute seminars, event attendance, and magazine advertising. The MTI Board and management takes care, however, to avoid charging fees which would actually deter our customers from using services that strengthen the manufacturing and technology sector.

### **RECENT CHANGES:**

During FY 2001, MTI started the eBusiness Institute, which offers seminars in ebusiness to greater Minnesota business executives. MTI expects to generate \$150,000-\$200,000 in revenue from these seminars.

FY 2001 also saw increased efforts in promoting the technology industry. Through a collaboration with the Minnesota High Tech Association, we have been able to increase corporate sponsorships for the annual technology awards (Tekne) from \$7,000 to \$75,000 (to date). We are forecasting an increase to \$85,000 for FY 2002.

In addition, in FY 2001 Minnesota Technology nearly doubled corporate sponsorships for scholarships for college-bound technology students, from \$15,000 to \$27,500. The scholarships are funded completely by the corporate sponsors.

We expect the other revenue streams to remain consistent with the past.

Agency: MINNESOTA TECHNOLOGY INC

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<b>Dedicated Receipts:</b>									
<b>Departmental Earnings:</b>									
MINNESOTA TECHNOLOGY INC	245	341	375	335	335	325	325	(56)	(7.8%)
<b>Grants:</b>									
MINNESOTA TECHNOLOGY INC	183	131	155	180	180	180	180	74	25.9%
FEDERAL	2,176	1,918	2,000	2,000	2,000	2,000	2,000	82	2.1%
<b>Other Revenues:</b>									
MINNESOTA TECHNOLOGY INC	1,031	830	2,161	1,324	1,324	1,514	1,514	(153)	(5.1%)
SPECIAL REVENUE	107	60	30	30	30	30	30	(30)	(33.3%)
<b>Total Dedicated Receipts</b>	<b>3,742</b>	<b>3,280</b>	<b>4,721</b>	<b>3,869</b>	<b>3,869</b>	<b>4,049</b>	<b>4,049</b>	<b>(83)</b>	<b>(1.0%)</b>
<b>Agency Total Revenues</b>	<b>3,742</b>	<b>3,280</b>	<b>4,721</b>	<b>3,869</b>	<b>3,869</b>	<b>4,049</b>	<b>4,049</b>	<b>(83)</b>	<b>(1.0%)</b>

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## MINNESOTA TECHNOLOGY, INC. - BUDGET ACTIVITY SUMMARY

**Budget Activity:** TECHNOLOGY SERVICES  
**Program:** MINNESOTA TECHNOLOGY, INC.  
**Agency:** MINNESOTA TECHNOLOGY, INC

### ACTIVITY PROFILE:

Minnesota Technology's Technology Services strengthen the Minnesota economy and help the state and its companies maintain and improve their positions as worldwide competitors.

By commercializing technology, companies can expand their markets and provide high-wage jobs to Minnesota citizens. The focus of services on greater Minnesota is a substantial component of the state's rural economic strategy. The services also contribute to creating the best climate to grow businesses.

Implementation and commercialization of technology is key to a company's competitiveness. Through technical assistance staff, Minnesota Technology provides companies with the perspectives to make strategic decisions on technologies they should adopt.

### STRATEGIES AND PERFORMANCE:

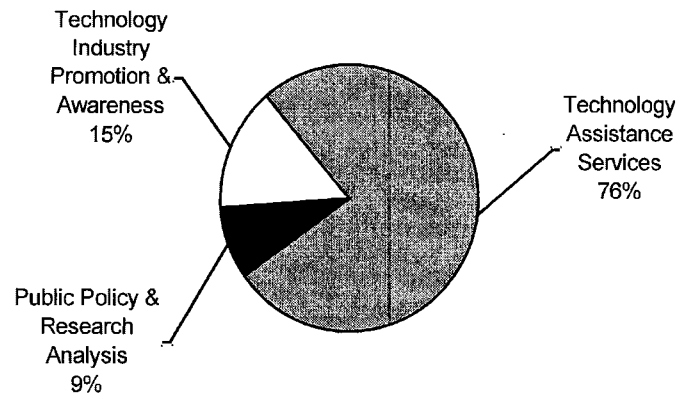
Service	Performance/Objectives
<b>Technology Assistance Services</b>	
<ul style="list-style-type: none"> <li><b>Customized One-to-One Services</b> - a staff experienced in technology and manufacturing, based throughout the state, works with technology-based companies and manufacturers, onsite, to implement new technology and address competitiveness issues.</li> </ul>	<p>Since the inception of these services in 1992, our overall assistance to companies has resulted in over \$594 million of documented economic impact, making Minnesota Technology a national leader for average company impact. Economic impact is projected to be \$85 million in FY2001. Impact is measured in terms of a company's bottom line, technology investment, and jobs created/ retained.</p>

<ul style="list-style-type: none"> <li><b>Technology Transfer/Industry University Relationships</b> – provides access to critical technologies and technology resources in federal labs, academia, and federal agencies.</li> </ul>	Economic impact is also the measure of this service, although impact often takes longer to realize than impact from Customized One-to-One Services. The team will work with at least 100 companies in FY2001 and will develop master agreements with resource partners to simplify companies' access to their services.
<ul style="list-style-type: none"> <li><b>eBusiness Institute</b> – provides education and awareness re: ebusiness to small and medium-sized companies, particularly in greater Minnesota.</li> </ul>	The eBusiness Institute will advance the ebusiness "IQ" of the management of at least 2000 companies this year. At least 40% are expected to pursue ebusiness strategies.
<p><b>Technology Industry Promotion and Awareness</b></p> <p>Minnesota Technology supports the growth of technology industries and the technology community, particularly in the Twin Cities, through Minnesota Technology Magazine, the Minnesota Technology Directory, and collaborative events such as the Tekne Awards and Manufacturers Week.</p>	The quality of the "reach" of the promotion and awareness efforts are measured through industry support and participation: advertising in the magazine (goal is \$350,000), sponsorships (goal of \$60,000 has been exceeded by \$15,000) and attendance (800) for the Tekne Awards, participation in Manufacturers Week.
<p><b>Technology Policy Research and Analysis</b></p> <p>Minnesota Technology provides leadership in public policy discussions concerning technology development in Minnesota.</p>	Increase the role that technology issues play in public policy discussions through such venues as the Technology in Greater Minnesota Campaign and the Capitol Forum Series, as well as through published reports and surveys.

## BUDGET ACTIVITY SUMMARY (Continued)

**Budget Activity:** TECHNOLOGY SERVICES  
**Program:** MINNESOTA TECHNOLOGY  
**Agency:** MINNESOTA TECHNOLOGY INC

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### **BUDGET ISSUES:**

Over the past three years, Minnesota Technology's services to companies have evolved to include more and more emphasis on "high" technology. While services in the early '90's focused on anything that would improve a manufacturer's operations (e.g., a plant layout), the economy of the late 90's has pushed companies to incorporate more technology in their operations and in their products.

Responding to this, Minnesota Technology has shifted its field staff to more technology-based strategies. Resources have been redirected so as to provide services to link companies with federal labs, to the University of Minnesota and to eBusiness tools. Aside from a state appropriation augmenting Minnesota Technology's internal reallocation to initiate the eBusiness Institute, all of these services have resulted from a shift in internal resources.

In the upcoming biennium, Minnesota Technology will continue this practice, reallocating resources to allow an expansion in the number of eBusiness Institute seminars, additional staff time devoted to federal lab tech transfer, services that help companies incorporate more technology in their operations, and collaborations that heighten the profile of the technology industry.

In addition, Minnesota Technology, will use current resources to facilitate technology/industry-based clusters of companies to strengthen Minnesota's technology economy. The initiative is a partnership with industry trade

associations. These clusters would be selected based on their motivation to work with each other and the potential impact on the Minnesota technology economy. The companies would financially match the public investments in such areas as technology development. Such advances in technology would then be implemented across the cluster to improve the competitive position of the cluster companies.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Activity: TECHNOLOGY SERVICES  
Program: MINNESOTA TECHNOLOGY  
Agency: MINNESOTA TECHNOLOGY INC

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	5,209	5,847	5,884	6,136	6,136	6,306	6,306	711	6.1%
OTHER OPERATING EXPENSES	4,358	3,659	4,685	3,853	3,853	3,836	3,836	(655)	(7.8%)
<b>Subtotal State Operations</b>	<b>9,567</b>	<b>9,506</b>	<b>10,569</b>	<b>9,989</b>	<b>9,989</b>	<b>10,142</b>	<b>10,142</b>	<b>56</b>	<b>0.3%</b>
LOCAL ASSISTANCE	3,681	2,899	385	345	345	260	260	(2,679)	(81.6%)
<b>Total Expenditures</b>	<b>13,248</b>	<b>12,405</b>	<b>10,954</b>	<b>10,334</b>	<b>10,334</b>	<b>10,402</b>	<b>10,402</b>	<b>(2,623)</b>	<b>(11.2%)</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	0	0	0	6,105	6,105	6,105	6,105		
<b>Statutory Appropriations:</b>									
MINNESOTA TECHNOLOGY INC	12,524	11,291	10,919	4,194	4,194	4,297	4,297		
SPECIAL REVENUE	724	1,114	35	35	35	0	0		
<b>Total Financing</b>	<b>13,248</b>	<b>12,405</b>	<b>10,954</b>	<b>10,334</b>	<b>10,334</b>	<b>10,402</b>	<b>10,402</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
MINNESOTA TECHNOLOGY INC	1,459	1,302	2,691	1,839	1,839	2,019	2,019		
SPECIAL REVENUE	107	60	30	30	30	30	30		
FEDERAL	2,176	1,918	2,000	2,000	2,000	2,000	2,000		
<b>Total Revenues Collected</b>	<b>3,742</b>	<b>3,280</b>	<b>4,721</b>	<b>3,869</b>	<b>3,869</b>	<b>4,049</b>	<b>4,049</b>		



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## DEPARTMENT OF ECONOMIC SECURITY (DES) - EXECUTIVE SUMMARY

### **AGENCY MISSION AND VISION:**

The mission of the Department of Economic Security (DES) is to help people help themselves achieve economic security (under M.S. 268, 268A and 248).

The vision of the agency is that Minnesota will have a workforce that can compete in the world marketplace. As stated in Governor Ventura's "Big Plan" "We need a well-educated and flexible workforce that is sought out as the most efficient, effective and productive – able to handle the highest level tasks."

DES serves the state's economy by

- Coordinating workforce development-related activities to provide non-duplicative, seamless, quality government service.
- Seeking out and incorporating stakeholder input.
- Collaborating with the state legislature to allocate resources appropriately and efficiently.
- Striving to be a national model for workforce development systems.

DES helps individuals access valuable and impartial career information that empowers them to make informed choices about their future. Minnesota's workforce and employers are our customers.

DES administers 70 programs with the vast majority targeted to category-eligible populations. These programs are critical to help these persons achieve self-sufficiency and enter and/or return to the workforce.

### **KEY SERVICE STRATEGIES:**

DES has integrated and redesigned the delivery of employment and training services into 53 WorkForce Centers (WFCs) located throughout the state. The WorkForce Center System is a partnership that brings together state, local and private non-profit employment and training services under one roof, providing seamless and comprehensive workforce development services to job seekers and employers. Many additional community services have joined the full range of DES programs in the local WFCs.

The programs and services of DES fall into five program areas: Workforce Services, Workforce Wage Assistance, Workforce Rehabilitation Services, Workforce Services for the Blind, and Energy Programs. The target populations include: unemployed and employed persons seeking job opportunities, retraining, and/or unemployment insurance benefits; employers who are seeking qualified employees; students exploring career options; senior citizens, displaced homemakers, and disadvantaged youth in need of training and placement; public assistance recipients working toward self-sufficiency; disabled persons needing

job training or seeking to live independently; and blind or visually impaired people who need training to work, live independently or want non-visual entertainment, information, and/or assistive technology.

On June 23, 2000, the United States Department of Labor fully approved Minnesota's state unified plan under the federal Workforce Investment Act (WIA). The state unified plan outlines workforce development services to be carried out under WIA. This is another step in the ongoing development of a coordinated workforce development strategy that moves from individual programs into a system of delivering innovative, flexible and customer-oriented services that meet the needs of all Minnesotans.

### **OPERATING ENVIRONMENT:**

As stated in the Governor's Big Plan: "Eight years of economic growth has done us a world of good. Minnesota's overall unemployment rate is lower than ever, yet we face a workforce shortage, which challenges us to be competitive in a global marketplace. It is vital to our ongoing economic health that we have a well-trained, flexible and healthy workforce that allows us to be quickly responsible to all the opportunities that globalization presents. That means training and retraining constantly during a person's working life. It means looking after displaced workers to get them back into the game with salable skills."

To this end, in 1999 the Governor convened the interagency Workforce Development Mini-Cabinet to examine the way state government supports workforce development.

Minnesota's strategy is influenced by several environmental factors. These include the dynamics of Minnesota's economy, our clients' needs and expectations, how we learn and share best practice innovations with similar agencies nationwide, and changes in federal, state, and/or local regulations and programs that impact our work:

- The passage of WIA requires new consolidated accountability and client tracking back to the US Department of Labor and the US Department of Education. To serve our customers better under this structure, we are developing a One Stop Operating System (OSOS) using federal program dollars. The Department of Human Services (DHS) has an initiative to distribute TANF reserve funds in the amount of \$2.5 million. DHS public assistant clients will also be tracked by this system.
- The U.S. Department of Labor provides Internet services to business and the workforce through America's Career Kit. DES is the fiscal agent for the America's Career Kit Service Center and the chief developer of one of the kit's products (America's Learning exchange). The department is also the

## ECONOMIC SECURITY DEPT - EXECUTIVE SUMMARY (Continued)

fiscal agent and represents Minnesota as co-leader (with New York) of the consortium of states and private sector organizations who are the architects of these products.

- At the federal level, it appears that once again, unemployment insurance/Job Service, Vocational Rehabilitation and employment and training programs will be essentially flat-funded. Because these programs are staff intensive, this translates into a reduction in supportable staff levels due to negotiated compensation and inflation.
- In partnership with the Minnesota Department of Human Services, DES plays a key role in Minnesota's welfare reform effort by helping public assistance recipients get jobs through programs and services offered in the WFCs.
- DES is committed to continuously improving our services, as measured by workforce development outcomes. We are committed to strengthening our relations with partners and stakeholders, while recognizing that resources are diminishing.

### ORGANIZATION/PROGRAM STRUCTURE:

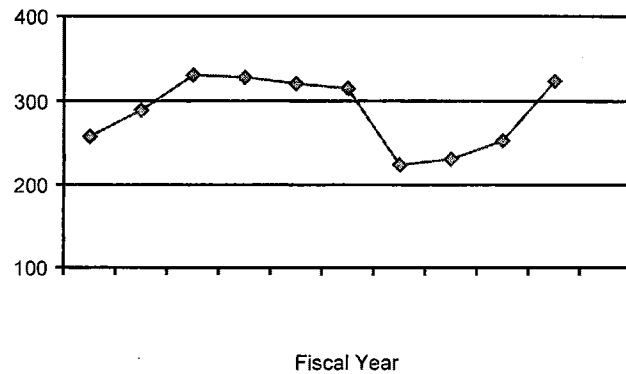
COMMISSIONER AND EXECUTIVE MANAGEMENT	
	506 Fte
Workforce Services	
	396 Fte
Workforce Rehabilitation Services	
	132 Fte
Workforce Services for the Blind	
	674 Fte
Workforce Wage Assistance	
	0 Fte
Energy Programs	

6/30/00 TOTAL 1,708 FTE's

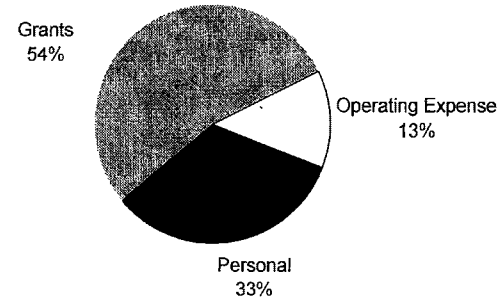
ECONOMIC SECURITY DEPT - EXECUTIVE SUMMARY (Continued)

TRENDS AND PERSPECTIVE:

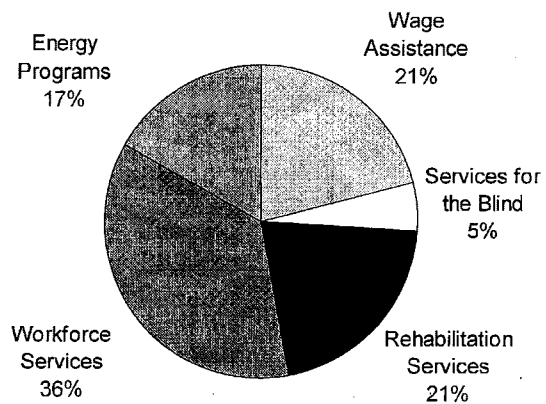
**Total Budget -All Funds**



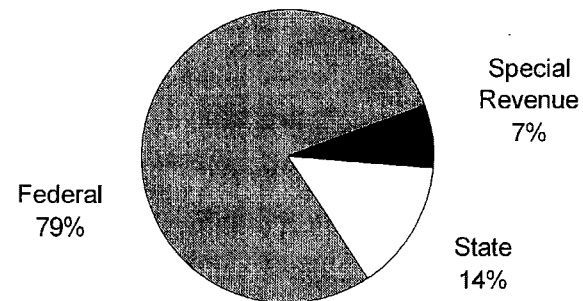
**2000-01 Expenditures by Category**  
Total: \$577 Million



**2000-01 Expenditures by Program**  
Total: \$577 Million



**2000-01 Expenditures by Fund**  
Total: \$577 Million



Agency: ECONOMIC SECURITY DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Program:</u></b>									
WORKFORCE SERVICES	104,285	122,213	83,945	75,390	76,063	74,331	75,004	(55,091)	(26.7%)
WORKFORCE REHABILITATION SVCS	53,357	59,133	61,520	62,727	62,977	63,331	63,581	5,905	4.9%
WORKFORCE SVCS FOR THE BLIND	12,548	12,978	18,856	15,018	15,018	15,306	15,306	(1,510)	(4.7%)
WORKFORCE WAGE ASSISTANCE	60,608	58,537	60,700	61,300	61,600	61,900	69,900	12,263	10.3%
ENERGY PROGRAMS	0	0	99,396	81,997	81,997	81,997	81,997	64,598	65.0%
<b>Total Expenditures</b>	<b>230,798</b>	<b>252,861</b>	<b>324,417</b>	<b>296,432</b>	<b>297,655</b>	<b>296,865</b>	<b>305,788</b>	<b>26,165</b>	<b>4.5%</b>
<b><u>Financing by Fund:</u></b>									
<b>Direct Appropriations:</b>									
GENERAL	37,777	40,940	38,709	36,099	38,849	36,250	39,000		
SPECIAL REVENUE	775	1,001	2,829	2,602	775	2,602	775		
FEDERAL TANF	0	130	370	0	0	0	0		
<b>Statutory Appropriations:</b>									
GENERAL	976	904	1,333	1,235	1,235	1,235	1,235		
STATE GOVERNMENT SPECIAL REVENUE	0	0	1,462	0	0	0	0		
SPECIAL REVENUE	22,760	25,230	7,394	4,776	5,076	4,791	12,791		
MDES FEDERAL	168,502	184,389	270,411	251,463	251,463	251,730	251,730		
GIFT	8	267	1,909	257	257	257	257		
<b>Total Financing</b>	<b>230,798</b>	<b>252,861</b>	<b>324,417</b>	<b>296,432</b>	<b>297,655</b>	<b>296,865</b>	<b>305,788</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	1,822.3	1,772.1	1,700.2	1,648.3	1,645.9	1,584.1	1,581.8		
<b>Total Full-Time Equivalent</b>	<b>1,822.3</b>	<b>1,772.1</b>	<b>1,700.2</b>	<b>1,648.3</b>	<b>1,645.9</b>	<b>1,584.1</b>	<b>1,581.8</b>		

# ECONOMIC SECURITY DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Appropriations	\$36,269	\$36,269	\$72,538
<b><u>BASE ADJUSTMENT</u></b>			
One-time Appropriations	(366)	(366)	(732)
Documented Rent/Lease Increase	22	44	66
2002-03 Salary Benefit Base	124	253	377
Fund Change Consolidation	50	50	100
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$36,099</b>	<b>\$36,250</b>	<b>\$72,349</b>
<b><u>CHANGE ITEMS</u></b>			
Emerging Worker	1,500	1,500	3,000
Universal Customer	1,000	1,000	2,000
Best Buddies	250	250	500
JAIBG Match	111	111	222
YouthBuild Reallocation	(111)	(111)	(222)
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$38,849</b>	<b>\$39,000</b>	<b>\$77,849</b>

Block Grant (JAIBG), \$3.0 million for emerging workers and \$2.0 million for universal workers as part of his workforce development initiatives. It also includes \$500,000 on a one-time basis for the Best Buddies program, a program that provides opportunities for friendship that enhance the lives of people with mental retardation and program volunteers.

## **BRIEF EXPLANATION OF BUDGET DECISIONS:**

The one-time appropriations of \$366,000 that were identified in the Omnibus Appropriation Laws of 1999 and 2000 include; \$100,000 for YouthBuild Technical Program, \$116,000 for the Juvenile Accountability Incentive Block Grant (JAIBG) and \$150,000 for Alien Labor Certification.

The Fund Change Consolidation of \$50,000 represents an appropriation for Deaf and Hard of Hearing that was funded from the Workforce Development Fund. The Laws of 1999 directed that it be added to the General Fund base.

The 2002-2003 Salaries and Benefits base adjustment adds \$377,000 to DES' budget for compensation-related costs as directed by the budget guidelines.

The \$66,000 base adjustment is for documented increases in lease costs for State Services for the Blind.

## **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends \$2.75 million in new spending for the agency in each year of the biennium.

The Governor's recommendation includes reallocating \$222,000 from YouthBuild to meet a federal match requirement for the Juvenile Accountability Incentive

ECONOMIC SECURITY DEPT - BUDGET BRIEF

**Fund: MISCELLANEOUS SPECIAL REVENUE**

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	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Appropriations	\$2,879	\$2,879	\$5,758
<b><u>BASE ADJUSTMENT</u></b>			
Deaf and Hard of Hearing one-time	\$(50)	\$(50)	\$(100)
Displaced Homemakers Prgm one-time	\$(227)	\$(227)	\$(454)
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$2,602</b>	<b>\$2,602</b>	<b>\$5,204</b>
<b><u>CHANGE ITEMS</u></b>			
Eliminate Displaced Homemakers	\$(1,827)	\$(1,827)	\$(3,654)
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$775</b>	<b>\$775</b>	<b>\$1,550</b>

**BRIEF EXPLANATION OF BUDGET DECISIONS:**

The base adjustments consist of reductions for one-time appropriations. Funding for the Deaf and Hard of Hearing program was transferred to the general fund base for the program by the Laws of 1999. The \$227,000 for the Displaced Homemaker was a one-time appropriation.

**GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends eliminating the Displaced Homemaker Program and reallocating the \$1.827 million to other workforce development initiatives.



**ECONOMIC SECURITY DEPT - FEDERAL FUNDS SUMMARY**

<b>Federal Program (\$ in Thousands)</b>	<b>Related SFY 2000 Spending</b>	<b>Primary Purpose</b>	<b>SFY 2000 Revenue</b>	<b>SFY 2001 Revenue</b>	<b>Estimated SFY 2002 Revenue</b>	<b>Estimated SFY 2003 Revenue</b>
Employment Transition Services (JTPA Programs/WIA)	-0-	GPS	9,262	11,834	11,453	11,453
Youth Services	10,397	GPS	17,115	14,508	13,050	13,050
Welfare to Work	-0-	GPS	17,330	3,932	1,068	-0-
Workforce Exchange Services	-0-	SO	34,854	34,115	36,799	36,799
Economic Dislocation and Worker Adjustment Assistance	-0-	GPS	7,627	-0-	-0-	-0-
Vocational Rehabilitation	7,521	SO, GPS, GI	34,784	37,249	39,386	39,876
Independent Living	1,850	SO, GPS, GI	1,215	1,321	1,359	1,458
Services for the Blind	4,744	SO, GPS, GI	7,642	9,020	8,801	8,947
Unemployment Insurance	-0-	SO	38,413	39,600	39,600	39,600
Disability Determination	-0-	SO	17,697	18,080	19,000	19,600
Fuel Assistance	-0-	GPS	-0-	89,515	71,286	71,286
Weatherization	-0-	GPS	-0-	7,069	9,661	9,661
<b>Agency Total</b>	<b>24,512</b>		<b>185,939</b>	<b>266,243</b>	<b>251,463</b>	<b>251,730</b>

Key:

SO -State Operations

GPS -Grants to Political Subdivisions

GI -Grants to Individuals

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## PROGRAM SUMMARY

**Program: WORKFORCE SERVICES**  
**Agency: ECONOMIC SECURITY DEPT**

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### PROGRAM PROFILE:

The WorkForce Services Branch provides workforce development services through the Minnesota WorkForce Center System. This system serves categorically eligible customers, such as economically disadvantaged youth, unemployed adults, older workers, public assistance recipients and new and first time entrants to the workforce who qualify for more extensive services.

Through an interagency agreement with the Department of Human Services, the WorkForce Services Branch jointly manages the Minnesota Family Investment Program – Employment and Training (MFIP-ET) in conjunction with counties and WorkForce Centers.

The branch is organized into five units to support these services: adult training, employment programs, employment transition, field operations and youth services.

The services of the WorkForce Services Branch are the key components of The Big Plan's goals for Self-Sufficiency and Minnesota World Competitor. For example, the budget activities of Employment Transition Services, Workforce Exchange Services, and Welfare to Work Services all seek to reduce poverty, improve labor force participation rates, and increase the number of Minnesotans capable of supporting themselves financially. The budget activity Youth Services and the new Emerging Worker initiative both work to ensure a higher-wage and more satisfying career path for targeted youth, to prevent future dependency on public assistance.

### STRATEGIES AND PERFORMANCE:

Services are provided directly by department staff and indirectly by local units of government and non-profit organizations through various contracts. The primary local entities that provide employment and training services are the 16 local Workforce Service Areas (WSAs) designated through the federal Workforce Investment Act (WIA).

Two key strategies proposed by DES in the WorkForce Services Branch are Emerging Worker and Universal Customer. The Emerging Worker program will be focused on those 11<sup>th</sup> and 12<sup>th</sup> grade students who do not have the information they need to make choices about potential jobs and career paths by providing critical counseling staff and resources to strengthen the ties between schools and local workforce development systems.

The Universal Customer initiative is being proposed to provide resources for those job seekers or employers who do not qualify for strict eligibility-based programs. This initiative would allocate \$2 million over the biennium to provide resources for those local areas that want to experiment with innovative methods for reaching out more broadly to the workforce and employers.

### FINANCING INFORMATION:

Federal funding supports 75% of the WorkForce Services Branch activities. Through various grants the U.S. Department of Labor funds labor exchange activities and local WSA employment and training services. Welfare-to-Work Services secured a required one-time state match in the last biennium.

### BUDGET ISSUES:

- The federal Job Training Partnership Act (JTPA), which funded Adult, Youth and Dislocated Worker programs, was replaced by the Workforce Investment Act (WIA). The WIA Adult program is flexible in language, but funding is still categorical.
- The federal Job Service program has had flat funding for the past 20 years.
- Federally appropriated Welfare-to-Work funds are available until 6-30-2002. It is unknown whether Congress will appropriate additional funds to support this activity.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends \$11.683 million in FY 2002 and \$11.692 million in FY 2003 for workforce services. This includes \$1.0 million each year for the universal customer initiative and \$1.5 million each year for the emerging worker initiative. The Governor also recommends a reallocation of \$111,000 each year from the YouthBuild program to the Juvenile Accountability Incentive Block Grant (JAIBG) to meet a federal match requirement.

The Governor recommends that \$1.827 million each year in special revenue be reallocated from the Displaced Homemakers program to support these workforce development initiatives.

Program: WORKFORCE SERVICES  
Agency: ECONOMIC SECURITY DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<u>Expenditures by Activity:</u>									
EMPLOYMENT TRANSITION SERVICES	15,976	12,677	14,674	14,055	13,728	14,055	13,728	105	0.4%
YOUTH SERVICES	20,537	28,054	24,279	22,177	22,177	22,186	22,186	(7,970)	(15.2%)
WELFARE TO WORK SERVICES	5,880	20,197	7,994	2,309	2,309	1,241	1,241	(24,641)	(87.4%)
DISLOCATED WKR (TRF TO DTED)	29,225	27,185	0	0	0	0	0	(27,185)	(100.0%)
WORKFORCE EXCHANGE SERVICES	32,667	34,100	36,998	36,849	37,849	36,849	37,849	4,600	6.5%
Total Expenditures	104,285	122,213	83,945	75,390	76,063	74,331	75,004	(55,091)	(26.7%)

<b>Change Items:</b>	<b>Fund</b>				
(B) EMERGING WORKER	GEN			1,500	1,500
(B) ELIMINATE DISPLACED HOMEMAKERS	SR			(1,827)	(1,827)
(B) JAIBG MATCH	GEN			111	111
(B) YOUTHBUILD REALLOCATION	GEN			(111)	(111)
(B) UNIVERSAL CUSTOMER	GEN			1,000	1,000
<b>Total Change Items</b>				<b>673</b>	<b>673</b>

<b>Financing by Fund:</b>							
<b>Direct Appropriations:</b>							
GENERAL	12,410	13,078	9,687	9,183	11,683	9,192	11,692
SPECIAL REVENUE	775	951	2,779	2,602	775	2,602	775
<b>Statutory Appropriations:</b>							
GENERAL	976	904	1,333	1,235	1,235	1,235	1,235
SPECIAL REVENUE	19,543	21,582	2,821	0	0	0	0
MDES FEDERAL	70,581	85,698	67,325	62,370	62,370	61,302	61,302
<b>Total Financing</b>	<b>104,285</b>	<b>122,213</b>	<b>83,945</b>	<b>75,390</b>	<b>76,063</b>	<b>74,331</b>	<b>75,004</b>

<b>FTE by Employment Type:</b>							
FULL TIME	494.8	508.7	447.1	421.3	418.9	385.2	382.9
<b>Total Full-Time Equivalent</b>	<b>494.8</b>	<b>508.7</b>	<b>447.1</b>	<b>421.3</b>	<b>418.9</b>	<b>385.2</b>	<b>382.9</b>

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** EMPLOYMENT TRANSITION SERVICES  
**Program:** WORKFORCE SERVICES  
**Agency:** ECONOMIC SECURITY DEPT

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### ACTIVITY PROFILE:

This activity includes special programs to address the needs of those seeking assistance in obtaining meaningful employment, and/or needing intensive services or training to obtain employment, and economic and social self-sufficiency. A major purpose of this activity is to direct special services, training, and work experience to people experiencing barriers to employment.

Most of these programs are targeted to specific groups: economically disadvantaged adults, older workers, minorities, public assistance recipients, individuals with disabilities, individuals who are offenders, and individuals who are basic skills deficient.

#### **Workforce Investment Act (WIA) Title I – Adult (Formerly Job Training Partnership Act [JTPA])**

The Workforce Investment Act Title I – Adult basic grant provides adults with information and services designed to assist individuals in becoming full participants in the labor force. The program provides labor market information, job search assistance, on-the-job and classroom job training, vocational and personal counseling, and assessment.

#### **Senior Community Service Employment Program (SCSEP)**

Title V of the federal Older Americans Act was established to foster and promote the creation of part-time jobs in community service activities for low-income individuals 55 years of age and older. The goal of the program is to annually place 20% of the participants in unsubsidized employment.

### STRATEGIES AND PERFORMANCE:

Specific activity goals are listed below which support the Governor's Big Plan goals of assisting individuals to achieve economic self-sufficiency and increasing Minnesota's position as a World Competitor.

- **WIA Title I - Adult:** To annually assist 70% of participants to enter unsubsidized employment and place individuals in jobs with long-term employment potential. Performance measures include entered employment rate, retention rate, wage gain, and credential rate.
- **SCSEP:** To annually place 20% of the participants in unsubsidized employment.
- **Opportunities Industrialization Centers (OICs):** Sixty percent of participants will be placed in positions upon program termination which

provide long-term employment, and another 19% will receive other positive employability preparation enhancement.

All three of these programs already track progress toward the goals they establish. SCSEP has met or exceeded its goals for the past several years. The entire OIC programs in FY 2000 exceeded their employment and enhancement goals. WIA goal measurement has already begun with wage detail data; but the newness of WIA's reforms and the necessary time lag between implementation and measurement will not provide a clear picture for a short while.

### FINANCING INFORMATION:

Federal funding for Employment Transition activity is from the U.S. Department of Labor; it funds WIA Title I and the Senior Community Services Employment Program. The state's Workforce Development Fund funds the Displaced Homemaker Program and the OIC system.

### GRANTS:

- WIA Title I – Adult (Public Law 105-220): 85% of the Title I grant is allocated by formula to the WIA Workforce Service Areas (WSA's) including counties, cities and non-profit administrative entities designated by the governor.
- Title V SCSEP, (Public Law 95-478): Fifteen grantees currently receive funding and include Community Action Agencies, Counties, the City of Duluth, Chippewa Tribes, Minnesota Green Thumb and WIA WSA's.
- DHP, (M.S. 268.96): Program funds are granted to 12 programs statewide to provide services to displaced homemakers.
- OIC, (M.S. 268.60): In FY 1999 and 2000, the OIC basic grant was \$525,000 and an additional \$250,000 was allocated for a refugee program in St. Paul, at East Metro OIC.

### BUDGET ISSUES:

The Workforce Investment Act (WIA) was implemented in Minnesota on 7-1-2000. The emphasis in language is on greater flexibility of service delivery. In practical terms, the funding is still categorical. The changes required by WIA have actually increased some procedural requirements in how services must be delivered and decreased the amount of funds available.

Activity: EMPLOYMENT TRANSITION SERVICES  
Program: WORKFORCE SERVICES  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	941	961	1,072	1,072	1,141	1,072	1,141	249	12.2%
OTHER OPERATING EXPENSES	219	300	654	544	518	494	468	32	3.4%
Subtotal State Operations	1,160	1,261	1,726	1,616	1,659	1,566	1,609	281	9.4%
LOCAL ASSISTANCE	14,816	11,416	12,948	12,439	12,069	12,489	12,119	(176)	(0.7%)
Total Expenditures	15,976	12,677	14,674	14,055	13,728	14,055	13,728	105	0.4%
<b>Change Items:</b>	<b>Fund</b>								
(B) EMERGING WORKER	GEN				1,500		1,500		
(B) ELIMINATE DISPLACED HOMEMAKERS	SR				(1,827)		(1,827)		
Total Change Items					(327)		(327)		
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	4,248	2,390	0	0	1,500	0	1,500		
SPECIAL REVENUE	775	901	2,729	2,602	775	2,602	775		
Statutory Appropriations:									
MDES FEDERAL	10,953	9,386	11,945	11,453	11,453	11,453	11,453		
Total Financing	15,976	12,677	14,674	14,055	13,728	14,055	13,728		
<b>Revenue Collected:</b>									
Dedicated									
MDES FEDERAL	10,830	9,262	11,834	11,453	11,453	11,453	11,453		
Total Revenues Collected	10,830	9,262	11,834	11,453	11,453	11,453	11,453		
<b>FTE by Employment Type:</b>									
FULL TIME	19.1	19.0	20.3	19.6	17.2	18.9	16.6		
Total Full-Time Equivalent	19.1	19.0	20.3	19.6	17.2	18.9	16.6		

**BUDGET CHANGE ITEM (48214)****Budget Activity: EMPLOYMENT TRANSITION SERVICES****Program: WORKFORCE SERVICES****Agency: ECONOMIC SECURITY DEPT****Item Title: EMERGING WORKER**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$200	\$200	\$200	\$200
-Grants	\$1,300	\$1,300	\$1,300	\$1,300
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected:

☒ New Activity ☐ Supplemental Funding ☒ Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends \$1.5 million in FY 2002 and FY 2003 to create an emerging worker program that will provide resources for technical training for 11<sup>th</sup> and 12<sup>th</sup> graders who would otherwise not pursue post-secondary education. The program would involve two strategies. First, a set of outreach professionals would work closely with and within high schools to improve the links between schools and the workforce development system in local areas. Second, one or two pilot programs would be established to pilot the use of Individual Training Accounts (ITAs) for students' short-term technical training and exposure to careers.

**RATIONALE:**

At present, employers across Minnesota face a shortage of skilled workers in a wide range of occupations. Many of these occupations require prospective employees to demonstrate academic and technical skills in order to succeed. Implementing an Emerging Workers Program targeted primarily to high school juniors and seniors who are undecided about their post-secondary education would allow Minnesota families to tap into existing resources through their schools, WorkForce Centers, and many other local and state resources.

Establishing a viable Emerging Workers Program will provide another tool for local employers to use in conjunction with ongoing partnerships with local schools and the workforce development system to encourage these youth to remain in and help sustain their local community.

Emerging workers will require intensive contact with trained professionals, with as much attention paid to each individual as possible. The kind of decisions youth are making about their careers are difficult. They typically make these decisions with virtually no information on the state or local labor market, or what resources are available to them from local sources of education and training. Outreach professionals funded by the Emerging Worker program would be responsible for assuring that the workforce development system in their area is as responsive as possible to the information needs of local schools and their students.

The outreach professionals would not promote any particular profession or skill, but rather will provide students with information. Students themselves, along with their parents and teachers, will make their own career choices.

**FINANCING:**

The \$3 million allocated to DES will include \$2 million for outreach professionals for students, and \$1 million for the ITA pilot program(s).

**OUTCOMES:**

- Better, higher-wage employment opportunities for young/emerging workers
- Better-informed emerging workers who are more satisfied with career path
- Ranking within top three states for labor force participation of youth
- More success for employers in hiring and retaining local workforce

Included in these outcomes is establishment of a measure for return on investment that must be met in order to renew the Emerging Worker program beyond an original sunset date.

**BUDGET CHANGE ITEM (54769)****Budget Activity: EMPLOYMENT TRANSITION SERVICES****Program: WORKFORCE SERVICES****Agency: ECONOMIC SECURITY DEPT****Item Title: ELIMINATE DISPLACED HOMEMAKERS****OUTCOMES:**

Expected outcomes include:

- Better use of resources;
- Streamlined services.

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$(157)	\$(157)	\$(157)	\$(157)
-Grants	\$(1,670)	\$(1,670)	\$(1,670)	\$(1,670)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected:

☐ New Activity    ☐ Supplemental Funding    ☒ Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends eliminating specific funding for the Displaced Homemaker Program. This consolidation supports the Governor's Big Plan by avoiding duplication of services.

**RATIONALE:**

The Displaced Homemaker program has provided targeted services to displaced homemakers for 20 years. Over that time, workforce and policy trends have changed considerably. Individuals served in this program are already eligible, by definition, for federal Dislocated Worker assistance as authorized by the Workforce Investment Act.

**FINANCING:**

The \$1.8 million from the Displaced Homemaker program would be reallocated to the Workforce Development Fund to serve a broader base of Minnesota workers and job seekers, including displaced homemakers themselves.



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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** YOUTH SERVICES  
**Program:** WORKFORCE SERVICES  
**Agency:** ECONOMIC SECURITY DEPT

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### ACTIVITY PROFILE:

#### **WIA Youth Formula Grant**

The Workforce Investment Act (WIA) Youth Formula Grant is targeted to economically disadvantaged youth between the ages of 14 and 21. The program operates through the Workforce Service Areas and/or Workforce Councils. Programs are designed to integrate work and learning. The WIA Youth Formula Grant provides year-round employment and training services to youth who are basic skills deficient, youth whose educational attainment is below grade level, pregnant or parenting youth, youth with disabilities, homeless or runaway youth, offenders and school dropouts. Services include vocational counseling, academic and vocational training, work experience, and job placement assistance.

#### **Minnesota Youth Program (MYP)**

The Minnesota Youth Program (MYP) provides summer youth employment in all 87 counties for young people between the ages of 14 and 21. The education, skill training and support service needs of each youth are assessed and used as the basis for designing individualized service strategies. Participants are provided with academic enrichment which, at a minimum, counteracts the erosion of basic skills and, to the extent possible, increases the young person's reading and math skills. Summer activities are emphasized under MYP due to the elimination of a separate, federally-funded summer youth program beginning in the year 2000. Year-round services are also provided under MYP.

#### **Minnesota YouthBuild**

The Minnesota YouthBuild Program provides specialized training, work experience, leadership skills and education for youth at risk of not completing their high school education. Youth must be between the ages of 16 and 24. The program requires that work projects result in the expansion or improvement of residential units for homeless persons and very low income families or social service, educational, or health facilities that primarily serve these populations. Target groups include youth who are at risk of involvement with the juvenile justice system, dropouts and potential dropouts, youth with disabilities, teen parents and public assistance recipients.

#### **Juvenile Justice Program**

Minnesota's Juvenile Justice Program provides grants on a competitive basis to counties, cities and community-based organizations, for prevention and early

intervention programs targeting youth at risk of involvement or re-involvement with the juvenile justice system.

#### **Juvenile Accountability Incentive Block Grant**

Juvenile Accountability Incentive Block Grant (JAIBG) is a federal initiative that provides states and local units of government with resources to reduce levels of juvenile crime. Funds are formula-allocated by law to states. States are also required to allocate JAIBG funds by formula under this program. Funding is intended to provide local units of government with additional resources that complement or expand activities to increase accountability for juveniles committing crimes at the local level. Resources can also be used to help reduce juvenile crime rates.

#### **Youth Intervention Program**

The Youth Intervention Program is delivered through 48 non-residential, community-based programs, which provide early intervention services to at-risk youth and families. Programs deal with youth ages 5 through 17 in the context of family, school and community. All programs must obtain a 2:1 funding match from their local municipalities and/or counties. In 1999, over 21,674 at risk youth were served through 48 community-based programs.

### STRATEGIES AND PERFORMANCE:

#### **WIA Youth Formula Grant**

DES closed out the Job Training Partnership Act (JTPA) Title IIB Summer Youth Program and the JTPA Title IIC Year-Round Program in March 2000. The WIA Youth Formula Grant became effective on 4-1-2000. Separate federal funding for summer youth employment activities has been eliminated. The Workforce Investment Act (WIA) promotes a comprehensive youth employment development system and creates local youth councils. WIA youth performance measures focus on the following:

##### **For Youth Between the Ages of 14 and 18:**

- Attainment of Basic Skills, Work Readiness and/or Occupational Skills
- Attainment of Secondary School Diploma or Equivalent
- Placement and Retention in Post-Secondary Education/Advanced Training, Military, Unsubsidized Employment or Qualified Apprenticeship

##### **For Youth Between the Ages of 19 and 21:**

- Entry into Unsubsidized Employment
- Minimum Six Month Retention in Unsubsidized Employment
- Six Month Earnings Received in Unsubsidized Employment

## BUDGET ACTIVITY SUMMARY (Continued)

**Budget Activity:** YOUTH SERVICES  
**Program:** WORKFORCE SERVICES  
**Agency:** ECONOMIC SECURITY DEPT

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- Attainment of Educational or Occupational Skills Credential by participants who enter unsubsidized employment, or by youth who enter post-secondary education, advanced training or unsubsidized employment.

### Minnesota Youth Program (MYP)

In 2000, 85% of total MYP participants will return to school or enter unsubsidized employment; 80% of the participants will demonstrate documented gains in reading and math skills and work readiness and/or occupational skills.

### YouthBuild

In 2000, 55% of YouthBuild participants who complete the program will enter unsubsidized employment; 75% of the participants who complete the program in 2000 will remain in school and/or achieve a major level of education.

### Juvenile Justice Program

In 2000, at least 85% of youth who are ordered by the court to participate in a juvenile justice program will successfully complete the program.

### Juvenile Accountability Incentive Block Grant (JAIBG)

Local units of government use these funds to establish, expand and maintain accountability-based programs that work with juvenile offenders who are referred by law enforcement agencies.

### Youth Intervention Program

In 2000, not more than nine percent of youth referred to the Youth Intervention Program for a petitionable offense will re-offend within six months after completing the program.

### FINANCING INFORMATION:

Federal funding for the Youth Formula Grant under WIA Title I is from the U.S. Department of Labor. The U.S. Department of Justice provides funding for the Juvenile Justice activities. State appropriations fund the Minnesota Youth Program, Minnesota Youthbuild, and the Youth Intervention Program.

### GRANTS:

The Youth Formula Grant is funded under Title I of the Workforce Investment Act of 1998 (WIA) (P.L.105-220). The Minnesota Youth Program is authorized under M.S. 268.31 to 268.36. The WIA Youth Formula Grant and the Minnesota Youth Program operate in all 87 counties through the Workforce Service Areas/Workforce Councils and their subcontractors.

The Minnesota YouthBuild Program is authorized under M.S. 268.361 to 268.367. The YouthBuild Program currently operates in 12 sites: The City, Inc. (Minneapolis), Bi-County CAP (Bemidji), the Carver-Scott-Education Cooperative, (Chaska), Summit Academy OIC (Minneapolis), Rural Minnesota CEP (Detroit Lakes), the City Academy (St. Paul), Arrowhead Economic Opportunity Agency (Virginia), Central Minnesota Jobs and Training Services (Willmar), Guadalupe Area Project (St. Paul), Stearns-Benton Employment and Training Council (St. Cloud), Project for Pride in Living (Minneapolis), and Southeastern Minnesota Private Industry Council (Rochester).

Funded under the Juvenile Justice and Delinquency Prevention Act (PL 93-415) the Juvenile Justice Advisory Committee (appointed by the Governor) awards grants on a competitive basis to counties, cities and community-based organizations to support innovative strategies at the state and local level and to respond to emerging issues.

Funding under the JAIBG is provided under the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1998, Public Law 105-119

Funding for the Youth Intervention Program is authorized under Chapter 268.30. The Youth Intervention Program is delivered through 48 non-residential, community-based programs that provide early intervention services to at-risk youth and their families.

### BUDGET ISSUES:

The U.S. Department of Justice requires DES to secure a hard cash match of \$111,000 each year of the biennium in order to receive \$3.9 million of federal funding under JAIBG. Federal law does not permit in-kind match.

Activity: YOUTH SERVICES  
Program: WORKFORCE SERVICES  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	641	771	1,001	910	991	919	1,000	219	12.4%
OTHER OPERATING EXPENSES	216	217	229	228	228	228	228	10	2.2%
Subtotal State Operations	857	988	1,230	1,138	1,219	1,147	1,228	229	10.3%
LOCAL ASSISTANCE	19,680	27,066	23,049	21,039	20,958	21,039	20,958	(8,199)	(16.4%)
<b>Total Expenditures</b>	<b>20,537</b>	<b>28,054</b>	<b>24,279</b>	<b>22,177</b>	<b>22,177</b>	<b>22,186</b>	<b>22,186</b>	<b>(7,970)</b>	<b>(15.2%)</b>

<b>Change Items:</b>	<b>Fund</b>						
(B) JAIBG MATCH	GEN				111		111
(B) YOUTHBUILD REALLOCATION	GEN				(111)		(111)
<b>Total Change Items</b>					<b>0</b>		<b>0</b>

<b>Financing by Fund:</b>							
Direct Appropriations:							
GENERAL	6,093	10,230	9,481	9,127	9,127	9,136	9,136
SPECIAL REVENUE	0	50	50	0	0	0	0
Statutory Appropriations:							
GENERAL	207	167	98	0	0	0	0
MDES FEDERAL	14,237	17,607	14,650	13,050	13,050	13,050	13,050
<b>Total Financing</b>	<b>20,537</b>	<b>28,054</b>	<b>24,279</b>	<b>22,177</b>	<b>22,177</b>	<b>22,186</b>	<b>22,186</b>

<b>Revenue Collected:</b>							
Dedicated							
GENERAL	0	151	98	0	0	0	0
MDES FEDERAL	14,650	17,115	14,508	13,050	13,050	13,050	13,050
<b>Total Revenues Collected</b>	<b>14,650</b>	<b>17,266</b>	<b>14,606</b>	<b>13,050</b>	<b>13,050</b>	<b>13,050</b>	<b>13,050</b>

<b>FTE by Employment Type:</b>							
FULL TIME	12.6	14.6	18.0	15.7	15.7	15.9	15.9
<b>Total Full-Time Equivalent</b>	<b>12.6</b>	<b>14.6</b>	<b>18.0</b>	<b>15.7</b>	<b>15.7</b>	<b>15.9</b>	<b>15.9</b>

**BUDGET CHANGE ITEM (46237)**

**Budget Activity:** YOUTH SERVICES  
**Program:** WORKFORCE SERVICES  
**Agency:** ECONOMIC SECURITY DEPT

**Item Title:** JAIBG MATCH

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-Grants	\$111	\$111	\$111	\$111
-Grants	\$(111)	\$(111)	\$(111)	\$(111)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes \_\_\_\_\_ No   X  

If yes, statute(s) affected:

       New Activity           Supplemental Funding      X   Reallocation

**OUTCOMES:**

Expected outcomes of the JAIBG program using \$111,000 of YouthBuild funds as JAIBG matching funds will include:

- Improved operations in juvenile detention facilities.
- Improved accountability for juvenile offenders, including restitution and reduced recidivism.
- Increased hiring of local personnel in the juvenile justice system.
- Reduced backlog of violent juvenile offenders in the court system.
- Reduced drug, gang and youth violence problems

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends \$111,000 per year be reallocated from the YouthBuild funds to provide the required cash match for the reauthorized federal Juvenile Accountability Incentive Block Grant (JAIBG). In the future, if no match is needed, the funds revert back to the YouthBuild program.

**RATIONALE:**

The U.S. Department of Justice requires DES to secure a hard cash match of \$111,000 each year in order to receive \$3.9 million of federal funding under JAIBG. Federal law does not permit in-kind match. DES does not have undedicated funds for the hard cash match. Minnesota has participated in this match for the past two years through a General Fund appropriation. DES did not request a base increase during this time, as the U.S. Department of Justice was not clear concerning the permanency of the program.

**FINANCING:**

This initiative transfers \$111,000 each year from YouthBuild to the Juvenile Accountability Incentive Block Grant to be used as matching funds as required under federal law.

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WELFARE TO WORK SERVICES  
**Program:** WORKFORCE SERVICES  
**Agency:** ECONOMIC SECURITY DEPT

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### ACTIVITY PROFILE:

Currently DES, in coordination with the Department of Human Services (DHS), is responsible for jointly managing the Minnesota Family Investment Program – Employment and Training (MFIP-ET) and Food Stamp Employment and Training (FSET) programs. These programs are responsible for helping Minnesotans on public assistance achieve economic self-sufficiency.

DES reviews and approves annual plans to guarantee that programs deliver promised services and also meet state and federal requirements. The department provides oversight and evaluation of functions to ensure program goals and objectives are met and funds are used as intended. Technical assistance is provided to improve effectiveness and efficiency.

DES and DHS are responsible for establishing and maintaining reporting systems, drafting rules and bulletins, developing monitoring guides, providing technical assistance and training, and public information to promote awareness of services.

### STRATEGIES AND PERFORMANCE:

MDES strategic goals which include reducing the amount of time MFIP recipients are on public assistance, reducing the number of re-entrants to MFIP, and coordinating between state agencies on workforce development issues are important functions expected under the Governor's goal of transitioning from Welfare to Self-Sufficiency. This strategy includes involving adults in educational opportunities and seeks to instill in them the lifelong learning skills they need to be less dependent on government and become more self-reliant. The following performance goals are geared towards these ends.

#### **Minnesota Family Investment Program (MFIP) and FSET**

- To provide effective employment services which will enable participants to enter the labor force and ultimately become self-sufficient.
- To increase participants average wage at termination by 5% each year.

#### **Federal Welfare to Work Program (WtW)**

- To provide intensive employment and post-employment services to eligible long term and at-risk of long term hard-to-serve MFIP recipients.
- To provide employment services to non-custodial parents who meet the same eligibility criteria as the custodial parents.

Responsibility for the administration of WtW is under DES, but with mandated linkages between DES and DHS on plan development, and in local service unit plan development.

Success in providing these targeted services will increase workforce participation and reduce the poverty rate.

### FINANCING INFORMATION:

Federal funding from the U.S. Department of Labor for this program is available from 3-10-98 through 6-30-02. Minnesota is required to provide state match in the amount of \$1 for every \$2 in federal funds it expends. Required state matching funds include \$5 million in state appropriations for 7-1-99 through 6-30-01. The balance of match requirements are to be met by expenditures of non-federal funds by state and local agencies.

### BUDGET ISSUES:

Federal appropriated WtW funds are available until 6-30-02. It is unknown whether Congress will appropriate additional funds to support this activity. biennium for welfare to work services.

Activity: WELFARE TO WORK SERVICES  
Program: WORKFORCE SERVICES  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	780	1,346	2,152	1,402	1,402	552	552	(1,544)	(44.1%)
OTHER OPERATING EXPENSES	274	317	367	272	272	124	124	(288)	(42.1%)
Subtotal State Operations	1,054	1,663	2,519	1,674	1,674	676	676	(1,832)	(43.8%)
PAYMENTS TO INDIVIDUALS	0	42	60	30	30	0	0	(72)	(70.6%)
LOCAL ASSISTANCE	4,826	18,492	5,415	605	605	565	565	(22,737)	(95.1%)
Total Expenditures	5,880	20,197	7,994	2,309	2,309	1,241	1,241	(24,641)	(87.4%)

<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	10	7	6	6	6	6	6		
Statutory Appropriations:									
GENERAL	310	617	1,235	1,235	1,235	1,235	1,235		
SPECIAL REVENUE	0	2,179	2,821	0	0	0	0		
MDES FEDERAL	5,560	17,394	3,932	1,068	1,068	0	0		
Total Financing	5,880	20,197	7,994	2,309	2,309	1,241	1,241		

<b>Revenue Collected:</b>									
Dedicated									
GENERAL	127	617	1,235	1,235	1,235	1,235	1,235		
MDES FEDERAL	5,560	17,330	3,932	1,068	1,068	0	0		
Total Revenues Collected	5,687	17,947	5,167	2,303	2,303	1,235	1,235		

<b>FTE by Employment Type:</b>									
FULL TIME	15.2	24.6	25.5	24.6	24.6	9.3	9.3		
Total Full-Time Equivalent	15.2	24.6	25.5	24.6	24.6	9.3	9.3		



## BUDGET ACTIVITY SUMMARY

**Budget Activity:** DISLOCATED WKR (TRF TO DTED)  
**Program:** WORKFORCE SERVICES  
**Agency:** ECONOMIC SECURITY DEPT

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### ACTIVITY PROFILE:

Workforce Investment Act Title I and Minnesota's Dislocated Worker Program provide employment and training services to persons unemployed as a result of plant closures, permanent mass layoffs, skill obsolescence, technological change, international trade, and other economic disruptions. Laws 1989, Chapter 233 transferred the federal Dislocated Worker Programs to the Department of Trade and Economic Development, effective 7-1-2000. See that agency's budget for further information.

Activity: DISLOCATED WKR (TRF TO DTED)  
Program: WORKFORCE SERVICES  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,393	2,113	0	0	0	0	0	(2,113)	(100.0%)
OTHER OPERATING EXPENSES	1,955	1,957	0	0	0	0	0	(1,957)	(100.0%)
Subtotal State Operations	3,348	4,070	0	0	0	0	0	(4,070)	(100.0%)
LOCAL ASSISTANCE	25,877	23,115	0	0	0	0	0	(23,115)	(100.0%)
Total Expenditures	29,225	27,185	0	0	0	0	0	(27,185)	(100.0%)
<b>Financing by Fund:</b>									
Statutory Appropriations:									
SPECIAL REVENUE	19,543	19,403	0	0	0	0	0		
MDES FEDERAL	9,682	7,782	0	0	0	0	0		
Total Financing	29,225	27,185	0	0	0	0	0		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	32,522	30,530	0	0	0	0	0		
MDES FEDERAL	9,681	7,627	0	0	0	0	0		
Total Revenues Collected	42,203	38,157	0	0	0	0	0		
<b>FTE by Employment Type:</b>									
FULL TIME	26.8	39.5	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	26.8	39.5	0.0	0.0	0.0	0.0	0.0		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WORKFORCE EXCHANGE SERVICES  
**Program:** WORKFORCE SERVICES  
**Agency:** ECONOMIC SECURITY DEPT

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expanded use of the Internet, the expectations of the public continue to increase. Funding trends are not expected to change in the near future.

### ACTIVITY PROFILE:

WorkForce Exchange programs, operated primarily through the WorkForce Center System, provide an array of special programs to address the needs of employers seeking qualified applicants and individuals seeking assistance in obtaining employment.

The primary program in this budget activity is the federally funded Job Service (JS), a national labor exchange which connects job seekers with employers. Minnesota activity supports the national self-service tools made available on the Internet via America's Job Bank. Staff-facilitated services are available on a limited basis, due to fiscal constraints, to both employers and job seekers. Other staff-facilitated programs include the federally funded Veterans Programs which provide employment related services for veterans; the Work Opportunity Tax Credit which provides tax credits to employers for hiring certain disadvantaged individuals; the Labor Market Information System (LMI) which supports state and local economic development strategies; employment and training program planning and vocational counseling; and the Bureau of Labor Statistics (BLS) funded federal/state cooperative programs which produce statewide and local workforce and employment information.

WorkForce Exchange programs are aligned with the Governor's Big Plan principles of Developing the Workforce for Tomorrow, as well as Service not Systems. Most prominently, as the electronic backbone to the workforce development system, the One Stop Operating System proposal attached assures "best bang for buck" through streamlined, innovative services.

### STRATEGIES AND PERFORMANCE:

WorkForce Exchange addresses the employment needs of Minnesotans (both employers and job seekers), through programs such as JS, Veterans Employment Programs, LMI and training referrals.

### FINANCING INFORMATION:

This budget activity is funded almost entirely by the U.S. Department of Labor.

### BUDGET ISSUES:

The federal Job Service Program has received flat funding for the past 20 years. This has caused decreased staffing, decreasing services to employers and job seekers. Although DES has increased efficiencies in technology, including the

Activity: WORKFORCE EXCHANGE SERVICES  
Program: WORKFORCE SERVICES  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	20,330	21,095	20,986	20,836	21,836	20,836	21,836	1,591	3.8%
OTHER OPERATING EXPENSES	9,623	8,341	11,191	11,192	11,192	11,192	11,192	2,852	14.6%
<b>Subtotal State Operations</b>	<b>29,953</b>	<b>29,436</b>	<b>32,177</b>	<b>32,028</b>	<b>33,028</b>	<b>32,028</b>	<b>33,028</b>	<b>4,443</b>	<b>7.2%</b>
CAPITAL OUTLAY & REAL PROPERTY	0	24	0	0	0	0	0	(24)	(100.0%)
PAYMENTS TO INDIVIDUALS	1,288	1,271	1,452	1,452	1,452	1,452	1,452	181	6.6%
LOCAL ASSISTANCE	1,426	3,369	3,369	3,369	3,369	3,369	3,369	0	0.0%
<b>Total Expenditures</b>	<b>32,667</b>	<b>34,100</b>	<b>36,998</b>	<b>36,849</b>	<b>37,849</b>	<b>36,849</b>	<b>37,849</b>	<b>4,600</b>	<b>6.5%</b>

<b>Change Items:</b>	<b>Fund</b>				
(B) UNIVERSAL CUSTOMER	GEN			1,000	1,000
<b>Total Change Items</b>				<b>1,000</b>	<b>1,000</b>

<b>Financing by Fund:</b>					
<b>Direct Appropriations:</b>					
GENERAL	2,059	451	200	50	1,050
<b>Statutory Appropriations:</b>					
GENERAL	459	120	0	0	0
MDES FEDERAL	30,149	33,529	36,798	36,799	36,799
<b>Total Financing</b>	<b>32,667</b>	<b>34,100</b>	<b>36,998</b>	<b>36,849</b>	<b>37,849</b>

<b>Revenue Collected:</b>					
<b>Dedicated</b>					
GENERAL	1,586	35	0	0	0
MDES FEDERAL	30,145	34,854	34,115	36,799	36,799
<b>Total Revenues Collected</b>	<b>31,731</b>	<b>34,889</b>	<b>34,115</b>	<b>36,799</b>	<b>36,799</b>

<b>FTE by Employment Type:</b>					
FULL TIME	421.1	411.0	383.3	361.4	341.1
<b>Total Full-Time Equivalent</b>	<b>421.1</b>	<b>411.0</b>	<b>383.3</b>	<b>361.4</b>	<b>341.1</b>

# BUDGET CHANGE ITEM (48011)

**Budget Activity:** WORKFORCE EXCHANGE SERVICES

**Program:** WORKFORCE SERVICES

**Agency:** ECONOMIC SECURITY DEPT

**Item Title:** UNIVERSAL CUSTOMER

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$1,000	\$1,000	\$1,000	\$1,000
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected:

☒ New Activity ☐ Supplemental Funding ☒ Reallocation

**GOVERNOR'S RECOMMENDATION:** The Governor recommends allocating \$2 million in each year of the biennium to serve Universal Customers through the state's workforce development system. Universal Customers are individuals who can benefit from employment and training services but do not meet specific eligibility criteria. Many of them are working poor, making less than \$10 per hour. All of them are Minnesota workers looking to keep pace with a changing economy and a rapidly evolving labor market that rewards skills and training.

The funding for Universal Customers will be used to aid individuals in identifying their skills and training needs, to seek and maintain employment, and to advance in their careers. Included in the first year of funding is \$16,000 associated with a one-time best practices study to improve the WorkForce Center System.

**RATIONALE:** In the past, a high school education was enough preparation for a good job, that one could expect to keep for their entire career. The current reality is that a high school education is no longer sufficient, and on average people change jobs once every three years—and change careers entirely seven times in their lifetime. To be successful in today's market place one must constantly upgrade skills, expect frequent job changes, and become adept at changing ways of looking for work (e.g., the Internet).

Yet many people who enter WorkForce Centers hoping for help in those areas do not qualify for eligibility-based services, but could increase their earning potential with short, focused assistance. Such assistance would include information services, skill assessments and training, and networking opportunities. Up to this point, these services have only been available on a limited basis, to program-eligible populations.

If DES is to serve a "universal customer," such a profile must also include employers themselves, who in today's economy are in clear need of help in finding qualified workers. These employers may want better access to the labor market; or they may be looking for guidance in navigating regulations (e.g., accommodating persons with disabilities). Whatever their need, employers seek a workforce development system less bureaucratic and more customer-driven.

As with individuals looking for work, businesses may only need brief information in a self-service environment. For all customers, DES expects to make career and employment management tools available, as much as appropriate, in such a self-service environment.

Like any other business, WorkForce Centers face an ever-changing environment. Rising customer and stakeholder expectations and reductions in budget allocations for many of the partners present challenges and opportunities in the way WorkForce Centers conduct their business. To help the Centers structure any new services properly, an in-depth, unbiased review of the system is essential. This review will benchmark the system and then take the required steps to improve its efficiency, effectiveness, competitiveness and performance.

Even before this review is complete, unmet demand must be handled. DES will direct WorkForce Centers to gauge the demand for services in their local area and extend their hours as appropriate to their specific situation. Because many of the workers we expect to serve in the Universal Customer initiative are incumbent workers on a daytime shift, such an extension of hours will be critical to effective customer service.

Wagner-Peyser (Job Service) has been the primary funding source for serving Universal Customers. However, it has had flat funding since 1985.

**FINANCING:** This initiative is for \$2 million in ongoing funds from the General Fund.

**OUTCOMES:** Expected outcomes include:

- More skilled workers, and higher wages for those workers;
- Better-served and more satisfied Workforce Center clients; and
- Better communication with business, and resulting better knowledge of skilled labor needs.

**\*This initiative is carried in the Department of Human Services budget and is presented here for informational purposes only.**

**F.Y. 2002-03 BUDGET CHANGE ITEM**

**AGENCY:** Human Services, Department of (DHS)  
**PROGRAM:** Economic Support Management  
**ACTIVITY:** Economic Support Policy Administration

**ITEM TITLE:** MFIP Employment Services Tracking System

	2002-03 Biennium		2004-05 Biennium	
	F.Y. 2002	F.Y. 2003	F.Y. 2004	F.Y. 2005
Expenditures: (\$000)				
Federal TANF				
Economic Support Policy Admin	\$1,750	\$750	\$0	\$0
Statutory Change?	Yes	No	X	
<input type="checkbox"/> New Activity	<input checked="" type="checkbox"/> Supplemental Funding			
	<input type="checkbox"/> Reallocation			
<input checked="" type="checkbox"/> One-time	<input type="checkbox"/> Ongoing			

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends an increase in expenditures from TANF of \$1,750,000 in FY 2002 and \$750,000 in FY 2003 to share the cost of a new Employment Services Tracking System for MFIP participants, with the Department of Economic Security (DES).

**RATIONALE:**

**Background**

The existing Management Information System (MIS) is over 10 years old and was not designed to meet the current tracking, reporting and accountability needs of the MFIP program. To continue to use the existing system will jeopardize our ability to meet strict federal reporting requirements and could result in inaccurate outcome tracking for MFIP recipients. A new system would provide day-to-day support to job counselors in doing their jobs, reduce paperwork and improve client services. The Department of Human Services (DHS) and DES have worked together with other stakeholders to explore all options and are in agreement that the proposed system is the best option available to us.

**Proposal**

This proposal is for the DHS share of funding for a collaborative effort between the department and DES to develop accurate Employment Services tracking system. The activities of approximately 49,000 MFIP participants involved in employment services activities will be tracked each year. The proposal is the

result of policy and program decisions to share information across agencies. The proposed tracking system will help ensure client participation in activities that will lead to employment and enhance workforce development efforts of the agencies and the Governor's Workforce Development Council.

This is a request for one-time funding for system acquisition and implementation. The request will help fund the design, construction, testing, training, operating of two pilot offices, and statewide implementation of the system.

**Administration Issues and Implementation**

Implementation will be a phased-in process that will implement system modules starting in October 2001 and will continue until the system is fully implemented in July 2002. Maintenance of early implemented system modules will start in October of 2001.

**FINANCING:**

Two state agencies are involved in the project: The Departments of Human Services and Economic Security.

The DHS contribution of \$2,500,000 will be expended during the 2002-2003 biennium through an interagency agreement between DHS and DES. Because of the phased-in implementation, on-going maintenance of the system will begin in October of 2001.

**OUTCOMES:**

The primary outcome of this proposal is to build a workforce development delivery system that will support the delivery of services to employers as well as job seeking clients. By investing in this system, the department, DES and employment services providers will be able to share program information across agencies. This approach will allow service providers to focus on customer needs rather than eligibility criteria. Also provided through this system investment, information will be available that will provide automated accountability, tracking and reporting.

## PROGRAM SUMMARY

Program: WORKFORCE REHABILITATION SVCS  
Agency: ECONOMIC SECURITY DEPT

### PROGRAM PROFILE:

The programs and services of Rehabilitation Services (RS) exist for Minnesotans with disabilities to further their integration in society, with emphasis on serving those with severe disabilities. As the Governor's Big Plan states regarding people with disabilities, "Our goal . . . should be a life as independent and self-sufficient as possible." That goal and the DES strategic goal, "People with disabilities work to their ability," are addressed by RS programs, which:

- assist Minnesotans with severe disabilities to prepare for and secure employment;
- assist employers to find qualified workers;
- provide ongoing employment supports to individuals with severe disabilities who require supports in order to retain their employment; and
- empower people with severe disabilities to live with greater independence in their homes and communities.

Through these services, RS encourages the participation of all Minnesotans with disabilities in the social and economic life of their communities. While there is a critical labor shortage in Minnesota, there is a significant unemployment rate among people with severe disabilities. Through the RS programs of Vocational Rehabilitation (VR), Independent Living (IL), and Extended Employment (EE), an array of services are provided to assist individuals to work and live independently in their community rather than in institutions.

### STRATEGIES AND PERFORMANCE:

RS programs assist Minnesotans to achieve their goals for working and living in the community. Many individuals access more than one RS program. In accordance with DES strategic goals, "relationships with other state agencies enhance the workforce development system" and "relationships with key citizen and business groups are critical," efficiencies continue to be identified through cooperative agreements and collaboration with other public and private programs to avoid duplication and enhance service quality. RS programs are implementing DES strategic goals "excellent products and services are provided electronically" and "process improvement is constant" through increased computerization and piloting service innovation and redesigns. The Vocational Rehabilitation and Independent Living Programs have federally-mandated consumer councils that provide advice and direction to their respective programs so that services are responsive to the needs of persons with severe disabilities.

### FINANCING INFORMATION:

Funding for Rehabilitation Services programs is received from the federal Department of Education and the state's General Fund.

### BUDGET ISSUES:

- VR's federal funding for FY 2000 was \$100,000 less than the federal allocation for 1999, due to the federal allocation formula. This formula, based on a state's per capita income and population relative to other states, reduced Minnesota's federal allocation for the first time ever. This trend is expected to continue. For the next biennium, because demand for services exceeds our resources, we expect to further restrict order of selection so that only eligible persons who have a severe limitation to employment in at least three functional areas will receive services. Other eligible persons, estimated at 2,000 to 3,000 persons per year, will be placed on a waiting list for services.
- The EE program's funding for employment services for persons with mental illness under M.S. 268A.13-14 permits service delivery only in limited areas of the state, and DES is under pressure to expand these services statewide.
- The IL program presently receives no financial support for the administration of IL grants and IL case services. Consequently, VR program funds have been utilized since 1981. In addition, federal funds are currently insufficient to meet all of the IL case service needs of those Minnesotans with the most severe disabilities.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends \$22.226 million in FY 2002 and \$22.241 million in FY 2003 for workforce rehabilitation services. This includes \$250,000 in each year of the biennium for the Best Buddies initiative.

Program: WORKFORCE REHABILITATION SVCS  
Agency: ECONOMIC SECURITY DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
VOCATIONAL REHABILITATION	38,830	42,141	44,951	46,913	46,913	47,403	47,403	7,224	8.3%
INDEPENDENT LIVING	2,611	3,065	3,171	3,209	3,209	3,308	3,308	281	4.5%
EXTENDED EMPLOYMENT	11,916	13,927	13,398	12,605	12,855	12,620	12,870	(1,600)	(5.9%)
<b>Total Expenditures</b>	<b>53,357</b>	<b>59,133</b>	<b>61,520</b>	<b>62,727</b>	<b>62,977</b>	<b>63,331</b>	<b>63,581</b>	<b>5,905</b>	<b>4.9%</b>

<b>Change Items:</b>	<b>Fund</b>				
(B) BEST BUDDIES PROGRAM	GEN			250	250
<b>Total Change Items</b>				<b>250</b>	<b>250</b>

<b>Financing by Fund:</b>							
<b>Direct Appropriations:</b>							
GENERAL	21,186	23,118	22,349	21,976	22,226	21,991	22,241
SPECIAL REVENUE	0	50	50	0	0	0	0
FEDERAL TANF	0	130	370	0	0	0	0
<b>Statutory Appropriations:</b>							
MDES FEDERAL	32,170	35,835	38,745	40,745	40,745	41,334	41,334
GIFT	1	0	6	6	6	6	6
<b>Total Financing</b>	<b>53,357</b>	<b>59,133</b>	<b>61,520</b>	<b>62,727</b>	<b>62,977</b>	<b>63,331</b>	<b>63,581</b>

<b>FTE by Employment Type:</b>							
FULL TIME	384.4	393.5	403.5	407.5	407.5	407.5	407.5
<b>Total Full-Time Equivalent</b>	<b>384.4</b>	<b>393.5</b>	<b>403.5</b>	<b>407.5</b>	<b>407.5</b>	<b>407.5</b>	<b>407.5</b>



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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** VOCATIONAL REHABILITATION  
**Program:** WORKFORCE REHABILITATION SVCS  
**Agency:** ECONOMIC SECURITY DEPT

### ACTIVITY PROFILE:

Vocational Rehabilitation (VR) connects employers with qualified employees with disabilities and seeks to address the high unemployment rate of people with severe disabilities. Minnesota VR is currently on an "order of selection" so that only eligible people with severe disabilities who have a severe limitation to employment in at least one functional area will receive services. VR is a state-federal partnership under the Rehabilitation Act of 1973, as amended, that has evolved over 80 years to emphasize employment outcomes for persons with severe disabilities.

Trends and changes expected to increase the need for VR services to assist individuals with disabilities in entering or re-entering the workforce include:

- *labor shortages* facing employers needing qualified employees, especially in high-technology occupations;
- *welfare-to-work* developments, especially the continuing need to assist MFIP recipients with disabilities;
- an increased need for services to *Special Education* students exiting secondary school with disabilities;
- an increased incidence of disability among "*Baby Boomers*";
- *medical and technological advances* improving the life expectancy, life span and ability to work of persons with severe disabilities;
- *Social Security* program changes that reduce or remove disincentives to employment for Social Security Disability Insurance and Supplemental Security Income recipients; and
- *disability civil rights movement and legislation* raising the expectations of people with disabilities that they will participate fully in the economic life of their communities.

### STRATEGIES AND PERFORMANCE:

VR counseling and placement are provided annually to approximately 27,000 individuals by 200 rehabilitation counselors and placement specialists through 53 field offices that are partners in the WorkForce Center System. Services are individualized to meet each consumer's needs, and often include skill or academic training, rehabilitation technology, job development, job placement, and follow-up to ensure that the job is appropriate. Services are coordinated with other public and private programs to avoid duplication, in accordance with

DES's emphasis on relationships with other state and local agencies that enhance the workforce development system. Goods and services are also purchased from non-profit community rehabilitation programs and for-profit vendors. On average, consumers complete their rehabilitation plans in slightly over two years, with the amount of time varying depending on individual needs. Overall, 70% of VR consumers secure employment as a result of services provided.

In 1993 the Federal Office of Management and Budget (OMB) found that VR services to consumers produce a payback of \$11 in taxes for each \$1 invested in consumer services. Additional savings are gained by the reduced usage of other publicly funded programs such as, subsidized housing, medical assistance, public assistance, institutionalization, hospitalization, etc.

### VR Consumer Outcomes in State Fiscal Year:

	1998	1999	2000
<b>Successfully Employed</b>	4178	4168	4353
<b>Average Hourly Wage:</b>			
Competitive Employment	\$8.92	\$9.35	\$9.77
Supported Employment	\$4.48	\$5.13	\$5.23

### Consumers' Employment Retention (1999 Study, using FY 1997 data)

Consumers Still Employed 1 Year after Case Closure 87%

### Consumer Satisfaction (1999 Survey)

Satisfied with timeliness	86%
Satisfied with Employment Plan	87%
Satisfied with respect shown by VR Staff	94%

### FINANCING INFORMATION:

Funding for the basic Vocational Rehabilitation program is received from the federal Department of Education with matching funds from the state's General Fund.

### BUDGET ISSUES:

- VR's federal funding for FY 2000 was \$100,000 less than the federal allocation for 1999, due to the federal allocation formula. This formula, based on a state's per capita income and population relative to other states, reduced Minnesota's federal allocation for the first time ever. Because this trend is expected to continue, DES is considering establishing an even stricter order of selection so that only eligible persons with a severe limitation to employment in three (currently one) functional areas will receive services. Other eligible persons, estimated at 2,000 to 3,000 per year, would have to be placed on a waiting list.

# **BUDGET ACTIVITY SUMMARY (Continued)**

**Budget Activity:** VOCATIONAL REHABILITATION  
**Program:** WORKFORCE REHABILITATION SVCS  
**Agency:** ECONOMIC SECURITY DEPT

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- The demand for VR services is increasing; the number of VR consumers with newly-developed Employment Plans in 2000 increased 11% over 1999.
- An increase in the cost of goods and services purchased for VR consumers is expected to continue.

Activity: VOCATIONAL REHABILITATION  
Program: WORKFORCE REHABILITATION SVCS  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	18,605	20,219	21,996	22,982	22,982	23,802	23,802	4,569	10.8%
OTHER OPERATING EXPENSES	4,684	4,938	5,766	6,421	6,421	5,854	5,854	1,571	14.7%
<b>Subtotal State Operations</b>	<b>23,289</b>	<b>25,157</b>	<b>27,762</b>	<b>29,403</b>	<b>29,403</b>	<b>29,656</b>	<b>29,656</b>	<b>6,140</b>	<b>11.6%</b>
CAPITAL OUTLAY & REAL PROPERTY	0	2	0	0	0	0	0	(2)	(100.0%)
PAYMENTS TO INDIVIDUALS	14,443	15,992	16,035	16,356	16,356	16,593	16,593	922	2.9%
LOCAL ASSISTANCE	1,098	990	1,154	1,154	1,154	1,154	1,154	164	7.6%
<b>Total Expenditures</b>	<b>38,830</b>	<b>42,141</b>	<b>44,951</b>	<b>46,913</b>	<b>46,913</b>	<b>47,403</b>	<b>47,403</b>	<b>7,224</b>	<b>8.3%</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	7,520	7,521	7,521	7,521	7,521	7,521	7,521		
<b>Statutory Appropriations:</b>									
MDES FEDERAL	31,309	34,620	37,424	39,386	39,386	39,876	39,876		
GIFT	1	0	6	6	6	6	6		
<b>Total Financing</b>	<b>38,830</b>	<b>42,141</b>	<b>44,951</b>	<b>46,913</b>	<b>46,913</b>	<b>47,403</b>	<b>47,403</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
MDES FEDERAL	31,299	34,784	37,249	39,386	39,386	39,876	39,876		
GIFT	2	1	6	6	6	6	6		
<b>Total Revenues Collected</b>	<b>31,301</b>	<b>34,785</b>	<b>37,255</b>	<b>39,392</b>	<b>39,392</b>	<b>39,882</b>	<b>39,882</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	373.4	382.5	392.5	396.5	396.5	396.5	396.5		
<b>Total Full-Time Equivalent</b>	<b>373.4</b>	<b>382.5</b>	<b>392.5</b>	<b>396.5</b>	<b>396.5</b>	<b>396.5</b>	<b>396.5</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** INDEPENDENT LIVING  
**Program:** WORKFORCE REHABILITATION SVCS  
**Agency:** ECONOMIC SECURITY DEPT

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### ACTIVITY PROFILE:

Since its inception in 1981, the Independent Living (IL) Section of the Rehabilitation Services Branch has provided administrative support and direction to two separate statewide IL programs. Both of these IL programs empower people with significant disabilities to live and work with greater independence and self-sufficiency in their homes and communities. The first of these programs involve the IL Section's 17 IL-VR counselors who deliver statewide IL case-services to Minnesotans whose disabilities are sufficiently significant to prohibit the attainment of vocational goals. The second program is the IL Section's eight Centers for Independent Living (CIL). Centers provide IL core-services (IL skills training, advocacy, peer counseling, information and referral), as well as a variety of other work-related and/or self-sufficiency services, to any person, of any age, with any type of disability who requests Center assistance. These Centers are located in St. Paul, Hibbing, Rochester, St. Cloud, Moorhead, East Grand Forks, Mankato, and Marshall. There are no other public or private programs in the state providing similar services.

### STRATEGIES AND PERFORMANCE:

IL services and outcomes are consistent with the Governor's "Big Plan," which emphasizes Independent Living and "improved strategies to bring disabled people into the workplace in larger numbers, ensuring the possibility for them to become as self-sufficient as possible." The IL Section's CIL program and IL case services must strictly comply with Federal standards established under the Rehabilitation Act of 1973. These IL program and service workload measures and outcomes are reported annually to the federal government.

The IL section's eight Centers provided IL core-services, as well as a wide range of self-sufficiency and/or workforce development services consistent with both the Rehabilitation Services Branch's strategic plans, goals, and objectives to empower Minnesotans with disabilities to live and work with greater independence. Centers' services were provided to 2,658 (unduplicated) and 10,204 (duplicated) people with disabilities statewide. Of these consumers, 4,854 IL goals were established, and 3,438 of these goals were attained during the last 12-month reporting period. In addition, 2,872 people with disabilities and/or their family members statewide received information and referral assistance from the eight Centers.

IL case services- which include home modifications, ramp construction, counseling services, as well as the purchase of adaptive equipment, aids for daily living, and augmentative communication devices; delivered through the IL

Section's IL-VR Counselors, were provided to 1,748 (unduplicated) and 3,230 (duplicated) people with significant disabilities statewide. Of these consumers with significant disabilities, 3,373 IL case service goals were established, and 1,577 of these goals were attained during the 12 month reporting period. An additional 118 people with disabilities and/or their family members received information and referral assistance from the IL-VR Counselors.

### FINANCING INFORMATION:

This program receives funding from the federal Department of Education and the state's General Fund.

### BUDGET ISSUES:

Because federal funds are currently insufficient to meet all of the IL case service needs of those Minnesotans with the most severe disabilities, Rehabilitation Services has had to divert Vocational Rehabilitation funding to supply these basic IL program needs. This in turn has damaged the ability of both programs to meet the continuing demand for their services.

Activity: INDEPENDENT LIVING  
Program: WORKFORCE REHABILITATION SVCS  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	288	312	333	341	341	351	351	47	7.3%
OTHER OPERATING EXPENSES	71	58	97	97	97	97	97	39	25.2%
Subtotal State Operations	359	370	430	438	438	448	448	86	10.8%
PAYMENTS TO INDIVIDUALS	129	141	140	120	120	120	120	(41)	(14.6%)
LOCAL ASSISTANCE	2,123	2,554	2,601	2,651	2,651	2,740	2,740	236	4.6%
<b>Total Expenditures</b>	<b>2,611</b>	<b>3,065</b>	<b>3,171</b>	<b>3,209</b>	<b>3,209</b>	<b>3,308</b>	<b>3,308</b>	<b>281</b>	<b>4.5%</b>

<b>Financing by Fund:</b>							
Direct Appropriations:							
GENERAL	1,750	1,850	1,850	1,850	1,850	1,850	1,850
Statutory Appropriations:							
MDES FEDERAL	861	1,215	1,321	1,359	1,359	1,458	1,458
<b>Total Financing</b>	<b>2,611</b>	<b>3,065</b>	<b>3,171</b>	<b>3,209</b>	<b>3,209</b>	<b>3,308</b>	<b>3,308</b>

<b>Revenue Collected:</b>							
Dedicated							
MDES FEDERAL	852	1,215	1,321	1,359	1,359	1,458	1,458
<b>Total Revenues Collected</b>	<b>852</b>	<b>1,215</b>	<b>1,321</b>	<b>1,359</b>	<b>1,359</b>	<b>1,458</b>	<b>1,458</b>

<b>FTE by Employment Type:</b>							
FULL TIME	5.0	5.0	5.0	5.0	5.0	5.0	5.0
<b>Total Full-Time Equivalent</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** EXTENDED EMPLOYMENT  
**Program:** WORKFORCE REHABILITATION SVCS  
**Agency:** ECONOMIC SECURITY DEPT

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### ACTIVITY PROFILE:

As a program in Minnesota's workforce development system, Extended Employment (EE) provides specialized employment services for workers with severe disabilities. EE supports the Big Plan goal and DES vision of a skilled workforce by supporting nearly 7,000 new and incumbent workers each year. EE partners with non-profit community organizations and employers to develop career paths to self-sufficiency through providing ongoing job retention and training services. These employment support services make it possible for individuals with severe disabilities to keep jobs, advance in careers, and become active members of their communities.

EE/Basic, funded under M.S. 268A.15, provides employment support to workers with severe disabilities and job assistance to the most difficult to service welfare recipients. EE services for persons with Serious and Persistent Mental Illness (SPMI) under M.S. 268A.13 and 268A.14 are tailored to the employment needs of people with mental illness. EE also provides a grant for ongoing employment support services to the Minnesota Employment Center for Persons Who Are Deaf or Hard of Hearing (MEC) and a grant for self-advocacy training to Advocating Change Together (ACT).

The following trends will affect EE services:

- Minnesota's continuing labor shortage will make individuals with severe disabilities an increasingly important source of workers for Minnesota employers.
- Proposed elimination of sheltered employment as a "federal VR employment outcome" will increase pressure to retrain and move workers from center-based employment to jobs in the community where there are critical worker shortages.
- Employers, consumer advocacy organizations, and providers will seek services to meet the unmet employment and self-sufficiency needs of people with SPMI in Minnesota.
- The need for EE services to persons with "severe impairment to employment" (under M.S.268A.15) will increase as Welfare to Work recipients transitioning to self-sufficiency face the loss of cash benefits within the next 24 months due to MFIP time limits.

### STRATEGIES AND PERFORMANCE:

EE funding has rigorous outcome standards for employment. EE Basic performance contracts pay only for work hours verified by independent auditors. The hourly support rate depends on the worker's employment setting and wage. EE/SPMI contracts pay providers a cost-based reimbursement rate for the employment support of individuals in community jobs. Most counties commit funding in support of this activity, and revenues from small business, manufacturing, and service enterprises operated by providers also contribute to the overall cost of providing these services.

Community based funding of EE employment programs has increased from 22% in 1987 to 68% in 2000, which means that more people are competitively employed.

### FINANCING INFORMATION:

Funding for this program is from the state's General Fund.

### BUDGET ISSUES:

Despite customer demand for EE/SPMI services statewide, such services only have enough funding for supply in limited areas.

Activity: EXTENDED EMPLOYMENT  
Program: WORKFORCE REHABILITATION SVCS  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	383	391	403	416	416	431	431	53	6.7%
OTHER OPERATING EXPENSES	42	68	44	44	44	44	44	(24)	(21.4%)
Subtotal State Operations	425	459	447	460	460	475	475	29	3.2%
LOCAL ASSISTANCE	11,491	13,468	12,951	12,145	12,395	12,145	12,395	(1,629)	(6.2%)
Total Expenditures	11,916	13,927	13,398	12,605	12,855	12,620	12,870	(1,600)	(5.9%)
<b>Change Items:</b>	<b>Fund</b>								
(B) BEST BUDDIES PROGRAM	GEN				250		250		
Total Change Items					250		250		
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	11,916	13,747	12,978	12,605	12,855	12,620	12,870		
SPECIAL REVENUE	0	50	50	0	0	0	0		
FEDERAL TANF	0	130	370	0	0	0	0		
Total Financing	11,916	13,927	13,398	12,605	12,855	12,620	12,870		
<b>FTE by Employment Type:</b>									
FULL TIME	6.0	6.0	6.0	6.0	6.0	6.0	6.0		
Total Full-Time Equivalent	6.0	6.0	6.0	6.0	6.0	6.0	6.0		



**BUDGET CHANGE ITEM (67110)**

**Budget Activity:** EXTENDED EMPLOYMENT  
**Program:** WORKFORCE REHABILITATION SVCS  
**Agency:** ECONOMIC SECURITY DEPT

**Item Title: BEST BUDDIES PROGRAM**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
-Grants	\$250	\$250	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-
Statutory Change? Yes _____ No <u>  X  </u>				
If yes, statute(s) affected:				
<u>  X  </u> New Activity    _____ Supplemental Funding    _____ Reallocation				

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends \$250,000 in FY 2002 and \$250,000 in FY 2003 to provide opportunities for one-to-one friendships to individuals with mental retardation.

**RATIONALE:**

Students with mental retardation often enter the same high school building and walk the same hallways as their peers but are often left out of social activities that build and enhance social skills. When people with disabilities are unable to keep a job, it is most often due to lack of social skills rather than a lack of ability to perform the work required.

The Best Buddies program will enhance the lives of people with mental retardation by providing opportunities for one-to-one friendships. The Best Buddies program creates and facilitates long-term, one-to-one friendships between people with mental retardation and high school students, college students, and community volunteers. e-Buddies provides an e-mail friendship between people with and without mental retardation as well as introduces people with mental retardation to the Internet.

Best Buddies was founded in 1989 by Anthony Kennedy Shriver to help people with mental retardation become more involved in their communities. He matched 52 of his fellow college students at Georgetown University in Washington, D.C. with "Buddies" at the nearby Kennedy Institute, a school for people with mental retardation, and Best Buddies was born. In the last 11 years, the organization has exploded in popularity, with more than 500 high school, college, and university chapters in 37 states and in Canada, Greece, and Egypt. An on-line variation, e-Buddies, was established this year and already has over 200 matches. Today, Best Buddies nationally directly touches the lives of more than 20,000 people each year.

Best Buddies establishes chapters on high school and college campuses to recruit student volunteers with the purpose of matching those students in meaningful, mutually life-enhancing friendships with individuals with mental retardation. Best Buddies recognizes that friendship is one of the most important and powerful bonds between people. By riding the bus together, going to the movies, participating in civic projects – basically any and all activities which friends do together – each Best Buddies pair builds a foundation for understanding their differences while finding part of life's fulfillment through their friendship.

These friendship opportunities for people with mental retardation will help improve social skills and develop friendships in high school, and will ultimately help secure and maintain meaningful employment in the community and will better support successful integration into communities throughout the state.

**FINANCING:**

The funding for this initiative is from the General Fund, is a one-time, and requires a one for one match with non-state funds.

**OUTCOMES:**

- By 6-30-03, 60 high school chapters and 15 college chapters of Best Buddies will be established.
- By 6-30-03, match more than 720 regular education high school students in friendships with students with mental retardation.
- By 6-30-03, match more than 180 college students in friendships with people with mental retardation in the community.
- By 6-30-03, establish a volunteer program to recruit and match 720 people with mental retardation with volunteers for e-mail friendships.

## PROGRAM SUMMARY

**Program: WORKFORCE SVCS FOR THE BLIND**

**Agency: ECONOMIC SECURITY DEPT**

### PROGRAM PROFILE:

The mission of State Services for the Blind (SSB) is to foster the achievement of vocational and personal independence by children and adults who are blind or visually impaired. SSB provides training to individuals who historically and currently experience a low rate of labor force participation. SSB also provides needed services to significant numbers of elderly people, giving them the tools to remain in their homes and avoid costly and more restrictive institutional alternatives. As the state population continues to age, increasing numbers of Minnesotans are becoming blind or visually impaired, requiring services to maintain their independence. SSB services are delivered through four service delivery sections:

- **WorkForce Development:** Ten field offices (as part of the Minnesota WorkForce Center System) strategically located in Minnesota provide direct rehabilitation services to persons of all ages who are blind, visually impaired, or who have additional physical and/or mental impairments, and the loss of vision causes an impediment to employment, education or personal independence. Services include counseling; instruction in alternative techniques including braille and cane travel; vocational training; job placement; and adaptive equipment.
- **Self-sufficiency:** The services available in this area include services which allow elderly blind Minnesotans to continue to live independently when the loss of vision has become an impairment for them doing so. Services include mobility training, low vision techniques and aides, etc. Services are available statewide.
- **Business Services:** Business services includes four major programs which support blind and visually impaired Minnesotans.
  1. The **Business Enterprise Program** creates small business franchise opportunities statewide for persons who are blind. Blind vendors function as independent business operators under subcontracts in primarily public buildings, including post-secondary institutions and rest areas on interstate and state highways.
  2. "**The Store**" is an outlet for adaptive aids and devices for blind or visually impaired Minnesotans.
  3. The **Communication Center uses paid staff and over 600 volunteers** to assist Minnesotans who are unable to read normal newsprint because of a visual or physical impairment. The Radio Talking Book and Dial-in News, radio and newspaper reading services respectively, assist blind persons in achieving their goals of personal and vocational independence. The **Homestead Tax Credit** is a service

that provides certification of legal blindness for homestead and tax benefits.

4. **Administrative Services:** This section supports blind persons in reaching their rehabilitation goals by program and policy development, program evaluation; financial management; purchasing; contract management; staff training and development, and administrative and technical support.

### STRATEGIES AND PERFORMANCES:

Following are current and future strategies for SSB:

- Consistent with the Workforce Investment Act, SSB provides its vocational rehabilitation services through the Minnesota WorkForce Center System. SSB is reorganizing its administrative structure to focus on employment outcomes by creating the WorkForce Development Section. Staff in this section will jointly develop individualized employment plans with customers, which may include financial assistance to individuals as well as the purchase of services from public and private vendors. The counselor's role is changing from providing intensive counseling and planning to becoming a consultant and a broker of services whereby the customer has an increased role in the shaping and development of their own plan through informed choice. Staff need to be more knowledgeable of the labor market and services, which will enhance their customer's opportunities for good jobs.
- SSB's service to elderly Minnesotans is also restructured by creating a self-sufficiency section. The emphasis in this section is to develop a statewide infrastructure in communities to support the increasing needs of elderly Minnesotans with vision loss. By providing group or one on one rehabilitation teaching, elderly Minnesotans can learn to use the vision they still have or learn alternative techniques in case of total vision loss. A new initiative is being developed to create a state-wide system of volunteers in communities to lead support groups for elderly Minnesotans who need the encouragement and assistance from others facing similar vision loss problems.
- Provide technical assistance to workforce development system partners to ensure programs, and services are accessible in order to increase employment outcomes for blind or visually impaired Minnesotans.
- SSB is currently researching and analyzing the needs of blind and visually impaired customers through an exhaustive, privately funded stakeholder input process. SSB has already used the results of the stakeholder input to restructure its organization and will be developing a strategic plan based on stakeholder input.

## PROGRAM SUMMARY (Continued)

**Program: WORKFORCE SVCS FOR THE BLIND**  
**Agency: ECONOMIC SECURITY DEPT**

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Following are SSB's performance indicators for FY 1999.

- The number of blind persons who found competitive employment was 145.
- The number of blind persons regaining their ability to manage their own home or living independently was 1,116.
- The number of blind citizens who gained access to printed word through alternative reading media was 14,500.
- Consumer satisfaction data for 1999 gathered by the State Rehabilitation Council for the Blind indicates that over 95% of customer responding would recommend SSB to a friend.

### **FINANCING INFORMATION:**

State Services for the Blind receives revenue from the following sources:

- State General Appropriation;
- Special Revenue related to Business Enterprises, Communication Center, endowment income from the St. Paul Foundation, and The Store;
- Federal funds including Vocational Rehabilitation, Supported Employment, In-Service Training, Independent Living-B, Independent Living-Older Blind, Social Security reimbursement funds, and subgrant from the Minnesota Department of Children, Families and Learning.
- Gifts and private matching funds;
- 21st Century Match. A project to obtain private matching funds to upgrade the Communication Center.

### **BUDGET ISSUES:**

Demand for individualized and customized services to blind Minnesotans of all ages continues to increase more rapidly than resource availability. Limitations on SSB's ability to provide services continue and will increasingly impact persons of working age and older blind citizens.

In FFY 2000, Minnesota experienced a 1.6% decrease in Basic VR 110 funding. Further declines in federal funding are expected because of the method used to allocate federal funds among the states.

No state or federal funds are earmarked specifically for Communication Center Services to blind, visually impaired, physically disabled, or learning disabled customers. However, demand for Communication Center's transcription services has increased to become a significant piece of the Center's operational expenses. Currently, the Communication Center relies on federal vocational rehabilitation and state match funding (resources more routinely aimed at employment outcomes) to provide these services.

- The increase in demand for services is largely attributable to the Americans with Disabilities Act (ADA) requirements related to access to the printed word. State agencies and institutions and private entities seeking to comply with ADA have relied on the Communications Center to provide them with appropriate material, often without cost.
- A diminishing volunteer base, the technical nature of the workload, and an aging population (age is the most significant factor in vision loss) further compound the gap between demand for services and the available resources to supply services.
- The Communications Center is developing a cost reimbursement policy to address the issue of providing these services to state agencies, institutions, and private sector entities.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends an appropriation of \$4.94 million in FY 2002 and \$5.067 million in FY 2003 for State Services for the Blind.

Activity: SERVICES FOR THE BLIND  
Program: WORKFORCE SVCS FOR THE BLIND  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	6,547	6,730	6,951	7,203	7,203	7,469	7,469	991	7.2%
OTHER OPERATING EXPENSES	2,756	3,200	7,586	3,496	3,496	3,518	3,518	(3,772)	(35.0%)
Subtotal State Operations	9,303	9,930	14,537	10,699	10,699	10,987	10,987	(2,781)	(11.4%)
PAYMENTS TO INDIVIDUALS	3,211	3,010	4,283	4,283	4,283	4,283	4,283	1,273	17.5%
LOCAL ASSISTANCE	34	38	36	36	36	36	36	(2)	(2.7%)
Total Expenditures	12,548	12,978	18,856	15,018	15,018	15,306	15,306	(1,510)	(4.7%)
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	4,181	4,744	6,187	4,940	4,940	5,067	5,067		
Statutory Appropriations:									
SPECIAL REVENUE	874	1,062	1,116	1,126	1,126	1,141	1,141		
MDES FEDERAL	7,486	6,905	9,757	8,801	8,801	8,947	8,947		
GIFT	7	267	1,796	151	151	151	151		
Total Financing	12,548	12,978	18,856	15,018	15,018	15,306	15,306		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	972	1,003	1,116	1,126	1,126	1,141	1,141		
MDES FEDERAL	7,187	7,642	9,020	8,801	8,801	8,947	8,947		
GIFT	179	579	1,437	151	151	151	151		
Nondedicated									
GENERAL	12	18	11	11	11	11	11		
Total Revenues Collected	8,350	9,242	11,584	10,089	10,089	10,250	10,250		
<b>FTE by Employment Type:</b>									
FULL TIME	134.0	128.3	128.3	128.5	128.5	128.8	128.8		
Total Full-Time Equivalent	134.0	128.3	128.3	128.5	128.5	128.8	128.8		

## PROGRAM SUMMARY

Program: **WORKFORCE WAGE ASSISTANCE**  
Agency: **ECONOMIC SECURITY DEPT**

### PROGRAM PROFILE:

The WorkForce Wage Assistance Program provides economic relief through the payment of benefits to minimize the personal, economic, and social impact of unemployment. WorkForce Wage Assistance also determines if Minnesota's adults and children who are claiming disability under Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) programs, qualify for those benefits.

This assistance allows individuals to remain economically self sufficient:

- on a temporary basis, through Unemployment Insurance (UI) payments, while the individual experiences temporary layoff, seeks new employment or retraining for a higher skill set.
- on a more long term basis, through SSI and SSDI, where a portion of the applicants return to the workforce after retraining for an appropriate skill level.

The two activities contained in this program, UI and Disability Determination Services (DDS), are totally federally funded.

### STRATEGIES AND PERFORMANCE:

WorkForce Wage Assistance provides temporary economic relief to unemployed Minnesotans through unemployment insurance payments. A critical strategy for this program is linking the unemployed to their local workforce development system, including WorkForce Centers and other organizations that can provide critical job-seeking assistance.

Disability Determination Services, in addition to determining eligibility for Social Security benefits, links applicants to Vocational Rehabilitation, also within the Minnesota WorkForce Center System. These WorkForce Wage Assistance strategies promote the Governor's Big Plan goal of Self-Sufficient People by getting unemployed and disabled Minnesotans to the resources and opportunities they need to help themselves. In addition, Unemployment Insurance has undertaken considerable investment in phone and internet technology to meet the Governor's Big Plan goals of Service, not Systems, in particular cost-effective, innovative solutions.

### FINANCING INFORMATION:

The U.S. Department of Labor and the Social Security Administration provide the federal funds for this program.

### BUDGET ISSUES:

Federal funding for UI is expected to be flat for the foreseeable future.

### GOVERNOR'S RECOMMENDATION:

The Governor does not recommend any General Fund appropriation for workforce wage assistance.

The Governor recommends the temporary establishment of a special technology assessment to fund an overhaul of the UI information systems. The assessment will generate \$5.0 million in FY 2002 and \$10.0 million in FY 2003 and will be offset by a temporary reduction in the state's UI tax rate. Expenditures on the project from this special revenue source will be \$300,000 in FY 2002 and \$8.0 million in FY 2003. Additional expenditures will extend into the next biennium.

The Governor has recommended a one-time general fund appropriation of \$300,000 in FY 2002 to the Department of Administration to provide technical support and consulting services to the UI technology project. The goal is to expedite the development and implementation of the UI project. That appropriation is carried in the Department of Administration's budget.

Program: WORKFORCE WAGE ASSISTANCE  
Agency: ECONOMIC SECURITY DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
UNEMPLOYMENT INSURANCE	42,663	41,160	42,300	42,300	42,600	42,300	50,300	9,440	11.3%
DISABILITY DETERMINATION	17,945	17,377	18,400	19,000	19,000	19,600	19,600	2,823	7.9%
<b>Total Expenditures</b>	<b>60,608</b>	<b>58,537</b>	<b>60,700</b>	<b>61,300</b>	<b>61,600</b>	<b>61,900</b>	<b>69,900</b>	<b>12,263</b>	<b>10.3%</b>
<b>Change Items:</b>	<b>Fund</b>								
(B) UNEMPLOYMENT INSURANCE SET ASIDE	SR				300		8,000		
<b>Total Change Items</b>					<b>300</b>		<b>8,000</b>		
<b>Financing by Fund:</b>									
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	2,343	2,586	2,700	2,700	3,000	2,700	10,700		
MDES FEDERAL	58,265	55,951	58,000	58,600	58,600	59,200	59,200		
<b>Total Financing</b>	<b>60,608</b>	<b>58,537</b>	<b>60,700</b>	<b>61,300</b>	<b>61,600</b>	<b>61,900</b>	<b>69,900</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	809.1	741.6	701.4	673.1	673.1	644.7	644.7		
<b>Total Full-Time Equivalent</b>	<b>809.1</b>	<b>741.6</b>	<b>701.4</b>	<b>673.1</b>	<b>673.1</b>	<b>644.7</b>	<b>644.7</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** UNEMPLOYMENT INSURANCE  
**Program:** WORKFORCE WAGE ASSISTANCE  
**Agency:** ECONOMIC SECURITY DEPT

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### ACTIVITY PROFILE:

Unemployment Insurance (UI) provides economic relief through payment of benefits to minimize the personal, economic, and social impact of unemployment.

The UI program performs the following activities:

- determine the liability of over 127,000 employers for the UI tax;
- collect contributions of over \$369 million per year;
- audit employer accounts to ensure proper tax payments;
- enforce the collection of the UI tax through the collection of delinquent taxes;
- administer state and federal laws relating to UI;
- determine benefit entitlements;
- pay weekly UI benefits totaling over \$360 million to over 100,000 eligible applicants each year; and
- provide impartial due-process hearings for applicants and employers appealing DES decisions, through a two-level appellate process.

### STRATEGIES AND PERFORMANCE:

UI provides temporary economic relief, minimizing the economic and social impact of unemployment. UI encourages customers to access the benefit system through electronic means. The electronic government initiative is a key strategy for the UI program. Both the Internet and the interactive phone systems make it easier for customers to access services. At the same time, a paper process of applying for unemployment is still available, as an alternative to meet varying customer needs.

DES is working on an initiative to allow new employer registration via the Internet; however, a continuing unmet need for this program is funding to rewrite the Tax Systems. These current systems are 25 years old, inflexible, and labor intensive; as a result program efficiency suffers.

### FINANCING INFORMATION:

The administrative funds for UI come from the Social Security Act through the U.S. Department of Labor. These are the only UI-related dollars reported in this

document. The actual payments to eligible applicants are not contained in the Biennial Budget document as they are processed outside of Minnesota's Accounting and Purchasing System (MAPS).

### BUDGET ISSUES:

The total base funding for UI has been flat over the last eight years, while the cost per position has increased significantly. This increase in costs has required a 30% reduction of staff from 735 positions to 500 in 2002.

Activity: UNEMPLOYMENT INSURANCE  
Program: WORKFORCE WAGE ASSISTANCE  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	30,469	30,159	29,600	29,600	29,600	29,600	29,600	(559)	(0.9%)
OTHER OPERATING EXPENSES	12,090	10,755	12,700	12,700	13,000	12,700	20,700	10,245	43.7%
OTHER FINANCIAL TRANSACTIONS	104	101	0	0	0	0	0	(101)	(100.0%)
<b>Subtotal State Operations</b>	<b>42,663</b>	<b>41,015</b>	<b>42,300</b>	<b>42,300</b>	<b>42,600</b>	<b>42,300</b>	<b>50,300</b>	<b>9,585</b>	<b>11.5%</b>
CAPITAL OUTLAY & REAL PROPERTY	0	145	0	0	0	0	0	(145)	(100.0%)
<b>Total Expenditures</b>	<b>42,663</b>	<b>41,160</b>	<b>42,300</b>	<b>42,300</b>	<b>42,600</b>	<b>42,300</b>	<b>50,300</b>	<b>9,440</b>	<b>11.3%</b>
<b>Change Items:</b>	<b>Fund</b>								
(B) UNEMPLOYMENT INSURANCE SET ASIDE	SR				300		8,000		
<b>Total Change Items</b>					<b>300</b>		<b>8,000</b>		
<b>Financing by Fund:</b>									
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	2,343	2,586	2,700	2,700	3,000	2,700	10,700		
MDES FEDERAL	40,320	38,574	39,600	39,600	39,600	39,600	39,600		
<b>Total Financing</b>	<b>42,663</b>	<b>41,160</b>	<b>42,300</b>	<b>42,300</b>	<b>42,600</b>	<b>42,300</b>	<b>50,300</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
SPECIAL REVENUE	2,493	2,386	2,699	2,700	7,700	2,700	12,700		
MDES FEDERAL	40,378	38,413	39,600	39,600	39,600	39,600	39,600		
<b>Total Revenues Collected</b>	<b>42,871</b>	<b>40,799</b>	<b>42,299</b>	<b>42,300</b>	<b>47,300</b>	<b>42,300</b>	<b>52,300</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	642.0	587.6	529.4	501.1	501.1	472.7	472.7		
<b>Total Full-Time Equivalent</b>	<b>642.0</b>	<b>587.6</b>	<b>529.4</b>	<b>501.1</b>	<b>501.1</b>	<b>472.7</b>	<b>472.7</b>		



# BUDGET CHANGE ITEM (66151)

**Budget Activity:** UNEMPLOYMENT INSURANCE  
**Program:** WORKFORCE WAGE ASSISTANCE  
**Agency:** ECONOMIC SECURITY DEPT

**Item Title:** UNEMPLOYMENT INSURANCE SET ASIDE

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
Special Revenue				
-State Operations	\$300	\$8,000	\$8,000	\$8,000
Revenues: (\$000s)				
Special Revenue	\$5,000	\$10,000	\$10,000	\$10,000
Statutory Change? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
If yes, statute(s) affected:				
<input checked="" type="checkbox"/> New Activity <input type="checkbox"/> Supplemental Funding <input type="checkbox"/> Reallocation				

## GOVERNOR'S RECOMMENDATION:

The Governor recommends allocating \$300,000 in FY 2002 and \$8 million in FY 2003 from special revenue that will be derived through a set-aside of a small portion of the unemployment insurance tax in order to provide for unemployment insurance technology enhancements.

This initiative would upgrade the technology necessary for strengthening the delivery of unemployment benefits to unemployed workers as well as upgrading the technology necessary to collect the unemployment insurance tax which funds the payment of those benefits. In order to expedite project design and implementation, the Governor has recommended a one-time General Fund appropriation of \$300,000 in FY 2002 to the Department of Administration to support this project.

## RATIONALE:

The administration of the Unemployment Insurance Program is funded solely by a federal grant. That federal grant has stayed relatively constant over the last five years and is not projected to increase in the foreseeable future. Because costs have substantially increased over that period, overall staffing has been decreased and technology enhancements are the only viable option to insure an excellent delivery of the program in the future.

Only minimal amounts of federal money have been made available for technology initiatives. Minnesota's present tax systems were originally

purchased in the mid-1970's. Providing for technology enhancements will allow partnership with the Department of Revenue in implementing joint systems which will allow employers single point access to pay both their unemployment tax and their withholding tax obligations. Enhancements will allow employers to self manage their unemployment tax accounts, providing real time awareness of which former employees are collecting benefits that will affect the employer's future tax rates. Enhancements will allow real time access to payment information and will allow on-line tax reporting as well as electronic notification and communication with employers about former employees' applications for unemployment benefits. This will substantially decrease the costs incurred by employers in dealing with the unemployment insurance program and will streamline the program's dealing with employers.

The initiative will also provide funding for voice recognition technology which will streamline the benefit application and biweekly continued request processes which are now done over the telephone. This will aid applicants in the filing for benefits and substantially increase the efficiencies in providing benefits. The initiative will allow for a benefit applicant to access benefit account information via the Internet.

This initiative will substantially strengthen the Unemployment Insurance Program and ensure that it is capable, in the future, of meeting its public objective of strengthening Minnesota's workforce and Minnesota's economy by providing temporary partial wage replacement to those workers who find themselves in the unfortunate situation of being unemployed through no fault of their own.

## FINANCING:

Special revenue will allocate \$300,000 in FY 2002 and \$8 million in FY 2003. This special revenue will be generated by a set-aside of a small portion of the unemployment insurance tax. These funds would otherwise go into the Unemployment Insurance Program trust fund, for the payment of benefits to unemployed workers. The UI trust fund currently has a balance of over \$600 million.

## OUTCOMES:

- single point access for employers to pay both their unemployment tax and their withholding tax obligations;
- better and up-to-date information for employers regarding their unemployment tax accounts;
- streamlined, electronic communication with both employers and employees to allow for faster processing of benefit applications;
- decreased costs for the benefit application system; and
- increased administrative efficiencies to meet workload demands without adding staff.

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** DISABILITY DETERMINATION  
**Program:** WORKFORCE WAGE ASSISTANCE  
**Agency:** ECONOMIC SECURITY DEPT

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### ACTIVITY PROFILE:

In accordance with Social Security Administration (SSA) regulations, the purpose of the Disability Determination Services (DDS) is to determine if Minnesotans who are claiming disability under Social Security Disability meet the disability criteria to qualify for benefits. Payment of Social Security Disability benefits allows Minnesotans to remain economically self-sufficient.

### STRATEGIES AND PERFORMANCE:

The major issue facing this activity in the next two years is to manage resources in an efficient, cost-effective and fiscally conservative manner during a time when new program initiatives are being introduced. The activity will be challenged with increasingly complicated workloads involving Continuing Disability Review (CDR's), during this period, as well as implementation of new program procedures involving claimant interviews and a change in the appellate process.

- In DDS's effort to stay productive and efficient, the plan is to continue to automate all the disability processes, giving staff a system that allows all areas of the DDS to be interactively connected and share information internally as well as externally with other appropriate government agencies.
- Medical costs for purchasing consultative examination (CE's) for claimants and for purchasing medical evidence of record (MER) will continue to increase. Minnesota will work to contain these costs by keeping the number of CE's down by an automated in-line review process for supervisory staff to evaluate casework at strategic points and will continue medical staff review and advice on cases.
- The DDS will be working with SSA over the next two years to phase in redesigned processes. These activities are challenges to the DDS due to staff training needs, system needs, job restructuring, staffing issues, workflow changes, etc.

These strategies take place in the following context:

- Supplemental Security Income (SSI) disability payments were received by 53,427 Minnesota residents of limited income and resources in 1998. Monthly SSI payments of \$18.9 million were made to Minnesota households with disabled children or disabled adults.

- In addition to the SSI disability payments, 62,010 disabled workers received Social Security Disability Insurance (SSDI) payments in Minnesota in 1998. Payments to these workers and their dependents totaled \$48 million each month.
- Approximately 48.5% of the above noted recipients draw benefits under both SSI and SSDI.
- DDS also refers those individuals who may benefit from services of other programs, such as Vocational Rehabilitation. In 2000, the DDS anticipated referring at least 1,800 eligible applicants to Vocational Rehabilitation programs.

### FINANCING INFORMATION:

DDS funding of \$19.0 million in FY 2002 and \$19.6 million in FY 2003 comes from SSA. The federal office for this region closely controls spending. Very little discretion is available with these funds.

### BUDGET ISSUES:

DDS budget issues are minimal. The federal government fully funds this program activity.

Activity: DISABILITY DETERMINATION  
 Program: WORKFORCE WAGE ASSISTANCE  
 Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	8,740	7,875	9,300	9,900	9,900	10,500	10,500	3,225	18.8%
OTHER OPERATING EXPENSES	3,711	3,922	3,300	3,300	3,300	3,300	3,300	(622)	(8.6%)
Subtotal State Operations	12,451	11,797	12,600	13,200	13,200	13,800	13,800	2,603	10.7%
PAYMENTS TO INDIVIDUALS	5,494	5,580	5,800	5,800	5,800	5,800	5,800	220	1.9%
Total Expenditures	17,945	17,377	18,400	19,000	19,000	19,600	19,600	2,823	7.9%

<b>Financing by Fund:</b>							
Statutory Appropriations:							
MDES FEDERAL	17,945	17,377	18,400	19,000	19,000	19,600	19,600
Total Financing	17,945	17,377	18,400	19,000	19,000	19,600	19,600

<b>Revenue Collected:</b>							
Dedicated							
MDES FEDERAL	17,853	17,697	18,080	19,000	19,000	19,600	19,600
Total Revenues Collected	17,853	17,697	18,080	19,000	19,000	19,600	19,600

<b>FTE by Employment Type:</b>							
FULL TIME	167.1	154.0	172.0	172.0	172.0	172.0	172.0
Total Full-Time Equivalent	167.1	154.0	172.0	172.0	172.0	172.0	172.0

## PROGRAM SUMMARY

**Program: ENERGY PROGRAMS**  
**Agency: ECONOMIC SECURITY DEPT**

### PROGRAM PROFILE:

Low-income households spend a substantially higher percentage of their incomes to pay energy bills than non-low income households. This burden on the household is impacted by the price of fuel, the household's income and energy consumption. The Energy Programs, which include the federal Energy Assistance Program (EAP) and the federal Weatherization Assistance Program (Wx), help low-income households meet the costs of home energy by paying a portion of their heating bills, increasing the energy efficiency of their homes, reducing their total residential energy expenditures, and improving health and safety.

The energy programs support the Governor's Big Plan strategic direction for Self Sufficient People, specifically "Transitioning from Welfare to Self Sufficiency." The energy programs help make low-income households' energy bills more affordable, thereby reducing their poverty and protecting independent living status for seniors and disabled.

### STRATEGIES AND PERFORMANCE:

- Implement the recommendations found in "An Evaluation of Minnesota's Energy Assistance Program, January 2000," a Management Analysis Division Report to the Minnesota Legislature.
- Collaborate with the Department of Commerce on energy issues that affect low-income households.
- Increase the number of homes being monitored for fuel savings.

### FINANCING INFORMATION:

Energy Assistance is funded under the U.S. Department of Health and Human Services "Low Income Home Energy Assistance Program" (LIHEAP) and was started in 1981. The Weatherization program is predominately federally funded under the U.S. Department of Energy's "Weatherization Assistance Program" started in 1978, and is supplemented by \$588,000 annually in state funds appropriated to the Department of Commerce and transferred to DES and \$50,000 annually in private funds.

Responsibility for these programs has been transferred from the Department of Children, Families, and Learning (CFL) to DES. The financial history reflected in the CFL budget is presented in the following table for informational purposes.

HISTORY OF ENERGY PROGRAMS AT CFL				
FUND	CATEGORY	1999	2000	2001
General	Total Compensation	0	0	0
	State Operations	15	0	0
	Local Assistance	545	544	143
	<b>Subtotal</b>	<b>560</b>	<b>544</b>	<b>143</b>
State Gov	Total Compensation	0	0	0
	State Operations	0	3	0
	Local Assistance	0	512	78
	<b>Subtotal</b>	<b>0</b>	<b>515</b>	<b>78</b>
Special	Total Compensation	0	3	0
	State Operations	4	22	0
	Local Assistance	153	297	127
	<b>Subtotal</b>	<b>157</b>	<b>322</b>	<b>127</b>
Federal	Total Compensation	866	897	288
	State Operations	284	315	157
	Local Assistance	47,821	52,487	5233
	<b>Subtotal</b>	<b>48,971</b>	<b>53,699</b>	<b>5678</b>
Gifts	Total Compensation	0	0	0
	State Operations	1	12	0
	Local Assistance	312	119	0
	<b>Subtotal</b>	<b>313</b>	<b>131</b>	<b>0</b>
<b>TOTAL</b>		<b>50,001</b>	<b>55,211</b>	<b>6,026</b>

### BUDGET ISSUES:

The Federal Energy Information Administration has projected heating oil prices to be 15 cents above last year's high level, a 10-year high. The forecast increase for all fuels and natural gas prices is between 30 and 50%.

### GOVERNOR'S RECOMMENDATION:

This program has no general fund appropriation.

Program: ENERGY PROGRAMS  
Agency: ECONOMIC SECURITY DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
FUEL ASSISTANCE	0	0	89,582	71,336	71,336	71,336	71,336	53,090	59.3%
WEATHERIZATION	0	0	9,814	10,661	10,661	10,661	10,661	11,508	117.3%
<b>Total Expenditures</b>	<b>0</b>	<b>0</b>	<b>99,396</b>	<b>81,997</b>	<b>81,997</b>	<b>81,997</b>	<b>81,997</b>	<b>64,598</b>	<b>65.0%</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	0	0	486	0	0	0	0		
<b>Statutory Appropriations:</b>									
STATE GOVERNMENT SPECIAL REVENUE	0	0	1,462	0	0	0	0		
SPECIAL REVENUE	0	0	757	950	950	950	950		
MDES FEDERAL	0	0	96,584	80,947	80,947	80,947	80,947		
GIFT	0	0	107	100	100	100	100		
<b>Total Financing</b>	<b>0</b>	<b>0</b>	<b>99,396</b>	<b>81,997</b>	<b>81,997</b>	<b>81,997</b>	<b>81,997</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	0.0	0.0	19.9	17.9	17.9	17.9	17.9		
<b>Total Full-Time Equivalent</b>	<b>0.0</b>	<b>0.0</b>	<b>19.9</b>	<b>17.9</b>	<b>17.9</b>	<b>17.9</b>	<b>17.9</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** FUEL ASSISTANCE  
**Program:** ENERGY PROGRAMS  
**Agency:** ECONOMIC SECURITY DEPT

---

### ACTIVITY PROFILE:

Fuel Assistance, also called the Energy Assistance Program (EAP), helps low-income households meet the costs of home energy by paying a portion of their heating bills and manages a timely and effective energy crisis intervention program.

EAP is used to help people meet their immediate home energy needs by paying a percentage of the household's heating costs and applying that payment as a credit to the household's energy supplier. EAP also repairs faulty furnaces or alleviates any health risks associated with an in-operative or malfunctioning furnace when necessary, and provides some form of crisis assistance in a no-heat, life threatening situation.

### STRATEGIES AND PERFORMANCE:

EAP helped 84,079 households with heating assistance benefits in FY 2000, out of which 10,000 also received crisis assistance and another 5,000 had help with furnace repairs/replacements.

EAP will implement the recommendations found in "An Evaluation of Minnesota's Energy Assistance Program, January 2000," a Management Analysis Division Report to the Minnesota Legislature, focusing on increasing the number of households served by the program. It will also implement a data collection and reporting web based software system.

EAP will implement a pre-purchase contractual fixed price energy purchase program at the presumed lower summer prices. By providing a household's fuel assistance benefit at the fixed pre-purchased price for their fuel, the projections is that eligible households will receive more energy fuel for each dollar spent.

EAP collaborates with the Department of Commerce on energy issues that effect low-income households including those under M.S. 216B.095, the Cold Weather Rule, M.S.. 216B.16, subd. 14 the NSP low-income discount program, and M.S.. 216B.241, subd.1a, the Conservation Improvement Program.

### FINANCING INFORMATION:

Energy Assistance is funded almost entirely with federal funds. The program collects \$50,000 a year in private funding. Federal funding consists of formula allocations and emergency contingency funds. State funds have supplemented the federal program in the past.

Minnesota received federal emergency contingency EAP funds in FY 1997 due to colder than normal winter, in FY 1999 due to an abnormally hot summer, and in FY 2000 due to high bulk fuel prices.

Multiple supplements were given in FY 2001 to Minnesota by Congress and through Presidential Order because of the unusually cold winter and dramatic increases in energy prices. Since the end of September 2000, these supplements have totaled nearly \$47 million.

### BUDGET ISSUES:

The price of home heating fuel has surged to a 10-year high and residential natural gas prices rose 58% in December of 2000 alone. The year-to-year (January 2000 to January 2001) increase was an extremely sharp 304% (source: MN Dept. of Commerce). These numbers are driving heavy demand for Fuel Assistance services.

Activity: FUEL ASSISTANCE  
Program: ENERGY PROGRAMS  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	0	0	825	890	890	961	961	1,026	124.4%
OTHER OPERATING EXPENSES	0	0	778	516	516	445	445	183	23.5%
Subtotal State Operations	0	0	1,603	1,406	1,406	1,406	1,406	1,209	75.4%
LOCAL ASSISTANCE	0	0	87,979	69,930	69,930	69,930	69,930	51,881	59.0%
Total Expenditures	0	0	89,582	71,336	71,336	71,336	71,336	53,090	59.3%
<b>Financing by Fund:</b>									
Statutory Appropriations:									
MDES FEDERAL	0	0	89,515	71,286	71,286	71,286	71,286		
GIFT	0	0	67	50	50	50	50		
Total Financing	0	0	89,582	71,336	71,336	71,336	71,336		
<b>Revenue Collected:</b>									
Dedicated									
MDES FEDERAL	0	0	89,515	71,286	71,286	71,286	71,286		
GIFT	0	0	23	50	50	50	50		
Total Revenues Collected	0	0	89,538	71,336	71,336	71,336	71,336		
<b>FTE by Employment Type:</b>									
FULL TIME	0.0	0.0	11.0	11.0	11.0	11.0	11.0		
Total Full-Time Equivalent	0.0	0.0	11.0	11.0	11.0	11.0	11.0		



## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WEATHERIZATION  
**Program:** ENERGY PROGRAMS  
**Agency:** ECONOMIC SECURITY DEPT

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### ACTIVITY PROFILE:

The Weatherization Assistance Program (WX) exists to increase the energy efficiency of low-income dwellings, reduce a low-income household's total energy expenditures, and improve the health and safety of the dwelling unit where low-income individuals and families reside.

WX is used to provide services to low-income households through building shell conservation activities and repairing or installing energy-efficient appliances and mechanical equipment in order to reduce energy costs by decreasing energy consumption in their dwelling unit.

### STRATEGIES AND PERFORMANCE:

Program funds are used for the purchase of conservation materials and labor, program support costs, training and administration. Weatherization is a service which includes: an energy audit, exterior wall and attic insulation, air infiltration and bypass sealing, heating system efficiency, safety improvements, and client education. Priority is given to correcting health and safety hazards and potentially life-threatening conditions.

The WX is delivered throughout Minnesota by a network of 34 subgrantees, including 25 community action agencies, one county government, seven tribal governments, and one private nonprofit agency.

Priority is given to households with elderly or disabled members and families with children. A dwelling unit may be a house, a mobile home, an apartment, a group of rooms or a single room occupied as separate living quarters.

Weatherization provides the leveraging needed to deliver other low-income housing related programs including the Minnesota Housing Finance Agency (MHFA) programs and local utility sponsored conservation improvement programs. The weatherization delivery network is necessary to create innovative partnerships with utility companies and local governments. WX agencies target their programs to help promote long-term housing stability.

Weatherization has an achieved savings assessment program, which monitors fuel use on weatherized homes and shows an average heating fuel savings of 26%, resulting in a payback period of less than 10 years.

### FINANCING INFORMATION:

Weatherization is predominately federally funded, but there are a variety of other funding sources:

- Weatherization Assistance Program (U.S. Department of Energy, or DOE)
- Five percent of the Minnesota Energy Assistance Program allocation is budgeted to Wx (U.S. HHS-LIHEAP)
- State appropriations received through the MN Department of Commerce, under the Conservation Improvement Program (M.S. 216B.241, Subd. 1a)
- A mill levy on liquid propane gas sales (M. S. 239.785)
- Petroleum Violation Escrow (PVE) funds. These funds are nearly depleted. (M.S. 4.071)
- Northern States Power Company (NSP) provided Conservation Improvement Program funds. NSP has contracted with DES as part of their CIP requirements. (MN Stat. 216B.241, subd. 1a)

### BUDGET ISSUES:

Title IV of the Energy Conservation and Production Act, as amended in 1999, requires a state 25% cost share match for DOE WX, i.e. \$1 for every \$3 DOE funds.

Declining funds and increased costs have reduced the number of households served from 5,344 in FY 1996 to 2,923 in FY 2000.

Activity: WEATHERIZATION  
Program: ENERGY PROGRAMS  
Agency: ECONOMIC SECURITY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	0	0	377	310	310	310	310	243	64.5%
OTHER OPERATING EXPENSES	0	0	273	261	261	261	261	249	91.2%
TRANSFERS	0	0	0	(588)	(588)	(588)	(588)	(1,176)	
<b>Subtotal State Operations</b>	<b>0</b>	<b>0</b>	<b>650</b>	<b>(17)</b>	<b>(17)</b>	<b>(17)</b>	<b>(17)</b>	<b>(684)</b>	<b>(105.2%)</b>
LOCAL ASSISTANCE	0	0	9,164	10,678	10,678	10,678	10,678	12,192	133.0%
<b>Total Expenditures</b>	<b>0</b>	<b>0</b>	<b>9,814</b>	<b>10,661</b>	<b>10,661</b>	<b>10,661</b>	<b>10,661</b>	<b>11,508</b>	<b>117.3%</b>

<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	0	0	486	0	0	0	0		
<b>Statutory Appropriations:</b>									
STATE GOVERNMENT SPECIAL REVENUE	0	0	1,462	0	0	0	0		
SPECIAL REVENUE	0	0	757	950	950	950	950		
MDES FEDERAL	0	0	7,069	9,661	9,661	9,661	9,661		
GIFT	0	0	40	50	50	50	50		
<b>Total Financing</b>	<b>0</b>	<b>0</b>	<b>9,814</b>	<b>10,661</b>	<b>10,661</b>	<b>10,661</b>	<b>10,661</b>		

<b>Revenue Collected:</b>									
<b>Dedicated</b>									
SPECIAL REVENUE	0	0	223	950	950	950	950		
MDES FEDERAL	0	0	7,069	9,661	9,661	9,661	9,661		
GIFT	0	0	11	50	50	50	50		
<b>Total Revenues Collected</b>	<b>0</b>	<b>0</b>	<b>7,303</b>	<b>10,661</b>	<b>10,661</b>	<b>10,661</b>	<b>10,661</b>		

<b>FTE by Employment Type:</b>									
FULL TIME	0.0	0.0	8.9	6.9	6.9	6.9	6.9		
<b>Total Full-Time Equivalent</b>	<b>0.0</b>	<b>0.0</b>	<b>8.9</b>	<b>6.9</b>	<b>6.9</b>	<b>6.9</b>	<b>6.9</b>		

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## HOUSING FINANCE AGENCY - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The Minnesota Housing Finance Agency (MHFA) is committed to meeting Minnesotans' needs for decent, safe, affordable housing and stronger communities.

The Agency's strategic plan sets forth the following policy objectives:

- Increase production of affordable housing in connection with economic development and redevelopment efforts.
- Increase investment of resources to underserved households.
- Increase investment of resources in developments using smart growth principles.
- Increase leverage of non-state resources.

MHFA funds housing activity in five broad areas: development and redevelopment, supportive housing, homeownership loans, preservation of federally assisted housing, and resident and organizational support.

### KEY SERVICE STRATEGIES:

The Agency's assistance is delivered through local lenders, community action program, local housing and redevelopment authorities, and for-profit and non-profit developers.

MHFA is committed to coordinating its resources with other players in the affordable housing arena and to promoting comprehensive planning for housing development and maintenance, as demonstrated by the following strategies:

- Regional investment guidelines – MHFA continues to work with regional advisory groups throughout the state to develop and refine regional investment guidelines that assist MHFA in making funding decisions.
- Coordination with other funders – The Agency utilizes a joint application and review process in conjunction with the Family Housing Fund, the Greater Minnesota Housing Fund, and the Metropolitan Council for significant portions of its funding. Other state agencies and local units of government are consulted in making funding awards in order to better coordinate government resources.
- Inter-Agency Stabilization Group (ISG) – The Agency, along with HUD, the Family Housing Fund, the Greater Minnesota Housing Fund, the cities of Minneapolis and St. Paul, Rural Housing Services, and the Department of Trade and Economic Development (DTED) meet regularly to devise

coordinated strategies to address troubled rental properties throughout the state.

- Continuum of Care Plans – The Agency requires that any application for funding for homeless-related resources be reviewed for consistency with the needs and priorities identified in the regional Continuum of Care plans. Continuum of Care plans assess homelessness, identify gaps in the regional service systems for homeless persons, and develop strategies to meet the needs of homeless persons in the region.

### OPERATING ENVIRONMENT:

The following factors are shaping the policies and programs at the MHFA:

**Flat Household Income and Escalating Housing Costs:** Over the past thirty years, household income has remained relatively flat while housing costs have escalated faster than the rate of inflation. Renters are poorer relative to homeowners today than they were thirty years ago.

**Mismatch Between Supply and Demand:** The production of housing at the lower cost end of the market has not kept pace with the growth of households needing affordable housing. In the 1970's, 65,000 units of rental housing were built in the Twin Cities metro area; in the 1980's, 65,000 units; in the 1990's, 22,000 units. Vacancy rates are now around 1% in many area of the state.

**Job Growth in Lower Wage Industries:** 40% of all new jobs in Minnesota pay less than \$10 per hour. A household with two jobs at these wage levels cannot afford a newly constructed home almost anywhere in the state nor rent a newly constructed unsubsidized apartment in the Twin Cities area.

**Property Tax Rates:** High rental property tax rates negatively impact the maintenance and efficient use of existing affordable rental housing and the development of new housing.

**Increased Homelessness:** Between 1985 and 1997 the number of children experiencing homelessness increased by 731% in Minnesota. Homelessness, changing homes, and/or schools have a significant impact on student academic achievement.

**Screening Out Tenants and Unfair Rental Practices:** Given extremely tight rental markets, property owners are screening out tenants with any blemish on their rental histories. Tenants with criminal histories or numerous prior evictions are virtually "unhouseable." Fees charged by landlords for credit checks and applications can make an apartment search itself more expensive than the monthly rent. Stories are becoming more common of landlords keeping one apartment open in order to collect fees from prospective tenants.

## HOUSING FINANCE AGENCY - EXECUTIVE SUMMARY (Continued)

Discrimination and Not In My Backyard (NIMBY): Discrimination has been identified in a number of studies as a major barrier to developing affordable housing, renting apartments and obtaining mortgage financing. Neighborhood opposition stops many affordable housing projects particularly special needs projects. Even in cases where the housing ultimately built, NIMBY has the effect of increasing costs.

Changing Federal Commitment to Housing: Federal rental assistance subsidies that historically have been the major means of providing affordable housing to the lowest income households are increasingly going unused due to extremely tight rental housing markets around the state. Housing credits, a primary financing tool for affordable rental housing, were capped for more than 10 years until Congress acted in December, 2000, effectively reducing the impact of the credits by 50%. Similarly, tax-exempt mortgage revenue bonds have been capped for more than ten years; that fact combined with certain IRS regulations, have reduced the amount of below market interest rate mortgage money available for low and moderate income first time homebuyers.

Increasing Ability to Opt Out of Federal Assistance Programs: More and more housing developments are in a position to command higher rents and leave federal assistance programs or are in need of substantial rehabilitation in order for federal assistance to continue. Federally assisted rental housing is the most affordable housing available in the state. Over half of the federally assisted housing developments are for the elderly.

Complexity of Housing Development: Housing development continues to grow in complexity and is increasingly dependent on an ability to marshal funding from a variety of sources.

### ORGANIZATION/PROGRAM STRUCTURE:

As of 6-30-2000, the MHFA had 175 employees in four major divisions: accounting and finance; multifamily; homeownership; and administration, including information systems, research, and policy. After June 30<sup>th</sup>, MHFA took over from HUD contract administration for 18,000 units of Section 8 housing and added 15 employees. The agency is run by a Board of Directors comprised of five citizen members appointed by the Governor and two ex-officio members, the Commissioner of Trade and Economic Development and the State Auditor. Over half of all employees are professional employees. MHFA is located in lowertown St. Paul.

Division	FTE
Administration	25.6 fte
Finance and Accounting	20.9 fte
Homes	48.8 fte
Multifamily	79.7 fte

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget, including the following reallocations:

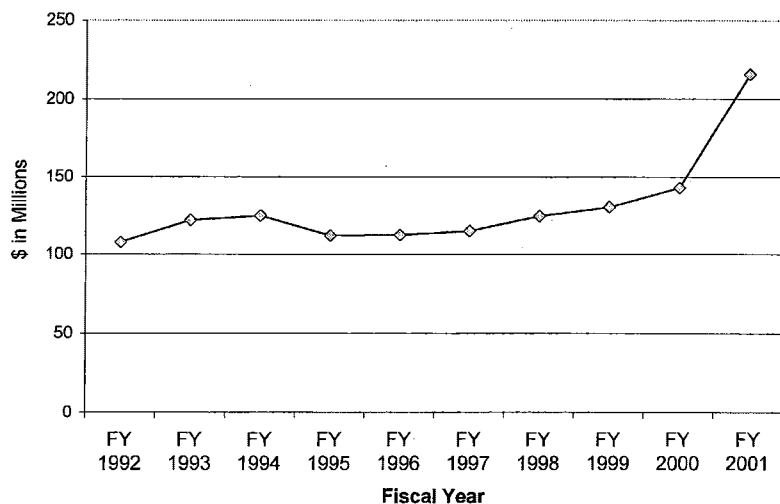
- The Governor recommends that a number of development programs be consolidated into the Economic Development and Housing Challenge Fund to help increase the production of affordable housing, increase the leverage of non-state resources, and promote local regulatory relief.
- The Governor recommends that a number of supportive housing-type programs be consolidated into the Housing Trust Fund in order to better develop housing for homeless and very low-income households with special needs.
- The Governor recommends that the Foreclosure Prevention and Assistance Program be consolidated into the Full Cycle Homeownership Services Program in light of the establishment around the state of a comprehensive statewide service delivery system.
- The Governor recommends that funds be shifted from two production programs into the Nonprofit Capacity Building Grant Program in order to fund Continuum of Care Planning in Greater Minnesota and homeless prevention and assistance coordination in the Twin Cities Metropolitan Area.

The Governor also recommends a one-time General Fund appropriation of \$24 million for low-income rental housing, funded by a transfer of TANF funds to the General Fund. This initiative will increase the supply of affordable housing for Minnesota's lowest income working families.

# HOUSING FINANCE AGENCY - EXECUTIVE SUMMARY (Continued)

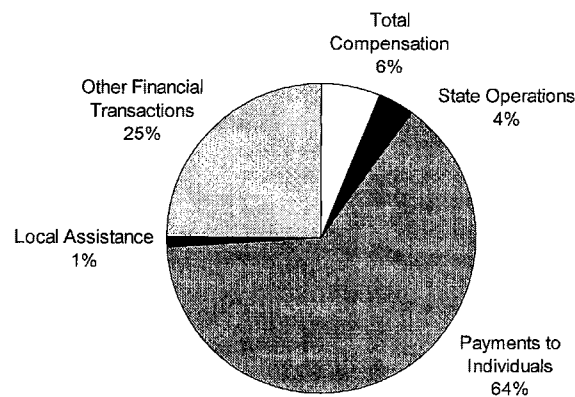
## TRENDS AND PERSPECTIVES:

### Total Budget - All Funds



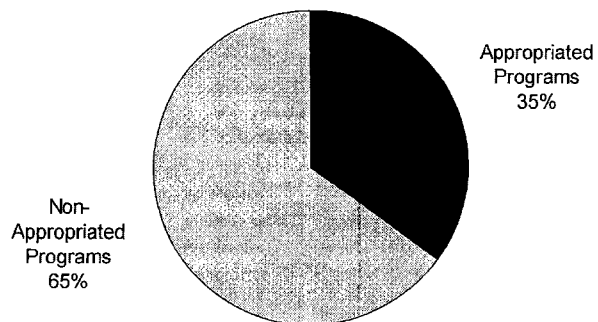
### 2000-01 Expenditures by Category

Total: \$359,435 (\$ in thousands)



### 2000-01 Expenditures by Program

Total: \$359,435 (\$ in thousands)



Agency: HOUSING FINANCE AGENCY

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Program:</b>									
APPROPRIATED PROGRAMS	41,565	50,434	74,695	77,077	101,077	79,118	103,118	79,066	63.2%
NON-APPROPRIATED PROGRAMS	88,788	92,508	141,798	161,360	161,360	163,575	163,575	90,629	38.7%
<b>Total Expenditures</b>	<b>130,353</b>	<b>142,942</b>	<b>216,493</b>	<b>238,437</b>	<b>262,437</b>	<b>242,693</b>	<b>266,693</b>	<b>169,695</b>	<b>47.2%</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	0	0	0	39,832	51,832	39,832	51,832		
FEDERAL TANF	0	3,155	3,846	0	12,000	0	12,000		
<b>Statutory Appropriations:</b>									
HOUSING FINANCE AGENCY	130,353	139,787	212,647	198,605	198,605	202,861	202,861		
<b>Total Financing</b>	<b>130,353</b>	<b>142,942</b>	<b>216,493</b>	<b>238,437</b>	<b>262,437</b>	<b>242,693</b>	<b>266,693</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	160.7	161.4	193.0	193.0	193.0	192.0	192.0		
PART-TIME, SEASONAL, LABOR SER	5.8	4.8	4.3	3.0	3.0	3.0	3.0		
<b>Total Full-Time Equivalent</b>	<b>166.5</b>	<b>166.2</b>	<b>197.3</b>	<b>196.0</b>	<b>196.0</b>	<b>195.0</b>	<b>195.0</b>		



## HOUSING FINANCE AGENCY - BUDGET BRIEF

**Fund: GENERAL**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001)</b> (Thousands)			
Appropriations	\$43,270	\$43,270	\$86,540
<b><u>BASE ADJUSTMENT</u></b>			
One-Time Appropriations	(3,438)	(3,438)	(6,876)
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>39,832</b>	<b>39,832</b>	<b>79,664</b>
<b><u>CHANGE ITEMS</u></b>			
<b>Consolidation of Re/development Programs</b>			
Proposed expenditures	12,004	12,004	24,008
Reallocated expenditures	(12,379)	(12,379)	(24,758)
<b>Consolidation of Supportive Housing Programs</b>			
Proposed expenditures	2,875	2,875	5,570
Reallocated expenditures	(2,600)	(2,600)	(5,200)
<b>Consolidation of Residential &amp; Organizational Support Programs</b>			
Proposed expenditures	683	683	1,366
Reallocated expenditures	(583)	(583)	(1,166)
<b>Low-income Supportive Housing</b>			
Appropriation to ARIF Fund	12,000	12,000	24,000
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$51,832</b>	<b>\$51,832</b>	<b>\$103,644</b>

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget, including the following reallocations:

- The Governor recommends that a number of development programs be consolidated into the Economic Development and Housing Challenge Fund to help increase the production of affordable housing, increase the leverage of non-state resources, and promote local regulatory relief.
- The Governor recommends that a number of supportive housing-type programs be consolidated into the Housing Trust Fund in order to better develop housing for homeless and very low-income households with special needs.
- The Governor recommends that the Foreclosure Prevention and Assistance Program be consolidated into the Full Cycle Homeownership Services Program in light of the establishment around the state of a comprehensive statewide service delivery system.
- The Governor recommends that funds be shifted from two production programs into the Nonprofit Capacity Building Grant Program in order to fund Continuum of Care Planning in Greater Minnesota and homeless prevention and assistance coordination in the Twin Cities Metropolitan Area.

The Governor also recommends a one-time General Fund appropriation of \$24 million for low-income rental housing, funded by a transfer of TANF funds to the General Fund. This initiative will increase the supply of affordable housing for Minnesota's lowest income working families.

### BRIEF EXPLANATION OF BUDGET DECISIONS:

- The 1999 Legislature appropriated \$120.54 million to the MHFA for FY 2000. Of this amount, \$40.876 million was one time funding. The three biggest components of the one time funding were as follows: \$20 million for the Economic Development and Housing Challenge Program; \$8 million for the Innovative and Inclusionary Housing Program; and \$10 million for the Preservation of Federally-Assisted Housing. The 2000 Legislature, as part of the welfare reform/TANF reserve package, appropriated \$50.5 million in one-time funding to MHFA for three programs: \$20 million for Habitat for Humanity; \$30 million for rental housing development for MFIP families; and \$500 thousand for the Family Homeless Prevention and Assistance Program. The 2000 Legislature also appropriated \$2 million in the bonding bill for the Housing Trust Fund Transitional Housing Program.

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## HOUSING FINANCE AGENCY - REVENUE SUMMARY

### REVENUE SOURCES:

MHFA's largest source of financing is the sale of tax-exempt and taxable bonds: approximately 47% of the Agency's budget. Proceeds from these bonds provide mortgage loans to first-time homebuyers and rental housing developments. Repayments made to programs funded by mortgage revenue bonds are made available for the same activities.

Agency resources are the second largest source of program funding at MHFA constituting 20% of the agency's budget. Agency resources are earnings over the years in excess of funds needed to cover loan loss and self-insurance.

Federal funds constitute 16% of MHFA financing. In FY 2000, the two largest programs receiving federally appropriated funds were the Section 8 Housing Assistance payments program and the Home Investment Partnership Program (HOME). In FY 2000, the Agency also received federal funding for a number of smaller programs as detailed in the Federal Funds Summary page. State appropriations constitute 16% of program funds.

Repayments made to various loan programs, including the revolving loan program for home improvements, multifamily housing developments, and home ownership down payment assistance are recycled into new loans for the same activities. The Summary of Agency Revenues page also includes funds received for developers' escrow deposits and administrative reimbursements from bond funds, which pay most of the Agency's administrative or operating costs.

Agency: HOUSING FINANCE AGENCY

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<b>Non-Dedicated Revenue:</b>									
Grants:									
GENERAL	0	0	0	0	12,000	0	12,000	24,000	
<b>Total Non-Dedicated Receipts</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,000</b>	<b>0</b>	<b>12,000</b>	<b>24,000</b>	
<b>Dedicated Receipts:</b>									
Grants:									
HOUSING FINANCE AGENCY	72,876	80,295	116,403	143,599	143,599	144,418	144,418	91,319	46.4%
Other Revenues:									
HOUSING FINANCE AGENCY	14,246	13,611	17,400	15,778	15,778	13,945	13,945	(1,288)	(4.2%)
Other Sources:									
HOUSING FINANCE AGENCY	(1,681)	16,202	7,242	8,984	8,984	10,684	10,684	(3,776)	(16.1%)
<b>Total Dedicated Receipts</b>	<b>85,441</b>	<b>110,108</b>	<b>141,045</b>	<b>168,361</b>	<b>168,361</b>	<b>169,047</b>	<b>169,047</b>	<b>86,255</b>	<b>34.3%</b>
<b>Agency Total Revenues</b>	<b>85,441</b>	<b>110,108</b>	<b>141,045</b>	<b>168,361</b>	<b>180,361</b>	<b>169,047</b>	<b>181,047</b>	<b>110,255</b>	<b>43.9%</b>

# HOUSING FINANCE AGENCY - FEDERAL FUNDS SUMMARY

Federal Program (\$ in Thousands)	Related SFY 2000 Spending	Primary Purpose	SFY 2000 Revenues	SFY 2001 Revenues	Estimated SFY 2002 Revenues	Estimated SFY 2003 Revenues
Section 8 Housing Assistance Payments	-0-	0 housing	69,265	59,000	64,000	64,000
Shelter Plus Care	-0-	0 housing	155	826	826	826
HOME	-0-	0 housing	10,774	11,988	11,372	10,865
Housing Opportunities for Persons with AIDS	-0-	0 housing	599	1,000	1,000	1,000
Housing Counseling	-0-	0 housing	89	60	-0-	-0-
Federal Preservation	-0-	0 housing	-0-	446	101	101
TANF – Rental Assistance for Family Stabilization	-0-	0 housing	1,520	2,731	-0-	-0-
TANF – Family Homeless Prevention	-0-	0 housing	1,635	1,115	-0-	-0-
Contract Administration	-0-	0 housing	-0-	43,333	66,300	67,626
<b>Agency Total</b>	<b>-0-</b>		<b>84,037</b>	<b>120,499</b>	<b>143,599</b>	<b>144,418</b>

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## PROGRAM SUMMARY

**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

### PROGRAM PROFILE:

MHFA funds affordable housing activities in five broad areas:

**Development and Redevelopment Programs.** These programs fund the new construction and rehabilitation of rental housing and homes for ownership for families with a range of incomes.

**Supportive Housing Programs.** These programs fund housing development and rent assistance for very low-income families and individuals who often face other barriers to stability, economic self-sufficiency, and independent living.

**Homeownership Loan Programs.** These programs fund home purchase and home improvement loans for families and individuals with a range of incomes not served by the private sector alone.

**Preservation of Federally Assisted Housing Programs.** These programs seek to preserve the stock of federally assisted rental housing that is in danger of being lost due to opt-outs for market reasons, physical deterioration, or both.

**Resident and Organizational Support.** These programs provide operating funds for organizations that develop affordable housing, offer homebuyer training, education, and foreclosure prevention assistance, or coordinate regional planning efforts.

MHFA uses state appropriations and funds from other sources in all five-activity areas. State appropriations constitute 16% of all funds invested annually by the MHFA in affordable housing. State appropriations make a critical difference, enabling the Agency to meet the housing needs of the lower income families and individuals than would be possible otherwise. Appropriated programs often supplement non-appropriated programs that use amortizing debt and other sources of funds. Approximately 65% of the state appropriation is used for rental housing since providing affordable rental housing requires relatively more subsidy than homeownership.

### STRATEGIES AND PERFORMANCE:

Appropriated programs are delivered by a variety of organizations around the state including non-profit organizations, community action agencies, housing and redevelopment agencies, cities, counties, lenders, for-profit and non-profit developers. MHFA joins with other public and private funders to make available development and redevelopment funds in a comprehensive, single application,

one-stop selection process twice yearly. Other programs are delivered through a statewide network of traditional and non-traditional lenders.

In making funding decisions in competitive selection processes, MHFA uses investment guidelines and Continuum of Care Plans developed at the regional level to assure consistency with regional priorities. MHFA provides appropriated funds to families and individuals in a variety of forms depending on the specific program: deferred no-interest loans, rent assistance, grants.

To determine whether policy goals and objectives are met, MHFA has an annual performance measurement process applied to all programs and all funding sources with the following four components:

- **Annual Program Assessment** reports on the amount of assistance provided each year and characteristics of households served.
- **Cumulative Assessment Report** compares data from the current program year to prior years.
- **Program Performance Measurement Report**, which measures MHFA success at meeting key policy objectives, compares data from the Annual Assessment Report against a series of benchmarks:
  - Production in seven major activity areas
  - Incomes of households served
  - Rent affordability and rent burden
  - Underserved households
  - New housing and net job growth
  - Smart growth
  - Local planning, leverage and investment
- **Humphrey Institute Summer Evaluation Program** provides an in-depth evaluation of one or more Agency programs or activities.

**PROGRAM SUMMARY (Continued)**

**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

**FINANCING INFORMATION:**

The following table indicates base level funding for each of the appropriated programs:

	FY 2002	FY 2003	Biennial
<b>Re/development Programs</b>			
ARIF	6,493	6,493	12,986
Community Rehab Fund	4,900	4,900	9,800
Employer Matching Grants	800	800	1,600
MURL	186	186	372
Urban Indian Housing Program	187	187	374
<b>Supportive Housing Programs</b>			
Housing Trust Fund	1,798	1,798	3,596
HTF Transitional	550	550	1,100
RAFS	2,000	2,000	4,000
Bridges	1,700	1,700	3,400
Family Homeless Prevention	3,250	3,250	6,500
<b>Homeownership Loan Programs</b>			
Rehabilitation Loan Programs	4,287	4,287	8,574
Tribal Indian Housing Programs	1,683	1,683	3,366
Homeownership Assistance Fund	900	900	1,800
<b>Preservation/Fed-Assisted Housing</b>			
ARIF (Preservation)	10,000	10,000	20,000
<b>Resident and Organizational Support</b>			
Foreclosure Prevention	583	583	1,166
Full Cycle Homeownership	275	275	550
Non-Profit Capacity Building Grants	240	240	480
<b>TOTAL</b>	<b>39,832</b>	<b>39,832</b>	<b>79,664</b>

**BUDGET ISSUES:**

The Agency proposes a base level budget with reallocations in three areas:

**Re/Development Programs.** The Agency proposes to use the Economic Development and Housing Challenge Fund as its primary program for development and redevelopment activities. The Challenge Fund was created by the 1999 Legislature to increase significantly the amount of non-state funds leverage by state appropriations and was funded on a one-time-only basis. The Agency proposes to consolidate four existing development programs into the Challenge Fund and reduce the requirement for employer participation from 100% of all projects to 50%.

**Supportive Housing Programs.** The Agency proposes to use the Housing Trust Fund as its primary program for supportive housing efforts and to expand the authority of the program to fund both bricks/mortar and operating/rent assistance costs. The plan is to consolidate two existing Agency programs into the Housing Trust Fund.

**Resident and Organizational Support.** The Agency proposes two changes in this activity. First, over the past 18 months, organizations around the state offering homebuyer training, education, and foreclosure prevention assistance have created a consolidated statewide delivery network. The Agency proposes to consolidate the funding for these activities into the Full Cycle Homeownership Services Program. The second proposed change is to increase the funding for the Non-Profit Capacity Building Grant Program to fund Continuum of Care planning around the state.

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget, including the following reallocations:

- The Governor recommends that a number of development programs be consolidated into the Economic Development and Housing Challenge Fund to help increase the production of affordable housing, increase the leverage of non-state resources, and promote local regulatory relief.
- The Governor recommends that a number of supportive housing-type programs be consolidated into the Housing Trust Fund to better develop housing for homeless and very low-income households with special needs.
- The Governor recommends that the Foreclosure Prevention and Assistance Program be consolidated into the Full Cycle Homeownership Services Program in light of the establishment around the state of a comprehensive statewide service delivery system.



**PROGRAM SUMMARY (Continued)**

**Program: APPROPRIATED PROGRAMS**  
**Agency: HOUSING FINANCE AGENCY**

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- The Governor recommends that funds be shifted from two production programs into the Nonprofit Capacity Building Grant Program in order to fund Continuum of Care Planning in Greater Minnesota and homeless prevention and assistance coordination in the Twin Cities Metropolitan Area.

The Governor also recommends a one-time General Fund appropriation of \$24 million for low-income rental housing, funded by a transfer of TANF funds to the General Fund. This initiative will increase the supply of affordable housing for Minnesota's lowest income working families. The funding for this initiative is available as a result of claiming TANF reimbursement for the Working Family Tax Credit expenditures. This claim produces General Fund revenue that funds this housing investment, as shown below.

	2002-03 Biennium	
	FY 2002	FY 2003
<b>General Fund</b>		
Appropriation to MHFA Affordable Rental Investment Fund	12,000	12,000
General Fund revenue from TANF	<u>(12,000)</u>	<u>(12,000)</u>
Net General Fund	-0-	-0-
 <b>Federal TANF</b>		
TANF for Working Family Tax Credit	<u>12,000</u>	<u>12,000</u>
Net TANF	12,000	12,000

The TANF expenditures shown above and on other pages in this budget document will not be spent by MHFA, but rather represent expenditures related to the Working Family Tax Credit by the Department of Revenue.

Program: APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
RE/DEVELOPMENT PROGRAMS	17,155	19,832	24,554	23,478	47,103	23,668	47,293	50,010	112.7%
SUPPORTIVE HOUSING PROGRAMS	6,014	10,559	22,435	28,696	28,971	30,527	30,802	26,779	81.2%
HOMEOWNERSHIP LOAN PROGRAMS	8,259	9,393	11,554	11,098	11,098	11,098	11,098	1,249	6.0%
PRESERVATION OF FED ASSISTANCE	8,993	9,067	15,000	12,500	12,500	12,500	12,500	933	3.9%
RESIDENT & ORGANIZATIONAL SUPP	1,144	1,583	1,152	1,305	1,405	1,325	1,425	95	3.5%
<b>Total Expenditures</b>	<b>41,565</b>	<b>50,434</b>	<b>74,695</b>	<b>77,077</b>	<b>101,077</b>	<b>79,118</b>	<b>103,118</b>	<b>79,066</b>	<b>63.2%</b>
<b>Change Items:</b>									
	<b>Fund</b>								
(B) CONSOLIDATION OF RE/DEVELOPMENT PROGS	GEN				12,004		12,004		
(B) AFFORDABLE HOUSING INITIATIVE	GEN				12,000		12,000		
(B) AFFORDABLE HOUSING INITIATIVE	TANF				12,000		12,000		
(B) CONSOLIDATION OF RE/DEVELOPMENT PROGRAMS	GEN				(12,379)		(12,379)		
(B) CONSOLIDATION OF SUPPORTIVE HOUSING ITEM	GEN				2,875		2,875		
(B) CONSOLIDATION OF SUPPORTIVE HOUSING PROG	GEN				(2,600)		(2,600)		
(B) CONSOLIDATE RESIDENT & ORGANIZATIONAL SU	GEN				(583)		(583)		
(B) CONSOLIDATE RESIDENT & ORGANIZATIONAL SU	GEN				683		683		
<b>Total Change Items</b>					<b>24,000</b>		<b>24,000</b>		
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	0	0	0	39,832	51,832	39,832	51,832		
FEDERAL TANF	0	0	0	0	12,000	0	12,000		
<b>Statutory Appropriations:</b>									
HOUSING FINANCE AGENCY	41,565	50,434	74,695	37,245	37,245	39,286	39,286		
<b>Total Financing</b>	<b>41,565</b>	<b>50,434</b>	<b>74,695</b>	<b>77,077</b>	<b>101,077</b>	<b>79,118</b>	<b>103,118</b>		

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** RE/DEVELOPMENT PROGRAMS  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

### ACTIVITY PROFILE:

The goal of MHFA's re/development programs is to fund the new construction and rehabilitation of housing, both rental and homes for ownership, needed to sustain economic growth and vitality. In some communities, new housing is needed due to significant net employment growth. In other communities, rehabilitating the existing stock is an important strategy for retaining existing employers and related economic activity. Re/development program funds have been used to finance both rental and homeownership units in new, mixed income developments, and affordable units in new single-family subdivisions and revitalization projects in urban neighborhoods.

The primary affordable housing initiative in Governor Ventura's Big Plan is entitled Partnerships for Affordable Housing. The goal of Partnerships for Affordable Housing is to increase housing production necessary for economic development by using two strategies:

- Increasing the leverage of capital from non-state sources, and
- Removing barriers to private development.

The Agency's re/development Programs are the primary vehicles for achieving the objective of increased production by greater leveraging of capital investment in housing. The change item proposed in this activity area is designed to further increase the leverage of non-state sources.

### STRATEGIES AND PERFORMANCE:

The primary strategy for increasing housing production through greater leverage is to build into state funding decisions priorities for projects that bring more non-state contributions and more and different investors.

- In the past twelve months, MHFA-funded projects show increased leverage of non-state resources, and in particular more involvement of employers and businesses. MHFA's proposed budget reallocations are designed to continue this effort.
- Re/development Program funds are made available primarily through a competitive, comprehensive, one-stop, single application process sponsored by MHFA, the Family Housing Fund, the Greater Minnesota Housing Fund, the Metropolitan Council, and others.

- Applications for re/development funding are evaluated on criteria in the following areas:

- Project viability;
- Consistency with regional guidelines;
- Capacity of the sponsor;
- Smart Growth;
- Underserved population;
- Local planning leverage and investment.

The funding organizations also examine data on county job growth, household growth, local wage leverage, and the racial composition of the local school age population.

**Table 1 MHFA Distribution of Units by Activity, 1999**

Rental Housing	New Construction	Existing	Rental Assistance/Homeless Prevention	Total
<b>Rental</b>				
Rent Assistance/Homeless Prevention			14,838	14,838
Rehab/Preservation		2,326		2,326
New Construction	667			667
<b>Subtotal-Rental Housing</b>	<b>667</b>	<b>2,326</b>	<b>14,838</b>	<b>17,831</b>
<b>Homeownership</b>				
Home Improvement		3,802		3,802
Purchase/Existing Housing		2,888		2,888
Purchase/New Construction	92			92
<b>Subtotal-Homeownership</b>	<b>92</b>	<b>6,690</b>		<b>6,782</b>
<b>Grand Total</b>	<b>759</b>	<b>9,016</b>	<b>14,838</b>	<b>24,613</b>

## BUDGET ACTIVITY SUMMARY (Continued)

**Budget Activity:** RE/DEVELOPMENT PROGRAMS  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

**Table 2 Leverage Data**

Year	Agency Funds	Outside Funds	Leverage Ratio
1998	\$20,586,966	\$45,158,773	2.19356
1999	\$55,651,684	\$173,116,977	3.11072
Spring 2000	\$31,978,871	\$127,546,288	3.98845

### FINANCING INFORMATION:

MHFA's appropriated Re/development Programs are the following:

1. Affordable Rental Investment Fund (ARIF)

The Affordable Rental Investment Fund provides 0% interest, deferred loans for the production or rehabilitation of the type of low- and moderate-income rental housing. Priority is given to project that leverage other resources. The preservation of federally assisted housing is funded through this appropriation. The income limits are 80% of statewide median income (\$41,440 for a family of 4 in 1998); rents must be affordable to households at 50% of statewide median income (\$673 per month for a three bedroom apartment).

2. Community Rehabilitation Fund (CRF)

The Community Rehabilitation Fund program provides grants to cities for the preservation or improvement of owner-occupied housing designated neighborhood or areas. The program provides a flexible grant that may be used for single-family construction, acquisition, rehabilitation, demolition, permanent financing, and refinancing. Gap financing, the difference between costs of producing or rehabilitating a building and the appraised value upon completion or the difference between what an eligible homebuyer can afford and the cost of modest new housing, is also an eligible use of the funds.

3. Employer Matching Grants

The Employer Matching Grants Program was created by the legislature in 1998. The program provides a one to one matching grant for contributions

made by employers to nonprofit organizations for the development of affordable housing.

4. Minnesota Urban and Rural Homesteading (MURL) Program

The Minnesota Urban and Rural Homesteading Program provides grants to nonprofit housing providers or cities to acquire single-family residences that are vacant, condemned, or abandoned, rehabilitate those properties and then sell them on a contract for deed to first time low and moderate income home buyers who are defined as "at risk."

5. Urban Indian Housing Program

The Urban Indian Housing Program provides both home ownership and rental housing opportunities for low and moderate income American Indians residing in the urban areas of the state. The program provides below market interest rate financing for first time homebuyers. Funding is also available for the development of special assistance program components of projects that address specifically identified needs of American Indians that are sponsored by nonprofit organizations.

### BUDGET ISSUES:

The Economic Development and Housing Challenge Fund was created by the 1999 Legislature to increase significantly the amount of non-state funds leveraged by state appropriations and was funded on a one-time-only basis. Because it requires employer/business participation in each development as a condition of eligibility, the Challenge Fund has served to increase the involvement of employers and businesses. Since the Challenge Fund is not currently in the Agency's base, MHFA proposes to continue the push for greater leverage and involvement of employers and businesses by moving funding in the following four programs into the Economic Development and Housing Challenge Fund:

- Affordable Rental Investment Fund
- Community Rehabilitation Fund
- Employer Matching Grant Program
- Minnesota Urban and Rural Homesteading

MHFA also proposes to reduce the mandatory requirement for employer participation in 100% of the funds to 50% of total funds with a priority for business involvement for the other 50%.

Activity: RE/DEVELOPMENT PROGRAMS  
Program: APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER OPERATING EXPENSES	35	84	0	0	0	0	0	(84)	(100.0%)
OTHER FINANCIAL TRANSACTIONS	9,707	6,950	12,024	10,793	22,604	10,627	22,438	26,068	137.4%
Subtotal State Operations	9,742	7,034	12,024	10,793	22,604	10,627	22,438	25,984	136.3%
PAYMENTS TO INDIVIDUALS	6,965	8,798	12,530	7,599	7,599	7,955	7,955	(5,774)	(27.1%)
LOCAL ASSISTANCE	448	4,000	0	5,086	16,900	5,086	16,900	29,800	745.0%
Total Expenditures	17,155	19,832	24,554	23,478	47,103	23,668	47,293	50,010	112.7%

<b>Change Items:</b>	<b>Fund</b>				
(B) CONSOLIDATION OF RE/DEVELOPMENT PROGS	GEN			12,004	12,004
(B) AFFORDABLE HOUSING INITIATIVE	GEN			12,000	12,000
(B) AFFORDABLE HOUSING INITIATIVE	TANF			12,000	12,000
(B) CONSOLIDATION OF RE/DEVELOPMENT PROGRAMS	GEN			(12,379)	(12,379)
Total Change Items				23,625	23,625

<b>Financing by Fund:</b>					
Direct Appropriations:					
GENERAL	0	0	0	12,566	24,191
FEDERAL TANF	0	0	0	0	12,000
Statutory Appropriations:					
HOUSING FINANCE AGENCY	17,155	19,832	24,554	10,912	10,912
Total Financing	17,155	19,832	24,554	23,478	47,103

<b>Revenue Collected:</b>					
Dedicated					
HOUSING FINANCE AGENCY	3,148	2,890	3,404	3,701	3,701
Total Revenues Collected	3,148	2,890	3,404	3,701	3,701

# BUDGET CHANGE ITEM (46832)

**Budget Activity:** RE/DEVELOPMENT PROGRAMS

**Program:** APPROPRIATED PROGRAMS

**Agency:** HOUSING FINANCE AGENCY

**Item Title:** CONSOLIDATION OF RE/DEVELOPMENT ITEMS

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (Thousands)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
-Grants	\$12,004	\$12,004	\$12,004	\$12,004
-Grants	(\$12,379)	(\$12,379)	(\$12,379)	(\$12,379)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: M.S. 462A

☐ New Activity ☐ Supplemental Funding ☒ Reallocation

## GOVERNOR'S RECOMMENDATION:

The Governor recommends a biennial appropriation of \$24.008 million to establish the Economic Development and Housing Challenge Fund as MHFA's primary re/development program. This proposal will be funded by eliminating base level funding in three programs and reallocating \$12.236 million per biennium from the Affordable Rental Investment Fund.

The Governor also recommends that the current requirement in the Challenge Fund that 100% of all funds include employer or business participation be reduced to 50%.

## RATIONALE:

The purpose of this change is to better implement the Governor's Big Plan initiative "Partnerships for Affordable Housing." The eligible activities and types of projects that can be funded will not change as a result of this consolidation.

The production of affordable housing in all types of programs is projected to decline in the future. The primary reasons are the publicly-funded escalation of housing costs in contrast to flat or declining households incomes; job growth at wage levels too low to afford housing; and the significant drain of capital away

from housing development due to the 1986 federal Tax Reform Act and the sharp decline in federal domestic spending on affordable housing.

MHFA and other funders of affordable housing must use different strategies to increase production to the extent possible. The two strategies that the Agency seeks to pursue more aggressively are

- Increasing capital investment from non-state sources - more investment from more and different sources- and
- Increasing private development and containing cost increases by promoting the removal of governmental barriers to affordable housing development.

The Economic Development and Housing Challenge Fund makes employer or business participation mandatory and requires involvement by local governments or charitable organizations. This program has had the effect of increasing the amount of money invested in affordable housing projects by non-state sources.

Similarly, MHFA uses selection criteria that rewards projects that show cost reductions from local regulatory relief. In the spring 2000 funding round, local government actions to waive fees, speed up the development process or allow smaller lots results in over \$1 million of cost savings and/or contributions to homeownership developments projects.

## FINANCING:

The biennial base amount of funding for the Economic Development and Housing Challenge Fund will be \$24.008 million. The proposed biennial reductions in base funding from existing programs is \$24.758 million, and consisting of:

- Reducing \$12.236 million per biennium from the Affordable Rental Investment Fund. A \$10 million base in the Affordable Rental Investment Fund will remain and will be used only for the Preservation of Federally Assisted Housing.
- Eliminating funding for Community Rehabilitation Fund
- Eliminating funding for Employer Matching Grant
- Eliminating funding for Minnesota Urban and Rural Homesteading

## OUTCOMES:

MHFA will measure the success of this change using the following four measures:

- Increased production over current projections.
- Increased leverage of non-state resources.
- Increased involvement of businesses both by number and amount of investment.
- Increased number of projects involving local regulatory relief.

# BUDGET CHANGE ITEM (65558)

**Budget Activity:** RE/DEVELOPMENT PROGRAMS  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

**Item Title:** AFFORDABLE HOUSING INITIATIVE

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
-Grants	\$12,000	\$12,000	\$-0-	\$-0-
Federal TANF	\$12,000	\$12,000	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund	\$12,000	\$12,000	\$-0-	\$-0-

Statutory Change? Yes \_\_\_\_\_ No X

If yes, statute(s) affected:

\_\_\_\_\_ New Activity X Supplemental Funding \_\_\_\_\_ Reallocation

## GOVERNOR'S RECOMMENDATION:

The Governor recommends a one-time General Fund appropriation of \$24 million for low-income rental housing, funded by a transfer of TANF funds to the General Fund. This initiative will increase the supply of affordable housing for Minnesota's lowest income working families and be done in such a way as to reinforce principles of smart growth.

## RATIONALE:

The Affordable Housing Initiative will increase the supply of affordable housing for Minnesota's lowest income working families. This initiative will be funded as a \$12 million per year, one-time only, increase in the appropriation to the Affordable Rental Investment Fund (ARIF) program. The funding will finance rental housing for working families who are current and former MFIP recipients or at risk of becoming MFIP recipients. Affordable, stable housing assists families in achieving and maintaining economic self-sufficiency. The housing developed with the new funds will be consistent with smart growth principles.

**Working Families.** Working families with extremely low incomes cannot afford to rent most market-rate housing. These extremely low-income families often must pay such a large portion of their income for housing that very little money is available for other necessities. Based on 1990 census data, 63% of extremely low-income households in Minnesota paid more than 30% of their income for housing and 40% of extremely low-income households paid more than 50% of their income for housing. Even a slight loss of income or unexpected expense can cause a real financial crisis. Families without affordable housing often forced to move frequently. Research indicates that families with stable, affordable housing are better able to retain employment, avoid the receipt of public assistance, and ensure continuity in their children's education. This recommendation augments the appropriations made in the 2000 legislative session to provide housing for current and former MFIP recipients.

The Affordable Housing Initiative will be administered jointly by the MHFA, Department of Human Services, Minnesota Planning, and for projects in the metropolitan area, the Metropolitan Council. The funds will be used to finance permanent and supportive rental housing and to provide rental assistance and operating cost subsidies. Housing funded with this appropriation must serve families whose income do not exceed 30 percent of HUD established median income for the metropolitan area, adjusted for family size.

The funding for working families will reinforce smart growth principles. Selection criteria will require that projects are located near public transit that provides regular service and access to jobs, schools, and other services that support self-sufficiency activities. Selection criteria must give preference to housing developments that are linked to transportation or, in the metropolitan area, transit-oriented projects. These funds will be included in the consolidated semi-annual solicitation of proposals and selection processes sponsored by the MHFA, the Met Council, the Family Housing Fund, the Greater Minnesota Housing Fund and others. The Metropolitan Council must approve funding of projects to be located in the Twin Cities metropolitan area.

## FINANCING:

The funding for this initiative is available as a result of claiming TANF reimbursement for the Working Family Tax Credit expenditures. This claim produces General Fund revenue that funds this housing investment, as shown on the next page. The TANF expenditures shown on the following and on other pages in this budget document will not be spent by MHFA, but rather represent expenditures related to the Working Family Tax Credit by the Department of Revenue.



**BUDGET CHANGE ITEM (65558) (Continued)**

**Budget Activity:** RE/DEVELOPMENT PROGRAMS  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

**Item Title:** AFFORDABLE HOUSING INITIATIVE

	2002-03 Biennium	
	<u>FY 2002</u>	<u>FY 2003</u>
<b>General Fund</b>		
Appropriation to MHFA Affordable Rental Investment Fund	12,000	12,000
General Fund revenue from TANF	(12,000)	(12,000)
Net General Fund	-0-	-0-
 <b>Federal TANF</b>		
TANF for Working Family Tax Credit	<u>12,000</u>	<u>12,000</u>
Net TANF	12,000	12,000

**OUTCOMES:**

Approximately 300 – 375 additional rental housing units will be developed with the increased appropriation, depending on costs and other available sources of funding.

We expect that the increased availability of affordable housing will help prevent families from coming on or returning to welfare and will assist families who face expiration of the 60 month time limit.

We expect the housing developed with the increased appropriation will maximize economic opportunity while protecting and enhancing the state's assets.

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** SUPPORTIVE HOUSING PROGRAMS  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

### ACTIVITY PROFILE:

Supportive housing is permanent housing with support services. The goal of supportive housing is to stabilize housing for the poorest households or households with special needs so they can successfully address barriers to employment, complete school or training, and/or achieve independent living. Housing providers understand that providing affordable housing alone does not ensure this success. Service providers increasingly understand that delivering services alone to a family or individual with no stable, affordable housing does not work either.

- Supportive housing is a model that combines housing and services more effectively than transitional housing, which is time-limited, or permanent housing without services.
- Supportive housing shows promise in improving lives and saving public money.

For example, an evaluation of Anishinabe Waikagun, a supportive housing development for American Indians with chronic chemical dependency, documents a reduction in the use of detox; a reduction in days in jail and times in jail; and an increase in earnings from employment.

- Supportive housing cannot be developed with bricks and mortar funding alone.

Even if the construction costs of newly built or rehabilitated rental housing are 100% subsidized, the resulting rents will not be affordable to families and individuals earning \$16,000 or below.

- Supportive housing requires three types of funding: capital for bricks and mortar; operating costs or rent subsidies; services and/or health care.
- The extreme fragmentation of public programs makes it complicated to develop supportive housing.

### STRATEGIES AND PERFORMANCE:

MHFA uses three strategies to address needs for supportive housing: homeless prevention and assistance funding; bricks and mortar funding for developments; and rent assistance. MHFA – and other state agencies - uses continuum of care

plans developed at the regional level when making decisions about supportive housing funding.

- The Family Homeless Prevention and Assistance Program, a highly flexible program, allows consortia of counties and service providers throughout the state to help prevent and address homelessness using strategies tailored to meeting local needs and supplementing resources. This activity is measured against performance indicators developed by the local consortia and approved by MHFA.

Brick and mortar development funding activity effectively serves very low-income households with special needs but the fact that operating/rent assistance costs must be secured separately contributes to complexity and cost.

**Table 3 MHFA Rental Housing Programs, 1999: Incomes of Residents**

	Less than 30% of Statewide HUD Median	30%-50% of Statewide HUD Median	50%-80% of Statewide HUD Median	Over 80% of Statewide HUD Median
<b>Benchmark 1990 Census Data</b>	43.17%	23.68%	21.24%	11.91%
Rehab/Preservation	76.70%	16.50%	6.22%	0.58%
New Construction	61.94%	25.81%	12.26%	

**Table 4 MHFA Rental Housing Programs, 1999: Fair Market Rents**

	Below HUD FMR	Above HUD FMR
Rehab/ Preservation	93.55%	6.45%
New Construction	92.11%	7.89%

# BUDGET ACTIVITY SUMMARY (Continued)

**Budget Activity:** SUPPORTIVE HOUSING PROGRAMS  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

**Table 5 MHFA Rental Housing Programs, 1999: Affordability Levels**

Level of Affordability	New Construction	Rehab/Preservation
Rents Affordable at 30% Area Median Income	19.80%	65.89%
Rents Affordable at 50% Area Median Income	99.01%	98.80%

- Both state-funded rent assistance programs require modification to enable them to be used in supportive housing developments.
  - The Bridges Program has been quite effective in stabilizing the lives of persons with serious and persistent mental illness, but cannot be used to provide operating support/rent assistance in supportive housing projects.
  - Despite changes in recent years the RAFS program has not provided longer term stability for most participating families.

**Table 6 MHFA Rental Housing Programs, 1999: Incomes (Rental Assistance)**

	Less than 30% of Statewide HUD Median	30%-50% of Statewide HUD Median	50%-80% of Statewide HUD Median	Over 80% of Statewide HUD Median
<b>Benchmark 1990 Census Data</b>	43.17%	23.68%	21.24%	11.91%
Rental Assistance/Homeless Prevention	88.83%	11.00%	0.17%	

## FINANCING INFORMATION:

MHFA's appropriated Supportive Housing Programs are the following:

### 1. Housing Trust Fund and Housing Trust Fund Transitional Housing

The Housing Trust provides 0% interest deferred loans for the financing of affordable permanent and transitional rental housing, limited equity cooperative housing, and homeownership opportunities for very low income households. Funds for rental housing benefit households with incomes of up to 30% of metropolitan area median income (\$17,430); funds for homeownership benefit households with incomes up to 50% of metropolitan area median income.

### 2. Rent Assistance for Family Stabilization (RAFS)

The Rent Assistance for Family Stabilization program provides up to \$250 per month in the metropolitan area and \$200 per month in Greater Minnesota for rental assistance to families receiving public assistance who have an approved employment and training program. Rental assistance is available for up to 36 months. To be eligible, a family must be paying more than 30% of its income for rent and must live in a county with housing costs in the top one-third of the state.

### 3. Bridges

The Bridges program (statutorily known as the Rent Assistance for Persons with Mental Illness Program) provides rent assistance for households in which at least one adult member has a serious and persistent mental illness. Eligibility for the program is limited to households with incomes below 50% area median income. This activity links housing with social services through a partnership between a housing agency and a social service agency. The rental assistance is intended to stabilize the household in the community until a Section eight certificate voucher becomes available.

### 4. Family Homeless Prevention and Assistance Program (FHPAP)

The Family Homeless Prevention and Assistance Program provides flexible grants to counties and nonprofit organizations to use to assist families or youth who are homeless or at imminent risk of homelessness. Grant recipients are required to design or redesign an emergency response system to shift the focus to prevention of homelessness and a more rapid move to transitional or permanent housing. Thirty-three counties are now served by FHPAP.

## BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: SUPPORTIVE HOUSING PROGRAMS  
Program: APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

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### BUDGET ISSUES:

MHFA proposes to create a larger fund that can be used for a variety of populations and housing activities. The fund will be available for bricks and mortar costs only; bricks and mortar costs plus an operating subsidy or rent assistance; or a tenant-based rent assistance program. The specific approach will depend on the local market, the availability of other resources, and the targeted population.

Activity: SUPPORTIVE HOUSING PROGRAMS  
Program: APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
OTHER OPERATING EXPENSES	107	41	0	0	0	0	0	(41)	(100.0%)
OTHER FINANCIAL TRANSACTIONS	2,482	3,919	7,192	6,125	6,400	5,577	5,852	1,141	10.3%
<b>Subtotal State Operations</b>	<b>2,589</b>	<b>3,960</b>	<b>7,192</b>	<b>6,125</b>	<b>6,400</b>	<b>5,577</b>	<b>5,852</b>	<b>1,100</b>	<b>9.9%</b>
PAYMENTS TO INDIVIDUALS	3,425	6,477	15,082	22,571	22,571	24,950	24,950	25,962	120.4%
LOCAL ASSISTANCE	0	122	161	0	0	0	0	(283)	(100.0%)
<b>Total Expenditures</b>	<b>6,014</b>	<b>10,559</b>	<b>22,435</b>	<b>28,696</b>	<b>28,971</b>	<b>30,527</b>	<b>30,802</b>	<b>26,779</b>	<b>81.2%</b>

<b>Change Items:</b>	<b>Fund</b>				
(B) CONSOLIDATION OF SUPPORTIVE HOUSING ITEM	GEN			2,875	2,875
(B) CONSOLIDATION OF SUPPORTIVE HOUSING PROG	GEN			(2,600)	(2,600)
<b>Total Change Items</b>				<b>275</b>	<b>275</b>

<b>Financing by Fund:</b>					
<b>Direct Appropriations:</b>					
GENERAL	0	0	0	9,298	9,573
<b>Statutory Appropriations:</b>					
HOUSING FINANCE AGENCY	6,014	10,559	22,435	19,398	21,229
<b>Total Financing</b>	<b>6,014</b>	<b>10,559</b>	<b>22,435</b>	<b>28,696</b>	<b>30,802</b>

<b>Revenue Collected:</b>					
<b>Dedicated</b>					
HOUSING FINANCE AGENCY	1,555	1,381	4,010	3,235	2,157
<b>Total Revenues Collected</b>	<b>1,555</b>	<b>1,381</b>	<b>4,010</b>	<b>3,235</b>	<b>2,157</b>

# BUDGET CHANGE ITEM (46881)

**Budget Activity:** SUPPORTIVE HOUSING PROGRAMS

**Program:** APPROPRIATED PROGRAMS

**Agency:** HOUSING FINANCE AGENCY

**Item Title:** CONSOLIDATION OF SUPPORTIVE HOUSING ITEM

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (Thousands)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
-Grants	\$2,875	\$2,875	\$2,875	\$2,875
-Grants	\$(2,600)	\$(2,600)	\$(2,600)	\$(2,600)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: M.S. 462A

☐ New Activity ☐ Supplemental Funding ☒ Reallocation

## GOVERNOR'S RECOMMENDATION:

The Governor recommends that a number of supportive housing-type programs be consolidated into the Housing Trust Fund in order to better develop housing for homeless and very low-income households with special needs.

## RATIONALE:

MHFA is a supporting agency in three Big Plan initiatives in which supportive housing must be a part of the strategy for success: moving from welfare to work; independent living for persons with disabilities; and high achievement for all students. The purpose of this proposed change is to improve the delivery of supportive housing and thereby improve the outcomes of residents.

MHFA proposes the following:

- To increase funding for the Housing Trust Fund, and
- To expand the range of eligible activities in order to better facilitate the development of supportive housing.

The Housing Trust Fund has been the development program that has historically served the lowest income families and individuals. The funding for the Housing Trust Fund will be increased by consolidating funding from three other programs into the Trust Fund: the Housing Trust Fund Transitional Housing, Rent Assistance for Family Stabilization (RAFS), and \$650,000 from the Affordable Rental Investment Fund.

This proposed change improves the funding process for supportive housing by streamlining and consolidating programs. Although the range of activities eligible for funding in the Housing Trust Fund will be expanded to include operating expenses, project-based rent assistance, and tenant-based rent assistance, all these activities are currently eligible activities in the three programs which will be consolidated into the Trust Fund. This consolidation will not change the type of project or program that is fundable

Service providers increasingly understand that providing services of any kind – mental health, chemical health, family reunification, employment and training, even school programs – to a family with no stable, affordable place to live will be ineffective. Housing providers increasingly understand three things:

- Housing developments cannot serve the lowest income households without some form of ongoing monthly subsidy.
- Housing with services integrated into the development can more effectively address a variety of challenges faced by certain low-income households than if residents have to connect with services scattered throughout the community.
- Given the shortage of permanent supportive housing, transitional or time-limited housing is too often unsuccessful at helping families achieve self-sufficiency.

The RAFS Program was designed to stabilize the housing situation of families on public assistance who were participating in self-sufficiency programs so that they could more successfully move from welfare to work. It was designed as an experiment with a time-limited, shallow subsidy rather than the longer-term, deep subsidy in the federal Section 8 Voucher Program.

Although for many households the program has served as an important bridge to a longer term rent assistance or to increased household income, a typical family's length of stay in a tenant-based RAFS program is too short to conclude that the family's situation has stabilized. On the other hand, RAFS that has been project-based in a housing development has provided longer-term stability to the participating families.

**BUDGET CHANGE ITEM (46881) (Continued)**

**Budget Activity:** SUPPORTIVE HOUSING PROGRAMS

**Program:** APPROPRIATED PROGRAMS

**Agency:** HOUSING FINANCE AGENCY

**Item Title:** CONSOLIDATION OF SUPPORTIVE HOUSING ITEM

Two recent studies indicate that a shift from transitional housing to supportive housing may improve outcomes for residents and reduce public expenditures.

- The first study was published by the Wilder Research Center in April of 1999 and entitled "Minnesota Transitional Housing Outcome Study." This study evaluated the success of transitional housing as measured by the following outcomes: housing stability, housing types, percent of income used for housing, income and employment, continuing education, and school stability for children, at both 6 months and 12 months after leaving transitional housing. While unable to locate many of the program participants, the study found that transitional housing programs produced mixed results.
- The second study was published in October of 1999, prepared for the Family Housing Fund and entitled "The Supportive Housing Continuum: A Model for Housing Homeless Families." This study found that the current transitional housing system cannot meet the needs of many homeless families. Transitional housing that is, by definition, time limited cannot meet the needs of these families for a number of reasons, including: the tight rental market that makes it difficult for families to find affordable housing upon completion of the program and the need for longer term services to help families overcome barriers to self sufficiency and stability.

Consolidating supportive housing funding into the Housing Trust Fund is designed to respond to the lessons learned in these two studies and improve the delivery of supportive housing.

Supportive housing providers face numerous bureaucratic obstacles to developing projects. They typically need sources of funding in three areas: bricks and mortar; operating costs/rent assistance; services and/or health care. The change proposed by MHFA is designed to reduce the multiple sources of funding at the MHFA for the first two categories.

**FINANCING:**

The biennial base amount for the Housing Trust Fund will be \$9,246,000.

**OUTCOMES:**

We expect that the tenure of residents in tenant-based supportive housing programs will increase as compared to the RAFS program. MHFA has base-line data from the RAFS program against which to compare the tenure of participants in tenant-based programs in the future.

We expect that an evaluation of supportive housing programs will show improved results over transitional housing in the areas of housing stability, income and employment, housing affordability, school stability for children and reduced use of other public resources such as detox, emergency room use and incarceration.



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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** HOMEOWNERSHIP LOAN PROGRAMS  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

### ACTIVITY PROFILE:

The two goals of MHFA's homeownership loan programs are as follows:

- Increase homeownership among households not served by private mortgage financing because of income, race, disability, or other factors. In many cases, the barrier to homeownership is not income but credit or racial discrimination. In the case of American Indians living on tribal land, private mortgage financing may not be available due to the security issues raised by the trust status of the land.
- Provide home rehabilitation funding to homeowners not well served by private home improvement lending products.

### STRATEGIES AND PERFORMANCE:

MHFA's homeownership loan programs use three primary strategies:

- Affordable loan programs, created by combining state appropriations with bond proceeds and Agency resources.

For example, the Homeownership Assistance Fund provides funding for entry cost assistance for public housing residents and section 8 voucher holders. The Rehabilitation Loan Program provides home improvement funding for the lowest income homeowners that, in combination with home improvement programs funded with other resources, enables MHFA to provide funding to homeowners with a wide range of incomes.

- Outreach and marketing efforts aimed at reaching underserved households.
- A comprehensive statewide delivery network for education and counseling.

Organizations offer homeownership training and education and foreclosure prevention assistance in every county. The Homeownership Center in St. Paul coordinates this network.

**Table 7 MHFA Homeownership Housing Programs, 1999: Incomes**

	Less than 30% of Statewide HUD Median	30%-50% of Statewide HUD Median	50%-80% of Statewide HUD Median	Over 80% of Statewide HUD Median
<b>Benchmark 1990 Census Data</b>	15.90%	16.22%	26.28%	41.60%
Home Improvement	20.34%	20.84%	30.51%	28.31%
<b>Benchmark 1990 Census Data</b>	43.17%	23.68%	21.24%	11.91%
Purchase Existing Housing	6.50%	44.40%	45.80%	3.30%
Purchase New Construction	2.20%	37.00%	51.10%	9.80%

**Table 8 MHFA Homeownership Housing Programs, 1999: Underserved Households**

	Minorities	Female Headed Families
<b>Benchmark-1990 Census Data</b>	2.02%	8.58%
Homeownership-Home Improvement	5.02%	13.40%
<b>Benchmark-1990 Census Data</b>	8.90%	13.10%
Homeownership Purchase Existing Housing	19.32%	18.58%
Homeownership Purchase New Construction	25.56%	22.73%

### FINANCING INFORMATION:

MHFA's appropriated Homeownership Loan Programs are the following:

#### 1) Rehabilitation Loan Program

The Rehabilitation Loan Program provides deferred loans of up to \$10,000 to very low-income homeowners for the purpose of correcting health and safety hazards within their homes and improving their homes and improving their habitability, accessibility, and energy efficiency. Loans are forgiven if the homeowner continues to own and occupy the property for at least 10 years. Repayments are recycled into new loans.

## BUDGET ACTIVITY SUMMARY (Continued)

**Budget Activity:** HOMEOWNERSHIP LOAN PROGRAMS  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

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Historically, repayments under this program have averaged about \$1,000,000 per year.

2) Tribal Indian Housing Program

The Tribal Indian Housing Program provides mortgage loans, home improvement financing, and rental housing opportunities to American Indian families and persons throughout the state. Individual programs have been developed by each of the three Indian tribes that administer the program through their respective tribal housing authorities: Minnesota Chippewa Tribe Housing Corporation, the Minnesota Dakota Indian Housing Authority, and the Red Lake Housing Finance Corporation. All of the tribes must recycle any repayment and prepayments into new housing loans. The state appropriations are used exclusively for housing loans; administrative costs are paid for from the earnings on loans made.

3) Homeownership Assistance Fund (HAF)

The Homeownership Assistance Fund provides assistance to more modest income homebuyers who are purchasing their first home. Typically, such assistance is provided in the form of entry cost, equity contribution or monthly payment assistance in conjunction with one of the Agency's mortgage revenue bond programs. Assistance is provided in the form of an interest free second mortgage loan. Homeownership Assistance Fund (HAF) loans are deferred loans that must be repaid when the borrower sells or no longer occupies the property. Assistance is targeted to homebuyers who have household income that does not exceed 60% of the greater of state or area median income. Repayments and prepayments of loans are invested in new loans.

### **BUDGET ISSUES:**

MHFA proposes no change in this activity area

Activity: HOMEOWNERSHIP LOAN PROGRAMS  
Program: APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER OPERATING EXPENSES	491	641	950	1,150	1,150	1,150	1,150	709	44.6%
OTHER FINANCIAL TRANSACTIONS	7,768	8,752	10,604	9,948	9,948	9,948	9,948	540	2.8%
<b>Total Expenditures</b>	<b>8,259</b>	<b>9,393</b>	<b>11,554</b>	<b>11,098</b>	<b>11,098</b>	<b>11,098</b>	<b>11,098</b>	<b>1,249</b>	<b>6.0%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	0	0	0	6,870	6,870	6,870	6,870		
Statutory Appropriations:									
HOUSING FINANCE AGENCY	8,259	9,393	11,554	4,228	4,228	4,228	4,228		
<b>Total Financing</b>	<b>8,259</b>	<b>9,393</b>	<b>11,554</b>	<b>11,098</b>	<b>11,098</b>	<b>11,098</b>	<b>11,098</b>		
<b>Revenue Collected:</b>									
Dedicated									
HOUSING FINANCE AGENCY	6,207	5,692	3,927	3,847	3,847	3,774	3,774		
<b>Total Revenues Collected</b>	<b>6,207</b>	<b>5,692</b>	<b>3,927</b>	<b>3,847</b>	<b>3,847</b>	<b>3,774</b>	<b>3,774</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** PRESERVATION OF FED ASSISTANCE  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

### ACTIVITY PROFILE:

MHFA's goal is to preserve every unit of federally assisted rental housing as is economically feasible. This housing was financed originally with HUD, MHFA, or U.S.D.A Rural Development programs. No existing development program – federal, state, or local – can produce housing that is as affordable to residents as the existing stock of federally assisted housing. Preserving this housing costs substantially less per unit than new construction and, in many cases, leverages federal rent or mortgage subsidies well into the future. This housing stock is threatened for three reasons:

- Over half of Minnesota's section 8 housing stock was financed with 20-year mortgages that either have expired or will soon expire.
- Record low vacancy rates and rapidly increasing rents create incentives for owners to opt-out of any publicly funded rental housing program.
- Physical deterioration threatens a significant portion of federally assisted housing.

### STRATEGIES AND PERFORMANCE:

MHFA uses two main strategies for preserving the existing stock of federally assisted housing.

- Effective administration of housing assistance payment contracts on approximately 32,000 units of section 8 housing.
- Incentive or rehabilitation loans, or both, for new or existing owners who will commit to staying in the program for a longer term. For reasons of federal income tax rules, transactions involving the existing owner cost less per unit than transactions involving a new owner. MHFA uses a variety of funding sources, including state appropriations, for this activity.

**Table 9 Data on Preservation of Federally Assisted Programs, October 2000**

	Number of Developments	Number of Units	Number of Assisted Units	MHFA Subsidy per Unit
<b>Metro</b>	<b>18</b>	<b>2,581</b>	<b>2,312</b>	<b>\$6,953</b>
Conversion	6	1,332	1,063	\$5,688
Physical Deterioration	5	537	537	\$2,160
Combination	7	712	712	\$12,917
<b>Greater Minnesota</b>	<b>10</b>	<b>759</b>	<b>723</b>	<b>\$9,459</b>
Conversion	2	151	151	\$8,677
Physical Deterioration	3	146	146	\$13,158
Combination	5	462	426	\$8,546
<b>Total</b>	<b>28</b>	<b>3,340</b>	<b>3,035</b>	<b>\$7,524</b>

### FINANCING INFORMATION:

MHFA's appropriated Preservation of Federally Assisted Housing Program is the following:

#### 1) Affordable Rental Investment Fund (ARIF/Preservation)

Twenty million dollars of the base for the ARIF program is designated for preservation activities. These funds provide deferred 0% loans. The loans are most commonly in the form of preservation loans or loans to cover the costs of rehabilitation. Preservation loans are provided in situations where the development could, in the agency's estimation, produce significantly greater revenues from market rents than it does under the federal program.

### BUDGET ISSUES:

MHFA proposes no change in this activity area.

Activity: PRESERVATION OF FED ASSISTANCE  
Program: APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER FINANCIAL TRANSACTIONS	8,993	9,067	15,000	12,500	12,500	12,500	12,500	933	3.9%
<b>Total Expenditures</b>	<b>8,993</b>	<b>9,067</b>	<b>15,000</b>	<b>12,500</b>	<b>12,500</b>	<b>12,500</b>	<b>12,500</b>	<b>933</b>	<b>3.9%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	0	0	0	10,000	10,000	10,000	10,000		
Statutory Appropriations:									
HOUSING FINANCE AGENCY	8,993	9,067	15,000	2,500	2,500	2,500	2,500		
<b>Total Financing</b>	<b>8,993</b>	<b>9,067</b>	<b>15,000</b>	<b>12,500</b>	<b>12,500</b>	<b>12,500</b>	<b>12,500</b>		
<b>Revenue Collected:</b>									
Dedicated									
HOUSING FINANCE AGENCY	290	524	864	639	639	489	489		
<b>Total Revenues Collected</b>	<b>290</b>	<b>524</b>	<b>864</b>	<b>639</b>	<b>639</b>	<b>489</b>	<b>489</b>		

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** RESIDENT & ORGANIZATIONAL SUPP  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

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### ACTIVITY PROFILE:

The goal of MHFA's Resident and Organizational Support Programs is to provide support for some of the organizational infrastructure necessary to effectively deliver affordable housing throughout the state. These programs fund homebuyer education and foreclosure prevention, regional planning and coordinating activities, and non-profit operating costs. Citizen input sessions around the state and over the years consistently identify the lack of capacity as a barrier to producing more affordable housing.

### STRATEGIES AND PERFORMANCE:

MHFA uses three strategies in this activity area:

- Comprehensive network for homebuyer training and education and foreclosure prevention.

MHFA in collaboration with many other organizations has brought together groups throughout the state and designed a comprehensive statewide delivery network for homebuyer training and education and foreclosure prevention overseen by the Homeownership Center in St. Paul. These services are now available in every county. Anecdotal information indicates that homebuyer training is effective in serving more households of color and lower income households at lower default and foreclosure rates. MHFA and others are helping fund a formal evaluation.

- Regional planning and coordination.

Housing network organizations MHFA funds two types of regional planning and coordination using the six Minnesota Initiative Fund regions and the metropolitan area. MHFA provides minimal funding for each region to convene Economic Vitality and Housing advisory groups for the purpose of maintaining good communication between MHFA and the region; enabling effective networking within the region between economic development and housing efforts; and developing a regional investment guideline that MHFA uses in making funding decisions.

MHFA also partially funds the development of regional Continuum of Care Plans that identify existing homeless prevention and assistance programs and services; funding and service gaps; and priorities for state and federal funding.

All state agency members of the Interagency Task Force on Homelessness use these Plans when making funding decisions.

- Operating support for non-profit developers.

MHFA used to offer small grants to non-profit development organizations in order to build their capacity to develop affordable housing. The only proscribed use was ongoing operating costs. In the past 18 months, the Agency reviewed the research on capacity building efforts around the county and the effectiveness of the MHFA program. The data shows that the most effective way to build non-profit capacity is to provide multi-year ongoing operating funds. Using both state appropriations and federal funds, the Agency now funds an operating support program in cooperation with the Minnesota Housing Partnership and the Local Initiatives Support Corporation.

### FINANCING INFORMATION:

MHFA's appropriated Resident and Organizational Support Programs are the following:

#### 1) Foreclosure Prevention and Assistance Program

The Foreclosure Prevention and Assistance Program provides interest-free loans for homeowners who are faced with eviction or foreclosure due to a temporary financial hardship; it also provides non-financial assistance in the form of financial counseling services, screening and assessment, referrals, case management and advocacy. Priority is given to households with incomes at or below 60% of area median income limits. For 1998, in the metro area this was \$46,380 for a family of four. Nonprofit, community-based organizations administer the program.

#### 2) Full Cycle Homeownership Services Program

The Full Cycle Homeownership Services Program provides grants to experienced nonprofit organizations to provide comprehensive homebuyer training and support on either a pre- or post-purchase basis for low- and moderate-income first-time homebuyers. Funds may be used for either administrative support or program support.



**BUDGET ACTIVITY SUMMARY (Continued)**

**Budget Activity: RESIDENT & ORGANIZATIONAL SUPP**  
**Program: APPROPRIATED PROGRAMS**  
**Agency: HOUSING FINANCE AGENCY**

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3) Non-Profit Capacity Building Grants

The Non-Profit Capacity Building Grants program is used for four purposes:

- \$80,000 for the Minnesota Housing Partnership to fund regional housing network organizations
- \$60,000 for the six regional Economic Vitality and Housing advisory groups
- \$320,000 for an operating support program in partnership with the Local Initiatives Support Corporation
- \$20,000 for training

Activity: RESIDENT & ORGANIZATIONAL SUPP  
Program: APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
OTHER OPERATING EXPENSES	268	190	235	235	235	235	235	45	10.6%
OTHER FINANCIAL TRANSACTIONS	376	387	515	515	515	515	515	128	14.2%
<b>Subtotal State Operations</b>	<b>644</b>	<b>577</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>750</b>	<b>173</b>	<b>13.0%</b>
PAYMENTS TO INDIVIDUALS	400	531	277	275	275	275	275	(258)	(31.9%)
LOCAL ASSISTANCE	100	475	125	280	380	300	400	180	30.0%
<b>Total Expenditures</b>	<b>1,144</b>	<b>1,583</b>	<b>1,152</b>	<b>1,305</b>	<b>1,405</b>	<b>1,325</b>	<b>1,425</b>	<b>95</b>	<b>3.5%</b>
<b>Change Items:</b>	<b>Fund</b>								
(B) CONSOLIDATE RESIDENT & ORGANIZATIONAL SU	GEN				(583)		(583)		
(B) CONSOLIDATE RESIDENT & ORGANIZATIONAL SU	GEN				683		683		
<b>Total Change Items</b>					<b>100</b>		<b>100</b>		
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	0	0	0	1,098	1,198	1,098	1,198		
<b>Statutory Appropriations:</b>									
HOUSING FINANCE AGENCY	1,144	1,583	1,152	207	207	227	227		
<b>Total Financing</b>	<b>1,144</b>	<b>1,583</b>	<b>1,152</b>	<b>1,305</b>	<b>1,405</b>	<b>1,325</b>	<b>1,425</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
HOUSING FINANCE AGENCY	348	416	181	181	181	175	175		
<b>Total Revenues Collected</b>	<b>348</b>	<b>416</b>	<b>181</b>	<b>181</b>	<b>181</b>	<b>175</b>	<b>175</b>		

# BUDGET CHANGE ITEM (47057)

**Budget Activity:** RESIDENT & ORGANIZATIONAL SUPP  
**Program:** APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

**Item Title:** CONSOLIDATE RESIDENT & ORGANIZATIONAL SU

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (Thousands)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
-Grants	\$683	\$683	\$683	\$683
-Grants	\$(583)	\$(583)	\$(583)	\$(583)
Revenues: (\$000s)				
General Fund	\$-0-	\$-0-	\$-0-	\$-0-

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: M.S. 462A

☐ New Activity ☐ Supplemental Funding ☒ Reallocation

## GOVERNOR'S RECOMMENDATION:

The Governor recommends that base funding of \$583 thousand per year for the Foreclosure Prevention and Assistance Program be reallocated to the Full Cycle Homeownership Services Program in light of the establishment around the state of a comprehensive statewide service delivery system. The base appropriation for the Full Cycle Homeownership Services Program would increase from \$275 thousand to \$858 thousand per year.

The Governor recommends that \$50 thousand per year of funds be shifted from each of the Affordable Rental Investment Fund and from the Housing Trust Fund to the Nonprofit Capacity Building Grant Program in order to fund Continuum of Care Planning in Greater Minnesota and homeless prevention and assistance coordination in the Twin Cities Metropolitan Area. The base funding for the Nonprofit Capacity Building Grant Program would increase from \$240 thousand per year to \$340 thousand per year.

## RATIONALE:

**Full Cycle Homeownership.** In the past two years, the MHFA and the organizations around the state that deliver homebuyer training and education and foreclosure prevention counseling and assistance have worked to create a

statewide delivery network for these services. The proposed change simply reflects the consolidation that has already occurred in practice and is designed to simplify the administrative process.

**Continuum of Care.** "Continuum of Care" is a term that comes from HUD's administration of homeless programs. HUD requires every grantee to prepare a Continuum of Care Plan that identifies programs and services available – as well as gaps in programs and services - for homeless households. HUD also asks grantees to rank all applications for federal homeless funding against the grantee's Continuum of Care plan.

Several years ago, MHFA and all state agencies participating in the Interagency Task Force on Homelessness (ITF) decided to expand the Continuum of Care process by (1) asking each Initiative Fund region in Greater Minnesota to prepare its own Continuum of Care plan as a way of engaging organizations at the local level, and (2) agency members of the ITF agreed to use the regional Continuum of Care plans when making state funding decisions. The ITF understood that the state could not require Continuum of Care planning without providing some funding. Original funding for Continuum of Care planning came from MHFA, the Department of Children, Families, and Learning, and the Bush Foundation and was coordinated by the Minnesota Housing Partnership. MHFA's funding was a now-defunct program which the original grantee was not able to use.

Planning and coordination around homelessness in the Twin Cities metropolitan areas presents different challenges. Five different grantees prepare five different Continuum of Care plans for five different parts of the region. No regional planning or coordination exists on a problem whose causes and responses require a regional approach. The purpose of MHFA's proposed budget change is to develop, in concert with the Metropolitan Council, the Family Housing Fund, cities, counties and others, a regional approach to planning and coordination on homeless prevention and assistance in the metropolitan area.

## OUTCOMES:

**Full Cycle Homeownership.** The goal of this change is to achieve administrative simplicity by reducing the number of grant agreements.

**Continuum of Care.** The purpose of this change is to enable MHFA to continue funding a current activity in Greater Minnesota and to establish a region-wide approach to planning and coordination of homeless prevention and assistance in the Twin Cities metropolitan area. The outcome of homeless planning and coordination activity is to better avoid duplication of state-funded activities across agency lines; to achieve greater policy consistency across numerous state agencies by using regional plans to inform state funding decisions; and to better coordinate the numerous sources of state, county, city, and philanthropic funding that go into homeless programs.

## PROGRAM SUMMARY

**Program:** NON-APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

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### PROGRAM PROFILE:

MHFA funds affordable housing activities in five broad areas, and uses dedicated appropriations in all five activity areas:

- **Development and Redevelopment Programs.** These programs fund the new construction and rehabilitation of rental housing and homes for ownership for families with a range of incomes.
- **Supportive Housing Programs.** These programs fund housing development and rent assistance for very low-income families and individuals who often face other barriers to stability and economic self-sufficiency.
- **Homeownership Loan Programs.** These programs fund home purchase and home improvement loans for families and individuals with a range of incomes.
- **Preservation of Federally Assisted Housing Programs.** These programs seek to preserve the stock of federally assisted rental housing that is in danger of being lost due to opt-outs for market reasons, physical deterioration, or both.
- **Resident and Organizational Support.** These programs provide operating funds for organizations that develop affordable housing, offer homebuyer training, education, and foreclosure prevention assistance, or coordinate regional planning efforts.

### STRATEGIES AND PERFORMANCE:

As with appropriated programs, non-appropriated programs are delivered by a variety of organizations around the state including non-profit organizations, community action agencies, housing and redevelopment agencies, cities, counties, lenders, for-profit and non-profit developers. MHFA joins with other public and private funders to make available development and redevelopment funds in a comprehensive, single application, one-stop selection process twice yearly. Other programs are delivered through a statewide network of traditional and non-traditional lenders.

In making funding decisions in competitive selection processes, MHFA uses investment guidelines and Continuum of Care Plans developed at the regional level to assure consistency with regional priorities. MHFA provides non-appropriated funds to families and individuals in a variety of forms depending on the specific program: deferred no-interest loans, rent assistance, grants.

To determine whether policy goals and objectives are met, MHFA has an annual performance measurement process applied to all programs and all funding sources with the following four components:

- **Annual Program Assessment** reports on the amount of assistance provided each year and characteristics of households served.
- **Cumulative Assessment Report** compares data from the current program year to prior years.
- **Program Performance Measurement Report**, which measures MHFA success at meeting key policy objectives, compares data from the Annual Assessment Report against a series of benchmarks:
  - reduction in seven major activity areas
  - Incomes of households served
  - Rent affordability and rent burden
  - Underserved households
  - New housing and net job growth
  - Smart growth
  - Local planning, leverage and investment
- **Humphrey Institute Summer Evaluation Program** provides an in-depth evaluation of one or more Agency programs or activities.

**PROGRAM SUMMARY (Continued)**

**Program: NON-APPROPRIATED PROGRAMS**  
**Agency: HOUSING FINANCE AGENCY**

The following table indicates the funding level for each of the non-appropriated programs:

	FY 2002	FY 2003	Biennial
<b>Re/development Programs</b>			
HOME Rental Rehab	5,865	5,865	11,730
MURL	2,650	2,650	5,300
<b>Supportive Housing Programs</b>			
Shelter Plus Care	826	826	1,652
HOPWA	1,000	1,000	2,000
<b>Homeownership Loan Programs</b>			
HOME Rehabilitation Loans	2,007	1,500	3,507
<b>Preservation/Fed-Assisted Housing</b>			
Federal Preservation Grant	101	101	202
Sec 8 Housing Assistance Payments	64,000	64,000	128,000
HUD Contract Administration	66,300	66,300	133,926
<b>Resident and Organizational Support</b>			
CHDO Operating Grants	440	440	880
HOME Administrative Costs	410	410	820
Program Administration	17,761	19,157	36,918
<b>TOTAL</b>	<b>161,360</b>	<b>163,575</b>	<b>324,935</b>

**BUDGET ISSUES:**

The state biennial budget will not directly affect the non-appropriated programs.

Program: NON-APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Activity:</u></b>									
RE/DEVELOPMENT PROGRAMS	71,462	68,044	113,199	136,165	136,165	137,491	137,491	92,413	51.0%
SUPPORTIVE HOUSING PROGRAMS	1,782	6,066	8,422	4,476	4,476	4,476	4,476	(5,536)	(38.2%)
HOMEOWNERSHIP LOAN PROGRAMS	2,005	2,533	2,272	2,007	2,007	1,500	1,500	(1,298)	(27.0%)
PRESERVATION OF FED ASSISTANCE	0	0	446	101	101	101	101	(244)	(54.7%)
RESIDENT & ORGANIZATIONAL SUPP	618	695	910	850	850	850	850	95	5.9%
PROGRAM ADMINISTRATION	12,921	15,170	16,549	17,761	17,761	19,157	19,157	5,199	16.4%
<b>Total Expenditures</b>	<b>88,788</b>	<b>92,508</b>	<b>141,798</b>	<b>161,360</b>	<b>161,360</b>	<b>163,575</b>	<b>163,575</b>	<b>90,629</b>	<b>38.7%</b>
<b><u>Financing by Fund:</u></b>									
<b>Direct Appropriations:</b>									
FEDERAL TANF	0	3,155	3,846	0	0	0	0		
<b>Statutory Appropriations:</b>									
HOUSING FINANCE AGENCY	88,788	89,353	137,952	161,360	161,360	163,575	163,575		
<b>Total Financing</b>	<b>88,788</b>	<b>92,508</b>	<b>141,798</b>	<b>161,360</b>	<b>161,360</b>	<b>163,575</b>	<b>163,575</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	160.7	161.4	193.0	193.0	193.0	192.0	192.0		
PART-TIME, SEASONAL, LABOR SER	5.8	4.8	4.3	3.0	3.0	3.0	3.0		
<b>Total Full-Time Equivalent</b>	<b>166.5</b>	<b>166.2</b>	<b>197.3</b>	<b>196.0</b>	<b>196.0</b>	<b>195.0</b>	<b>195.0</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** RE/DEVELOPMENT PROGRAMS  
**Program:** NON-APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

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### ACTIVITY PROFILE:

The goal of MHFA's re/development programs is to fund the new construction and rehabilitation of housing, both rental and homes for ownership, needed to sustain economic growth and vitality. In some communities, new housing is needed due to significant net employment growth. In other communities, rehabilitating the existing stock is an important strategy for retaining existing employers and related economic activity. Re/development program funds have been used to finance both rental and homeownership units in new, mixed income developments, new rental housing, and affordable units in new single-family subdivisions.

The primary affordable housing initiative in the Governor's Big Plan is entitled Partnerships for Affordable Housing. The goal of Partnerships for Affordable Housing is to increase housing production necessary for economic development by using two strategies:

- Increasing the leverage of capital from non-state sources, and
- Removing barriers to private development.

The Agency's development Programs are the primary vehicles for achieving the objective of increased production by greater leveraging of capital investment in housing. The change item proposed in this activity area is designed to further increase the leverage of non-state sources.

### STRATEGIES AND PERFORMANCE:

The primary strategy for increasing housing production through greater leverage is to build into state funding decisions priorities for projects that bring more non-state contributions and more and different investors.

- In the past twelve months, MHFA-funded projects show increased leverage of non-state resources, and in particular more involvement of employers and businesses. MHFA's proposed budget reallocations of state appropriations are designed to continue this effort.
- Re/development Program funds are made available primarily through a competitive, comprehensive, one-stop, single application process sponsored by MHFA, the Family Housing Fund, the Greater Minnesota Housing Fund, the Metropolitan Council, and others.

- Applications for re/development funding are evaluated on criteria in the following areas:

- Project viability;
- Consistency with regional guidelines;
- Capacity of the sponsor;
- Smart growth;
- Underserved populations;
- Local planning leverage and investment.

The funding organizations also examine data on county job growth, household growth, local wage levels, and the racial composition of the local school age population.

### FINANCING INFORMATION:

The following are the MHFA's non-appropriated Re/development Programs:

#### 1) HOME Rental Rehabilitation Program

The HOME Rental Rehabilitation Program is a federally funded program that provides deferred loans to rehabilitate privately owned rental property to support affordable, decent, safe, and energy efficient housing for lower income households. Assistance ranges from \$3,000 to \$14,000 per unit. Owners are required to match program assistance on a 1 to 3 basis. A network of local administrators assists in administering this program.

#### 2) Minnesota Urban Rural Homesteading Program (HOME-MURL)

The Urban and Rural HOMEsteading Program is modeled as closely as possible to complement the state appropriated MURL program. It uses federal HOME block grant funds to provide grants to nonprofit housing providers or cities to acquire single-family residences that are vacant, condemned, or abandoned, rehabilitate those properties and then sell them on a contract for deed to first-time low- and moderate-income homebuyers who are defined as "at risk". This program also strengthens communities by assisting in providing homeownership opportunities.

### BUDGET ISSUES:

Because these activities are funded through dedicated resources, no budget issues are presented.

Activity: RE/DEVELOPMENT PROGRAMS  
Program: NON-APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER OPERATING EXPENSES	261	295	387	387	387	387	387	92	13.5%
OTHER FINANCIAL TRANSACTIONS	4,487	5,202	5,501	5,500	5,500	5,500	5,500	297	2.8%
Subtotal State Operations	4,748	5,497	5,888	5,887	5,887	5,887	5,887	389	3.4%
PAYMENTS TO INDIVIDUALS	66,714	62,547	107,311	130,278	130,278	131,604	131,604	92,024	54.2%
Total Expenditures	71,462	68,044	113,199	136,165	136,165	137,491	137,491	92,413	51.0%
<b>Financing by Fund:</b>									
Statutory Appropriations:									
HOUSING FINANCE AGENCY	71,462	68,044	113,199	136,165	136,165	137,491	137,491		
Total Financing	71,462	68,044	113,199	136,165	136,165	137,491	137,491		
<b>Revenue Collected:</b>									
Dedicated									
HOUSING FINANCE AGENCY	68,774	74,752	108,645	136,266	136,266	137,592	137,592		
Total Revenues Collected	68,774	74,752	108,645	136,266	136,266	137,592	137,592		



## BUDGET ACTIVITY SUMMARY

**Budget Activity:** SUPPORTIVE HOUSING PROGRAMS  
**Program:** NON-APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

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### ACTIVITY PROFILE:

The goal of supportive housing is to stabilize housing for the poorest households or households with special needs so they can successfully address barriers to employment and/or achieve independent living. Affordable housing alone does not ensure this success. Service providers increasingly understand that delivering services alone to a family or individual with no stable, affordable housing does not work.

- Supportive housing is a model that combines housing and services more effectively than transitional housing, which is time-limited, or permanent housing without services.
- Supportive housing shows promise in improving lives and saving public money.

For example, an evaluation of Anishinabe Waikagun, a supportive housing development for American Indians with chronic chemical dependency, documents a reduction in the use of detox; a reduction in days in jail and times in jail; and an increase in earnings from employment.

- Supportive housing cannot be developed with bricks and mortar funding alone.

Even if the construction costs of newly built or rehabilitated rental housing are 100% subsidized, the resulting rents will not be affordable to families and individuals earning \$16,000 or below.

- Supportive housing requires three types of funding: capital for bricks and mortar; operating costs or rent subsidies; services and/or health care.

The extreme fragmentation of public programs makes it complicated to develop supportive housing.

### STRATEGIES AND PERFORMANCE:

MHFA uses three strategies to address needs for supportive housing: homeless prevention and assistance funding; bricks and mortar funding for developments; and rent assistance. MHFA – and other state agencies – uses continuum of care plans developed at the regional level when making decisions about supportive housing funding.

Non-appropriated funds are used for the latter two purposes: development activity and rent assistance.

### FINANCING INFORMATION:

The following are MHFA non-appropriated supportive housing programs:

#### 1) Shelter Plus Care

Shelter Plus Care is a rental assistance program for hard-to-serve homeless persons with disabilities. All Participants will enter the program from emergency shelters or the streets, will be disabled by AIDS, chronic chemical dependency, or severe mental illness, and will receive up to five years of rent assistance in addition to supportive services provided by the program sponsor.

#### 2) Housing Opportunities for Persons with AIDS (HOPWA)

The HOPWA program is a federally funded program that is jointly administered by the Department of Health and MHFA. It provides resources to devise long-term and comprehensive strategies for meeting the housing needs of persons with AIDS or other related diseases.

### BUDGET ISSUES:

Because these activities are funded through dedicated resources, no budget issues are presented.

Activity: SUPPORTIVE HOUSING PROGRAMS  
Program: NON-APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER OPERATING EXPENSES	9	32	0	20	20	20	20	8	25.0%
Subtotal State Operations	9	32	0	20	20	20	20	8	25.0%
PAYMENTS TO INDIVIDUALS	1,773	6,034	8,422	4,456	4,456	4,456	4,456	(5,544)	(38.4%)
Total Expenditures	1,782	6,066	8,422	4,476	4,476	4,476	4,476	(5,536)	(38.2%)
<b>Financing by Fund:</b>									
Direct Appropriations:									
FEDERAL TANF	0	3,155	3,846	0	0	0	0		
Statutory Appropriations:									
HOUSING FINANCE AGENCY	1,782	2,911	4,576	4,476	4,476	4,476	4,476		
Total Financing	1,782	6,066	8,422	4,476	4,476	4,476	4,476		
<b>Revenue Collected:</b>									
Dedicated									
HOUSING FINANCE AGENCY	1,782	2,912	4,576	4,476	4,476	4,476	4,476		
Total Revenues Collected	1,782	2,912	4,576	4,476	4,476	4,476	4,476		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** HOMEOWNERSHIP LOAN PROGRAMS  
**Program:** NON-APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

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The Rehabilitation Loan Program is a 10-year deferred loan offered to homeowners with a gross annual income of \$18,000 or less. The maximum loan amount of \$15,000.00 is intended to complete basic repairs to make their homes more energy efficient, livable, or accessible for at least the length of the loan.

### ACTIVITY PROFILE:

The two goals of MHFA's homeownership loan programs are as follows:

- Increase homeownership among households not well served by private mortgage financing because of income, race, disability, or other factors. In many cases, the barrier to homeownership is not income but credit or racial discrimination. In the case of American Indians living on tribal land, private mortgage financing may not be available due to the security issues raised by the trust status of the land.
- Provide home rehabilitation funding to homeowners not well served by private home improvement lending products.

### STRATEGIES AND PERFORMANCE:

MHFA's homeownership loan programs use three primary strategies:

- Affordable loan programs, created by combining state appropriations with bond proceeds and Agency resources.

For example, the Homeownership Assistance Fund provides funding for entry cost assistance for public housing residents and section 8 voucher holders. The Rehabilitation Loan Program provides home improvement funding for the lowest income homeowners that, in combination with home improvement programs funded with other resources, enables MHFA to provide funding to homeowners with a wide range of incomes.

- Outreach and marketing efforts aimed at reaching underserved households.
- A comprehensive statewide delivery network for education and counseling.

Organizations offer homeownership training and education and foreclosure prevention assistance in every county. The Homeownership Center in St. Paul coordinates this network.

### FINANCING INFORMATION:

MHFA's non-appropriated homeownership loan program is the following:

- 1) HOME Rehabilitation Loan Program

### BUDGET ISSUES:

Because these activities are funded through dedicated resources, no budget issues are presented. However, the Agency plans to move the HOME funding that currently goes to the Rehabilitation Loan Program into the Minnesota Urban and Rural Homesteading Program to simplify program administration for Rehabilitation Loan administrators and better meet new administrative requirements imposed by HUD.

Activity: HOMEOWNERSHIP LOAN PROGRAMS  
Program: NON-APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER OPERATING EXPENSES	187	239	216	191	191	143	143	(121)	(26.6%)
OTHER FINANCIAL TRANSACTIONS	1,818	2,294	2,056	1,816	1,816	1,357	1,357	(1,177)	(27.1%)
<b>Total Expenditures</b>	<b>2,005</b>	<b>2,533</b>	<b>2,272</b>	<b>2,007</b>	<b>2,007</b>	<b>1,500</b>	<b>1,500</b>	<b>(1,298)</b>	<b>(27.0%)</b>
<b>Financing by Fund:</b>									
Statutory Appropriations:									
HOUSING FINANCE AGENCY	2,005	2,533	2,272	2,007	2,007	1,500	1,500		
<b>Total Financing</b>	<b>2,005</b>	<b>2,533</b>	<b>2,272</b>	<b>2,007</b>	<b>2,007</b>	<b>1,500</b>	<b>1,500</b>		
<b>Revenue Collected:</b>									
Dedicated									
HOUSING FINANCE AGENCY	2,005	2,534	2,272	2,007	2,007	1,500	1,500		
<b>Total Revenues Collected</b>	<b>2,005</b>	<b>2,534</b>	<b>2,272</b>	<b>2,007</b>	<b>2,007</b>	<b>1,500</b>	<b>1,500</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** PRESERVATION OF FED ASSISTANCE  
**Program:** NON-APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

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### ACTIVITY PROFILE:

MHFA's goal is to preserve every unit of federally assisted rental housing as is economically feasible. This housing was financed originally with HUD, MHFA, or U.S.D.A Rural Development programs. No existing development program – federal, state, or local – can produce housing that is as affordable to residents as the existing stock of federally assisted housing. Preserving this housing costs substantially less per unit than new construction and, in many cases, leverages federal rent or mortgage subsidies well into the future. This housing stock is threatened for three reasons:

- Over half of Minnesota's section 8 housing stock was financed with 20-year mortgages that either have expired or will soon expire.
- Record low vacancy rates and rapidly increasing rents create incentives for owners to opt-out of any publicly funded rental-housing program.
- Physical deterioration threatens a significant portion of federally assisted housing.

### STRATEGIES AND PERFORMANCE:

MHFA uses two main strategies for preserving the existing stock of federally assisted housing.

- Effective administration of housing assistance payment contracts on approximately 32,000 units of section 8 housing.

MHFA recently took over the Section 8 contract administration of 18,000 units formerly administered by HUD.

- Incentive or rehabilitation loans, or both, for new or existing owners who will commit to staying in the program for a longer term. For reasons of federal income tax rules, transactions involving the existing owner cost less per unit than transactions involving a new owner. MHFA uses a variety of funding sources, including state appropriations, for this activity.

### FINANCING INFORMATION:

MHFA's non-appropriated programs in the area of Preservation of Federally-Assisted Housing are as follows:

- 1) Federal Preservation Grant

Federal Preservation Grant program preserves federally-assisted rental housing by providing capital for projects, and by funding nonprofit organizations to provide technical assistance, information services, and training to low-income residents of assisted housing that is at risk of being lost as affordable housing. The program is funded with a special economic development initiative grant from the federal government for FY 2000.

- 2) Section 8 Housing Assistance Payments

The Agency administers the federal Section 8 Housing Assistance Payments for developments contracted with MHFA. The assistance is in the form of rental subsidies to low- and moderate-income tenants. The tenant pays no more than 30% of his or her income for rent and HUD pays the difference between the tenant's contribution and a rent amount set by contract between HUD and the owner. Tenants must have incomes less than 80% of area median income. For developments with Housing Assistance Payments contracts executed after 10-01-81, 100% of the units must be occupied by households with incomes below 50% of area median income; developments with contracts executed before that date must rent at least 30% of the units to households with incomes below 50% of area median income. The Housing Assistance Payments are committed for the remainder of the mortgage term (30 or 40 years).

- 3) HUD Contract Administration

The Agency administers the federal Section 8 Housing Assistance Payments for developments contracted with HUD. The assistance is in the form of rental subsidies to low- and moderate-income tenants. The tenant pays no more than 30% of his or her income for rent and HUD pays the difference between the tenant's contribution and a rent amount set by contract between HUD and the owner. Tenants must have incomes less than 80% of area median income. For developments with Housing Assistance Payments contracts executed after 10-01-81, 100% of the units must be occupied by households with incomes below 50% of area median income; developments with contracts executed before that date must rent at least 30% of the units to households with incomes below 50% of area median income. The Housing Assistance Payments are committed for the remainder of the mortgage term (30 or 40 years).

### BUDGET ISSUES:

Because these activities are funded through dedicated resources, no budget issues are presented.

Activity: PRESERVATION OF FED ASSISTANCE  
Program: NON-APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER FINANCIAL TRANSACTIONS	0	0	446	0	0	0	0	(446)	(100.0%)
Subtotal State Operations	0	0	446	0	0	0	0	(446)	(100.0%)
PAYMENTS TO INDIVIDUALS	0	0	0	101	101	101	101	202	
Total Expenditures	0	0	446	101	101	101	101	(244)	(54.7%)
<b>Financing by Fund:</b>									
Statutory Appropriations:									
HOUSING FINANCE AGENCY	0	0	446	101	101	101	101		
Total Financing	0	0	446	101	101	101	101		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** RESIDENT & ORGANIZATIONAL SUPP  
**Program:** NON-APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

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### **ACTIVITY PROFILE:**

The goal of MHFA's Resident and Organizational Support Programs is to provide support for some of the organizational infrastructure necessary to effectively deliver affordable housing throughout the state. These programs fund homebuyer education and foreclosure prevention, regional planning and coordinating activities, and non-profit operating costs. Citizen input sessions around the state and over the years consistently identify the lack of capacity as a barrier to producing more affordable housing.

### **STRATEGIES AND PERFORMANCE:**

MHFA uses three strategies in this activity area: comprehensive network for homebuyer training and education and foreclosure prevention; regional planning and coordination; operating support for non-profit developers. Non-appropriated funds are used only for the latter strategy.

### **FINANCING INFORMATION:**

MHFA's non-appropriated programs Resident and Organizational Support Programs are as follows:

#### 1) CHDO Operating Grants

Community Housing Development Organization (CHDO) Operating Grants program uses up to 5% of the annual HOME Investment Partnerships Program appropriation to support nonprofit organizations meeting federal standards of structure and purpose that own, sponsor, or develop affordable housing for low-income families.

#### 2) HOME Administrative Costs

HOME Administrative Costs uses up to 10% of the annual HOME Investment Partnerships Program appropriation may be used for the costs of administering the HOME program.

### **BUDGET ISSUES:**

Because these activities are funded through dedicated resources, no budget issues are presented.

Activity: RESIDENT & ORGANIZATIONAL SUPP  
Program: NON-APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER OPERATING EXPENSES	264	318	410	410	410	410	410	92	12.6%
Subtotal State Operations	264	318	410	410	410	410	410	92	12.6%
PAYMENTS TO INDIVIDUALS	354	377	500	440	440	440	440	3	0.3%
Total Expenditures	618	695	910	850	850	850	850	95	5.9%
<b>Financing by Fund:</b>									
Statutory Appropriations:									
HOUSING FINANCE AGENCY	618	695	910	850	850	850	850		
Total Financing	618	695	910	850	850	850	850		
<b>Revenue Collected:</b>									
Dedicated									
HOUSING FINANCE AGENCY	618	695	910	850	850	850	850		
Total Revenues Collected	618	695	910	850	850	850	850		



## BUDGET ACTIVITY SUMMARY

**Budget Activity:** PROGRAM ADMINISTRATION  
**Program:** NON-APPROPRIATED PROGRAMS  
**Agency:** HOUSING FINANCE AGENCY

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### ACTIVITY PROFILE:

In the 1999 program year, the Agency served 29,000 households and disbursed \$140 million for homeownership programs, \$40.4 million for home improvement and rehabilitation programs, and \$111.6 million for rental housing programs, including new construction, rehabilitation and preservation, and rent assistance. The Agency administered over \$4 million in federal housing tax credits, managed a state property tax program covering 82,000 units, and oversaw a multifamily portfolio of 351 first mortgages and 540 deferred loans. Over 70% of the families and individuals served by MHFA programs in 1999 had incomes under \$20,000.

During FY 2000, MHFA implemented the Economic Development and Housing Challenge Program and the Innovative and Inclusionary Housing Program, two new programs totaling \$28 million created by the 1999 Legislature. For many years, MHFA has joined with other funding organizations to deliver rental and homeownership development funds in a comprehensive, single application, one-stop process. This year, the St. Paul Public Housing Agency joined the effort to make available project-based Section 8 assistance, and Hennepin County staff coordinated their administration of a newly created housing fund.

MHFA continued to meet the goal of preserving as much of the stock of federally assisted housing in Minnesota as economically feasible. In addition to its Redefined Equity Program, the Agency used state funds recommended by two Governors and appropriated by the state legislature to lock-in for the long term - and to rehabilitate where necessary - a variety of projects throughout the state originally financed by HUD, USDA Rural Development, and MHFA.

As of 6-30-1999, the agency has approximately \$2 billion in outstanding debt.

### STRATEGIES AND PERFORMANCE:

Agency staff engages in a number of activities to ensure that both appropriated and non-appropriated funds are well invested and the investments are well managed.

For multifamily properties, one of the major activities is management monitoring with five major components that require review and oversight: underwriting, construction, marketing/initial rent-up, long-term management, and additional oversight for troubled properties. In addition, monitoring for compliance with the federal Section 8, Section 236, Low-Income Housing Tax Credits, and HOME programs must be performed as well as monitoring for compliance with imposed rent and income restrictions.

Activities surrounding the various homeownership assistance provided by the agency include processing loan reservations and disbursements, compliance monitoring of funds used for homeownership assistance, monitoring of loan services, and provision of delinquency assistance and loss mitigation tools.

The Agency's portfolio grows as additional funds are appropriated for housing. A concomitant increase in the responsibilities for loan portfolio management, investment and debt management, and property management results from larger portfolio. In order to meet these responsibilities and adequately protect the Agency's investments, additional staff is needed.

HUD has recently added responsibilities to the administration of the Section 8 contracts.

The portfolio of federal housing tax credit is growing by approximately 1,200 units per year. Federal law requires that a portion of tax credit units be monitored every year, which in turn means a slow but steady growth over the next four years in the number of staff required to comply with federal law requirements. In addition, the IRS is changing the oversight requirements to add responsibilities for allocating agencies.

### FINANCING INFORMATION:

The cost of operating the MHFA in FY 2000 was \$15,170,000. The Agency pays for the costs of operation from Agency earnings. The administrative costs of operating state-appropriated programs are recovered to the extent that there are interest earnings on state appropriations spent from the MHFA funds. No direct state appropriation is used to fund Agency operations.

### BUDGET ISSUES:

No budget issues are presented. By February 1<sup>st</sup> of each year, MHFA presents the following information on its administrative budget to the chairs of the finance and appropriations committees of the legislature for review:

- A comparison of budgeted and actual administrative costs from the previous state fiscal year
- A comparison of the budgeted and actual-to-date administrative expenses from the current fiscal year

The Agency is required to explain any materially significant differences in any line items.

Activity: PROGRAM ADMINISTRATION  
Program: NON-APPROPRIATED PROGRAMS  
Agency: HOUSING FINANCE AGENCY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Category:</u></b>									
State Operations									
COMPENSATION	8,796	9,387	11,597	12,740	12,740	13,686	13,686	5,442	25.9%
OTHER OPERATING EXPENSES	4,125	5,783	4,952	5,021	5,021	5,471	5,471	(243)	(2.3%)
<b>Total Expenditures</b>	<b>12,921</b>	<b>15,170</b>	<b>16,549</b>	<b>17,761</b>	<b>17,761</b>	<b>19,157</b>	<b>19,157</b>	<b>5,199</b>	<b>16.4%</b>
<b><u>Financing by Fund:</u></b>									
Statutory Appropriations:									
HOUSING FINANCE AGENCY	12,921	15,170	16,549	17,761	17,761	19,157	19,157		
<b>Total Financing</b>	<b>12,921</b>	<b>15,170</b>	<b>16,549</b>	<b>17,761</b>	<b>17,761</b>	<b>19,157</b>	<b>19,157</b>		
<b><u>Revenue Collected:</u></b>									
Dedicated									
HOUSING FINANCE AGENCY	714	18,312	12,256	13,159	13,159	14,873	14,873		
<b>Total Revenues Collected</b>	<b>714</b>	<b>18,312</b>	<b>12,256</b>	<b>13,159</b>	<b>13,159</b>	<b>14,873</b>	<b>14,873</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	160.7	161.4	193.0	193.0	193.0	192.0	192.0		
PART-TIME, SEASONAL, LABOR SER	5.8	4.8	4.3	3.0	3.0	3.0	3.0		
<b>Total Full-Time Equivalent</b>	<b>166.5</b>	<b>166.2</b>	<b>197.3</b>	<b>196.0</b>	<b>196.0</b>	<b>195.0</b>	<b>195.0</b>		

## IRON RANGE RESOURCES & REHAB - CONTENTS

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## IRON RANGE RESOURCES & REHAB - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The mission of the Iron Range Resources and Rehabilitation Board (IRRRB) is first, to be careful custodians of the public money entrusted to us, and second, to enhance the economic vitality of the Taconite Tax Relief Area (TTRA) through value driven, cost effective projects and programs designed for the long-range benefit of the region.

The IRRRB is a regionally based state agency charged with the development of the remaining resources of Northeastern Minnesota. Operating under authority granted and governed by M.S. 298.22, .223, .227 and .29, Laws of Minnesota 1996 and associated statutes, the mission of the agency includes the:

- Promotion of economic development and tourism.
- Reclamation, restoration and enhancement of those areas that are affected by environmentally damaging operations involved in mining taconite and iron ore and those that are not otherwise provided for by state law.
- Economic rehabilitation and diversification of industrial enterprises adversely affected by a decline in the mining industry, including the vocational training and rehabilitation of residents dislocated or unemployed as a result of such decline.

With the exception of programs which this agency administers for Carlton and Koochiching counties in accordance with M.S. 298.17, agency expenditures are restricted to those within or for the benefit of a tax relief area defined in M.S. 273.134, including all or part of Cook, Lake, St. Louis, Itasca, Crow Wing and Aitkin counties.

### KEY SERVICE STRATEGIES:

The agency has adopted a "Partnerships that Work" philosophy in all operations as a key strategy in carrying out its mission. This strategy has allowed for increased participation in all program areas by effective leveraging of our financial resources. The agency's budget plan focuses on economic diversification and job creation, including the promotion of tourism.

### OPERATING ENVIRONMENT:

While economic development of the TTRA through loans and grants to businesses and local governments is the IRRRB's main focus, the agency also owns and operates two tourism facilities, the Giants Ridge Golf & Ski Resort in the town of White near Biwabik and the Ironworld Discovery Center in Chisholm. Giants Ridge has been a quality Alpine and Nordic Skiing facility since 1984; however, with the opening of its new 18-hole golf course in June 1997, it became a year round resort. Ironworld Discovery Center is a historical theme park which

preserves and celebrates Iron Range history and culture. The complex includes the Iron Range Research and Interpretative Centers, a railroad system, a festival park with a miniature golf course and various other entertainment facilities. Ironworld Discovery Center is also home to the IRRRB's Mineland Reclamation division, which undertakes safety, environmental and economic development projects on abandoned minelands of the pre-taconite era, often in cooperation with adjacent communities. Each year, IRRRB Mineland Reclamation grows and plants 300,000 containerized seedlings on the Mesabi, Vermilion and Cuyuna iron ranges.

The IRRRB also funds tourism promotional activities in cooperation with the Northern Lights Tourism Alliance. The agency constructs and grooms snowmobile and other trails to enhance tourism and quality of life, and operates a Building Demolition program that razes dilapidated structures to make room for new development and enhancement of the local tax base. In addition, the Commissioner co-chairs the Minnesota Blue Ribbon Committee on Mining. The committee represents an effort between Governor Ventura and Congressman Oberstar to merge the Governor's Task Force on Mining & Minerals created by former Governor Carlson and the Taconite Enhancement Committee spearheaded by the Congressman.

### ORGANIZATION/PROGRAM STRUCTURE:

COMMISSIONER AND EXECUTIVE MANAGEMENT	
Agency Administration	22.4 FTE
Facilities	56.3 FTE
Programs	29.4 FTE
Total 108.1 FTE	

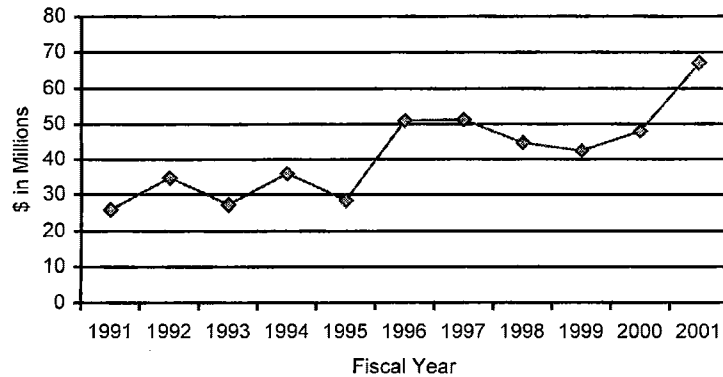
### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

IRON RANGE RESOURCES & REHAB - EXECUTIVE SUMMARY (Continued)

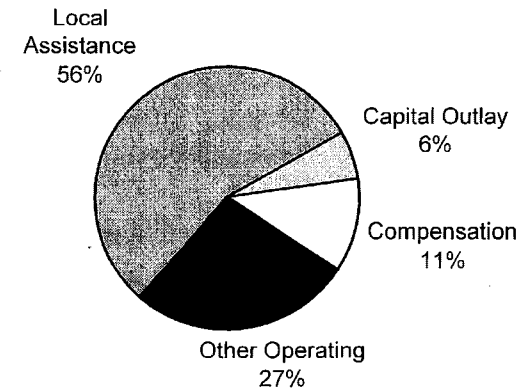
TRENDS AND PERSPECTIVE:

**Total Budget -All Funds**



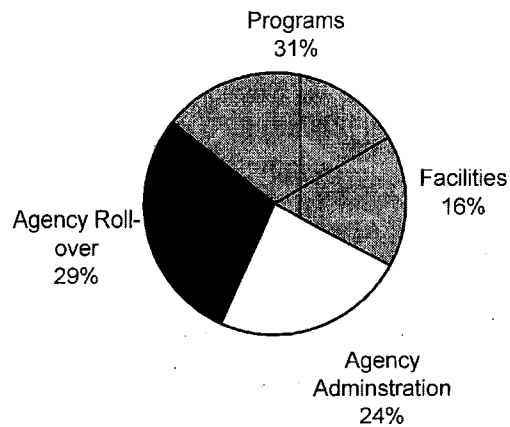
**2000-01 Expenditures by Category**

Total: \$114 Million



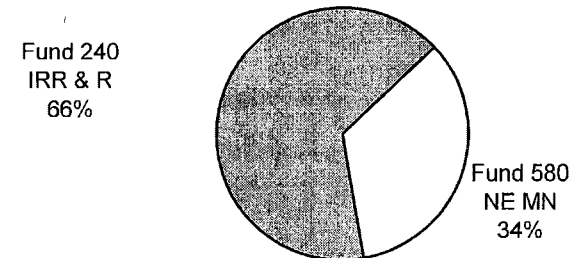
**2000-01 Expenditures by Fund**

Total: \$115 Million



**2000-01 Expenditures by Fund**

Total: \$114 Million



Agency: IRON RANGE RESOURCES & REHAB

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Program:</b>									
AGENCY ADMINISTRATION	13,834	14,152	13,127	12,782	12,782	12,821	12,821	(1,676)	(6.1%)
FACILITIES	8,255	8,905	10,018	8,851	8,851	8,934	8,934	(1,138)	(6.0%)
PROGRAMS	10,926	17,965	17,712	14,464	14,464	13,719	13,719	(7,494)	(21.0%)
AGENCY ROLL-OVER	9,392	6,893	26,182	0	0	0	0	(33,075)	(100.0%)
<b>Total Expenditures</b>	<b>42,407</b>	<b>47,915</b>	<b>67,039</b>	<b>36,097</b>	<b>36,097</b>	<b>35,474</b>	<b>35,474</b>	<b>(43,383)</b>	<b>(37.7%)</b>
<b>Financing by Fund:</b>									
<b>Statutory Appropriations:</b>									
IRON RANGE RESOURCES & REHAB	38,176	34,997	41,351	31,218	31,218	31,375	31,375		
NE MN ECONOMIC PROTECTION	4,231	12,918	25,688	4,879	4,879	4,099	4,099		
<b>Total Financing</b>	<b>42,407</b>	<b>47,915</b>	<b>67,039</b>	<b>36,097</b>	<b>36,097</b>	<b>35,474</b>	<b>35,474</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	113.6	108.6	108.1	108.1	108.1	108.1	108.1		
PART-TIME, SEASONAL, LABOR SER	7.3	17.6	17.3	17.3	17.3	17.3	17.3		
OVERTIME PAY	1.0	1.2	1.2	1.2	1.2	1.2	1.2		
<b>Total Full-Time Equivalent</b>	<b>121.9</b>	<b>127.4</b>	<b>126.6</b>	<b>126.6</b>	<b>126.6</b>	<b>126.6</b>	<b>126.6</b>		

## IRON RANGE RESOURCES & REHAB - REVENUE SUMMARY

### REVENUE SOURCES:

Revenues	Dollars in Thousands		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Taconite Production Taxes	\$31,237	\$31,237	\$31,237
Departmental Earnings	4,386	4,386	4,386
Other Revenues	6,008	6,008	6,008
Other Sources	<u>2,755</u>	<u>1,555</u>	<u>1,555</u>
Total	\$44,386	\$43,186	\$43,186

### FEE STRUCTURE:

Departmental earnings for Giants Ridge Golf and Ski Resort and the Ironworld Discovery Center are set according to prevailing market rates.

### RECENT CHANGES:

The agency has diversified its investment of cash revenues into a more balanced portfolio including a stock and bond fund. These funds are administered and managed by the State Board of Investment.

### FORECAST BASIS:

Taconite production tax estimates are provided by the Department of Revenue. Ironworld Discovery Center and Giants Ridge Golf and Ski Resort are mature operations, with same level revenues forecast for the biennium.

Investment earnings may fluctuate over the short-term but are budgeted at base level over the biennium.

### CHANGE ITEMS:

None.

Agency: IRON RANGE RESOURCES & REHAB

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<b>Non-Dedicated Revenue:</b>									
<b>Taxes:</b>									
GENERAL	204	207	0	0	0	0	0	(207)	(100.0%)
<b>Total Non-Dedicated Receipts</b>	<b>204</b>	<b>207</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(207)</b>	<b>(100.0%)</b>
<b>Dedicated Receipts:</b>									
<b>Departmental Earnings:</b>									
IRON RANGE RESOURCES & REHAB	3,839	3,846	4,386	4,386	4,386	4,386	4,386	540	6.6%
NE MN ECONOMIC PROTECTION	37	50	0	0	0	0	0	(50)	(100.0%)
<b>Other Revenues:</b>									
IRON RANGE RESOURCES & REHAB	2,947	3,101	2,256	2,256	2,256	2,256	2,256	(845)	(15.8%)
NE MN ECONOMIC PROTECTION	10,666	6,399	3,752	3,752	3,752	3,752	3,752	(2,647)	(26.1%)
<b>Other Sources:</b>									
IRON RANGE RESOURCES & REHAB	141	255	1,214	14	14	14	14	(1,441)	(98.1%)
NE MN ECONOMIC PROTECTION	1,678	3,070	1,541	1,541	1,541	1,541	1,541	(1,529)	(33.2%)
<b>Taxes:</b>									
IRON RANGE RESOURCES & REHAB	27,110	25,749	25,749	25,749	25,749	25,749	25,749	0	0.0%
NE MN ECONOMIC PROTECTION	4,501	5,488	5,488	5,488	5,488	5,488	5,488	0	0.0%
<b>Total Dedicated Receipts</b>	<b>50,919</b>	<b>47,958</b>	<b>44,386</b>	<b>43,186</b>	<b>43,186</b>	<b>43,186</b>	<b>43,186</b>	<b>(5,972)</b>	<b>(6.5%)</b>
<b>Agency Total Revenues</b>	<b>51,123</b>	<b>48,165</b>	<b>44,386</b>	<b>43,186</b>	<b>43,186</b>	<b>43,186</b>	<b>43,186</b>	<b>(6,179)</b>	<b>(6.7%)</b>



## PROGRAM SUMMARY

Program: AGENCY ADMINISTRATION  
Agency: IRON RANGE RESOURCES & REHAB

### PROGRAM PROFILE:

Agency Administration includes General Support, Human Resources, Information Systems, Board, Taconite, NEPF Administration and dedicated mining revenues. The office of the commissioner, Personnel, Accounting, Purchasing, State Indirect Costs (including the costs of a Special Assistant Attorney General assigned to the agency) are associated with the complex located in Eveleth. This activity provides for the management of all other agency programs and projects. However, the largest portion of the total costs are incurred for salaries and expenses which provide basic support service to the rest of the agency.

Information Systems provides technical support and equipment for the agency's computer operations. IRRRB facilities are connected through a network that allows shared access among facilities and other state of Minnesota systems.

### STRATEGIES AND PERFORMANCE:

Cost efficiency and effectiveness will receive priority attention during the biennium, especially so for agency operated tourism facilities. A managerial plan has been developed for each agency facility to achieve increased revenues and decreased operational costs.

The agency budget plan emphasizes economic development in all of the programs. During the biennium, the agency administration will direct agency resources toward various forms of economic development, including tourism, to achieve maximum possible job creation and economic diversification.

### FINANCING INFORMATION:

Dedicated receipts credited to this activity include taconite production taxes, interest reimbursement, loan repayments and miscellaneous revenue.

Revenues	Dollars in Thousands		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Taconite Production Taxes	\$31,237	\$31,237	\$31,237
Departmental Earnings	9	9	9
Other Revenues	5,758	5,758	5,758
Other Sources	<u>2,755</u>	<u>1,555</u>	<u>1,555</u>
Total	\$39,759	\$38,559	\$38,559

Expenditures	Dollars in Thousands		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Compensation	\$1,571	\$1,610	\$1,649
Other Operating	10,820	10,436	10,436
Capital Outlay	-0-	-0-	-0-
Local Assistance	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	\$12,391	\$12,046	\$12,085

### BUDGET ISSUES:

Summary of the agency plan is as follows:

- The budget request for this program reflects a 3% reduction from the base year.
- The budget includes a 3% per year increase for salaries.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Program: AGENCY ADMINISTRATION  
Agency: IRON RANGE RESOURCES & REHAB

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	1,808	1,828	1,571	1,610	1,610	1,649	1,649	(140)	(4.1%)
OTHER OPERATING EXPENSES	1,176	3,042	1,891	1,891	1,891	1,891	1,891	(1,151)	(23.3%)
<b>Subtotal State Operations</b>	<b>2,984</b>	<b>4,870</b>	<b>3,462</b>	<b>3,501</b>	<b>3,501</b>	<b>3,540</b>	<b>3,540</b>	<b>(1,291)</b>	<b>(15.5%)</b>
CAPITAL OUTLAY & REAL PROPERTY	1,179	1	384	0	0	0	0	(385)	(100.0%)
LOCAL ASSISTANCE	9,671	9,281	9,281	9,281	9,281	9,281	9,281	0	0.0%
<b>Total Expenditures</b>	<b>13,834</b>	<b>14,152</b>	<b>13,127</b>	<b>12,782</b>	<b>12,782</b>	<b>12,821</b>	<b>12,821</b>	<b>(1,676)</b>	<b>(6.1%)</b>
<b>Financing by Fund:</b>									
<b>Statutory Appropriations:</b>									
IRON RANGE RESOURCES & REHAB	13,573	11,626	12,827	12,482	12,482	12,521	12,521		
NE MN ECONOMIC PROTECTION	261	2,526	300	300	300	300	300		
<b>Total Financing</b>	<b>13,834</b>	<b>14,152</b>	<b>13,127</b>	<b>12,782</b>	<b>12,782</b>	<b>12,821</b>	<b>12,821</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
IRON RANGE RESOURCES & REHAB	30,208	29,126	28,978	27,778	27,778	27,778	27,778		
NE MN ECONOMIC PROTECTION	4,640	15,007	10,781	10,781	10,781	10,781	10,781		
<b>Nondedicated</b>									
GENERAL	204	207	0	0	0	0	0		
<b>Total Revenues Collected</b>	<b>35,052</b>	<b>44,340</b>	<b>39,759</b>	<b>38,559</b>	<b>38,559</b>	<b>38,559</b>	<b>38,559</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	33.8	21.4	22.4	22.4	22.4	22.4	22.4		
PART-TIME, SEASONAL, LABOR SER	1.3	2.1	2.1	2.1	2.1	2.1	2.1		
<b>Total Full-Time Equivalent</b>	<b>35.1</b>	<b>23.5</b>	<b>24.5</b>	<b>24.5</b>	<b>24.5</b>	<b>24.5</b>	<b>24.5</b>		

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## PROGRAM SUMMARY

**Program: FACILITIES**

**Agency: IRON RANGE RESOURCES & REHAB**

### PROGRAM PROFILE:

The primary activities of this program are the development and promotion of tourism opportunities that will enhance the economic diversification of the Taconite Tax Relief Area (TTRA). The program consists of major budget activities as follows:

- **Tourism Facility Operations:** The IRRRB operates Ironworld Discovery Center in Chisholm, an entertainment and history complex which includes the Iron Range Research Center and the education program, "Beyond School Walls." Giants Ridge Golf and Ski Resort in Biwabik include a winter ski area and an 18-hole golf course. A second 18-hole golf course is scheduled to open Spring 2003. Operational challenges include maintaining quality services and profitability during periods of adverse weather conditions.
- **Mineland Reclamation:** The program's first and continuing priority is safety. Unsafe abandoned mine sites have been fenced, protective berms or earth constructed, pit walls sloped and shaped, vegetation and trees planted to reduce erosion and open mine shafts filled or "capped" with gravel, concrete and recently with polyurethane foam.

Since its inception, the division has planted trees on publicly owned mine lands. Several million seedlings, grown in the division's growth chamber, are greening the once brownish-red mining areas from Ely to Crosby-Ironton. Mineland Reclamation has also worked closely with civic groups, organizations, municipalities and townships, schools and private industry to assist with tree planting projects across the Iron Range.
- **Maintenance & Shop:** This program maintains and repairs agency vehicles and equipment. The Shop also supervises and assists with building and grounds tasks related to the Eveleth administrative complex.

### STRATEGIES AND PERFORMANCE:

Tourism Facility Operations:

- **Ironworld Discovery Center:** Ironworld Discovery Center has undergone significant changes in an effort to redirect the programming and activities back to the original mission of preserving, protecting and promoting the history and heritage of northeastern Minnesota. The programming has

focused more on funding special events that fit the new mission and less on more costly "entertainment" type events. This focus coupled with a commitment to reducing the subsidy level has accomplished the following results:

- Stabilization of annual attendance providing a real base upon which to grow and expand and;
  - New partnerships (financial, educational, community) focused on a common mission and goals
- 
- **Giants Ridge Golf and Ski Resort:** The completion of the 18-hole championship golf course in June 1997 has made Giants Ridge a year-round destination resort. A second 18-hole golf course is scheduled to open Spring 2003. Activities conducted include golf, skiing and snowboarding. Key performance indicators include:
    - Over 28,000 rounds of golf played annually. The championship course has attracted golf enthusiasts from all over the state and provided an economic boost to the economy of northeastern Minnesota.
    - Being the host site for the 1997 USSA Junior Olympics, the MSHL cross-country ski championships, the Special Olympic Winter Games.
    - The addition of the golf course reduced the operating subsidy of the resort to break even on an annual basis.
    - The year-round resort provides an opportunity to attract residential and commercial real estate development and enhance the tax base of northeastern Minnesota. Giants Ridge partnered to construct an 80-unit hotel on site which is currently in full operation and to develop residential lots along the beautiful golf course to be sold at market rates.
  - **Mineland Reclamation:** This facility has established many partnerships including:
    - White-Pine, public-private partnership to protect native White Pine.
    - Minnesota DNR partnership to produce seedlings for the TTRA.
    - Cooperative agreements with cities, schools, mining companies leveraging division funds with other funders. The division has constructed numerous public accesses and recreation areas at "pit-lakes," stocked fish, reclaimed mine sites for development, conducted annual Arbor Day Fairs for area school children.

PROGRAM SUMMARY (Continued)

Program: FACILITIES  
Agency: IRON RANGE RESOURCES & REHAB

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**FINANCING INFORMATION:**

Revenues	Dollars in Thousands		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Taconite Production Taxes	\$-0-	\$-0-	\$-0-
Departmental Earnings	4,287	4,287	4,287
Other Revenues	250	250	250
Other Sources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	\$4,537	\$4,537	\$4,537

Expenditures	Dollars in Thousands		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Compensation	\$3,459	\$3,542	\$3,625
Other Operating	4,825	4,825	4,825
Capital Outlay	1,250	-0-	-0-
Local Assistance	<u>484</u>	<u>484</u>	<u>484</u>
Total	\$10,018	\$8,851	\$8,934

**BUDGET ISSUES:**

- Continued emphasis on increasing revenue and decreasing costs of program for facilities.
- The budget includes a 3% per year increase for salaries.

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Program: FACILITIES  
Agency: IRON RANGE RESOURCES & REHAB

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	2,909	2,857	3,459	3,542	3,542	3,625	3,625	851	13.5%
OTHER OPERATING EXPENSES	4,101	5,067	4,375	4,375	4,375	4,375	4,375	(692)	(7.3%)
OTHER FINANCIAL TRANSACTIONS	449	324	450	450	450	450	450	126	16.3%
<b>Subtotal State Operations</b>	<b>7,459</b>	<b>8,248</b>	<b>8,284</b>	<b>8,367</b>	<b>8,367</b>	<b>8,450</b>	<b>8,450</b>	<b>285</b>	<b>1.7%</b>
CAPITAL OUTLAY & REAL PROPERTY	525	321	1,250	0	0	0	0	(1,571)	(100.0%)
LOCAL ASSISTANCE	271	336	484	484	484	484	484	148	18.0%
<b>Total Expenditures</b>	<b>8,255</b>	<b>8,905</b>	<b>10,018</b>	<b>8,851</b>	<b>8,851</b>	<b>8,934</b>	<b>8,934</b>	<b>(1,138)</b>	<b>(6.0%)</b>
<b>Financing by Fund:</b>									
<b>Statutory Appropriations:</b>									
IRON RANGE RESOURCES & REHAB	8,255	8,905	10,018	8,851	8,851	8,934	8,934		
<b>Total Financing</b>	<b>8,255</b>	<b>8,905</b>	<b>10,018</b>	<b>8,851</b>	<b>8,851</b>	<b>8,934</b>	<b>8,934</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
IRON RANGE RESOURCES & REHAB	3,829	3,808	4,537	4,537	4,537	4,537	4,537		
<b>Total Revenues Collected</b>	<b>3,829</b>	<b>3,808</b>	<b>4,537</b>	<b>4,537</b>	<b>4,537</b>	<b>4,537</b>	<b>4,537</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	64.8	57.4	56.3	56.3	56.3	56.3	56.3		
PART-TIME, SEASONAL, LABOR SER	6.0	13.0	13.0	13.0	13.0	13.0	13.0		
OVERTIME PAY	0.9	1.1	1.1	1.1	1.1	1.1	1.1		
<b>Total Full-Time Equivalent</b>	<b>71.7</b>	<b>71.5</b>	<b>70.4</b>	<b>70.4</b>	<b>70.4</b>	<b>70.4</b>	<b>70.4</b>		

## PROGRAM SUMMARY

**Program: PROGRAMS**  
**Agency: IRON RANGE RESOURCES & REHAB**

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### PROGRAM PROFILE:

The agency programs consist of Community Development, Business Development, Tourism, Trails, Building Demolition, do IT!, Communications and Mining & Natural Resources Development.

The Community Development program leverages local, state, federal and private funds to support community development and the economic growth of the region statutorily defined as the Taconite Tax Relief Area (TTRA). Projects are evaluated as to how well they address the following basic criteria: job creation, leverage from other funding sources, economic impact, relative need and viability. Consolidation of services and facilities is also encouraged. Resource rehabilitation, environmental development grants and local economic development projects are the primary activities of the program.

The Business Development program has two specific goals: to strengthen and diversify the regional economy by assisting in the retention and creation of permanent full-time job opportunities and to protect the more than 6,000 quality jobs that are now provided by the taconite industry. This activity provides marketing and referral services and funding options for businesses located within the Taconite Tax Relief Area (TTRA). Funding is provided in the form of grants, direct or bank participation loans and through the development of customized financial packages for larger projects.

The Tourism program coordinates grant funding involving the Northern Lights Tourism Alliance (NLTA), which was formed by the IRRRB to identify and implement tourism development plans. The NLTA is a volunteer committee of tourism advisors whose efforts are divided into 3 major activities: marketing, natural resource enhancement and infrastructure.

The Trails program provides financial assistance, technical assistance and equipment for trail development and maintenance in the TTRA. This program focuses on winter trails, with a special emphasis on the grooming of area snowmobile trails and the promotion of winter special events. The Trails program is also partnering with the Department of Natural Resources (DNR) in the development of an off-highway recreational area.

The Building Demolition program assists local units of government and private citizens by removing unmarketable and decaying structures. This service is available to property owners at no charge, other than the asbestos inspection/abatement and tipping fees. The demolition crew generally returns to each city or township every one or two years. More than 6,300 structures have been razed since the program's inception, 119 in FY 2000.

The do IT! program continues to build on the ATM Network (Asynchronous Transfer Mode) high speed network initiated this year and becoming operational in October 2000. This brings high speed data, voice and video connectivity to the entire TTRA at substantial cost savings to all six public partners on the network. It also opens enormous opportunity to local business and internet service providers on the private side of the network.

The Communications program continues to provide the publication of *Rangeview*, *The Daily Resource*, *Resource*, and monthly calendars. The program also assisted with numerous agency projects, initiatives and events including: Governor Ventura's August 1999 visit to the Iron Range, the Iron Range Economic Alliance's magazine supplement in *Twin Cities Business Monthly*, the Stricly Business Computer Expo and Trade Show, the State of Minnesota Combined Charities Campaign, Census 2000, Take A Child To Work Day, a WCCO radio campaign, and a series of regional business forums. The division's goals for FY 2001 and forward include redesigning the agency's web page, continuing to expand the *Rangeview* mailing list, establishing a solid agency database system, and striving to improve internal and external agency communications.

The Mining & Natural Resources program manages the Taconite Economic Development Fund and Producer Grant programs, which combined to rebate 20.4 cents per ton to Minnesota's seven taconite companies for facility and equipment improvements that enhance the long-term viability of the plants. The investment tax credit of 15.4 cents rebates approximately \$7.1 million per year, and the Producer Grants rebate approximately \$2.2 million per year for projects approved by a joint committee comprised of an equal number of salaried and hourly workers at each plant. Because these funds are dedicated by statute for re-investment in the taconite plants, they do not show up as either a source of revenue or as an expenditure in the agency budget. This program directs IRRRB efforts to promote the development of nonferrous minerals in the TTRA through the Drilling Incentive Grant program. The DIG program provides up to \$20,000 matching grants for up to 40% of the direct drilling costs of exploration drill holes in the TTRA.

### STRATEGIES AND PERFORMANCE:

The Community Development budget plan will facilitate the accomplishment of the following objectives:

- The basis for awarding Community Development grants includes consideration of the leverage of other funds, and the potential to contribute new or expanded business opportunities.
- Over \$12 million is planned to be awarded for projects such as water and sewer systems, airports, mineland reclamation, recreation, tourism, housing, industrial parks, business and community development. Government units

## PROGRAM SUMMARY (Continued)

**Program: PROGRAMS**  
**Agency: IRON RANGE RESOURCES & REHAB**

and nonprofit organizations have used grant funds to leverage more than \$1 billion in other federal, state, local and private money.

The Business Development budget plan will facilitate the accomplishment of the following objectives:

- Work with partners in the TTRA to promote and market northeastern Minnesota.
- Conduct diligent analysis of the needs of existing businesses and be responsive to those needs.
- Offer marketing research assistance to businesses throughout the TTRA.
- Develop, design and monitor a combination of programs that address the needs of business.
- Expand current programs to include communications infrastructure as an element of traditional infrastructure funding available to projects.
- Continue to partner with Tourism and Community Development programs of the agency to increase leveraging other sources of funds.

These strategies have produced the following results to date:

- Business lending investments of \$8 million leveraged \$19 million in private lending over the last biennium.
- The current loan portfolio of 111 loans has created/retained approximately 3,000 jobs.

The Tourism program will continue efforts to identify opportunities that will increase visitor attendance at area attractions, lodging facilities and visitation to the area's recreational opportunities. Over the past several years, the NLTA has continued its successful "Wild North" advertising campaign and heritage tourism program.

The Trails program has developed partnerships with volunteer trail organizations, hosted a summit bringing together over 50 key leaders in the industry to address the need for maintenance and development of trails and provided grooming and maintenance of over 450 miles of trails.

The Mining and Natural Resource program will work closely with the area mining companies to provide incentives to the taconite industry for plant expansions, process improvements or new technologies.

## FINANCING INFORMATION:

Revenues	Dollars in Thousands		
	FY 2001	FY 2002	FY 2003
Taconite Production Taxes	\$-0-	\$-0-	\$-0-
Departmental	90	90	90
Earnings	-0-	-0-	-0-
Other Revenues	-0-	-0-	-0-
Other Sources	-0-	-0-	-0-
Total	\$90	\$90	\$90

Expenditures	Dollars in Thousands		
	FY 2001	FY 2002	FY 2003
Compensation	\$1,875	\$1,927	\$1,982
Other Operating	6,392	3,092	2,592
Capital Outlay	-0-	-0-	-0-
Local Assistance	9,445	9,445	9,145
Total	\$17,712	\$14,464	\$13,719

## BUDGET ISSUES:

- The budget includes a 3% per year increase for salaries.
- The budget includes a reduction in the base budget as carry forward balances have been depleted.

## GOVERNOR'S RECOMMENDATION:

The Governor recommends that the Board reassess its existing programs and funding resources in developing a response to the closing of the LTV plant in Hoyt Lakes. Specifically, the Board should examine:

- existing economic development programs with funding of about \$7.5 million per year for 2002-03,
- funds initially committed to other projects and programs such as the \$6 million per year for Community Development; and
- the remaining payments from LTV itself for the producer grant program and Taconite Economic Development Fund (these payments of about \$2 million that normally would be available for reinvestments in the mining industry will clearly not be used for that purpose).

The Governor recommends that the Board develop a strategy for using monies in the northeast Minnesota economic protection trust fund to diversify the economy of Northeast Minnesota. The Fund was created to be devoted to economic



## PROGRAM SUMMARY (Continued)

**Program: PROGRAMS**

**Agency: IRON RANGE RESOURCES & REHAB**

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rehabilitation and diversification of industrial enterprises where these conditions ensue as the result of the decline of such a single industry, and currently has a balance of almost \$80 million. The Board currently recommends projects to the Governor from the earnings on this Fund, per MS 298.296. After January 1, 2002, the Board will be able to recommend to the Governor projects that use the corpus of the Fund. This Fund was set up explicitly to prepare for the future after mining and now is an appropriate time to look for strategic investments that will position the region to prosper in the future.

Additionally, program funds appropriated to the Department of Trade and Economic Development are available for statewide investment opportunities. Applications for projects in northeastern Minnesota meeting the program guidelines will be considered for funding through these programs as well.

Program: PROGRAMS  
 Agency: IRON RANGE RESOURCES & REHAB

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	356	1,733	1,875	1,927	1,927	1,982	1,982	301	8.3%
OTHER OPERATING EXPENSES	1,166	1,404	2,092	2,092	2,092	2,092	2,092	688	19.7%
OTHER FINANCIAL TRANSACTIONS	500	3,217	4,300	1,000	1,000	500	500	(6,017)	(80.0%)
<b>Subtotal State Operations</b>	<b>2,022</b>	<b>6,354</b>	<b>8,267</b>	<b>5,019</b>	<b>5,019</b>	<b>4,574</b>	<b>4,574</b>	<b>(5,028)</b>	<b>(34.4%)</b>
CAPITAL OUTLAY & REAL PROPERTY	261	47	0	0	0	0	0	(47)	(100.0%)
LOCAL ASSISTANCE	8,643	11,564	9,445	9,445	9,445	9,145	9,145	(2,419)	(11.5%)
<b>Total Expenditures</b>	<b>10,926</b>	<b>17,965</b>	<b>17,712</b>	<b>14,464</b>	<b>14,464</b>	<b>13,719</b>	<b>13,719</b>	<b>(7,494)</b>	<b>(21.0%)</b>
<b>Financing by Fund:</b>									
<b>Statutory Appropriations:</b>									
IRON RANGE RESOURCES & REHAB	10,926	12,792	10,152	9,885	9,885	9,920	9,920		
NE MN ECONOMIC PROTECTION	0	5,173	7,560	4,579	4,579	3,799	3,799		
<b>Total Financing</b>	<b>10,926</b>	<b>17,965</b>	<b>17,712</b>	<b>14,464</b>	<b>14,464</b>	<b>13,719</b>	<b>13,719</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
IRON RANGE RESOURCES & REHAB	0	17	90	90	90	90	90		
<b>Total Revenues Collected</b>	<b>0</b>	<b>17</b>	<b>90</b>	<b>90</b>	<b>90</b>	<b>90</b>	<b>90</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	7.2	29.8	29.4	29.4	29.4	29.4	29.4		
PART-TIME, SEASONAL, LABOR SER	0.0	2.5	2.2	2.2	2.2	2.2	2.2		
OVERTIME PAY	0.0	0.1	0.1	0.1	0.1	0.1	0.1		
<b>Total Full-Time Equivalent</b>	<b>7.2</b>	<b>32.4</b>	<b>31.7</b>	<b>31.7</b>	<b>31.7</b>	<b>31.7</b>	<b>31.7</b>		

## PROGRAM SUMMARY

Program: AGENCY ROLL-OVER  
Agency: IRON RANGE RESOURCES & REHAB

### PROGRAM PROFILE:

The agency roll-over consists of all agency budget activity that has been certified and reset into current fiscal year. This account also includes projects that had not been processed by fiscal year end and therefore received Commissioner approval to roll-forward into the current fiscal year.

### STRATEGIES AND PERFORMANCE:

Budget managers will continue to take an active role in the completion of their projects.

### FINANCING INFORMATION:

Revenues	Dollars in Thousands		
	FY 2001	FY 2002	FY 2003
Taconite Production Taxes	0	0	0
Departmental Earnings	0	0	0
Other Revenues	0	0	0
Other Sources	0	0	0
Total	0	0	0

Expenditures	Dollars in Thousands		
	FY 2001	FY 2002	FY 2003
Compensation	0	0	0
Other Operating	2,429	0	0
Capital Outlay	4,554	0	0
Local Assistance	19,199	0	0
Total	26,182	0	0

### BUDGET ISSUES:

None.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Program: AGENCY ROLL-OVER  
Agency: IRON RANGE RESOURCES & REHAB

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	448	0	0	0	0	0	0	0	
OTHER OPERATING EXPENSES	415	666	413	0	0	0	0	(1,079)	(100.0%)
OTHER FINANCIAL TRANSACTIONS	2,297	2,283	2,016	0	0	0	0	(4,299)	(100.0%)
<b>Subtotal State Operations</b>	<b>3,160</b>	<b>2,949</b>	<b>2,429</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,378)</b>	<b>(100.0%)</b>
CAPITAL OUTLAY & REAL PROPERTY	2	404	4,554	0	0	0	0	(4,958)	(100.0%)
LOCAL ASSISTANCE	6,230	3,540	19,199	0	0	0	0	(22,739)	(100.0%)
<b>Total Expenditures</b>	<b>9,392</b>	<b>6,893</b>	<b>26,182</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(33,075)</b>	<b>(100.0%)</b>
<b>Financing by Fund:</b>									
<b>Statutory Appropriations:</b>									
IRON RANGE RESOURCES & REHAB	5,422	1,674	8,354	0	0	0	0		
NE MN ECONOMIC PROTECTION	3,970	5,219	17,828	0	0	0	0		
<b>Total Financing</b>	<b>9,392</b>	<b>6,893</b>	<b>26,182</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
NE MN ECONOMIC PROTECTION	12,242	0	0	0	0	0	0		
<b>Total Revenues Collected</b>	<b>12,242</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	7.8	0.0	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>7.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		

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## COMMERCE DEPT - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

**Mission:** To ensure that commercial, financial, and utility services and transactions are secure, stable, reliable, and equitable. The department will provide this assurance to the people of Minnesota by

- advocating in the public interest to ensure equitable and reliable services;
- regulating business activity to ensure compliance, security and stability;
- safeguarding consumers' rights and investments; and,
- expanding economic opportunities while working to improve our environment and quality of life.

**Vision:** To regulate utilities, industries, financial institutions, licensed businesses, licensed individuals, and commercial activity without respect to specific interests of either the regulated businesses or the clients they serve. This requires decisions that will maximize the net benefits to all residents and regulated businesses while safeguarding the rights of consumers and protecting policyholders and investors from financial failure. Promoting the welfare of this broad constituency requires an assessment of the significant consequences of every regulatory decision and enforcement action, including the impact on consumer costs, financial stability, reliability of service, the environment, and economic development. This regulatory balance effectively protects the broad financial interests of Minnesota's businesses and consumers.

### KEY SERVICE STRATEGIES:

#### **Telecommunications Reform:**

The department proposes to reform Minnesota's telecommunications and cable industries by

- ensuring that Minnesota will continue to have high quality telecommunications and cable services, but at reduced costs;
- creating an advanced service capital investment revolving loan fund to serve as a funding mechanism for deployment of high speed data services and future essential advanced services to Greater Minnesota;
- increasing assistance to low-income consumers and triggering the flow of additional federal support;
- shining a light on public subsidies by reforming implicit subsidies into explicit subsidies.

#### **Keeping the Lights On:**

Within the next five to seven years, power consumption in Minnesota will exceed the combined generation and transmission capacity of our electric utilities. The department's "Keeping the Lights On" proposal is designed to maintain the

reliability of Minnesota's electric and natural gas utility systems through comprehensive planning, effective conservation measures, improved energy technologies and competition at the *wholesale* level.

#### **Regulatory and Service:**

- Regulate businesses, industries and financial institutions in a manner that will provide individuals and businesses with confidence in the security, stability and equity of commercial, financial, and utility services and transactions in Minnesota.
- Ensure solvent financial institutions for investors, borrowers, policyholders, and depositors.
- Ensure compliance with statutes and rules regulating financial products and services.
- Advocate gas, electric, and telephone rate structures and service policies that balance customer need for reliable, affordable, and environmentally sound services with the minimum financial resources needed by the utility.
- Promote energy conservation through loans, grants, and energy technology research.
- Ensure that Minnesota's interests are represented and protected at the federal level.
- Maintain uniformity with national regulatory models.
- Administer the TACIP program to provide high-quality telecommunication services and equipment to communications impaired persons.
- Ensure consumer trust and confidence in regulated industries by investigating consumer complaints and enforcing applicable statutes.
- Ensure the people of Minnesota that licensed individuals and entities meet minimum competence standards.
- Return abandoned property to the rightful owners or heirs.

### OPERATING ENVIRONMENT:

**Department Merger:** The energy, telecommunications, and TACIP programs from the Department of Public Service were merged into the Department of Commerce on 9-16-1999. The merger has been successful.

**Regulatory:** Significant numbers of new immigrants wish to work in licensed occupations. This increased level of licensing activity and increasing need for multiple language skills is affecting the department's licensing activities.

**Advocacy:** Gas, electric, and telecommunications rates are set in a quasi-judicial environment. The department advocates in evidentiary hearings and

## COMMERCE DEPT - EXECUTIVE SUMMARY (Continued)

public hearings before the Public Utilities Commission (PUC) (and sometimes the Office of Administrative Hearings) on behalf of all residential, commercial, and industrial ratepayers. All parties present formal evidence to support their positions. The PUC makes a quasi-judicial decision based on the formal record.

**Economic Indicators:** Most economic indicators have a direct impact on the solvency of banks, credit unions, and insurance companies. The department monitors trends in the economy to anticipate future impacts on regulated industries.

### **Evolution of Industries:**

- Regulation of financial services industries has become more complex because some of the federal regulatory barriers within the industry have been removed. Financial services companies now have opportunities to offer products that were previously prohibited.
- Mergers have significantly affected the size of companies and institutions (banks, credit unions, consumer credit companies, insurance companies, telecommunications companies, and energy utilities) and have contributed to an expansion of their markets.
- Regulation of telecommunication and energy utilities has become more complex as federal agencies have changed the interstate regulatory environment for utility operations.
- Telecommunications regulation has become extremely complex because of the rapid rate of change within the industry and the growing technological complexity of services offered by the industry.

**Changing Demographics:** Minnesota's population includes increasing numbers of older citizens. Because many older citizens live on fixed incomes, they have legitimate concerns with regulated industries and products, including retirement planning, long-term care insurance, health insurance, and the cost of utility services. Additionally, increasing numbers of new immigrants are seeking employment in licensed occupations.

**Federal Regulatory Activity:** Federal regulatory activity with respect to the interstate operations of state regulated utility companies also influences the department's regulatory policies and actions. Changes at the federal level and in other states, affect the department's performance. Congressional acts relating to bank, insurance and securities regulation have made financial regulation increasingly complex. The Gramm-Leach-Bliley Act (GLBA), also known as "financial services modernization," was signed into law in 1999. The federal law repeals certain provisions of the Banking Act of 1933 and allows banks, securities firms, and insurance companies to affiliate under a new "financial holding company" structure. However, GLBA recognizes and preserves current

functional regulation of insurance and securities by the states. GLBA requires each state to

- coordinate with federal regulatory agencies with functional oversight of banks and securities firms;
- create and implement privacy laws and rules to protect non-public financial information provided by consumers to financial institutions, insurance companies, and securities firms; and,
- Establish and implement uniform and reciprocal laws and rules governing licensure of individuals and entities authorized to sell and solicit insurance in the state, or face the creation of the National Association of Registered Agents and Brokers.

**Technology:** Changes in technology continue to lead to more streamlined regulatory processes:

- While technology implementations may lead to streamlining and improved communication, they also lead to the transmission of much more information. The department's analysis tasks will become increasingly difficult as technology implementations improve communication between regulators and regulated entities.
- Data privacy issues will play an increasingly important role in the department's work with regulated entities. The Gramm-Leach-Bliley Act will influence legislative and department activity in this area.
- Electronic signatures will influence some aspects of the regulation of financial institutions.

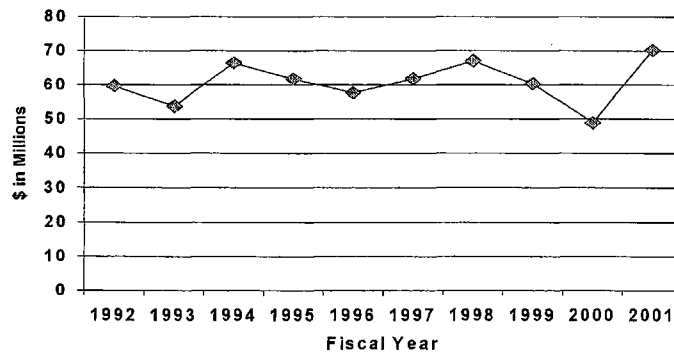
### **ORGANIZATION/PROGRAM STRUCTURE:**

Commissioner's Office	FTE
Financial Examinations	86.3
Petroleum Tank Release Cleanup Fund	11.5
Administrative Services	73.0
Enforcement	85.8
Telecommunications	9.1
Energy	42.9
TACIP	1.2
<b>TOTAL FTE -- 6/30/2000</b>	<b>309.8</b>

COMMERCE DEPT - EXECUTIVE SUMMARY (Continued)

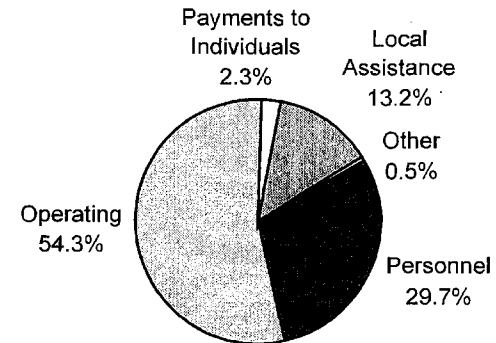
**TRENDS AND PERSPECTIVE:**

**Total Budget - All Funds**



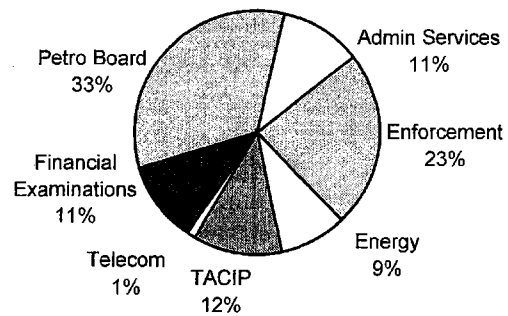
**2000-01 Expenditures by Category**

Total: \$125 Million



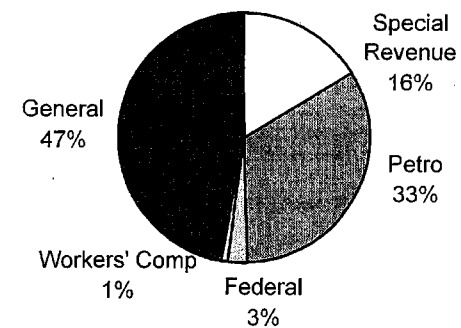
**2000-01 Expenditures by Program**

Total: \$125 Million



**2000-01 Expenditures by Fund**

Total: \$125 Million





## COMMERCE DEPT - EXECUTIVE SUMMARY (Continued)

### GOVERNOR'S RECOMMENDATION(S):

The Governor recommends base funding levels as requested in the agency's budget, with the following adjustments:

- A biennial reallocation of \$3.1 million to transfer the Weights and Measures Division from the Department of Public Service. This will complete the merger of the two departments.
- The collection of agency audit fees to generate estimated non-dedicated revenue of \$14,000 for the biennium.
- The fees for self-insurance plan certification, and utilization program review to generate estimated non-dedicated revenues of \$66,000 for the biennium.
- A biennial appropriation of \$30 million from the Health Care Access Fund to the Minnesota Comprehensive Health Association (MCHA). In FY 2002, \$250,000 will be used for an actuarial study and policy analysis of the feasibility and cost impact of establishing a private insurance access pool for the individual health insurance market. The balance of \$29.7 million will be used to offset MCHA losses.
- The transfer of managed health care regulatory operations from the Department of Health to the Department of Commerce. As a result, the department will have an increase in expenditures and revenues of \$2.9 million
- Enactment of the strategic telecommunications reform initiative will generate General Fund expenditures and non-dedicated revenue of \$500,000 in the biennium for cable regulation. In addition, a Universal Service Fund will be established with dedicated revenue of \$360 million for the biennium. These additional revenues do not represent any additional costs to Minnesota telecommunications consumers. The revenues represent a transformation of implicit subsidies into explicit subsidies. The Universal Service Fund will also provide funding for the Advanced Service Capital Investment Revolving Loan Program.

Agency: COMMERCE DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Program:</u></b>									
FINANCIAL EXAMINATIONS	8,764	6,602	7,529	7,829	7,967	8,214	8,491	2,327	16.5%
PETROLEUM TANK CLEANUP FUND	15,522	19,886	21,366	21,339	21,339	21,363	21,363	1,450	3.5%
ADMINISTRATIVE SERVICES	6,657	6,332	7,135	5,942	5,942	6,093	6,093	(1,432)	(10.6%)
ENFORCEMENT & COMPLIANCE	20,899	6,512	22,489	7,277	22,864	7,464	23,654	17,517	60.4%
ENERGY	4,694	4,597	6,341	7,490	7,490	8,190	8,190	4,742	43.4%
TACIP	6,181	7,072	7,537	8,000	8,000	7,818	7,818	1,209	8.3%
TELECOMMUNICATIONS	811	851	1,258	1,136	96,286	1,158	221,429	315,606	14,964.7%
WEIGHTS & MEASURES	0	0	0	0	3,281	0	3,353	6,634	0
<b>Total Expenditures</b>	<b>63,528</b>	<b>51,852</b>	<b>73,655</b>	<b>59,013</b>	<b>173,169</b>	<b>60,300</b>	<b>300,391</b>	<b>348,053</b>	<b>277.3%</b>

<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	20,430	21,179	37,794	21,953	26,209	22,505	27,575		
PETROLEUM TANK RELEASE CLEANUP	797	839	1,221	1,064	1,064	1,084	1,084		
HEALTH CARE ACCESS	15,000	0	0	0	15,000	0	15,000		
SPECIAL REVENUE	404	0	100	0	0	0	0		
WORKERS COMPENSATION	472	558	593	599	599	615	615		
<b>Open Appropriations:</b>									
GENERAL	52	94	128	1,675	1,675	2,190	2,190		
PETROLEUM TANK RELEASE CLEANUP	14,725	19,047	20,145	20,275	20,275	20,279	20,279		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	10,859	9,281	11,279	11,698	11,698	11,892	11,892		
UNIVERSAL SERVICE	0	0	0	0	94,900	0	220,021		
FEDERAL	789	854	2,395	1,749	1,749	1,735	1,735		
<b>Total Financing</b>	<b>63,528</b>	<b>51,852</b>	<b>73,655</b>	<b>59,013</b>	<b>173,169</b>	<b>60,300</b>	<b>300,391</b>		

<b>FTE by Employment Type:</b>									
FULL TIME	314.5	301.3	329.9	328.5	336.6	327.8	343.9		
PART-TIME, SEASONAL, LABOR SER	4.5	7.1	2.1	2.1	2.1	2.1	2.1		
OVERTIME PAY	2.3	1.4	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>321.3</b>	<b>309.8</b>	<b>332.0</b>	<b>330.6</b>	<b>338.7</b>	<b>329.9</b>	<b>346.0</b>		

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# COMMERCE DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001)</b> (\$000s)			
Appropriations	\$21,738	\$21,738	\$43,476
<b><u>BASE ADJUSTMENT</u></b>			
New Programs to Agency Base	(300)	(300)	(600)
Documented Space/Lease Increase	9	37	46
2002-03 Salary & Benefit Base	506	1,030	1,536
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$21,953</b>	<b>\$22,505</b>	<b>\$44,458</b>
<b><u>CHANGE ITEMS</u></b>			
Telecommunications Reform	250	250	500
Transfer Weights & Measures to Commerce	3,281	3,353	6,634
Managed Health Care Regulatory Transfer	725	1,467	2,192
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$26,209</b>	<b>\$27,575</b>	<b>\$53,784</b>

## **BRIEF EXPLANATION OF BUDGET DECISIONS:**

### **Base Budget**

- The 2002-03 base budget includes no increases beyond those detailed in the base adjustments and change items.
- The base budget is distributed as follows:
  - Telecommunications 1.7%
  - Energy 8.6%
  - Administration 9.7%
  - Financial Examinations 10.2%
  - TACIP 10.3%
  - Petroleum Tank Cleanup 29.0%
  - Enforcement 30.5%

### **Base Adjustments**

- The base budget reduction of \$300,000 (shown above as a "New Program to Agency Base") is the final 30% of a \$1 million base budget reduction that was required by the 2000 Minnesota Legislature. The initial 70% of this base budget reduction permanently reduced the department's budget by \$700,000 in FY 2001.
- The requested increases of \$9,000 in FY 2002 and \$37,000 in FY 2003 are for office space rental costs in the Golden Rule building. These amounts do

not include the rental cost differential between the space in the Golden Rule building and the spaces in the two buildings previously occupied by the department. The full rental cost differential was absorbed by using savings from the merger.

- The requested salary increases of \$506,000 in FY 2002 and \$1.0 million in FY 2003 represent the allowable 3% increases in the department's salary budget.

### **Change Items**

- The Telecommunications Reform change item includes three additional FTEs and a General Fund appropriation, starting in FY 2002, of \$250,000 per year for state regulation of cable TV and communication services. This requested appropriation would require only salary inflation adjustments in future fiscal years. The full cost of the requested appropriation will be recovered by assessments to the cable companies. Proceeds from the assessment will be deposited in the General Fund, and will fully offset the requested appropriation from the General Fund.
- The Weights and Measures change item is a request to transfer the Weights and Measures Division to the Department of Commerce. The increase to the Department of Commerce budget will be offset by an equal decrease to the Department of Public Service budget. The Weights and Measures Division will continue to recover its costs by charging inspection fees. The division will continue to pay all fee revenues into the General Fund to offset the appropriation to the division.
- The Managed Health Care Regulatory Transfer change item is a request to transfer the Managed Health Care Regulatory activity from the Department of Health to Commerce. As a result of this transfer, we will consolidate the enforcement of consistent standards to one state agency.

### **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends base funding levels as requested in the agency's budget except for the following adjustments:

- A biennial increase of \$500,000 for three positions to support the agency's cable regulation component of telecommunications reform. The cost will be recovered through an assessment to the cable industry.
- A biennial increase of \$6.6 million as a result of the transfer of the Weights and Measures program from the Department of Public Service to Commerce. This transfer will complete the merger of these departments and the Department of Public Service can be abolished.
- A biennial increase of \$2.2 million as a result of the transfer of Managed Health Care Regulation from the Department of Health to Commerce.

# COMMERCE DEPT - BUDGET BRIEF

Fund: PETROLEUM TANK RELEASE CLEANUP

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Appropriations	\$1,045	\$1,045	\$2,090
<b><u>BASE ADJUSTMENT</u></b>			
2002-03 Salary and Benefit Base	19	39	58
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$1,064</b>	<b>\$1,084</b>	<b>\$2,148</b>
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$1,064</b>	<b>\$1,084</b>	<b>\$2,148</b>

## **BRIEF EXPLANATION OF BUDGET DECISIONS:**

### **Base Budget**

The 2002-2003 base budget includes no increases beyond those detailed in the base adjustment.

### **Base Adjustment**

The requested salary increases of \$19,000 in FY 2002 and \$39,000 in FY 2003 represent the allowable 3% increases in the department's salary budget.

## **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends the agency's base budget.

COMMERCE DEPT - BUDGET BRIEF

**Fund: WORKERS COMPENSATION**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Appropriations	\$584	\$584	\$1,168
<b><u>BASE ADJUSTMENT</u></b>			
2002-03 Salary & Benefit Base	15	31	46
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$599</b>	<b>\$615</b>	<b>\$1,214</b>
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$599</b>	<b>\$615</b>	<b>\$1,214</b>

**BRIEF EXPLANATION OF BUDGET DECISIONS:**

**Base Budget**

The 2002-2003 base budget includes no increases beyond those detailed in the base adjustment.

**Base Adjustment**

The requested salary increases of \$15,000 in FY 2002 and \$31,000 in FY 2003 represent the allowable 3% increases in the department's salary budget.

**GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends the agency's base budget.

## COMMERCE DEPT - REVENUE SUMMARY

### REVENUE SOURCES:

The department generates significant non-dedicated revenues from a broad range of fees and assessments charged to regulated businesses and industries, and from fees charged to licensed businesses and individuals. Additionally, the Petroleum Tank Release Cleanup Fund, Telephone Investigation Revolving Fund, Building Contractor Recovery Fund, Insurance Examination Revolving Fund, Real Estate Education Research and Recovery Fund, and the Telecommunications Access for Communications-Impaired Persons Fund generate dedicated revenue. The department's revenues exceed its costs by a significant margin.

### FEE STRUCTURE:

- The cost to examine financial records is recovered through fees charged to banks, credit unions, consumer credit companies, and insurance companies.
- Other direct and indirect costs to regulate state-chartered banks, credit unions, and consumer credit companies are recovered by assessing the regulated companies.
- Gas and electric utility regulation costs are recovered by assessing the regulated companies.
- Telecommunication regulation costs are recovered by assessing regulated telephone companies.
- Registration fees are charged for investment offerings.
- Filing fees are charged for insurance company transactions.
- Application and license fees are charged to regulated industries.
- Fines and penalties are assessed against businesses and individuals that are found in violation of state law.
- The department receives proceeds from abandoned property remittances.
- The Petroleum Tank Release Cleanup Fee recovers operating and staff costs for the Petroleum Tank Release Cleanup Board (Petro Board).
- A statutorily required access line charge recovers operating and staff costs for the Telecommunication Access for Communication-Impaired Persons (TACIP) program.

### RECENT CHANGES:

In response to recent findings by the Legislative Auditor, the department has revised the way it charges for some insurance company audits and has revised the way it pays companies (called finders) that search for and report unclaimed property. In July of 2001, the department expects that the access line surcharge for the TACIP program will be reduced to \$0.09 per access line. The fee is currently set at \$0.12 per access line.

### FORECAST BASIS:

The department expects to continue to recover the costs of its various regulatory operations to the full extent required by statute. Additionally, based on the assumption that the economy will continue to grow, but at a somewhat reduced rate, income from registration fees is expected to level off. Unclaimed property proceeds are expected to remain steady. The department will continue to recover the staff and operating costs of the Petro Board and TACIP programs.

### CHANGE ITEMS:

- Programs to be established under the proposed telecommunications reform initiative will generate non-dedicated revenue of \$250,000 in FY 2002 and \$250,000 in FY 2003, and dedicated revenue of \$164 million in FY 2002 and \$196 million in FY 2003. These additional revenues do not represent any additional costs to Minnesota telecommunications consumers. The revenues represent a transformation of implicit subsidies within telephone rates into explicit subsidies.
- Transferring the Weights and Measures program from the Department of Public Service will increase department revenue. The program recovers its costs through two separate fee systems. The program's weights and measures inspection fees will generate non-dedicated revenue of \$1.5 million in FY 2002, and \$1.6 million in FY 2003. Additionally, the program's petroleum-related costs will be recovered through the Petroleum Inspection Fee collected by the Commissioner of Revenue. This additional revenue (which does not appear in the change item narrative or in the program narrative) will be \$1.9 million in both FY 2002 and FY 2003.
- The proposed collection agency audit fee will generate estimated non-dedicated revenue of \$7,000 in FY 2002 and \$7,000 in FY 2003.
- The proposed fees for self-insurance plan certification, and utilization program review will generate estimated non-dedicated revenues of \$33,000 in FY 2002 and \$33,000 in FY 2003.
- Proposed MCHA funding includes \$250,000 in FY 2002 to fund an actuarial study and policy analysis of the feasibility and cost impact of establishing a private insurance access pool for the individual health insurance market. Additionally, the proposal includes \$14.75 million in FY 2002 and \$15 million in FY 2003 to offset the losses of the Minnesota Comprehensive Health Association.
- The proposal to transfer managed health care regulatory operations from the Department of Health to the Department of Commerce will increase Commerce expenditures and revenues by \$1.45 million in FY 2002 and \$1.5 million in FY 2003 and beyond.

Agency: COMMERCE DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<b>Non-Dedicated Revenue:</b>									
<b>Departmental Earnings:</b>									
GENERAL	24,103	29,432	25,090	66,682	69,235	66,851	70,178	84,891	155.7%
CAMBRIDGE DEPOSIT FUND	44,607	52,431	34,007	0	0	0	0	(86,438)	(100.0%)
<b>Other Revenues:</b>									
GENERAL	46	29	31	31	31	31	31	2	3.3%
PETROLEUM TANK RELEASE CLEANUP	2,009	1,407	1,337	1,332	1,332	1,332	1,332	(80)	(2.9%)
<b>Other Sources:</b>									
PETROLEUM TANK RELEASE CLEANUP	176	0	10	0	0	0	0	(10)	(100.0%)
<b>Total Non-Dedicated Receipts</b>	<b>70,941</b>	<b>83,299</b>	<b>60,475</b>	<b>68,045</b>	<b>70,598</b>	<b>68,214</b>	<b>71,541</b>	<b>(1,635)</b>	<b>(1.1%)</b>
<b>Dedicated Receipts:</b>									
<b>Departmental Earnings:</b>									
SPECIAL REVENUE	14,127	11,332	11,460	12,517	12,517	13,779	13,779	3,504	15.4%
UNIVERSAL SERVICE	0	0	0	0	163,670	0	174,097	337,767	
<b>Grants:</b>									
FEDERAL	797	884	2,365	1,749	1,749	1,735	1,735	235	7.2%
<b>Other Revenues:</b>									
SPECIAL REVENUE	481	582	801	793	793	819	819	229	16.6%
UNIVERSAL SERVICE	0	0	0	0	659	0	6,924	7,583	
MISCELLANEOUS AGENCY	7	(5)	0	0	0	0	0	5	(100.0%)
<b>Other Sources:</b>									
SPECIAL REVENUE	257	238	266	246	246	260	260	2	0.4%
UNIVERSAL SERVICE	0	0	0	0	0	0	14,770	14,770	
<b>Total Dedicated Receipts</b>	<b>15,669</b>	<b>13,031</b>	<b>14,892</b>	<b>15,305</b>	<b>179,634</b>	<b>16,593</b>	<b>212,384</b>	<b>364,095</b>	<b>1,303.9%</b>
<b>Agency Total Revenues</b>	<b>86,610</b>	<b>96,330</b>	<b>75,367</b>	<b>83,350</b>	<b>250,232</b>	<b>84,807</b>	<b>283,925</b>	<b>362,460</b>	<b>211.1%</b>



**COMMERCE DEPT - FEDERAL FUNDS SUMMARY**

<b>Federal Program (\$ in Thousands)</b>	<b>Related SFY 2000 Spending</b>	<b>Primary Purpose</b>	<b>SFY 2000 Revenues</b>	<b>SFY 2001 Revenues</b>	<b>Estimated SFY 2002 Revenues</b>	<b>Estimated SFY 2003 Revenues</b>
<b>State Energy Program (SEP) Including SEP Special Projects</b>	204	State Operations, Grants to Individuals, Grants to Political Subdivisions	856	1,830	1,214	1,200
National Industrial Competitiveness (NICE3)	None	Grants to Individuals	-0-	500	500	500
Council of Great Lakes Governor's Biomass	18	Grants to Political Subdivisions, Grants to Individuals	20	35	35	35
<b>Agency Total</b>	222		876	2,365	1,749	1,735

In 2001, federal funds make up 3.3% of the department's total budget, and 37.8% of the department's Energy Division budget. These federal funds provide the majority of the department's discretionary funding for activities related to energy conservation and renewable energy sources. Most of the General Fund appropriation for energy conservation activities is fee-reimbursed and related to specific legislated or regulatory functions. The primary focus of federal energy funds at the Department of Commerce is to

- promote increased utilization of modern energy technologies, including renewable energy resources and distributed generation resources;
- promote energy conservation in buildings;
- promote alternative fuel vehicles; and
- operate an energy information center to provide energy information to the public.

The department anticipates that basic federal energy funding (SEP) will remain at approximately the current level. The match requirement (state or local) will continue as a requirement on all federal grants.

**BUDGET CHANGE ITEM (48490)****Agency: COMMERCE DEPT****Item Title: TRANSFER WEIGHTS & MEAS TO COMMERCE**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$3,281	\$3,353	\$3,353	\$3,353
Revenues: (\$000s)				
General Fund				
-Non-Dedicated	\$1,538	\$1,570	\$1,570	\$1,570

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: Chapter 239; Sections 17A.04, 17A.10, 41A.09, 93.38, 296A.01, 296A.08, 325E.11, 325E.115, and 325F.733.

☐ New Activity ☐ Supplemental Funding ☒ Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends that the Weights and Measures Division of the Department of Public Service (DPS) be transferred to the Department of Commerce, and that the DPS be abolished.

**RATIONALE:**

This transfer will complete the merger of the Department of Commerce and the Department of Public Service. The Department of Commerce currently provides administrative services including accounting, budgeting and personnel to the Weights and Measures Division. The Weights and Measures Division regulates commercial activities in Minnesota and provides services to a broad range of businesses within Minnesota and throughout the nation. The division's regulatory and service operations will integrate well with the activities of the Department of Commerce. Additionally, the division operates a permitting function for persons who install and repair weighing and measuring equipment. The permitting function could be greatly improved and streamlined if integrated with the testing and licensing operations of the Department of Commerce.

**FINANCING:**

The costs of this program are fully recovered through two fee systems. The table at the top of this page shows only the revenue from weights and measures inspection fees. Revenue from the Petroleum Inspection Fee offsets

the remainder of the division's costs, but is not shown in the table. The Petroleum Inspection Fee is collected by the Commissioner of Revenue and deposited in the General Fund.

The funding from General Fund to the DPS for this item would be appropriated to the Department of Commerce. The Weights and Measures Division will continue to recover its costs by charging inspection fees. The division will continue to pay fee revenues into the General Fund to offset the appropriation to the division.

**OUTCOMES:**

- The division will continue to provide customer services and regulatory services at reasonable costs.
- Department of Commerce overhead costs (which must be recovered through Weights and Measures fees) will remain low. Consequently, fees will remain reasonable.
- Division programs will integrate well with other Department of Commerce programs.
- The division's regulatory operations are similar in nature and function to Department of Commerce regulatory operations. This will facilitate management oversight.

**BUDGET CHANGE ITEM (54219)****Agency: COMMERCE DEPT****Item Title: COLLECTION AGENCY AUDIT FEE**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund				
-Non-Dedicated	\$7	\$7	\$7	\$7

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected:

☐ New Activity ☐ Supplemental Funding ☐ Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends a change to the agency's fee structure to allow for the recovery of costs it incurs as the result of auditing collection agencies.

**RATIONALE:**

The Department of Commerce is required to regulate collection agencies. This regulatory effort includes on-site audits. Under current law, the department is not authorized to bill collection agencies for audits. The department proposes to amend Minnesota statutes to require the department to charge a fee to audit a collection agency. Revenue from the fee will offset the department's cost of performing the audits.

**FINANCING:**

The department proposes to charge its current hourly rate to audit collection agencies. This rate is currently set at \$44.58 an hour. The department will require an average of 15 hours for each audit. The average total cost for each audit will be \$668.70. The department conducts approximately 10 audits each year. The fiscal impact of this proposed legislation will be to increase revenue to the General Fund by approximately \$6,687 per year.

**OUTCOMES:**

The department will recover the cost of its collection agency regulation activities. This additional revenue will offset an additional portion of the department's General Fund appropriation.

# BUDGET CHANGE ITEM (54222)

Agency: COMMERCE DEPT

Item Title: CERTIFICATION AND REVIEW FEES

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$-0-	\$-0-	\$-0-	\$-0-
Revenues: (\$000s)				
General Fund				
-Non-Dedicated	\$33	\$33	\$33	\$33
Statutory Change? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
If yes, statute(s) affected: M.S. 62E.05, M.S. 62M.01				
<input type="checkbox"/> New Activity <input type="checkbox"/> Supplemental Funding <input type="checkbox"/> Reallocation				

## GOVERNOR'S RECOMMENDATION:

The Governor recommends changes to the agency's fee structure as follows:

- Self-Insurance Plan Certification – a flat fee of \$75 would be collected from each entity submitting a plan for agency review.
- Utilization Review Fee – a flat fee of \$1,000 would be collected from each entity submitting a plan for agency review.

## RATIONALE:

### ■ Self-Insurance Plan Certification Fee

A statutory or home rule charter city, county, school district, or political subdivision that has more than 100 employees may self-insure for employee health benefits, including long-term disability. Minnesota statutes require these self-insurance plans to provide all benefits that are provided (and required by law) by group health insurance policies.

Additionally, under the requirements of section 62E.05, these self-insurance plans must be submitted for Department of Commerce approval prior to implementation. It is important to note, however, that section 62E.05 does not give the Department of Commerce or the Department of Health any regulatory authority over these insurance plans.

The department proposes to amend the statute to require cities, counties, school districts, or political subdivisions to file any self-insurance plans with the Department of Commerce and to receive department approval before issuing the plans. Additionally, the department proposes to charge a flat rate fee of \$75.00 to review each filing.

### ■ Utilization Review Fee

Any organization that performs utilization reviews, as defined in section 62M.01, is required to be licensed by, or registered with, the Department of Commerce. Generally, these organizations are either licensed health insurance carriers or other providers registered with the department. These organizations do not pay a fee for the department's review, evaluation, and approval of their utilization programs.

The department proposes to recover its evaluation costs by charging a flat fee of \$1,000 to review and approve each utilization program.

## FINANCING:

### ■ Self-Insurance Plan Certification

The department estimates that it will receive a minimum of 100 new filings each year as a result of this proposed legislation. The fiscal impact of this proposed legislation will be to increase revenue to the General Fund by a minimum of \$7,500 per year.

### ■ Utilization Review Fee

The department estimates that it will review a minimum of 25 utilization programs each year. The fiscal impact of this proposed legislation will be to increase revenue to the General Fund by a minimum of \$25,000 per year.

## OUTCOMES:

### ■ Self-Insurance Plan Certification

The department is aware of self-insurance plans offered by statutory or home rule charter cities, counties, school districts, and political subdivisions that do not comply with the requirements of Minnesota statutes. Under this proposal, these entities will be required to have their employee self-insurance plans reviewed and approved by the department. This will ensure that these plans will comply with the requirements of Minnesota statutes.

### ■ Utilization Review Fee

The department will recover its cost of reviewing, evaluating, and approving utilization review programs. This additional revenue will offset an additional portion of the department's General Fund appropriation.

**BUDGET CHANGE ITEM (48700)****Agency: COMMERCE DEPT****Item Title: TELECOMMUNICATIONS REFORM**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
<b>General Fund</b>	250	250	250	250
<b>Universal Service Fund</b>	94,900	220,021	222,507	225,606
Revenues: (\$000s)				
<b>General Fund</b>	\$250	\$250	\$250	\$250
<b>Universal Service Fund</b>	164,329	195,791	208,812	223,709
Statutory Change? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
If yes, statute(s) affected: M.S. 237, M.S. 238				
<input checked="" type="checkbox"/> New Activity <input type="checkbox"/> Supplemental Funding <input type="checkbox"/> Reallocation				

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the enactment of the Department's telecommunications reform strategy. This strategy provides benefits to consumers through the elimination of hidden taxes and the deployment of high speed data and cable services to the citizens of Minnesota. Industry benefits include providing venture capital for investment in advance services at below market rates and establishing a uniform mechanism to achieve all universal service goals.

In addition, a Universal Service Fund will be established to provide funding for explicit subsidies for basic local telephone service in high cost areas, for the Advanced Service Capital Investment Revolving Loan Program, as well as the established Telephone Assistance and TACIP programs. Enactment of this strategy will also require a biennial appropriation of \$500,000 from the General Fund for cable regulation.

**RATIONALE:*****Universal Service Component***

Universal service is a euphemism used to describe the social goal of ensuring that all Minnesota residents have access to some standard level of

telecommunications service on terms and conditions that are reasonably comparable. Under the Telecommunications Act of 1996, Congress delegated responsibility for defining, financing, and achieving universal service goals both to the FCC and state governments.

Our current telecommunications service rate structure contains implicit or "hidden" subsidies in the form of averaged rates and access charges. Rate averaging occurs when certain classes of rate payers pay more than the cost of providing service so that other classes of rate payers can be charged cheaper rates even if the price charged is below the cost of providing service. Access charges are entrance and exit charges paid by long distance companies to local service providers to originate and terminate long distance calls.

The current implicit system of subsidies is unacceptable for a number of reasons. These "hidden tax rates" vary widely with certain classes of customers (namely, urban and residential customers) paying huge tax rates, and other classes of customers paying no hidden taxes at all. These wide variations in the tax rate are inherently unfair. Further, no one is accountable to ratepayers for how the proceeds of these hidden taxes are used. Additionally, the public has no idea how much these hidden taxes total in the aggregate. Finally, these implicit subsidies are inherently anti-competitive because they presently accrue almost exclusively to the benefit of incumbent telephone companies.

Congress and the FCC recognized the importance of replacing implicit subsidies with explicit subsidies. It is a key first step to a "sufficient, predictable, and specific" universal service subsidy scheme. The Ventura Plan calls for funding basic local service, high-speed data services, low-income assistance, and Telecommunications Access for Communications Impaired persons (TACIP) through one explicit subsidy.

***Cable Regulation Component***

The second component of telecommunication reform involves regulating cable franchises, renewals, mergers, and acquisitions at the state level.

The cable infrastructure inventory completed by the Ventura Administration indicates that there is a growing gap between urban and rural Minnesota with respect to cable infrastructure and services. In general, the state's urban areas are served by cable systems. However, 15% of Minnesota cities are not served by cable systems. All of the cities without cable service are located in Greater Minnesota. Moreover, most system upgrades are occurring in urban areas, not in the communities of Greater Minnesota. The Ventura Administration believes that this disparity is caused, in large part, by the comparative lack of resources and bargaining power in small communities. By bringing the full panoply of state resources and bargaining power to use as leverage behind every community in Minnesota – no matter how small – the Ventura Administration believes it can

# BUDGET CHANGE ITEM (48700) (Continued)

Agency: COMMERCE DEPT

Item Title: TELECOMMUNICATIONS REFORM

narrow the gap between the communities that have cable services and those that do not in Minnesota.

In addition to traditional television programming services, some cable companies are now providing many of the same services offered by traditional telephone companies. It makes sense to combine cable and telephone regulation within the same regulatory structure.

## FINANCING:

### Universal Service Component

This proposal does not raise any additional revenue from Minnesota telecommunication consumers. The expenditures and revenues shown in the table represent a transformation of implicit subsidies into explicit subsidies. The revenue shown coming into the Universal Service Fund is based on a 5% universal service excise tax that will be applied to all interstate and intrastate end user revenue derived from telecommunications services, cable, and other multi-channel video programming services.

Expenditures from the fund will include:

- Beginning in FY 2003, \$186.9 million per year will be expended in explicit subsidies to support the provision of basic local telephone service to high cost areas.
- The Telephone Assistance Program (TAP) and TACIP will be rolled into the state Universal Service Fund. \$6.8 million will be appropriated for TAP. This will qualify Minnesota for an additional \$9.5 million in federal matching funds for low-income support of basic telephone service.
- In FY 2002, \$100 million of the fund's reserve will be allocated for the establishment of an Advanced Service Capital Investment Revolving Loan Fund. Eighty percent of the total balance in this account would be loaned to any telecommunications service provider, at below market interest rates, for the purpose of deploying advanced telecommunications service. Interest collected from loans would be used to fund catalyst grants designed to spur innovation in finding ways to provide advanced services to areas not likely to be served by existing technology either for economic or technical reasons.

### Cable Regulation Component

The state cable regulation component will require three additional FTEs and a General Fund appropriation, starting in FY 2002, of \$250,000 per year. This appropriation will require only salary inflation adjustments in future fiscal years. The cost of cable regulation will be recovered by assessing the department's costs to the cable companies and depositing the revenue in the General Fund. This revenue will offset the appropriation from the General Fund to the Department of Commerce telecommunication program.

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
<b>General Fund</b>				
- Cable Regulation	\$250	\$250	\$250	\$250
<b>Universal Service Fund</b>				
- Basic Local Service, High Cost Account	-0-	\$186,947	\$186,947	\$186,947
- Low Income Subsidy Account	\$6,800	\$6,800	\$6,800	\$6,800
- TACIP Account	\$8,000	\$7,818	\$7,818	\$7,818
- Advanced Service Capital Investment	\$80,100	\$18,456	\$20,942	\$24,041
<b>Total</b>	<b>\$94,900</b>	<b>\$220,021</b>	<b>\$222,507</b>	<b>\$225,606</b>
Revenues: (\$000s)				
<b>General Fund</b>				
- Non-Dedicated, Cable Regulation	\$250	\$250	\$250	\$250
<b>Universal Service Fund</b>				
- Universal Service Fund	\$163,670	\$174,097	\$185,169	\$196,924
- Revolving Loan Principal Repayment	-0-	\$14,770	\$18,015	\$21,867
- Revolving Loan Interest Earned	-0-	\$3,200	\$3,184	\$3,142
- Investment Income	\$659	\$3,724	\$2,444	\$1,776
<b>Total</b>	<b>\$164,329</b>	<b>\$195,791</b>	<b>\$208,812</b>	<b>\$223,709</b>

## OUTCOMES:

### Consumer Benefits

- **Shine Light on Public Subsidies.** Reform of implicit subsidies into explicit subsidies places such assistance in the sunshine, allowing elected policy makers to decide how much we spend on universal service, and what we

BUDGET CHANGE ITEM (48700) (Continued)

Agency: COMMERCE DEPT

Item Title: TELECOMMUNICATIONS REFORM

spend it on. Consumers have full information about the amount and use of these subsidies.

- **Accountability to Ratepayers (Taxpayers).** Removing hidden subsidies and replacing them with explicit subsidies provides accountability to ratepayers (taxpayers) about how much they are being taxed to further universal service goals. It also allows them to exercise influence through their local legislator with respect to how much the public should spend on these goals. Ratepayers also will know how telephone companies are spending this subsidy money.
- **Maintain What We Have Today.** The Administration proposes the establishment of a \$186.9 million annual fund to be used to replace the current system of implicit subsidies that, in part, support the cost of providing basic telephone service. In high cost areas, prices are lower than the cost of providing service due to the existence of implicit subsidies. The Administration is proposing to de-average these retail rates so that the price of the service is more reflective of the cost of service. If nothing else were done, prices for basic local telephone service would increase to a level that allows the telephone company to recover its costs. This fund will be used to buy down the cost of providing basic telephone services in high cost areas.
- **Deployment of Essential High Speed Data Services.** This component of the fund will provide consumers in Greater Minnesota access to high speed data services and future essential advanced services through the establishment of a permanent \$100 million advanced service capital investment revolving loan fund. The Administration's research shows that the level of investment in Greater Minnesota has been spotty. This is due to the capital-intensive nature of deployment of these services, the increasing scarcity of capital available to competitive carriers, and decisions by monopolist carriers to invest in geographic areas and business ventures that maximize rates of return. This fund will provide capital for investment in under-served areas in the form of loans at below market rates. The capital will be available to all carriers on a competitively neutral basis, in part based on the financial need of the loan applicant, and based on a showing of demand for these services in the markets proposed to be served.
- **Increase Assistance to Low-Income Consumers.** Trigger the flow of an additional \$9.5 million in federal support for low-income

telecommunications consumers by changing state low-income assistance plan eligibility criteria. This will require an additional \$5.2 million investment by the state for low-income assistance.

***Industry Benefits***

- **Public Subsidies Available on a Competitively Neutral Basis.** Reform of implicit subsidies into explicit subsidies promotes competition by making public subsidies available to all carriers on a competitively neutral basis instead of the subsidies being inextricably tied to incumbent monopolists.
- **Provide Venture Capital for Investment in Advanced Services at Below Market Rates.** Makes venture capital available to telecommunications carriers at below market rates, on a competitively neutral basis, for investment in advanced telecommunications services.
- **Reduce Costs of Service for Long Distance.** Reduces the cost of business for those carriers who currently pay implicit subsidies, but do not benefit from any universal service payments, which costs are ultimately passed through to consumers in the form of higher rates. In many cases, the current system mandates that long distance carriers lose money on certain consumers by requiring them to serve customers throughout the state, with averaged rates. In order to compete for urban customers on price, long distance carriers are forced to offer the same price to customers served by local telephone companies charging access rates higher than the retail per minute rate for long distance service.
- **Establish Uniform Mechanism for Achieving all Universal Service Goals.** All universal service goals - high cost assistance, deployment of advanced services to rural areas, low-income assistance, and TACIP - are rolled into one universal service program. This ultimately will streamline the administration of the fund. It also places these programs all within the proper context for public understanding and analysis by policy makers - as publicly funded social programs, rather than hidden government entitlements to incumbent monopolist telecommunications carriers.

# BUDGET CHANGE ITEM (63897)

Agency: COMMERCE DEPT

Item Title: MCHA FUNDING STABILIZATION AND PRIVATE  
INDIVIDUAL INSURANCE ACCESS POOL STUDY

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
Health Care Access Fund	\$15,000	\$15,000	\$-0-	\$-0-

Statutory Change? Yes \_\_\_\_\_ No X

If yes, statute(s) affected:

X New Activity \_\_\_\_\_ Supplemental Funding \_\_\_\_\_ Reallocation

## GOVERNOR'S RECOMMENDATION:

The Governor recommends an appropriation of \$15 million per year from the Health Care Access Fund in FY 2002 and 2003 to support Minnesota's individual private health insurance market. Of the amount recommended for FY 2002, \$250,000 will be used to conduct an actuarial study and policy analysis of the feasibility and cost impact of establishing a private insurance access pool for the individual health insurance market. The remaining amount for 2002 and the entire amount for 2003 will be used to offset the losses of the Minnesota Comprehensive Health Association.

## RATIONALE:

Minnesota's private individual health insurance market is a small but important source of health coverage for Minnesotans. Over 200,000 Minnesotans receive their health insurance coverage through the individual health insurance market. These are primarily individuals who are not eligible for employer-based coverage, perhaps because they are self-employed, own small businesses, or work for businesses that do not offer health insurance coverage. These individuals are only able to obtain health insurance coverage by purchasing it through the individual health insurance market.

In Minnesota, however, individuals with pre-existing health conditions can be denied coverage in the individual insurance market. Currently, individuals who are rejected for coverage in the individual market may purchase health insurance through the Minnesota Comprehensive Health Association (MCHA)

the state's high-risk pool. Approximately 25,000 Minnesotans receive their health coverage through MCHA. Premiums collected by MCHA cover only about half of medical claims, and the remainder of the cost is assessed against all health plan companies that participate in the fully insured market in Minnesota.

Unfortunately, this assessment mechanism is flawed because the funding burden for MCHA falls only on about half of the private health insurance market, with self-funded employer plans exempt from the assessment under federal law. As enrollees in self-funded plans have slowly made up an increasing share of the private market, the burden of the MCHA assessment falls on a smaller share of the market. Because larger companies are more likely to self-insure and escape the MCHA assessment than are smaller companies, the burden of the assessment falls disproportionately on smaller businesses and individuals. In recognition of this inequity, the Legislature appropriated \$15 million in FY 2001 to offset MCHA's assessment on private health plan companies.

While MCHA has played an important role in ensuring access to health insurance for higher-risk Minnesotans, it is an unsustainable long-term mechanism, both from a financing and insurance access perspective. As the long-run trend toward self-funding continues, as more job growth occurs in small and self-owned companies, and as more employers explore and potentially shift to defined contribution plans, it will be critical to have a viable individual health insurance market that can serve individuals with a variety of needs and circumstances. The individual market currently suffers from a number of shortcomings: (a) high administrative costs; (b) unstable premiums; (c) high turnover of individuals; (d) a lack of negotiating power and (e) lack of information.

This proposal addresses both the short-term financing equity needs of MCHA and the longer-term need to have a more viable private individual market. It addresses the short-term instability of MCHA funding by providing an appropriation to offset MCHA's losses. The proposal would also begin to address the fundamental shortcomings of the individual market by studying the feasibility of establishing a private insurance access pool (PIAP) for all people in the individual market. The concept is that all persons purchasing individual coverage would purchase through this pool, and the pool would function as a risk-sharing pool for all people in the individual market. The PIAP would be administered by a private third party, and governed by a Board of Directors composed of stakeholders and governmental appointees. This proposal would provide an appropriation to support the development and analysis of the PIAP. The Board of Directors and the Department of Health would be required to submit recommendations back to the Legislature on the implementation of the PIAP by January 15, 2002, addressing such issues as uniform underwriting criteria for MCHA, the financing mechanisms and levels for the pool, the administrative arrangements of the pool's operations, as well as recommendations and analysis on how to structure the pool, its potential impact on cost, and the potential impact on the number of Minnesotans with private health insurance.



**BUDGET CHANGE ITEM (63897) (Continued)**

**Agency:** COMMERCE DEPT

**Item Title:** MCHA FUNDING STABILIZATION AND PRIVATE  
INDIVIDUAL INSURANCE ACCESS POOL STUDY

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**FINANCING:**

This is a one-time appropriation of \$30 million from the Health Care Access Fund.

**OUTCOMES:**

In the short-term, the proposal would stabilize MCHA funding and address the inequity of the current assessment formula. As the long-term trend toward self-funding has continued over the past decade, the base over which the MCHA assessment is spread has shrunk. This has created an inequitable assessment situation, and the financing recommended for MCHA will help to level the playing field for those businesses choosing to purchase fully insured products.

However, this proposal also recognizes that MCHA is not a sustainable long-term mechanism, particularly as more small businesses are created, more employers consider defined contribution plans, and health insurance premiums continue to rise. Therefore, in examining a Private Insurance Access Pool for persons purchasing in the individual market, this lays the groundwork for a sustainable long-term solution to the fundamental problems in the individual insurance market.

# BUDGET CHANGE ITEM (65126)

Agency: **COMMERCE DEPT**

Item Title: **MANAGED HEALTH CARE REGULATORY TRANSFER**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
- MDH	\$725	\$-0-	\$-0-	\$-0-
- DOC Financial Exam	\$138	\$277	\$277	\$277
- DOC Enforcmnt Compl	\$587	\$1,190	\$1,190	\$1,190
Total	\$1,450	\$1,467	\$1,467	\$1,467
State Government				
Special Revenue Fund				
- MDH	\$(1,450)	\$(1,467)	\$(1,467)	\$(1,467)
Revenues: (\$000s)				
General Fund	\$1,450	\$1,467	\$1,467	\$1,467
State Government				
Special Revenue Fund	\$(1,450)	\$(1,467)	\$(1,467)	\$(1,467)

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: Creates a new Chapter 62U and amends or repeals portions of the following chapters: 13, 61B, 62A, 62C, 62D, 62E, 62J, 62L, 62M, 62N, 62Q, 62R, 62T, 256B, 257, 317A, 471, and 501B.

☐ New Activity ☐ Supplemental Funding ☒ Reallocation

## GOVERNOR'S RECOMMENDATION:

The Governor recommends comprehensive reform of health plan regulation by creating consistent regulation of all managed care plans. This proposal will eliminate unnecessary requirements and add product flexibility enabling more affordable options for consumers. As a result of the reform, it is appropriate to consolidate enforcement of consistent standards within one state agency. The Governor therefore recommends transfer of the budget for health maintenance organization regulation from the Minnesota Department of Health (MDH) to the Department of Commerce (DOC) effective 1-1-2002.

## RATIONALE:

Comprehensive health plan regulatory reform will

- improve consumer protection using consistent application of a single set of standards for benefits, quality assessment, and network adequacy;

- increase consumer choice and competition by allowing all types of health plan companies to offer managed care plans;
- create the potential for health plan products with lower premiums;
- eliminate administrative requirements that have little value in the current marketplace; and
- improve regulatory efficiency by applying a consistent set of standards within a single state agency.

## FINANCING:

Currently, HMO regulation is a fee-based activity at MDH that operates out of the State Government Special Revenue Fund (SGSR). After implementation of this change, HMO regulation will be a fee-based activity in DOC, which operates out of the General Fund.

To better match the financing for this activity with the timing of the transfer, HMO-related regulatory activity for both MDH and DOC for FY 2002 and DOC for FY 2003 and beyond will be funded by an appropriation from the General Fund. Fee revenues collected in FY 2002 and beyond will be deposited to the General Fund.

## OUTCOMES:

This proposal will improve consumer protection by consistent application of a single set of standards. With a level playing field for all types of managed care plans, consumers and purchasers will benefit from more clarity and fairness in health plan regulation.

The comprehensive reform proposal will help to ensure that all Minnesotans will have access to affordable, high quality health care.

After this proposal is implemented, MDH will continue to be heavily involved in monitoring the quality and cost of, and access to health care. This proposal requires all health plan companies offering managed care products to file an annual report with the commissioner of health with specific measures that relate to outcomes of care, effectiveness of care, use of services, access to care, and patient satisfaction. This information, along with other data and research, will be used to monitor the health care industry and assist in the development of public health care policy in Minnesota.

In DOC, consistent application of a single set of standards will enable both improved consumer protections and more efficiency in regulatory program operations.

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## PROGRAM SUMMARY

**Program: FINANCIAL EXAMINATIONS**  
**Agency: COMMERCE DEPT**

### PROGRAM PROFILE:

The program exists to maintain a safe, sound and solvent financial services industry in Minnesota, including state banks, credit unions, finance companies, and insurance companies. Numerous convenient providers of financial services help ensure a variety of products at competitive prices. To do this, the program carries out the following activities:

- Assure the availability of financial services and related products to consumers, business enterprises and government entities.
- Maintain the safety and soundness of the state depository institution system.
- Ensure consumer protection by operating a consumer complaint processing system for customers of banks, credit unions and finance companies.
- Assure that insurance companies doing business in Minnesota are in sound and solvent financial condition.

### STRATEGIES AND PERFORMANCE:

The goals of the program:

- To assure that no insurance company that is currently selling insurance products to Minnesota citizens will fail.
- To foster and support the continued growth of state-chartered financial institutions.
- To ensure compliance with various state and federal laws and regulations.
- To ensure a safe and sound banking and financial services industry.
- To maintain depositor confidence in financial institutions.
- To minimize disruptive financial institution failures and minimize losses to citizens.
- To promote competition and encourage financial services alternatives.
- To ensure that financial services are provided to citizens and business at reasonable cost.

Specific strategies to achieve these goals with respect to insurance companies:

- Quarterly review is performed on all companies selling insurance in Minnesota for financial soundness.

- Complete audit of the financial records (on-site) of all domestic insurance companies is conducted every three years.
- The National Association of Insurance Commissioners (NAIC) provides an accreditation of state insurance financial review processes to determine adequacy of solvency statutes, financial analysis and audit standards.

Specific strategies to achieve these goals with respect to state banks and credit unions:

- On-site examination of a financial institution is the primary tool used to regulate and monitor the industry. Face-to-face meetings with institution management are conducted for those institutions that exhibit problems.
- A six-point rating system with an overall composite rating is assigned and disclosed to each institution at the conclusion of an on-site examination.
- Off-site monitoring is also conducted, including peer group analysis, uniform bank performance reports, and quarterly financial reports from each institution. These tools are available for public use in assessing an individual financial institution's performance and its ability to provide needed services.
- Owners of financial institutions have a choice between federal or state charters. We continually review our laws, rules, procedures, and policies to assure that a state charter remains an attractive choice.
- Increased use of technology in the examination process improves accuracy and minimizes disruption.
- Accreditation from the Conference of State Bank Supervisors (CSBS) is maintained.

### FINANCING INFORMATION:

With respect to insurance companies, the program is partially supported by an appropriation from the General Fund. Operating costs are also paid from the insurance examination revolving fund. The balance of the revolving fund cancels at the end of every fiscal year to the General Fund. Revenues generated by this program are a result of examination fees, registration fees, licensing fees and transaction fees.

With respect to banks, credit unions and finance companies, the program is totally supported by appropriations from the General Fund. The revenue collected for this program is a result of examination fees and assessments. The assessment is billed at the beginning of a fiscal year at 103% of operating, agency indirect, and Attorney General cost. The examination fee is set based on

## PROGRAM SUMMARY (Continued)

**Program: FINANCIAL EXAMINATIONS**  
**Agency: COMMERCE DEPT**

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a formula calculating examiner salary and billing hours. Fees are also charged for applications relating to charter and license activity.

### **BUDGET ISSUES:**

This is a base level budget request that includes a 3% General Fund inflation factor for each year of the biennium. The activity is funded by an appropriation from the General Fund and a statutory special revenue fund appropriation that funds insurance company examinations.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Program: FINANCIAL EXAMINATIONS  
 Agency: COMMERCE DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
BANK AND CREDIT UNION EXAMS	3,527	3,913	3,863	3,892	3,892	3,995	3,995	111	1.4%
INSURANCE CO EXAMS	5,237	2,689	3,666	3,937	4,075	4,219	4,496	2,216	34.9%
<b>Total Expenditures</b>	<b>8,764</b>	<b>6,602</b>	<b>7,529</b>	<b>7,829</b>	<b>7,967</b>	<b>8,214</b>	<b>8,491</b>	<b>2,327</b>	<b>16.5%</b>
<b>Change Items:</b>	<b>Fund</b>								
(A) MANAGED HEALTH CARE REGULATORY TRANSFER	GEN				138		277		
<b>Total Change Items</b>					<b>138</b>		<b>277</b>		
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	5,694	6,249	6,335	6,379	6,517	6,555	6,832		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	3,070	353	1,194	1,450	1,450	1,659	1,659		
<b>Total Financing</b>	<b>8,764</b>	<b>6,602</b>	<b>7,529</b>	<b>7,829</b>	<b>7,967</b>	<b>8,214</b>	<b>8,491</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	85.3	86.1	89.6	89.6	90.7	88.9	91.0		
PART-TIME, SEASONAL, LABOR SER	0.1	0.2	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>85.4</b>	<b>86.3</b>	<b>89.6</b>	<b>89.6</b>	<b>90.7</b>	<b>88.9</b>	<b>91.0</b>		

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** BANK AND CREDIT UNION EXAMS  
**Program:** FINANCIAL EXAMINATIONS  
**Agency:** COMMERCE DEPT

### ACTIVITY PROFILE:

On-site examinations are conducted at all state-chartered banks, trust companies, credit unions, certificate investment companies, and thrift companies on a 12 to 18 month cycle (determined by institution rating). Examinations are shared between the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Bank and the National Credit Union Administration (NCUA). On an alternating basis, this activity and the appropriate federal bank authority examine the banks and share examination material in order to reduce the cost burden to the regulated entity. The NCUA does not have an alternating examination program for credit unions.

Consumer credit companies provide financing for consumer purchases. Most of the consumer finance companies are either regulated loan or industrial loan companies. They were formerly known as small loan companies and were restricted in the amount of money and type of loans they could make to one individual. These restrictions have now been virtually eliminated. There is no comparable federal regulation of the consumer credit industry. Consumer credit examinations are generally on an 18 month cycle and focus on compliance issues rather than solvency or safety and soundness.

Entities that originate and service residential mortgage loans are licensed by financial examinations and are subject to market conduct requirements, but are not subject to routine on-site examinations.

In addition to the examinations, this activity performs compliance reviews of various applications from regulated entities. Action is taken to approve or deny applications.

The financial services industry continues to be cyclical, with its fortunes affected by the business cycle and economic activity. Early intervention to problems disclosed by examinations will mitigate losses and help maintain public confidence in the banking and credit union system.

This activity works with federal regulators to ensure a safe and sound banking/depository institution system.

Encouraging the growth of state-chartered institutions fosters competition and ensures numerous choices for consumers and business. Competition drives down the cost of financial services. Several new financial products originated in state-chartered institutions and have spread nationwide.

### STRATEGIES AND PERFORMANCE:

Periodic on-site examinations of these industries continue to be the primary strategy to regulate and monitor financial condition of the institutions/entities. All state and federal regulators have adopted a uniform rating system for financial institutions. This system assigns a numerical rating to each of six factors, along with an overall composite rating. The examination rating is used as a guide to whether any additional follow-up or remedial corrective measures are necessary. Off-site monitoring of banks is conducted by way of analysis and review of quarterly financial data submitted by chartering institutions. Automated processing of the extensive data submitted permits comparison of one bank to its peer group and/or prior periods and enables identification of adverse developments via "flags" indicated by the data. Off-site monitoring also enables examiners to identify problem areas to focus on. The increased use of technology, along with gathering records and data in advance, decreases the amount of time examiners are physically present at the regulated institutions. This minimizes disruption and use of bank management time in the actual facility.

Since 1998, 15 new state bank charters have been granted and several more are anticipated in the next two years. New bank charters will continue, but they will not keep pace with the number of mergers. Close monitoring of these new businesses is necessary. One new credit union was chartered in 1999. One state bank failed in July 2000.

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
State Banks	375	370	365	360	355
Branch Offices	322	332	336	361	380
Number of Examinations	222*	138*	149	130	140
Bank Assets (\$billions)	19.2	19.5	20.5	21.2	23.0
Number of Examiners	30	31	28	30	31
No. of Bank Applications	345**	350**	210	200	190

\* Includes special Year 2000 examinations

\*\* Includes automated teller machine filings



## BUDGET ACTIVITY SUMMARY (Continued)

**Budget Activity:** BANK AND CREDIT UNION EXAMS  
**Program:** FINANCIAL EXAMINATIONS  
**Agency:** COMMERCE DEPT

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	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Credit Unions	138	135	125	118	110
Consumer Credit Co.'s	161	180	144	144	140
Number of Examinations	361*	270*	194	185	180
CU Assets (\$billions)	2.6	2.8	2.8	3.0	3.0
Number of CU					
Applications	113	100	63	50	50
Number of Other Apps.	67	80	120	120	120

\* Includes special year 2000 examinations

### **FINANCING INFORMATION:**

The activity is funded by an appropriation from the General Fund, but the cost is fully recovered through fees. Revenue collected for this activity is generated from assessment, examination and transaction fees charged.

### **BUDGET ISSUES:**

This is a base level budget request that includes a 3% General Fund salary inflation factor for each year of the biennium. The activity is funded by an appropriation from the General Fund.

Activity: BANK AND CREDIT UNION EXAMS  
Program: FINANCIAL EXAMINATIONS  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	3,060	3,308	3,394	3,437	3,437	3,540	3,540	275	4.1%
OTHER OPERATING EXPENSES	467	605	469	455	455	455	455	(164)	(15.3%)
<b>Total Expenditures</b>	<b>3,527</b>	<b>3,913</b>	<b>3,863</b>	<b>3,892</b>	<b>3,892</b>	<b>3,995</b>	<b>3,995</b>	<b>111</b>	<b>1.4%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	3,527	3,913	3,863	3,892	3,892	3,995	3,995		
<b>Total Financing</b>	<b>3,527</b>	<b>3,913</b>	<b>3,863</b>	<b>3,892</b>	<b>3,892</b>	<b>3,995</b>	<b>3,995</b>		
<b>Revenue Collected:</b>									
Nondedicated									
GENERAL	0	0	0	4,802	4,802	4,552	4,552		
CAMBRIDGE DEPOSIT FUND	4,740	5,233	4,663	0	0	0	0		
<b>Total Revenues Collected</b>	<b>4,740</b>	<b>5,233</b>	<b>4,663</b>	<b>4,802</b>	<b>4,802</b>	<b>4,552</b>	<b>4,552</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	52.7	53.2	52.7	52.7	52.7	52.0	52.0		
PART-TIME, SEASONAL, LABOR SER	0.0	0.2	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>52.7</b>	<b>53.4</b>	<b>52.7</b>	<b>52.7</b>	<b>52.7</b>	<b>52.0</b>	<b>52.0</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** INSURANCE CO EXAMS  
**Program:** FINANCIAL EXAMINATIONS  
**Agency:** COMMERCE DEPT

### ACTIVITY PROFILE:

Almost all Minnesota citizens are required to have some form of insurance product. Anyone who drives a car must have no-fault automobile insurance, many Minnesotans have health insurance, and all Minnesota employers are required to provide workers' compensation insurance. The conditions that led to the creation of this program relate to insurance company insolvencies of the early 1900s (many of which were a result of the market crash). Government intervention was needed to assure that funds placed with insurance companies were not squandered or stolen and that the firms remain solvent.

The insurance company examination activity is designed to monitor insurance for financial stability. If a company becomes financially unstable, action is taken to provide a mechanism for a return to solvency. Every consumer of insurance in Minnesota and the insurance industry is served by this activity.

The public goal is to give the consumer of insurance products the comfort that the company they purchase an insurance product from will have the resources available to pay a claim. Insurance regulation is a state responsibility because insurance historically was largely a local endeavor. Today, insurers are large, multi-state, multi-jurisdictional concerns.

There is no federal regulation of the insurance industry. Insurance regulation is handled by states alone. This program creates a regulatory entity for insurance which participates in the National Association of Insurance Commissioners (NAIC). The NAIC will generally put forward model regulatory standards for each state to adopt. However, this program will tailor the model act and adapt it to conditions unique to Minnesota.

Actuarial staff are involved in calculating and verifying reserve adequacy at regulated companies and various workers compensation issues that the activity deals with.

### STRATEGIES AND PERFORMANCE:

The strategy used by this activity is regulation, research, analysis, and examination. There are two types of examinations, the desk audit and the on-site field audit. The desk audit review is based on quarterly and annual financial reports submitted by insurance companies. Information is evaluated and a financial profile of every company doing business in Minnesota is developed. The profile is monitored for change; if change occurs, an action will result.

The second method for solvency monitoring is provided by the tri-annual on-site examination of domestic insurers. Examiners review books and records of insurance companies at the company headquarters. The examination is a full and complete review of financial condition. The examination is completed by staff or special examiners (generally accounting firms).

The primary focus is to have no insurance company that is failing conduct business in this state. If domestic companies are financially insecure, it is Minnesota's responsibility to formulate a plan to effect compliance or close their business. If a foreign company becomes unstable, Minnesota would restrict the business they are allowed to conduct within the state. If an insurance company failure is unavoidable, it is the activity's responsibility to manage the transition and to minimize any negative impact on Minnesota policyholders.

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Insurance Companies	1,620	1,620	1,614	1,620	1,620
On-site Examinations	20	15	18	17	17
Desk Audits	1,495	1,490	1,514	1,520	1,520
New Company Licenses Issued	31	30	26	26	26

### FINANCING INFORMATION:

The activity is primarily supported by an appropriation from the General Fund. Some of the operating costs are also paid from the insurance examination revolving fund. Revenue generated by this activity is from audit, examination, license and transaction fees. The balance of the insurance examination revolving fund cancels to the General Fund at the end of each fiscal year.

### BUDGET ISSUES:

This is a base level budget request that includes a 3% General Fund salary inflation factor for each year of the biennium. The activity is funded by an appropriation from the General Fund and a statutory special revenue fund appropriation that funds insurance company examinations.

Activity: INSURANCE CO EXAMS  
Program: FINANCIAL EXAMINATIONS  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	2,084	2,234	2,560	2,589	2,664	2,662	2,811	681	14.2%
OTHER OPERATING EXPENSES	3,153	455	1,106	1,348	1,411	1,557	1,685	1,535	98.3%
<b>Total Expenditures</b>	<b>5,237</b>	<b>2,689</b>	<b>3,666</b>	<b>3,937</b>	<b>4,075</b>	<b>4,219</b>	<b>4,496</b>	<b>2,216</b>	<b>34.9%</b>
<b>Change Items:</b>	<b>Fund</b>								
(A) MANAGED HEALTH CARE REGULATORY TRANSFER	GEN				138		277		
<b>Total Change Items</b>					<b>138</b>		<b>277</b>		
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	2,167	2,336	2,472	2,487	2,625	2,560	2,837		
Statutory Appropriations:									
SPECIAL REVENUE	3,070	353	1,194	1,450	1,450	1,659	1,659		
<b>Total Financing</b>	<b>5,237</b>	<b>2,689</b>	<b>3,666</b>	<b>3,937</b>	<b>4,075</b>	<b>4,219</b>	<b>4,496</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	4,637	1,688	2,417	2,922	2,922	3,257	3,257		
Nondedicated									
GENERAL	0	0	0	1,470	1,608	1,470	1,747		
CAMBRIDGE DEPOSIT FUND	1,596	1,520	1,470	0	0	0	0		
<b>Total Revenues Collected</b>	<b>6,233</b>	<b>3,208</b>	<b>3,887</b>	<b>4,392</b>	<b>4,530</b>	<b>4,727</b>	<b>5,004</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	32.6	32.9	36.9	36.9	38.0	36.9	39.0		
PART-TIME, SEASONAL, LABOR SER	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>32.7</b>	<b>32.9</b>	<b>36.9</b>	<b>36.9</b>	<b>38.0</b>	<b>36.9</b>	<b>39.0</b>		

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## PROGRAM SUMMARY

**Program: PETROLEUM TANK CLEANUP FUND**  
**Agency: COMMERCE DEPT**

### PROGRAM PROFILE:

The Petroleum Tank Release Cleanup Fund (Petrofund) was created by the 1987 legislature to reimburse underground petroleum storage tank (UST) owners and operators for the cost of investigating and cleaning up petroleum tank releases. To meet the U.S. Environmental Protection Agency's (EPA) financial assurance requirements, UST owners and operators must document their ability to pay up to \$1 million for such costs. Minnesota and 47 other states established a state-financed reimbursement program to relieve UST owners and operators of this financial obligation.

By 1987, private insurance for old USTs had become scarce and expensive. Many tank owners were unable to afford the EPA mandated financial assurance requirement. The Petrofund was created to provide the necessary financial assurance.

The primary beneficiaries of the program are petroleum tank owners and operators, and persons who hold legal or equitable title to property where a petroleum tank release occurred. Additionally, the program has helped to improve the environment for all Minnesotans by encouraging tank owners and operators to investigate and remediate petroleum contaminated soil and groundwater.

Installed or upgraded USTs must now meet or exceed federal requirements for leak detection and corrosion resistance. As a result, the insurance industry may begin to take a more active role in providing UST owners and operators with the required financial assurance. However, no one knows how the insurance industry will view historical contamination, or what premiums insurance providers will charge for coverage.

In response to these concerns, the 1997 legislature extended the Petrofund's sunset date by five years. The statutory sunset date is now 6-30-2005.

### STRATEGIES AND PERFORMANCE:

The goals of the program:

- To reduce health risks and physical dangers caused by petroleum tank releases.
- To remediate all petroleum leaks in the state in the most cost-effective manner possible.
- To process reimbursement applications within 30 days of receipt.

The reimbursement program was set up to reimburse tank owners for their cost to investigate and remediate tank releases. Owners are reimbursed only after the costs have been incurred. The means that the Petrofund staff often does not see reimbursement applications until long after work has been completed. This after-the-fact review of applications presents one of the biggest challenges for the program. The Petrofund is required to reimburse only reasonable and necessary cleanup costs. Consequently, there have been cases where applicants received less reimbursement than they expected because the work performed at leak sites was not necessary, as determined by the Minnesota Pollution Control Agency (MPCA), or was billed at excessive rates.

In 1995, the Petrofund implemented rules designed to help quantify the cleanup activities to be performed at leak sites. The rules set forth very specific standard tasks and expected levels of effort. The rules also allow for unforeseen circumstances that can arise at leak sites. Tank owners now have a clearer understanding of the remediation work required at their sites. As a result, cleanups have been more cost effective.

The Petrofund has undertaken educational efforts to inform the public and to help contractors and environmental consultants understand and comply with the rules. The Petrofund works closely with the MPCA. Joint outreach efforts have helped prevent applicants from performing unnecessary and non-reimbursable work. This has speeded up review time and minimized reimbursement reductions. In June 2000, the Petrofund and the MPCA received an award from the Association of State UST Cleanup Funds for "Best Success with Stakeholders."

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Number of Applications	2,318	1,906	1,799	1,869	1,700
Amount Reimbursed (\$ in millions)	32	21	14.5	19	20
Days to Process Applications	60	45	30	30	30

The annual number of reimbursement applications received by the program has remained fairly steady from FY 1997 through FY 2000. Time required to review applications has decreased by 50%. The average reimbursement award has decreased by nearly 30%.

### FINANCING INFORMATION:

The program is completely funded by an appropriation from the Petroleum Tank Release Cleanup Fund. Revenue into the fund is generated a \$.02 per gallon fee on wholesale petroleum products. The fee is imposed and collected by the Department of Revenue only when the fund balance falls below \$4 million (see M.S. 115C.08). Revenue is also received from investment earnings on the fund balance.

## PROGRAM SUMMARY (Continued)

**Program: PETROLEUM TANK CLEANUP FUND**  
**Agency: COMMERCE DEPT**

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The charts below provide relevant financial information.

### **BUDGET ISSUES:**

- This is a base level budget request that includes a 3% salary inflation factor for each year of the biennium. The activity is funded by an appropriation from the Petroleum Tank Release Cleanup Fund.
- The EPA deadline for upgrading or replacing underground storage tanks expired on 12-22-98. Demand on the fund will continue for several years due to continuing investigation and cleanup activities at many UST sites.
- Additionally, MPCA's November, 2003 compliance deadline for above ground storage tanks (AST) will cause continuing demand on the fund as AST owners and operators continue working to meet the new AST rules. However, the program's administrative costs should decrease after 2003.
- The current claims backlog is one month.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Activity: PETROLEUM TANK CLEANUP FUND  
Program: PETROLEUM TANK CLEANUP FUND  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	573	628	778	822	822	865	865	281	20.0%
OTHER OPERATING EXPENSES	14,949	19,258	20,588	20,387	20,387	20,364	20,364	905	2.3%
TRANSFERS	0	0	0	130	130	134	134	264	
<b>Total Expenditures</b>	<b>15,522</b>	<b>19,886</b>	<b>21,366</b>	<b>21,339</b>	<b>21,339</b>	<b>21,363</b>	<b>21,363</b>	<b>1,450</b>	<b>3.5%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
PETROLEUM TANK RELEASE CLEANUP	797	839	1,221	1,064	1,064	1,084	1,084		
Open Appropriations:									
PETROLEUM TANK RELEASE CLEANUP	14,725	19,047	20,145	20,275	20,275	20,279	20,279		
<b>Total Financing</b>	<b>15,522</b>	<b>19,886</b>	<b>21,366</b>	<b>21,339</b>	<b>21,339</b>	<b>21,363</b>	<b>21,363</b>		
<b>Revenue Collected:</b>									
Nondedicated									
PETROLEUM TANK RELEASE CLEANUP	2,185	1,407	1,347	1,332	1,332	1,332	1,332		
<b>Total Revenues Collected</b>	<b>2,185</b>	<b>1,407</b>	<b>1,347</b>	<b>1,332</b>	<b>1,332</b>	<b>1,332</b>	<b>1,332</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	10.7	10.8	15.1	15.1	15.1	15.1	15.1		
PART-TIME, SEASONAL, LABOR SER	0.6	0.7	0.7	0.7	0.7	0.7	0.7		
<b>Total Full-Time Equivalent</b>	<b>11.3</b>	<b>11.5</b>	<b>15.8</b>	<b>15.8</b>	<b>15.8</b>	<b>15.8</b>	<b>15.8</b>		



## PROGRAM SUMMARY

Program: ADMINISTRATIVE SERVICES  
Agency: COMMERCE DEPT

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### PROGRAM PROFILE:

This program includes the commissioner's office and the department's central management and support functions, and the department's licensing, and unclaimed property operations. The program ensures that all department operations are managed and implemented in a manner consistent with law and with the goals of the administration.

### STRATEGIES AND PERFORMANCE:

The program

- leads, manages, and directs the department to ensure efficient operations;
- develops and directs implementation of annual and long range objectives;
- manages department finances and develops budgets;
- provides personnel management according to Minnesota statutes, rules and policies;
- provides administrative support services to all programs within the department;
- manages information systems;
- facilitates productive relationships with regulated businesses and individuals;
- coordinates department activities with other government agencies, private sector businesses and the public;
- provides consumer information to the people of Minnesota;
- licenses businesses and individuals according to Minnesota statutes;
- provides unclaimed property reclamation services to the people of Minnesota.

### FINANCING INFORMATION:

This program is funded by an appropriation from the General Fund, and from funds earned for administering federal grants. Program costs expended from the General Fund are recovered as management overhead costs through the cost recovery systems of other programs within the department. This program generates dedicated revenue from administering federal grants.

### BUDGET ISSUES:

This is a base level budget request that includes a 3% salary inflation factor for each year of the biennium.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Program: ADMINISTRATIVE SERVICES  
Agency: COMMERCE DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
FINANCE & ADMINISTRATION	5,447	4,996	5,728	4,561	4,561	4,677	4,677	(1,486)	(13.9%)
LICENSING & UNCLAIMED PROPERTY	1,210	1,336	1,407	1,381	1,381	1,416	1,416	54	2.0%
<b>Total Expenditures</b>	<b>6,657</b>	<b>6,332</b>	<b>7,135</b>	<b>5,942</b>	<b>5,942</b>	<b>6,093</b>	<b>6,093</b>	<b>(1,432)</b>	<b>(10.6%)</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	6,538	6,249	7,042	5,852	5,852	6,003	6,003		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	119	83	93	90	90	90	90		
<b>Total Financing</b>	<b>6,657</b>	<b>6,332</b>	<b>7,135</b>	<b>5,942</b>	<b>5,942</b>	<b>6,093</b>	<b>6,093</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	77.0	69.8	74.3	74.3	74.3	74.3	74.3		
PART-TIME, SEASONAL, LABOR SER	1.1	1.8	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	2.2	1.4	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>80.3</b>	<b>73.0</b>	<b>74.3</b>	<b>74.3</b>	<b>74.3</b>	<b>74.3</b>	<b>74.3</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** FINANCE & ADMINISTRATION  
**Program:** ADMINISTRATIVE SERVICES  
**Agency:** COMMERCE DEPT

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### ACTIVITY PROFILE:

This activity includes the central management and administrative functions that support the operations of the department.

### STRATEGIES AND PERFORMANCE:

- Provides personnel management and labor relations services, and allocates human resources, according to Minnesota Statutes, and DOER rules, policies, and procedures.
- Manages department finances by
  - providing accounting and payment services;
  - providing billing, assessment and cost recovery services;
  - developing budgets and ensuring fiscal management according to statutes, rules and policies.
- Manages information systems to facilitate
  - the department's work output,
  - information flow among divisions,
  - information flow to the public and the department's regulated clients.
- Manages department records, including
  - utility rate case records that are also utilized by the Public Utilities Commission and the Office of the Attorney General;
  - enforcement, licensing, insurance, and banking records that are heavily utilized by the public.
- Provides word processing services to other department programs.
- Coordinates department activities with other government agencies, private sector businesses and the public.
- Provides consumer information, including home energy guides and a broad range of other consumer publications.

### FINANCING INFORMATION:

This program is funded by an appropriation from the General Fund. Program costs expended from the General Fund are recovered as management overhead costs through the cost recovery systems of other programs within the department.

### BUDGET ISSUES:

This is a base level budget request that includes a 3% salary inflation factor for each year of the biennium.

Activity: FINANCE & ADMINISTRATION  
Program: ADMINISTRATIVE SERVICES  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	3,126	2,957	2,829	2,871	2,871	2,963	2,963	48	0.8%
OTHER OPERATING EXPENSES	2,311	2,036	2,899	1,690	1,690	1,714	1,714	(1,531)	(31.0%)
Subtotal State Operations	5,437	4,993	5,728	4,561	4,561	4,677	4,677	(1,483)	(13.8%)
PAYMENTS TO INDIVIDUALS	0	3	0	0	0	0	0	(3)	(100.0%)
LOCAL ASSISTANCE	10	0	0	0	0	0	0	0	
Total Expenditures	5,447	4,996	5,728	4,561	4,561	4,677	4,677	(1,486)	(13.9%)
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	5,328	4,913	5,635	4,471	4,471	4,587	4,587		
Statutory Appropriations:									
SPECIAL REVENUE	119	83	93	90	90	90	90		
Total Financing	5,447	4,996	5,728	4,561	4,561	4,677	4,677		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	87	69	90	90	90	90	90		
FEDERAL	0	8	0	0	0	0	0		
Nondedicated									
GENERAL	1	0	0	0	0	0	0		
Total Revenues Collected	88	77	90	90	90	90	90		
<b>FTE by Employment Type:</b>									
FULL TIME	54.1	45.9	50.6	50.6	50.6	50.6	50.6		
PART-TIME, SEASONAL, LABOR SER	1.0	1.0	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	0.6	0.8	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	55.7	47.7	50.6	50.6	50.6	50.6	50.6		

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** LICENSING & UNCLAIMED PROPERTY  
**Program:** ADMINISTRATIVE SERVICES  
**Agency:** COMMERCE DEPT

### ACTIVITY PROFILE:

#### *Unclaimed Property*

The purpose of the unclaimed property activity is to identify, locate and return abandoned personal property (not real estate) to owners. Abandoned property may include money from savings and checking accounts, wages, insurance proceeds, safe deposit box contents, stocks, bonds, or dividends. All banks, insurance companies, corporations, and governmental agencies operating in Minnesota are statutorily required to report and turn over abandoned property to the Department of Commerce. The Unclaimed Property Division receives and maintains the abandoned property until the rightful owner claims it. Names of abandoned property owners are published annually in newspapers and on the Department of Commerce web site. Tangible property from safe deposit boxes is sold at public sale every ten years. Auction proceeds are deposited in the General Fund until claimed by the rightful owner. The department holds unclaimed stock for three years. After three years, the stock is liquidated and the sale proceeds are deposited in the General Fund until claimed by the rightful owner. The activity was created in 1969 when the uniform disposition of unclaimed property act was passed in Minnesota.

#### *Licensing*

The purpose of this activity is to ensure that licensees practicing within the regulated industries have demonstrated an adequate level of competence necessary to ensure continued consumer protection and public confidence. The activity responds to inquiries from licensees, applicants, and schools providing educational services to licensees. Additionally, the activity responds to consumer inquiries about license activity or status.

The activity licenses the following industries:

- Real estate brokers, appraisers, salespersons, and abstractors.
- Residential building contractors, roofers, and remodelers.
- Manufactured home installers.
- Subdivided land agents.
- Campground membership salespersons.
- Residential mortgage services.

- Insurance agents, adjusters, agencies, managing general agents, and reinsurance intermediaries.
- Notaries public.
- Cosmetologists, cosmetology salons, and cosmetology schools.
- Collection agencies and debt collectors.
- Currency exchanges.

The activity was created in 1983 when the department was reorganized. All licensing operations were combined into one activity.

### STRATEGIES AND PERFORMANCE:

#### *Unclaimed Property*

- evaluates holder reports for compliance with Minnesota's unclaimed property statute;
- tracks information relating to abandoned property and attempt to return the property to its rightful owners or heirs; and,
- acts as custodian of abandoned property until its rightful owners claim it.

The following table illustrates the level of activity in tracking, handling, and returning unclaimed property.

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Number of Unclaimed Property Holders	11,500	12,000	12,500	13,000	13,500
Number of Property Inquiries to DOC	25,000	27,000	29,000	29,000	29,000

The following table illustrates the amounts of unclaimed property remitted to DOC, tracked by the department, and returned to owners and heirs.

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Dollars in Thousands					
Unclaimed Property Remitted to DOC	\$23,950	\$28,545	\$24,000	\$24,000	\$24,000
Unclaimed Property Returned to Owners and Heirs	\$6,000	\$6,202	\$18,000*	\$9,000	\$9,000

\*Amount of property returned will significantly increase in FY 2001 due to reimbursement of property to reciprocal states.

# BUDGET ACTIVITY SUMMARY (Continued)

Budget Activity: LICENSING & UNCLAIMED PROPERTY  
Program: ADMINISTRATIVE SERVICES  
Agency: COMMERCE DEPT

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## Licensing

Reviews applications, issue new licenses, and renew licenses for industry practitioners. The following table illustrates the level of licensing activity.

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Number of New Licenses Issued	39,466	42,911	45,781	47,000	49,000
Number of Licenses Renewed	52,514	143,000	55,140	56,000	57,000
Number of Active Licenses	253,619	260,122	266,792	270,000	274,000
Number of Telephone Calls Received	178,735	186,277	193,033	200,000	200,000

## FINANCING INFORMATION:

This is a base level budget request that includes a 3% salary inflation factor for each year of the biennium. The activity is funded by an appropriation from the General Fund.

- All licensing costs are recovered through fees charged for transactions and licenses.
- The unclaimed property operation generates from unclaimed remittances from reporting holders of abandoned property.

Activity: LICENSING & UNCLAIMED PROPERTY  
Program: ADMINISTRATIVE SERVICES  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	915	971	1,077	1,091	1,091	1,126	1,126	169	8.3%
OTHER OPERATING EXPENSES	295	365	330	290	290	290	290	(115)	(16.5%)
<b>Total Expenditures</b>	<b>1,210</b>	<b>1,336</b>	<b>1,407</b>	<b>1,381</b>	<b>1,381</b>	<b>1,416</b>	<b>1,416</b>	<b>54</b>	<b>2.0%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	1,210	1,336	1,407	1,381	1,381	1,416	1,416		
<b>Total Financing</b>	<b>1,210</b>	<b>1,336</b>	<b>1,407</b>	<b>1,381</b>	<b>1,381</b>	<b>1,416</b>	<b>1,416</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	50	0	0	0	0	0	0		
MISCELLANEOUS AGENCY	7	(5)	0	0	0	0	0		
Nondedicated									
GENERAL	2	2	1	23,801	23,801	24,141	24,141		
CAMBRIDGE DEPOSIT FUND	27,101	33,096	16,307	0	0	0	0		
<b>Total Revenues Collected</b>	<b>27,160</b>	<b>33,093</b>	<b>16,308</b>	<b>23,801</b>	<b>23,801</b>	<b>24,141</b>	<b>24,141</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	22.9	23.9	23.7	23.7	23.7	23.7	23.7		
PART-TIME, SEASONAL, LABOR SER	0.1	0.8	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	1.6	0.6	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>24.6</b>	<b>25.3</b>	<b>23.7</b>	<b>23.7</b>	<b>23.7</b>	<b>23.7</b>	<b>23.7</b>		



## PROGRAM SUMMARY

**Program: ENFORCEMENT & COMPLIANCE**  
**Agency: COMMERCE DEPT**

### PROGRAM PROFILE:

The purposes of this program are to

- maintain strong and healthy investment opportunities and insurance products for the citizens of the state;
- ensure policyholder investor, and consumer protection;
- increase policyholder and investor understanding; and
- maintain investor and public confidence in the areas of insurance, securities, franchising, real estate, residential building construction and remodeling, currency exchange, residential mortgage origination and servicing, debt collection, consumer finance, cosmetology, and notaries public.

To accomplish this, the program

- determines that investment and insurance products sold in Minnesota meet minimum requirements provided for in statute and rule;
- serves Minnesota consumers, businesses and licensed entities to ensure that business transactions within the regulated industries are fair and equitable; and
- investigates complaints filed against members of the regulated industries.

### STRATEGIES AND PERFORMANCE:

The goals of the program are to

- ensure that all insurance policies sold to consumers are in compliance with statutes and rules;
- ensure that insurance products sold will have fair and reasonable rates;
- ensure that all investment offerings available in the state are financially sound;
- ensure that all investment offerings provide a proper disclosure of risk to investors;
- enforce state laws and rules relating to the conduct of all industries regulated by the department;
- safeguard consumer rights;
- resolve conflicts between consumers and industries; and
- enhance the stability and strength of the regulated industries.

Specific strategies to achieve these goals are to

- review for compliance every policy form and rate for insurance products sold in Minnesota;
- review for compliance with statutes, rules, and merit standards all investment offerings that are not exempt from registration;
- investigate consumer complaints regarding regulated industry activities;
- provide information to consumers relating to business transactions with regulated industries; and
- develop positive relationships with regulated industries to facilitate conflict resolution.

### FINANCING INFORMATION:

- Program expenses are paid from three sources:
  - General Fund
  - Insurance examination revolving fund (the balance of the revolving fund cancels to the General Fund at the end of every fiscal year
  - Real estate education research and recovery fund.
- Registration fees and transaction fees generate program revenues.
- The program pays real estate recovery claims.

### BUDGET ISSUES:

This is a base level budget request that includes a 3% General Fund salary inflation factor for each year of the biennium.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Program: ENFORCEMENT & COMPLIANCE  
Agency: COMMERCE DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
INVESTIGATIONS	3,459	4,092	4,757	4,671	5,258	4,790	5,980	2,389	27.0%
ENFORCEMENT SUPPORT	376	292	15,399	302	15,302	309	15,309	14,920	95.1%
REGISTRATION & ANALYSIS	17,064	2,128	2,333	2,304	2,304	2,365	2,365	208	4.7%
<b>Total Expenditures</b>	<b>20,899</b>	<b>6,512</b>	<b>22,489</b>	<b>7,277</b>	<b>22,864</b>	<b>7,464</b>	<b>23,654</b>	<b>17,517</b>	<b>60.4%</b>
<b>Change Items:</b>	<b>Fund</b>								
(A) MCHA ASSESSMENT OFFSET	HCA				15,000		15,000		
(A) MANAGED HEALTH CARE REGULATORY TRANSFER	GEN				587		1,190		
<b>Total Change Items</b>					<b>15,587</b>		<b>16,190</b>		
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	4,250	4,625	20,038	4,927	5,514	5,055	6,245		
HEALTH CARE ACCESS	15,000	0	0	0	15,000	0	15,000		
SPECIAL REVENUE	404	0	100	0	0	0	0		
WORKERS COMPENSATION	472	558	593	599	599	615	615		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	773	1,329	1,758	1,751	1,751	1,794	1,794		
<b>Total Financing</b>	<b>20,899</b>	<b>6,512</b>	<b>22,489</b>	<b>7,277</b>	<b>22,864</b>	<b>7,464</b>	<b>23,654</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	86.7	82.9	92.3	92.3	99.3	92.3	106.3		
PART-TIME, SEASONAL, LABOR SER	1.4	2.9	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>88.2</b>	<b>85.8</b>	<b>92.3</b>	<b>92.3</b>	<b>99.3</b>	<b>92.3</b>	<b>106.3</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** INVESTIGATIONS  
**Program:** ENFORCEMENT & COMPLIANCE  
**Agency:** COMMERCE DEPT

### ACTIVITY PROFILE:

The activity investigates consumer complaints to determine whether regulated entities or individuals have committed violations of law or rule. When possible, the investigation unit attempts to informally resolve disputes between consumers and licensees before proceeding to a full investigation. This activity serves all Minnesota individuals and corporate entities who do business with any of the regulated industries. The program serves licensees and regulated businesses.

Specific changes have affected activity performance:

- Consumer complaints and enforcement activity tend to fluctuate with changes in the economy.
  - As lending rates change, there are corresponding changes in the number of complaints about real estate and building contractor licensees
  - Stock market volatility increases complaints about securities and insurance issues.
- In addition to specific economic influences, the number of consumer complaints and inquiries is generally trending upward. See the base workload table below.
- The number of insurance investigations has increased in the last five years. At the same time, the complexity of insurance complaints has also increased. National trends indicate that complex, multi-state investigations will become more frequent.

### STRATEGIES AND PERFORMANCE:

The strategies used by the activity are

- enforcing laws and rules pertaining to regulated industries;
- communicating with consumers and licensees concerning rights and responsibilities under the law; and
- responding to consumer complaints and inquiries.

### **Workload**

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Investigation Files Opened	8,589	8,162	8,376	8,576	8,795
Investigation Files Closed	8,335	8,141	8,238	8,434	8,645
Administrative Actions Taken	585	569	576	590	605
Telephone Calls Received	62,492	67,678	63,000	64,496	66,150

### FINANCING INFORMATION:

All costs are recovered through fees collected by other activities. This activity generates additional revenue from fines and penalties assessed for violations.

### BUDGET ISSUES:

This is a base level budget request that includes a 3% General Fund salary inflation factor for each year of the biennium.

Activity: INVESTIGATIONS  
Program: ENFORCEMENT & COMPLIANCE  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	2,319	2,455	2,922	2,960	3,368	3,047	3,863	1,854	34.5%
OTHER OPERATING EXPENSES	1,055	1,562	1,715	1,586	1,765	1,618	1,992	480	14.6%
<b>Subtotal State Operations</b>	<b>3,374</b>	<b>4,017</b>	<b>4,637</b>	<b>4,546</b>	<b>5,133</b>	<b>4,665</b>	<b>5,855</b>	<b>2,334</b>	<b>27.0%</b>
LOCAL ASSISTANCE	85	75	120	125	125	125	125	55	28.2%
<b>Total Expenditures</b>	<b>3,459</b>	<b>4,092</b>	<b>4,757</b>	<b>4,671</b>	<b>5,258</b>	<b>4,790</b>	<b>5,980</b>	<b>2,389</b>	<b>27.0%</b>
<b>Change Items:</b>	<b>Fund</b>								
(A) MANAGED HEALTH CARE REGULATORY TRANSFER	GEN				587		1,190		
<b>Total Change Items</b>					<b>587</b>		<b>1,190</b>		
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	2,282	2,763	2,999	2,920	3,507	2,996	4,186		
SPECIAL REVENUE	404	0	0	0	0	0	0		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	773	1,329	1,758	1,751	1,751	1,794	1,794		
<b>Total Financing</b>	<b>3,459</b>	<b>4,092</b>	<b>4,757</b>	<b>4,671</b>	<b>5,258</b>	<b>4,790</b>	<b>5,980</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
SPECIAL REVENUE	2,119	2,218	2,200	2,215	2,215	2,255	2,255		
<b>Nondedicated</b>									
GENERAL	0	0	0	407	1,001	407	1,604		
CAMBRIDGE DEPOSIT FUND	1,130	802	429	0	0	0	0		
<b>Total Revenues Collected</b>	<b>3,249</b>	<b>3,020</b>	<b>2,629</b>	<b>2,622</b>	<b>3,216</b>	<b>2,662</b>	<b>3,859</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	45.5	44.2	51.3	51.3	58.3	51.3	65.3		
PART-TIME, SEASONAL, LABOR SER	0.7	2.3	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>46.3</b>	<b>46.5</b>	<b>51.3</b>	<b>51.3</b>	<b>58.3</b>	<b>51.3</b>	<b>65.3</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** ENFORCEMENT SUPPORT  
**Program:** ENFORCEMENT & COMPLIANCE  
**Agency:** COMMERCE DEPT

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### ACTIVITY PROFILE:

This activity provides day-to-day management and support to the investigation, registration, and policy analysis activities by

- analyzing issues discovered in compliance reviews and investigations;
- directing appropriate follow up actions by the staffs of the investigation, registration, and policy analysis activities;
- establishing working relationships with regulated industries, federal regulators and related trade associations;
- monitoring industry trends to anticipate regulatory responses;
- safeguarding the expectations of consumers who invest or enter into business transactions with the regulated industries; and
- providing the leadership that is essential to state regulation of insurance products, investment offerings, and the business activities of diverse financial services industries.

### STRATEGIES AND PERFORMANCE:

See strategies and performance in the program level narrative.

### FINANCING INFORMATION:

Although there is no direct revenue collected through this activity, its costs are allocated to and recovered by other revenue producing sections within the department.

### BUDGET ISSUES:

This is a base level budget request that includes a 3% General Fund salary inflation factor for each year of the biennium. The activity is funded by an appropriation from the General Fund.

Activity: ENFORCEMENT SUPPORT  
Program: ENFORCEMENT & COMPLIANCE  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	354	259	277	280	280	287	287	31	5.8%
OTHER OPERATING EXPENSES	22	33	122	22	272	22	22	139	89.7%
Subtotal State Operations	376	292	399	302	552	309	309	170	24.6%
LOCAL ASSISTANCE	0	0	15,000	0	14,750	0	15,000	14,750	98.3%
Total Expenditures	376	292	15,399	302	15,302	309	15,309	14,920	95.1%
<b>Change Items:</b>	<b>Fund</b>								
(A) MCHA ASSESSMENT OFFSET	HCA				15,000		15,000		
Total Change Items					15,000		15,000		
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	376	292	15,299	302	302	309	309		
HEALTH CARE ACCESS	0	0	0	0	15,000	0	15,000		
SPECIAL REVENUE	0	0	100	0	0	0	0		
Total Financing	376	292	15,399	302	15,302	309	15,309		
<b>Revenue Collected:</b>									
Nondedicated									
GENERAL	1	0	0	0	0	0	0		
Total Revenues Collected	1	0	0	0	0	0	0		
<b>FTE by Employment Type:</b>									
FULL TIME	4.6	3.3	3.8	3.8	3.8	3.8	3.8		
PART-TIME, SEASONAL, LABOR SER	0.5	0.5	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	5.1	3.8	3.8	3.8	3.8	3.8	3.8		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** REGISTRATION & ANALYSIS  
**Program:** ENFORCEMENT & COMPLIANCE  
**Agency:** COMMERCE DEPT

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### ACTIVITY PROFILE:

#### *Registration:*

The primary focus of this activity is to ensure that investment offerings made within the state comply with Minnesota statutes. The activity's primary clients include all prospective investors, as well as the businesses that offer or wish to offer investment opportunities and services.

State government began to regulate this area of business because, prior to regulation, companies offered investment products that did not provide the safety or the opportunity to earn that was represented in sales materials. Consequently, consumers had a significant exposure for loss. It is expected that the financial services industries will continue to grow and consolidate over the next decade. Regulation will continue in some form.

The goal of this activity is to safeguard the money that consumers invest. For the majority of investment offerings, this is a dual state and federal responsibility.

#### *Policy Analysis:*

The primary focus of this activity is to ensure that insurance products offered and sold to Minnesota residents are in compliance with Minnesota statutes. The activity's primary clients include anyone who purchases insurance and businesses that sell insurance products.

Prior to regulation, Minnesota consumers had significant exposure to loss because insurance sellers had opportunities to sell products that did not provide the basic coverage represented in sales material. Regulation has solved this problem. It is expected that the financial services industries will continue to grow and consolidate over the next decade. Regulation of the industries will continue in some form.

The goal of this activity is to safeguard consumer investments in insurance products. Minnesota, like the other states, is the primary regulatory authority for this industry.

### STRATEGIES AND PERFORMANCE:

#### *Registration*

- employs standard setting as its primary strategy;
- reviews complex investment documents to determine whether all investment offerings are in compliance;
- reviews all investment-related materials for compliance with statutes and rules;
- works with the licensing division to ensure that all persons who sell investment offerings are licensed.

#### *Policy Analysis*

- employs standard setting as its primary strategy;
- reviews all insurance policies, sales materials, and other complex documents for compliance with statutes and rules;
- reviews rates charged for insurance products. Analyses are based on loss projections for individual insurance products;
- ensures that rates are not excessive; and
- authorizes employers and other groups to self-insure their risk.

### FINANCING INFORMATION:

The General Fund costs of this activity are recovered through registration fees. Revenue from registration fees is deposited in the General Fund to offset the appropriation.

### BUDGET ISSUES:

This is a base level budget request that includes a 3% General Fund salary inflation factor for each year of the biennium.

Activity: REGISTRATION & ANALYSIS  
Program: ENFORCEMENT & COMPLIANCE  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,937	1,918	2,152	2,182	2,182	2,243	2,243	355	8.7%
OTHER OPERATING EXPENSES	127	210	181	122	122	122	122	(147)	(37.6%)
Subtotal State Operations	2,064	2,128	2,333	2,304	2,304	2,365	2,365	208	4.7%
LOCAL ASSISTANCE	15,000	0	0	0	0	0	0	0	
Total Expenditures	17,064	2,128	2,333	2,304	2,304	2,365	2,365	208	4.7%
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	1,592	1,570	1,740	1,705	1,705	1,750	1,750		
HEALTH CARE ACCESS	15,000	0	0	0	0	0	0		
WORKERS COMPENSATION	472	558	593	599	599	615	615		
Total Financing	17,064	2,128	2,333	2,304	2,304	2,365	2,365		
<b>Revenue Collected:</b>									
Nondedicated									
GENERAL	24,103	29,432	25,090	32,501	32,534	32,501	32,534		
CAMBRIDGE DEPOSIT FUND	6,521	7,698	7,411	0	0	0	0		
Total Revenues Collected	30,624	37,130	32,501	32,501	32,534	32,501	32,534		
<b>FTE by Employment Type:</b>									
FULL TIME	36.6	35.4	37.2	37.2	37.2	37.2	37.2		
PART-TIME, SEASONAL, LABOR SER	0.2	0.1	0.0	0.0	0.0	0.0	0.0		
Total Full-Time Equivalent	36.8	35.5	37.2	37.2	37.2	37.2	37.2		



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## PROGRAM SUMMARY

Program: ENERGY  
Agency: COMMERCE DEPT

### PROGRAM PROFILE:

The Energy Division develops and implements statewide energy policies, promotes modern energy technology research and development, and advocates for the broad public interest in natural gas and electric utility matters before the Minnesota Public Utilities Commission (PUC). The department also has direct regulatory authority over energy Conservation Improvement Programs (CIP) designed and implemented by gas and electric utilities. The division's two sections -- Energy Planning and Advocacy, and the State Energy Office -- work together to ensure that regulatory issues and energy technology and policy issues are considered together both in the regulatory arena and in promotion and development of modern energy applications.

#### *Mission*

The Energy Division's mission is to ensure now and into the future that all Minnesotans have access to reliable, reasonably priced, efficient, economically sound, and environmentally responsible energy services. The division participates in all utility regulatory matters before the PUC; analyzes utility CIP filings and makes recommendations to the Commissioner; publishes the quadrennial Energy Policy and Conservation Report; advocates in federal and regional energy proceedings; administers energy conservation loan and grant programs; monitors petroleum supplies; promotes energy conservation and research and development in renewable energy resources; and operates the state's Energy Information Center.

### STRATEGIES AND PERFORMANCE:

#### *Strategies*

- Advocate for meeting the state's energy needs while balancing cost, efficiency, safety, and environmental effects.
- Conduct detailed analyses of gas and electric utilities' operating plans and recommend supply and transmission resources and conservation projects that minimize total social cost to Minnesotans.
- Analyze CIP projects and make recommendations to promote efficient, cost-effective energy conservation.
- Ensure future energy reliability by utilizing a combination of market forces and efficient regulation to ensure safe, economically efficient, environmentally sound, and affordable energy services.
- Promote increased competition for wholesale energy supply, and improve the competitive bidding process for utility acquisition of new generation resources.

- Promote comprehensive energy resource planning, and monitor and participate in regional transmission organizations.
- Identify and promote opportunities for greater efficiencies in energy regulation and conservation.
- Promote increased utilization of modern energy technologies, including renewable energy resources and distributed generation resources.
- Develop, and provide to the public, detailed wind and solar resource data.
- Continue involvement in renewable energy demonstration projects, including expansion of the E85 and Alternative Fuels Vehicle (AFV) programs, to help educate the public, advance technologies, and benefit Minnesota's future economy and environment.

#### *Performance*

**Energy Planning and Advocacy.** The Energy Planning and Advocacy (EPA) unit's regular responsibilities include: analyzing electric and gas relating to every aspect of regulation, including rates and capacity planning; advocating for the interests of Minnesota energy consumers before the Public Utilities Commission; analyzing CIP proposals for the Commerce Commissioner; and advocating in state, regional and federal proceedings. In addition to its regular responsibilities, EPA has managed the following major projects during the past biennium:

- A series of workgroup session, public meetings, and an intensive analysis, in conjunction with Governor Ventura's Big Plan, of the reliability of Minnesota's utility systems. The resulting "Keeping the Lights On" initiative will be presented to the 2001 Minnesota Legislature.
- Negotiated a public interest settlement of the merger of Northern States Power with New Centuries Energy. EPA is presently analyzing another complicated merger proposal involving Utilicorp, a large natural gas utility.
- Completely redesigned the quadrennial Energy Policy and Conservation Report to the Legislature.
- Developed policy to analyze proposals to exempt large energy consumers from CIP requirements (as authorized by the 1998 Legislature).
- Intervened on behalf of Minnesota before the Federal Energy Regulatory Commission on specific pipeline construction requests and other issues.
- Recovered millions of dollars in overpayments to Kansas natural gas producers. Overpayments will be refunded to Minnesota customers.
- Advocated a \$4 million reduction in one utility's charges to its customers as a result of the utility's imprudent gas purchasing practices.
- Analyzed projects and contracts pertaining to NSP's requirements to purchase power generated from biomass fuels and wind.

## PROGRAM SUMMARY (Continued)

**Program: ENERGY**  
**Agency: COMMERCE DEPT**

- Successfully advocated to match the depreciation schedule for NSP's Prairie Island plant to its projected life span, based on the legal status of nuclear waste storage.
- Substantially increased monitoring and participation in the deliberations of the regional electric transmission organization.
- Advocated a complete redesign of utility conservation incentive payments.

**State Energy Office.** The regular responsibilities of the Energy Office include promoting modern energy technologies, alternative fuels, energy efficient and healthy building construction; and petroleum supply and price monitoring; and, providing energy information to the public. In addition to its regular responsibilities, the office:

- Strengthened department efforts to promote energy conservation and modern energy technologies.
- Reinvigorated the E85 program by increasing the number of Minnesota fueling sites from 12 to 54.
- Brought the new Energy Code into effect, educated builders and building officials, and transferred code responsibility to the Department of Administration.
- Increased the number of wind resource monitoring sites and initiated solar resource monitoring around the state.
- Participated in an on-farm anaerobic digestion project to demonstrate possibilities for manure management, environmental protection and energy production.
- Conducted a Fuel Cell Workshop, attended by over 150 people.
- Received one of eight U.S. Department of Energy grants. The project will demonstrate an environmentally sound, energy conserving magnetic elutriation technology in the taconite industry.

### **FINANCING INFORMATION:**

- *Non-Dedicated Revenue*  
Direct costs of regulating gas and electric utilities are assessed and billed semi-annually. Revenue is deposited in the General Fund to offset department costs. Indirect costs of regulation are estimated and billed 30 days in advance of each quarter. Costs are prorated based on each utility's gross Minnesota jurisdictional revenues. Estimated billings are reconciled

and adjusted to actual costs after the close of each fiscal year. Revenue is deposited in the General Fund to offset department costs.

- *Dedicated Revenue*

The department uses the balance of Exxon funds as a special revenue, revolving loan fund for energy conservation improvements in schools, hospitals, public buildings, and residential rental property. The department receives dedicated revenue from the U.S. Department of Energy to demonstrate innovative conservation and renewable energy technologies, and to provide public information.

- *Open General Fund Appropriation.*

In FY 1998, the department began to authorize incentive payments, from an open General Fund appropriation, to qualified wind and hydro-power generating facilities. The department authorized payments to qualifying wind power facilities of \$51,800 in FY 1999, and \$94,000 in FY 2000. After additional wind power (from facilities that have secured power purchase agreements) comes online, payments will reach \$128,000 in FY 2001, \$1.5 million in FY 2002, and \$1.9 million in FY 2003. The department projects increased payments as new capacity will come online before the federal tax credit expires on December 31, 2001. To date, no payments have been made to hydro facilities. However, \$197,000 is projected for FY 2002 and \$263,000 for FY 2003.

### **BUDGET ISSUES:**

This is a base level budget request that includes a 3% salary inflation factor for each year of the biennium. This activity is funded by an appropriation from the General Fund.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Activity: ENERGY  
Program: ENERGY  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	2,687	2,659	3,044	2,994	2,994	3,067	3,067	358	6.3%
OTHER OPERATING EXPENSES	1,173	1,247	1,510	2,736	2,736	3,239	3,239	3,218	116.7%
OTHER FINANCIAL TRANSACTIONS	427	218	400	250	250	375	375	7	1.1%
TRANSFERS	0	0	0	588	588	588	588	1,176	
<b>Subtotal State Operations</b>	<b>4,287</b>	<b>4,124</b>	<b>4,954</b>	<b>6,568</b>	<b>6,568</b>	<b>7,269</b>	<b>7,269</b>	<b>4,759</b>	<b>52.4%</b>
LOCAL ASSISTANCE	407	473	1,387	922	922	921	921	(17)	(0.9%)
<b>Total Expenditures</b>	<b>4,694</b>	<b>4,597</b>	<b>6,341</b>	<b>7,490</b>	<b>7,490</b>	<b>8,190</b>	<b>8,190</b>	<b>4,742</b>	<b>43.4%</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	3,160	3,233	3,271	3,809	3,809	3,884	3,884		
<b>Open Appropriations:</b>									
GENERAL	52	94	128	1,675	1,675	2,190	2,190		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	693	416	547	257	257	381	381		
FEDERAL	789	854	2,395	1,749	1,749	1,735	1,735		
<b>Total Financing</b>	<b>4,694</b>	<b>4,597</b>	<b>6,341</b>	<b>7,490</b>	<b>7,490</b>	<b>8,190</b>	<b>8,190</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
SPECIAL REVENUE	305	249	292	267	267	277	277		
FEDERAL	750	876	2,365	1,749	1,749	1,735	1,735		
<b>Nondedicated</b>									
GENERAL	42	27	30	3,732	3,732	3,811	3,811		
CAMBRIDGE DEPOSIT FUND	3,519	4,082	3,727	0	0	0	0		
<b>Total Revenues Collected</b>	<b>4,616</b>	<b>5,234</b>	<b>6,414</b>	<b>5,748</b>	<b>5,748</b>	<b>5,823</b>	<b>5,823</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	43.3	41.5	45.3	43.9	43.9	43.9	43.9		
PART-TIME, SEASONAL, LABOR SER	1.3	1.4	1.4	1.4	1.4	1.4	1.4		
<b>Total Full-Time Equivalent</b>	<b>44.6</b>	<b>42.9</b>	<b>46.7</b>	<b>45.3</b>	<b>45.3</b>	<b>45.3</b>	<b>45.3</b>		

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## PROGRAM SUMMARY

**Program:** TACIP  
**Agency:** COMMERCE DEPT

### PROGRAM PROFILE:

The goal of the TACIP program is to provide access for people with communication impairments to telecommunications services that are functionally equivalent to services provided to the hearing community.

The Department of Commerce administers the TACIP program. Services are provided through two contracts with:

- A private telecommunications company to provide service relay messaging between hearing persons and communication-impaired persons. Messages are translated from spoken words to Telecommunication Devices for the Deaf (TDD), and from TDD to spoken words.
- The Department of Human Services (DHS), to distribute a variety of specialized telecommunications devices to communication-impaired persons.

### STRATEGIES AND PERFORMANCE:

The primary strategies are to actively promote the program, and administer the contracts for relay service and equipment distribution. The department is required by statute to contract for service and distribution.

#### *Minnesota Relay Service*

- The telecommunications relay service links users of special telecommunications equipment designed for deaf, hard-of-hearing and speech-impaired people with persons using standard telephone equipment.
- Message relay service is provided through a contract with the Communications Services for the Deaf organization.
- Telephone service is provided through a contract with Sprint.
- Services include local and long distance telephone service, caller ID, and call branding.
- The number of relay calls for FY 2000 was 1,237,771
- The relay service far exceeded FCC call answering performance standards. More than 95% of incoming calls were answered in three rings or less.

#### *DHS Equipment Distribution Program*

- The program provides special telecommunications equipment to eligible hearing, speech and mobility impaired persons.

- The program enables communications impaired persons to access the telephone network.
- The program is administered through a contract with the Deaf and Hard of Hearing Services Division of the Department of Human Services.
- DHS provides statewide coverage through its Deaf and Hard of Hearing Regional Service Centers.
- DHS staff assess client needs and provide equipment at the centers;
- Equipment includes TDD, telephone amplifiers, telephone ring signalers (visual, tactile or amplified), teletypewriters (TTY) with large visual displays, Braille TTYs, and "hands-free" speaker phones.
- The Equipment Distribution Program distributed 2,326 devices in calendar year 1999.

### FINANCING INFORMATION:

- The TACIP program is funded by a surcharge on all wire and wireless access telephone lines in Minnesota. The surcharge is required by section 237.52, subdivision 2.
- Proceeds from the surcharge are paid into an interest-bearing, dedicated special revenue account.
- The special revenue account funds
  - the TACIP program administrator,
  - staff for the DHS equipment distribution program,
  - the special telecommunications equipment DHS distributes,
  - the facility, equipment, and operations of the Minnesota Telecommunications Relay Service; and
  - the Department of Commerce administrative costs.
- The Public Utilities Commission (PUC) approves the TACIP annual budget and sets the surcharge at a level that will generate sufficient revenue to fund the programs and program administration.
- The fee per access line will be reduced from \$.12 per month to \$.09 per month effective 7-1-2001 pending PUC approval.
- The forecast is based on \$.09 per month for the projected number of access lines that will exist in the forecast period.
- The Department on Administration projects the number of access lines will increase at a rate of 12% per year.

Relay service users pay long distance charges at the carrier's rate. Under the Minnesota Relay Service contract, the contract vendor provides the long distance

PROGRAM SUMMARY (Continued)

Program: TACIP  
Agency: COMMERCE DEPT

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billing service. Long distance service revenues are reflected accordingly in the budget.

**BUDGET ISSUES:**

This activity is funded from the TACIP surcharge.

The volume of calls through the Message Relay Service remains substantial. The decline observed in FY 2000 may be the result of increased Internet e-mail usage among communication impaired persons. Even with the decline in calls, the relay service remains a vital link. E-mail is not an appropriate medium for emergencies and a variety of other important uses.

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Message Relay Service			
Call Volume	1,362,797	1,386,314	1,237,771
Percent Change	N/A	1.7	(10.7)

**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Activity: TACIP  
Program: TACIP  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	74	93	92	95	95	99	99	9	4.9%
OTHER OPERATING EXPENSES	6,107	6,979	7,445	7,905	7,905	7,719	7,719	1,200	8.3%
<b>Total Expenditures</b>	<b>6,181</b>	<b>7,072</b>	<b>7,537</b>	<b>8,000</b>	<b>8,000</b>	<b>7,818</b>	<b>7,818</b>	<b>1,209</b>	<b>8.3%</b>
<b>Financing by Fund:</b>									
Statutory Appropriations:									
SPECIAL REVENUE	6,181	7,072	7,537	8,000	8,000	7,818	7,818		
<b>Total Financing</b>	<b>6,181</b>	<b>7,072</b>	<b>7,537</b>	<b>8,000</b>	<b>8,000</b>	<b>7,818</b>	<b>7,818</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	6,053	6,474	5,411	6,118	6,118	7,006	7,006		
<b>Total Revenues Collected</b>	<b>6,053</b>	<b>6,474</b>	<b>5,411</b>	<b>6,118</b>	<b>6,118</b>	<b>7,006</b>	<b>7,006</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	1.0	1.2	1.0	1.0	1.0	1.0	1.0		
<b>Total Full-Time Equivalent</b>	<b>1.0</b>	<b>1.2</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>		



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## PROGRAM SUMMARY

**Program: TELECOMMUNICATIONS**  
**Agency: COMMERCE DEPT**

### PROGRAM PROFILE:

The primary goal of the program is to assure the continued access to reliable, efficient, affordable, and state-of-the-art telecommunication services on a statewide basis.

Telephone regulation in Minnesota involves a quasi-judicial process that includes administrative review of licensing requests, service quality, pricing of services, and the competitive practices of incumbent and competitive telecommunications companies that interact with each other in the joint provision of services to citizens.

The program's primary responsibilities are to develop statewide telecommunications policies that promote an orderly development of the telecommunications network in the state and to advocate in the public interest all telecommunications rate structure and service policy matters before the Minnesota Public Utilities Commission.

The program's responsibilities include

- developing and advocating the Governor's statewide policy relating to telecommunications competition, universal service, consumer protection, and other telecommunications matters before the state legislature;
- advocating for the public interest in all telecommunications rate structure and service policy matters before the Public Utilities Commission;
- advocating for Minnesota's interests in federal telecommunications proceedings;
- enforcing the MPUC's orders;
- enforcing selected orders of the Federal Communications Commission (FCC).

### STRATEGIES AND PERFORMANCE:

The department's mission is to transform Minnesota from a non-competitive, regulatory environment to a consumer-oriented, competitive telecommunications marketplace. High quality, fairly priced voice, video, and data services should be available to every resident, business, and government office in the state. The department was the architect of a comprehensive strategic telecommunications initiative, which it released in December 1999. The plan sets forth the following basic goals:

- Replace traditional command and control regulation with market mechanisms when appropriate.
- Remove regulations which discourage level playing field competition.
- Ensure that Minnesota regulations comport with the Telecommunications Act of 1996.
- Encourage telecommunications investment and competition throughout the state.
- Establish a state universal service program.
- Provide consumer protection through education and information.

### *Performance Indicators Include:*

The department, with the help of the Office of Long Range Planning, the Department of Trade & Economic Development, and the Department of Administration, completed a telecommunications infrastructure inventory of the state as part of the development of its strategic plan. The department believes this inventory should be the baseline for determining whether the state is achieving its goals for the telecommunications market. The Administration is conducting the inventory for 2000, but the inventory is not yet complete.

Completion of the 2000 infrastructure update will provide the best measure of the department's progress toward the state's goals. In the meantime, the department can offer the following qualitative evidence of its performance:

- The department has played an active role in bringing telecommunications reform issues to the public's attention both through its strategic plan and through a series of town meetings it held in 2000.
- The department has successfully advocated before the Minnesota Public Utilities Commission on a number of issues to further of the objectives contained in the strategic plan, including
  - the establishment of a state wholesale deaveraging plan which promotes competition in both low and high cost areas of the state;
  - advocacy on the development of a state universal service program to be developed in the event that no action is taken by the legislature this session;
  - advocacy in favor of wireless local service providers to be eligible for federal universal service funding in a competitively neutral manner vis-à-vis wire line service providers;

## PROGRAM SUMMARY (Continued)

**Program: TELECOMMUNICATIONS**  
**Agency: COMMERCE DEPT**

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- advocacy in favor of mandating incumbent carriers to provide line sharing, which has created competition in the Minnesota DSL market;
- working with the MPUC to streamline the process in which new certificates of authority are processed;
- achieving settlements regarding several mergers between telecommunications carriers in the state, including Qwest and U S WEST, which secured commitments for deployment of advanced services, wholesale service quality, retail service quality, economic development initiatives, and rate protections for consumers;
- advocating for consumer interests with respect to rates for extended area service (EAS) which resulted in a formula which reduces the cost for EAS for Minnesota consumers;
- advocating for number conservation and area code relief measures with the purpose of limiting future needs for additional area code splits;
- working with the Department of Revenue on measures for reforming taxes as they apply to the telecommunications industry.

### FINANCING INFORMATION:

All program costs are recovered through assessments charged to telephone companies operating in Minnesota. These assessments are first deposited into a revolving fund and are subsequently transferred to the General Fund as non-dedicated revenue.

The direct and indirect costs of utility regulation are assessed back to the regulated utility companies. The direct costs are billed to regulated utility companies semi-annually. The indirect costs are estimated and billed 30 days in advance of each quarter. The indirect costs are prorated to regulated utility companies based on their gross Minnesota jurisdictional revenues. The estimated indirect cost billings are reconciled and adjusted to actual costs after the close of the fiscal year. The receipts include the recovery of the department's administrative costs, statewide indirect costs and the cost of services provided by the Office of the Attorney General.

### BUDGET ISSUES:

This program has a base budget that includes an inflation increase of 3% each year for salary compensation.

The number of filings for the telephone regulation program has increased from 888 in FY 1995 to 1,516 in FY 1998. In 1999, there were 1,326 new dockets filed. As of October 17, there were 1,031 filings. The complexity of dockets as well as the number of dockets has increased substantially over the past five years.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget with the following adjustment:

- A biennial increase of \$500,000 from the General Fund for three positions to support the agency's cable regulation component of telecommunication reform. The cost will be recovered through an assessment to the cable industry.

Activity: TELECOMMUNICATIONS  
Program: TELECOMMUNICATIONS  
Agency: COMMERCE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	702	688	836	843	1,228	881	1,266	970	63.6%
OTHER OPERATING EXPENSES	109	163	422	293	15,058	277	201,807	216,280	36,970.9%
OTHER FINANCIAL TRANSACTIONS	0	0	0	0	80,000	0	14,376	94,376	
<b>Subtotal State Operations</b>	<b>811</b>	<b>851</b>	<b>1,258</b>	<b>1,136</b>	<b>96,286</b>	<b>1,158</b>	<b>217,449</b>	<b>311,626</b>	<b>14,776.0%</b>
LOCAL ASSISTANCE	0	0	0	0	0	0	3,980	3,980	
<b>Total Expenditures</b>	<b>811</b>	<b>851</b>	<b>1,258</b>	<b>1,136</b>	<b>96,286</b>	<b>1,158</b>	<b>221,429</b>	<b>315,606</b>	<b>14,964.7%</b>

<b>Change Items:</b>	<b>Fund</b>				
(A) TELECOMMUNICATIONS REFORM	GEN			250	250
(A) TELECOMMUNICATIONS REFORM	USF			94,900	220,021
<b>Total Change Items</b>				<b>95,150</b>	<b>220,271</b>

<b>Financing by Fund:</b>							
<b>Direct Appropriations:</b>							
GENERAL	788	823	1,108	986	1,236	1,008	1,258
<b>Statutory Appropriations:</b>							
SPECIAL REVENUE	23	28	150	150	150	150	150
UNIVERSAL SERVICE	0	0	0	0	94,900	0	220,021
<b>Total Financing</b>	<b>811</b>	<b>851</b>	<b>1,258</b>	<b>1,136</b>	<b>96,286</b>	<b>1,158</b>	<b>221,429</b>

<b>Revenue Collected:</b>							
<b>Dedicated</b>							
SPECIAL REVENUE	1,614	1,445	2,117	1,944	1,944	1,973	1,973
UNIVERSAL SERVICE	0	0	0	0	164,329	0	195,791
<b>Nondedicated</b>							
GENERAL	0	0	0	0	250	0	250
<b>Total Revenues Collected</b>	<b>1,614</b>	<b>1,445</b>	<b>2,117</b>	<b>1,944</b>	<b>166,523</b>	<b>1,973</b>	<b>198,014</b>

<b>FTE by Employment Type:</b>							
FULL TIME	10.5	9.0	12.3	12.3	12.3	12.3	12.3
PART-TIME, SEASONAL, LABOR SER	0.0	0.1	0.0	0.0	0.0	0.0	0.0
<b>Total Full-Time Equivalent</b>	<b>10.5</b>	<b>9.1</b>	<b>12.3</b>	<b>12.3</b>	<b>12.3</b>	<b>12.3</b>	<b>12.3</b>

## ACCOUNTANCY BOARD - EXECUTIVE SUMMARY

### **MISSION AND VISION:**

The Board of Accountancy was first established in Minnesota in 1909 and is mandated by M.S. 326.165 to 326.229.

#### ***Mission:***

To govern and regulate the practice of public accounting within the state of Minnesota.

#### ***Vision:***

- Promote dependability of information used in financial transactions, financial reporting and financial auditing.
- Assure the public that persons engaged in public accounting are qualified.
- Certify that the expression of any assurances or opinions on financial statements be reserved to persons who demonstrate their ability and fitness to observe and apply the standards of the accounting profession.
- Ensure that the use of accounting titles that may confuse the public are prohibited.

### **KEY SERVICE STRATEGIES:**

- Examination of candidates to obtain their certification.
- Licensure of qualified certificate holders and firms.
- Enforcement action as determined by the ethics committee.

### **PERFORMANCE SUMMARY:**

- Licensed 12,860 active and 10,656 inactive Certified Public Accountants (CPA) for a cumulative total of 23,560 through FY 1999-2000.
- Reviewed and processed 2,925 applications to sit for the Uniform Certified Accountant's examination in FY 1999-2000.
- Granted 1,166 certificates and 901 new licenses in FY 1999-2000.
- Licensed 658 active and 281 inactive Licensed Public Accountants through FY 1999-2000 for a cumulative total of 939.

### **REVENUES:**

All revenues are non-dedicated and are from the collections of fees, registrations and penalties. The amounts of fees and the maximum amount of penalties are set in statute and rule. Total revenue for FY 1999 was \$833,000, of which

\$87,000 was from fines and penalties. FY 2000 generated \$715,000 total, with \$71,000 from fines and penalties. We anticipate about a \$25,000 drop in revenue in each of the coming fiscal years due to a slight decline in numbers of CPAs and less fines and penalties due to stronger compliance.

### **ISSUES AFFECTING AGENCY'S OPERATIONS:**

Due to the substantial increase in the agency's cost for the Uniform CPA examination from the American Institute of Certified Public Accountants (AICPA), it will be necessary to increase the fee charged for the Uniform CPA examination.

Other issues affecting the agency's operations include:

- Electronic government services.
- Information Technology.
- Recent legislation creating a new voluntary class of accountant, Licensed Accounting Practitioner (LAP).
- Recent legislation requiring 150 semester hours of education to receive a CPA certificate, effective in 2006.
- Computerization of the CPA exam in August 2003.
- Diminishing number of Licensed Public Accountants.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget, and concurs with the proposed fee changes needed to recover the increase in cost associated with administering the Uniform CPA examination.

Agency: ACCOUNTANCY BOARD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Category:</u></b>									
<b>State Operations</b>									
COMPENSATION	245	268	291	293	293	302	302	36	6.4%
OTHER OPERATING EXPENSES	336	291	413	373	413	362	419	128	18.2%
<b>Total Expenditures</b>	<b>581</b>	<b>559</b>	<b>704</b>	<b>666</b>	<b>706</b>	<b>664</b>	<b>721</b>	<b>164</b>	<b>13.0%</b>
<b><u>Change Items:</u></b>	<b><u>Fund</u></b>								
(A) FEE INCREASE TO OFFSET COST INCREASES	GEN				40		57		
<b>Total Change Items</b>					<b>40</b>		<b>57</b>		
<b><u>Financing by Fund:</u></b>									
<b>Carry Forward:</b>									
GENERAL	0	0	0	23	23	0	0		
<b>Direct Appropriations:</b>									
GENERAL	581	559	704	643	683	664	721		
<b>Total Financing</b>	<b>581</b>	<b>559</b>	<b>704</b>	<b>666</b>	<b>706</b>	<b>664</b>	<b>721</b>		
<b><u>Revenue Collected:</u></b>									
<b>Nondedicated</b>									
GENERAL	1	0	0	690	730	665	722		
CAMBRIDGE DEPOSIT FUND	834	715	700	0	0	0	0		
<b>Total Revenues Collected</b>	<b>835</b>	<b>715</b>	<b>700</b>	<b>690</b>	<b>730</b>	<b>665</b>	<b>722</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	5.0	5.0	5.0	5.0	5.0	5.0	5.0		
PART-TIME, SEASONAL, LABOR SER	0.2	0.0	0.0	0.0	0.0	0.0	0.0		
OVERTIME PAY	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>5.3</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>		

Agency: ACCOUNTANCY BOARD

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
<b>FY 2001 Budgeted</b>	<b>647</b>	<b>624</b>	<b>647</b>	<b>624</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b><u>Base Adjustments</u></b>								
2002-03 SAL. & BEN. BASE	8	17	8	17	0	0	0	0
DOC. SPACE RENTAL/LEASE	2	4	2	4	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	9	19	9	19	0	0	0	0
<b>Subtotal Base Adjustments</b>	<b>19</b>	<b>40</b>	<b>19</b>	<b>40</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Base Budget</b>	<b>666</b>	<b>664</b>	<b>666</b>	<b>664</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**BUDGET CHANGE ITEM (47411)****Agency: ACCOUNTANCY BOARD****Item Title: FEE INCREASE TO OFFSET COST INCREASES**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
General Fund				
-State Operations	\$40	\$57	\$400	\$400
Revenues: (\$000s)				
General Fund	\$40	\$57	\$400	\$400

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: MS 326.165 to 326.229

☐ New Activity ☒ Supplemental Funding ☐ Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the proposed fee increase of \$97,000 for the biennium necessary to implement the AICPA computerized testing program.

**RATIONALE:**

Due to the substantial increase in the agency's cost for the Uniform CPA examination from AICPA, it will be necessary to increase the current fee.

August 2003 would see the start of the computerized examination as we anticipate it today. This examination is currently in the development stage and our projections are subject to variables such as potential need for additional staff, space requirements, and computer equipment acquisitions. The above figures include an increase per examination to cover the expected additional costs.

**FINANCING:**

The proposed increase in the cost of administering the Uniform CPA examination equates to a pass-through from the supplier, AICPA, to the candidate.

Per M.S. 16A.1283, a fee increase or new fee must be approved in law.

The anticipated increase in costs of administering the AICPA's Uniform CPA examination in the biennium is as follows:

FISCAL YEAR	FEE NAME	CURRENT FEE AMT	PROPOSED FEE AMT
Current	Uniform CPA Examination	\$44/section	
		\$165/all 4 parts	
2002	Uniform CPA Examination		\$53/section
			\$212/all 4 parts
2003	Uniform CPA Examination		\$57/section
			\$228/all 4 parts
2004	Uniform CPA Examination		\$136/section
			\$540/all 4 parts

**OUTCOMES:**

The electronic examination will be more secure, will be more readily available, e.g., daily by appointment rather than only twice a year. Also, exam scores will be available in a more timely manner. Fewer personnel will be required to administer the examinations, yet the integrity of the process will be maintained.



## ARCHITECTURE, ENGINEERING BD - EXECUTIVE SUMMARY

### **MISSION AND VISION:**

The Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design was established to safeguard life, health, and property and to promote the public welfare. Minnesota Statutes 326.02 - 326.15 mandates that the board examine, certify, license and regulate individuals practicing architecture, professional engineering, land surveying, landscape architecture, professional geology, and professional soil science and those who use the title certified interior designer.

### **PERFORMANCE SUMMARY:**

*Examinations:* Through the board, approximately 3,600 biennium examinations are conducted for those candidates meeting the board's education and experience requirements.

*Licensure:* The board evaluates individuals and issues approximately 1,000 new licenses annually.

*Enforcement:* During the 2000-01 biennium the board received 300 complaints alleging violation of its rules and laws.

In meeting its statutory mission, the board effectively protects the public through the three activities mentioned above. These figures, while incurred over the previous biennium, can show even greater improvement particularly in the area of enforcement. Recent budget increases in the enforcement area will enable the board to provide even greater service to the public.

### **REVENUES:**

The board is funded by General Fund appropriations, and all revenues collected are returned to the General Fund.

The board has four sources of revenue: examinations, licenses, fines, and filings. Examinations are a pass-through cost.

Two items to note on renewal for the board fees. First, M.S. 326.105 increased the board's licensing fees from \$104 to \$120 per licensee, effective 7-1-2000. Secondly, the board now has an application fee to offset the cost of processing applications for licensure.

### **ISSUES AFFECTING AGENCY'S OPERATIONS:**

The Legislative Audit Report on the board (00-25) identified the urgency for the board to have an adequate computer security system for its database:

- user manual for the new General Licensing System (GLS),

- off-site storage capability for computer records, and
- back-up for our system.

All of the referenced items require technology upgrades.

### **GOVERNOR'S RECOMMENDATIONS:**

The Governor recommends the agency's base budget. The Governor has also included funding to improve this agency's technology capacity in the Small Agency Infrastructure initiative carried under the Office of Technology.

Agency: ARCHITECTURE, ENGINEERING BD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	379	332	611	545	545	556	556	158	16.8%
OTHER OPERATING EXPENSES	347	257	494	406	406	425	425	80	10.7%
<b>Total Expenditures</b>	<b>726</b>	<b>589</b>	<b>1,105</b>	<b>951</b>	<b>951</b>	<b>981</b>	<b>981</b>	<b>238</b>	<b>14.0%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	726	589	1,105	951	951	981	981		
<b>Total Financing</b>	<b>726</b>	<b>589</b>	<b>1,105</b>	<b>951</b>	<b>951</b>	<b>981</b>	<b>981</b>		
<b>Revenue Collected:</b>									
Nondedicated									
GENERAL	0	0	0	1,567	1,567	607	607		
CAMBRIDGE DEPOSIT FUND	645	1,380	988	0	0	0	0		
<b>Total Revenues Collected</b>	<b>645</b>	<b>1,380</b>	<b>988</b>	<b>1,567</b>	<b>1,567</b>	<b>607</b>	<b>607</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	7.9	7.3	7.3	7.3	7.3	7.3	7.3		
PART-TIME, SEASONAL, LABOR SER	0.1	0.2	0.2	0.2	0.2	0.2	0.2		
OVERTIME PAY	0.0	0.2	0.2	0.2	0.2	0.2	0.2		
<b>Total Full-Time Equivalent</b>	<b>8.0</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>		

Agency: ARCHITECTURE, ENGINEERING BD

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	924	924	924	924	0	0	0	0
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	10	21	10	21	0	0	0	0
DOC. SPACE RENTAL/LEASE	1	3	1	3	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	16	33	16	33	0	0	0	0
Subtotal Base Adjustments	27	57	27	57	0	0	0	0
Base Budget	951	981	951	981	0	0	0	0

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## BARBERS BOARD - EXECUTIVE SUMMARY

### MISSION AND VISION:

The Board of Barber Examiners is authorized by M.S. 154 to examine and regulate the barbering profession.

**Mission:** To ensure that the public has a safe and healthy environment in shops and schools where services are performed.

**Vision:** To identify and eliminate unsanitary conditions in shops and schools.

### KEY SERVICE STRATEGIES:

- Examine the professional qualifications of license applicants.
- Inspect shops and schools.
- Enforce sanitation rules and statutes.

### PERFORMANCE SUMMARY:

Effectiveness Measures	Actual		Projected		
	FY1999	FY 2000	FY 2001	FY 2002	FY 2003
Shops/School Inspected	100%	100%	100%	100%	100%
Sanitary Compliance	97%	99%	100%	100%	100%
Violations Corrected	100%	100%	100%	100%	100%
Complaints Resolved	100%	99%	100%	100%	100%
Suspensions/License Rev.	4	8	5	3	4

### Activity Statistics

Student Permits	98	107	95	98	100
No. of Licenses Issued	4,108	4,000	3,900	3,950	3,975
No. of Inspections	1,108	1,179	1,170	1,160	1,180
No. of Violations	470	527	500	495	480
No. of Complaints	15	10	12	15	10
No. of Examinations	135	132	130	135	125
No. of Shops	1,142	1,161	1,050	1,100	1,150
No. of Schools	5	5	5	5	5

### REVENUES:

The board collects examination fees and licensing fees for students, apprentices, registered barbers, instructors, shops and schools. These receipts are non-dedicated and are deposited in the General Fund. The board is funded with a General Fund appropriation.

### ISSUES AFFECTING AGENCY'S OPERATIONS:

In recent years, some common head and scalp diseases have reappeared. As a result, the board must continue to develop policies, update school curriculums, and conduct inspections to ensure the public that the barbers are properly trained and that all sanitary statutes and rules are complied with, eliminating the possibility of a patron contracting any of these diseases.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Agency: BARBERS BOARD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	109	105	100	103	103	107	107	5	2.4%
OTHER OPERATING EXPENSES	36	44	44	50	50	52	52	14	15.9%
<b>Total Expenditures</b>	<b>145</b>	<b>149</b>	<b>144</b>	<b>153</b>	<b>153</b>	<b>159</b>	<b>159</b>	<b>19</b>	<b>6.5%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	145	149	144	153	153	159	159		
<b>Total Financing</b>	<b>145</b>	<b>149</b>	<b>144</b>	<b>153</b>	<b>153</b>	<b>159</b>	<b>159</b>		
<b>Revenue Collected:</b>									
Nondedicated									
GENERAL	0	0	0	184	184	183	183		
CAMBRIDGE DEPOSIT FUND	133	188	184	0	0	0	0		
<b>Total Revenues Collected</b>	<b>133</b>	<b>188</b>	<b>184</b>	<b>184</b>	<b>184</b>	<b>183</b>	<b>183</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	2.0	2.0	2.0	2.0	2.0	2.0	2.0		
<b>Total Full-Time Equivalent</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>		

Agency: BARBERS BOARD

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
<b>FY 2001 Budgeted</b>	<b>149</b>	<b>149</b>	<b>149</b>	<b>149</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b><u>Base Adjustments</u></b>								
2002-03 SAL. & BEN. BASE	3	7	3	7	0	0	0	0
DOC. SPACE RENTAL/LEASE	0	1	0	1	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	1	2	1	2	0	0	0	0
<b>Subtotal Base Adjustments</b>	<b>4</b>	<b>10</b>	<b>4</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Base Budget</b>	<b>153</b>	<b>159</b>	<b>153</b>	<b>159</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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## ELECTRICITY BOARD - EXECUTIVE SUMMARY

### **MISSION AND VISION:**

The Board of Electricity was established by the legislature in 1899.

***Mission:*** To protect life and property from the hazards arising from the use of electricity by ensuring the qualifications of electricians through the electrical licensing requirements of M.S. 326.242 and the inspection of electrical wiring and equipment for compliance with the safety standards set forth in M.S. 326.243, as required by M.S. 326.244.

***Vision:*** To administer the provisions of the Minnesota Electrical Act in the most effective and user-friendly manner while ensuring electrical safety and welfare for the citizens of the state.

### **KEY SERVICE STRATEGIES:**

- License persons through an experience and examination process.
- License businesses that perform electrical work.
- Inspect installed electrical wiring.

### **PERFORMANCE SUMMARY:**

- The board licensed approximately 2,800 businesses that perform electrical wiring for others.
- The board licensed over 15,000 personal licenses across 10 different classifications. Approximately 2,000 persons are licensed in more than one category.
- Examinations were administered by the board to 2,800 people in the biennium ending 6-30-00. Additionally, the board administers reciprocal licensing agreements with 11 other states.
- During the biennium ending 6-30-00, the board received approximately 340,000 separate requests for inspection and completed a similar number of inspections requiring approximately 750,000 separate inspection trips, an average of 1,500 each business day.

### **REVENUES:**

- The board collects revenues for electrical examinations and licensing, inspection charges, handling fees, civil penalties, and miscellaneous charges. These revenues are deposited in a special revenue account in the state treasury.
- Electrical inspection fees are held in escrow and are used to pay inspection service expenses as individual inspections are completed. In FY 2000, 87.5% of the collected inspection fee was used to pay for inspection service, with the remaining 12.5% used to offset associated operating costs.

- Electrical licensing fees are collected at the time of initial licensure and are based on a two-year term.
- Revenue from inspection and licensing fees accounted for 89% of the board's total revenue for FY 2000. The FY 2002-03 revenue estimates are based on activity trends from FY 1996 through 2001.

### **ISSUES AFFECTING AGENCY'S OPERATIONS:**

- *Information Technology System development.* The board intends to continue development to enable installers of electrical wiring to file requests for electrical inspection and pay inspection fees electronically.
- *Legislation regarding power-limited licensing and inspection.* The electrical industry has experienced changes in technology that have resulted in current licensing and inspection laws identified by a growing number of citizens as being inappropriate and ineffective. This was demonstrated during the last legislative session by the introduction of legislation that would have dramatically changed current provisions. Board staff believes this issue will continue to be addressed legislatively until meaningful resolution is accomplished.
- *Continued increase in demand for licensed electricians.* The board has increased the number of states with which it has reciprocal licensing agreements to partially address this issue.
- *Increased demand for electrical inspection.* Although the board has experienced increasing difficulty in contracting with and retaining an adequate number of inspection service providers, it believes that the inspection fee adjustment passed during the 2000 legislative session will remedy this problem.

### **EXPLANATION OF AGENCY'S PLAN:**

- The budget plan includes funds for continued IT System development and maintenance, including electronic business and expanded communication.
- Included in the budget plan is the funding for additional full-time employees to monitor inspection service providers and investigate licensing and inspection complaints.
- These planned expenses will be offset by increased earnings resulting from the inspection fee adjustment passed during the 2000 legislative session.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Agency: ELECTRICITY BOARD

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,286	1,407	1,449	1,486	1,486	1,531	1,531	161	5.6%
OTHER OPERATING EXPENSES	5,669	5,780	7,257	9,147	9,147	9,607	9,607	5,717	43.9%
<b>Total Expenditures</b>	<b>6,955</b>	<b>7,187</b>	<b>8,706</b>	<b>10,633</b>	<b>10,633</b>	<b>11,138</b>	<b>11,138</b>	<b>5,878</b>	<b>37.0%</b>
<b>Financing by Fund:</b>									
Statutory Appropriations:									
SPECIAL REVENUE	6,955	7,187	8,706	10,633	10,633	11,138	11,138		
<b>Total Financing</b>	<b>6,955</b>	<b>7,187</b>	<b>8,706</b>	<b>10,633</b>	<b>10,633</b>	<b>11,138</b>	<b>11,138</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	6,518	7,052	9,057	9,591	9,591	10,046	10,046		
Nondedicated									
GENERAL	1	0	0	0	0	0	0		
<b>Total Revenues Collected</b>	<b>6,519</b>	<b>7,052</b>	<b>9,057</b>	<b>9,591</b>	<b>9,591</b>	<b>10,046</b>	<b>10,046</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	24.2	24.6	24.6	24.6	24.6	24.6	24.6		
OVERTIME PAY	0.1	0.1	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>24.3</b>	<b>24.7</b>	<b>24.6</b>	<b>24.6</b>	<b>24.6</b>	<b>24.6</b>	<b>24.6</b>		

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## LABOR AND INDUSTRY DEPT - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The Department of Labor and Industry (DLI) serves employees and employers by regulating workplaces through education and enforcement.

**Mission:** To promote a safe and productive environment for Minnesota's workplaces.

**Vision:** To be the leader in promoting workplace solutions. To serve Minnesota as the leader in quality public service through supportive systems in a positive agency environment.

DLI is an active participant in The Big Plan strategic directions outlined below:

- **Developing the Workforce for Tomorrow.** Provide well-trained, flexible and safety-minded employers and members of the workforce through apprenticeship, safety grants, and consultation.
- **Living Human Rights and Respect.** Create a link to communities of color and those who do not speak English to advance understanding of workplace rights, responsibilities, and regulations.
- **Building an Information Highway that Leaves No Community Excluded.** Integrate electronic government services to educate, communicate, and assist employers and workers.
- **Assuring Lifelong Learning for Work and Life.** Help people to be self-sufficient through programs like apprenticeship, vocational rehabilitation, workplace safety consultation, wage and hour and child labor training.
- **Rein In Rulemaking and Excessive Regulation.** Committing to workers and employers that the agency writes and maintains only quality rules which are necessary to help them to comply with workplace statutes;
- **A Tax System that Makes Sense and State Departments: Best Bang for the Buck.** Provide the best services at the lowest possible cost and never forget that it is the people's money.
- **Electronic Government Services.** Use technology to provide customer service 24-hours a day, seven-days a week.

The department's operations are designed to assure that

- workplaces are free from injury and illness;
- job-injured workers are provided treatment and support;
- workers from all communities have the opportunity to receive critical skills through apprenticeship training;

- boilers and high-pressure-piping systems are properly installed and operated; and
- workers, potential workers, and employers have a clear understanding of their rights and responsibilities in the workplace.

### KEY SERVICE STRATEGIES:

Stakeholder compliance with workplace requirements is the department's goal. The stakeholders are workers, employers, and others (insurers, attorneys, rehabilitation and health care providers, etc.). Compliance strategies begin with setting standards for appropriate workplace behavior, providing outreach and training, and establishing community relationships. Audits, inspections, and investigations are tools used to determine appropriate behavior. Fines and citations are used to assure compliance. Employees and employers are safe and productive when they understand and follow workplace requirements.

The costs of doing the right thing are cheaper than the costs of noncompliance; this is true for both the stakeholder and the regulator. The department focuses resources on broad educational efforts in order to reach the greatest number of stakeholders. The MNSHARP and MNSTAR programs are excellent incentives for employers and employees to comply with safety laws and rules. The department will build on its current incentive programs such as safety grants, educational outreach and targeted training. DLI will establish database measures and collect behavior data to determine program effectiveness.

Given the shortage of skilled labor, the agency will expand participation in the apprenticeship program using the following strategies: 1) revise, update, and distribute informational literature to potential apprentices and employers; 2) expand recruiting efforts by reaching out to all communities of interest to raise awareness of apprenticeship as an opportunity to learn and earn at the same time; 3) develop apprenticeship programs for new and non-traditional occupations to help meet the need for skilled workers; 4) recruit on a national level; and 5) promote apprenticeship in the process of administering other agency programs.

### OPERATING ENVIRONMENT:

Labor and business are seeking ways to meet their interests while creating a workplace that assures worker safety, fair treatment, and productivity. Their most recent achievements include 1) recommendation of significant changes to the workers' compensation statute; 2) sponsorship of a record number of registered apprentices; and 3) decreasing numbers of workplace fatalities and serious injuries. Base budget resources will be deployed to continue these efforts and to address the following issues:

## LABOR AND INDUSTRY DEPT - EXECUTIVE SUMMARY (Continued)

- With Minnesota's record low unemployment levels, there have been more children used as workers. This has increased the number of inquiries and investigations of the department's Labor Standards unit. In FY 2000, the department prepared an informational bookmark that was distributed to students statewide through school districts. In addition, the 2000 legislature authorized a tenfold increase of penalties assessed against businesses that violate child labor laws. It is expected that the heightened awareness of child labor issues and monetary deterrent will discourage violations of the law.
- The Apprenticeship unit works cooperatively with the departments of Economic Security, Children, Families and Learning, and Minnesota State Colleges and Universities to promote apprenticeship training opportunities through their job banks and web sites.
- The department works through community-based organizations to educate the increasing number of minority and non-English speaking workers on their workplace rights and responsibilities.
- DLI administers the Special Compensation Fund (hereinafter referred to as the Workers' Compensation Fund) pursuant to M.S.176.129. The 2000 legislature authorized the transfer of \$325 million from the excess surplus in the Minnesota Assigned Risk Plan to the Workers' Compensation Fund for the purpose of reducing the long-term liability associated with claims of the Supplementary Benefits and Second Injury reimbursement programs. DLI has begun a four-year settlement project aimed at reducing the long-term liability to at least one-half of the February 2000 level.
- Administrative costs make up less than 3% of total workers' compensation system costs. The key is to determine if administration assists in the overall efficiency of the system. The department is committed to developing a cost-benefit analysis of the value of the costs associated with regulation of the system. In addition to DLI expenditures for workers' compensation and safety programs, administrative costs include the Workers' Compensation Court of Appeals, positions at the Department of Commerce and part of the Office of Administrative Hearings. The stability of the system (few statutory changes) during the past five years positions DLI to better address the relationship between system investments and system costs.
- DLI works cooperatively with a number of state agencies to maximize use of internal and external expertise and to provide services to the citizens of Minnesota. DLI participated for the first time last year with the Department of Economic Security in its **Careers** publication to guide new and experienced job seekers in career choices. DLI is an active participant on the Governor's Workforce Development Mini-cabinet.
- The agency works in concert with its partners in the workers' compensation system, the Office of Administrative Hearings (OAH), and the Workers' Compensation Court of Appeals (WCCA), to maximize use of technology

and share data about workers' compensation cases. OAH and WCCA utilize computer systems developed and housed at DLI. The shared input of data allows for comprehensive reporting on the workers' compensation system and creates shared information that initiates better customer service opportunities.

- The department will use electronic government services (EGS) to improve customer service. It will improve the computer programs that facilitate electronic data interchange (EDI) to allow trading with more insurers and ultimately the trading of more forms. It also plans to pursue a number of web-enabled applications that will allow citizens to file complaints or apply for licenses via the internet.

### ORGANIZATION/PROGRAM STRUCTURE:

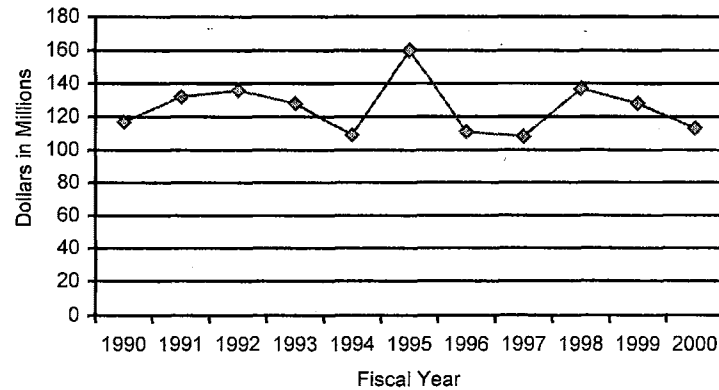
Department of Labor and Industry	
Workers' Compensation Division	161.5 FTE
Workplace Services Division	158.5 FTE
General Support	84.9 FTE
Total	404.9 FTE

DLI offers statewide services. The agency maintains its central office in St. Paul with offices in Duluth, Mankato, and St. Cloud. Vocational Rehabilitation counselors are also stationed in Bemidji, Duluth, Hibbing, Fergus Falls, Mankato, and Rochester. DLI works with Minnesota workers and employers on-site throughout the state.

LABOR AND INDUSTRY DEPT - EXECUTIVE SUMMARY (Continued)

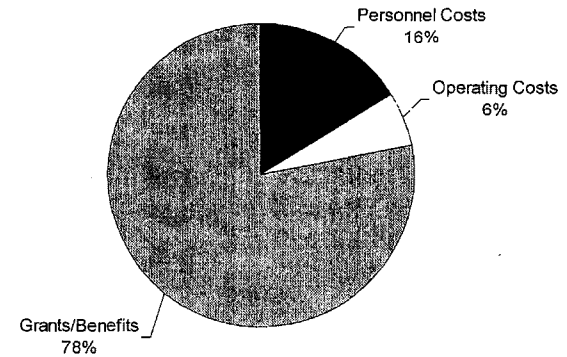
TRENDS AND PERSPECTIVE:

**Total Budget -All Funds**



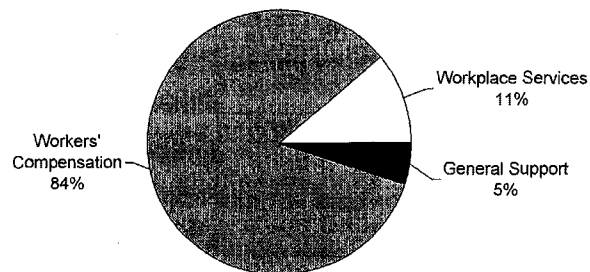
**2000-01 Expenditures by Category**

Total: \$271 Million



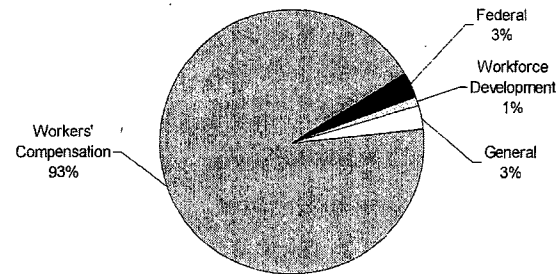
**2000-01 Expenditures by Program**

Total: \$271 Million



**2000-01 Expenditures by Fund**

Total: \$271 Million



**LABOR AND INDUSTRY DEPT - EXECUTIVE SUMMARY (Continued)**

**GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends base funding levels as requested in the agency's budget, except for the following adjustments:

- A biennial reallocation of \$238,000 from the Office of Administrative Hearings and \$130,000 from the Workers' Compensation Court of Appeals to provide systems support and front end processing supervision for the workers' compensation case scheduling and management system.
- A permanent reduction of non-dedicated General Fund revenue as a result of eliminating the registration fee imposed upon employment search firms.

Agency: LABOR AND INDUSTRY DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Program:</b>									
WORKERS' COMPENSATION DIVISION	108,259	93,775	133,833	170,051	170,125	158,789	158,863	101,380	44.5%
WORKPLACE SERVICES DIVISION	12,503	13,056	15,955	14,704	14,704	15,110	15,110	803	2.8%
GENERAL SUPPORT DIVISION	7,348	6,554	7,920	7,712	7,822	7,887	7,997	1,345	9.3%
<b>Total Expenditures</b>	<b>128,110</b>	<b>113,385</b>	<b>157,708</b>	<b>192,467</b>	<b>192,651</b>	<b>181,786</b>	<b>181,970</b>	<b>103,528</b>	<b>38.2%</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	4,018	3,373	4,276	3,567	3,567	3,661	3,661		
SPECIAL REVENUE	0	712	832	793	793	808	808		
WORKERS COMPENSATION	18,807	18,007	22,460	20,864	21,048	21,348	21,532		
<b>Open Appropriations:</b>									
WORKERS COMPENSATION	98,645	83,774	55,055	48,202	48,202	42,517	42,517		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	401	432	587	571	571	586	586		
FEDERAL	4,084	4,451	4,645	4,859	4,859	5,092	5,092		
WORKERS COMPENSATION	2,102	2,628	69,838	113,596	113,596	107,759	107,759		
MISCELLANEOUS AGENCY	53	8	15	15	15	15	15		
<b>Total Financing</b>	<b>128,110</b>	<b>113,385</b>	<b>157,708</b>	<b>192,467</b>	<b>192,651</b>	<b>181,786</b>	<b>181,970</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	385.5	392.5	391.5	389.5	389.5	389.5	389.5		
PART-TIME, SEASONAL, LABOR SER	14.4	12.4	13.4	13.6	13.6	13.6	13.6		
<b>Total Full-Time Equivalent</b>	<b>399.9</b>	<b>404.9</b>	<b>404.9</b>	<b>403.1</b>	<b>403.1</b>	<b>403.1</b>	<b>403.1</b>		



# LABOR AND INDUSTRY DEPT - BUDGET BRIEF

Fund: GENERAL

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001)</b> (\$000s)			
Appropriations	\$3,913	\$3,913	\$7,826
<b><u>BASE ADJUSTMENT</u></b>			
Doc. Space Rental/Lease	9	15	24
2002-03 Sal. & Ben Base	84	172	256
System Development Cost	(439)	(439)	(878)
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$3,567</b>	<b>\$3,661</b>	<b>\$7,228</b>
 <b>GOVERNOR'S RECOMMENDATION</b>	 <b>\$3,567</b>	 <b>\$3,661</b>	 <b>\$7,228</b>

## GOVERNOR'S RECOMMENDATION(S):

The Governor recommends base funding levels as requested in the agency's budget.

## BRIEF EXPLANATION OF BUDGET DECISIONS:

- The agency will use its base of \$7.2 million for the biennium to
  - educate, advise on and enforce Minnesota employment laws affecting employees' wages, child labor, prevailing wage and fee employment agencies;
  - assure the safe operation of boilers, pressure vessels, boats-for-hire, hobby boilers, and high-pressure-piping systems in Minnesota through the adoption of regulations, licensing of boiler operators, boat pilots, and pipefitters, and by conducting inspections.
- Base adjustments include inflationary increases for salaries and rent. Also included is the removal of a one-time appropriation for a new inspection and licensing system implemented in the Code Administration and Inspection Services unit during FY 2001.
- With the difficulty in obtaining workers in today's tight labor market, the Labor Standards unit is responding to an increasing number of child labor inquiries and performing more investigations in this area. Child labor fines were increased tenfold in FY 2001 to encourage compliance with existing regulations.
- The agency is proposing the deregulation of employment search firms. This industry has demonstrated that existing regulations are neither effective nor needed. This change will allow the unit to direct more of its resources towards enforcing child labor laws.

# LABOR AND INDUSTRY DEPT - BUDGET BRIEF

Fund: WORKFORCE DEVELOPMENT (SPECIAL REVENUE)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Appropriations	\$779	\$779	\$1,558
<b><u>BASE ADJUSTMENT</u></b>			
Ren Doc. Space Rental/Lease	1	2	3
SSB 2002-03 Sal. & Ben. Base	13	27	40
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$793</b>	<b>\$808</b>	<b>\$1,601</b>
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$793</b>	<b>\$808</b>	<b>\$1,601</b>

## **BRIEF EXPLANATION OF BUDGET DECISIONS:**

- The agency will use its base of \$1.6 million to facilitate employer-sponsored apprenticeships, promote worker safety, develop skill set standards, and explore new careers with apprenticeship potential.
- Base adjustments include inflationary increases for salaries and rent.

## **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends base funding levels as requested in the agency's budget.

## LABOR AND INDUSTRY DEPT - BUDGET BRIEF

### Fund: WORKERS COMPENSATION

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Appropriations	\$20,360	\$20,360	\$40,720
<b><u>BASE ADJUSTMENT</u></b>			
Attorney General Costs	15	31	46
Agency Technical Reallocation	24	24	48
Doc. Space Rental/Lease	51	89	140
2002-03 Sal. & Ben. Base	414	844	1,258
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$20,864</b>	<b>\$21,348</b>	<b>\$42,212</b>
<b><u>CHANGE ITEMS</u></b>			
Case Scheduling/Mgmt System Support	184	184	368
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$21,048</b>	<b>\$21,532</b>	<b>\$42,580</b>

### BRIEF EXPLANATION OF BUDGET DECISIONS:

- The agency will use its base of \$42 million for the biennium to
  - promote and ensure safe and healthful working conditions for Minnesota workers and employers; and
  - minimize the impact of work-related injuries or illnesses on Minnesota workers and employers through the administration of the state's workers' compensation laws.
- Base adjustments include inflationary increases for salaries, rent, and legal costs.
- An agency technical reallocation is included for amounts paid for the statewide administrative systems. These costs were previously paid through the agency's open appropriation for statewide indirect costs. A corresponding reduction has been made to the open appropriation, resulting in no net increase in spending. This base adjustment will allow for the proper classification of these costs as an operating expense.
- The change item represents the reallocation of \$238,000 from the Office of Administrative Hearings and \$130,000 from the Workers' Compensation Court of Appeals to the Department of Labor and Industry to direct front-end image and data quality assurance and provide systems support for the workers' compensation case scheduling and management system.

### GOVERNOR'S RECOMMENDATION(S):

The Governor recommends base funding levels as requested in the agency's budget except for the following adjustment:

- A biennial reallocation of \$238,000 from the Office of Administrative Hearings and \$130,000 from the Workers' Compensation Court of Appeals to provide systems support and front end processing supervision for the workers' compensation case scheduling and management system.

## LABOR AND INDUSTRY DEPT - REVENUE SUMMARY

### REVENUE SOURCES:

The Workers' Compensation Fund provides the resources that support the entire workers' compensation system, including activities of the Department of Labor and Industry, the Workers' Compensation Court of Appeals, and a portion of the Office of Administrative Hearings and the Department of Commerce. This fund is financed primarily by an assessment collected from workers' compensation insurers and self-insured employers based on their indemnity payments made to injured employees. Other non-dedicated revenues of the Workers' Compensation Fund include the following:

- Investment income.
- Recoveries from uninsured and bankrupt self-insured employers.
- Penalties assessed for violations of OSHA standards.
- Fees for services provided by agency Qualified Rehabilitation Consultants (QRCs) who assist injured workers in their return to work.
- Fees collected for licensing QRCs, QRC firms, and other rehabilitation providers.
- Fees collected for certifying managed care organizations.
- Penalties assessed against rehabilitation providers.

The department collects the following non-dedicated revenue for the General Fund:

- Fees collected by the Code Administration and Inspection Services unit for inspections, licenses, and permits related to boilers, high pressure and ammonia piping systems, and boats-for-hire.
- Fees collected by the Labor Standards unit for issuing licenses to fee employment agencies, their managers and counselors, and for registering search firms.
- Fines assessed by the Labor Standards unit for violations of Child Labor and Fair Labor Standards laws.

Other dedicated revenue collected by the department include:

- Federal grants from the U.S. Department of Labor and the Veteran's Administration.
- Penalties assessed against workers' compensation insurers and self-insured employers for the Assigned Risk Safety Account.
- Assessments collected from wood mills for the Loggers' Targeted Industry Fund.

- Fees collected to recover departmental costs of workers' compensation and workplace safety seminars.
- Collections of back wages owed to employees by employers. These funds are remitted to the employees.
- Recoveries of the costs associated with providing photocopies of workers' compensation documents to requesting parties.

### FEE STRUCTURE:

Most fees and penalties collected by the department are established by statute or rule. The fee charged for providing photocopies and conducting seminars is set to recover department costs.

### RECENT CHANGES:

In FY 2001, \$325 million was transferred from the excess surplus in the Minnesota Assigned Risk Plan to the Workers' Compensation Fund for the purpose of reducing the long-term liability associated with the Supplementary Benefits and Second Injury reimbursement programs. This additional funding available in the Workers' Compensation Fund has prompted a reduction in the rate of assessment paid by insurers and self-insured employers from 30% to 20%, and the decrease was effective for indemnity benefits paid on or after 7-1-2000.

Other legislative changes:

- A tenfold increase of penalties assessed against businesses that violate child labor laws.
- Elimination of an assessment that was paid to the Worker's Compensation Fund in instances of workplace fatalities where there were no dependents of the deceased. This assessment was replaced by directing a payment to the estate of the deceased.
- An increase in penalties assessed by the OSHA unit when a violation contributes to the death of an employee.

Department changes:

- Adoption of a rule that eliminated the freeze on certain rehabilitation providers' fees that had been in place since July 1992. The fee cap remains in place. This rule change allows the department's Vocational Rehabilitation unit to increase the hourly rate it charges for providing rehabilitation services, thereby recovering more of the cost of providing rehabilitation services to injured workers.

## LABOR AND INDUSTRY DEPT - REVENUE SUMMARY (Continued)

- The Code Administration and Inspection Services unit adjusted its boiler and piping fee schedule during FY 2001. The change will bring the rates charged in line with unit costs and recover the cost of a systems development project that was appropriated in 1999.

### **FORECAST BASIS:**

Assessment revenue is expected to increase by 5.5% per year due to projected growth in indemnity benefits paid by insurers and self-insured employers. Inflationary increases of 5% are expected in the OSHA Compliance and OSHA Consultation federal grants. Other revenues are expected to remain relatively constant through the biennium.

### **CHANGE ITEMS:**

The Governor is recommending the elimination of the requirement that employment search firms be registered with the department. With this change, non-dedicated General Fund revenues will be reduced by \$100,000 each year.

Agency: LABOR AND INDUSTRY DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<b>Non-Dedicated Revenue:</b>									
<b>Departmental Earnings:</b>									
GENERAL	0	0	0	2,479	2,379	2,479	2,379	4,758	
CAMBRIDGE DEPOSIT FUND	2,006	1,990	2,244	0	0	0	0	(4,234)	(100.0%)
WORKERS COMPENSATION	405	367	491	571	571	621	621	334	38.9%
<b>Other Revenues:</b>									
GENERAL	2	7	37	37	37	37	37	30	68.2%
WORKERS COMPENSATION	110,590	111,651	90,218	76,063	76,063	80,549	80,549	(45,257)	(22.4%)
<b>Other Sources:</b>									
GENERAL	1	1	0	0	0	0	0	(1)	(100.0%)
<b>Taxes:</b>									
GENERAL	8	7	0	0	0	0	0	(7)	(100.0%)
<b>Total Non-Dedicated Receipts</b>	<b>113,012</b>	<b>114,023</b>	<b>92,990</b>	<b>79,150</b>	<b>79,050</b>	<b>83,686</b>	<b>83,586</b>	<b>(44,377)</b>	<b>(21.4%)</b>
<b>Dedicated Receipts:</b>									
<b>Departmental Earnings:</b>									
WORKERS COMPENSATION	2,365	2,639	2,620	2,620	2,620	2,620	2,620	(19)	(0.4%)
<b>Grants:</b>									
FEDERAL	4,068	4,449	4,637	4,859	4,859	5,092	5,092	865	9.5%
<b>Other Revenues:</b>									
SPECIAL REVENUE	489	524	556	571	571	586	586	77	7.1%
WORKERS COMPENSATION	76	83	343,121	13,724	13,724	7,889	7,889	(321,591)	(93.7%)
MISCELLANEOUS AGENCY	13	15	15	15	15	15	15	0	0.0%
<b>Total Dedicated Receipts</b>	<b>7,011</b>	<b>7,710</b>	<b>350,949</b>	<b>21,789</b>	<b>21,789</b>	<b>16,202</b>	<b>16,202</b>	<b>(320,668)</b>	<b>(89.4%)</b>
<b>Agency Total Revenues</b>	<b>120,023</b>	<b>121,733</b>	<b>443,939</b>	<b>100,939</b>	<b>100,839</b>	<b>99,888</b>	<b>99,788</b>	<b>(365,045)</b>	<b>(64.5%)</b>

**LABOR AND INDUSTRY DEPT - FEDERAL FUNDS SUMMARY**

<b>Federal Program (\$ in Thousands)</b>	<b>Related SFY 2000 Spending</b>	<b>Primary Purpose</b>	<b>SFY 2000 Revenues</b>	<b>SFY 2001 Revenues</b>	<b>Estimated SFY 2002 Revenues</b>	<b>Estimated SFY 2003 Revenues</b>
OSHA Compliance	3,139	State operations	3,550	3,705	3,890	4,085
OSHA Consultation	524	State operations	698	729	766	804
Bureau of Labor Statistics	101	State operations	121	124	124	124
OSHA Survey	-0-	State operations	45	42	42	42
Veteran's Administration - Apprenticeship	-0-	State operations	33	37	37	37
<b>Agency Total</b>	<b>3,764</b>		<b>4,447</b>	<b>4,637</b>	<b>4,859</b>	<b>5,092</b>

The OSHA Compliance and OSHA Consultation grants are essential to continue the downward trend in occupational fatalities, injuries, and illnesses, and thereby reduce the suffering of workers and families and contain workers' compensation costs. The Bureau of Labor Statistics and OSHA Survey grants provide funding necessary to conduct surveys to collect, analyze, and report data on workplace injuries. The Veterans Administration – Apprenticeship grant provides funding necessary to review and approve eligible veteran apprenticeship and on-the-job training programs.

Federal funding contributes to 3% of the agency's operations. Federal funds received through the OSHA Compliance and Bureau of Labor Statistics programs require matching state funds of 50%. The OSHA Consultation program requires matching state funds of 10%. The required state match is provided by a direct appropriation from the Workers' Compensation Fund. The OSHA Survey and Veteran's Administration – Apprenticeship programs are 100% federally funded.

The agency's revenue estimates include a 5% inflationary increase for the OSHA Compliance and OSHA Consultation grants. Other grants have remained relatively constant, and no increases are expected.

**LABOR AND INDUSTRY DEPT - GRANTS DETAIL**

Program Name Federal or State or Both (citation)	Purpose	Recipient Type (s) Eligibility Criteria	Budgeted FY 2001	Most Recent Federal Award (cite year)
Safety Hazard Abatement (State) <i>M.S. 79.253</i>	To make grants or loans to employers for the cost of implementing safety recommendations.	Employers	\$1,199,000	N/A
Labor Education and Advancement Program (State) <i>M.S. 178.11</i>	To facilitate the participation of women and minorities in apprenticeship trades and occupations.	Community-based organizations	\$204,000	N/A
Vinland Center (State) <i>Laws of 1999, Chapter 223, Section 11, Subd. 2</i>	To provide specialized rehabilitation services for injured and disabled workers.	Vinland Center	\$125,000	N/A



**BUDGET CHANGE ITEM (47021)****Agency: LABOR AND INDUSTRY DEPT****Item Title: CASE SCHEDULING/MGMT SYSTEM SUPPORT**

	2002-03 Biennium		2004-05 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005
Expenditures: (\$000s)				
Workers' Compensation Fund				
-State Operations	\$184	\$184	\$184	\$184

Revenues: (\$000s)

Statutory Change? Yes \_\_\_\_\_ No  X 

If yes, statute(s) affected:

\_\_\_\_\_ New Activity \_\_\_\_\_ Supplemental Funding  X  Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the biennial reallocation of \$238,000 from the Office of Administrative Hearings and \$130,000 from the Workers' Compensation Court of Appeals to the Department of Labor and Industry to provide systems support and front end processing supervision for the workers' compensation case scheduling and management system.

**RATIONALE:**

In FY 2000, the Office of Administrative Hearings (OAH) contracted with DLI to build a Case Scheduling and Management System (CSMS). The agencies had traditionally maintained separate computer systems to track their workers' compensation cases and their outcomes. The new system, implemented early in FY 2001, is integrated with DLI's imaging system and Informix database.

The CSMS system allows improved tracking of documents routed between OAH and the Workers' Compensation Court of Appeals (WCCA). WCCA is now able to access OAH hearing schedules and can avoid scheduling conflicts for mediators, judges, and attorneys. All three agencies can now update the system with case information and outcomes making service to customers and operations more efficient.

**FINANCING:**

DLI will use the reallocated resources to fund one supervisory position to direct data and image quality assurance activities and one technical position to provide technical, programming, training, and database administration support to the CSMS system. An additional \$36,000 per year will be used to pay for the annual license fees and dedicated telecommunications lines for CSMS users.

**OUTCOMES:**

The workers' compensation dispute resolution process is more efficient in three significant ways:

- All state agency partners are able to access data related to cases.
- Improved information is available for decision making.
- Stakeholders receive better service.

## PROGRAM SUMMARY

**Program:** WORKERS' COMPENSATION DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

### PROGRAM PROFILE:

The mission of the Workers' Compensation division is to minimize the impact of work-related injuries or illnesses on workers and employers. When injuries do occur on the job, the six activity areas within the program ensure that the injured worker and employer are assisted. The goal is to return the injured worker to pre-injury status as quickly as possible. The six activity areas are listed below:

- *Workers' Compensation Administration (WCA)* provides leadership, support, and a framework for operations of the Workers' Compensation division.
- *Information Processing Center (IPC)* creates and maintains paper and imaged workers' compensation files; enters essential data into department database; sorts, processes and delivers all department mail.
- *Customer Assistance (CA)* provides assistance and information about the workers' compensation laws and process to injured workers, employers, and other stakeholders; provides alternative dispute resolution services including mediations, conferences, telephone information, walk-in assistance, and dispute certification.
- *Compliance Services (CS)/Rehabilitation and Medical Affairs (RMA)* ensures that insurers and self-insured employers submit benefit payments and reporting documents accurately and in accordance with statutory time lines; conducts targeted education; investigates professional conduct complaints against rehabilitation and medical providers; certifies and audits managed care organizations; and monitors and updates workers' compensation rules for medical and rehabilitation services.
- *Special Compensation Fund (SCF)* collects and manages the assessment revenue which funds the administration of workers' compensation and safety programs; verifies and enforces employers' workers' compensation insurance coverage; administers claims for injured workers of uninsured employers, some bankrupt self-insured employers, and asbestosis claims; and reimburses second injury and supplementary benefits to insurers and self-insurers.
- *Vocational Rehabilitation Unit (VRU)* provides rehabilitation consultations and a full range of job placement services to injured workers whose claims have been denied, or those who have chosen to work with the VRU's QRC's as permitted by law.

### STRATEGIES AND PERFORMANCE:

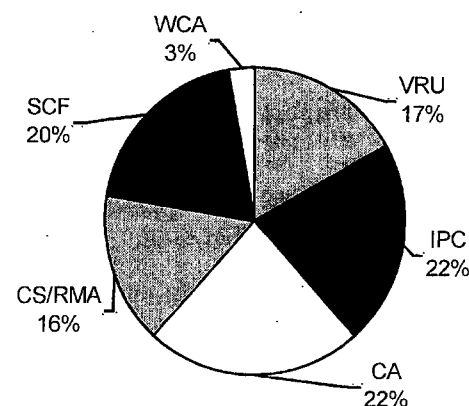
The division is guided by three service strategies:

1. information is available to all stakeholders when needed;
2. workers' compensation programs are properly funded; and
3. participants understand their rights and responsibilities.

The department has imaged all of its workers' compensation files since March 1995, allowing those files to be available instantaneously to multiple users. This has greatly increased staff's ability to respond quickly to questions and concerns. A computerized scheduling system implemented in August 2000 provides further operating efficiencies for DLI, the Office of Administrative Hearings, and the Workers' Compensation Court of Appeals in the ability to schedule hearings and mediations.

### FINANCING INFORMATION:

**2000-2001 Expenditures by Activity  
(excluding benefits)**



The program is financed by a direct appropriation from the Workers' Compensation Fund.

### BUDGET ISSUES:

The Workers' Compensation Fund continues to collect revenues sufficient to pay benefits and support administrative operations. Most activities of the division have been relatively stable over the past several years, allowing staff to provide better service to injured workers, insurers, and employers. Current needs are primarily related to maintaining and improving technology.

## PROGRAM SUMMARY (Continued)

**Program: WORKERS' COMPENSATION DIVISION**  
**Agency: LABOR AND INDUSTRY DEPT**

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In FY 2001, the division transferred the Rehabilitation and Medical Affairs unit from the Vocational Rehabilitation unit to the Compliance Services unit. The combining of RMA with CS is expected to 1) ensure internal consistency in the area of compliance; 2) provide a more comprehensive training program for stakeholders; 3) provide opportunities for employee growth and development; and 4) provide synergy and better utilization of staff.

### **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends base funding levels, except for the following:

- A biennial reallocation of \$238,000 from the Office of Administrative Hearings and \$130,000 from the Workers' Compensation Court of Appeals to provide systems support and front end processing supervision for the workers' compensation case scheduling and management system. Of these amounts, \$148,000 will be used for a supervisory position to direct data and image quality assurance activities.

Program: WORKERS' COMPENSATION DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01		
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent	
<b>Expenditures by Activity:</b>										
WC ADMINISTRATION	646	209	375	270	270	232	232	(82)	(14.0%)	
WC INFORMATION PROCESSING CTR	2,201	2,288	2,459	2,428	2,502	2,503	2,577	332	7.0%	
WC CUSTOMER ASSISTANCE	2,367	2,404	2,714	2,651	2,651	2,728	2,728	261	5.1%	
WC COMPLIANCE/REHAB & MEDICAL	1,608	1,633	1,857	1,791	1,791	1,838	1,838	139	4.0%	
WC VOCATIONAL REHABILITATION	1,722	1,773	1,946	1,899	1,899	1,958	1,958	138	3.7%	
WC SPECIAL COMPENSATION FUND	99,715	85,468	124,482	161,012	161,012	149,530	149,530	100,592	47.9%	
<b>Total Expenditures</b>	<b>108,259</b>	<b>93,775</b>	<b>133,833</b>	<b>170,051</b>	<b>170,125</b>	<b>158,789</b>	<b>158,863</b>	<b>101,380</b>	<b>44.5%</b>	

<b>Change Items:</b>	<b>Fund</b>				
(A) CASE SCHEDULING/MGMT SYSTEM SUPPORT	WCS			74	74
<b>Total Change Items</b>				<b>74</b>	<b>74</b>

<b>Financing by Fund:</b>							
<b>Direct Appropriations:</b>							
WORKERS COMPENSATION	9,788	9,916	11,376	10,838	10,912	11,104	11,178
<b>Open Appropriations:</b>							
WORKERS COMPENSATION	98,239	83,631	54,910	48,074	48,074	42,381	42,381
<b>Statutory Appropriations:</b>							
SPECIAL REVENUE	19	15	44	31	31	31	31
WORKERS COMPENSATION	213	213	67,503	111,108	111,108	105,273	105,273
<b>Total Financing</b>	<b>108,259</b>	<b>93,775</b>	<b>133,833</b>	<b>170,051</b>	<b>170,125</b>	<b>158,789</b>	<b>158,863</b>

<b>FTE by Employment Type:</b>							
FULL TIME	148.0	153.0	156.0	156.0	156.0	156.0	156.0
PART-TIME, SEASONAL, LABOR SER	9.5	5.5	5.5	5.5	5.5	5.5	5.5
<b>Total Full-Time Equivalent</b>	<b>157.5</b>	<b>158.5</b>	<b>161.5</b>	<b>161.5</b>	<b>161.5</b>	<b>161.5</b>	<b>161.5</b>

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WC ADMINISTRATION  
**Program:** WORKERS' COMPENSATION DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

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### ACTIVITY PROFILE:

The Workers' Compensation Administration activity provides leadership, support, and a framework for operations of the Workers' Compensation Division. The goal is to ensure a fast, responsive, and easy-to-use workers' compensation system that delivers prompt services, maximizes resources, and reduces disputes.

This activity manages the five units of the Workers' Compensation Division and supports the Workers' Compensation Advisory Council, a statutory body composed of employee and employer representatives, and the Workers' Compensation Insurers Task Force, a non-statutory group seeking to share information and concerns with department staff. The administrative unit ensures that citizen questions on workers' compensation are addressed.

### STRATEGIES AND PERFORMANCE:

The operating strategies which guide this administrative activity are

- focusing department resources on employees and employers;
- seeking user input on suggested changes and in examining issues affecting them;
- integrating operations so that the division's individual units work together;
- providing resources necessary to support the Workers' Compensation Advisory Council; and
- providing clear, current and consistent information and services to all stakeholders.

These strategies establish a foundation on which system participants can rely to make decisions or take action. This activity's goal is to provide a stable environment for its own employees in order to focus on achieving the division's goal of minimizing the impact of illnesses and injuries on employees and employers.

### FINANCING INFORMATION:

The Workers' Compensation Administration activity is financed by a direct appropriation from the Workers' Compensation Fund. The unit does not collect revenue.

Activity: WC ADMINISTRATION  
Program: WORKERS' COMPENSATION DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	150	142	148	158	158	168	168	36	12.4%
OTHER OPERATING EXPENSES	496	67	227	112	112	64	64	(118)	(40.1%)
<b>Total Expenditures</b>	<b>646</b>	<b>209</b>	<b>375</b>	<b>270</b>	<b>270</b>	<b>232</b>	<b>232</b>	<b>(82)</b>	<b>(14.0%)</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
WORKERS COMPENSATION	646	209	375	270	270	232	232		
<b>Total Financing</b>	<b>646</b>	<b>209</b>	<b>375</b>	<b>270</b>	<b>270</b>	<b>232</b>	<b>232</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	2.0	2.0	2.0	2.0	2.0	2.0	2.0		
PART-TIME, SEASONAL, LABOR SER	1.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>3.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WC INFORMATION PROCESSING CTR  
**Program:** WORKERS' COMPENSATION DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

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### ACTIVITY PROFILE:

This activity provides critical administrative support services to the workers' compensation system and its constituents in the following areas:

- Receives, scans, and indexes all workers' compensation claim mail into the computer to create imaged files (601,818 documents in CY 1999).
- Enters workers' compensation data into the department database (274,067 forms in FY 2000).
- Mails *Employee Rights and Responsibilities* booklets to injured workers (52,652 in FY 2000).
- Receives and processes all serious and fatal *First Reports of Injury* (88 in CY 2000).
- Manages and maintains all of the workers' compensation claim files (1.2 million files in image, paper, and microfilm).
- Provides copies of claim files to authorized clientele in accordance with data practices law (13,239 requests in FY 2000).
- Handles all employer requests for mandatory state posters (4,133 requests in FY 2000).
- Provides centralized copy center services for the department (2.3 million copies in FY 2000).
- Provides mailroom/courier services for entire department.

Information Processing Center (IPC) customers include all DLI staff, injured workers, employers, insurers and self-insured employers, claims administrators, attorneys, health care providers, rehabilitation service providers, the Office of Administrative Hearings, the Workers' Compensation Court of Appeals, and the Supreme Court.

An information processing center that provides accurate and timely information helps other agency units to achieve their goals and objectives serving workers and employers in the state. Implementing image processing in 1995 has greatly improved the department's ability to provide prompt and effective service to injured workers and others in the workers' compensation community. As of 7-1-2000, 26% or 340,197 workers' compensation claim files are available on the imaging system. Having the information quickly available allows for informal resolution of issues and helps avoid more formal dispute resolution processes,

including litigation. Imaging also reduces the need for and cost of physical storage and retrieval.

### STRATEGIES AND PERFORMANCE:

This activity is driven by three service-oriented strategies:

1. to provide accurate, timely information to customers;
2. to apply new technologies which improve accuracy and efficiency; and
3. to continually improve processes.

The IPC's performance indicators include the following:

- Maintain at least 95% accuracy in imaged files (averaged 99.42% in CY 1999).
- Achieve a 48-hour availability of imaged workers' compensation documents for customers 90% of the time (averaged 77% in CY 1999).
- Ensure an average of seven working days turn-around time on data entry documents (averaged 7.24 days in FY 2000).
- Maintain a 95% accuracy in data entry (methodology for tracking not yet in place).
- Provide mandatory posters to employers within five days of receipt of request (methodology for tracking not yet in place).
- Provide *WC Employee Rights* brochures within five days of receipt of *First Report of Injury* (methodology for tracking not yet in place).

### FINANCING INFORMATION:

The IPC is financed by a direct appropriation from the Workers' Compensation Fund. This activity also generates dedicated revenue for the cost of claim file photocopies provided to requesting parties in workers' compensation cases.

### BUDGET ISSUES:

IPC is projecting a 7% increase in the number of documents it will scan in FY 2001; a 5% increase in FY 2002; and a 5% increase in FY 2003. Some of the additional costs of imaging have been offset by the reduced need for and cost of physical storage and retrieval. Management will continue to look for ways to make the operations more efficient and/or fill any needs by reallocating resources within the department.

Activity: WC INFORMATION PROCESSING CTR  
Program: WORKERS' COMPENSATION DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,587	1,717	1,837	1,894	1,968	1,974	2,048	462	13.0%
OTHER OPERATING EXPENSES	614	571	622	534	534	529	529	(130)	(10.9%)
<b>Total Expenditures</b>	<b>2,201</b>	<b>2,288</b>	<b>2,459</b>	<b>2,428</b>	<b>2,502</b>	<b>2,503</b>	<b>2,577</b>	<b>332</b>	<b>7.0%</b>
<b>Change Items:</b>	<b>Fund</b>								
(A) CASE SCHEDULING/MGMT SYSTEM SUPPORT	WCS				74		74		
<b>Total Change Items</b>					<b>74</b>		<b>74</b>		
<b>Financing by Fund:</b>									
Direct Appropriations:									
WORKERS COMPENSATION	1,988	2,075	2,229	2,198	2,272	2,273	2,347		
Statutory Appropriations:									
WORKERS COMPENSATION	213	213	230	230	230	230	230		
<b>Total Financing</b>	<b>2,201</b>	<b>2,288</b>	<b>2,459</b>	<b>2,428</b>	<b>2,502</b>	<b>2,503</b>	<b>2,577</b>		
<b>Revenue Collected:</b>									
Dedicated									
WORKERS COMPENSATION	233	213	230	230	230	230	230		
<b>Total Revenues Collected</b>	<b>233</b>	<b>213</b>	<b>230</b>	<b>230</b>	<b>230</b>	<b>230</b>	<b>230</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	42.0	45.0	45.0	45.0	45.0	45.0	45.0		
PART-TIME, SEASONAL, LABOR SER	0.9	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>42.9</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>		



## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WC CUSTOMER ASSISTANCE  
**Program:** WORKERS' COMPENSATION DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

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### ACTIVITY PROFILE:

The Customer Assistance (CA) unit serves Minnesota's employers, employees, and other external customers by resolving misunderstandings and disagreements among the parties to workers' compensation claims. This initial action is intended to prevent formal disputes, thereby reducing costs created by litigation. Key services provided by the unit include

- assistance and information about workers' compensation laws, rules, and procedures;
- dispute prevention, including proactive intervention at early stages of claims; and
- alternative dispute resolution, including mediation and arbitration services.

Customer Assistance activities are performed in St. Paul and Duluth. These neutral services are mandated by M.S.176 and generally are not performed by the private sector.

### STRATEGIES AND PERFORMANCE:

Customer Assistance's strategies involve the direct provision of service to injured workers, employers, workers' compensation insurance carriers, and other customers as follows:

- respond to system participants who contact our offices in person, by telephone, letter, or internet;
- proactively prevent disputes, resulting in less litigation;
- provide informal mediation and arbitration services to resolve disputes;
- provide non-conference decisions on issues not requiring in-person attendance at a conference; and
- work with the department's community outreach team to reach out to non-English speaking employers and employees to provide a connection for workers' compensation questions.

The CA unit's performance consistently demonstrates that stakeholders are getting "the best bang for the buck" in accordance with *The Big Plan*. When the first phone call is handled by a trained mediator and workers' compensation professional, potentially costly problems are quickly resolved. During FY 2000,

the CA unit resolved more than 8,000 issues through informal intervention, thereby preventing those issues from becoming formal disputes;

- fielded over 41,000 telephone calls via the "customer hotline," with average caller wait time of less than one minute;
- certified that more than 2,300 disputes met statutory requirements for purposes of ripeness and attorney fees;
- resolved approximately 700 disputes that were requested to be certified; and
- issued more than 300 mediation awards and more than 800 administrative conference decisions.

### FINANCING INFORMATION:

The CA unit is financed by a direct appropriation from the Workers' Compensation Fund. The unit does not collect revenue.

Activity: WC CUSTOMER ASSISTANCE  
Program: WORKERS' COMPENSATION DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,967	2,039	2,239	2,266	2,266	2,337	2,337	325	7.6%
OTHER OPERATING EXPENSES	400	365	475	385	385	391	391	(64)	(7.6%)
<b>Total Expenditures</b>	<b>2,367</b>	<b>2,404</b>	<b>2,714</b>	<b>2,651</b>	<b>2,651</b>	<b>2,728</b>	<b>2,728</b>	<b>261</b>	<b>5.1%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
WORKERS COMPENSATION	2,367	2,404	2,714	2,651	2,651	2,728	2,728		
<b>Total Financing</b>	<b>2,367</b>	<b>2,404</b>	<b>2,714</b>	<b>2,651</b>	<b>2,651</b>	<b>2,728</b>	<b>2,728</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	36.0	36.0	36.0	36.0	36.0	36.0	36.0		
PART-TIME, SEASONAL, LABOR SER	0.5	0.5	0.5	0.5	0.5	0.5	0.5		
<b>Total Full-Time Equivalent</b>	<b>36.5</b>	<b>36.5</b>	<b>36.5</b>	<b>36.5</b>	<b>36.5</b>	<b>36.5</b>	<b>36.5</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WC COMPLIANCE/REHAB & MEDICAL AFFAIRS  
**Program:** WORKERS' COMPENSATION DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

### ACTIVITY PROFILE:

Regulatory oversight is necessary if each injured worker is to receive benefits accurately and timely, thereby retaining their self-sufficiency after a work injury. The Compliance Services (CS) unit audits all claims filed with the department, seeks corrections of improper payments, and monitors the performance of all insurance companies, self-insured employers, and third party administrators of workers' compensation claims. The unit also assesses penalties for violations of the statute and trains employers and insurers in benefit calculation and filing.

Rehabilitation and Medical Affairs (RMA) registers rehabilitation providers, certifies managed care organizations, and investigates complaints against rehabilitation and medical providers and certified managed care organizations. RMA is also responsible for monitoring and updating rehabilitation and medical rules and policies, including the Medical Fee Schedule and Treatment Parameters. RMA provides support to the Rehabilitation Review Panel (M.S. 176.102) and the Medical Services Review Board (M.S. 176.103); both advise the commissioner on issues in their respective areas.

### STRATEGIES AND PERFORMANCE:

- Until 1995, CS audited paper files only once in a several-year period. Beginning in 1995, the department's imaging system provided a more efficient electronic routing system. Now, approximately 80% of active workers' compensation files are audited within three months after a triggering document is received. The remaining files, which include paper files, are audited two years or less after the previous audit. Penalties are most effective when they are assessed close to the timing of the behavior triggering the penalty.
- An insurer's performance is affected by many factors, including mergers and acquisitions, internal reorganizations, multiple address changes, and high claims adjuster turnover, all which have increased substantially in recent years. CS assists insurers by offering frequent training opportunities for claims adjusters, alerting insurers to serious performance issues, and providing regular feedback to help them monitor their performance. In today's insurance environment, a successful program will result in stable or slightly improved performance within the insurance industry. Information on penalty assessments and insurer timeliness may be obtained from the unit's annual *Prompt Payment* and *Prompt First Action* reports.

- The RMA unit regularly reviews and updates the vocational rehabilitation and medical rules in an effort to remain current with case law and business practices. The *Big Plan* direction to "Rein in Rulemaking and Excessive Regulation" is a primary consideration for this activity. The first major changes in the Medical Fee Schedule since 1993 are expected to be adopted in 2001 and are consistent with the Minnesota Health Care Administrative Simplification Act. The rehabilitation rules and the medical treatment parameters are currently being reviewed for modifications. The department is working with the Rehabilitation Review Panel and the Medical Services Review Board on these rule changes.
- In order to reduce the number of disputes and educate providers on fee rules, treatment parameters, appropriate activities, and behavior, the RMA unit provides training to rehabilitation providers, health care providers, insurers, and workers' compensation judges.
- Professional conduct and accountability investigations of health care providers, certified managed care organizations, and rehabilitation providers ensure their appropriate behavior.
- Policy analysis is conducted on an ongoing basis to identify problems, local and national trends, and program effectiveness.

### FINANCING INFORMATION:

The CS/RMA unit is financed by a direct appropriation from the Workers' Compensation Fund. Penalties collected by this program are deposited to the Assigned Risk Safety Account, which is dedicated for workplace safety programs. Revenues and expenditures of the Assigned Risk Safety Account are reflected in the Workplace Safety Consultation activity under the Workplace Services Program. The unit recovers its costs for training sessions through participant fees.

### BUDGET ISSUES:

The demand for training and education for claims adjusters and rehabilitation and medical providers outstrips staffing resources. However, the unit still believes the most effective use of limited resources is broad-based training in order to prevent the need for corrective action.

Activity: WC COMPLIANCE/REHAB & MEDICAL  
Program: WORKERS' COMPENSATION DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,353	1,436	1,527	1,565	1,565	1,639	1,639	241	8.1%
OTHER OPERATING EXPENSES	255	197	330	226	226	199	199	(102)	(19.4%)
<b>Total Expenditures</b>	<b>1,608</b>	<b>1,633</b>	<b>1,857</b>	<b>1,791</b>	<b>1,791</b>	<b>1,838</b>	<b>1,838</b>	<b>139</b>	<b>4.0%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
WORKERS COMPENSATION	1,589	1,618	1,813	1,760	1,760	1,807	1,807		
Statutory Appropriations:									
SPECIAL REVENUE	19	15	44	31	31	31	31		
<b>Total Financing</b>	<b>1,608</b>	<b>1,633</b>	<b>1,857</b>	<b>1,791</b>	<b>1,791</b>	<b>1,838</b>	<b>1,838</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	15	22	31	31	31	31	31		
Nondedicated									
WORKERS COMPENSATION	107	89	91	91	91	91	91		
<b>Total Revenues Collected</b>	<b>122</b>	<b>111</b>	<b>122</b>	<b>122</b>	<b>122</b>	<b>122</b>	<b>122</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	22.0	24.0	24.0	24.0	24.0	24.0	24.0		
PART-TIME, SEASONAL, LABOR SER	2.5	1.2	1.2	1.2	1.2	1.2	1.2		
<b>Total Full-Time Equivalent</b>	<b>24.5</b>	<b>25.2</b>	<b>25.2</b>	<b>25.2</b>	<b>25.2</b>	<b>25.2</b>	<b>25.2</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WC VOCATIONAL REHABILITATION  
**Program:** WORKERS' COMPENSATION DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

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### ACTIVITY PROFILE:

The purpose of the Vocational Rehabilitation Unit (VRU) is to ensure that effective vocational rehabilitation services are provided to injured workers at a reasonable cost to employers. VRU provides direct customer services to injured workers as follows:

- Provides rehabilitation consultations and vocational services to injured workers (M.S. 176.104 and M.S. 176.102) with the objectives of early intervention and the return to restriction-accommodating, economically-suitable work.
- Is the "safety net" provider of statutory workers' compensation rehabilitation services when primary liability is denied. The VRU also represents a service option to injured workers wanting to exercise the statutory right to change Qualified Rehabilitation Consultants (QRC) and to insurers seeking QRC services throughout Minnesota.
- Ensures the effective delivery of workers' compensation rehabilitation services to assist injured workers to return to work at a reasonable cost to employers.
- Ensures that injured workers receive reasonable and necessary medical care for the cure and relief of work injuries.

Many private-sector QRCs provide rehabilitation services, but none is required to do so when an injured worker's claim has been denied. The department seeks reimbursement for its services from employers and insurers if a denied claim is disputed and later accepted.

Services are available statewide through offices in St. Paul, St. Cloud, Rochester, Duluth, Mankato, Fergus Falls, Bemidji, and Hibbing.

### STRATEGIES AND PERFORMANCE:

In conformance with *The Big Plan* strategy of "Assuring Lifelong Learning for Work and Life", this activity's primary goal is self-sufficiency for all injured workers, including the exploration of and training for new careers. The VRU

- provides several levels of service including information and referral services, early-intervention services by contacting injured workers when liability is denied, and rehabilitation consultations per statutory requirement;

- develops rehabilitation plans with eligible injured workers and includes services such as job and worksite analysis, labor market analysis, vocational counseling, testing, job seeking skills, job placement, skills enhancement, and on-the-job training.

In CY 1999, the unit responded to more than 4,000 informational inquiries; contacted more than 3,000 injured workers informing them of available services immediately on the filing of a claim for benefits; completed more than 600 consultations and 500 plans with average duration of plan of less than 240 days and an average cost per completed plan of approximately \$2,200.

### FINANCING INFORMATION:

This unit is financed by a direct appropriation from the Workers' Compensation Fund. It generates non-dedicated revenue through reimbursements from employers and insurers for vocational services provided.

### BUDGET ISSUES:

During FY 2001, the unit closed its Roseville VRU office and transferred the staff to the department's St. Paul location. Two supervisory positions were also eliminated from the VRU activity. The savings generated from these changes will be used to upgrade direct customer services and provide funding for technology needs.

Activity: WC VOCATIONAL REHABILITATION  
Program: WORKERS' COMPENSATION DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,075	1,200	1,283	1,360	1,360	1,425	1,425	302	12.2%
OTHER OPERATING EXPENSES	306	249	370	246	246	240	240	(133)	(21.5%)
Subtotal State Operations	1,381	1,449	1,653	1,606	1,606	1,665	1,665	169	5.4%
PAYMENTS TO INDIVIDUALS	216	199	168	168	168	168	168	(31)	(8.4%)
LOCAL ASSISTANCE	125	125	125	125	125	125	125	0	0.0%
<b>Total Expenditures</b>	<b>1,722</b>	<b>1,773</b>	<b>1,946</b>	<b>1,899</b>	<b>1,899</b>	<b>1,958</b>	<b>1,958</b>	<b>138</b>	<b>3.7%</b>

<b>Financing by Fund:</b>							
Direct Appropriations:							
WORKERS COMPENSATION	1,722	1,773	1,946	1,899	1,899	1,958	1,958
<b>Total Financing</b>	<b>1,722</b>	<b>1,773</b>	<b>1,946</b>	<b>1,899</b>	<b>1,899</b>	<b>1,958</b>	<b>1,958</b>

<b>Revenue Collected:</b>							
Nondedicated							
WORKERS COMPENSATION	298	278	400	480	480	530	530
<b>Total Revenues Collected</b>	<b>298</b>	<b>278</b>	<b>400</b>	<b>480</b>	<b>480</b>	<b>530</b>	<b>530</b>

<b>FTE by Employment Type:</b>							
FULL TIME	24.0	24.0	23.0	23.0	23.0	23.0	23.0
PART-TIME, SEASONAL, LABOR SER	3.8	3.0	3.0	3.0	3.0	3.0	3.0
<b>Total Full-Time Equivalent</b>	<b>27.8</b>	<b>27.0</b>	<b>26.0</b>	<b>26.0</b>	<b>26.0</b>	<b>26.0</b>	<b>26.0</b>

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WC SPECIAL COMPENSATION FUND  
**Program:** WORKERS' COMPENSATION DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

### ACTIVITY PROFILE:

The Special Compensation Fund (SCF) administers the following statutorily mandated programs:

- Verification and enforcement of required workers' compensation insurance for firms doing business in Minnesota (M.S.176.181)
- Reimbursement of Second Injury Benefits to employers who hire disabled workers who suffer subsequent injuries. This program, repealed in 1992 (M.S.176.131), continues to reimburse employers more than \$11 million each year.
- Reimbursement of Supplementary Benefits to employers who are responsible for long-term escalated benefits to injured workers. The Supplementary Benefit program ensured injured workers' benefits were not eroded due to inflation. Employers are eligible for reimbursement of these escalated benefits from the SCF. Although repealed in 1995 (M.S.176.132), this program reimburses in excess of \$66 million annually to Minnesota employers.
- Ensuring appropriate benefits are paid to injured workers of uninsured employers. When employees are injured at work and their employers do not have the required insurance, the SCF pays benefits to the employee and attempts to recover those costs from the uninsured employers.
- Payment of benefits to workers with bankrupt employers.

### STRATEGIES AND PERFORMANCE:

The SCF uses education, regulation and negotiation strategies to achieve the following performance measurements:

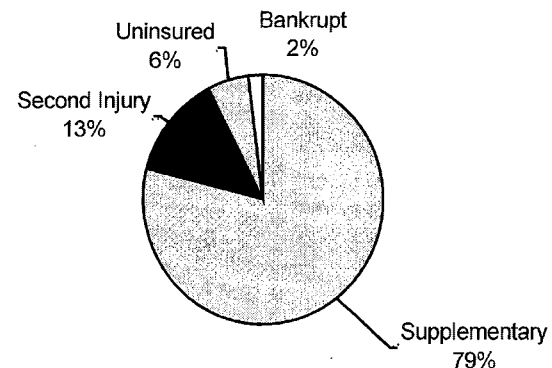
- Initiate payment or deny uninsured claims on a timely basis.
- Audit and adjust 95% of Second Injury and Supplemental Benefit claims within 90 days of receipt from insurers and self-insured employers.
- Reduce the proportion of uninsured paid indemnity claims to total paid indemnity claims from 2.5 to 2.1 per 1000 annual indemnity claims, using aggressive enforcement of mandatory coverage requirements and penalties and a more efficient insurance verification system.
- Achieve uninsured penalty settlement amounts averaging 1.5 times evaded premiums.

### FINANCING INFORMATION:

The SCF's operating costs are financed from a direct appropriation from the Workers' Compensation Fund. Program benefits of \$84 million are financed through an open appropriation from the Workers' Compensation Fund. The Workers' Compensation Fund is primarily financed through non-dedicated revenues collected by the unit. These revenues include a semi-annual assessment paid by insurers and self-insured employers, as well as recoveries from employers for benefits paid by the unit.

Additional financial information may be obtained from the *Special Compensation Fund Annual Report*.

### **2000 Benefit Expenditures**



### BUDGET ISSUES:

The SCF received a one-time distribution of \$325 million from the Department of Commerce's Assigned Risk Plan (ARP) on 7-10-2000. The money is dedicated to reducing the long-term liabilities of the Second Injury and Supplementary Benefit programs. This money included funding for additional claims staff in the SCF to negotiate settlements.

Activity: WC SPECIAL COMPENSATION FUND  
Program: WORKERS' COMPENSATION DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,031	1,091	1,427	1,489	1,489	1,568	1,568	539	21.4%
OTHER OPERATING EXPENSES	750	746	1,122	821	821	788	788	(259)	(13.9%)
Subtotal State Operations	1,781	1,837	2,549	2,310	2,310	2,356	2,356	280	6.4%
PAYMENTS TO INDIVIDUALS	97,934	83,631	121,933	158,702	158,702	147,174	147,174	100,312	48.8%
Total Expenditures	99,715	85,468	124,482	161,012	161,012	149,530	149,530	100,592	47.9%
<b>Financing by Fund:</b>									
Direct Appropriations:									
WORKERS COMPENSATION	1,476	1,837	2,299	2,060	2,060	2,106	2,106		
Open Appropriations:									
WORKERS COMPENSATION	98,239	83,631	54,910	48,074	48,074	42,381	42,381		
Statutory Appropriations:									
WORKERS COMPENSATION	0	0	67,273	110,878	110,878	105,043	105,043		
Total Financing	99,715	85,468	124,482	161,012	161,012	149,530	149,530		
<b>Revenue Collected:</b>									
Dedicated									
WORKERS COMPENSATION	0	0	343,023	13,628	13,628	7,793	7,793		
Nondedicated									
WORKERS COMPENSATION	108,903	109,683	88,183	74,028	74,028	78,514	78,514		
Total Revenues Collected	108,903	109,683	431,206	87,656	87,656	86,307	86,307		
<b>FTE by Employment Type:</b>									
FULL TIME	22.0	22.0	26.0	26.0	26.0	26.0	26.0		
PART-TIME, SEASONAL, LABOR SER	0.8	0.8	0.8	0.8	0.8	0.8	0.8		
Total Full-Time Equivalent	22.8	22.8	26.8	26.8	26.8	26.8	26.8		



## PROGRAM SUMMARY

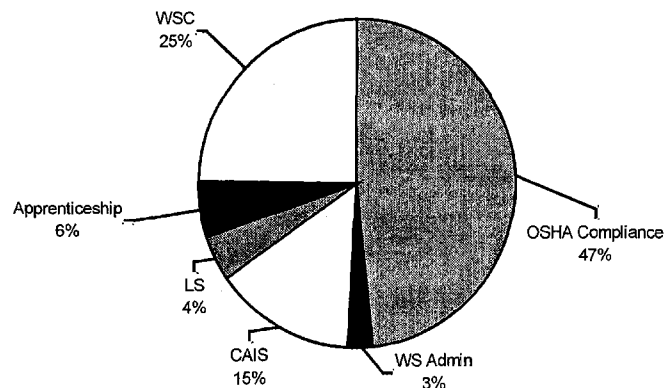
**Program:** WORKPLACE SERVICES DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

### PROGRAM PROFILE:

The Workplace Services Division works to support our communities to be healthy and our state to take its place as a world competitor by preventing workplace injuries and illnesses, promoting fair wages and working conditions, and assuring a highly skilled and educated workforce. The workplace services program serves Minnesota employers and employees by establishing effective partnerships to promote compliance with safety and labor laws. The division's critical activities include the following:

- Occupational Safety and Health Act Compliance (OSHA) – enforcement and outreach.
- Workplace Safety Consultation (WSC) – advice and consultation for workplace safety.
- Code Administration and Inspection Services (CAIS) – enforcement of high-pressure-piping, boilers and pressure vessels, inland boats-for-hire.
- Labor Standards (LS) – promoting fair wages and working conditions.
- Apprenticeship – providing a highly skilled and educated workforce for employers.

**2000 - 2001 Expenditures by Activity**



The program enforces the laws and standards established to prevent workplace injuries and illnesses. It enforces labor laws, including the Minnesota Fair Labor Standards Act, child labor laws, minimum and prevailing wages, parental leave, lie detector law, fee employment, and entertainment agencies laws. It ensures a highly skilled workforce by the administration and promotion of apprenticeship training.

### STRATEGIES AND PERFORMANCE:

The Workplace Services Division establishes its regulatory program using research, standard setting, education, outreach, inspection, citations, fines and negotiations. The goal is to achieve compliance with the laws and rules governing workplace behavior. To meet this goal, the division employs the following strategies:

- Assess workplace conditions to develop and improve the division's programs to meet the needs of workers and employers.
- Communicate effectively by continually educating stakeholders, governmental agencies, business/professional groups, labor, and community-based organizations about labor law issues.

This program pursues these education and enforcement efforts and targets employers or communities who demonstrate an interest or need for special emphasis.

### FINANCING INFORMATION:

The program is financed by direct appropriations from the Workers' Compensation, General and Workforce Development funds. It also receives funding through three federal grants.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Program: WORKPLACE SERVICES DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
WORKPLACE SERVICES ADMIN	158	224	325	321	321	329	329	101	18.4%
APPRENTICESHIP	770	752	869	830	830	845	845	54	3.3%
CODE ADMIN & INSPECTION SVS	1,675	1,739	2,473	1,781	1,781	1,824	1,824	(607)	(14.4%)
LABOR STANDARDS	623	587	668	644	644	660	660	49	3.9%
OSHA COMPLIANCE	6,204	6,185	7,962	7,348	7,348	7,625	7,625	826	5.8%
WORKPLACE SAFETY CONSULTATION	3,073	3,569	3,658	3,780	3,780	3,827	3,827	380	5.3%
<b>Total Expenditures</b>	<b>12,503</b>	<b>13,056</b>	<b>15,955</b>	<b>14,704</b>	<b>14,704</b>	<b>15,110</b>	<b>15,110</b>	<b>803</b>	<b>2.8%</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	3,017	2,378	3,188	2,493	2,493	2,555	2,555		
SPECIAL REVENUE	0	712	832	793	793	808	808		
WORKERS COMPENSATION	3,591	3,228	5,052	4,182	4,182	4,280	4,280		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	7	31	58	40	40	40	40		
FEDERAL	3,946	4,284	4,475	4,693	4,693	4,926	4,926		
WORKERS COMPENSATION	1,889	2,415	2,335	2,488	2,488	2,486	2,486		
MISCELLANEOUS AGENCY	53	8	15	15	15	15	15		
<b>Total Financing</b>	<b>12,503</b>	<b>13,056</b>	<b>15,955</b>	<b>14,704</b>	<b>14,704</b>	<b>15,110</b>	<b>15,110</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	154.0	158.0	157.0	155.0	155.0	155.0	155.0		
PART-TIME, SEASONAL, LABOR SER	0.0	0.0	1.5	1.5	1.5	1.5	1.5		
<b>Total Full-Time Equivalent</b>	<b>154.0</b>	<b>158.0</b>	<b>158.5</b>	<b>156.5</b>	<b>156.5</b>	<b>156.5</b>	<b>156.5</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WORKPLACE SERVICES ADMIN  
**Program:** WORKPLACE SERVICES DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

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### **ACTIVITY PROFILE:**

Workplace Services Administration (WSA) leads the division's program units as they work to prevent workplace injuries and illnesses, promote fair wages and working conditions, ensure the safety of boiler and high-pressure-piping systems, and assure a highly skilled and educated workforce. WSA serves all agency stakeholders and the employees of the division's programs in guiding the use of resources and seeking solutions to policy issues.

This activity is responsible for supporting and setting the standards for program operations to assure that citizens get the best service possible for the lowest cost. The Apprenticeship Advisory Council, Code Enforcement Advisory Council, and Occupational Safety and Health Advisory Council provide the formal link between the agency and the public, particularly labor and the industries the agency regulates. This approach ensures that the division's activities anticipate worker and employer trends. It provides for clear communication and an arena for customers, stakeholders, and staff to successfully participate in policy and operational decision-making.

### **STRATEGIES AND PERFORMANCE:**

Workplace Services Administration sets expectations and guides individual programs to actively support the agency's mission of promoting safe and productive work environments in Minnesota. This activity challenges each of the Workplace Services programs to demonstrate a clear educational plan to reach as many workplace participants as possible. Successful regulation is the result of knowledgeable participants. The WSA addresses citizen expectations for efficient, well-run government services by expecting that all division employees participate as active members of the agency, work effectively with other state and governmental agencies, and respond to the concerns of its stakeholders.

During FY 2000, department resources were reallocated to this activity to increase outreach efforts to minority and limited English-speaking communities. Working through community based organizations, this unit is educating these populations on their workplace rights and responsibilities.

### **FINANCING INFORMATION:**

The Workplace Services Administration activity is financed 29% by a direct appropriation from the General Fund and 71% by a direct appropriation from the Workers' Compensation Fund. This unit does not collect revenue.

Activity: WORKPLACE SERVICES ADMIN  
 Program: WORKPLACE SERVICES DIVISION  
 Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Category:</u></b>									
State Operations									
COMPENSATION	134	207	267	278	278	296	296	100	21.1%
OTHER OPERATING EXPENSES	24	17	58	43	43	33	33	1	1.3%
<b>Total Expenditures</b>	<b>158</b>	<b>224</b>	<b>325</b>	<b>321</b>	<b>321</b>	<b>329</b>	<b>329</b>	<b>101</b>	<b>18.4%</b>
<b><u>Financing by Fund:</u></b>									
Direct Appropriations:									
GENERAL	41	65	82	91	91	94	94		
WORKERS COMPENSATION	117	159	243	230	230	235	235		
<b>Total Financing</b>	<b>158</b>	<b>224</b>	<b>325</b>	<b>321</b>	<b>321</b>	<b>329</b>	<b>329</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	2.0	4.0	4.0	4.0	4.0	4.0	4.0		
<b>Total Full-Time Equivalent</b>	<b>2.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** APPRENTICESHIP  
**Program:** WORKPLACE SERVICES DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

### ACTIVITY PROFILE:

The Apprenticeship unit supports *The Big Plan* strategic directions of "Developing the Workforce for Tomorrow" and "Assuring Lifelong Learning for Work and Life". In today's robust economy, Minnesota employers are finding it difficult to find and retain skilled workers. Apprenticeship programs give employers the opportunity to train their existing or future workers in the work skills needed to strengthen the future of the company. Apprenticeship programs provide apprentices the training needed to become highly skilled and well-paid employees.

The Apprenticeship unit exists to promote, develop, register, certify, and monitor apprenticeship training programs for Minnesota's workplaces.

- The Apprenticeship unit serves all employers and apprentices throughout the state of Minnesota who wish to voluntarily become a part of the program. Employers are assured of skilled and productive workers and the apprentices are assured quality employer-based training.
- Employers with approved apprenticeship training programs will be able to compete in local, state, and national market places with their newly trained and highly skilled workers.
- Minnesota residents will be able to apply for and become accepted as registered apprentices learning a skilled and valuable occupation.
- Employers and apprentices are equally represented by the unit on issues arising from disputes in the workplace. Both the employers' and apprentices' rights are ensured because of the unit's authority to enforce the apprenticeship agreements.
- The unit's approval of an apprenticeship training program qualifies eligible veterans for their federal Veteran's GI Bill Apprentice/OJT training program benefits.
- Approved Standards of Apprenticeship provide the industry or business assurance that their employees are trained to industry or business standards. The consistency of skilled training also allows the apprentice graduates much more mobility in their search for future employment.

### STRATEGIES AND PERFORMANCE:

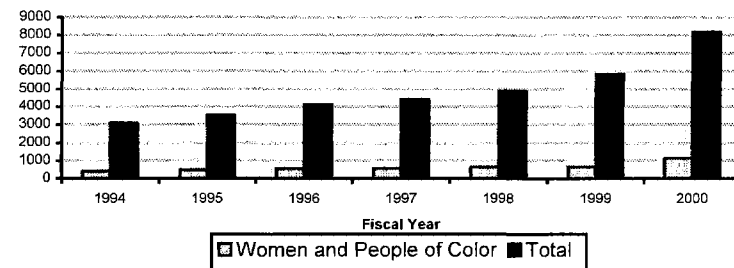
The apprenticeship program was recognized in The Minnesota Inventory of Employment and Training Programs as the state job-training program with the

participants earning the highest average wage upon completion of the apprenticeship program (\$20 per hour). That amount increased to \$23.30 in FY 2000.

The unit is working cooperatively with the departments of Economic Security and Children, Families, and Learning to promote apprenticeship opportunities through their job banks and web sites.

Recruitment efforts by management and labor Joint Apprenticeship and Training Committees (JATC) have resulted in doubling of enrollments of women and people of color from 592 to 1,158 in only three years.

1994 - 2000 Total Apprentices in Training



### FINANCING INFORMATION:

The Apprenticeship unit has historically been financed by a direct appropriation from the General Fund. The 1999 legislature changed the funding of the unit to the Workforce Development Fund. The unit also receives a federal grant from the Veteran's Administration for approving all eligible veteran apprenticeship and on-the-job (OJT) training programs.

Activity: APPRENTICESHIP  
Program: WORKPLACE SERVICES DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	464	453	530	532	532	558	558	107	10.9%
OTHER OPERATING EXPENSES	102	95	135	94	94	83	83	(53)	(23.0%)
<b>Subtotal State Operations</b>	<b>566</b>	<b>548</b>	<b>665</b>	<b>626</b>	<b>626</b>	<b>641</b>	<b>641</b>	<b>54</b>	<b>4.5%</b>
LOCAL ASSISTANCE	204	204	204	204	204	204	204	0	0.0%
<b>Total Expenditures</b>	<b>770</b>	<b>752</b>	<b>869</b>	<b>830</b>	<b>830</b>	<b>845</b>	<b>845</b>	<b>54</b>	<b>3.3%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	732	0	0	0	0	0	0		
SPECIAL REVENUE	0	712	832	793	793	808	808		
Statutory Appropriations:									
SPECIAL REVENUE	0	1	0	0	0	0	0		
FEDERAL	38	34	37	37	37	37	37		
WORKERS COMPENSATION	0	5	0	0	0	0	0		
<b>Total Financing</b>	<b>770</b>	<b>752</b>	<b>869</b>	<b>830</b>	<b>830</b>	<b>845</b>	<b>845</b>		
<b>Revenue Collected:</b>									
Dedicated									
FEDERAL	39	33	37	37	37	37	37		
<b>Total Revenues Collected</b>	<b>39</b>	<b>33</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>37</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	9.0	9.0	9.0	9.0	9.0	9.0	9.0		
<b>Total Full-Time Equivalent</b>	<b>9.0</b>	<b>9.0</b>	<b>9.0</b>	<b>9.0</b>	<b>9.0</b>	<b>9.0</b>	<b>9.0</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** CODE ADMIN & INSPECTION SVS  
**Program:** WORKPLACE SERVICES DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

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### ACTIVITY PROFILE:

The Code Administration and Inspection Services unit (CAIS) is responsible for ensuring the safe operation of boilers, pressure vessels, boats-for-hire, hobby boilers, and high-pressure-piping systems in Minnesota through the adoption of regulations, licensing of boiler operators, boat pilots, and pipefitters, and by conducting inspections. This activity has focused for more than 100 years on safe boilers, pressure vessels, and boats-for-hire, and for more than 60 years on safe high-pressure-piping systems.

Through its regulatory and enforcement efforts, this activity prevents deaths, injuries, and property damage from boiler and pressure vessel explosions and unsafe operations, and from unsafe boats-for-hire and high-pressure-piping systems. Boilers, pressure vessels, boats-for-hire, and high-pressure-piping systems can be dangerous to people and property if not properly built or continuously maintained. This activity focuses on reducing the risks associated with boilers, pressure vessels, boats-for-hire, and high-pressure-piping through an effective inspection and licensing program.

### STRATEGIES AND PERFORMANCE:

Key strategies:

- Administer and enforce the state code on boilers, pressure vessels, and boats-for-hire, which incorporates by reference the American Society of Mechanical Engineers (ASME); Boiler and Pressure Vessel Code; National Board Inspection Code; National Board of Boiler and Pressure Vessel Inspections; and Code of Federal Regulations, Titles 33 and 46 (Coast Guard) as limited in state rule.
- Administer and enforce the code on ammonia and power-piping systems.
- Inspect boilers, pressure vessels, hobby boilers, boats-for-hire, high-pressure-piping systems, and ammonia piping systems to ensure their safe operation.
- License boiler operators, boat pilots, piping contractors, and journeyman pipefitters.
- Issue permits for the installation of high-pressure-piping and ammonia-piping systems.
- Investigate compliance with state regulation of boilers, pressure vessels, hobby boilers, boats-for-hire, power-piping systems, and ammonia-piping systems.

FY 2000 Performance Summary:

#### *Boilers and Pressure Vessels*

- 10,643 boiler and pressure vessels inspections conducted by department.
- 1,803 survey inspections.
- 25,578 boiler and pressure vessel inspections conducted by insurers.
- 4,287 boiler operator exams given.
- 31,642 boiler licenses issued/renewed.

#### *Ammonia and High-Pressure-Piping*

- 318 ammonia and high-pressure-piping permits issued.
- 953 permit inspections conducted.
- 298 survey inspections conducted.
- 99 high pressure piping code violations were cited.
- 2,433 piping licenses issued/renewed.

#### *Boats-for-Hire*

- 117 boats-for-hire inspected.
- 452 pilots licenses issued/renewed.

### FINANCING INFORMATION:

The unit is financed by a direct appropriation from the General Fund. Its costs are recovered through the collection of license, inspection, exemption, and seminar registration fees.

### BUDGET ISSUES:

In FY 2001, the unit increased license and inspection fees to recover the costs of replacing its computer systems. Unit personnel will also be implementing new work processes over the biennium to improve efficiency and performance.

Activity: CODE ADMIN & INSPECTION SVS  
Program: WORKPLACE SERVICES DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,254	1,352	1,519	1,434	1,434	1,507	1,507	70	2.4%
OTHER OPERATING EXPENSES	421	387	954	347	347	317	317	(677)	(50.5%)
<b>Total Expenditures</b>	<b>1,675</b>	<b>1,739</b>	<b>2,473</b>	<b>1,781</b>	<b>1,781</b>	<b>1,824</b>	<b>1,824</b>	<b>(607)</b>	<b>(14.4%)</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	1,674	1,734	2,453	1,773	1,773	1,816	1,816		
Statutory Appropriations:									
SPECIAL REVENUE	1	5	20	8	8	8	8		
<b>Total Financing</b>	<b>1,675</b>	<b>1,739</b>	<b>2,473</b>	<b>1,781</b>	<b>1,781</b>	<b>1,824</b>	<b>1,824</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	9	8	8	8	8	8	8		
Nondedicated									
GENERAL	0	0	0	2,370	2,370	2,370	2,370		
CAMBRIDGE DEPOSIT FUND	1,903	1,881	2,135	0	0	0	0		
<b>Total Revenues Collected</b>	<b>1,912</b>	<b>1,889</b>	<b>2,143</b>	<b>2,378</b>	<b>2,378</b>	<b>2,378</b>	<b>2,378</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	24.0	26.0	24.0	22.0	22.0	22.0	22.0		
PART-TIME, SEASONAL, LABOR SER	0.0	0.0	1.5	1.5	1.5	1.5	1.5		
<b>Total Full-Time Equivalent</b>	<b>24.0</b>	<b>26.0</b>	<b>25.5</b>	<b>23.5</b>	<b>23.5</b>	<b>23.5</b>	<b>23.5</b>		



## BUDGET ACTIVITY SUMMARY

**Budget Activity:** LABOR STANDARDS  
**Program:** WORKPLACE SERVICES DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

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### ACTIVITY PROFILE:

The Labor Standards (LS) unit is responsible for administering and enforcing Minnesota employment laws affecting employees' wages, child labor, prevailing wage and fee employment agencies. These laws include the following:

- The Minnesota Fair Labor Standards Act
- Child Labor Standards Act
- Parental Leave Law
- Nursing Mother Law
- Fee Employment Agency Act
- Entertainment Agency Act
- Prevailing Wage Law

The LS unit serves employees and employers in Minnesota, labor organizations, schools, and other state agencies. It supports *The Big Plan* strategic direction of "Assuring Lifelong Learning for Work and Life" through its outreach, education, and training programs for targeted industries and professions. The program seeks to achieve the following public goals:

- Employers pay all employees in Minnesota for all hours worked.
- Employed minors are safe and respected in the workplace.
- Employers are knowledgeable of laws affecting employees who are new parents.
- Fee employment agency and entertainment agency employers understand and follow the laws governing them.
- Accurate and timely prevailing wage rates are set for state-funded construction projects.

### STRATEGIES AND PERFORMANCE:

Strategies to assure compliance with Minnesota employment laws include education, enforcement, licensing and surveys.

#### *Education*

Workers, employers, and future workers become learners as the unit reaches out to employees and employers; develops and distributes posters and

brochures; and participates in speaking engagements and outreach activities to employer/employee organizations, schools, and trade shows. Informed stakeholders are the first step in the compliance process.

#### *Enforcement*

Enforcement strategies include performing investigations and onsite inspections; conducting mediations; assessing penalties and fines; and participating in administrative and judicial hearings.

#### *Licensing*

The unit licenses search firms, fee employment agencies, entertainment agencies, and employment counselors.

#### *Surveys*

The unit conducts surveys of wage rates on construction projects to set prevailing wages for state-funded construction projects.

Labor Standards customers include more than 150,000 employers and 2.5 million employees. The unit responds to more than 93,000 telephone calls, written correspondence and e-mails; closes more than 200 cases involving minimum wage, overtime and child labor issues; mediates more than 100 wage claims; registers 600 search firms; processes approximately 50 inform and educate cases; conducts approximately 50 presentations to employer/employee organizations; and targets all high school principals in the state to inform them of labor laws for minors.

### FINANCING INFORMATION:

The Labor Standards unit is financed by a direct appropriation from the General Fund. The unit collects revenue from

- licensing of fee employment agencies and search firms;
- fines assessed for violations of the Child Labor Act and Minnesota Fair Labor Standards Act.

The unit also collects back wages owed to employees by employers. These funds are remitted to the employees.

### BUDGET ISSUES:

A key program issue is the increasing demand for services related to child labor laws.

Activity: LABOR STANDARDS  
Program: WORKPLACE SERVICES DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Category:</u></b>									
State Operations									
COMPENSATION	413	464	521	531	531	547	547	93	9.4%
OTHER OPERATING EXPENSES	210	123	147	113	113	113	113	(44)	(16.3%)
<b>Total Expenditures</b>	<b>623</b>	<b>587</b>	<b>668</b>	<b>644</b>	<b>644</b>	<b>660</b>	<b>660</b>	<b>49</b>	<b>3.9%</b>
<b><u>Financing by Fund:</u></b>									
Direct Appropriations:									
GENERAL	570	579	653	629	629	645	645		
Statutory Appropriations:									
MISCELLANEOUS AGENCY	53	8	15	15	15	15	15		
<b>Total Financing</b>	<b>623</b>	<b>587</b>	<b>668</b>	<b>644</b>	<b>644</b>	<b>660</b>	<b>660</b>		
<b><u>Revenue Collected:</u></b>									
Dedicated									
MISCELLANEOUS AGENCY	13	15	15	15	15	15	15		
Nondedicated									
GENERAL	2	7	37	146	46	146	46		
CAMBRIDGE DEPOSIT FUND	103	109	109	0	0	0	0		
<b>Total Revenues Collected</b>	<b>118</b>	<b>131</b>	<b>161</b>	<b>161</b>	<b>61</b>	<b>161</b>	<b>61</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	10.0	10.0	10.0	10.0	10.0	10.0	10.0		
<b>Total Full-Time Equivalent</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>		

**BUDGET CHANGE ITEM (48221)**

**Budget Activity:** LABOR STANDARDS  
**Program:** WORKPLACE SERVICES DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

**Item Title:** SEARCH FIRM REGISTRATION

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	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Revenues: (\$000s)				
General Fund	\$(100)	\$(100)	\$(100)	\$(100)

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: M.S. 184.22

☐ New Activity    ☐ Supplemental Funding    ☐ Reallocation

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**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the elimination of the registration fee imposed upon employment search firms.

**RATIONALE:**

A search firm is retained by and is solely compensated by an employer to recruit and screen applicants for a vacant position. M.S.184.22 currently requires those search firms to pay an annual registration fee to DLI. Approximately 500 search firms are registered with DLI, although there are many others in operation that go unregistered, without negative consequences to the general public. The current statute and existing staffing levels do not give DLI sufficient tools to enforce the law.

In conformance with the Governor's commitment to reduce unnecessary regulations and acknowledging the consumer practices of search firms, the agency recommends that search firms not be required to register with DLI in order to conduct recruitment business in Minnesota. This industry has demonstrated that existing regulations are neither effective nor needed.

**FINANCING:**

These revenues have been deposited as non-dedicated revenue to the General Fund.

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** OSHA COMPLIANCE  
**Program:** WORKPLACE SERVICES DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

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### ACTIVITY PROFILE:

The Minnesota Occupational and Safety and Health (MNOSHA) program began in 1973. Its mission is to make sure every worker in the state of Minnesota has a safe and healthful workplace.

All public/private employers in Minnesota, except federal agencies and exclusive federal jurisdiction properties, are covered under the MNOSHA program. MNOSHA is required to be at least as effective as the federal OSHA program.

The MNOSHA Compliance program serves its stakeholders by promoting safe and healthful working conditions for healthy communities by

- conducting inspections which identify hazardous conditions;
- setting abatement dates to eliminate or control hazards;
- issuing citations and penalties to promote voluntary compliance;
- investigating workplace fatalities and serious accidents to prevent recurrence;
- conducting seminars that target employer groups that have a high occupational injury and illness rate;
- responding to inquiries made through the telephone, internet, and mail; and
- publishing the quarterly *Safety Lines* newsletter and various technical assistance brochures.

### STRATEGIES AND PERFORMANCE:

MNOSHA partnered with federal OSHA to develop a five-year strategic plan and will enter years four and five during this biennium. MNOSHA will work cooperatively with Workplace Safety Consultation to evaluate and implement the following strategic goals:

- Improve workplace safety and health for all workers, as evidenced by fewer hazards, reduced exposures, and 15% fewer injuries, illnesses, and fatalities.
- Change workplace culture to increase employer and worker awareness of, commitment to, and involvement with safety and health.
- Secure public confidence through excellence in the development and delivery of MNOSHA's programs and services.

The MNFIRST program focuses OSHA resources on employers with occupational injury and illness rates that are higher than the national average for their industry. Information received from the departments of Economic Security, Health, and Pollution Control is an additional tool used to identify employers to be inspected.

MNOSHA is using computer technology to improve customer service:

- Employee complaints can be filed on the internet.
- The DLI web page will be regularly updated and expanded to include MNOSHA standards, compliance directives, and the most frequently requested publications.

### FINANCING INFORMATION:

MNOSHA is financed by a federal grant that is matched with a direct appropriation from the Workers' Compensation Fund. The activity generates non-dedicated revenue for the Workers' Compensation Fund through penalties assessed on employers who are not in compliance with MNOSHA standards.

### BUDGET ISSUES:

MNOSHA will be covering a 16% projected increase in workers statewide, surpassing three million employees by FY 2006. Program resources will not grow at the same rate, so management will need to continue prioritizing the program's efforts on working with employers with higher than average occupational injury and illness rates.

Activity: OSHA COMPLIANCE  
Program: WORKPLACE SERVICES DIVISION  
Agency: LABOR AND INDUSTRY DEPT

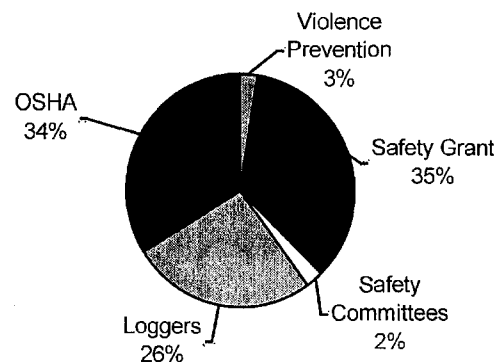
Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	4,283	4,511	5,118	5,354	5,354	5,650	5,650	1,375	14.3%
OTHER OPERATING EXPENSES	1,921	1,674	2,844	1,994	1,994	1,975	1,975	(549)	(12.2%)
<b>Total Expenditures</b>	<b>6,204</b>	<b>6,185</b>	<b>7,962</b>	<b>7,348</b>	<b>7,348</b>	<b>7,625</b>	<b>7,625</b>	<b>826</b>	<b>5.8%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
WORKERS COMPENSATION	2,966	2,630	4,254	3,456	3,456	3,538	3,538		
Statutory Appropriations:									
SPECIAL REVENUE	0	0	3	2	2	2	2		
FEDERAL	3,238	3,555	3,705	3,890	3,890	4,085	4,085		
<b>Total Financing</b>	<b>6,204</b>	<b>6,185</b>	<b>7,962</b>	<b>7,348</b>	<b>7,348</b>	<b>7,625</b>	<b>7,625</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	0	2	2	2	2	2	2		
FEDERAL	3,222	3,550	3,705	3,890	3,890	4,085	4,085		
Nondedicated									
WORKERS COMPENSATION	1,687	1,968	2,035	2,035	2,035	2,035	2,035		
<b>Total Revenues Collected</b>	<b>4,909</b>	<b>5,520</b>	<b>5,742</b>	<b>5,927</b>	<b>5,927</b>	<b>6,122</b>	<b>6,122</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	89.7	89.7	90.7	90.7	90.7	90.7	90.7		
<b>Total Full-Time Equivalent</b>	<b>89.7</b>	<b>89.7</b>	<b>90.7</b>	<b>90.7</b>	<b>90.7</b>	<b>90.7</b>	<b>90.7</b>		

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** WORKPLACE SAFETY CONSULTATION  
**Program:** WORKPLACE SERVICES DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

### 2000 - 2001 Expenditures by Program



### ACTIVITY PROFILE:

The Workplace Safety Consultation (WSC) unit supports *The Big Plan* theme of *Healthy, Vital Communities*. The unit provides safety and health services at no cost to small, high hazard employers who request assistance in voluntarily complying with the MN Occupational Safety and Health Act. This activity assists employers and employees in implementing effective safety and health programs to prevent injuries and illnesses that may result from exposure to hazardous workplace conditions and hazardous work practices.

- **OSHA Consultation Program.** This program provides safety and health services at no cost to small employers who request assistance in understanding and voluntarily complying with the MN Occupational Safety and Health Act.
- **MNSHARP/MNSTAR Programs.** These programs provide incentives and support to Minnesota employers to work with their employees to develop, implement and continuously improve the effectiveness of their workplace safety and health programs. The goal of these programs is to reduce injury and illness rates below the national average for their industry.
- **Loggers' Safety Education Program.** The WSC administers M.S. 176.130 to ensure Minnesota loggers have the opportunity to obtain safety training. Funds are redistributed to logger employers through an assessment collected from the wood mills upon completion of safety training by their employees.
- **Labor Management Safety Committee Program.** This program emphasizes the labor-management safety committee structure through a joint effort with the Bureau of Mediation Services. This program reinforces the importance of labor-management cooperation in workplace safety issues and helps prevent workplace injuries.
- **Safety Hazard Abatement Grant Program.** The Assigned Risk Safety Account was established to allow businesses to receive grants to assist in covering the cost of: 1) obtaining safety equipment; 2) operating/maintaining equipment; or 3) purchasing/renting real property to meet criteria established by on-site safety inspections.
- **Workplace Violence Prevention Program.** This program helps employers and employees deal with the increasing incidence of violence in the workplace. The program develops common sense preventive measures and informs employers and employees on how to prevent violence and what to do when confronted with a violent situation.

### STRATEGIES AND PERFORMANCE:

WSC's three primary goals:

1. Assist employers to improve workplace safety and health for all workers, as evidenced by fewer hazards, reduced exposures, and fewer injuries, illnesses and fatalities.
2. Change workplace culture to increase employer and worker awareness of, commitment to, and involvement with safety and health.
3. Secure public confidence through excellence in the development and delivery of programs and services.

The WSC unit's efforts in the area of safety and health have 1) resulted in greater voluntary safety and health efforts and improved worker protection through non-adversarial means; 2) led to better allocations of OSHA resources by minimizing duplications of work between enforcement and consultation staff; and 3) enabled OSHA personnel to concentrate on workplaces that are not presently working with a consultant to control or eliminate hazards, establish effective safety and health programs, and reduce workers' compensation costs.



## BUDGET ACTIVITY SUMMARY (Continued)

**Budget Activity:** WORKPLACE SAFETY CONSULTATION  
**Program:** WORKPLACE SERVICES DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

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### **FINANCING INFORMATION:**

WSC is financed by a federal grant that is matched with a direct appropriation from the Workers' Compensation Fund. The unit also administers the funding appropriated from the Assigned Risk Safety Account in the Workers' Compensation Fund for the Labor Management Safety Committee, Workplace Violence Prevention, and Safety Grant programs. The Loggers' Safety Education program is funded by an assessment paid by wood mills.

Activity: WORKPLACE SAFETY CONSULTATION  
Program: WORKPLACE SERVICES DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	1,043	1,069	1,191	1,228	1,228	1,287	1,287	255	11.3%
OTHER OPERATING EXPENSES	483	431	503	439	439	435	435	(60)	(6.4%)
Subtotal State Operations	1,526	1,500	1,694	1,667	1,667	1,722	1,722	195	6.1%
LOCAL ASSISTANCE	1,547	2,069	1,964	2,113	2,113	2,105	2,105	185	4.6%
Total Expenditures	3,073	3,569	3,658	3,780	3,780	3,827	3,827	380	5.3%

<b>Financing by Fund:</b>									
Direct Appropriations:									
WORKERS COMPENSATION	508	439	555	496	496	507	507		
Statutory Appropriations:									
SPECIAL REVENUE	6	25	35	30	30	30	30		
FEDERAL	670	695	733	766	766	804	804		
WORKERS COMPENSATION	1,889	2,410	2,335	2,488	2,488	2,486	2,486		
Total Financing	3,073	3,569	3,658	3,780	3,780	3,827	3,827		

<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	11	22	30	30	30	30	30		
FEDERAL	667	698	729	766	766	804	804		
WORKERS COMPENSATION	2,208	2,509	2,488	2,486	2,486	2,486	2,486		
Total Revenues Collected	2,886	3,229	3,247	3,282	3,282	3,320	3,320		

<b>FTE by Employment Type:</b>									
FULL TIME	19.3	19.3	19.3	19.3	19.3	19.3	19.3		
Total Full-Time Equivalent	19.3	19.3	19.3	19.3	19.3	19.3	19.3		

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## PROGRAM SUMMARY

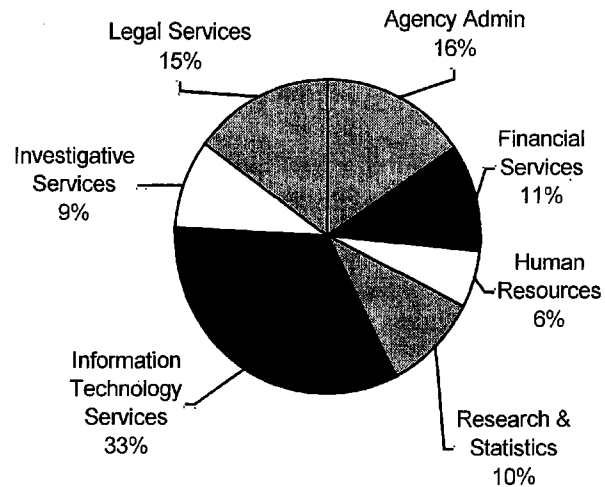
**Program:** GENERAL SUPPORT DIVISION  
**Agency:** LABOR AND INDUSTRY DEPT

### PROGRAM PROFILE:

The General Support (GS) program supports internal customers in the following management areas 1) research and statistics; 2) information technology development and support; 3) legal advice and litigation; 4) investigative services; 5) financial management; 6) communications; and 7) human resources.

Developments in technology, the labor shortage, and customer needs for information have continued to drive this program. It provides leadership to other agency activities as they serve workers and employers in the state. The units within the program provide leadership in managing the human, financial, and information resources provided to meet the agency mission.

### **2000 - 2001 Expenditures by Activity**



### STRATEGIES AND PERFORMANCE:

Four critical strategies drive the GS program to serve agency staff and all citizens:

1. Improve internal processes.

2. Capitalize on available information through research and technology.
3. Develop sound analysis and training in the law to support decision-making.
4. Centralize services to reduce duplication of cost and effort.

This program supports *The Big Plan* theme of *Service, Not Systems* and the agency's vision of supportive systems by developing electronic ways for citizens to do business with government, creating rules that make sense to customers, and finding ways to be faster, more accurate and better able to anticipate trends in workplace issues.

Important performance achievements:

- Launched two substantial computer projects for the Code Administration and Inspection Services unit and the Office of Administrative Hearings.
- Unveiled an agency intranet site and re-created the agency internet site.
- Completed the standard agency research agenda and prepared several significant reports to inform stakeholders.
- Continued to successfully implement a civil service pilot project to identify new and innovative ways to work within a merit setting.
- Provided the legal advice and consultation necessary to update the medical fees and rehabilitation rules.
- Led an agency-wide effort to develop the agency's vision and supported the working efforts to move it forward through employee committees.
- Led agency preparations to assure no interruption in customer service due to Y2K technology issues.
- Supported DLI's own safety and health efforts resulting in an 80% drop in ergonomics injuries over the past two years.

The program's technology goals for the next biennium:

1. Use lessons learned in the electronic data interchange (EDI) pilot to streamline the process for insurers and collect more data.
2. Explore and implement citizen-based electronic government service initiatives within the agency.
3. Continue migration to an enterprise-wide database.

### FINANCING INFORMATION:

The program is financed by direct appropriations from the Workers' Compensation and General funds, and indirect cost revenues recovered from the agency's federal programs. The program also administers two federal research grants from the Bureau of Labor Statistics.

**PROGRAM SUMMARY (Continued)**

**Program: GENERAL SUPPORT DIVISION**  
**Agency: LABOR AND INDUSTRY DEPT**

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**GOVERNOR'S RECOMMENDATION:**

The Governor recommends base funding levels, except for the following:

- A biennial reallocation of \$238,000 from the Office of Administrative Hearings and \$130,000 from the Workers' Compensation Court of Appeals to provide systems support and front end processing supervision for the workers' compensation case scheduling and management system. Of these amounts, \$220,000 will support a position to provide technical, programming, training and database administration support and the cost of annual license fees and dedicated telecommunications lines.

Activity: GENERAL SUPPORT DIVISION  
Program: GENERAL SUPPORT DIVISION  
Agency: LABOR AND INDUSTRY DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	4,531	4,687	5,334	5,591	5,659	5,808	5,878	1,516	15.1%
OTHER OPERATING EXPENSES	2,817	1,867	2,586	2,121	2,163	2,079	2,119	(171)	(3.8%)
<b>Total Expenditures</b>	<b>7,348</b>	<b>6,554</b>	<b>7,920</b>	<b>7,712</b>	<b>7,822</b>	<b>7,887</b>	<b>7,997</b>	<b>1,345</b>	<b>9.3%</b>
<b>Change Items:</b>	<b>Fund</b>								
(A) CASE SCHEDULING/MGMT SYSTEM SUPPORT	WCS				110		110		
<b>Total Change Items</b>					<b>110</b>		<b>110</b>		
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	1,001	995	1,088	1,074	1,074	1,106	1,106		
WORKERS COMPENSATION	5,428	4,863	6,032	5,844	5,954	5,964	6,074		
Open Appropriations:									
WORKERS COMPENSATION	406	143	145	128	128	136	136		
Statutory Appropriations:									
SPECIAL REVENUE	375	386	485	500	500	515	515		
FEDERAL	138	167	170	166	166	166	166		
<b>Total Financing</b>	<b>7,348</b>	<b>6,554</b>	<b>7,920</b>	<b>7,712</b>	<b>7,822</b>	<b>7,887</b>	<b>7,997</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	454	470	485	500	500	515	515		
FEDERAL	140	168	166	166	166	166	166		
Nondedicated									
GENERAL	9	8	0	0	0	0	0		
<b>Total Revenues Collected</b>	<b>603</b>	<b>646</b>	<b>651</b>	<b>666</b>	<b>666</b>	<b>681</b>	<b>681</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	83.5	81.5	78.5	78.5	78.5	78.5	78.5		
PART-TIME, SEASONAL, LABOR SER	4.9	6.9	6.4	6.6	6.6	6.6	6.6		
<b>Total Full-Time Equivalent</b>	<b>88.4</b>	<b>88.4</b>	<b>84.9</b>	<b>85.1</b>	<b>85.1</b>	<b>85.1</b>	<b>85.1</b>		

## MEDIATION SERVICES BUREAU - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The mission of the Minnesota Bureau of Mediation Services (BMS) is to promote stable and constructive labor-management relations and promote the use of alternative dispute resolution in public policy disputes other than labor-management. (M.S. Chap. 179 and 179A.)

### KEY SERVICE STRATEGIES:

- Assist parties through mediation/facilitation in resolving labor contract negotiations, collective bargaining grievances, and public policy disputes.
- Determine and oversee bargaining unit structure to ensure effective and constructive bargaining relationships.
- Supervise, conduct, and certify elections for union representation to ensure democratic election outcomes.
- Promote, train and facilitate joint labor-management committees designed to improve labor-management relationships.
- Provide matching grants to area industry-labor management councils in support of joint cooperative labor relations programs.
- Provide technical information and skills training in labor relations and dispute resolution to improve the knowledge and skills of labor and management representatives.
- Administer specified mediation programs on behalf of state agencies, e.g. Department of Children, Families and Learning (special education disputes), Department of Human Rights (discrimination complaints), Department of Economic Security (vocational-rehabilitation disputes).
- Promote and assist the development of alternative dispute systems for executive branch agencies, such as the workplace mediation project.
- Develop and maintain a roster of neutral arbitrators to hear and resolve labor disputes.

### PERFORMANCE SUMMARY:

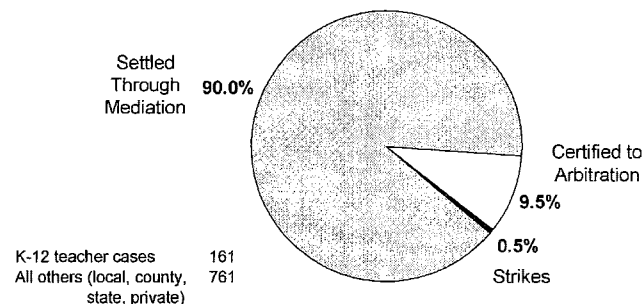
#### **Mediation**

- Resolved 799 out of 888 collective bargaining contract negotiations through mediation.
- Resolved 552 collective bargaining grievance disputes through mediation.

#### **Collective Bargaining Contract Mediation**

FY 99-00

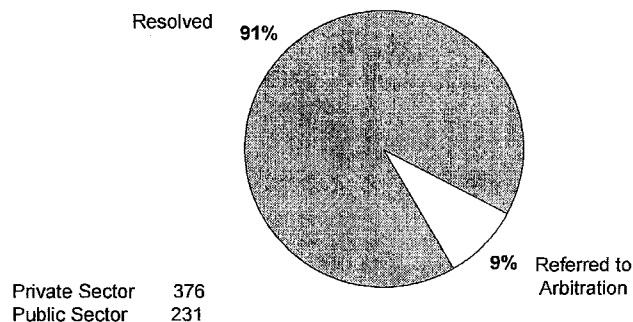
**Total Cases: 888**



#### **Collective Bargaining Grievances**

FY 99-00

**Total Cases: 607**



## MEDIATION SERVICES BUREAU - EXECUTIVE SUMMARY (Continued)

### Representation

- Resolved or certified 808 representation petitions regarding bargaining unit structure and union certification.
- Of these petitions, 763 (94.4%) were from the public sector while 45 (5.5%) were from the private sector.
- Of these petitions, 73% were settled without formal hearing while 27% were resolved through formal hearing and decision.

### Labor Management Cooperation

- Assisted in creating, training and facilitating 110 worksite labor-management committees.
- Awarded \$302,000 per year to 11 joint area or industry labor-management councils.

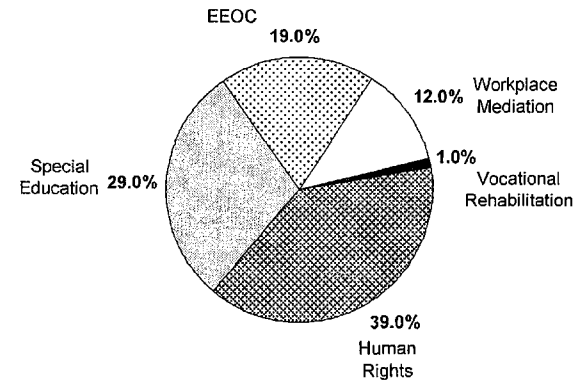
### Alternative Dispute Resolution

- Provided administration and case management services for the mediation of 600 disputes involving allegations of discrimination, provisions of special education and vocational rehabilitation services.
- The overall settlement rate for alternative dispute resolution for FY 99-00 was 79%.
- Established and administered a mediation program for non-collective bargaining workplace disputes in state agencies. In FY 99-00, 43 of these disputes were mediated for state agencies: 98% (42) were resolved through mediation while 2% (1) remained unresolved.

### Client Training

- Trained 940 individuals in joint labor-management cooperative programs.
- Trained approximately 1,000 individuals in interest-based collective bargaining techniques.
- Delivered 50 informational or customized training sessions to labor-management representatives.
- Delivered 58 training sessions or presentations on alternative dispute resolution to 1,850 participants.

**Alternative Dispute Resolution Caseload**  
FY 99-00  
**Total Cases: 600**



### REVENUES:

BMS generates non-dedicated, General Fund revenue from arbitrator renewal applications and fair-share challenge fees (\$2,000 a year is expected in the upcoming biennium). In the next biennium, the Office of Dispute Resolution expects to generate \$171,000 annually in dedicated, special revenue funds from two activities. First, we expect to generate \$151,000 annually from interagency agreements with the Department of Human Rights, the Department of Children, Families and Learning, and the U.S. Equal Employment Opportunity Commission for mediating human rights, special education and discrimination disputes. Second, the dispute resolution training program projects dedicated revenue of \$20,000 in each year.

### GRANTS:

The BMS administers a labor-management committee matching grant program under M.S. 179.82. There are currently 11 operating councils receiving grant



#### **MEDIATION SERVICES BUREAU - EXECUTIVE SUMMARY (Continued)**

funds from BMS. Such councils include a combination of public and private employers and labor organizations and are based on either industry or geographic areas. The councils are funded through a \$302,000 appropriation. The grants require a ratio of state and non-state matching revenues of:

	<b>% Non State Revenue</b>	<b>% State Revenue</b>
<b>Year 1</b>	<b>10</b>	<b>90</b>
<b>Year 2</b>	<b>20</b>	<b>80</b>
<b>Year 3 and on</b>	<b>50</b>	<b>50</b>

#### **ISSUES AFFECTING AGENCY'S OPERATIONS:**

- Demands for technical and dispute resolution training will continue to grow, including programs for interest-based collective bargaining, conflict resolution, and committee effectiveness training;
- A trend toward greater joint decision-making in labor-management relations at the local, work- site level;
- Continued aggressive union organizing efforts in the public sector, coupled with significant employer-driven reorganizations of services and jurisdictions;
- Increasing use of mediation and collaboration as the preferred means of resolving public policy disputes and the increased frequency of state and federal laws to specify their use;
- General economic conditions, levels of unemployment and inflation, and developments such as the recent sharp increase in the cost of health insurance have direct impact on the collective bargaining process.

#### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends base funding level as requested in the agency's budget with the following addition: an increase in base funding of \$ 29,000 annually for on-going technology infrastructure support. The Governor has also included funding to improve the agency's technology capacity further in the Small Agency Infrastructure initiative carried by the Office of Technology.

Agency: MEDIATION SERVICES BUREAU

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	1,591	1,605	1,699	1,726	1,726	1,774	1,774	196	5.9%
OTHER OPERATING EXPENSES	409	444	485	373	402	373	402	(125)	(13.5%)
<b>Subtotal State Operations</b>	<b>2,000</b>	<b>2,049</b>	<b>2,184</b>	<b>2,099</b>	<b>2,128</b>	<b>2,147</b>	<b>2,176</b>	<b>71</b>	<b>1.7%</b>
LOCAL ASSISTANCE	317	302	302	302	302	302	302	0	0.0%
<b>Total Expenditures</b>	<b>2,317</b>	<b>2,351</b>	<b>2,486</b>	<b>2,401</b>	<b>2,430</b>	<b>2,449</b>	<b>2,478</b>	<b>71</b>	<b>1.5%</b>
<b>Change Items:</b>	<b>Fund</b>								
(A) TECHNOLOGY INFRASTRUCTURE SUPPORT	GEN				29		29		
<b>Total Change Items</b>					<b>29</b>		<b>29</b>		
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	2,106	2,129	2,249	2,230	2,259	2,278	2,307		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	210	222	236	171	171	171	171		
GIFT	1	0	1	0	0	0	0		
<b>Total Financing</b>	<b>2,317</b>	<b>2,351</b>	<b>2,486</b>	<b>2,401</b>	<b>2,430</b>	<b>2,449</b>	<b>2,478</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
SPECIAL REVENUE	173	230	203	171	171	171	171		
<b>Nondedicated</b>									
GENERAL	0	5	0	0	0	0	0		
CAMBRIDGE DEPOSIT FUND	1	0	0	0	0	0	0		
<b>Total Revenues Collected</b>	<b>174</b>	<b>235</b>	<b>203</b>	<b>171</b>	<b>171</b>	<b>171</b>	<b>171</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	22.7	21.1	21.0	21.0	21.0	21.0	21.0		
PART-TIME, SEASONAL, LABOR SER	0.4	0.7	0.7	0.7	0.7	0.7	0.7		
<b>Total Full-Time Equivalent</b>	<b>23.1</b>	<b>21.8</b>	<b>21.7</b>	<b>21.7</b>	<b>21.7</b>	<b>21.7</b>	<b>21.7</b>		

Agency: MEDIATION SERVICES BUREAU

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
<b>FY 2001 Budgeted</b>	<b>2,351</b>	<b>2,351</b>	<b>2,180</b>	<b>2,180</b>	<b>171</b>	<b>171</b>	<b>0</b>	<b>0</b>
<b><u>Base Adjustments</u></b>								
2002-03 SAL. & BEN. BASE	46	94	46	94	0	0	0	0
DOC. SPACE RENTAL/LEASE	4	4	4	4	0	0	0	0
<b>Subtotal Base Adjustments</b>	<b>50</b>	<b>98</b>	<b>50</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Base Budget</b>	<b>2,401</b>	<b>2,449</b>	<b>2,230</b>	<b>2,278</b>	<b>171</b>	<b>171</b>	<b>0</b>	<b>0</b>

# INFORMATION TECHNOLOGY CHANGE ITEM (45077)

**Agency:** MEDIATION SERVICES BUREAU  
**IT Change Item:** TECHNOLOGY INFRASTRUCTURE SUPPORT

## ITEM DESCRIPTION AND PURPOSE:

During the last biennium the Bureau spent \$68,000 to upgrade technology infrastructure. This included:

- 13 Personal Computers
- 1 Server for Agency's LAN
- 1 Notebook computer
- Various computer software upgrades needed to support LAN
- Technical services required to update and support database

In order to maintain this investment we propose a budget initiative to upgrade equipment and software as needed and procure technical and support services needed for system maintenance.

## FUNDING: (Dollars in Thousands)

Funding Distribution	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personnel	0	0	0	0	0	0
Supplies	0	0	0	0	0	0
Hardware	17	17	17	17	17	17
Software	2	2	2	2	2	2
Facilities	0	0	0	0	0	0
Services	10	10	10	10	10	10
Training	0	0	0	0	0	0
Grants	0	0	0	0	0	0
<b>Total</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>29</b>

Funding request would periodically update and maintain existing technology for current staff. It also includes equipment for four additional BMS staff with the Office of Dispute Resolution. Funding is based on a three year replacement cycle for hardware and software and funds on-going system support and maintenance needs.

## RATIONALE:

In the last biennium, the Bureau of Mediation Services received a \$68,000 appropriation for small agency technology infrastructure development and support. This appropriation enabled us to upgrade or replace existing technology and provided some system maintenance and support. For the upcoming biennium, the proposal is to increase agency's base by \$29,000 annually to maintain the effectiveness of the initial investment. Base funding for lifecycle maintenance, upgrades and replacement is essential to maintain our technological systems and to avoid the future need for a large, one-time expense to replace the entire system. The funding analysis below would accomplish that.

## LIFE CYCLE ANALYSIS:

Life Cycle	2002-03 Biennium		2004-05 Biennium		2006-07 Biennium	
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Development						
Operations	X	X	X	X	X	X
Modification						
Retirement						

## OFFICE OF TECHNOLOGY ANALYSIS:

This initiative is a continuation from the previous biennium to upgrade infrastructure. Deliverables/Objectives: The bureau will use the funding from this initiative to purchase software upgrades needed to support the LAN and for technical services and support required to update the database. It supports infrastructure components. This initiative is listed as a priority in the agency SIRMP. Conclusion: This initiative meets information technology criteria for funding in supporting technology infrastructure.

## GOVERNOR'S RECOMMENDATION:

The Governor recommends that the agency's base budget be increased by \$29,000 annually for continued technology infrastructure support.

## PUBLIC UTILITIES COMM - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The Public Utilities Commission sets the rates and service terms for electric, gas, and telephone services in Minnesota per M.S. 216A, 216B and 237.

**Mission:** To create a regulatory environment that ensures reliable, safe and efficient telecommunications and utility services at fair and reasonable rates.

**Vision:** To fulfill the agency's mission while guiding the transition to competitive markets for electric, gas, and telephone services.

### KEY SERVICE STRATEGIES:

- Provide disciplined decision-making for resolution of party-to-party disputes and setting broad industry policies for regulated industries.
- Provide a forum for discussion of facts and law relating to disputes and policies for regulated industries.
- Conduct investigations, hold hearings, prescribe rules, and issue orders regarding utility and telephone services.

### PERFORMANCE SUMMARY:

- Guides the transition to competitive telecommunications markets in Minnesota.
  - Resolved a growing number of competitive complaints.
  - Approved agreements providing interconnection between new telephone companies and incumbent telephone companies.
  - Adopted rules to guide competition by new telephone companies.
  - Approved mergers and acquisitions which promote competitive industry structure.
  - Initiated formal and informal inquiries concerning rates and terms of service for competitive telephone services.
  - Resulted in Minnesota being among the leading states for open access and telephone service penetration rates.
- Assures reliable gas and electric services at reasonable rates.
  - Resulted in Minnesota being among those states with the lowest relative energy utility rates.
  - Resulted in Minnesota and the upper midwest area with relatively high energy services reliability.
  - Fulfilled statutory goals for renewable energy development.
- Assures efficiency in operations.

- Resulted in Minnesota being a state with one of the lowest regulatory agency costs per capita.
- Resolved 130 formal disputed petitions from July 1998 to July 2000, approximately one per week.
- Fielded over 4000 consumer complaints and produced consumer credits of over \$300,000 during FY 2000.
- Managed an expected volume of filings 35% greater than the FY 1994-95 biennium, with an inflation adjusted budget only 10% greater.

### REVENUES:

Commission activity generates dedicated and non-dedicated revenue. Nearly all costs are recovered through assessments against certified utility companies. Direct costs result from work activity created by a specific company or specified group of companies. Indirect costs are general in nature. Direct costs are assessed only to the company requesting the service. Indirect costs are allocated to all companies in the industry on the basis of gross operating revenues (GOR). Direct costs are subject to a cap of 2/5th of 1% of gross operating revenues. Indirect costs vary: for energy companies, 1/6th of 1% of GOR; for telephone companies, 1/8th of 1% of GOR.

### ISSUES AFFECTING AGENCY'S OPERATIONS:

- Persistent high level of filings driven largely by restructuring of the telecommunications industry.
- Significant increase in complexity of cases.
- Need to utilize information technologies to provide greater services to public and more efficiently manage information.
- Greater reliance on the commission by competing telephone companies for resolution of complaints of anti-competitive behavior.
- Increased confusion on the part of consumers about how changes in the industry are affecting them.
- Growing concern about protecting the reliability of energy utility services.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

## Agency: PUBLIC UTILITIES COMM

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	2,876	3,012	3,385	3,485	3,485	3,583	3,583	671	10.5%
OTHER OPERATING EXPENSES	1,049	684	1,231	1,078	1,078	1,155	1,155	318	16.6%
<b>Subtotal State Operations</b>	<b>3,925</b>	<b>3,696</b>	<b>4,616</b>	<b>4,563</b>	<b>4,563</b>	<b>4,738</b>	<b>4,738</b>	<b>989</b>	<b>11.9%</b>
LOCAL ASSISTANCE	2,035	1,629	2,030	2,030	2,030	2,030	2,030	401	11.0%
<b>Total Expenditures</b>	<b>5,960</b>	<b>5,325</b>	<b>6,646</b>	<b>6,593</b>	<b>6,593</b>	<b>6,768</b>	<b>6,768</b>	<b>1,390</b>	<b>11.6%</b>
<b>Financing by Fund:</b>									
<b>Carry Forward:</b>									
GENERAL	0	0	0	102	102	108	108		
<b>Direct Appropriations:</b>									
GENERAL	3,803	3,613	4,163	3,994	3,994	4,163	4,163		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	2,157	1,712	2,483	2,497	2,497	2,497	2,497		
<b>Total Financing</b>	<b>5,960</b>	<b>5,325</b>	<b>6,646</b>	<b>6,593</b>	<b>6,593</b>	<b>6,768</b>	<b>6,768</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
SPECIAL REVENUE	2,261	2,263	2,915	2,611	2,611	2,672	2,672		
<b>Nondedicated</b>									
GENERAL	0	0	0	4,464	4,464	4,650	4,650		
CAMBRIDGE DEPOSIT FUND	4,242	3,537	4,896	0	0	0	0		
<b>Total Revenues Collected</b>	<b>6,503</b>	<b>5,800</b>	<b>7,811</b>	<b>7,075</b>	<b>7,075</b>	<b>7,322</b>	<b>7,322</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	43.3	42.9	46.0	46.0	46.0	46.0	46.0		
PART-TIME, SEASONAL, LABOR SER	2.2	2.3	0.9	0.8	0.8	0.8	0.8		
<b>Total Full-Time Equivalent</b>	<b>45.5</b>	<b>45.2</b>	<b>46.9</b>	<b>46.8</b>	<b>46.8</b>	<b>46.8</b>	<b>46.8</b>		

Agency: PUBLIC UTILITIES COMM

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	6,478	6,484	3,981	3,987	2,497	2,497	0	0
<u>Base Adjustments</u>								
2002-03 SAL. & BEN. BASE	93	188	93	188	0	0	0	0
DOC. SPACE RENTAL/LEASE	22	96	22	96	0	0	0	0
Subtotal Base Adjustments	115	284	115	284	0	0	0	0
Base Budget	6,593	6,768	4,096	4,271	2,497	2,497	0	0

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WEIGHTS & MEASURES	E-369

## PUBLIC SERVICE DEPT - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

**Mission:** To ensure measurement accuracy and equity in Minnesota's economy by efficiently providing high quality, precision calibration services to businesses and individuals throughout Minnesota and the nation, by providing weights and measures regulatory services for all Minnesota businesses and consumers, and by providing petroleum quality regulation and service to Minnesota businesses and consumers.

**Vision:** To serve consumers, and to serve and regulate business and industry without respect to specific interests of either the regulated industries or the clients they serve. This requires ensuring that the services provided and the regulatory decisions imposed will maximize the net benefits of all consumers and businesses. Promoting the welfare of this broad constituency requires an assessment of significant consequences of a regulatory decision, including effects on consumer costs, the environment, economic development, and commercial equity.

### KEY SERVICE STRATEGIES:

Examine commercial weighing and measuring equipment and to ensure fair and equitable measurement transactions for both the buyer and seller.

Maintain accreditation of the metrology laboratory by the National Voluntary Laboratory Accreditation Program of the U.S. Department of Commerce.

Provide accredited metrology laboratory services to businesses and manufacturers that require this accreditation to sell products in the United States, in Pacific Rim nations, and in Economic European Community (EEC) nations.

Ensure the quality of petroleum products sold throughout Minnesota.

### OPERATING ENVIRONMENT:

The weights and measures program operates in two environments, metrology laboratory services and commercial regulation.

The metrology laboratory, accredited by the National Voluntary Laboratory Accreditation Program of the U.S. Department of Commerce provides precise mass, volume, length, temperature, and density calibration services to private industry.

The division's regulatory operations include inspection of all commercial weighing and measuring equipment, petroleum product quality, and net content accuracy of packaged consumer and prepackaged products.

### ORGANIZATION/PROGRAM STRUCTURE:

Commissioner's Office
-----------------------

└ Weights and Measures Division

42.0 FTE

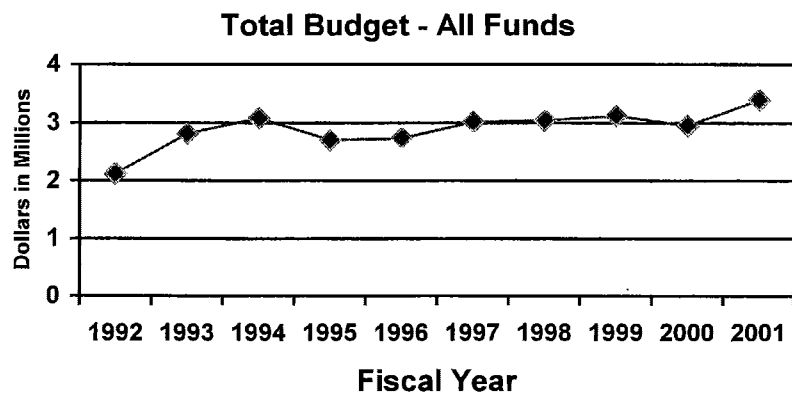
Following the merger of the Department of Commerce with part of the Department of Public Service, the Weights and Measures Division is the only program remaining in the Department of Public Service. Completion of the merger, including a transfer of the Weights and Measures Division, is proposed in our budget.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends base funding levels as requested in the agency's budget. Further, the Governor recommends that the Weights and Measures Division of the Department of Public Service be transferred to the Department of Commerce, and the DPS be abolished.

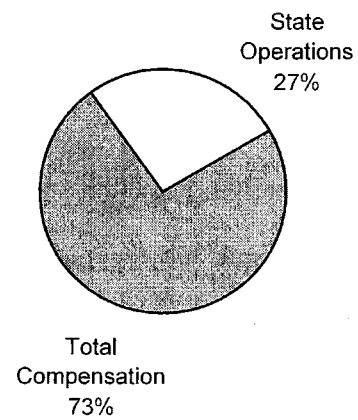
PUBLIC SERVICE DEPT - EXECUTIVE SUMMARY (Continued)

TRENDS AND PERSPECTIVE:

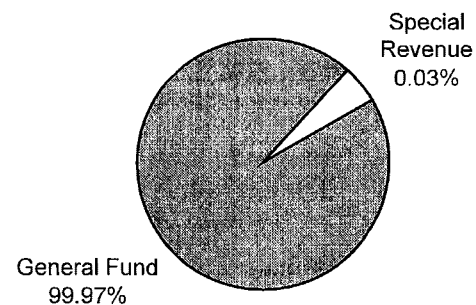


The Weights and Measures Program accounts for 100% of expenditures.

**2000-01 Expenditures by Category**  
Total: \$6.3 million



**2000-01 Expenditures by Fund**  
Total: \$6.3 million



Agency: PUBLIC SERVICE DEPT

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Program:</b>									
WEIGHTS & MEASURES	3,119	2,951	3,396	3,281	0	3,353	0	(6,347)	(100.0%)
<b>Total Expenditures</b>	<b>3,119</b>	<b>2,951</b>	<b>3,396</b>	<b>3,281</b>	<b>0</b>	<b>3,353</b>	<b>0</b>	<b>(6,347)</b>	<b>(100.0%)</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	3,119	2,951	3,394	3,281	0	3,353	0		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	0	0	2	0	0	0	0		
<b>Total Financing</b>	<b>3,119</b>	<b>2,951</b>	<b>3,396</b>	<b>3,281</b>	<b>0</b>	<b>3,353</b>	<b>0</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	41.8	38.6	42.0	42.0	0.0	42.0	0.0		
PART-TIME, SEASONAL, LABOR SER	0.0	0.2	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>41.8</b>	<b>38.8</b>	<b>42.0</b>	<b>42.0</b>	<b>0.0</b>	<b>42.0</b>	<b>0.0</b>		

# PUBLIC SERVICE DEPT - BUDGET BRIEF

Fund: GENERAL

	FY 2002	FY 2003	Biennium
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Appropriations	\$3,207	\$3,207	\$6,414
<b>BASE ADJUSTMENT</b>			
Space Rental/Lease (Roseville)	6	7	13
2002-03 Salary/Benefit Base	68	139	207
<b>BASE LEVEL (for 2002 and 2003)</b>	<b>\$3,281</b>	<b>\$3,353</b>	<b>\$6,634</b>
<b>CHANGE ITEMS</b>			
Transfer Weights & Measures to Department Of Commerce	(3,281)	(3,353)	(6,634)
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$-0-</b>	<b>\$-0-</b>	<b>\$-0-</b>

## **BRIEF EXPLANATION OF BUDGET DECISIONS:**

### **Base Budget**

The 2002-2003 base budget includes no increases beyond those detailed in the base adjustments.

### **Base Adjustment**

- The increased cost of the division's lease is based on information received from the Department of Administration's Real Estate Management Division.
- The requested salary increases of \$68,000 in FY 2002 and \$139,000 in FY 2003 represent the allowable 3% increases in the department's salary budget.

### **Change Item**

This proposed transfer will improve the efficiency of state government. The Weights and Measures Division regulates commercial activities in Minnesota and provides services to a broad range of businesses within Minnesota and throughout the nation. The division's regulatory and service operations will integrate well with the activities of the Department of Commerce. Additionally, the division operates a permitting function for persons who install and repair weighing and measuring equipment. The permitting function could be greatly improved and streamlined if integrated with the testing and licensing operations of the Department of Commerce.

The appropriation from the General Fund to the Department of Public Service for this item will be permanently transferred to the Department of Commerce. The

Weights and Measures Division will continue to recover its costs by charging inspection fees. The division will continue to pay fee revenues into the General Fund to offset the appropriation to the division.

## **GOVERNOR'S RECOMMENDATION(S):**

The Governor recommends the agency's base level funding. In addition, the Governor recommends that the Weights and Measures Division of Public Service be transferred to the Department of Commerce and the Department of Public Safety be abolished.

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## **PUBLIC SERVICE DEPT - REVENUE SUMMARY**

### **REVENUE SOURCES:**

The department generates non-dedicated revenue from the sources detailed below.

### **FEE STRUCTURE:**

The Weights and Measures program has two non-dedicated fees.

- Weights and Measures Inspection fees are charged for all inspections, calibrations, and metrology laboratory services involving the measurement of mass, length, volume, (except inspections related to petroleum products), temperature and density. The fees are set by rule. Fees are assessed only for services rendered. Receipts from the Weights and Measures Inspection Fees are also used to recover the non-petroleum portion of department administrative overhead costs, statewide indirect costs, and the cost of services provided by the Office of the Attorney General.
- The Petroleum Inspection Fee, collected by the Commissioner of Revenue, recovers the cost of all of the program's petroleum related inspection costs. The fee is fixed by statute at \$0.85 per 1,000 gallons of petroleum withdrawn from approximately 18 terminals in Minnesota. Revenue from the fee is approximately \$2,700,000 annually. This revenue is not reflected in the agency level revenue page, or in Weights and Measures program non-dedicated receipts. The revenue is reflected in the biennial budget documents of the Department of Revenue. Receipts from the Petroleum Inspection Fee are also used to recover the petroleum-related portion of department administrative overhead costs, statewide indirect costs, and the cost of services provided by the Office of the Attorney General.

### **FORECAST BASIS:**

It is projected that the department will continue to recover the full General Fund appropriation for the weights and measures program.

### **CHANGE ITEMS:**

This budget document includes a change item to transfer the weights and measures program to the Department of Commerce. There are no additional expenses or revenues involved in the transfer.

Agency: PUBLIC SERVICE DEPT

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<b><u>Non-Dedicated Revenue:</u></b>									
<b>Departmental Earnings:</b>									
GENERAL	0	0	0	1,538	0	1,570	0	0	
CAMBRIDGE DEPOSIT FUND	1,386	1,432	1,615	0	0	0	0	(3,047)	(100.0%)
<b>Other Revenues:</b>									
GENERAL	0	59	0	0	0	0	0	(59)	(100.0%)
<b>Total Non-Dedicated Receipts</b>	<b>1,386</b>	<b>1,491</b>	<b>1,615</b>	<b>1,538</b>	<b>0</b>	<b>1,570</b>	<b>0</b>	<b>(3,106)</b>	<b>(100.0%)</b>
<b><u>Dedicated Receipts:</u></b>									
<b>Other Revenues:</b>									
SPECIAL REVENUE	0	0	2	0	0	0	0	(2)	(100.0%)
<b>Total Dedicated Receipts</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2)</b>	<b>(100.0%)</b>
<b>Agency Total Revenues</b>	<b>1,386</b>	<b>1,491</b>	<b>1,617</b>	<b>1,538</b>	<b>0</b>	<b>1,570</b>	<b>0</b>	<b>(3,108)</b>	<b>(100.0%)</b>



**BUDGET CHANGE ITEM (48661)****Agency: PUBLIC SERVICE DEPT****Item Title: TRANSFER WEIGHTS & MEAS TO COMMERCE**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
General Fund				
-State Operations	\$(3,281)	\$(3,353)	\$(3,353)	\$(3,353)
Revenues: (\$000s)				
General Fund	\$(1,538)	\$(1,570)	\$(1,570)	\$(1,570)

Statutory Change? Yes ☒ No ☐

If yes, statute(s) affected: Ch. 239; Sect. 17A.04, 17A.10, 41A.09, 93.38, 296A.01, 296A.08, 325E.11, 325E.115, and 325F.733.

☐ New Activity ☐ Supplemental Funding ☒ Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends that the Weights and Measures Division of the Department of Public Service (DPS) be transferred to the Department of Commerce, and that the DPS be abolished.

**RATIONALE:**

This transfer will complete the merger of the Department of Commerce and the Department of Public Service. The Department of Commerce currently provides administrative functions including: accounting, budgeting and personnel services to the Weights and Measures Division. The Weights and Measures Division regulates commercial activities in Minnesota and provides services to a broad range of businesses within Minnesota and throughout the nation. The division's regulatory and service operations will integrate well with the activities of the Department of Commerce. Additionally, the division operates a permitting function for persons who install and repair weighing and measuring equipment. The permitting function could be greatly improved and streamlined if integrated with the testing and licensing operations of the Department of Commerce.

**FINANCING:**

The costs of this program are fully recovered through two fee systems. The table referenced on this page shows only the revenue from Weights and

Measures Inspection Fees. Revenue from the Petroleum Inspection Fee offsets the remainder of the division's costs, but is not shown in the table. The Petroleum Inspection Fee is collected by the Commissioner of Revenue and deposited in the General Fund.

The appropriation from the General Fund to the DPS for this item will be permanently transferred to the Department of Commerce. The Weights and Measures Division will continue to recover its costs by charging inspection fees. The division will continue to pay fee revenues into the General Fund to offset the appropriation to the division.

**OUTCOMES:**

- The division will continue to provide customer services and regulatory services at reasonable costs.
- Department of Commerce overhead costs (which must be recovered through Weights and Measures fees) will remain low. Consequently, fees will remain reasonable.
- Division programs will integrate well with other Department of Commerce Programs.
- The division's regulatory operations are similar in nature and function to Department of Commerce regulatory operations. This will facilitate management oversight.

## PROGRAM SUMMARY

**Program: WEIGHTS & MEASURES**  
**Agency: PUBLIC SERVICE DEPT**

### PROGRAM PROFILE:

The Weights and Measures Division:

- Provides the basis for physical measurement accuracy in Minnesota by maintaining the state standards for mass, length, volume, temperature and density;
- Extends standardization and accuracy to commerce in Minnesota by offering precision calibration services to large and small businesses, and individuals;
- Enforces accuracy in commercial marketplaces by inspecting and testing all commercial weighing and measuring equipment in Minnesota;
- Ensures the quality of petroleum products by sampling and testing gasoline, diesel fuel, heating fuels, and other products;
- Enforces statutory gasoline oxygenation requirements by sampling and testing gasoline at all levels of distribution and sale in Minnesota.
- Ensures the net weight and net volume accuracy of consumer commodities by inspecting and testing prepackaged goods in Minnesota;

### STRATEGIES AND PERFORMANCE:

The Weights and Measures Division employs two strategies to fulfill its statutory obligations:

- The division promotes accuracy in basic physical measurement by offering precision calibration services to Minnesota businesses and individuals.
- The division employs an enforcement strategy to ensure the accuracy of prepackaged commodities, gas pumps, grocery scales, livestock scales, grain and fertilizer scales, and a broad range of other commercial weighing and measuring equipment in Minnesota. This enforcement strategy is also used to ensure the quality of gasoline, diesel fuel and other petroleum products.

The enforcement strategy places a minimal burden on regulated Minnesota businesses. The division is responsible for finding accuracy problems and requiring businesses to correct them. In a sense, the division's enforcement program provides an inexpensive quality control service for businesses.

The National Institute of Standards and Technology (NIST) has certified that the metrology laboratory has maintained traceability of the Minnesota standards of mass, length, volume and temperature to national standards.

The metrology laboratory has achieved and maintained accreditation under the most recently adopted International Organization for Standardization (ISO) quality standards. Additionally, the metrology laboratory meets performance standards set by NIST's National Voluntary Laboratory Accreditation Program and the NIST Office of Weights and Measures.

A comparison of measurement process uncertainties with other state and private metrology laboratories demonstrates that the Minnesota metrology laboratory consistently maintains the best measurement process uncertainties in the United States.

Enforcement operations have maintained high compliance rates for commercial weighing and measuring equipment despite the rapid increase in the number of gas pumps in use in Minnesota (see compliance rate table in Budget Issues section). For comparison purposes, there were about 20,000 gas pumps in use in Minnesota in FY 1980. In the last 20 years, the number of gas pumps increased by 270%, the division's staff decreased and its productivity more than doubled.

Petroleum quality enforcement operations maintained a 98.5% compliance rate for gasoline oxygenation and a 98% compliance rate for gasoline octane.

During the last two fiscal years, the division recovered all direct and overhead costs.

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<b>ENFORCEMENT</b>					
Pumps/Meters	51,000	51,500	54,000	56,000	56,000
Number.					
Inspected	45,000	46,000	47,000	50,000*	53,000*
Compliance Rate	92%	92%	92%	93%	93%
Scales	19,250	19,500	19,700	19,700	19,700
Number					
Inspected	13,500	14,800	14,800	10,000*	10,000*
Compliance Rate	91%	91%	91%	91%	91%
Petroleum Tests	20,600	13,900	20,000	21,000	21,000
Compliance Rate	98%	98%	98%	98%	98%

# PROGRAM SUMMARY (Continued)

Program: WEIGHTS & MEASURES  
Agency: PUBLIC SERVICE DEPT

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<b>METROLOGY</b>					
Precision Mass	2,100	3,100	3,300	3,300	3,500
Mass Tolerance	15,200	16,200	16,500	16,800	17,000
Volumetric	360	400	420	430	440
Linear	20	20	20	20	20
Law Enf. Scales	380	460	480	490	500

- \* Division will reduce emphasis on light capacity scale inspections in grocery stores and other retail businesses. Emphasis on gas pump inspections will be increased.

## **FINANCING INFORMATION:**

The Weights and Measures program generates non-dedicated revenue from two fees. All costs are recoverable, including Department of Public Service (DPS) administrative costs, statewide indirect costs and the cost of services provided by the office of the Attorney General. Revenues are paid into the General Fund to offset the division's appropriation.

- Weights and Measures Fees are charged for all inspections and calibrations involving mass, length and volume, except inspections related to petroleum products. These are direct fees for service. The division generates revenue from these fees only by producing inspections.
- The Petroleum Inspection Fee recovers the cost of all petroleum-related inspections. The fee is statutorily set at \$0.85 per thousand gallons. The Department of Revenue collects the fee from 18 Minnesota petroleum terminals. In addition to Weights and Measures costs, the fee also recovers the cost of the Oil Burner Retrofit Program, administered by the Department of Economic Security. Only the portion of fee revenue that applies to Weights and Measures costs is shown in the following table.

The following revenue table supports the Weights and Measures program:

	<u>Dollars in Thousands</u>			
	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Non-Dedicated Revenue				
General Fund	\$1,432	\$1,615	\$1,538	\$1,570
Petroleum Inspection Fee*	\$1,735	\$1,934	\$1,899	\$1,941
Total W&M Revenue	\$3,167	\$3,549	\$3,347	\$3,511

- \* The Department of Revenue collects the Petroleum Inspection Fee. Part of the revenue from the fee offsets petroleum-related costs of the Weights and Measures Division. The Petroleum Inspection Fee revenues shown in the table above are also shown in Department of Revenue budget documents. The combination of Weights and Measures Fee revenues and Petroleum Inspection Fee revenues are intended to offset all of the costs of the Weights and Measures Division.

## **BUDGET ISSUES:**

The division must increase its emphasis on gas pump testing.

- Changes in gasoline pump design will require more frequent testing and monitoring. For decades, the division has used mechanical security seals to prevent unauthorized adjustment of pumps. New pumps will not be sealable with a mechanical security seal.
- Sophisticated, computer-based cheating schemes have been discovered in gas stations in California and Michigan. The division will employ undercover investigations and more frequent monitoring to prevent fraud.

This is a base level budget request. The base includes an inflation increase of 3% each year for salary compensation.

## **GOVERNOR'S RECOMMENDATION:**

The Governor recommends base level funding for this program.

Activity: WEIGHTS & MEASURES  
Program: WEIGHTS & MEASURES  
Agency: PUBLIC SERVICE DEPT

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	2,271	2,213	2,439	2,507	0	2,578	0	(4,652)	(100.0%)
OTHER OPERATING EXPENSES	848	738	957	774	0	775	0	(1,695)	(100.0%)
<b>Total Expenditures</b>	<b>3,119</b>	<b>2,951</b>	<b>3,396</b>	<b>3,281</b>	<b>0</b>	<b>3,353</b>	<b>0</b>	<b>(6,347)</b>	<b>(100.0%)</b>
<b>Change Items:</b>	<b>Fund</b>								
(A) TRANSFER WEIGHTS & MEAS TO COMMERCE	GEN				(3,281)		(3,353)		
<b>Total Change Items</b>					<b>(3,281)</b>		<b>(3,353)</b>		
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	3,119	2,951	3,394	3,281	0	3,353	0		
Statutory Appropriations:									
SPECIAL REVENUE	0	0	2	0	0	0	0		
<b>Total Financing</b>	<b>3,119</b>	<b>2,951</b>	<b>3,396</b>	<b>3,281</b>	<b>0</b>	<b>3,353</b>	<b>0</b>		
<b>Revenue Collected:</b>									
Dedicated									
SPECIAL REVENUE	0	0	2	0	0	0	0		
Nondedicated									
GENERAL	0	59	0	1,538	0	1,570	0		
CAMBRIDGE DEPOSIT FUND	1,386	1,432	1,615	0	0	0	0		
<b>Total Revenues Collected</b>	<b>1,386</b>	<b>1,491</b>	<b>1,617</b>	<b>1,538</b>	<b>0</b>	<b>1,570</b>	<b>0</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	41.8	38.6	42.0	42.0	0.0	42.0	0.0		
PART-TIME, SEASONAL, LABOR SER	0.0	0.2	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>41.8</b>	<b>38.8</b>	<b>42.0</b>	<b>42.0</b>	<b>0.0</b>	<b>42.0</b>	<b>0.0</b>		

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## HISTORICAL SOCIETY - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

**Mission:** To foster an awareness of Minnesota history, so that people may draw strength and perspective from the past and find purpose for the future. The Society carries out this mission by:

- Providing opportunities for people of all ages to learn about the history of Minnesota
- Collecting and caring for materials that document human life in Minnesota, making them known and accessible to people in Minnesota and beyond
- Encouraging and doing research in Minnesota history

**Vision:** To serve as an educational institution providing a variety of historical programs and services. Through these activities we help people gain meaning for their lives. The Society is a creative and dynamic institution, documenting life in Minnesota and offering programs that are at once educational, engaging, and entertaining.

### KEY SERVICE STRATEGIES:

According to its legislative charter of 1849, amended in 1856, the Minnesota Historical Society is governed by an Executive Council of 30 members and its officers. The Executive Council also performs duties mandated by the legislature under M.S. Chapter 138 and appropriate session laws.

In support of its charter, mission statement and statutory requirements, the Minnesota Historical Society delivers services to the citizens of Minnesota in a variety of ways.

- Teaching and interpreting Minnesota history at the History Center and at the state's Historic Sites Network of 32 separate locations across the state.
- Preservation of cultural resources, including manuscripts, museum collections, state's archives, and historic buildings across the state.
- Supporting county and local historical organizations.

### OPERATING ENVIRONMENT:

**Education:** The Society is the state's oldest educational institution and is expected to provide broad-based programs on Minnesota's heritage.

**Public Demand:** The public's demand for MHS services including History Day, school programs at the History Center and the need for a new Minnesota history textbook cannot be met with current resources.

**Funding and salary issues:** State funding for salaries has not kept pace with negotiated increases. This has resulted in service reductions and hours that Historic Sites are open to the public.

**Information Technology:** Public expectation regarding the availability of and access to digital historical information has increased dramatically in recent years.

**Sustainability of Historic Sites Network:** Many facilities included in the Historic Sites Network are over 100 years old, and require extraordinary care.

**Care of Collections and Exhibits:** The irreplaceable nature of the Society's vast collections requires expert care. Exhibits at the History Center and at Historic Sites need to be updated and maintained to ensure their appeal and drawing power.

**Heritage Tourism and Economic Development:** Studies show that Historic Sites and museums rank very highly as tourist destinations. Aggressive promotion of the Society's attractions contributes significantly to Minnesota's \$10 billion tourist industry.

**Support of Big Plan Priorities:** The Society's programs and activities support Big Plan initiatives relating to: Healthy and Vital Communities (education, smart growth, statewide information highway); Self Sufficient People (lifelong learning for work and life); Service, Not Systems (Active Engaged Citizens, Electronic Government Services); Minnesota: World Competitor (Tourism).

### ORGANIZATION/PROGRAM STRUCTURE:

**Total 475.4 FTEs**

#### **Director and Executive Management**

- Education and Outreach 304.1 FTE
- Preservation and Access 169.2 FTE
- Fiscal Agents 2.1 FTE

### GOVERNOR'S RECOMMENDATION:

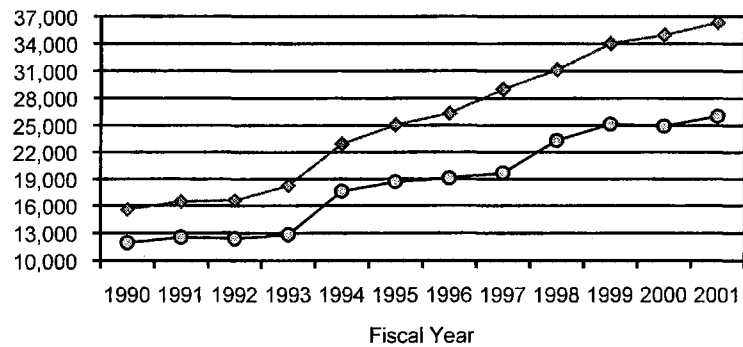
The Governor recommends the agency's base budget for the General Fund.

The Governor recommends funding at the requested levels for the Forest History Center Interpretive Trail project from the Minnesota Resources Fund.

# HISTORICAL SOCIETY - EXECUTIVE SUMMARY (Continued)

## TRENDS AND PERSPECTIVE:

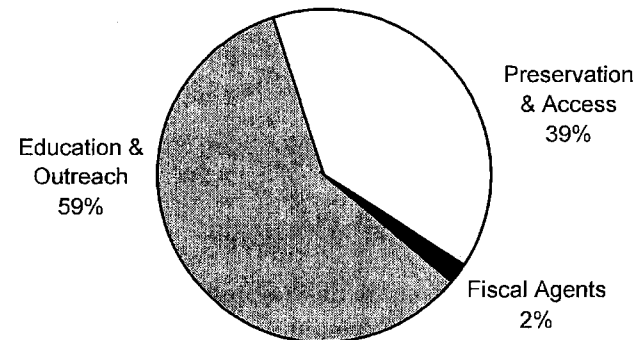
### Total Budget - All Funds



◆ Total Budget - All Funds ○ General Fund

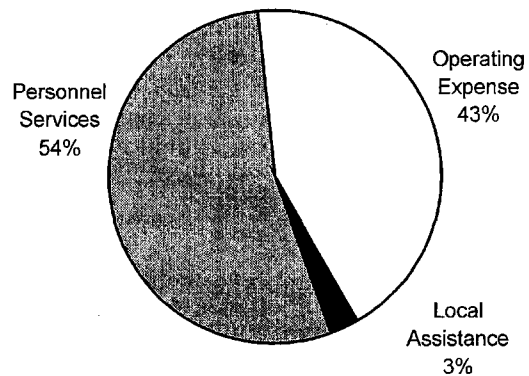
### 2000-01 Expenditures by Program

Total: \$71.311 million



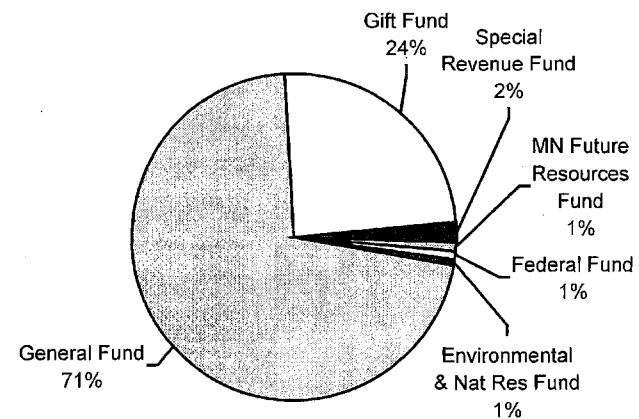
### 2000-01 Expenditures by Category

Total: \$71.311 million



### 2000-01 Expenditures by Fund

Total: \$71.311 million



Agency: HISTORICAL SOCIETY

Agency Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Program:</b>									
EDUCATION AND OUTREACH	19,789	20,358	21,738	21,691	21,781	22,555	22,555	2,240	5.3%
PRESERVATION AND ACCESS	13,724	13,627	14,269	14,423	14,423	14,699	14,699	1,226	4.4%
FISCAL AGENTS	533	971	348	396	396	348	348	(575)	(43.6%)
<b>Total Expenditures</b>	<b>34,046</b>	<b>34,956</b>	<b>36,355</b>	<b>36,510</b>	<b>36,600</b>	<b>37,602</b>	<b>37,602</b>	<b>2,891</b>	<b>4.1%</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
ENVIRONMENT & NATURAL RESOURCE	267	35	390	0	0	0	0		
GENERAL	25,121	24,884	25,994	26,599	26,599	27,129	27,129		
MINNESOTA RESOURCES	66	557	60	0	90	0	0		
<b>Statutory Appropriations:</b>									
SPECIAL REVENUE	723	726	748	748	748	748	748		
FEDERAL	251	267	267	267	267	267	267		
GIFT	7,618	8,487	8,896	8,896	8,896	9,458	9,458		
<b>Total Financing</b>	<b>34,046</b>	<b>34,956</b>	<b>36,355</b>	<b>36,510</b>	<b>36,600</b>	<b>37,602</b>	<b>37,602</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	237.7	253.7	249.8	249.5	249.5	249.5	249.5		
PART-TIME, SEASONAL, LABOR SER	225.0	221.7	228.2	218.8	218.8	236.3	236.3		
<b>Total Full-Time Equivalent</b>	<b>462.7</b>	<b>475.4</b>	<b>478.0</b>	<b>468.3</b>	<b>468.3</b>	<b>485.8</b>	<b>485.8</b>		



# HISTORICAL SOCIETY - BUDGET BRIEF

**Fund: GENERAL**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Biennium</u>
<b>BASE YEAR (FY 2001) (\$000s)</b>			
Appropriations	\$25,644	\$25,644	\$51,288
<b><u>BASE ADJUSTMENT</u></b>			
Biennial Appropriations	48	-0-	48
Doc. Space Rental/Lease	473	601	1,074
2002-03 Salary and Benefit Base	434	884	1,318
<b><u>BASE LEVEL (for 2002 and 2003)</u></b>	<b>\$26,599</b>	<b>\$27,129</b>	<b>\$53,728</b>
<b><u>CHANGE ITEMS</u></b>			
	-0-	-0-	-0-
<b>GOVERNOR'S RECOMMENDATION</b>	<b>\$26,599</b>	<b>\$27,129</b>	<b>\$53,728</b>

## **BRIEF EXPLANATION OF BUDGET DECISIONS:**

Base Adjustments:

- Biennial Appropriations – two fiscal agent appropriations, the Minnesota Air National Guard Museum and the Minnesota Military Museum are customarily made in the first year of the biennium. Since the base is calculated on the second year of the biennium, and would therefore not include these two fiscal agent appropriations, this adjustment adds these two items back into the base.
- Documented Rent/Maintenance Adjustment – this adjustment is based on cost estimates supplied by the Department of Administration for maintenance of the History Center.
- 2002-03 Salary and Benefit Base Adjustment—reflects the 3% compensation adjustment allowed for each year in the Governor's budget instructions.

## **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

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## HISTORICAL SOCIETY - REVENUE SUMMARY

### REVENUE SOURCES:

The Society is able to supplement its state appropriation for historic programs through:

- |                                      |                             |
|--------------------------------------|-----------------------------|
| ■ Historic Sites admission fees      | ■ Society memberships       |
| ■ Parking fees at the History Center | ■ Sales of MHS publications |
| ■ Restaurant revenues                | ■ Program fees              |
| ■ Retail operations                  | ■ Fee-for-service contracts |
| ■ Gifts from donors                  | ■ Endowment                 |
| ■ Building Rental                    | ■ Government grants         |

During FY 2000 support and revenue from the above sources totaled \$8.487 million. These revenues not only cover all costs of the parking, stores and restaurant operations in the History Center, but they also support the direct operating costs of the following:

- Historic Sites Network operations
- Publications Department (production and marketing)
- Exhibit development and installation (planning and fabrication)
- Museum operations (salaries of education staff)
- Acquisition and conservation of artifacts, manuscripts and other significant documents
- Development Office

Without these significant non-state revenues the Society's impact and effectiveness would be severely diminished. Specifically, operating schedules (open days and hours of operation) within the Historic Sites Network would need to be cut; History Center and sites exhibits would not be interactive and contemporary in their design and presentation; teachers and 114,000 schoolchildren would be on their own when visiting the History Center; and the recently discovered 1823 map of Fort Snelling would not have become part of the Society's collections.

### FEE STRUCTURE:

The unique aspect of the Society's fee structure is that everyone who partakes of the Society's services does so voluntarily; participants want to learn more about the history of their state at the History Center, at living history sites, and via MHS books. During FY 2000:

- The Society enjoyed the support of the largest membership of any state historical society with nearly 17,000 members.
- More than 663,000 visitors to the Historic Sites produced \$2,110,000 in admissions and retail sales.
- Approximately 422,000 visitors to the History Center produced \$1,100,452 in parking, restaurant, shops and special events revenue. Admission to the History Center is free.
- 81,089 copies of MHS publications were sold in FY 2000.

### RECENT CHANGES:

An increase in admission fees at Historic Sites will be implemented on 1-1-01, membership fees rose by \$10.00 in October, 2000, and parking fees at the History Center were increased by \$ .50/hour in 2000.

### FORECAST BASIS:

Fees are established by the Society's Board of Trustees. No fee increases at Historic Sites are projected for the 2002-03 biennium.

Agency: HISTORICAL SOCIETY

Summary of Agency Revenues (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Forecast	Governor Recomm.	Forecast	Governor Recomm.	Dollars	Percent
<b><u>Non-Dedicated Revenue:</u></b>									
Other Revenues:									
GENERAL	90	72	0	0	0	0	0	(72)	(100.0%)
MINNESOTA RESOURCES	1	0	0	0	0	0	0	0	
<b>Total Non-Dedicated Receipts</b>	<b>91</b>	<b>72</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(72)</b>	<b>(100.0%)</b>
<b><u>Dedicated Receipts:</u></b>									
Departmental Earnings:									
SPECIAL REVENUE	723	726	748	748	748	748	748	22	1.5%
Grants:									
GIFT	7,618	8,487	8,896	8,896	8,896	9,458	9,458	971	5.6%
<b>Total Dedicated Receipts</b>	<b>8,341</b>	<b>9,213</b>	<b>9,644</b>	<b>9,644</b>	<b>9,644</b>	<b>10,206</b>	<b>10,206</b>	<b>993</b>	<b>5.3%</b>
<b>Agency Total Revenues</b>	<b>8,432</b>	<b>9,285</b>	<b>9,644</b>	<b>9,644</b>	<b>9,644</b>	<b>10,206</b>	<b>10,206</b>	<b>921</b>	<b>4.9%</b>

## PROGRAM SUMMARY

Program: EDUCATION AND OUTREACH  
Agency: HISTORICAL SOCIETY

### PROGRAM PROFILE:

The Minnesota Historical Society is the state's oldest educational institution. The Society's education and outreach program is carried out through:

- Education
- Exhibits
- Living history programs
- Historic Sites Network
- MHS Press
- State historic preservation office

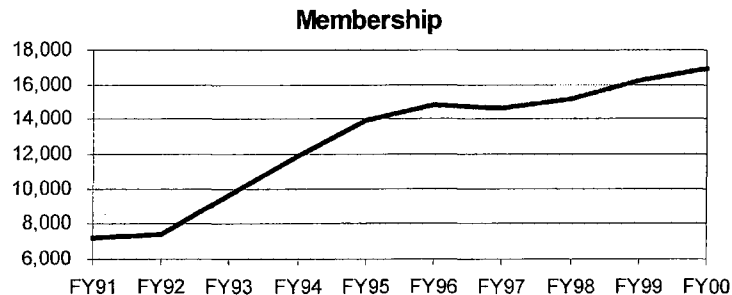
### STRATEGIES AND PERFORMANCE:

Demand for services in the Education and Outreach program continues to be strong. The Society has met this demand with the resources of the History Center, the state's Historic Sites Network, and a variety of public programs for people of all ages.

During FY 2000 the Society served:

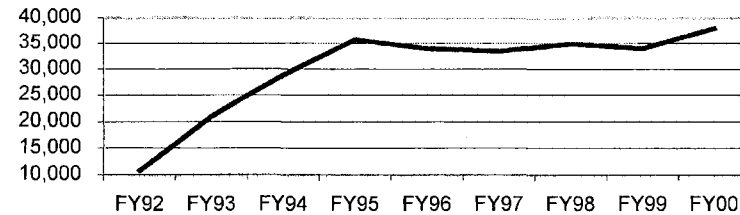
- 422,000 visitors to the History Center, including 114,000 in school programs
- 663,000 visitors to Historic Sites statewide including 156,000 schoolchildren
- 27,000 student/participants in History Day statewide
- 16,900 members of the Society, each receiving *Member News* and the quarterly scholarly journal *Minnesota History*

Since the opening of the Minnesota History Center in 1992, membership has grown by 127%.



Volunteers are essential in supporting the Society's work. More than 1,450 volunteers contributed 38,000 hours of service to the Society last year.

### **Volunteer Hours**



### FINANCING INFORMATION:

State operating appropriations for the Education and Outreach Program are primarily from the General Fund. These funds support the bulk of the Society's programming and educational initiatives for more than 1 million visitors.

### BUDGET ISSUES:

The population of Minnesota is expected to grow significantly in the next 10 to 20 years. The Society will continue to deliver successful programs for school groups, family and individual visitors, as well as provide programs through technology. High demand services and programs, including hours of operation, museum hours, education and family programming, and advice to local and regional historical organizations would be significantly reduced or even discontinued if state funding were to decline.

### LCMR RECOMMENDATIONS:

The Legislative Commission on Minnesota Resources has recommended \$90,000 for one project for the Society for the 2001 funding cycle – Subd. 5 (m) Forest History Center Interpretive Trail, to design and upgrade trails at the Forest History Center in Grand Rapids. With funding for this project, the Society will upgrade and expand the trail system, and enhance the educational experience through improved trail signage at the Forest History Center historic site in Grand Rapids.

(see the LCMR section of the Environmental Budget for more information.)

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

The Governor recommends funding at the requested levels for the Forest History Center Interpretive Trail project from the Minnesota Resources Fund.

Program: EDUCATION AND OUTREACH  
Agency: HISTORICAL SOCIETY

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
HIST SITES, MUS, STATEWIDE SV	15,777	16,122	17,402	17,164	17,254	17,947	17,947	1,677	5.0%
INFORMATION & PROGRAM DELIVERY	787	903	1,003	930	930	939	939	(37)	(1.9%)
HIST CTR BLDG & DEBT SERVICE	3,225	3,333	3,333	3,597	3,597	3,669	3,669	600	9.0%
<b>Total Expenditures</b>	<b>19,789</b>	<b>20,358</b>	<b>21,738</b>	<b>21,691</b>	<b>21,781</b>	<b>22,555</b>	<b>22,555</b>	<b>2,240</b>	<b>5.3%</b>

<b>Change Items:</b>	<b>Fund</b>				
(B) FOREST HISTORY WOODLAND TRAILS	MNR			90	
<b>Total Change Items</b>				<b>90</b>	

<b>Financing by Fund:</b>							
<b>Direct Appropriations:</b>							
ENVIRONMENT & NATURAL RESOURCE	267	35	390	0	0	0	0
GENERAL	13,100	13,502	14,205	14,635	14,635	14,962	14,962
MINNESOTA RESOURCES	6	82	50	0	90	0	0
<b>Statutory Appropriations:</b>							
SPECIAL REVENUE	723	726	748	748	748	748	748
FEDERAL	251	267	267	267	267	267	267
GIFT	5,442	5,746	6,078	6,041	6,041	6,578	6,578
<b>Total Financing</b>	<b>19,789</b>	<b>20,358</b>	<b>21,738</b>	<b>21,691</b>	<b>21,781</b>	<b>22,555</b>	<b>22,555</b>

<b>FTE by Employment Type:</b>							
FULL TIME	132.1	137.6	131.4	131.1	131.1	131.1	131.1
PART-TIME, SEASONAL, LABOR SER	168.6	166.5	175.3	170.9	170.9	188.4	188.4
<b>Total Full-Time Equivalent</b>	<b>300.7</b>	<b>304.1</b>	<b>306.7</b>	<b>302.0</b>	<b>302.0</b>	<b>319.5</b>	<b>319.5</b>

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## BUDGET ACTIVITY SUMMARY

**Budget Activity:** HIST SITES, MUS, STATEWIDE SV  
**Program:** EDUCATION AND OUTREACH  
**Agency:** HISTORICAL SOCIETY

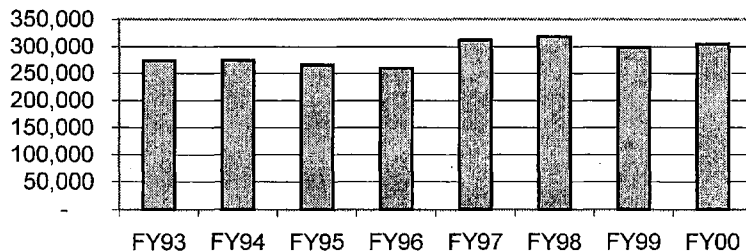
### ACTIVITY PROFILE:

This activity includes several functions that are central to the state's focus on "life long learning for work and life" education and to the institution's mission of "providing opportunities for people of all ages to learn about the history of Minnesota."

- **Historic Sites Network.** Mandated by M.S. 138.661-669, the Historic Sites Network recently celebrated its 35th anniversary. By providing visitors with the unique experience of learning about history where it happened, the Network has added richness to the educational and recreational life of Minnesotans and out-of-state visitors. Additionally, the Historic Sites Network stimulates heritage tourism, a major contributor to the state's economy.
- **Exhibits.** Exhibits at the History Center and throughout the Historic Sites Network provide visitors with creative techniques to learn about Minnesota's past. Costumed guides, interactive multi-media installations, and "hands-on" artifacts tell Minnesota's story in meaningful and memorable ways.

**"More fun than history should be"**  
**- 10th Grade Student**

**History Center Museum Attendance**

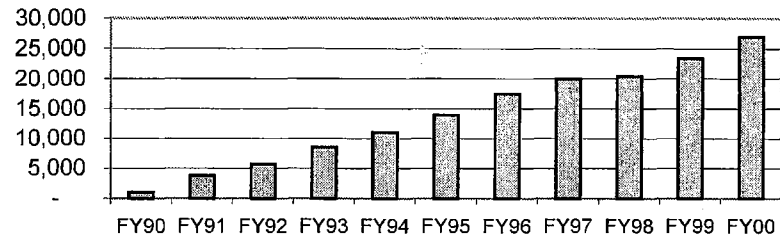


- **Education Department.** As a central part of the Society's mission, the Education Department provides public programs for students of all ages.

These include lectures, programs geared to students in the classroom, those who visit the History Center and use exhibits as a learning tool, and those who visit Historic Sites on field trips. Many of these school visits are related to material in *Northern Lights*, the Minnesota history curriculum developed by the Society and widely used in the state's schools.

One rapidly growing Society-coordinated educational program is History Day, which began with just over 100 participants in the early '90's. Nearly 30,000 students now participate in this annual program, in which junior and senior high school students undertake original research projects, developing a variety of essential communications skills. It is expected that History Day will continue to grow, in part due to its applicability to meeting graduation rule standards.

**History Day - Student Participation**



- **MHS Press and Research Department.** The Minnesota Historical Society Press, the oldest publisher in the state, helps to fulfill the Society's mission by providing materials for readers interested in Minnesota's past. Through popular scholarly titles the MHS Press not only encourages research, but it also helps a wider audience learn about Minnesota history. The number of units shipped by the Publications Division (books, tapes, CD's, posters) has shown an annual average increase of over 5% per year for the past decade.
- **Historic Preservation and Field Services.** The Society, as directed by state and federal law, serves as Minnesota's State Historic Preservation Office. This office maintains the *National Register of Historic Places* for properties in Minnesota, provides reviews for compliance with applicable federal laws, and educates the public about the values and benefits of maintaining the historic environment. In addition, the office conducts reviews of applications for the various competitive, matching grant programs administered by the Society, and it helps to coordinate the Society's contact with the state's 450 county and local historical organizations. Through matching requirements, state funds are leveraged to accomplish projects with minimal state investment.



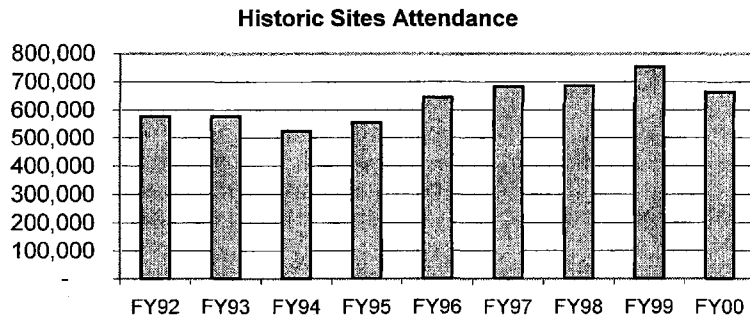
## BUDGET ACTIVITY SUMMARY (Continued)

**Budget Activity:** HIST SITES, MUS, STATEWIDE SV  
**Program:** EDUCATION AND OUTREACH  
**Agency:** HISTORICAL SOCIETY

**"The History Center is a teacher's dream, a family's dream,  
a kid's dream." -6th Grade Teacher**

### STRATEGIES AND PERFORMANCE:

Since most of the Society's programs and services are used voluntarily by the public, a key indicator is general usage of these services. In the case of Historic Sites, annual attendance has exceeded 600,000 visitors for the past five years.



**"This is a really cool place where you can learn about things  
you never knew existed." -7th Grade Student**

### FINANCING INFORMATION:

State operating appropriations for the Historic Sites, Museums, and Statewide Services Activity are primarily from the General Fund.

### BUDGET ISSUES:

- Demand for the services provided by this activity are clearly demonstrated by the strong and consistent attendance at sites and the dramatically increased participation by Minnesota's junior and senior high school students in History Day.

- Since the 1960s the Society and the state have invested more than \$60 million in the development of the Historic Sites Network; it is, by all standards, considered to be one of the best of its type in the country.
- The Society's historic preservation staff is able to optimize the interest in history and preservation by providing expert advice and assistance when called upon by local and regional historical organizations and individuals considering investing in the rehabilitation of a historic structure.
- The state's commitment to funding these activities is an important component of meeting the public's demand for these popular services.

**"History doesn't have to be learned boringly anymore."  
- 7th Grade Student**

### LCMR RECOMMENDATIONS:

The Legislative Commission on Minnesota Resources has recommended \$90,000 for one project for the Society for the 2001 funding cycle – the Forest History Woodland Stewardship Program. With funding for this project, the Society will upgrade and expand the trail system, and enhance the educational experience through improved trail signage at the Forest History Center historic site in Grand Rapids.

(see the LCMR section of the Environmental Budget for more information.)

Activity: HIST SITES, MUS, STATEWIDE SV  
Program: EDUCATION AND OUTREACH  
Agency: HISTORICAL SOCIETY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	10,230	10,632	11,556	12,025	12,025	12,806	12,806	2,643	11.9%
OTHER OPERATING EXPENSES	4,875	5,081	5,138	4,731	4,740	4,733	4,733	(746)	(7.3%)
<b>Subtotal State Operations</b>	<b>15,105</b>	<b>15,713</b>	<b>16,694</b>	<b>16,756</b>	<b>16,765</b>	<b>17,539</b>	<b>17,539</b>	<b>1,897</b>	<b>5.9%</b>
CAPITAL OUTLAY & REAL PROPERTY	175	6	306	6	87	6	6	(219)	(70.2%)
LOCAL ASSISTANCE	497	403	402	402	402	402	402	(1)	(0.1%)
<b>Total Expenditures</b>	<b>15,777</b>	<b>16,122</b>	<b>17,402</b>	<b>17,164</b>	<b>17,254</b>	<b>17,947</b>	<b>17,947</b>	<b>1,677</b>	<b>5.0%</b>

<b>Change Items:</b>	<b>Fund</b>				
(B) FOREST HISTORY WOODLAND TRAILS	MNR			90	
<b>Total Change Items</b>				<b>90</b>	

<b>Financing by Fund:</b>							
<b>Direct Appropriations:</b>							
ENVIRONMENT & NATURAL RESOURCE	267	35	390	0	0	0	0
GENERAL	9,168	9,336	9,939	10,178	10,178	10,424	10,424
MINNESOTA RESOURCES	6	82	50	0	90	0	0
<b>Statutory Appropriations:</b>							
SPECIAL REVENUE	723	726	748	748	748	748	748
FEDERAL	251	267	267	267	267	267	267
GIFT	5,362	5,676	6,008	5,971	5,971	6,508	6,508
<b>Total Financing</b>	<b>15,777</b>	<b>16,122</b>	<b>17,402</b>	<b>17,164</b>	<b>17,254</b>	<b>17,947</b>	<b>17,947</b>

<b>Revenue Collected:</b>							
<b>Dedicated</b>							
SPECIAL REVENUE	723	726	748	748	748	748	748
GIFT	5,362	5,676	6,008	5,971	5,971	6,508	6,508
<b>Nondedicated</b>							
GENERAL	90	72	0	0	0	0	0
MINNESOTA RESOURCES	1	0	0	0	0	0	0
<b>Total Revenues Collected</b>	<b>6,176</b>	<b>6,474</b>	<b>6,756</b>	<b>6,719</b>	<b>6,719</b>	<b>7,256</b>	<b>7,256</b>

<b>FTE by Employment Type:</b>							
FULL TIME	128.1	131.1	124.9	124.6	124.6	124.6	124.6
PART-TIME, SEASONAL, LABOR SER	166.3	164.5	172.3	170.9	170.9	188.4	188.4
<b>Total Full-Time Equivalent</b>	<b>294.4</b>	<b>295.6</b>	<b>297.2</b>	<b>295.5</b>	<b>295.5</b>	<b>313.0</b>	<b>313.0</b>

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** INFORMATION & PROGRAM DELIVERY  
**Program:** EDUCATION AND OUTREACH  
**Agency:** HISTORICAL SOCIETY

### ACTIVITY PROFILE:

This Activity exists to deliver the resources of the Minnesota Historical Society to an increasingly larger audience that is more interested in history and our state's heritage than ever before. Effective use of contemporary technology enables the Society to meet the research and educational needs of students, teachers, governmental agencies and the general public.

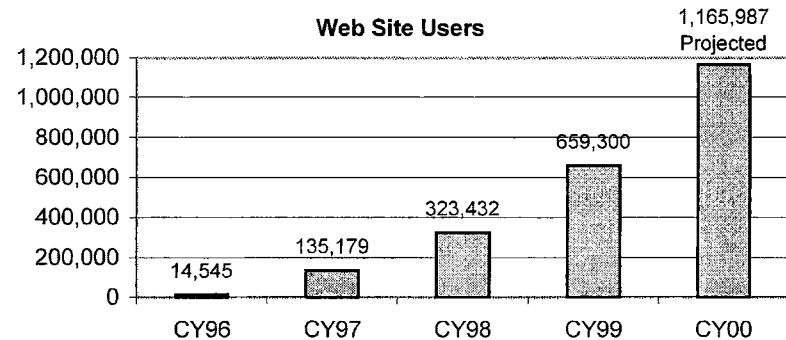
Over the last two biennia the legislature has responded very positively to the Society's request for funds to build a robust, contemporary technology infrastructure. The network, desktops, servers, office productivity software, internet connection and IT staff that make up that infrastructure now enable the Society to meet the public's ever growing demand for web-based delivery of historical information, references, finding aids and resources.

Additions and improvements to the infrastructure include an updated fiber backbone to include redundancy, on-going upgrading of the Ethernet network from 10 Mbps to 100 Mbps, switch and cable upgrading from Cat-3 to Cat-5 cable, 15 servers are backed up and managed daily, 24 historic sites are connected to the History Center network, and 450 users access the network to share data, populate and access databases and run approximately 15 business applications. Additionally, MHS navigated the Y2K deadline with no problems.

### STRATEGIES AND PERFORMANCE:

The Information and Program Delivery Activity has demonstrated remarkable success in providing what students, teachers, researchers and average citizens want to know about our state and our heritage. User sessions on mnhs.org increased by 875% from FY 1997 to FY 2000 (73,000 to 639,000), and current projections indicate that 3,500 visitors will access the Society's website each day during FY 2001.

- History Learning Network - The Communities website (complementing an exhibit in the History Center) was put on the web during October 1999 and examines the history of three Minnesota communities through primary sources.
- During the first seven months of 2000 an average of over 2,500 job seekers accessed the MHS "Jobs Line" to examine potential employment opportunities at the Society.



**"...thanks for making this invaluable resource  
so easily accessible through the internet"  
-Financial Donor to MHS, and  
user of the Visual Resources Database**

- Each month over 2,000 people from outside the U.S. access mnhs.org.
- During the month of May 2000 over 2,000 Minnesota K - 12 students and teachers spent time on the MHS website.

### FINANCING INFORMATION:

State operating appropriations are from the General Fund.

### BUDGET ISSUES:

The Society, like many other organizations, has learned quickly that technology has dramatically changed the way students, teachers, researchers, tourists and the general population obtain needed information. The dramatic increase in the public's use of [mnhs.org](http://mnhs.org) provides abundant indication that more people are actively searching out and utilizing the vast collections and resources of the Society than was possible prior to the advent of web technology. Funds are used to provide web users with:

- E-commerce options (retail, membership, and publications sales)
- Genealogy resources
- Access to three-dimensional objects collection
- Virtual tours of History Center exhibits
- Virtual tours of historic sites
- Maintain the existing infrastructure of hardware, software and staff

Activity: INFORMATION & PROGRAM DELIVERY  
Program: EDUCATION AND OUTREACH  
Agency: HISTORICAL SOCIETY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Category:</u></b>									
State Operations									
COMPENSATION	210	257	494	439	439	452	452	140	18.6%
OTHER OPERATING EXPENSES	577	646	509	491	491	487	487	(177)	(15.3%)
<b>Total Expenditures</b>	<b>787</b>	<b>903</b>	<b>1,003</b>	<b>930</b>	<b>930</b>	<b>939</b>	<b>939</b>	<b>(37)</b>	<b>(1.9%)</b>
<b><u>Financing by Fund:</u></b>									
Direct Appropriations:									
GENERAL	707	833	933	860	860	869	869		
Statutory Appropriations:									
GIFT	80	70	70	70	70	70	70		
<b>Total Financing</b>	<b>787</b>	<b>903</b>	<b>1,003</b>	<b>930</b>	<b>930</b>	<b>939</b>	<b>939</b>		
<b><u>Revenue Collected:</u></b>									
Dedicated									
GIFT	80	70	70	70	70	70	70		
<b>Total Revenues Collected</b>	<b>80</b>	<b>70</b>	<b>70</b>	<b>70</b>	<b>70</b>	<b>70</b>	<b>70</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	4.0	6.5	6.5	6.5	6.5	6.5	6.5		
PART-TIME, SEASONAL, LABOR SER	2.3	2.0	3.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>6.3</b>	<b>8.5</b>	<b>9.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** HIST CTR BLDG & DEBT SERVICE  
**Program:** EDUCATION AND OUTREACH  
**Agency:** HISTORICAL SOCIETY

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### ACTIVITY PROFILE:

This activity is divided between the Education and Outreach and Preservation and Access programs on the basis of the space each program occupies in the History Center. This activity exists to provide climate controls, grounds keeping, custodial, maintenance, repair and security services at the History Center; it also pays the debt service on the state-funded portion of the original construction cost.

The systems and standards for the History Center are substantively different than for other buildings in the Capitol Complex. The History Center is available to the public 16 hours per day, 362 days per year. The care and preservation of the Society's vast collections require that temperature and humidity be controlled within very narrow ranges and that air in certain parts of the building be purified of all gases and particulates. Sophisticated climate control systems were engineered into the building to protect and conserve the irreplaceable cultural resources of Minnesota that are stored there.

### STRATEGIES AND PERFORMANCE:

The History Center has been open to the public since October 1992 and has exceeded all attendance expectations. The History Center functions not only as the headquarters of the Minnesota Historical Society but also as a gathering place for Minnesotans who use it as a setting for making their own history; family reunions, weddings, memorial services, receptions, and various kinds of meetings.

### FINANCING INFORMATION:

The Department of Administration provides maintenance, custodial and building systems support for the History Center, which is funded through this activity. Debt service for the state-funded part of the History Center is also included in this activity. Administration calculates the cost of these services and it becomes part of the Society's budget request. The Society then pays the Department of Administration for the services provided and for the current portion of the debt.

Activity: HIST CTR BLDG & DEBT SERVICE  
Program: EDUCATION AND OUTREACH  
Agency: HISTORICAL SOCIETY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER OPERATING EXPENSES	3,225	3,333	3,333	3,597	3,597	3,669	3,669	600	9.0%
<b>Total Expenditures</b>	<b>3,225</b>	<b>3,333</b>	<b>3,333</b>	<b>3,597</b>	<b>3,597</b>	<b>3,669</b>	<b>3,669</b>	<b>600</b>	<b>9.0%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	3,225	3,333	3,333	3,597	3,597	3,669	3,669		
<b>Total Financing</b>	<b>3,225</b>	<b>3,333</b>	<b>3,333</b>	<b>3,597</b>	<b>3,597</b>	<b>3,669</b>	<b>3,669</b>		

## PROGRAM SUMMARY

**Program: PRESERVATION AND ACCESS**  
**Agency: HISTORICAL SOCIETY**

### PROGRAM PROFILE:

A significant part of the Society's mission involves the collection, conservation, and preservation of the state's cultural heritage and governmental records. Of equal importance is making these resources available to the public. The Society acquires nearly all of these materials by donation from the people of Minnesota and the state's governmental entities. The Society employs staff who are recognized as experts in acquisitions, collections cataloging, reference, curatorial, oral history, records retention, conservation, archaeology, exhibition construction and repair, editing, and historic preservation.

The State Archives, mandated by M.S. 138.161-138.25, exists to collect, preserve, describe, arrange, and prepare for public use records of state and local agencies consistent with data access procedures; it also determines which records should be retained, promotes appropriate records management practices and the efficient use of space and resources. The State Archives staff works closely with the Information Policy Office, the Department of Administration, the Attorney General's Office, and the Legislative Auditor's Office to approve all records schedules and dispositions.

### STRATEGIES AND PERFORMANCE:

The Society annually serves the following number of customers through the Preservation and Access Program:

- 38,000 in-person inquiries at the History Center's Library
- 12,000 inquiries by telephone
- 4,000 inquiries by mail

In the past three years the Society has answered the call to assist the public with disaster recovery in the Red River Valley floods of 1997 and the tornadoes in southern Minnesota in 1998. Through on-site staff assistance, as well as dissemination of information through the web site, the Society's conservation and historic preservation staff were able to provide expert advice on preservation of historic buildings and family heirlooms such as books and photographs.

### FINANCING INFORMATION:

State operating appropriations for the Preservation and Access Program are primarily from the General Fund.

### BUDGET ISSUES:

This program faces increasing demands on two fronts. First, greater volumes of materials, including government records, newspapers, and artifacts from throughout the state need to be preserved. Second, as more Minnesotans become interested in exploring the past, whether doing house history, genealogy, or scholarly research, the History Center Library will continue to face heavier demands. In addition, as improved technological research methods give greater access to the collections, there will be greater interest in using the collections, resulting in more new visitors.

Requests for information as well as interest in how to use the collections and how to access collections related information have grown since the opening of the History Center. The Society will face and meet new challenges in how to handle information in an increasingly electronic age.

A continuation of base-level funding for the Preservation and Access Program will allow the Society to build upon past successes in the delivery of services to the public. Collections, by definition, continue to grow.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget.

Program: PRESERVATION AND ACCESS  
Agency: HISTORICAL SOCIETY

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Activity:</u></b>									
COLLECTION SERVICES	9,654	9,449	9,930	10,128	10,128	10,331	10,331	1,080	5.6%
INFORMATION & PROGRAM DELIVERY	1,541	1,565	1,726	1,473	1,473	1,490	1,490	(328)	(10.0%)
HIST CTR BLDG & DEBT SERVICE	2,529	2,613	2,613	2,822	2,822	2,878	2,878	474	9.1%
<b>Total Expenditures</b>	<b>13,724</b>	<b>13,627</b>	<b>14,269</b>	<b>14,423</b>	<b>14,423</b>	<b>14,699</b>	<b>14,699</b>	<b>1,226</b>	<b>4.4%</b>
<b><u>Financing by Fund:</u></b>									
<b>Direct Appropriations:</b>									
GENERAL	11,548	10,776	11,441	11,568	11,568	11,819	11,819		
MINNESOTA RESOURCES	0	110	10	0	0	0	0		
<b>Statutory Appropriations:</b>									
GIFT	2,176	2,741	2,818	2,855	2,855	2,880	2,880		
<b>Total Financing</b>	<b>13,724</b>	<b>13,627</b>	<b>14,269</b>	<b>14,423</b>	<b>14,423</b>	<b>14,699</b>	<b>14,699</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	105.6	116.1	118.4	118.4	118.4	118.4	118.4		
PART-TIME, SEASONAL, LABOR SER	54.3	53.1	50.8	45.8	45.8	45.8	45.8		
<b>Total Full-Time Equivalent</b>	<b>159.9</b>	<b>169.2</b>	<b>169.2</b>	<b>164.2</b>	<b>164.2</b>	<b>164.2</b>	<b>164.2</b>		



## BUDGET ACTIVITY SUMMARY

**Budget Activity:** COLLECTION SERVICES  
**Program:** PRESERVATION AND ACCESS  
**Agency:** HISTORICAL SOCIETY

### ACTIVITY PROFILE:

This activity helps to fulfill the Society's mission of "collecting and caring for materials that document human life in Minnesota, making them known and accessible to people in Minnesota and beyond." Through a variety of public programs, the Society preserves paper, artifacts and other media that document Minnesota history.

- *Library.* History Center library makes accessible to more than 55,000 patrons each year the written, visual, and oral materials relating to Minnesota's past.
- *State Archives.* The Minnesota Historical Society is statutorily responsible for working with state and local units of government to evaluate the historical importance of all Minnesota's governmental records and arrange for their permanent preservation or disposal. This activity has experienced constant growth, and is continuing to examine how best to handle records that are increasingly more complex and varied in their form and media.
- *Processing and Conservation.* Materials selected for inclusion in the Society's collections are organized, cataloged, and treated to ensure their long-term stability and usability.
- *Repair and Replacement.* Since many of the Society's buildings are more than 100 years old, caring for them presents unique, and usually costly, challenges. The Collection Services Activity provides for ordinary but necessary repairs for structures in the Historic Sites Network.
- *Archaeology.* The Archaeology Department provides help to the public and other departments of the Society. Recent work has included assistance with Historic Sites capital projects such as the Sibley Historic Site, Mill Ruins Park, and the Society's Heritage Center at the Falls of St. Anthony in Minneapolis.

### STRATEGIES AND PERFORMANCE:

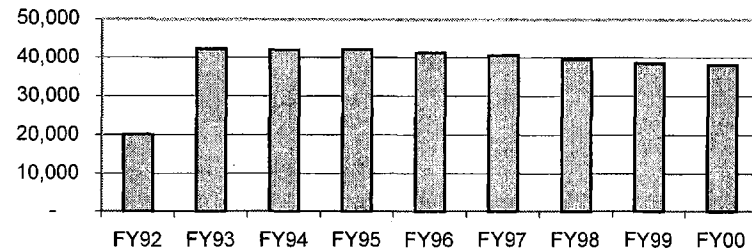
The Society currently holds for and makes accessible to the people of Minnesota:

- 405,000 books, pamphlets and periodicals
- 35,000 cubic feet of manuscripts and 5,400 reels of microfilm
- 52,000 cubic feet of government records and 9,500 reels of microfilm
- 21,000 maps and atlases
- 500,000 photographs, albums and collections
- 6,000 works of art

- Nearly 1 million archaeological artifacts
- 4 million issues of 4,000 newspapers on 66,037 reels of microfilm
- 228,000 historical artifacts

Since the opening of the History Center in 1992, between 38,000 and 42,000 patrons have used the library each year.

Library Patrons



### FINANCING INFORMATION:

State operating appropriations are primarily from the General Fund. In addition, nonstate sources help to augment state funds. These funds are used to support the direct costs of providing preservation, processing, conservation, and access services to thousands of researchers, as well as covering the cost of operating visitor amenities such as parking, the restaurant, special events, and the shops in the History Center and throughout the Historic Sites Network.

### BUDGET ISSUES:

Collecting, processing, conserving, and disseminating the information and records of the state is an essential function of the Society. Funding for this activity enables the Society to preserve for current use and for posterity hundreds of thousands of government documents and records, books, manuscripts, maps, photographs, artifacts, and newspapers that document the Minnesota story. Any reduction in the budget associated with this program would curtail the Society's ability to maintain this part of Minnesota's history; gaps would develop in the Society's chronological record, and thousands of researchers and genealogists, plus state agencies and local governments would have great difficulty accomplishing their tasks.

The State Archives must keep pace with the technologically driven changing formats of official government information mandated to its care and preservation. Failure to fund this essential aspect of the Society's mission would preclude the Society from fulfilling its statutory mandate.

Activity: COLLECTION SERVICES  
Program: PRESERVATION AND ACCESS  
Agency: HISTORICAL SOCIETY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	6,242	6,621	7,182	7,508	7,508	7,734	7,734	1,439	10.4%
OTHER OPERATING EXPENSES	3,342	2,825	2,743	2,615	2,615	2,592	2,592	(361)	(6.5%)
Subtotal State Operations	9,584	9,446	9,925	10,123	10,123	10,326	10,326	1,078	5.6%
CAPITAL OUTLAY & REAL PROPERTY	31	0	1	1	1	1	1	1	100.0%
LOCAL ASSISTANCE	39	3	4	4	4	4	4	1	14.3%
Total Expenditures	9,654	9,449	9,930	10,128	10,128	10,331	10,331	1,080	5.6%
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	7,599	6,705	7,210	7,382	7,382	7,561	7,561		
MINNESOTA RESOURCES	0	110	10	0	0	0	0		
Statutory Appropriations:									
GIFT	2,055	2,634	2,710	2,746	2,746	2,770	2,770		
Total Financing	9,654	9,449	9,930	10,128	10,128	10,331	10,331		
<b>Revenue Collected:</b>									
Dedicated									
GIFT	2,055	2,634	2,710	2,746	2,746	2,770	2,770		
Total Revenues Collected	2,055	2,634	2,710	2,746	2,746	2,770	2,770		
<b>FTE by Employment Type:</b>									
FULL TIME	101.6	105.5	107.4	107.4	107.4	107.4	107.4		
PART-TIME, SEASONAL, LABOR SER	45.3	42.1	39.8	39.8	39.8	39.8	39.8		
Total Full-Time Equivalent	146.9	147.6	147.2	147.2	147.2	147.2	147.2		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** INFORMATION & PROGRAM DELIVERY  
**Program:** PRESERVATION AND ACCESS  
**Agency:** HISTORICAL SOCIETY

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### ACTIVITY PROFILE:

Over the last two biennia the legislature has responded positively to the Society's request for funds to build a robust, contemporary technology infrastructure. The network, desktops, servers, office productivity software, internet connection and IT staff that make up that infrastructure now enable the Society to meet the public's ever growing demand for rapidly increasing web-based delivery of historical information, references, finding aids, and other resources.

The single most important initiative within the Collections and Access program is the complementary development of the Collections Management System (CMS) and the Collections Delivery System (CDS). The CMS is being developed to provide integrated management of information about all of the Society's collections throughout their life cycles, from acquisition to de-accession. In contrast to the segregated systems that have been used by various Society departments in the past, the CMS will provide a single authoritative source of information about each of the Society's holdings. It is anticipated that as many as 80 staff will use the CMS on a regular basis in the performance of their jobs and that the CMS database will eventually contain complete records for between 1.5 and 2 million collection items when all holdings have been entered.

The CMS will facilitate improved efficiency and effectiveness in the Society's collection management and access processes, both automated and manual. The CMS will also serve as the primary catalog for the Society's holdings of three-dimensional objects, archaeological materials, and historic sites. As such, it will provide the data about those holdings that will be displayed via the Society's public interface, accessible through the Library and Collections page on the Society's Web site.

The Collections Delivery System is the aggregation of several projects, each of which deliver information about the Society's collections to the public via the web. Work to date has focused on systems design and the population of various databases with content. Rollout for public usage will continue.

### STRATEGIES AND PERFORMANCE:

- During FY 2001 the Visual Resources Database will expand by over 25,000 records and 36,000 images of photographs, posters and fine art. As of 8-1-00, 146,500 of the 350,000 objects in the Society's photo

collection are now available on the web. This database is accessed over 10,000 times each month.

- Leveraging federal funds and collaborations with Metronet and the MN Center for the Book, the Minnesota Author Biographies database was designed and built; it provides biographical sketches of 36 past and present Minnesota authors.
- Automating more than 300 finding aids (on-line indexes to the collections) now make it easier to search the MHS manuscripts collection.
- More than 24,000 biographical entries were keyed into a text file in preparation for delivering them in the Minnesota People project.
- As of 7-1-2000 a database of newspaper information was available on the MHS website.
- Electronic Government Records - In cooperation with the Information Policy Council, MHS developed the Trustworthy Information System and field-tested it with five government agencies. MHS sponsored the Government Records Information Network as well as workshops on data warehouses, Uniform Electronic Transactions Act, and electronic records management.

### FINANCING INFORMATION:

State operating appropriations are from the General Fund.

### BUDGET ISSUES:

The Society, like many other organizations, has learned quickly that technology has dramatically changed the way students, teachers, researchers, tourists, and the general population obtains needed information. The dramatic increase in the public's use of [mnhs.org](http://mnhs.org) provides abundant indication that more people are actively searching out and utilizing the vast collections and resources of the Society than was possible prior to the advent of web technology. Funds are used to provide web users with:

- E-commerce options (retail, membership, and publications sales)
- Access to government records
- Genealogy resources
- Access to three-dimensional objects collection
- Access to Minnesota Geographic Names
- Maintain the existing infrastructure of hardware, software, and staff

Activity: INFORMATION & PROGRAM DELIVERY  
Program: PRESERVATION AND ACCESS  
Agency: HISTORICAL SOCIETY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
COMPENSATION	491	605	972	853	853	879	879	155	9.8%
OTHER OPERATING EXPENSES	1,050	960	754	620	620	611	611	(483)	(28.2%)
<b>Total Expenditures</b>	<b>1,541</b>	<b>1,565</b>	<b>1,726</b>	<b>1,473</b>	<b>1,473</b>	<b>1,490</b>	<b>1,490</b>	<b>(328)</b>	<b>(10.0%)</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	1,420	1,458	1,618	1,364	1,364	1,380	1,380		
Statutory Appropriations:									
GIFT	121	107	108	109	109	110	110		
<b>Total Financing</b>	<b>1,541</b>	<b>1,565</b>	<b>1,726</b>	<b>1,473</b>	<b>1,473</b>	<b>1,490</b>	<b>1,490</b>		
<b>Revenue Collected:</b>									
Dedicated									
GIFT	121	107	108	109	109	110	110		
<b>Total Revenues Collected</b>	<b>121</b>	<b>107</b>	<b>108</b>	<b>109</b>	<b>109</b>	<b>110</b>	<b>110</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	4.0	10.6	11.0	11.0	11.0	11.0	11.0		
PART-TIME, SEASONAL, LABOR SER	9.0	11.0	11.0	6.0	6.0	6.0	6.0		
<b>Total Full-Time Equivalent</b>	<b>13.0</b>	<b>21.6</b>	<b>22.0</b>	<b>17.0</b>	<b>17.0</b>	<b>17.0</b>	<b>17.0</b>		

## BUDGET ACTIVITY SUMMARY

**Budget Activity:** HIST CTR BLDG & DEBT SERVICE  
**Program:** PRESERVATION AND ACCESS  
**Agency:** HISTORICAL SOCIETY

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### ACTIVITY PROFILE:

This activity is divided between the Education and Outreach and Preservation and Access programs on the basis of the space each program occupies in the History Center. This activity exists to provide climate controls, grounds keeping, custodial, maintenance, repair and security services at the History Center; it also pays the debt service on the state-funded portion of the original construction cost.

The systems and standards for the History Center are substantively different than for other buildings in the Capitol Complex. The History Center is available to the public 16 hours per day, 362 days per year. The care and preservation of the Society's vast collections require that temperature and humidity be controlled within very narrow ranges and that air in certain parts of the building be purified of all gases and particulates. Sophisticated climate control systems were engineered into the building to protect and conserve the irreplaceable cultural resources of Minnesota that are housed there.

### STRATEGIES AND PERFORMANCE:

The History Center has been open to the public since October 1992 and has exceeded all attendance expectations. The History Center functions not only as the headquarters of the Minnesota Historical Society but also as a gathering place for Minnesotans who use it as a setting for making their own history; family reunions, weddings, memorial services, receptions and various kinds of meetings.

### FINANCING INFORMATION:

The Department of Administration provides maintenance, custodial and building systems support for the History Center, which is funded through this activity. Debt service for the state-funded part of the History Center is also included in this Activity. Administration calculates the cost of these services and it becomes part of the Society's budget request. The Society then pays the Department of Administration for the services provided and for the current portion of the debt.

Activity: HIST CTR BLDG & DEBT SERVICE  
Program: PRESERVATION AND ACCESS  
Agency: HISTORICAL SOCIETY

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
State Operations									
OTHER OPERATING EXPENSES	2,529	2,613	2,613	2,822	2,822	2,878	2,878	474	9.1%
<b>Total Expenditures</b>	<b>2,529</b>	<b>2,613</b>	<b>2,613</b>	<b>2,822</b>	<b>2,822</b>	<b>2,878</b>	<b>2,878</b>	<b>474</b>	<b>9.1%</b>
<b>Financing by Fund:</b>									
Direct Appropriations:									
GENERAL	2,529	2,613	2,613	2,822	2,822	2,878	2,878		
<b>Total Financing</b>	<b>2,529</b>	<b>2,613</b>	<b>2,613</b>	<b>2,822</b>	<b>2,822</b>	<b>2,878</b>	<b>2,878</b>		

## PROGRAM SUMMARY

**Program: FISCAL AGENTS**  
**Agency: HISTORICAL SOCIETY**

### PROGRAM PROFILE:

The Minnesota Historical Society serves as fiscal agent for certain organizations determined by the Minnesota Legislature.

#### ■ PROJECT 120 - STUDENTS EXPERIENCING GOVERNMENT

In 1976, Project 120 was initiated to provide youth with an intensive, personalized educational experience in state government. The primary mission of Project 120 is to help students develop an in-depth understanding of the basic structure of government and the political process and to motivate them to be active and informed citizens throughout their lives. The secondary mission is to bring students together from diverse geographic, cultural, and economic backgrounds and assist them in getting to know, understand, and respect each other.

Project 120 carries out its mission by conducting five day residential Seminars for students in grades 9-12 at the Minnesota State Capitol complex and related sites during the legislative session. These Seminars have the following educational objectives and outcomes for 2002-03:

- to provide participants with an in-depth knowledge about the three branches of government through firsthand observation and personal involvement;
- to significantly increase the participants' leadership abilities through role playing and learning experiences that teach planning, problem analysis and solving, oral persuasion, negotiation, and advocacy;
- to empower youth with a direct understanding that their views and contributions to the political process and their community are important and can make a difference;
- to significantly increase the participants' involvement in their schools, communities, and state government; and
- to increase the participants' understanding and respect for diverse groups of people in terms of racial, cultural, socioeconomic, and geographic differences.

Since its inception, Project 120 has educated more than 4,500 students. During FY 2002-03, Project 120 will educate more than 500 students in the five day Seminars, and speak to another 5,000 students through classroom presentations.

A significant number of Project 120 students who complete our Seminars represent communities who are under-represented in government institutions. To increase access to the political process, Project 120 also conducts two special seminars for American Indian and immigrant youth each year.

Student demographics:

#### **Geography:**

54% Greater Minnesota  
46% Metro Area

#### **Race/Ethnicity:**

59% Caucasian  
15% African American  
11% American Indian  
9% Asian American  
6% Latino

#### **Students represented:**

75 Communities  
47 Senate Districts

This year, Project 120 developed a Performance Assessment Package for the Minnesota Profile of Learning on Civic Participation for the learning area, People and Cultures in order to support Minnesota's policy objective of implementing the graduation standards.

**Budget Issues:** The program received \$110,000 level funding during the 2000-01 biennial budget. The request for the 2002-03 is at the same level as the previous biennium, \$110,000 per year.

Minnesota's financial partnership in this program is essential. State funding provides 44% of our budget total compared to 62% five years ago. Project 120 works diligently to meet its budget needs from foundations and individual support.

**Revenues:** Project 120 activity generates dedicated revenue in the form of student fees to partially defray program expenses and the cost of their lodging and meals. Project 120 received \$31,293 in student fees in FY 2000. Student fees (\$250 per Seminar) provide approximately 16% of our budget. Additionally, Project 120 believes all students, regardless of economic means, should be able to participate in the Seminars and awarded \$23,150 in scholarships to 122 students last year so that they could attend the Seminar.

**Results/Outcomes:** In a recent survey of Project 120 participants; 69% reported an increase in school and community leadership activities, 88% reported an increased awareness in politics, and 34% reported making contact with elected officials after the program. All participants complete a pre-test and a post-test on their knowledge of state government. On average, student scores have increased by 300% after program participation.

## PROGRAM SUMMARY (Continued)

Program: FISCAL AGENTS  
Agency: HISTORICAL SOCIETY

### ■ MINNESOTA INTERNATIONAL CENTER (MIC)

The Minnesota International Center (MIC) is a non-profit, nonpartisan community organization promoting international understanding and exchange between Minnesotans and the world. MIC programs are designed to improve Minnesotans' ability to participate successfully in the world community. In the past year MIC has reached out around the state to provide learning opportunities to students of all ages, teachers, families, business people, and community leaders.

MIC brought international speakers from 40 countries into classrooms and communities throughout Minnesota last year. In our Twin Cities and Greater Minnesota schools, 5,200 schoolchildren had the opportunity to learn about the world from international people sharing a firsthand view of their culture.

With MIC Minnesotans have the opportunity to view international events through firsthand accounts of expert speakers. Over 5,000 people participated in 26 programs last year featuring presenters from Nobel Laureate David Trimble to Israeli Ambassador David Ivry to Arctic explorer Ann Bancroft.

Minnesotans participate in cultural exchange with international professionals and students through MIC's dinner hosting program. Almost 500 international visitors shared dinner or a weekend stay with 300 Minnesotans in the Twin Cities and Greater Minnesota.

Important future international leaders and professionals come to Minnesota through MIC to make connections with area business and community people. In collaboration with the U.S. State Department, MIC brought over 300 international professionals to Minnesota to exchange ideas with over 600 Minnesotans working in business, agriculture, education, and government. The current level of state support through this appropriation is \$50,000 per year.

### ■ THE SIBLEY HOUSE ASSOCIATION

The Sibley House Association (SHA) is non-profit women's organization dedicated to the preservation and interpretation of Minnesota's first public history site, the Sibley House, which the SHA opened in 1910. Today, known as the Sibley House Historic Site, the six-acre historic house museum complex preserves structures from Henry Sibley's American Fur Company post on its original site at Mendota, near the confluence of the Minnesota and Mississippi rivers. The Sibley House (1838) served as the state's first governor's residence when Henry Sibley governed from 1858 to 1860. Historically a meeting place for multiple cultures, today the site is also the official polling place for residents of the City of Mendota, one of the oldest continuous communities in Minnesota.

The public programs operated by the Sibley House Association have been supported by the state of Minnesota since 1911 under M.S. section 43A.27. During its six-month season, guided house tours, K-12 education tours, special events, and cultural programs are offered to a diverse public audience. The site is well suited to interpret Minnesota's turbulent pre-territorial, territorial, and early statehood periods because the site was the fulcrum for significant regional changes between 1834 and 1862. The historic houses preserve and exhibit an important and wide ranging collection of historic objects assembled by the SHA. Rare historic and prehistoric archaeological resources remain intact underground on the site.

The SHA constituency has recognized that it cannot administer the Site in perpetuity. On 5-21-96, the SHA conveyed its real estate to the state of Minnesota and its object collection to its fiscal agent, the Minnesota Historical Society (MHS). On that date, the MHS entered into a five year management agreement with the SHA, under M.S. section 16A.695, an agreement which is due to expire within FY 2001. An extension of the management agreement is currently under negotiation, which would extend SHA management to the end of calendar year 2003. The SHA and MHS have begun discussions regarding the terms and conditions of transfer of operations to MHS after calendar year 2003.



## PROGRAM SUMMARY (Continued)

Program: FISCAL AGENTS  
Agency: HISTORICAL SOCIETY

### ■ MINNESOTA MILITARY MUSEUM

The Minnesota Military Museum, located at Camp Ripley, is operated by the Military Historical Society of Minnesota. It exists to document, preserve, and depict the stories and contributions of Minnesotans who have served in all branches of military service and on the home front in time of peace and war from Minnesota's early years to the present. Exhibits and publications are intended to foster awareness and understanding of how armed conflicts and military institutions have shaped our state and national experience. The museum also functions as a major repository in Minnesota for historical military artifacts and records.

The museum is fulfilling an important niche statewide. Nowhere else in Minnesota is military history so fully explained. Visitors consistently praise the professionalism and thoroughness of its interpretive exhibits.

Our mission is state-oriented and we depend on state support. The 2000 legislature authorized \$125,000 in the Capital Bonding Bill for facility upgrades. We receive no direct funds from the federal government, the military, or local government. Our self funding – gift shop sales, investment income, and contributions from veterans' organizations and individuals – grows steadily and now accounts for over 75% of our operating revenue, but it is not enough. Unfortunately, private fund-raising is hampered because (due to the museum's location) the public perceives it as a government-supported military activity.

At a glance:

- 14,000 visitors per year
- 65 tours per year
- 20,200 artifacts
- 5,100 books in reference library
- 160 archives in linear feet
- 10,000 photographs
- 1,300 volunteer hours worked last year
- \$62,600 operating budget for FY 2000
- 24% of budget from government sources
- \$146,000 investments, endowment as of 12/31/99

### ■ MINNESOTA AIR NATIONAL GUARD MUSEUM

The Minnesota Air Guard Museum will serve as a community resource for the preservation of aviation history, especially military, offering activities and education for the young and young at heart.

The private, non-profit Minnesota Air National Guard Historical Foundation, Inc. has the funding responsibility for the museum. The museum is located on the Minnesota Air National Guard Base at the Minneapolis/St. Paul International Airport and is a primary resource for information and education regarding the Minnesota Air Guard and military and aviation in general. The people who operate it are primarily volunteers who enjoy aviation. We have one part-time administrator, who works four days a week, and one project coordinator, who works about one-fourth time. They are the only paid employees. The Minnesota Air Guard owns most of the aircraft and displays them in an air park next to the museum.

Sources of Financial Support: Our revenue has decreased about 7% from the last funding request but we are still enthusiastic and optimistic.

- Membership has increased to 415. That is as high as it has been in recent years. Perhaps hard work in this area has paid off.
- The legislative grant from the Minnesota Historical Society has proven to be very important. The \$19,000 biennial grant represents 25% of our income.
- Museum visitors have decreased over the last few years and the revenue from this source is sadly missed. We expect about 11,000 for this year.
- Private gifts and grants amount to about \$6,500, 10% of our revenue.
- Fundraisers have lost money so we have held only one.
- Interest and dividends have decreased as well. We use the interest from a 1995 dedicated grant for operating capital.

Future Considerations: This past year has seen the institution of a new director, associate director, curator, board chairman, and some new board directors. One of their main goals is to try to find some corporate funding for our operations so that we can begin to see a bright future. This board has already suggested a name change to: The Minnesota Military Aviation History And Learning Center.

The museum continues to function in the outstanding manner that it always has but a more secure source of funding would certainly improve our hopes and dreams for the future.

## PROGRAM SUMMARY (Continued)

**Program:** FISCAL AGENTS  
**Agency:** HISTORICAL SOCIETY

### ■ MINNESOTA AGRICULTURAL INTERPRETIVE CENTER (Farmamerica)

**Agency Mission Statement:** The Governor and Minnesota State Legislature commissioned the Minnesota Agricultural Interpretive Center (MAIC) in 1978 to tell the important story of Minnesota's agriculture. It is a not-for-profit educational institution administered by a volunteer board of directors.

The mission of the MAIC is "to tell Minnesota's agriculture story – past, present, and future". To accomplish this mission, MAIC maintains a 120-acre interpretive site and facilities located four miles west of Waseca on U.S. Highway 14. MAIC provides educational experiences for people of all ages.

#### **Trends, Policies, and Other Issues Affecting the Demand for Services:**

MAIC tells the story of agriculture with guided tours, hands-on experiential learning experiences, and exhibitions. Visitors travel on a one-mile time lane road and become involved in activities as they move to the prairie/pond/marsh to the settlement farm of the 1850's, to the one-room school house, the county church, the 1920/1930's dairy farm, the feed mill, blacksmith shop, and town hall, on to the modern farm exhibit and to the Visitors.

- With the tremendous changes in technology going on in agriculture and with fewer people involved, there is more need and demand to tell the agriculture story – past, present, and future.
- Nationwide education is shifting toward experiential learning – curriculum now has provisions for experiential learning. MAIC provides an ideal setting for experiential learning. Presently, MAIC is working with educators and with Minnesota Ag in the Classroom to establish programs to satisfy demand for experiential learning experiences at MAIC.
- MAIC serves individuals of all ages including students, families, and Minnesota residents in general. The spring and fall tour program serves schools in the 100-mile radius. The festivals, held the second weekend in June, July, August, and September, attract audiences north from the metro area and south to northern Iowa.
- MAIC's Long Range Strategic Goals are: 1) to tell the agriculture story in an efficient and effective manner; 2) to establish a broad audience base in the State of Minnesota; 3) to keep the site operating on a full-time basis, conducting events, tours, and other public programs continuously; 4) to develop the site to support educational interpretive public programming about Minnesota's agriculture from the 1850's, present, and future; 5) to provide safe facilities and site improvements; and 6) to provide accessible facilities.

#### **Past State Appropriation Funding:**

Legislative appropriated funds have supported MAIC's operations since 1994. State funding increased from \$25,000 in 1994 to \$150,000 in 1998 and 1999. However, the funding was reduced to \$100,000 instead of increased in 2000 and 2001. This reduction in State funding was at a critical time in the development of MAIC. The new Visitors Center was built and opened in June 2000, with the assistance of a capital appropriation made by the 1998 Legislature.

Year	1994	1995	1996	1997	1998
Legislative Funding	\$25,000	\$25,000	\$25,000	\$50,000	\$150,000
Total Operating Dollars	\$60,000	\$60,000	\$60,000	\$85,000	\$185,000

Year continued:	1999	2000	2001
Legislative Funding	\$150,000	\$100,000	\$100,000
Total Operating Dollars	\$208,000	\$290,000	\$390,000

**Education Programs Have Been Expanded.** MAIC has expanded its public education tour programs from 25 tour days to 80 tour days.

- Tour programs increased from 1 to 3 options plus customized programs.
- Program offerings have grown to serve 4H, Girl and Boy Scouts, and FFA.
- Summer programs have been added including summer camp and programs for day care centers.
- A daily tour program has been added with two tours offered daily - Wednesday through Sunday, Memorial Day - Labor Day weekend.

**Public Visitation Hours Have Increased Significantly.** In the past, MAIC operated with a limited public visitation (four festival days a year, spring and fall school tours, and sporadic group tour dates) to regular visitation April through October. Public tours are provided Wednesday through Sunday. Special programs are scheduled throughout the year in the Visitors Center. Programming is now available year round instead of seasonally.

**MAIC Is Expanding Its Support Base.** MAIC recognizes its responsibility to expand its support base for operations and is working aggressively to expand its cash and non-cash support. Until 1999, its support included an appropriation from the State of Minnesota; appropriations from counties including Waseca County, Steele County, and Blue Earth County; donations, and minimal user fees.

**New Initiatives to Generate Revenue.** In 2000, MAIC launched new initiatives to generate revenue include establishing: 1) a Gift Shop, 2) a Membership Program, 3) a Sponsorship Program, 4) a Food Concessions Program, 5) a Facilities Rental Program, and 6) more User Fee Based Programs and Services.

## PROGRAM SUMMARY (Continued)

**Program: FISCAL AGENTS**  
**Agency: HISTORICAL SOCIETY**

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**Volunteer Program Improved.** MAIC has taken action to improve management of the volunteer program to maximize the benefits of the program. The corps of 452 volunteers from 37 communities makes a tremendous in-kind contribution. Thousands of hours of time and talent are donated annually to support festivals and tour programs - 4,450 hours in 1999. Program improvements include establishing recruitment and evaluation systems.

**In-Kind Support Expanded.** MAIC receives in-kind support from diverse sources including over 30 businesses and organizations. More sources of in-kind support are being identified and pursued with success. Examples include: Southern Valley Co-op provided in-kind labor to spray site and Shady Oaks Nursery donated landscaping for the new Visitors Center.

### **Summary**

MAIC has been developing the 120-acre site since 1978. Facilities and improvements have been made to realize the goals to develop the site with safe and accessible facilities to support public educational programming about Minnesota's agriculture.

Significant progress has been made to provide necessary facilities in keeping with strategic plans with the most recent addition of the 10,000 square foot Visitors Center and the planned security and accessibility improvements in 2001. Now MAIC is focusing on maximizing use of those facilities and assuring that educational programming is available to the public.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the base budgets for the Minnesota Historical Society's Fiscal Agents.

Program: FISCAL AGENTS  
Agency: HISTORICAL SOCIETY

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Activity:</u></b>									
SIBLEY HOUSE ASSOCIATION	88	88	88	88	88	88	88	0	0.0%
MN INTERNATIONAL CENTER	50	50	50	50	50	50	50	0	0.0%
MN AIR NATIONAL GUARD MUSEUM	0	19	0	19	19	0	0	0	0.0%
PROJECT 120	110	110	110	110	110	110	110	0	0.0%
MN MILITARY MUSEUM	0	29	0	29	29	0	0	0	0.0%
FARMAMERICA	150	100	100	100	100	100	100	0	0.0%
WINONA CTY HIST SOCIETY	0	10	0	0	0	0	0	(10)	(100.0%)
CITIZENSHIP PROGRAMS	75	0	0	0	0	0	0	0	
FISHING MUSEUM	0	50	0	0	0	0	0	(50)	(100.0%)
FRIDLEY HIST MUSEUM	0	50	0	0	0	0	0	(50)	(100.0%)
HIST BLDG RELOCATION	0	100	0	0	0	0	0	(100)	(100.0%)
VERMILION LK INDIAN RESER	0	100	0	0	0	0	0	(100)	(100.0%)
OLD WADENA HIST SITE DEV	0	25	0	0	0	0	0	(25)	(100.0%)
MN RIVER WATERSHED	0	90	0	0	0	0	0	(90)	(100.0%)
GIBBS FARM MUSEUM	0	150	0	0	0	0	0	(150)	(100.0%)
NATIVE AMER NO SHORE PERSP	60	0	0	0	0	0	0	0	
<b>Total Expenditures</b>	<b>533</b>	<b>971</b>	<b>348</b>	<b>396</b>	<b>396</b>	<b>348</b>	<b>348</b>	<b>(575)</b>	<b>(43.6%)</b>
<b><u>Financing by Fund:</u></b>									
<b>Direct Appropriations:</b>									
GENERAL	473	606	348	396	396	348	348		
MINNESOTA RESOURCES	60	365	0	0	0	0	0		
<b>Total Financing</b>	<b>533</b>	<b>971</b>	<b>348</b>	<b>396</b>	<b>396</b>	<b>348</b>	<b>348</b>		
<b><u>FTE by Employment Type:</u></b>									
PART-TIME, SEASONAL, LABOR SER	2.1	2.1	2.1	2.1	2.1	2.1	2.1		
<b>Total Full-Time Equivalent</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>		

## BLACK MINNESOTANS COUNCIL - EXECUTIVE SUMMARY

### **MISSION AND VISION:**

The Council on Black Minnesotans (CBM) consists of 11 voting public members appointed by the Governor and four nonvoting legislative members appointed by the two houses of the Minnesota Legislature. Established by the legislature in 1980, the CBM's specific duties and functions are set forth in M.S. 3.9225. The CBM meets on a monthly basis and employs a full-time staff of four.

**Mission:** To address the need for people of African descent in Minnesota to fully and effectively participate in the political, economic, and social life of our state.

**Vision:** To establish state institutions and policies that reflect the interests, needs, and ideas of Black Minnesotans.

### **KEY SERVICE STRATEGIES:**

- Advise the governor, legislature, and state agencies on issues and legislation of concern to Black Minnesotans.
- Help coordinate the energies and resources of organizations that serve Black Minnesotans.
- Help establish links between public policy processes and community resources and representatives.
- Work with the other state councils of color on issues of common interest.
- Use information technology to provide research and referral services on issues affecting Black Minnesotans.

### **PERFORMANCE SUMMARY:**

- Promoted U.S. Census 2000 in African-American and African immigrant communities to minimize undercount of Black Minnesotans.
- Monitored, reviewed, and analyzed pending legislation for effects on Black Minnesotans; advised the governor and legislature on merits of particular bills.
- Sponsored and conducted citizen participation workshops to help Black Minnesotans identify opportunities for involvement in public policy processes.
- Worked with private organizations, nonprofits, and intergovernmental agencies on issues such as youth violence, minority business development, diversity in education, and African immigrants' issues.

- Served as information clearinghouse for citizens and groups seeking information on Black community demographics, economic and cultural opportunities, and issues of local concern.
- Collaborated with other organizations on projects and grant proposals to effect positive change in traditionally underserved communities.
- Sponsored and coordinated the annual state observance of the Martin Luther King, Jr. holiday.

### **ISSUES AFFECTING AGENCY'S OPERATIONS:**

- Rapid increase of Minnesota's Black population which has nearly doubled since 1990 and increased sixfold since 1970.
- Persistence of life quality and social welfare disparities between Black Minnesotans and overall state's population, especially in such areas as health care, child welfare, home ownership, household income, educational achievement, and criminal justice.
- Continual increase in demand for agency services has outpaced agency budget resources.
- Emergence of African immigrants' issues as a major focus of agency activity.
- Potential use of information technology as a critical tool in addressing problems and pursuing opportunities.
- Increasing awareness of mainstream institutions and government agencies of cultural diversity issues while cultural diversity problems increase throughout the state.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Agency: BLACK MINNESOTANS COUNCIL

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	278	220	224	230	230	237	237	23	5.2%
OTHER OPERATING EXPENSES	212	138	123	111	111	114	114	(36)	(13.8%)
<b>Subtotal State Operations</b>	<b>490</b>	<b>358</b>	<b>347</b>	<b>341</b>	<b>341</b>	<b>351</b>	<b>351</b>	<b>(13)</b>	<b>(1.8%)</b>
LOCAL ASSISTANCE	58	0	0	0	0	0	0	0	
<b>Total Expenditures</b>	<b>548</b>	<b>358</b>	<b>347</b>	<b>341</b>	<b>341</b>	<b>351</b>	<b>351</b>	<b>(13)</b>	<b>(1.8%)</b>
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	289	316	333	339	339	349	349		
<b>Statutory Appropriations:</b>									
GENERAL	253	0	0	0	0	0	0		
FEDERAL	1	1	0	0	0	0	0		
GIFT	5	41	14	2	2	2	2		
<b>Total Financing</b>	<b>548</b>	<b>358</b>	<b>347</b>	<b>341</b>	<b>341</b>	<b>351</b>	<b>351</b>		
<b>Revenue Collected:</b>									
<b>Dedicated</b>									
GENERAL	58	0	0	0	0	0	0		
FEDERAL	0	1	0	0	0	0	0		
GIFT	10	36	2	2	2	2	2		
<b>Total Revenues Collected</b>	<b>68</b>	<b>37</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	5.6	4.0	4.0	4.0	4.0	4.0	4.0		
OVERTIME PAY	0.1	0.1	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>5.7</b>	<b>4.1</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>		

Agency: BLACK MINNESOTANS COUNCIL

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
<b>FY 2001 Budgeted</b>	<b>331</b>	<b>331</b>	<b>329</b>	<b>329</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
<b><u>Base Adjustments</u></b>								
2002-03 SAL. & BEN. BASE	7	14	7	14	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	3	6	3	6	0	0	0	0
<b>Subtotal Base Adjustments</b>	<b>10</b>	<b>20</b>	<b>10</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Base Budget</b>	<b>341</b>	<b>351</b>	<b>339</b>	<b>349</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>

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## CHICANO LATINO AFFAIRS COUNCIL - EXECUTIVE SUMMARY

### **AGENCY MISSION AND VISION:**

The Chicano Latino Affairs Council (CLAC) was created by the legislature in 1978. The mission of the CLAC is mandated in M.S. 3.9223 and creates an advisory council which accurately reflects the demographic composition of Minnesota's Chicano Latino population, including migrant workers, as determined by the state demographer. The CLAC is unique in that it is the only organization in Minnesota that represents the Chicano Latino community and reports to the governor and the legislature on the particular issues of the community throughout the whole state. CLAC also serves as a liaison between the Chicano Latino community and local, state and federal governments.

### **KEY SERVICE STRATEGIES:**

The primary duties of the council are to

- advise the governor, state agencies and the legislature on the nature of the issues confronting the Chicano Latino population in the state, such as unique problems encountered by migrant agricultural workers and new immigrants;
- advise the governor and the legislature on statutes and rules necessary to ensure Chicano Latino people access to services and assistance provided to the other population in the state;
- recommend to the governor and the legislature any necessary legislation that will improve the economic and social condition of the Chicano Latino people in the state as well as provide them with the tools to reach self sufficiency;
- serve as a conduit to state government to reach the Chicano Latino people in the state as well as any community based organization that serves the Chicano Latino people;
- serve as a referral agency to assist Chicano Latino people in securing access to state agencies and programs that will enable them to achieve self-sufficiency;
- serve as a liaison with local government units, the federal government and private organizations on matters relating to Chicano Latino people in the state;
- perform or contract to perform studies designed to gather data on Chicano Latino people that suggest solutions to problems of education, employment, health, economic development, social welfare, and other related issues;
- implement programs designed to solve problems confronted by the Chicano Latino people when authorized by other statute, rule, or order;
- publicize the accomplishments of Chicano Latino people and their contributions to the state.

### **PERFORMANCE SUMMARY:**

The Governor has emphasized the essential role the CLAC, along with all other minority councils, plays as a valued advisor in achieving the Governor's Big Plan for Minnesota, specifically in creating healthy and vital communities. As the 2000 Census will reveal, the state of Minnesota has a diverse population characterized by diverse races, of which the Chicano Latino population will be the largest group.

The CLAC plays an active role during the legislative session. It advises legislators, the governor, and state agencies prior to legislative proposals; reviews legislative proposals for its impact in the state's Chicano Latino population; provides testimony at hearings; reviews state agency rules and regulations and provides input on how to better serve the needs of the Chicano Latino population; coordinates testimony of Chicano Latino organizations and individuals as necessary; and gathers data and statistical information about the Chicano Latino population.

CLAC is instrumental in educating the Chicano Latino people regarding access to state government and programs that will assist them in attaining self-sufficiency, economic development, and progress and is in constant communication with the community through community leaders and stakeholders. The CLAC publishes the newsletter "AL DIA" and a regular column in the free Latino media to further connect with the community and inform them of issues and services. The staff of the CLAC participate both in public speaking and panels within the Chicano Latino and mainstream communities. The CLAC organizes and sponsors annual forums such as the Latino Youth Conference and the Latina Women Forum. It also partners with non-profit organizations like the League of Women Voters and the International Center.

### **ISSUES AFFECTING AGENCY'S OPERATIONS:**

The Chicano Latino population is the minority group with the highest growth in the state, increasing about 180% in the last ten years. The 1998 Census projected that, by the year 2000, the Chicano Latino population in the state would be around 132,000, and by the year 2025 would increase to about 296,400. This change in population has increased the importance of the CLAC, particularly in Greater Minnesota communities. The CLAC ensures that the Chicano Latino people have access to the tools they need and also advises the governor and the legislature regarding other measures that can be taken to assist the Chicano Latino people in their quest for self-sufficiency and their contribution to healthy and vital communities throughout the state of Minnesota.

### **GOVERNOR'S RECOMMENDATION:**

The Governor recommends the agency's base budget.

Agency: CHICANO LATINO AFFAIRS COUNCIL

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b><u>Expenditures by Category:</u></b>									
State Operations									
COMPENSATION	202	172	191	194	194	200	200	31	8.5%
OTHER OPERATING EXPENSES	197	111	192	142	142	146	146	(15)	(5.0%)
<b>Total Expenditures</b>	<b>399</b>	<b>283</b>	<b>383</b>	<b>336</b>	<b>336</b>	<b>346</b>	<b>346</b>	<b>16</b>	<b>2.4%</b>
<b><u>Financing by Fund:</u></b>									
Direct Appropriations:									
GENERAL	385	281	357	334	334	344	344		
Statutory Appropriations:									
SPECIAL REVENUE	0	0	4	0	0	0	0		
GIFT	14	2	22	2	2	2	2		
<b>Total Financing</b>	<b>399</b>	<b>283</b>	<b>383</b>	<b>336</b>	<b>336</b>	<b>346</b>	<b>346</b>		
<b><u>Revenue Collected:</u></b>									
Dedicated									
GENERAL	60	0	0	0	0	0	0		
SPECIAL REVENUE	0	0	4	0	0	0	0		
GIFT	13	1	12	2	2	2	2		
Nondedicated									
GENERAL	0	4	0	0	0	0	0		
<b>Total Revenues Collected</b>	<b>73</b>	<b>5</b>	<b>16</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>		
<b><u>FTE by Employment Type:</u></b>									
FULL TIME	4.5	3.7	4.0	4.0	4.0	4.0	4.0		
PART-TIME, SEASONAL, LABOR SER	0.5	0.1	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>5.0</b>	<b>3.8</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>		

Agency: CHICANO LATINO AFFAIRS COUNCIL

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
<b>FY 2001 Budgeted</b>	<b>326</b>	<b>326</b>	<b>324</b>	<b>324</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
<b><u>Base Adjustments</u></b>								
2002-03 SAL. & BEN. BASE	5	11	5	11	0	0	0	0
DOC. SPACE RENTAL/LEASE	1	2	1	2	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	4	7	4	7	0	0	0	0
<b>Subtotal Base Adjustments</b>	<b>10</b>	<b>20</b>	<b>10</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Base Budget</b>	<b>336</b>	<b>346</b>	<b>334</b>	<b>344</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>

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## ASIAN-PACIFIC COUNCIL - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The Council on Asian-Pacific Minnesotans was created by the Minnesota Legislature in 1985 pursuant to M.S. 3.9226, with the primary mission to serve Asian-Pacific Minnesotans in the following ways: assist in their incorporation into the governmental and policy-making process; help them gain better access to state government services; ensure that their talents and resources are used and promoted; and act as a bridge between them and other communities.

The Council consists of 23 members. Nineteen members are appointed by the Governor. Two members of the House of Representatives and two members of the Senate are appointed as non-voting members under the rules of the House and the Senate respectively. The council currently serves more than over 40 communities of Asian-Pacific origins.

### KEY SERVICE STRATEGIES:

- *Advise.* Continue to work with the legislature and the Governor's office on the creation and implementation of policies and laws as they relate to and impact the Asian-Pacific community. Host six to eight community and issue forums.
- *Advocate.* Continue to strengthen our role in working with and reaching out to the community so that we will remain in tune with their needs and concerns.
- *Assist.* Create more opportunities for the community to access state government services that are meaningful, educational, and empowering.
- *Promote.* Garnish public, private, and community support to commemorate Asian-Pacific American Heritage Month and to highlight and recognize the achievements and contributions of the Asian-Pacific people in this state.
- *Policy Development.* Research, write, and disseminate policy briefs and/or reports on issues that are confronting the community. Reports will clearly define the issues and offer workable solutions to address the issues.
- *Capacity Building.* Work to build capacity in the community to respond effectively and efficiently to community needs; e.g., economic self-sufficiency, business development, community center, increase in teachers, and licensed mental service providers.
- *Leadership.* Conduct training and forums on public leadership for the Asian-Pacific community to address and identify how they can become actively engaged in public service and policy development.

### PERFORMANCE SUMMARY:

To fulfill our mission, the council has collaborated with the public and private sectors to highlight, promote, and incorporate Asian-Pacific Minnesotans into the social, educational, economic, and political life of the state.

- The council increased involvement of Asian-Pacific people in making public policy by streamlining and disseminating information. It hosted forums on many key issues that are confronting the community: aging, Census 2000, business development, youth and crime prevention, and education and parental involvement. Over 2,000 people participated and thousands more impacted through radio, television, and newspaper coverage.
- The council created the Asian-Pacific Policy Taskforce and charged it with creating and working on legislation in five areas: education, violence prevention, mental health, economic self-sufficiency, and community development. The group produced the report *Asian-Pacific Family Strengthening Initiative* and worked successfully on many legislative action items.
- The council is involved in the promotion and commemoration of Asian-Pacific Heritage Month in May of each year. The council organized Asian-Pacific Day at the Capitol, which included an award ceremony, the Asian American Festival, and the annual dinner. Over 3,000 people participated in the month-long activities.

### ISSUES AFFECTING AGENCY'S OPERATIONS:

- There has been dramatic increase in the Asian-Pacific community through secondary migration and undercount of the population as reported by the U.S. Census.
- Citizenship and language barriers continue to affect the community's access to state services and benefits.

Over 50% of the community are refugees, as compared to less than 25% nationally.

### GOVERNOR'S RECOMMENDATION(S):

The Governor recommends the agency's base budget.

Agency: ASIAN-PACIFIC COUNCIL

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	217	230	251	212	212	219	219	(50)	(10.4%)
OTHER OPERATING EXPENSES	164	112	132	89	89	91	91	(64)	(26.2%)
<b>Subtotal State Operations</b>	<b>381</b>	<b>342</b>	<b>383</b>	<b>301</b>	<b>301</b>	<b>310</b>	<b>310</b>	<b>(114)</b>	<b>(15.7%)</b>
LOCAL ASSISTANCE	1	0	0	0	0	0	0	0	
<b>Total Expenditures</b>	<b>382</b>	<b>342</b>	<b>383</b>	<b>301</b>	<b>301</b>	<b>310</b>	<b>310</b>	<b>(114)</b>	<b>(15.7%)</b>

<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	303	268	295	295	295	304	304		
<b>Statutory Appropriations:</b>									
GENERAL	11	0	0	0	0	0	0		
SPECIAL REVENUE	0	3	51	0	0	0	0		
FEDERAL	40	2	0	0	0	0	0		
GIFT	28	69	37	6	6	6	6		
<b>Total Financing</b>	<b>382</b>	<b>342</b>	<b>383</b>	<b>301</b>	<b>301</b>	<b>310</b>	<b>310</b>		

<b>Revenue Collected:</b>									
<b>Dedicated</b>									
GENERAL	68	0	0	0	0	0	0		
SPECIAL REVENUE	0	25	29	0	0	0	0		
FEDERAL	38	0	0	0	0	0	0		
GIFT	0	6	5	5	5	5	5		
<b>Nondedicated</b>									
GENERAL	0	1	0	0	0	0	0		
<b>Total Revenues Collected</b>	<b>106</b>	<b>32</b>	<b>34</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>		

<b>FTE by Employment Type:</b>									
FULL TIME	4.9	4.8	5.0	4.0	4.0	4.0	4.0		
<b>Total Full-Time Equivalent</b>	<b>4.9</b>	<b>4.8</b>	<b>5.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>		

Agency: ASIAN-PACIFIC COUNCIL

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
<b>FY 2001 Budgeted</b>	<b>292</b>	<b>292</b>	<b>286</b>	<b>286</b>	<b>6</b>	<b>6</b>	<b>0</b>	<b>0</b>
<b><u>Base Adjustments</u></b>								
2002-03 SAL. & BEN. BASE	7	14	7	14	0	0	0	0
DOC. SPACE RENTAL/LEASE	0	1	0	1	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	2	3	2	3	0	0	0	0
<b>Subtotal Base Adjustments</b>	<b>9</b>	<b>18</b>	<b>9</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Base Budget</b>	<b>301</b>	<b>310</b>	<b>295</b>	<b>304</b>	<b>6</b>	<b>6</b>	<b>0</b>	<b>0</b>

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## INDIAN AFFAIRS COUNCIL - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The Indian Affairs Council is the official liaison between the state and the 11 tribal governments in Minnesota. The council also provides a forum for and advises the state on issues of concern to the state's urban American Indian communities. The council administers selected state programs with statewide applications directed towards serving its American Indian citizens. (M.S. 3.922)

**Mission:** To improve the health, educational, and economic status of the state's American Indian population. The council's efforts are focused upon enhancing the delivery of governmental services within American Indian communities by fostering a better understanding of their unique legal, political, and cultural attributes.

**Vision:** To eliminate social and economic problems or barriers that prevent American Indian people from living healthy, productive lives through effective support for tribal self-determination and self-governance efforts.

### KEY SERVICE STRATEGIES:

- Assure effective communication between tribal governments, the state legislature, and state agencies is achieved and leads toward viable solutions to issues of mutual concern. Provide analysis and recommendations on legislation affecting the state's Indian population.
- Act as liaison between local, state, and national units of government in the delivery of services to the Indian population of Minnesota.
- Provide a forum for identification of issues affecting urban American Indian communities and advise state government on activities addressing these concerns.
- Conduct an ongoing Cultural Resources Program responsible for investigating, authenticating, and protecting Indian burial sites, human remains, and funerary objects in accordance with the provisions of M.S. 307.08 and the federal Native American Graves Protection and Repatriation Act.
- Administer an Indian Business Loan Program as established within M.S. 116J.
- Provide information, technical assistance, and administrative support to Indian reservations in the development and administration of community action programs.

### PERFORMANCE SUMMARY:

- Established state/tribal welfare reform task force to develop a plan for collaboration on development of tribally administered family assistance programs and produced a report to the legislature.
- Initiated an information technology project to enhance tribal access and use of data and communication systems.
- Reorganized Indian Business Loan Fund Program to address identified problems. Eleven small business loans were processed totaling \$850,000 during the 2000 and 2001 biennium.
- Ongoing liaison between tribal governments and state agencies has resulted in improved delivery of government services to Indian communities by increasing collaborative efforts.

### REVENUES:

- Dedicated revenue for funding the Indian Business Loan Program is derived from a portion (20%) of the state's severed mineral rights tax.
- Dedicated revenue is received through an agreement with the Department of Children, Families and Learning that provides federal grant funds to the council to provide technical assistance to reservation-based Economic Opportunity Programs.

### ISSUES AFFECTING AGENCY'S OPERATIONS:

- Federal recognition of Indian tribes as distinct political entities requires state/tribal relations to be carried out on a government-to-government basis.
- By the measures of poverty, health, employment, and education, American Indians lag behind every other racial group in the state. Concerted efforts to bridge cultural, educational, and resource infrastructure gaps are required to alleviate these disparities.
- Inadequate resources to meet projected demand for Indian business development financing will hinder current opportunities for improving economic development within Minnesota's Indian communities.
- An opportunity exists for state assistance to tribes in developing communication and information technologies within Indian communities.

### GOVERNOR'S RECOMMENDATION(S):

The Governor recommends the agency's base budget.

Program: INDIAN AFFAIRS COUNCIL  
 Agency: INDIAN AFFAIRS COUNCIL

Program Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Activity:</b>									
INDIAN_AFFAIRS_COUNCIL-OPERATI	553	453	665	584	584	602	602	68	6.1%
INDIAN_BUSINESS_LOANS-SPECIAL	5	159	1,624	274	274	274	274	(1,235)	(69.3%)
MN INDIAN ECONOMIC-FED	59	85	69	60	60	60	60	(34)	(22.1%)
GIFTS-INDIAN AFFAIRS	0	0	2	0	0	0	0	(2)	(100.0%)
CHEMICAL HEALTH SERVICE	85	0	0	0	0	0	0	0	
NAGPRA-FEDERAL	69	4	0	0	0	0	0	(4)	(100.0%)
<b>Total Expenditures</b>	<b>771</b>	<b>701</b>	<b>2,360</b>	<b>918</b>	<b>918</b>	<b>936</b>	<b>936</b>	<b>(1,207)</b>	<b>(39.4%)</b>

<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
GENERAL	635	453	665	584	584	602	602		
<b>Statutory Appropriations:</b>									
GENERAL	3	0	0	0	0	0	0		
SPECIAL REVENUE	5	159	1,624	274	274	274	274		
FEDERAL	128	89	69	60	60	60	60		
GIFT	0	0	2	0	0	0	0		
<b>Total Financing</b>	<b>771</b>	<b>701</b>	<b>2,360</b>	<b>918</b>	<b>918</b>	<b>936</b>	<b>936</b>		

<b>FTE by Employment Type:</b>									
FULL TIME	5.0	6.1	8.0	8.0	8.0	8.0	8.0		
PART-TIME, SEASONAL, LABOR SER	0.0	1.0	0.0	0.0	0.0	0.0	0.0		
<b>Total Full-Time Equivalent</b>	<b>5.0</b>	<b>7.1</b>	<b>8.0</b>	<b>8.0</b>	<b>8.0</b>	<b>8.0</b>	<b>8.0</b>		

Agency: INDIAN AFFAIRS COUNCIL

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
<b>FY 2001 Budgeted</b>	<b>901</b>	<b>901</b>	<b>567</b>	<b>567</b>	<b>274</b>	<b>274</b>	<b>60</b>	<b>60</b>
<b><u>Base Adjustments</u></b>								
2002-03 SAL. & BEN. BASE	9	18	9	18	0	0	0	0
SMALL AGENCY OPERATIONAL EXPENSE	8	17	8	17	0	0	0	0
<b>Subtotal Base Adjustments</b>	<b>17</b>	<b>35</b>	<b>17</b>	<b>35</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Base Budget</b>	<b>918</b>	<b>936</b>	<b>584</b>	<b>602</b>	<b>274</b>	<b>274</b>	<b>60</b>	<b>60</b>

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## WORKERS COMP COURT OF APPEALS - EXECUTIVE SUMMARY

### AGENCY MISSION AND VISION:

The Workers' Compensation Court of Appeals was established by the legislature as the exclusive statewide authority to decide all questions of law and fact in workers' compensation disputes within the court's appellate jurisdiction as provided by M.S. 175.A and 176.

The court consists of five judges appointed by the governor and confirmed by the state senate. The governor designates one of the five as chief judge, who has responsibility for the administration of the court. The court performs an appellate function, reviewing decisions of the Workers' Compensation Division of the Department of Labor and Industry, and the Office of Administrative Hearings. This includes:

- reviewing the evidentiary record created by the initial decision-making body,
- presiding over oral arguments,
- conducting necessary legal research,
- deciding the issues, and
- issuing appropriate written orders, decisions and memoranda. Decisions are written to inform the court's clientele of the basis of the decisions and to create a body of law pertaining to workers' compensation issues. Decisions of this court are appealable directly to the Minnesota Supreme Court.

### Mission:

- To deliver services as expeditiously as possible while maintaining the integrity of the decision-making function.
- To produce high quality and consistent decisions on a timely basis in order to provide the quick and efficient delivery of indemnity and medical benefits to qualified injured workers at a reasonable cost to employers.
- To provide economic stability for injured workers and their families in financial crises due to work-related illnesses and injuries.
- To provide for timely cure and treatment of work-related illnesses and injuries.
- To help provide a competitive business climate for Minnesota employers.
- To provide direction and motivation for employers to create safe and healthy work environments for employees.

**Vision:** It is the court's objective to continue its current high level of productivity and maintain the quality of its services during the coming biennium.

### KEY SERVICE STRATEGIES:

The court has attempted to produce decisions which are consistent and which bring predictability to the resolution of workers' compensation disputes. We believe that this goal has been achieved to a large extent and has been a factor in reducing the amount of litigation in the workers' compensation system

### PERFORMANCE SUMMARY:

During FY 1998, a total of 340 appeals or petitions to vacate awards on stipulation were submitted to the court. During FY 1999, this number was reduced to 288. The number of referrals during FY 2000 increased slightly to 290. Based on the level of recent referrals, it appears that the number of filings with the court for FY 2001 will be similar to the filings in FY 2000. In addition, compared to FY 1998, the rate and number of appeals to the Minnesota Supreme Court from decisions of this court in FY 1999 have been reduced. The appeals in FY 2000 were further reduced, but only slightly. Based on appeals to the Supreme Court in calendar year 2000, there may be a slight increase in appeals during FY 2001.

The court is reducing its base funding due to savings in the last two biennia resulting from a reduction in personnel. The court reduced its personnel in response to the reduction in caseload. Unless caseloads increase as a result of changes in the workers' compensation statute, economic conditions, or other factors, this budget will provide the flexibility for the court to properly manage its operations.

### ISSUES AFFECTING AGENCY'S OPERATIONS:

The primary factors influencing operations of the court continue to be the number of work-related injuries sustained and the extent of litigation over benefit entitlement. Other factors include workplace safety, new legislation, insurance costs, medical costs, and economic conditions.

### GOVERNOR'S RECOMMENDATION:

The Governor recommends the agency's base budget and the reallocation of \$130,000 to the Department of Labor and Industry to provide support for the workers' compensation case scheduling and management system.

Agency: WORKERS COMP COURT OF APPEALS

Budget Activity Summary (Dollars in Thousands)	Actual FY 1999	Actual FY 2000	Budgeted FY 2001	FY 2002		FY 2003		Biennial Change 2002-03 Gov / 2000-01	
				Base	Governor Recomm.	Base	Governor Recomm.	Dollars	Percent
<b>Expenditures by Category:</b>									
<b>State Operations</b>									
COMPENSATION	1,025	1,052	1,315	1,347	1,268	1,381	1,302	203	8.6%
OTHER OPERATING EXPENSES	240	227	534	287	301	302	316	(144)	(18.9%)
<b>Total Expenditures</b>	<b>1,265</b>	<b>1,279</b>	<b>1,849</b>	<b>1,634</b>	<b>1,569</b>	<b>1,683</b>	<b>1,618</b>	<b>59</b>	<b>1.9%</b>
<b>Change Items:</b>	<b>Fund</b>								
(A) REALLOCATION FOR CASE MGMT SYSTEM	WCS				(65)		(65)		
<b>Total Change Items</b>					<b>(65)</b>		<b>(65)</b>		
<b>Financing by Fund:</b>									
<b>Direct Appropriations:</b>									
WORKERS COMPENSATION	1,265	1,279	1,849	1,634	1,569	1,683	1,618		
<b>Total Financing</b>	<b>1,265</b>	<b>1,279</b>	<b>1,849</b>	<b>1,634</b>	<b>1,569</b>	<b>1,683</b>	<b>1,618</b>		
<b>Revenue Collected:</b>									
<b>Nondedicated</b>									
GENERAL	0	1	2	0	0	0	0		
<b>Total Revenues Collected</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>FTE by Employment Type:</b>									
FULL TIME	13.9	14.0	16.5	16.5	16.5	16.5	16.5		
PART-TIME, SEASONAL, LABOR SER	0.9	0.6	0.6	0.6	0.6	0.6	0.6		
<b>Total Full-Time Equivalent</b>	<b>14.8</b>	<b>14.6</b>	<b>17.1</b>	<b>17.1</b>	<b>17.1</b>	<b>17.1</b>	<b>17.1</b>		

Agency: WORKERS COMP COURT OF APPEALS

Base Budget Report (Dollars in Thousands)	All Funds		General Fund		Other State Funds		Federal Funds	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003
FY 2001 Budgeted	1,585	1,585	0	0	1,585	1,585	0	0
<b>Base Adjustments</b>								
2002-03 SAL. & BEN. BASE	32	66	0	0	32	66	0	0
DOC. SPACE RENTAL/LEASE	7	12	0	0	7	12	0	0
SMALL AGENCY OPERATIONAL EXPENSE	10	20	0	0	10	20	0	0
<b>Subtotal Base Adjustments</b>	<b>49</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>49</b>	<b>98</b>	<b>0</b>	<b>0</b>
<b>Base Budget</b>	<b>1,634</b>	<b>1,683</b>	<b>0</b>	<b>0</b>	<b>1,634</b>	<b>1,683</b>	<b>0</b>	<b>0</b>

**BUDGET CHANGE ITEM (50001)****Agency: WORKERS COMP COURT OF APPEALS****Item Title: REALLOCATION FOR CASE MGMT SYSTEM**

	<u>2002-03 Biennium</u>		<u>2004-05 Biennium</u>	
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures: (\$000s)				
Workers Compensation				
-State Operations	\$(65)	\$(65)	\$(65)	\$(65)

Statutory Change? Yes \_\_\_\_\_ No X

If yes, statute(s) affected:

\_\_\_\_\_ New Activity \_\_\_\_\_ Supplemental Funding X Reallocation**GOVERNOR'S RECOMMENDATION:**

The Governor recommends the reallocation of \$65,000 a year from the Workers' Compensation Court of Appeals (WCCA) to the Department of Labor and Industry (DLI) to provide support for the workers' compensation case scheduling and management system.

**RATIONALE:**

In FY 2000, the Office of Administrative Hearings (OAH) contracted with DLI to build a Case Scheduling and Management System (CSMS). The agencies had traditionally maintained separate computer systems to track their workers compensation cases and outcomes. The new system is integrated with DLI's imaging system and the Informix database.

The CSMS system allows improved tracking of documents routed between DLI, OAH and the WCCA. WCCA is now able to access hearing schedules through CSMS. The imaging system allows the WCCA to have immediate access to paperless files which also results in less paper handling.

**FINANCING:**

The WCCA is reducing its base funding due to savings in the last two biennia resulting from a reduction in personnel. This savings would be allocated to DLI to partially fund system support.

**OUTCOMES:**

As a result of the use of CSMS, the workers' compensation dispute resolution process will be efficient in the following ways:

- All state agency partners are able to access data related to cases.
- Improved information is available for decision making.
- Stakeholders receive better service.