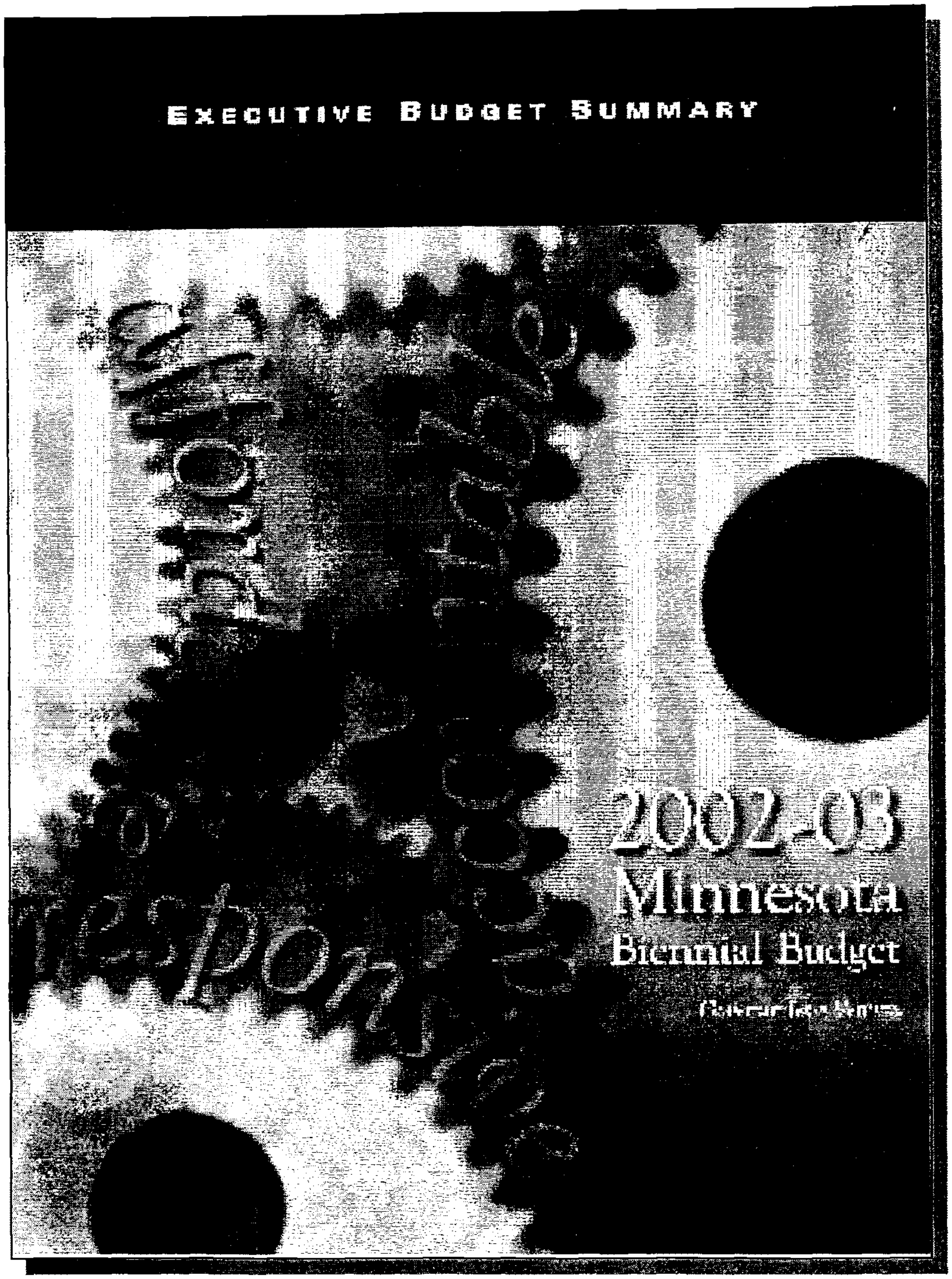
EXECUTIVE BUDGET SUMMARY

affordable
accountable
responsive

2002-03 Minnesota Biennial Budget

Governor Jesse Ventura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2002-03
Minnesota
Biennial Budget

The 2002-03 Executive Budget Summary is one of a series of documents that present Governor Jesse Ventura's budget recommendations for Minnesota's FY 2002-03 biennial operating budget.

More specific information about these recommendations can be found in eight accompanying detailed budget volumes. These volumes and other supporting documents are available on the Department of Finance web site at http://www.finance.state.mn.us/.

To obtain this document in an alternate format, contact:

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Submitted to the legislature
January 23, 2001

STATE OF MINNESOTA

OFFICE OF GOVERNOR JESSE VENTURA

130 State Capitol • 75 Constitution Avenue • Saint Paul, MN 55155

To the People of Minnesota and the 2001 Legislature:

Two years ago I submitted a biennial budget for the State of Minnesota within weeks of taking office. While I was proud of that budget – a budget with an emphasis on tax relief and education spending – I knew that with more time I would have been able to recommend more meaningful reform.

My recommendations for the state's 2002-2003 biennial budget don't just stop at meaningful tax relief for businesses and homeowners – of all incomes and regardless of where they live in the state – but are more fundamentally built on an agenda of reform.

Why reform? Why now? Because it's a new day and a new economy. We can not, must not, rest on the laurels of our past successes, but instead accept the responsibility to make the changes today to ensure the State's future vitality.

I am therefore recommending tax changes that provide meaningful tax relief to all Minnesotans through:

- Fulfilling our commitment to taxpayers to return the surplus at the end of the biennium in a sales tax rebate;

- Decreasing our reliance on income and property taxes for state and local government expenditures;

- Recognizing the shift in consumption from goods to services and expanding the sales tax base to cover this growing sector of the economy, paired with both a lowering of the sales tax rate and continuing of the exemption for life necessities like food, clothing and heating fuel;

- Reducing our reliance on health-related taxes for the provision of meaningful health care programs; and

- Continuing our progress toward my goal of a maximum car tab fee of $75.

This package pairs relief with reform and better positions our state to meet the challenges of the next century.

It also makes significant advances in my goal to make government more understandable to its citizens. We should end the shell game of K-12 financing – one that suggests that the state-mandated levy for basic education is really locally controlled. My proposal will ensure that the only education programs financed with property taxes are those programs where the funding really is locally determined.

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On the spending side, it is true that this budget will not meet many advocates' expectations. Nor should it. A strong economy, low unemployment and growth in personal income should allow us to reduce our reliance on government. Where state spending is appropriate, my administration has worked hard to guarantee that first and foremost we're making the best use of the tax dollars that we're already taking out of your pocket. We have challenged ourselves to move funds from lower priority areas to higher priorities before simply turning to a recommendation for new spending.

My budget recommends that core state services remain strong. It includes a bold recommendation for telecommunications reform to make sure that every community has the infrastructure needed to compete in a global economy. Beyond that, my budget proposes to strengthen our health care delivery systems with an emphasis on increased prevention funding, reinforce programs to promote self-sufficiency, invest in critical technology projects to improve public safety and government's ability to provide service, and address the most critical economic development issue of the next decade – workforce development.

I have also identified key opportunities to move toward a focus on the individual instead of the institution – moving funds from prison operations to community corrections programs, downsizing nursing homes in order to increase home health care programs, providing financial aid to students to improve choice rather than funding the higher education institutions directly. These recommendations either move the money "upstream" in a way that should prove more cost effective in the long run, or improve competition – and ultimately accountability – in our systems.

These important choices deserve critical debate. They need to be viewed as a package. Many of the initiatives are related. We should remain focused on the goals of these initiatives, and I welcome your suggestions on how best to meet these goals. Together, we can do great things for the future of our state – an opportunity we should not squander.

Jesse Ventura
Governor

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At a Glance: The Governor's 2002-03 Budget

What this Budget Offers Minnesotans

Last year Minnesotans paid a total of $23.9 billion in state taxes and fees, school property taxes and fees, county, city and township property tax and fees and other governmental charges. That was the amount raised to fund public services in Minnesota. It was equal to 16.3 cents of every dollar earned and represents the "price of government" in Minnesota.

Affordable Government
- Reduces the "price of government" over the next four years – saving taxpayers over $1 billion annually by 2003.
- Permits a responsible level of growth in state and local revenues.
- Recommends reallocations and strategic investments that better position the state for the challenges of the 21st century.

Accountable Government
- Proposes fundamental restructuring of our tax system to make it a fairer system and better prepare us for the New Economy.
- Provides prudent financial management that recognizes risk in the economic outlook.
- Recognizes state responsibilities, as well as providing local government revenue flexibility and accountability.
- Focuses on the individual, not the institution, to increase choice and competition.

Responsive Government
- Builds upon an 18-month dialogue with citizens, stakeholders, policymakers.
- Funds core state responsibilities and priority areas.
- Makes strategic investments that recognize changing demographics and a changing economy.
- Maximizes value for the dollar – by focusing on outcomes, not new spending.
- Seeks reforms not only in the budget process, but in governmental and legislative processes.

Taxes, Other Revenues

General fund revenues are forecast to grow $2.816 billion or an average of 5.4 percent per year in the 2002-03 biennium over the preceding biennium. The Governor recommends tax cuts totaling $1.428 billion for FY 2001, FY 2002, and FY 2003. Nearly 47 percent of the forecast growth in revenues is used for tax reductions.

- **Provide a sales tax rebate** of $925 million to "settle-up" with taxpayers for fiscal year 2001.

- **Cut income taxes** by reducing all tax bracket rates by 0.4 percent for 2001, an additional 0.1 percent in 2003, and another 0.1 percent in 2004 if resources are available.

- **Increase the Working Family Credit** for 2001, more than doubling it by tax year 2003.

- **Reduce state sales taxes** to 6 percent, from 6.5 percent. Broaden sales taxes to include services, but continue to exempt food, clothing and heating fuels.

- **Reduce the motor vehicle registration** tax to a maximum of $189 in the first year and a maximum of $89 thereafter beginning in January, 2002. Further reduce to a maximum of $75 for all years beginning in 2004.

- **Reduce the corporate income tax rate** to 9.4 percent while expanding sales tax exemptions for business material and equipment.
- **Cut property taxes** by nearly $800 million by eliminating most school property taxes through the state assuming the full cost of basic K-12 education.
- **Eliminate wholesale prescription drug tax** and HMO premium tax. Eliminates the scheduled 0.5 percent increase in the provider tax and permanently limits reliance on provider tax by capping it at the current rate.
- Deposit remaining **one-time tobacco settlement revenues** into an endowment to improve the health of our children and to support Minnesota's health care infrastructure.

Spending

For the 2002-03 biennium, General Fund spending will total $27.324 billion. This is an increase of $2.717 billion over the current biennium. Excluding the increases associated with property tax restructuring – this is a 5.4 percent increase over FY 2000-01.

- **Core Services**: recognize inflationary costs of existing responsibilities: compensation costs for state employees ($92 million), higher education employees ($80 million), teachers ($65 million), and health care providers ($23 million).
- **Prevention**: increase spending to reduce health disparities for minority populations ($14 million), teen pregnancy prevention ($22 million), and expanded health care coverage for children ($14 million).
- **Workforce**: increase training funds for the Jobs Skills Partnership ($5 million), increase and target financial aid ($30 million) create a performance incentive pool for teachers ($15 million), teacher recruitment strategies, including loan forgiveness ($10 million).
- **Technology**: provide funding for integration and further development of criminal justice information systems ($27 million), fund infrastructure needs of state government, including electronic services ($76 million).
- **Reallocations:** for more effective results, shift focus from long term institutional care (nursing homes) to community care programs, reduce institutional costs for prisons and invest in community correctional programs.

Reserves, Financial Management

- Dedicate interest earned to automatically increase the Budget Reserve from $622 to $700 million by FY 2003 – 4.8 percent of FY 2003 spending.
- Pay back "loans" from businesses and local units of government enacted in the early 1980s by eliminating the June sales tax acceleration ($144 million) and moving local aids payments from July forward to May ($255 million).

How Decisions Were Made

There should be little surprise in the majority of recommendations included in Governor Ventura's FY 2002-03 budget. The Governor openly communicated many of the proposals and discussed alternatives in a variety of public forums over the past year and a half. Widely covered by the media, this approach represented an unprecedented effort to involve citizens, representatives of the business community, regional organizations, school districts, and local units of government.

An Invitation to Participate

The Governor believes that open, participative public policy discussion should lead budget development – not the reverse. The Governor demanded that the state budget process not be "business-as-usual" and began a discussion over the last year and a half that formed the foundation for his proposals.

- Tax Reform forums and Citizens Tax Jury began 18 months ago
- Big Plan policy areas and strategies released in October, 1999
- Many statewide and regional meetings held over the last year by the Governor and his cabinet

One of the defining characteristics of the first two years of the Ventura Administration has been the scope and success of efforts to involve Minnesota citizens and stimulate public participation in defining Minnesota's future – and enjoining Minnesota state agencies, policy makers and other units of government in that process.

Common-Sense Approach to Managing Government

Governor Ventura is committed to maintaining Minnesota's fiscal stability and improving statewide planning and policy development. In every private and public discussion, the Governor has been explicit about integrating ***The Big Plan*** initiatives, implementing the Budget Principles, creating results-oriented agency strategic plans with specific measures to evaluate progress and developing a budget oriented to his administration's philosophy of **accountable**, **responsive** and **limited** government.

To keep government focused on results that will benefit Minnesotans, the Governor directed state agencies to work on a core set of priorities that will meet the challenges of the next decade. These areas, ***The Big Plan*,** reflect outcomes important to Minnesota's future. In addition, measures have been established to provide public accountability for progress toward these goals. ***The Big Plan*** provides a solid framework for discussion of state priorities, what it will take to achieve them, and what the consequences will be if they are not met.

Last fall the Governor directed state agencies to develop strategic plans to help focus their energies and resources to achieve the results that will benefit Minnesotans most. In conjunction with each of the four areas and related initiatives, the Governor established interagency teams to develop plans to implement strategies to achieve the desired results in each area. This interagency effort required not only that agencies work together, but also that they carefully evaluated current programs and spending in setting priorities consistent with statewide goals.

The Governor's Big Plan identifies statewide strategic priorities for the next decade or more:

- **Healthy and Vital Communities**
  A healthy, vital community is one that is strong, diverse and connected to the region around it. It is one where education and mutual respect are central, and its citizens have access to a strong infrastructure of energy, housing, transit and transportation.
- **Self Sufficient People**
  To reach the goal of supporting self-sufficiency, we must emphasize the inter-related roles of health care and strong families. Every citizen must have access to health care, lifelong education and parents' role in their children's lives must be valued and supported.
- **Service, Not Systems**
  Government must focus on providing the citizenry with strong accountability, fair and understandable regulations and the best

bang for the buck. Government must also concentrate on ways to limit itself where it has become burdensome, and how to constantly encourage citizens to remain involved and informed.

- **Minnesota: World Competitor**
  To ensure the continued success of Minnesota's economy, we must constantly look for ways to expand our markets, grow new businesses and sustain and develop our workforce.

Supporting that agenda has been an incremental series of steps to stimulate public discussion of issues and the introduction of innovative changes in the budget process to challenge conventional ways of thinking about the role of government, state programs, and state finances.

Budget Principles Provide Direction

The Governor's strong commitment to conservative fiscal policy, public sector accountability and long-term planning builds upon his first budget submitted two years ago.

Within his first six weeks in office, the Governor articulated a set of principles that he believed are fundamental to sound public policy. The Governor continues to aggressively assert these principles in making budget and financial management decisions. On taking office in November 1998, Governor Ventura set very early goals for budgeting and financial management:

- **Do the right things and do them well**
- **Be fiscally conservative and prudent -- NEVER forget it's the people's money**
- **Provide incentives for desirable behavior**

The Governor used these principles in making budget decisions, and expects state agencies and other public entities to demonstrate these principles in formulating budget strategies and funding state services.

Limited Government, Limited Spending

While the 2000 legislative session provided additional one-time and permanent tax relief to Minnesota taxpayers in the form of a second sales tax rebate, motor vehicle license reductions and permanent income tax rate cuts – it also acted to increase state spending for the current biennium. General fund spending for the FY 2000-01 biennium now totals $24.6 billion, a 16.1 percent increase over the preceding two-year period. Total state spending from all funding sources, including federal funds, will be $38.3 billion.

The 16.1 percent growth in the current general fund budget is well beyond that proposed by the Governor just two years ago. While a portion of that growth includes significant one-time spending enacted in the last session, the continuing overall growth in state spending highlighted the need to develop budget plans for the next two years in a much different fashion.

It should not be surprising that with a total state budget of over $38 billion, the Governor believed that there was "enough money on the table" to meet the state's role in providing services to citizens. The Governor was clear about his expectations that agencies prepare budgets consistent with a reform agenda that first required reallocating existing funding to maintain essential services and produce meaningful public outcome – before relying upon growing tax revenues and new requests for spending.

Pressure for new spending in priority areas and the Governor's commitment to tax reform and expanded tax relief required managing anticipated costs increases and new initiatives within a limited spending increase. The budget process required developing alternative choices within the priorities and budget principles defined by the Governor. The FY 2002-03 budget focuses on priorities and reallocates existing funds to meet the highest priority needs – and does so in a manner that yields new and improved services and benefits to citizens.

Changing the Budget Process

The Governor directed his cabinet to change the "traditional" budget process to focus on how to best reach the objectives of a successful budget outlined by the Governor. Specific decisions highlight changes in this administration's approach.

- **Setting an early budget target** relied upon a commitment to taxpayers, not the revenue forecast -- to drive budget decisions.

  Last March the governor directed the cabinet to work toward developing a budget that increased at roughly the rate of inflation. The Governor set a spending target at the beginning of the budget process to temper unnecessary spending expectations engendered by forecast "surpluses".

  The Governor felt it was imperative to impose financial discipline early in the process. Limiting total spending meant that the budget would still grow – but at a rate much less than state government had become accustomed.

- **Focusing on reform and reallocation** replaced agency "wish lists." Each agency had to demonstrate significant, specific reform and reallocation initiatives within current funding. Budget review required agencies to identify how they reallocated resources internally to improve operations and performance, how activities aligned with the Administration's Big Plan, how they measured the value of current activities, and how proposals contributed to the Governor's priorities.

- **The "Challenge Pool"** created incentives to achieve desired outcomes with minimal dollars. Before additional funding requests were considered, agencies were required to identify reductions totaling 2.5 percent of their current funding for reallocation to higher priority funding – the "Challenge Pool". This was the beginning of a process, not necessarily a funding target. Designed to encourage innovative and cooperative solutions, to identify trade-offs, and to produce more analysis and better information on budget options – the "Challenge Pool" marked the beginning of the budget review process.

- **Peer review and feedback** became part of decision-making. Challenge Pool requests were reviewed and ranked by members of the Cabinet and Governor's Office and Finance staff. Reallocation plans and Challenge Pool requests were evaluated and agencies were given approval and direction on which items to proceed, those that were rejected, and areas where additional options or alternatives were sought.

  This interactive process continued through two rounds of review and discussion, and through final budget decisions – providing "feedback" which improved the final Governor's recommendations.

Producing Results

The Governor's budget demonstrates a commitment to producing results and measuring outcomes in concrete ways and funding decisions based on expected outcomes. Examples of significant reallocations in the Governor's budget involve shifting from higher cost institutional care to more cost-effective care in community settings. For long-term health care, savings in nursing home costs are recognized and spending is increased to provide supportive services in a community setting – a more desirable outcome to the consumers at savings to the taxpayers. Within the Department of Corrections, a rigorous evaluation identified savings in institutional costs that were then shifted to community corrections programs that are targeted to produce better and more effective results with the overall goal of improving public safety and reducing offender recidivism.

To advance further effort across government to focus on results, the Governor's budget highlights several areas as **performance pilots**. The pilots can be found within the following programs: Department of Children, Families and Learning (CFL): Nutrition Program, After School Enrichment Grants, Success for the Future; Department of Natural Resources (DNR): Fish Management, Forest Management; Department of Public Safety (DPS): Vehicle Registration & Titles, Licensing Drivers.

Each pilot links its budget to strategic planning through clearly defined goals and verifiable outcome measures to be used to evaluate whether the program can or has been working to accomplish its goals. Associated with each outcome measure are target expectations with associated timeframes, as well as baseline data or a means for establishing a baseline during the upcoming biennium.

Using performance measurement as a management tool in state government is not unique to the performance pilots, but the state has not consistently and purposefully connected it to the budget process. The Governor's objective is to demonstrate to policymakers and agency managers the value of performance budgeting as a means for rationally allocating resources and evaluating programs. The performance pilots are an extra effort to present the budgets of these areas with a results-orientation, to demonstrate the value of these changes to decision makers, and to advance a plan to build on these efforts in future budgets.

Parameters for Decisions

The Governor's biennial budget is always based on the November forecast in even-numbered years. That forecast provides an estimate of current law expenditures and revenues, recognizes an inflationary impact on the budget, and provides the first analysis of expenditures and revenues in the planning estimates for the "out year" biennium.

Specifically, the November 2000 forecast included budget planning estimates for the FY 2002-03 and FY 2004-05 biennia. These estimates match forecast general fund revenues with projected spending assuming no change in current laws and policies.

The planning estimates included forecast increases for program enrollments and caseload growth in major state programs and future spending increases already enacted in law. These estimates included the projected cost of estimated inflation of 2.0 percent per year over the next two years. The planning estimates measure the ability of forecast revenues to pay for current programs if spending levels were uniformly adjusted for inflation.

These planning estimates marked only a starting point – defining the amounts available for constructing the budget for the next two years.

Minnesota Economic Outlook

The Governor is committed to an affordable budget and one that is "structurally balanced" looking out four years. The Governor has reflected on apparent changes in economic performance since the November forecast was produced and considered the impact of potential changes in the February forecast in his budget recommendations.

The November Forecast Defined Amount Available for Governor's Budget

FY 2002-03 Budget Outlook

	FY 2002	FY 2003	Total
	($ in millions)		
Forecast Revenues	**$13,764**	**$14,447**	**$28,211**
Projected Spending			
Current Law	12,638	12,750	25,388
Estimated Inflation	240	497	737
Total Spending	**12,878**	**13,247**	**26,125**
Difference	**$886**	**$1,200**	**$2,086**

An understanding of the outlook for Minnesota's economy and for future revenue growth is essential to determining proper tax reform policies and spending decisions for the state over the next several years.

Minnesota's economy has performed superbly in recent years. Our state's unemployment rate remains well below the U.S. average. Since December 1998, we have added more than 93,000 jobs and employment in the state is up by 3.5 percent. And, despite difficult times in the farm sector, personal income growth has exceeded the U.S. averages. Strong growth in the national economy has made an already healthy Minnesota economy even healthier.

The United States has gone nearly ten years without a recession, longer than at any time in our history. Recent productivity increases have caused economic growth rates to surge, substantially exceeding expectations. Those strong growth rates have had a noticeable impact on the public sector. The federal budget deficit has been turned into a surplus, and almost every state has seen substantial revenue surpluses in recent years.

But, while the U.S. economy's performance in recent years has been characterized as the best in a generation, there is a question of how long this economic boom will continue. Many are forecasting slower economic growth in 2001 than they were projecting as recently as two months ago when the Department of Finance's November forecast of revenues and expenditures was prepared.

That forecast was based on the November Control Forecast from Data Resources Incorporated (DRI), Minnesota's national economic consultant. In November DRI believed the U.S. economy would grow at an annual rate of 4.3 percent during FY 2001, followed by growth at annual rates of 3.7 percent and 4.8 percent in FY 2002 and FY 2003 respectively. When those national economic growth rates were factored into the Finance Department's models, general fund revenues of $28.211 billion were projected for the 2002-03 biennium.

In recent weeks there has been increased concern about a possible national economic slowdown. While only the gloomiest forecasters currently are calling for a recession, many forecasters, including DRI, have reduced their outlook. DRI's January Control now calls for real GDP growth at a 3.5 percent rate in FY 2001 and at 3.1 percent and 4.8 percent rates in FY 2002 and 2003. The next revenue forecast will be based on a DRI forecast, which will not be released until the second week in February. But, if the projected economic growth rates in that forecast remain at current levels, funds available for the 2002-03 biennium will be less than projected in November.

Managing Forecast Risk

The Governor's FY 2002-03 budget is based on the November forecast. But the Governor carefully considered current consensus about a possible national economic slowdown. As a result the FY 2002-03 budget recommendations not only reflect an increase in the state's budget reserve, they also leave a positive "structural" balance of at least $100 million a year in FY 2004 and FY 2005.

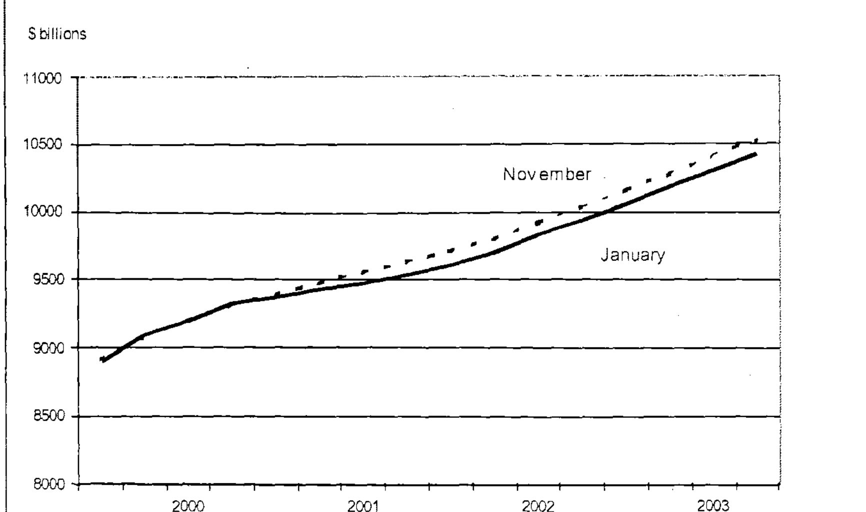
The Governor also believes the further reduction in income tax rates by an additional reduction of 0.1 percent in each bracket in 2004 should be implemented only if funds are available.

The Governor thought these actions were important and necessary to ensure that proposed tax cuts and spending changes remain "affordable" and sustainable should revenue growth slow.

Other Significant Trends

In addition to economic factors, the Governor also included consideration of trends that critically affect the state's economic vitality – the

DRI Sees Slower Growth, But No Recession in 2001



most significant of which is workforce development.

Unlike changes in the economic outlook and national economy, projected changes in state demographics are not sudden or abrupt -- or as readily apparent. Often occurring over a decade, or series of decades, shifts in the size and composition of Minnesota's population become significant in decisions to position the state for the future.

The Governor's budget includes key proposals for state policy changes and funding changes designed to address many of the issues that the state will face over the next decade.

Workforce Growth is Slowing

Strong and continued economic growth over the past decade continues to contribute to Minnesota's tight labor market. In turn, the tight labor market is fueling strong population growth through substantial migration and immigration. During the 1990s, Minnesota's population increased by 12.4 percent to 4,919,000 people, with a quarter million more people moving into the state than out. People moved to Minnesota from all states of the nation and all continents of the world.

Despite substantial in-migration of working age people and an increase in the proportion of people willing to work, the unemployment rate remains very low and the Minnesota economy continues to create more jobs than people of working age.

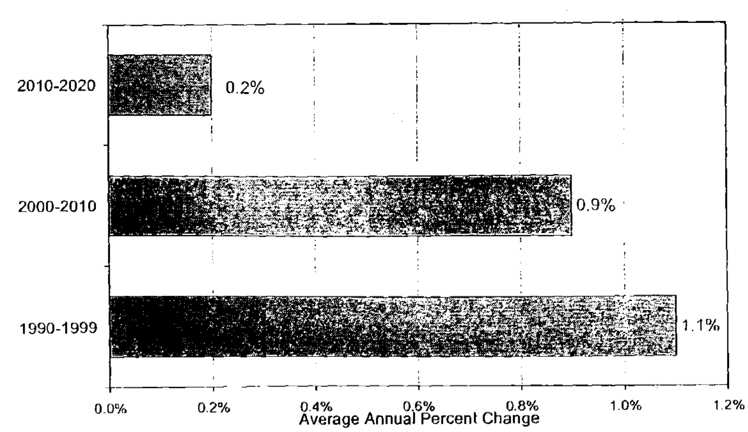
To date, the primary reason for the tight labor market has been strong economic growth. During this decade, Minnesota's growth of the working age population, people age 16 and older, will begin to slow as the population continues to age, leading to further tightening of the labor market. Possible economic responses to the tight labor market may include even larger numbers of in-migrants, increased per worker productivity or slower economic growth.

Population Growth Increasing Housing Demands and Diversity

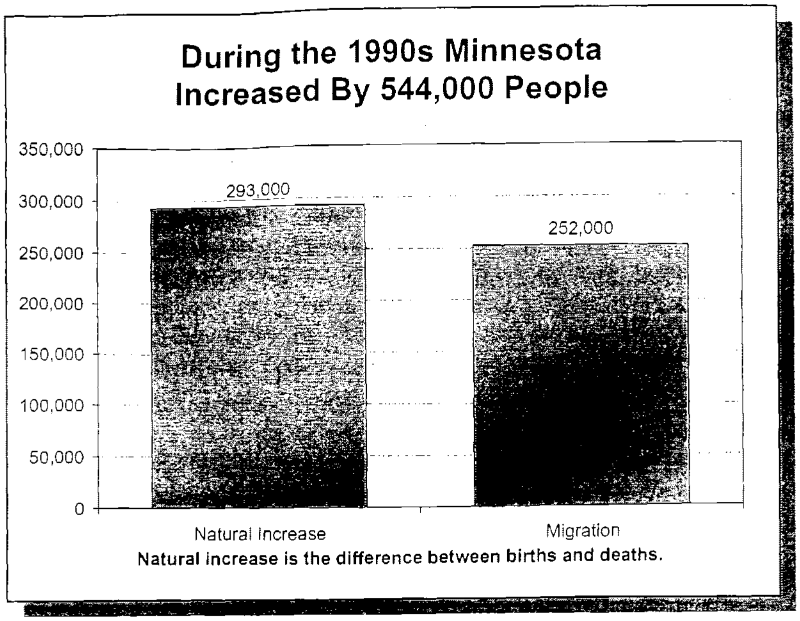
The employment-led migration to Minnesota has impacted state and local government programs and finances. Increased population has contributed to increased demand for housing in many areas of the state. During the last half of the 1990s, the median sales price of existing homes increased by double digit rates in all regions of the state, with several regions posting gains more rapid than the seven-county Twin Cities area.

Many areas of the state report very low vacancy rates and difficulty for new residents to find housing, especially affordable housing. In addition, strong housing demand is fueling rapid growth in new suburban areas around the Twin Cities and other larger cities in the state, resulting in the expansion of urbanized areas throughout the state. This increases the need for infrastructure such as roads, water and sewer, and schools, in addition to services such as fire and police protection.

Working Age Population Growth Will Slow Over Next 20 Years



Source: U.S. Census Bureau and MN State Demographer



Natural increase is the difference between births and deaths.

An additional impact of the economy-led migration is the many newcomers to the state who speak languages other than English and have diverse cultural backgrounds. This increases the demand for services such as English as a Second Language (ESL), and places further demands on all government services, from direct services to refugees to translators in courts.

Dealing with an Aging Workforce

Government's ability to respond to changes in the state's demographics is also affected by the tight labor market. The state government workforce is aging rapidly and new, younger workers are difficult to attract and retain in the highly competitive labor market. Many counties, cities and school districts report similar difficulties.

Despite the substantial migration the state is experiencing, the population continues to grow older. At the present time, the state can best be described as middle-aged, with a peak number of people at their peak earning years. Early next decade, the oldest of the Baby-Boom generation will turn 65. Growth in the over-65 population will increase rapidly over a two decade period.

Wage and salary income will grow more slowly and health care expenditures will increase more rapidly with advancing age. This decade, however, growth in the elderly population, especially the 75 and older, will remain modest, as the small generation of the 1920s and 30s reaches that age. However, provision of health services may become an increasingly important issue resulting from staffing shortages due to the tight labor market.

Education Enrollments are Shifting

The traditional college-aged population, 18 to 24, will increase during this decade. Higher levels of births during the late 1970s and throughout the 1980s created a bulge of young people who are now in high school and beyond. The number of high school graduates is projected to peak between 2003 and 2005. As a result, the number of post-secondary students is projected to increase this decade.

Statewide enrollments in K-12 education are projected to decline at a moderate rate throughout the decade, resulting from lower levels of births during the 1990s. Some school districts, especially in newer suburban areas, will see large increases in enrollments as the result of migration. While overall enrollments will decline, the number of students speaking languages other than English and minority students will increase.

Economic Well-Being will Continue to Drive Demand for Many Services

Estimates for 1999 show a substantial drop in poverty rates for both adults and children. Reliable measures of poverty at the state and sub-state levels will not be available until mid to late 2002. Until 1999, national surveys had shown little change in poverty and child poverty rates throughout the decade, despite the strong economy and low unemployment rate. Levels of poverty and low income have impacts on many state and local government programs including health care, free and reduced meals, housing assistance, and public assistance.

Focus on The Big Picture

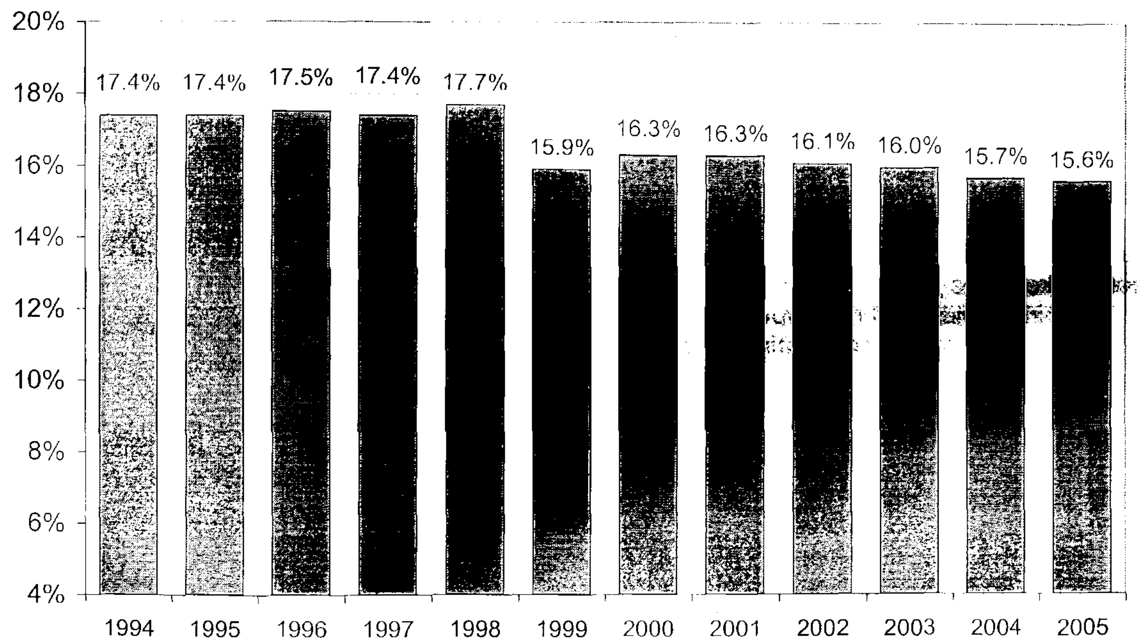
Last year, Minnesotans paid a total of $23.9 billion in state taxes and fees, school property taxes and fees, county, city and township property tax and fees, and other governmental charges. That was the amount raised to fund public services in Minnesota.

Commonly, the focus of the budget has been the state general fund. Taking that limited a view, and using only the state general fund as a measure – would be a serious mistake in evaluating Governor Ventura's proposed budget. The Governor's budget for FY 2002-03 takes a much broader and longer term view on how public services should be financed, and how much citizens should be expected to pay.

Measuring the "Price of Government"

The state general fund represents only a portion of public sector revenues and spending in Minnesota. In broad terms, the "Price of Government" is a measure of the cost of *all* general government services statewide. It answers the question: ***How much do Minnesotans pay to state and local governments in total?*** It is comprehensive and includes nearly all revenues generated by state and local units of government as well as public school districts. All state taxes, property taxes, special assessments, fees and charges are included.

State and Local Revenues
as a Percent of Minnesota Personal Income
Governor's Recommendation



The annual receipts collected by each unit of government are the best measure of the costs that Minnesota taxpayers pay for public services. The "Price of Government" measures that cost for each year relative to Minnesota Personal Income. The result is stated as a percentage of statewide personal income. For fiscal year 2000 it was 16.3 percent. The Governor proposes that it be reduced to 16.0 percent by FY 2003 and to 15.6 percent by FY 2005.

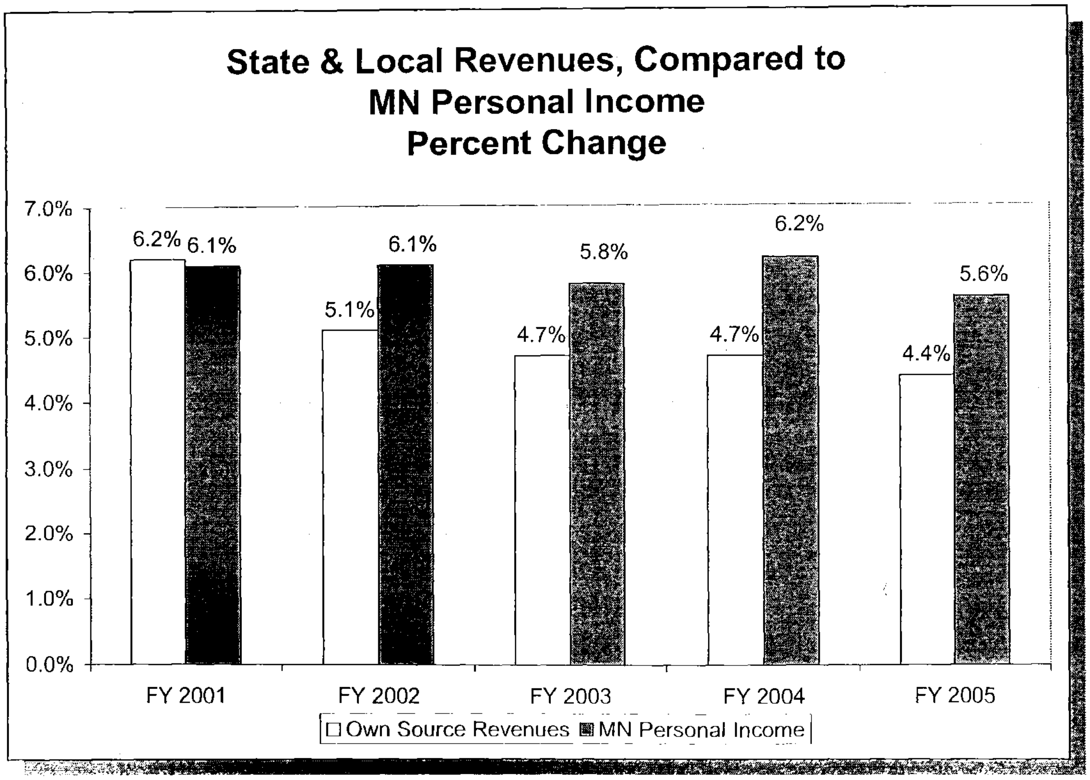
In other words, for every dollar of Minnesota taxpayer personal income during this past year, Minnesotans paid 16.3 cents to state, county, township, and school districts for services during that year. The Governor's budget will reduced that amount to 15.6 cents. This does not sound like much – until citizens recognize that each 0.1 percent is worth over $175 million dollars annually, and that ***a 0.6 percent reduction will reduce state and local taxes over $1 billion annually.***

This is how Governor Ventura approached this budget. The Governor's budget proposes price of government targets for the coming four-year period for each level of government. By statute the legislature is required to adopt targets by joint resolution by March 15 – to set tax and revenue targets, before deciding final spending.

The "Price of Government" is one of the Governor's Big Plan measures. Since the price of government focuses on revenues required by various levels of government, it is designed to be a performance measure for both taxpayers in general and policy makers during the budget formation process.

Matching Responsible Tax Cuts with Responsible Spending

While the Governor is proposing significant net tax reductions for all Minnesotans, that doesn't require dramatic cuts in public services for Minnesota citizens. In absolute dollars, state and local revenues and spending will continue to increase under the Governor's budget proposal -- but at a rate less than the growth in what Minnesotans will earn.



Minnesota Personal Income is expected to grow an average of 5.9 percent yearly between FY 2002 and 2005. Under the Governor's plan state and local revenues will grow an average annual rate of 4.7 percent. The difference is money that will remain in taxpayers' pockets.

FY 2002-03 Revenues and Spending

Total general fund revenues for the next biennium under the Governor's budget will be $27.423 billion – after the tax cuts and property tax reforms the Governor has proposed. Major tax and revenue changes include a net $822 million reduction in forecast tax revenues resulting from the plan to cut and reform major state taxes. The Governor's plan to re-direct the remaining two years of the one-time tobacco settlement to endowment funds completes his plan begun in the 1999 legislative session, resulting in a $334 million reduction in forecast revenues.

These changes are, in part, offset by the revenues anticipated from the statewide business levy, totaling $470 million in FY 2003. This increase in state revenues represents the removal of local basic school property tax levies from businesses as part of the property tax reform plan.

FY 2002-03 General Fund Budget

	FY 2002	FY 2003	Total
	----------($ in millions)----------		
Beginning Balance	$1,108	$1,139	$1,108
Revenues			
Forecast Revenues	$13,764	$14,447	$28,211
Tax Cuts / Reform	(668)	(154)	(822)
Tobacco settlement	(221)	(113)	(334)
Statewide Business Levy	0	470	470
Other Changes	(120)	18	(102)
Total Revenues	$12,755	$14,668	$27,423
Spending			
Current Law Forecast	$12,638	$12,750	$25,388
Tax Reform / Relief	18	1,371	1,389
New Spending	231	478	709
2000 Motor Vehicle Tab Transfer	(162)	0	(162)
Total Spending	$12,725	$14,599	$27,324
Reserves			
Cash Flow Account	$350	350	$350
Budget Reserves	659	700	700
Other Reserves	127	111	111
Ending Balance	**$2**	**$47**	**$47**

All other general fund revenues are reduced by $102 million from the current law forecast. The largest portion of this decrease is dedication of a percentage of the FY 2002 motor vehicle sales tax to replace a $162 million appropriation made for the 2000 motor vehicle tab reduction. This decrease is, in part, offset by other non-tax revenue increases associated with the Governor's proposed budget for specific agencies and programs.

Summary: Tax and Revenue Changes

Increase (Reduction)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
		($ in millions)			
Sales Tax Rebate	(925)				
Income Taxes	14	(628)	(496)	(717)	(807)
Sales Taxes	-	53	491	525	538
Motor Vehicle Sales Taxes	-	(17)	(45)	(47)	(48)
Motor Vehicle Tab Cuts	-	(41)	(85)	(120)	(156)
Corporate Income Taxes	(4)	(28)	(13)	(13)	(11)
Other Tax Changes		(7)	(6)	(148)	(148)
Subtotal – Tax Cuts /Reform	(915)	(668)	(154)	(520)	(632)
New Statewide Business Levy	-	-	470	485	499
Other Changes:					
Tobacco Settlement	-	(221)	(113)	na	na
2000 Car Tab Cut Transfer	-	(162)	na	na	na
Other Budget Changes	-	42	18	10	13
Total Revenue Changes	**(915)**	**(1,009)**	**221**	**(25)**	**(120)**
Expenditures for Property Tax Reform and Relief	**na**	**18**	**1,371**	**1,254**	**1,283**

Understanding the Impact of Tax Reform on State Spending

Cutting property taxes by increasing state general fund spending, for most, would seem a contradiction. Over the past two decades, in part because of the complexity of the tax system, this is exactly what has occurred. Property taxes are reduced by increasing state spending for schools, increasing state aids to cities, towns and counties – or by increasing spending for the direct property tax refund programs.

The changes encompassed in the Governor's property tax reform and relief plan are reflected as increases in state spending for basic K-12 education and local aid programs – reducing reliance on local property taxes. The state assumption of the K-12 basic education levy is, in part, offset by a new state tax – the statewide levy on businesses. These changes, while increasing state spending, have the effect of reducing local property taxes.

Of the increases shown for "Property Tax Aids and Credits", the Governor's budget proposes spending $1.389 billion in FY 2002-03 for this purpose. Included in that amount is $255 million of one-time spending to move forward the July payment date for city and township aids from July to May.

Spending Grows 5.4 Percent – Before the Impact of Property Tax Reform

General Fund spending for the biennium under the Governor's budget will be $27.324 billion, including a $1.389 billion increase associated with the state assumption of the K-12 Education basic levy and additional property tax relief provided through the state's local aid and property tax refund programs

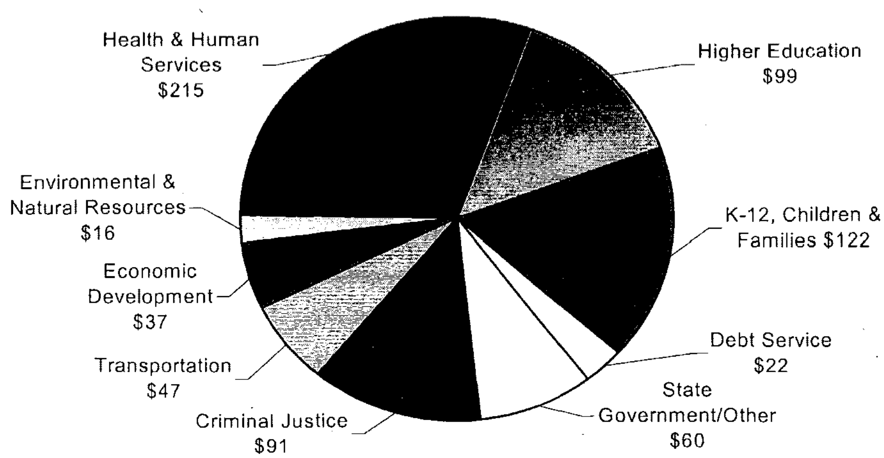
Based on the November forecast, current law spending for FY 2002-03 increases $781 million, or 3.2 percent over the FY 2000-01 budget. This growth represents what would happen if no action were taken -- and before any Governor's budget decisions. This is attributable to ongoing increases enacted in the 2000 legislative session -- as well as current law formula and caseload-driven increases previously enacted in law. The Governor's proposed general fund budget will increase $1.328 billion, 5.4 percent, before considering the impact of property tax reform and K-12 financing changes.

Current Law, Proposed Spending

	FY 2000-01	FY 2002-03	$ Change	% Change
		----- $ in millions -----		
FY 2000-01 Biennium	24,607			
FY 2003-02 Current Law		25,388	781	3.2%
New Spending (Net)		547		
Governor's Budget		**25,935**	**1,328**	**5.4%**

New spending initiatives under the Governor's proposed budget will total $709 million – about 2.6 percent of total recommended spending. This increase in spending is offset in part, by the $162 million change associated with the 2000 motor vehicle tab reduction, which treats it as a dedication of a portion of the motor vehicle sales tax receipts, rather than an expenditure.

Limited New Spending - $709 Million



The following table displays recommended general fund spending for the biennium by major omnibus appropriation bill.

The table highlights the current law forecast "base" from November, 2000 forecast, highlights the Governor's recommended changes and total recommended spending for the two year period.

Total spending is highlighted both before, and after, the effects of property tax reform related expenditures.

General Fund Spending FY 2002-03

	Current Law	Governor's Changes	Total
	----------($ in millions)----------		
Education Finance	8,407	105	8,512
Family & Early Childhood Education	521	17	538
Property Tax Aids & Credits	3,467	0	3,467
Higher Education	2,668	99	2,767
Health & Human Services	6,226	215	6,441
Environment & Natural Resources	529	16	545
Economic Development	366	37	403
Transportation	180	47	227
Criminal Justice	1,235	91	1,326
State Government	716	75	791
Debt Service	632	22	654
All Other	279	(15)	264
Subtotal – New Spending	25,226	709	25,935
2000 Tab Reduction Appropriation	162	(162)	0
Total Before Tax Reform	**25,388**	**547**	**25,935**
Property Tax Reform	**N/A**	**1,389**	**1,389**
Total Spending	**$25,388**	**$1,936**	**$27,324**

Overview of FY 2002-03 Budget

In developing his recommendations for FY 2002-03 spending, the Governor carefully considered the adequacy of current funding levels. The Governor believes that the increased spending from the 1999 and 2000 legislative sessions represented significant, ongoing funding commitments.

Commonly each biennial budget is measured against the preceding biennium – focusing primarily on how much new spending is included. It is important to consider total funding levels and increases or changes over the last two to four years in evaluating the Governor's spending proposals. The following table presents biennial dollar and percent change for the FY 2000-01 biennium, as well as the Governor's recommendations for FY 2002-03.

Spending Comparison - General Fund

	FY 1998-99	FY 2000-01	$ Change	% Change	Governor's Budget FY 2002-03	$ Change	% Change
	----------($ in millions)----------				----------($ in millions)----------		
Actual & Estimated Spending							
Education Finance	6,915	8,151	1,236	17.9%	8,512	361	4.4%
Family & Early Childhood Education	369	410	41	11.1%	538	128	31.2%
Higher Education	2,429	2,642	213	8.8%	2,768	126	4.8%
Property Tax Aids & Credits	2,629	3,318	689	26.2%	4,856	1,538	46.4%
Health & Human Services	4,744	5,432	688	14.5%	6,441	1,009	18.6%
Environment & Natural Resources	481	555	74	15.4%	545	-10	-1.8%
Economic Development	422	468	46	10.9%	403	-65	-13.9%
Transportation	152	171	19	12.5%	227	56	32.7%
Criminal Justice	995	1,174	179	18.0%	1,326	152	12.9%
State Government	741	777	36	4.9%	791	14	1.8%
Other*	1,316	1,509	193	14.7%	917	-592	-39.2%
Total Spending	**21,193**	**24,607**	**3,414**	**16.1%**	**27,324**	**2,717**	**11.0%**

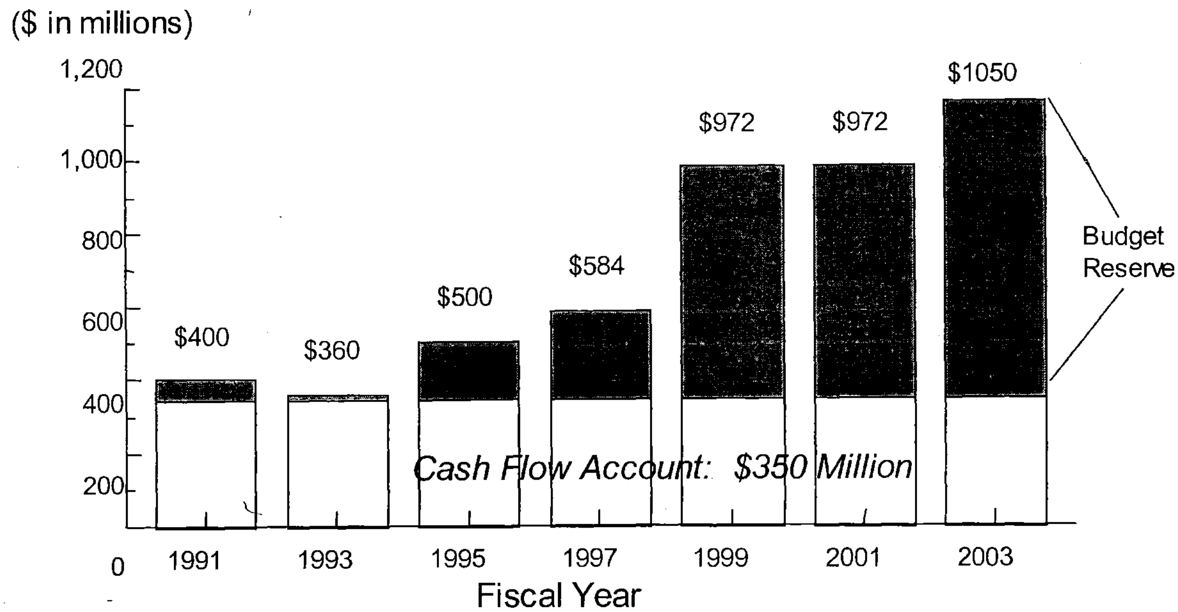
* Includes debt service, cash capital budget projects, one-time cash transportation projects, tab fee replacement funding.

As the table highlights when the K-12 financing costs and local aid components of property tax reform are included in total spending, the impact of these changes increase biennium to biennium spending growth to 11.0 percent.

Budget Reserve will Increase to $700 million

The Governor recommends increasing the budget reserve to $700 million by FY 2003. He does so by requesting that interest earned on the current budget reserve of $622 million be deposited into the account monthly – allowing it to grow an estimated $78 million during the two year period. This will permit the budget reserve to increase, without action, to keep pace with the growth in state spending.

Budget Reserve will Equal 4.8% of Proposed FY 2003 Spending



At $700 million, the Budget Reserve will equal approximately 4.8 percent of recommended FY 2003 spending. In addition to the state budget reserve, the budget maintains the $350 million cash flow account to manage potential imbalances in the timing of revenue collections and expenditure payments. The state's Council of Economic Advisors has strongly and consistently recommended increasing the budget reserve to an amount equal to 5 percent of projected spending. Prudent and responsible financial management requires that the state have an adequate budget reserve to prevent any problems from unanticipated revenue shortfalls.

Budget Maintains Structural Balance through FY 2005

State policy makers must pay attention to the state's "structural balance" when making budget decisions. Simply put, a budget that is structurally balanced does not spend more than it takes in on a continuing basis. Budgets can easily become structurally unbalanced if tax cuts or spending increases are enacted that cannot be supported by normal revenue growth in succeeding years.

Proposed Structural Balance in FY 2005
Recognizes Forecast Uncertainty

	FY 2003	FY 2004	FY 2005
	----------($ in millions)----------		
Revenues			
Forecast Revenues	$14,447	$15,240	$16,032
Tax Cuts / Reform	(154)	(520)	(632)
Tobacco Endowment	(113)	0	0
Statewide Business Levy	470	485	499
Other Changes	18	10	13
Total Revenues	$14,668	$15,215	$15,912
Spending			
Current Law Forecast	$12,750	$13,009	$13,301
Tax Reform / Relief	1,371	1,254	1,283
New Spending	478	475	479
Estimated Inflation	0	356	738
Total Spending	$14,599	$15,094	$15,801
Structural Balance	**$69**	**$121**	**$111**

The Governor's budget is structurally balanced through FY 2005. In considering the economic outlook, the Governor requested that money be "left on the bottom line" as a hedge against a downward revision in the current forecast. Accordingly, his budget decisions have left a $47 million unspent balance in FY 2003 and a positive structural balance in excess of $100 million in each year of the FY 2004-05 planning estimates.

Prudent Mix of One-Time and Permanent Changes

The Governor recommends returning the $925 million "surplus" expected for the current biennium to taxpayers as a Sales Tax Rebate in July 2001 – at the end of the current budget period. Consistent with the automatic rebate and "settle-up" principles he set when he first entered office, the Governor recommends that final determination of the total amount of the rebate occur after June 30 – so that taxpayers may benefit if revenues come in higher than forecast, or that financial risk is appropriately managed if revenues are lower than forecast.

The Governor's budget also includes two specific recommendations for one-time investments that represent not only good policy, but sound financial management. Reversing local government payment date changes enacted in the early 1980s will cost $255 million. Under the Governor's proposal the July local government aid payments would be moved to May. Similarly, the Governor's tax reform plan includes $144 million to repeal the June sales tax acceleration on businesses that was also enacted during the budget crises of the early 1980s.

Tax Reform and Relief

The Goals of Tax Reform

The Governor's tax reform and relief proposals are the product of an 18 month effort to listen and talk with taxpayers, legislators, and local and state government officials across Minnesota about the state and local tax system. The focus of the discussions was on how the tax laws can be changed to better meet the needs of taxpayers, continue to support needed government services in a changing economy, and better align with the Governor's Big Plan strategic vision for the state.

In public dialogues, stakeholder meetings, focus groups, surveys, and interviews with state and local officials, concerns and hopes for changes in the tax laws focused on these general themes:

- Ensuring a fair distribution of tax burdens.
- Simplifying government budget and tax policies so taxpayers and public officials alike can better predict, understand and control them.
- Achieving and maintaining economic prosperity across Minnesota.

The Governor's recommendations respond to these concerns with comprehensive tax reform and relief, incorporating changes to all major state and local taxes. The proposal meets four overarching goals.

Governor's Tax Goals

- Reduce the property tax and return it to local control by eliminating state-mandated impacts.
- Preserve and enhance the sales tax as a source of revenue, and modernize it to fit a changing economy.
- Emphasize local government revenue flexibility and accountability to taxpayers.
- Improve the competitive position of Minnesota workers and firms in the increasingly global marketplace.

Key Policy Recommendations in the Governor's Tax Reform Proposal

The Governor's key recommendations for reforming the tax system are:

- **Immediately rebate** $925 million, the current year surplus, to "settle-up" with taxpayers.
- **Reform property tax and K-12 education finance** by fully funding the general education formula without reliance on a state-mandated property tax levy. This change will result in significant property tax relief of about $800 million per year combined with reform of the property tax classification system and state aids systems.
- **Modernize the sales tax** to fit today's economy by imposing the sales tax equitably between goods and services, lowering the rate, and adopting other changes designed to improve collection of the sales tax in the face of the growing challenge of electronic commerce.
- **Lower income tax rates** in all brackets by 0.4 percent immediately and increase the state Working Family Credit to continue recent progress in reducing Minnesota's nationally-high individual income tax burdens.
- **Reduce health care taxes** by repealing taxes on HMO premiums and wholesale prescription drugs and eliminating the scheduled increase in the provider tax of 0.05 percent. The Governor reducing our reliance on the provider tax by permanently limiting it to 1.5 percent and also dedicating a share of existing cigarette excise tax receipts to health care purposes.
- **Reduce motor vehicle registration (license tabs) taxes** to continue progress toward the Governor's goal that no auto registration tax exceed $75.

These proposals, and others included in the Governor's budget, are each significant in their own right, but they become even more important as elements of comprehensive tax reform. Reform of the school financing structure provides property tax relief and makes the system more controllable and accountable to taxpayers. Property tax relief provides the opportunity to reform the classification and state aid systems. Reform of the sales tax both improves the fairness and long-term reliability of the sales tax as a viable revenue source, and provides opportunities for additional reductions in income, health care, motor vehicle and other taxes that would not be achievable otherwise.

Focusing on the bottom line: Significant tax relief combined with fundamental tax reform

The Governor's recommendations reduce overall state and local taxes by over $1 billion annually in FY 2003, and reduce the reliance on both the property and income tax in the state and local revenue system. Under the Governor's recommendation, the sales tax will replace the property tax as the second-largest revenue source after the individual income tax, with an overall reduction in tax burden.

Fairness and balance among businesses and individuals, regions, and income levels

The key concern of Minnesota citizens and policymakers is for fairness and balance of tax burdens between business and individual taxpayers, between metro and Greater Minnesota communities, and across various levels of household income. The Governor's reform and relief recommendations have been developed with those concerns in mind. Preliminary estimates indicate that the overall distribution of tax relief under the Governor's proposal will be consistent with the current distribution of tax burdens, although a detailed analysis of tax incidence impacts in comparison to current law projections will not be available until March 2001.

How will the plan affect individual taxpayers?

The Governor's tax reform and relief proposal makes a number of simultaneous changes in the tax laws – many of those offsetting the others within the entire tax system. As with the overall state and local revenue system, the bottom line effects on individual taxpayers reflect the sum total of these changes. Here are some representative examples of how Minnesota households will be affected by the recommendations:

	Married Filing Joint 2 Children Income about $60,000 Home Market Value $120,000		
Taxes	Current Law	Governor's Proposal	Change
Income	$2,237	$2,045	$(192)
Sales	1,150	1,220	70
Property	1,506	1,286	(220)
Motor Vehicle Reg.	198	178	(20)
MNCare	174	113	(61)
Other	450	450	0
Total	$5,715	$5,292	$(423)
Reduction			(7.4%)

	Single Head of Household 2 Children Income about $30,000 Home Market Value $75,000		
Taxes	Current Law	Governor's Proposal	Change
Income	$708	$166	$(542)
Sales	800	875	75
Property	780	664	(116)
Motor Vehicle Reg.	35	35	0
MNCare	119	77	(42)
Other	325	325	0
Total	$2,767	$2,142	$(624)
Reduction			(22.6%)

Taxes	Single Income about $75,000 Home Market Value $120,000 Current Law	Governor's Proposal	Change
Income	3,908	3,608	(300)
Sales	1,400	1,485	85
Property	1,506	1,286	(220)
Motor Vehicle Reg.	385	189	(196)
MNCare	87	57	(30)
Other	450	450	0
Total	$7,736	$7,075	$(661)
Reduction			(8.5)%

Taxes	Retired Couple Income about $30,000 Home Market Value $93,000 Current Law	Governor's Proposal	Change
Income	$118	$107	$(11)
Sales	750	820	70
Property	1,051	904	(147)
Motor Vehicle Reg.	99	89	(10)
MNCare	11	72	(39)
Other	325	325	0
Total	$2,454	$2,317	$(137)
Reduction			(5.6%)

How will the plan affect business taxpayers?

The Governor's tax reform and relief proposal makes a number of significant changes to the way Minnesota taxes business - providing net relief of over $330 million per year. This is important, not only for Minnesota's competitive position in a changing economy, but also because business taxes ultimately affect individual workers and households.

Under current law, businesses pay about 33 percent of total state and local taxes, Minnesota households pay 64 percent, and nonresidents pay the remainder. (This is what's called "initial incidence," before business taxes are ultimately passed along to households through product prices, wages and benefits, or profits.)

Under the Governor's proposal, net tax relief to businesses and Minnesota households is estimated to be distributed in the same proportion as current taxes: 33 percent to businesses, and 64 percent to households.

How will the Governor's plan affect the regional distribution of tax relief?

Under current law, total state and local tax collections in the seven county metropolitan area are estimated to account for 66 percent of the statewide total. Under the Governor's proposal, the percentage of total state and local taxes paid in the metropolitan area is expected to remain at about the same level—roughly 66 percent. In the property tax component of the proposal, the relative tax relief in Greater Minnesota is larger than in the metropolitan area: under current law, property taxes in the 80 non-metro counties account for 35 percent of total property taxes statewide. Under the Governor's proposal, about 40 percent of the net property tax reduction occurs in those same counties.

How will the Governor's plan affect the overall incidence of the tax system?

The Governor's recommendations have been designed to maintain the current roughly equal proportional distribution in overall tax burdens (direct and indirect) among households at various income levels. Reductions in both the income and property tax, continued sales tax exemptions for food, clothing, heating fuels, and other essential items, and increases in the state Working Family Credit and the maximum homeowner property tax refund are intended to maintain a balanced distribution of overall tax relief among Minnesota households. As indicated previously, a complete updated tax incidence analysis of current law will be available in March 2001.

Sales Tax Rebate

The Governor recommends a $925 million sales tax rebate. This is the amount that was certified as available for rebate in November. This rebate will "settle up" with tax-payers for tax year 2000-01. As with the last two rebates, it will be mailed directly to eligible taxpayers next summer. The average rebate amount is expected to be approximately $440 ($590 for couples and $300 for singles).

School Funding and Property Tax Reform

The Governor's recommendations for property tax reform and relief are designed to make the property tax smaller, fairer, more local and more accountable to taxpayers by eliminating state mandated costs from the property tax. Under current law, the general education levy will add about $900 million to property tax bills in 2001. The single greatest direct, state-mandated spending driver in the local property tax is the general education levy, now used to fund a portion of the state-set, per-pupil general education formula. Removing this levy allows for meaningful class rate reform, because it is a major contributor to overall tax rate disparities between business and rental housing and other properties.

The Governor's proposals for reforming the Property Tax system are:

- Eliminate the general education levy and fully fund the general education formula from state resources;
- Place responsibility for voter-approved additional school operating levies on residential (homeowner and apartment) or "voting" properties only, to promote greater local control and accountability over these spending and taxing decisions;
- Increase state equalization aid for operating referendum levies to allow voters in property-poor school districts to generate additional operating dollars with comparable tax rates as voters in wealthier districts;
- Create a new statewide General Fund (property tax) levy on business and seasonal properties or "non-voting" properties at reduced level. The new statewide levy would provide that these properties contribute toward the state per pupil costs while still achieving net relief, and in exchange are exempted from local school operating referendum levies;
- Exempt farmland (excluding the house, garage, and first acre) from both the local referendum levy and the statewide general fund levy;
- Maintain other remaining school property tax levies on the full local tax base (including businesses, seasonal properties, and farmland) and increase state debt service equalization aid.

The net effect of the Governor's recommendation is to increase the overall state share of school aids and levies from 69 percent under current law to 85 percent in FY 03. The following chart illustrates the changes to state funding of education.

Changing the Ratio of State Aids to Local Property Taxes in K-12 Education Funding *

FY 2003
($ in millions)

	Current Law		Governor's Recommendation	
Local Property Tax	$2,125	31%	$1,014	15%
State Aids	$4,710	69%	$5,900	85%
Total	$6,835	100%	$6,914	100%

* excludes federal funds and local fees and charges not affected by Governor's reform proposal

In combination with reform of the school finance reliance on the property tax, the Governor's recommendation also includes reforms of the property tax classification system and of state aid payment formulas for cities, counties, townships, and individuals. Major features include:

- Reduce property tax classification rates for commercial/industrial, rental, seasonal recreational, and other property types, to reduce disparities in tax rates and reduce the barriers to economic competitiveness and development posed by Minnesota's high tax burden on business and apartment and rental properties.

PROPERTY TAX RELIEF AND REFORM

($ in millions)	FY 03	FY 04	FY 05
Current Law			
State	$ -	$ -	$ -
School	$ 2,125	$ 2,264	$ 2,413
Non-School Local Government	$ 3,277	$ 3,448	$ 3,628
Total	$ 5,402	$ 5,712	$ 6,041
Governor's Recommendation			
State	$ 470	$ 485	$ 499
School	$ 1,014	$ 1,151	$ 1,291
Non-School Local Government	$ 3,117	$ 3,264	$ 3,427
Total	$ 4,601	$ 4,900	$ 5,217
Total Property Tax Reduction	**$ 801**	**$ 812**	**$ 824**
Percent Decrease	**14.8%**	**14.2%**	**13.6%**

- Reform the "tiered" classification structure for homestead properties to reduce the impact of market value inflation on property tax rates and better equalize homeowner tax burdens.

- Create a new state-paid credit for homestead properties to maintain property tax relief for homeowners, with a minimum tax rate requirement to ensure that state payments are targeted efficiently to those with the highest tax rates.

- Assume state funding responsibility for certain court-ordered child protection costs, and for additional court administration costs, in exchange for a reduction in state HACA payments to counties. This will further reduce state-mandated impacts on the local property tax.

- Reform state aid payment formulas to cities and towns so that they more directly reflect basic costs for municipal services and the local resources available to fund those services, recognizing differences between the large central cities, suburban communities, and Greater Minnesota.

- Increase the maximum homeowner property tax refund to the same level as renters (from $520 to $1,230) to direct more relief to taxpayers with relatively high taxes and low incomes.

Statewide Average Property Tax Reductions Under the Governor's Proposal

The net effect of the Governor's recommendations for school finance reforms (including the new general fund levy), property tax classification reforms, and changes in state payment formulas to other local governments is a reduction in property taxes statewide of approximately $800 million per year.

The impact of the Governor's recommendations is to significantly reduce the disparities in effective tax rates among various property types that exist under current law. This is especially true for the "local" portion of the property tax. The following chart illustrates the impact of the Governor's recommendation by major types of property.

Property Types	Reductions
Homestead	(14%)
Farm homesteads	(23%)
Farm non-homesteads and timber	(18%)
Seasonal recreational	(12%)
Rental (1 to 3 units)	(12%)
Apartments (market rate)	(28%)
Low-income apartments	(14%)
Commercial/industrial	(15%)

Sales and Use Tax Reform

The Governor's proposal will have the state and local tax system rely less on property and income taxes and more on the sales tax. The proposal would align sales tax treatment of the service economy (which is largely untaxed) more with the goods economy (which is basically taxed), reduce the rate to 6 percent and expand the exemption for capital equipment and business inputs.

SALES TAX REFORM								
($ in millions)		FY 02		FY 03		FY 04		FY 05
Sales Tax Current Law	$	4,146	$	4,454	$	4,702	$	4,964
Motor Vehicle Sales Tax	$	542	$	604	$	622	$	641
Total		$4,688		$5,058		$5,324		$5,605
Governor's Recommendations								
Broaden Base	$	387	$	963	$	1,000	$	1,039
Reduce Rate from 6.5% to 6%	$	(178)	$	(458)	$	(481)	$	(505)
Repeal June Accelerated (6%)	$	(134)	$	(10)	$	(8)	$	(9)
Upfront Cap Equip Exempt (6%)	$	(39)	$	(48)	$	(31)	$	(34)
Streamline Project	$	0	$	(1)	$	(1)	$	(1)
Total Sales Tax Increase	$	**36**	$	**446**	$	**479**	$	**490**
Percent Increase		**0.8%**		**8.8%**		**9.0%**		**8.7%**

In Minnesota, as in many other states, the sales tax has come under growing pressure as a revenue source. The economy has changed as consumption has shifted more from goods, toward services. Minnesota's sales tax was first imposed in 1967 on goods only (minus food and clothing), a time when services made up just over 40 percent of total consumption. Since then, services have grown to consume 60 percent of consumer expenditures, yet the sales tax still applies to only a small select group of services. Minnesota's sales tax is increasingly out of step with the modern economy.

Moreover, the growth of e-commerce and Internet sales--while essential for economic growth--are causing a growing tax loss because sellers from outside Minnesota don't collect and remit the sales and use tax. In the process, Minnesota retailers find themselves at a competitive disadvantage.

Finally, Minnesota has a high state sales tax rate—at 6.5 percent, the third-highest in the country. That high tax rate makes routine purchases for consumers more costly than they otherwise would be, and when imposed on business equipment and supplies, increases the costs of doing business in Minnesota.

The Governor's proposal for sales and use tax reform is to preserve and modernize the sales and use tax so that it can continue to serve as a viable alternative to property and income taxes. Citizens told us that while they want overall tax burdens reduced, they would be more willing to trade-off the sales tax with the income and property tax because the sales tax is more within their own control than income and property taxes.

The Governor's sales and use tax reform proposal is based on the following principles:

- Taxing consumption is a fair, appropriate way to generate revenue to pay for government services.
- Taxpayers should be treated equally, whether they prefer to consume goods or services.
- The level of taxation should be balanced among the various sectors of the economy.
- Whether or not something is taxable should depend on the product or service being sold, not the business entity or organization that sells the item or service.
- Minnesota's sales and use tax system should be as similar and uniform with other states as possible, so that it is easier for nationwide businesses to collect and remit the state's sales tax.
- "Pyramiding" of sales taxes—taxing the inputs as well as the final product or service—should be avoided.
- The sales and use tax laws should be understandable for taxpayers and as easy for businesses to administer as possible.

With these principles as a guide, the Governor recommends the following reforms to the sales and use tax:

- Treat the service economy more like the goods economy by extending the sales tax base to many business and professional services currently not subject to sales tax, while maintaining exemptions for educational, child care, and health care services.
- Broaden the sales tax base by repealing several exemptions, but maintain current exemptions for essential items such as food, clothing, and home heating fuels.
- Reduce the sales tax rate to 6 percent.
- Expand the definition of exempt capital equipment to include pollution control equipment, and make the capital equipment exemption up-front instead of a refund program.
- Expand the definition of exempt business inputs for taxable goods and services.
- Modernize the definition of "telecommunications services" in the sales and use tax statute.
- Repeal the June accelerated sales tax payment requirement.
- Exempt state and local governments from the sales tax.
- Broaden the exemption for purchases by non-profits to include meals, lodging, vehicle rentals and building materials, and exempt sales by non-profits up to the first $25,000 of taxable sales in the calendar year.
- Adopt model legislation for uniform sales tax definitions, filing requirements, and other administrative practices recommended by the National Streamlined Sales Tax initiative. This is a multi-state effort supported by the National Governor's Association, National Conference of State Legislatures, and other organizations, with the goal of achieving nationwide uniformity in administration of the sales tax to promote compliance with state sales and use tax laws by nationwide retailers (whether brick and mortar, catalog, or internet) and preserve state sales and use taxes in the era of electronic commerce.

Income Tax Relief and Reform

INCOME TAX RELIEF AND REFORM ($ in millions)	FY 02	FY 03	FY 04	FY 05
Ind Income Tax Current Law	$ 6,392	$ 6,901	$ 7,400	$ 7,856
Governor's Recommendations				
Reduce Tax Rates all Brackets	$ (601)	$ (483)	$ (628)	$ (717)
Increase Working Family Credit	$ (27)	$ (27)	$ (102)	$ (103)
Repeal Alternative Minimum Tax	$ -	$ (30)	$ (32)	$ (33)
Other Changes and Interactions	$ -	$ 44	$ 45	$ 46
Total Income Tax Reduction	**$ (628)**	**$ (496)**	**$ (717)**	**$ (807)**
Percent Reduction	**9.8%**	**7.2%**	**9.7%**	**10.3%**

The individual income tax is the largest revenue raiser in the state budget. Despite reductions enacted during the 1999 and 2000 legislative sessions, Minnesota's rates remain high in comparison to other states (the 10th–highest top rate and the 3rd–highest starting rate). Income tax burdens continue to be cited as a competitive disadvantage in attracting and retaining highly-skilled and productive workers to the state. In addition, Minnesota's income tax laws have become increasingly complex in the period since major simplifications were last achieved in the 1980s.

Governor's Recommended Income Tax Rates

	Current Law	Proposed Jan 1, 2001	Proposed Jan 1, 2003	Proposed Jan 1, 2004
Married Filing Jointly				
Under 25,680	5.35%	4.95%	4.85%	4.75%
25,680 – 102,030	7.05	6.65	6.55	6.45
Over 102,030	7.85	7.45	7.35	7.25
Individuals				
Under 17,570	5.35	4.95	4.85	4.75
17,570 – 57,570	7.05	6.65	6.55	6.45
Over 57,570	7.85	7.45	7.35	7.25

The Governor's recommendations for individual income tax reform and relief are designed to reduce income tax burdens for all taxpayers and achieve simplifications in tax calculations and penalties:

- Reduce income tax rates by 0.4 percentage points in all three brackets for calendar years 2001 and 2002, an additional 0.1 in 2003, and another 0.1 in 2004 if resources are available.

- Increase the Working Family Credit for taxpayers with one child by $100, and by $200 for those with two or more children in calendar years 2001 and 2002. In 2003 and thereafter, child credits are doubled to $200 and $400 and generation and phase-out rates are increased by 50 percent--achieving an overall doubling of the credit.

- Modify other income tax credits and subtractions: eliminate the dependent care credit beginning in calendar year 2002 and shift the savings to the child care assistance program operated by the Department of Children, Families and Learning; modify the K-12 credit and subtraction to clarify qualifying expenditures and promote better accuracy and compliance.

- Eliminate the Alternative Minimum Tax to simplify tax calculation requirements.

- Reduce and simplify the penalty structure for late filing and payments so it will be less onerous on taxpayers with short delays, and more effective in preventing lengthy delinquencies.

Health Care Tax Relief and Reform

The Governor recommends repeal of the HMO premium tax and the wholesale drug tax, eliminating the scheduled 0.5 percent increase in the provider tax and limiting future reliance on the provider tax by permanently limiting it to 1.5 percent. Under current law, the HMO premium tax would be required to "blink on" and the provider tax revert to a 2 percent rate. On-going funding in the Health Care Access Fund is assured by a dedication of 85 percent of cigarette excise tax proceeds beginning in FY 2004 this is in addition to recommending transferring selected program expenditures to the general fund.

HEALTH CARE TAX RELIEF AND REFORM ($ in millions)	FY 02	FY 03	FY 04	FY 05
Health Care Taxes - Current Law	$ 179	$ 244	$ 269	$ 280
Governor's Recommendations				
Repeal Premium Tax	$ -	$ (18)	$ (34)	$ (35)
Repeal Wholesale Drug Tax	$ (16)	$ (34)	$ (35)	$ (37)
Reduce and Stabilize Provider Tax	$ (28)	$ (59)	$ (62)	$ (64)
Other Changes	$ 4	$ 10	$ 11	$ 12
Total Health Care Tax Reduction	**$ (40)**	**$ (101)**	**$ (120)**	**$ (124)**
Percent Decrease	**22.3%**	**41.3%**	**44.5%**	**44.4%**

Motor Vehicle Registration Tax Relief

The Governor recommends reductions in the motor vehicle registration tax. Beginning in January 2002, the maximum tax for first year registration would be $189 and the maximum tax for subsequent registration years would be $89. Then beginning in January 2004, the maximum tax for all registration years would be $75. Combined with last year's action, these additional steps will lead to a total reduction of approximately 40 percent in FY 2003.

The loss to the Highway User Fund will be replaced by dedicating a specified percentage of the motor vehicle sales tax (MVST) to the highway fund. The recommended MVST dedication is 39 percent in FY 2002 and grows to 61 percent in FY 2005. This will fully reimburse the highway fund for the previous license tab cut, the additional tab cut proposed and the sales tax rate cut.

MOTOR VEHICLE REGISTRATION TAX REDUCTION ($ in millions)	FY 02	FY 03	FY 04	FY 05
Motor Vehicle Reg Tax - Current Law	$ 509	$ 516	$ 524	$ 531
Governor's Recommendation				
Reduce License Tax	$ (41)	$ (85)	$ (120)	$ (156)
Total License tax Reduction	**$ (41)**	**$ (85)**	**$ (120)**	**$ (156)**
Percent Decrease	**8.1%**	**16.5%**	**22.9%**	**29.4%**

Corporate Tax Relief and Reform

The Governor is also recommending additional business tax relief including a corporate income tax rate reduction to 9.4 percent and 90 percent sales weighting in the apportionment formula (accompanied by base broadening reforms which partially offset the reduction).

These changes must also be viewed in the context of approximately $300 million in property tax relief that business will receive under the Governor's property tax proposal.

CORPORATE TAX RELIEF AND REFORM ($ in millions)		FY 02		FY 03		FY 04		FY 05
Corporate Tax Current Law	$	828	$	908	$	994	$	1,031
Governor's Recommendations								
Rate Reduction to 9.4%	$	(40)	$	(34)	$	(37)	$	(38)
90% Sales Weighting Factor	$	(55)	$	(46)	$	(51)	$	(53)
Other Changes and Interactions	$	67	$	67	$	75	$	80
Total Corporate Tax Reduction	**$**	**(28)**	**$**	**(13)**	**$**	**(13)**	**$**	**(11)**
Percent Decrease		**3.4%**		**1.4%**		**1.3%**		**1.1%**

Other Tax Changes

The Governor is also recommending other tax changes including:

- A 10 percent reduction in the taconite production tax;
- Reduction and reform in charitable gambling taxes;
- Changes in environmental fees and taxes and the various funds that support environmental priorities;
- Repeal of several smaller taxes;
- Changes in telecommunication taxes to bring more competition into the market and broader access to high speed telecommunications, data, and cable services.

First Things First – Fulfilling Our Basic Responsibilities

The Governor set high expectations for this budget – limited growth coupled with unlimited expectations for government reform and accountability. Yet the Governor has always been clear that reform and tax cuts cannot come by neglecting the state's core responsibilities.

Meeting both those challenges has not been an easy task. Even small changes, providing the most basic of inflationary adjustments, do not come cheap. These changes do not sell themselves, either -- they are never exciting or attention grabbing.

Still, a primary responsibility of the budget is to make state government work for Minnesotans and this budget does that. But that doesn't mean government was protected from tough choices. At the first budget meeting, commissioners were put on notice that there would be limited funds for new activities. They would have to reallocate and reprioritize, review and reassess. Any agency wanting new money would have to show results.

The budget instructions sent a clear message to state agencies – there are things that we won't get to do this session. If the legislature also limits spending growth, it will face the same difficult choices.

Basic investments in the Governor's budget include the following:

- State agencies are provided with a 3 percent increase ($139 million from all funds) to cover salary and compensation costs. Expected increases in health insurance costs will consume at least one-half of that increase. In many instances, these are the only operational increases provided to state agencies. They are expected to manage within these limitations.
- The Courts and Public Defenders are provided with an additional 4-5 percent increase ($27 million) to cover rapidly increasing caseload costs, most of which were created by recent changes in state law.
- The State Patrol is provided an additional $4 million to ensure that annual training academies can continue and that ongoing trooper salary costs are budgeted for graduating recruits.
- State prisons are given locks and security systems at a cost of $3 million because some of the buildings were never intended to hold criminals, and they must be retrofitted to make them safe for the prisoners and the staff. Community Corrections funding is increased $14 million to maintain correctional services for offenders living in the community.
- Contingent reserves are increased by $10 million to anticipate and prepare for emergencies and deficiencies.
- Asset preservation is emphasized in the capital budget to reduce the backlog of repairs, and renovate or replace obsolete facilities. $365 million of the proposed $504 million capital budget is dedicated to asset preservation.

Partnering with Other Public Providers

After taking care of core duties, the state must then turn to partner with state universities, local government, health providers, local schools, and other public systems.

The Governor's budget is clear that the state will be a responsible *partner,* but is not going to be *solely* responsible for these organizations. Our partners have independent decision-making authority for setting costs and priorities. Our partners also have more flexibility in funding because they can sometimes access other revenue sources. But they will face the same tough choices that all organizations face, as costs grow, demands rise and needs proliferate.

The Governor recommends:

- $99 million for higher education institutions including $30 million for student financial aid. This is two-thirds of a 3 percent increase for faculty and staff compensation. Traditionally, state appropriations cover two-thirds of instructional costs with the remainder coming from tuition.

The Governor recommends significantly increasing the funds going to financial aid because he believes more resources should be put in the hands of the individual, forcing institutions to adapt programs to meet current needs in order to stay competitive.

- $30 million for Metropolitan Transit to maintain and expand levels of bus ridership. State funding would be supplemented with a potential fare increase.

- $174 million to exempt local governments from state sales taxes. Current law taxes cities and counties even though that money – and more – is sent back in aid payments. Ending the tax will simplify intergovernmental finance and provide local units of government with new resources to manage local costs, such as the Public Employee Retirement Association (PERA) deficiency.

- $65 million for a 2 percent cost of living adjustment for K-12 instructional staff, effective in the second year of the biennium. This delayed increase recognizes the $107 million in ongoing funds added to the current budget last session – a "non-budget" year. The tax plan also proposes major changes to the way that schools are funded and clarifies local and state roles.

- $23 million for a 2 percent cost of living adjustment for long term care providers, effective in the second year of the biennium. This delayed increase reflects the $26 million in ongoing funds added to the budget in the last legislative session.

System Reform

Some of the problems faced in these systems will not be fixed with more money. Labor shortages, scarce resources, and marketplace challenges will not disappear without fundamental reform. The Governor's budget recognizes this concern and recommends new directions for the future.

- Nursing homes have too many beds, too few workers, and too many new competitors. As a result of the work of his commissioners and key legislators, the Governor recommends a reform package that reduces the number of nursing home beds. Savings are redirected to reward facilities that downsize and to fund more community-based supports.

- K-12 schools have teacher contracts with "steps and lanes" -- each year provides an automatic raise followed by contract negotiation for additional increases. This budget provides funds for a new Performance Incentive Pool that will encourage school boards to reward teachers for teaching, not tenure.

- Child care is automatically available to anyone on welfare, but a family who isn't on welfare--with the same income--might have to go on a waiting list. The current system sets up the wrong incentives and doesn't target state dollars to the neediest families. This budget consolidates child care funding so that the poorest people get the most help, and so that you don't have to be on welfare to get child care.

- The University of Minnesota provides cutting edge medical research and training even though the state's health system has shortages of general practitioners and nurses. The budget includes additional funding from the General Fund and tobacco endowments to help the Academic Health Center and the MN Department of Health reform medical training while stabilizing the funding.

Prevention and Self-Sufficiency

The Governor's Budget Principles stress the importance of avoiding future costs wherever possible. It makes no sense to limit state spending today if you end up creating larger problems for the future. As the old saying goes, an ounce of prevention is worth a pound of cure.

Finding real prevention strategies is tough. First, it requires doing your homework so that you can get the best bang for the buck. Second, it requires perseverance to evaluate what you've tried to make sure that the money delivers as expected. Without a focus on results, prevention strategies are just a pretty way of selling new spending.

The Governor believes that the ultimate payoff for state investment in prevention is self-sufficiency for all Minnesotans. From time to time, people may need help to overcome problems and barriers. If government is doing its job, the help provided will allow individuals grow and move beyond that assistance.

For many individuals and families, the most significant problems are getting healthy and using their skills to succeed. For example, can we teach a child that is hungry or having an asthma attack in the classroom? Will this problem get any better if we don't address it today?

Investing for Results

The only way to answer these questions is to carefully look at the research. We can spot many problems, but within a limited budget we must focus attention on places where we can get results. Budget initiatives require a clear problem, good research on why it occurs, and strategies to fix the problem.

- We know that kids go to school even when they are sick or suffer from chronic problems, like asthma. The Governor recommends using $174 million from the one-time tobacco payments to create a Healthy Kids Endowment that will coordinate immunizations and support school-based health strategies.

- We know that people prefer to work if it pays to work. The Governor recommends increasing the state's Working Family Credit by $52 million in FY 2002-03 and doubling it in FY 2004-05 to ensure that low-income adults will always be better off by finding employment.

- We know that hungry kids don't learn. That's why the last Governor's budget recommended Fast Break to Learning and why this budget increases funding by $300,000 to ensure that it will reach all of the poorest school districts.

- We know that youth with intermittent health care don't do much better than those who never see the doctor at all. The Governor recommends simplifying the state's health care programs at a cost of $14 million and eliminating rules that cycle kids on and off of health insurance.

- We know that roughly half of the families enrolled in MFIP - state welfare - began with a teen birth and that nearly 80 percent of adolescent mothers will receive cash assistance at some time. The Governor recommends $22 million for pregnancy prevention and counseling to make sure that children don't continue to have children.

- We know that while Minnesota ranks as one of the healthiest states, it also has some of the widest gaps in health status between white and racial and ethnic populations of any state. The Governor recommends funding to community organizations to eliminate health disparities ($14 million) and address emerging problems such as infant mortality and drug-resistant tuberculosis.

Health Market Reform

As good as our state's health system is, we still have to confront big challenges to meet the needs of an aging and increasingly diverse population. The Governor's vision for the future is that all Minnesotans will have equal opportunities for good health. We are learning much about what produces good health – and it's not just big medical technology. Individuals must also make good choices about their behaviors and make sure that conditions promote and protect health rather than undermine it.

This budget contains several initiatives to start new reform of the health care market. In the coming months and years, the Governor and his Administration will work with health plans, providers, businesses, and citizens to ensure that every partner in the health system works to control costs and improve outcomes.

Specifically, the Governor recommends the following:

- Reducing health care taxes by $141 million. Current law would increase the provider tax and the HMO gross premium tax. By simplifying public programs and redirecting resources, the Governor proposes to eliminate the scheduled increase of 0.5 percent and cap the provider tax, eliminate the gross premium tax, and eliminate the wholesale prescription drug tax.

- Consolidate the financing of children's health care programs in the general fund to better coordinate related programs, extend eligibility beyond current guidelines, and reduce the pressure on health care taxes to fund these important programs. This change moves $37 million in annual expenditures to the general fund.

- $30 million one-time appropriation from the Health Care Access Fund to invest in safety net providers so that they can more efficiently deliver services in the future. Community clinics, rural hospitals, and hospitals with excess charity care burdens will be helped so that every Minnesotan can access care when needed.

- $30 million one-time appropriation from the Health Care Access Fund to offset losses of the Minnesota Comprehensive Health Association (MCHA) so that safety net costs don't increase the cost of health insurance. This initiative also starts a study of private insurance pool options for individuals without health insurance.

- $10 million one-time appropriation from the Health Care Access Fund to generate useful health care information so that consumers know what service costs and how providers compare with each other. Informed consumers are the first step for reigning in our health care costs.

Using TANF to promote Self-Sufficiency.

The Governor further recommends use of federal Temporary Assistance to Needy Families (TANF) to promote self-sufficiency for low-income families. This budget continues the Governor's practice of using TANF funds for innovative, multi-agency strategies to reduce family poverty.

Specifically, the Governor's budget recommends:

- $36 million to extend the time limit for MFIP families when they are in compliance with employment plans and strengthening sanctions for participants who are not in compliance. These funds make sure that the state provides the right incentives for families to play by the rules.

- $24 million in funding for Affordable Housing which will increase the supply of affordable housing for Minnesota's lowest income working families.

- $1 million and program changes that reform Child Care Assistance so that they will help low-income families whether or not they are on welfare. This initiative will allocate resources to highest priority families and provide the correct incentives to transition to self-sufficiency.

- $9 million in funding for Child Permanency and Reunification to help children who are at risk of out-of-home placement. These funds help shorten a child's stay in temporary foster care and provide the opportunity for stable, caring environments for children.

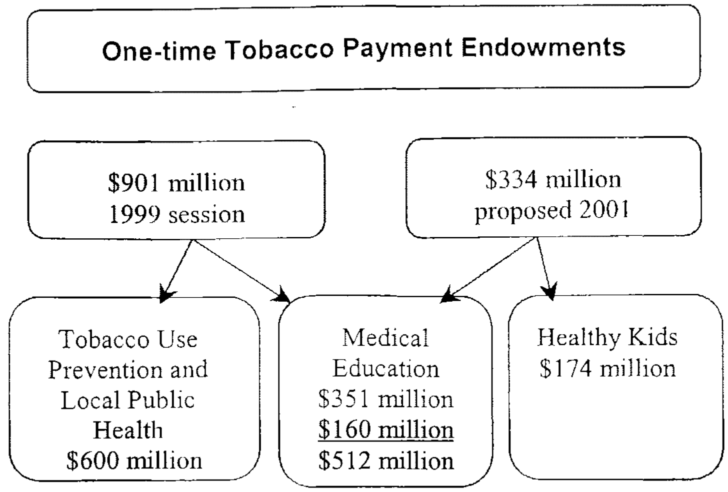
Using One-Time Tobacco to Prevent Long-Term Problems

As part of the historic settlement with tobacco companies, Minnesota is scheduled to receive one-time payments of $334 million in FY 2002-03. This budget continues the policy set by the Governor and the Legislature in the last biennial budget, dedicating the funds to make long-term improvements in the health of Minnesotans.

The Governor recommends putting these funds in endowments that will stretch the benefits of settlement dollars long into the future. As was done with the first payments, the endowments will be set up to spend interest earnings, protecting the principle and retaining flexibility for the state to reinvest at a later date. And most importantly, this strategy allows for a sustainable growth in activity that doesn't create large unmet needs in future years. These endowments are as follow:

- **Medical Education Endowment** dedicates $8 million in interest earnings to the Department of Health to support medical education at the University of Minnesota's Academic Health Center (AHC). The monies are to be made available to the AHC as it redesigns its health care and professional training programs. The shared objective is to increase the number and diversity of our health professionals so that all Minnesota communities might be adequately served.

- **Healthy Kids Endowment** dedicates $3 million in interest earnings in FY 2003 (increasing to $8.7 million in FY 2005) to the Department of Health to improve the health of school aged students and their learning environment. Funds will be used to strengthen partnerships between schools and local public health services, and create a comprehensive system for getting children immunized.



Note: Actual annual expenditures result from the interest income from the principal amount noted above.

Workforce Development

The shortage of skilled workers is the greatest challenge to Minnesota's continued prosperity and economic growth. Our state's businesses are creating jobs faster than they can be filled, with projections showing workforce growth of 12 percent lagging behind the job rate growth of 16 percent, through at least the year 2008. Important public employers - nursing homes and schools, to name a few - face similar challenges in finding quality staff.

In the past, Minnesota could rely on new entrants into the labor force to fill the demands of a booming economy. But Minnesota's teens, women and our elderly already participate at the nation's highest rates, so solutions to this workforce crisis must lie elsewhere. We must focus on retaining and training the employees we already have, and ensure that nobody is excluded from a productive work life.

Yet the problem is not one of volume alone. Minnesota has long prided itself on its diversified economy, led by technology and medical sectors on the cutting edge. As these parts of the economy evolve, and others emerge, the skills of our workforce must keep up.

Workforce Issues Impact Every Area of the Budget

We must also broaden our concept of "workforce development" to cover all the investments we make across the budget – not just in technical colleges and job training programs, but investments in K-12 teachers and students, state employees, nursing home providers and university faculty as well. We make investments in those systems to retain and recruit faculty and staff, and we should recognize those investments as such.

Reassessing the State's Role

In addition to funding programs and supporting our partners, the state must reassess its own role in supporting workforce development. Much of our traditional workforce provider system was developed for economies with higher unemployment rates and lower skill requirements.

The Governor recommends transforming the current Economic Security and Economic Development departments into a new agency. The economic and workforce development strategies previously carried out by the separate agencies will be integrated, and will be able to better customize programs and maximize the return on investment from the federal funds Minnesota receives.

Emerging and Incumbent Workers

The Governor recommends a variety of initiatives to move people into the labor force and up the economic ladder.

Key initiatives include:

- $1.5 million for strategies aimed at connecting non-post secondary-bound 11th and 12th graders with technical training through outreach workers and individual training accounts.
- $2 million to expand workforce training and counseling services to the working poor, and others not reached by other government programs.
- $5 million in increased funding for training and grants from the Jobs Skills Partnership, along with a shift in the financing source for this program.
- $600,000 for Twin Cities Rise to develop and administer job training for hard to employ individuals, many of whom are minorities. Formerly funded as a tax credit for businesses, this new grant will be easier for employers to access.
- $1 million for the Jobs for America's Graduates (JAG) program. This nationally-recognized model helps students stay in school and make decisions related to entering the workforce or attending post secondary institutions.
- $30 million to modify the financial aid program to better support part-time and incumbent workers. This is done through three initiatives: 1) $14 million to lower the assessment rates on independent students' income by one-third when calculating their

eligibility for financial aid. This will provide an incentive for low-income working adults to gain more training, and would ease the financial burden on incumbent workers attending post secondary institutions; 2) $10.7 million to extend the length of eligibility for financial aid, making it easier for workers to return to post-secondary education for further training; and 3) $5.6 million to recognize the cost of exceptional fees that may vary by institution or by curriculum, supporting the ability of students to choose the educational options that best meet their needs.

- $4 million for intervention investment grants, patterned after the federal TRIO programs. These grants are for early intervention efforts that aim to provide information and academic support to children of families without a history of participation in higher education.

- $3 million to combine and expand three grant programs aimed at supporting the academic achievement and lowering the drop out rate for American Indian students.

- $7 million to extend the time that MFIP participants are allowed to enroll in post-secondary education or training programs from 12 months to 24 months, if certain criteria are met.

- $4 million to supplement tuition reimbursement enlistment incentives for the Minnesota National Guard, providing opportunities for soldiers and airmen to pursue post-secondary education and training.

- The Governor's tax plan also includes $53 million to enhance the working family credit to make it easier for low-income families to stay in the work force. In FY 2004-05, the Governor's plan goes further and doubles the credit.

Workforce Shortages and Pressures

The Governor also recognizes the need to recognize workforce shortages and pressures in key areas of the economy and recommends the following critical investments to address these issues:

- $23 million for inflationary adjustments to wages for continuing care providers and $65 million for inflationary adjustments to wages for K-12 instructional staff, beginning in FY 2003. This delayed increase recognizes the on-going wage increases that were added to the current budget last session – a "non-budget" year.

- $40 million for the University of Minnesota and $40 million for MnSCU to fund the state's portion of an inflationary adjustment for faculty and staff compensation.

- $4 million for loan forgiveness programs for physicians, nurses and other healthcare providers and for workforce grants to communities or regions to identify and implement local strategies to meet their health workforce needs.

- $15 million for a performance incentive pool that will help school districts create new compensation structures and career paths for teachers. In addition to tying teacher pay more closely to student outcomes, this initiative is intended to aid with teacher retention and recruitment by providing opportunities for advancements that don't currently exist.

- $10 million for teacher recruitment strategies, including loan forgiveness, grants and tuition waivers for targeted subject areas, alternative licensure and provisional and transitional license changes. Funding is also recommended for mentoring stipends and for certificate accounts for high school students, school volunteers or parapro-fessionals who work with teachers in educational settings.

- $7 million to fund Regional Programs of Excellence for MnSCU for high priority programs that can address critical workforce needs in each region.

Technology and Telecommunications

Changing the Way We Do Business

In just a few short years, technology has changed our world. For many of us, the routine tasks that used to be accomplished by telephone or on paper—buying a plane ticket, getting a weather report, sending a letter, keeping our calendars—have been transformed by the Internet and technology.

The challenge we face is to integrate that same transformation in the way government does its business. We have made much progress in the last two years: citizens can now register their motor vehicles on-line and file their tax returns over the telephone. State agencies see the Internet as their first point of contact with the public, and have made great strides in providing information about the their work on web sites, making government more understandable, and ultimately more accountable to the public. State government is connecting with communities in a meaningful way, and our relationship with Minnesota's communities continues to evolve with our growing capabilities and connectivity.

New Directions

In all, the Governor's budget includes $103 million in recommendations to enhance technology and improve our technology investments. Through these initiatives, citizens will be better able to access information about the use of their tax dollars, and public servants will be better able to do their jobs.

There are three core goals that underlie the Governor's technology recommendations:

- Taking an enterprise-wide perspective. We must look across agencies and at times, even across levels of government, to ensure that our systems can talk to each other, our architecture is standard and our goals are compatible.

- Enhancing technology leadership. We must ensure that decisionmakers, both in the executive branch and in the legislative branch, have access to the analysis and expertise they need to make smart technology decisions.

- Emphasizing results. We need to use technology to achieve the desired programmatic results, rather than seeing technology as an end in itself. Analysis has to be done on the front-end of projects, rather than the back end.

CriMNet

The Governor's recommendations include $27 million for CriMNet—a system for sharing criminal justice information between and among state and local jurisdictions. The lack of shared, accurate, and accessible data hampers the operation of the justice system and impairs public safety.

Without this data:

- Repeat offenders receive lesser sentences than they should, because the data on prior convictions is not available to prosecutors and judges.

- Police officials let criminals drive off after routine traffic stops because their systems don't tell them of the outstanding arrest warrants.

- Investigations fail to identify likely suspects because they can't easily access the records of other jurisdictions.

The challenge involved in integrating hundreds of individual state and local offices including the police, sheriffs, courts, prosecutors, public defenders, jails and prisons, the BCA and the State Patrol is significant and expected to take years to complete.

The Governor's specific recommendations for CriMNet include:

- $15 million for a new Court Information System (MnCIS)

- $4 million for the integration backbone – the "search engine" for CriMNet

- $3 million for grants to smaller counties and cities for planning and cost estimates, and for standard analysis of options for integration of criminal justice data

- $1.5 million to develop statewide offender tracking systems
- $1.5 million in the Department of Public Safety for CriMNet staff
- $2 million to address problems with matching court charges with criminal records.

Technology Management

The Governor also recommends the following investments in the Office of Technology's budget in order to further the three goals:

- **IT Architecture** - $300,000 to develop a statewide framework or "blueprint" of principles, best practices and standards that will direct the design, construction, deployment and management of information systems. It will provide a road map to the state's current and future technical direction, and will help state agencies exchange data more easily, lower purchasing costs and plan more efficiently.
- **Technology Analysts** - $864,000 to enhance the ability of the Office of Technology to provide the kind of technical and analytical review state agencies need to make wise technology investments.
- **North Star Portal** - $1 million to maintain and improve the state's web site.
- **Technology Enterprise Fund** - $1 million to establish a fund that pioneers a new method for funding technology, with an enterprise view.
- **Small Agency Infrastructure Needs** - $2.7 million, managed by OT, and distributed according to need.
- **Unemployment Insurance (UI) System Project Management** - $300,000 for a study of the Department of Economic Security's proposed $30 million UI redesign. These funds would allow for front-end analysis of the business practices and processes, and would focus on opportunities for productivity gains, labor savings and integration with other state systems.

Making Government Accessible to the Public and Efficient - Electronic Government Services (EGS)

The Governor's budget makes recommendations on several key investments that will improve state government's business practices and improve customer service to citizens. These include:

- **Health Data Security** - $6.5 million to ensure data privacy for health and medical records.
- **Natural Resources Connectivity** - $2.29 million to keep DNR field and central office offices connected with each other and the public and to develop forest information and revenue management systems.
- **Revenue Income Tax Reengineering** - $5.4 million to complete implementation of the redesign of the income tax computer system.
- **Driver & Vehicle Services (DVS) Improvements** - $3.6 million to improve technology at driver exam stations, upgrade DVS phone systems and expand DVS connectivity.
- **Human Services EGS** – $7.1 million to make the department's Internet site interactive, allowing many paper-based application and review processes to be conducted on-line.
- **MnDOT Technological Improvements** - $20 million for a variety of infrastructure and connectivity enhancements, including on-line construction contract management and on-line aircraft registration.

Telecommunications Reform

The telecommunications environment is ripe for the same kind of change that we've seen in our use of technology at the state level. While the information age has brought new telecommunications services, little has changed in industry structures. The current regulatory environment supports monopoly providers who do not need to compete–even in under-served areas of the state. Current regulation of telephone rates obscures the true economic cost of service and builds in hidden subsidies.

The Administration's proposal changes these implicit subsidies in telephone rates to explicit ones. Key goals of the reforms are to maintain universal service, to increase competition to drive down consumer prices, and to provide incentives for companies to invest in high-speed telecommunications services statewide.

- **Universal Service:** The overall goal is to maintain high levels of telephone service at lower cost. Rates for local telephone service will be set to reflect their underlying cost and customers with high costs will receive a direct subsidy (approximately $190 million per year) from an excise tax on all telecommunications services. Total costs to consumers are expected to decline due to changes in rate regulation and the level of subsidy provided.

  The plan also reforms intrastate access charges between local service providers and long-distance carriers, using a portion of the excise tax revenue to help develop high speed services in unserved areas.

- **Increased Competition:** A key element of the plan is to increase competition between providers of local and advanced telecommunications services. Under the plan, subsidies would be available not only to existing monopoly providers, but also to competitors.

- **High Speed Services:** A revolving loan fund (with $100 million available from excise tax revenues in FY 2002-03) will be available to competitors to expand services to unserved areas. Much of greater Minnesota is without access to reasonable-cost high-speed data services and that won't change in a monopoly driven market.

Commercialization & Technology Transfer

And finally, the state has a key role in making connections between industry and academia, so that we are sure that Minnesota's economy gets the full benefit of the extraordinary research and discovery occurring in our research institutions.

To this end, the Governor recommends a one-time appropriation of $10 million (matched 3:1 with private funds) for a Biomedical Innovation and Commercialization Initiative. The purpose of the initiative is to ensure that new technologies developed in health sciences fields at the University of Minnesota reach their full commercial potential in Minnesota rather than elsewhere.

An independent organization would be created to bridge the gap between researchers with ideas for new technologies and entrepreneurs who are adept at taking ideas to market and making them profitable. The organization would provide a leadership mechanism, technical assistance, and a market for development capital targeted to promising ventures in the biomedical sciences.

Smart Growth

Minnesota is growing and changing fast. The question before our state is not whether we grow--we will. The real question is how we can grow in ways that improve the prosperity and quality of life for all as Minnesota competes with the rest of the world in the 21st century.

Smart growth includes efficient development and making better use of the land as we grow. But it's also about expanding transportation, transit, and housing choices, revitalizing older urban areas, preserving open spaces, and creating more walkable, convenient neighborhoods. Two key smart growth principles are:

- **Stewardship:** Use land and natural resources wisely to sustain them for the future.
- **Efficiency:** Make more efficient, integrated public investments in transportation, housing, schools, utilities, information infrastructure, and other public services.

Economic competitiveness is important not only to urban areas, but to regional growth centers and rural communities as well. All parts of the state face the challenge of maximizing economic opportunity and connecting people to information, housing, transportation, and jobs. At the same time, Minnesota must protect and enhance the environment and other assets that keep communities attractive places to live and work. This is what smart growth is all about.

The Governor's budget for FY 2002-03 includes a number of budget and policy initiatives to help Minnesota continue growing in a responsible and sustainable manner.

- **Tax reform:** The Governor's tax reform proposals support smart growth principles by providing needed tax relief for apartment owners, and changing the local government aid formula to encourage more compact development.

  The proposals provide a total of $102 million in tax relief for market value apartments, low-income subsidized apartments, and smaller 1-3 unit rental properties, and increase the low-income housing aid formula. These changes are designed to greatly reduce the disparity between tax burdens on single-family homes and multi-unit rental properties. The goals are to provide tax relief to renters, and provide further incentives to develop additional rental housing to help ease current shortages.

  The local government aid formula would be changed by adding an adjustment for population sprawl around regional centers or housing density in the metro area. The adjustment is designed to encourage higher density development and the maintenance of existing infrastructure.

- **Transit:** In FY 2000, over 76 million trips were taken on Metro Transit buses, an increase of 22 percent over the last four years. The budget includes $30 million (plus increased levy authority) in new funding to maintain this increased level of bus system ridership and expand it, and to improve Metro Mobility service. Greater Minnesota transit funding is also increased by $3.1 million to maintain current levels of service.
- **Transportation:** Increasing use of the state's roadways, depreciation of existing roads and bridges, higher construction costs, and increased federal funding for construction are driving a $96 million (Trunk Highway Fund) increase in the state's budget for road construction, raising the total road construction budget to approximately $586 million per year. Funding will be used support the state's "Moving Minnesota" transportation investment strategy, including increases for ongoing repair and replacement of roads and bridges, and for construction to improve the performance of the interregional corridors and eliminate bottlenecks in metropolitan areas.
- **Housing:** $24 million is recommended to finance affordable rental housing for low-income working families. The initiative will support smart growth principles by giving preference to housing developments that are linked to transportation and transit.
- **Energy Planning:** The Governor proposes to produce a statewide energy plan to assess the need for additional electricity

generation and transmission capacity and to develop options for meeting that need.

- **Local Planning assistance:** $230 thousand is for Minnesota Planning to assist local governments in comprehensive planning; efforts will include mobilizing other state agency staff to provide information and assist local governments in applying smart growth principles in their planning.

  In addition, the administration will use existing funding to support pilot development projects that demonstrate opportunities to apply smart growth principles.

- **Livable Communities Grant:** $1 million is recommended to support the Metropolitan Council's existing Livable Communities Act programs. This will support projects that revitalize existing commercial corridors and demonstrate creative and innovative models of compact, efficient development by linking land uses and systems, mixed-use and mixed-income housing, transit, employment, commercial operations, community institutions, and public spaces.

  The Council will also continue implementation of its Smart Growth Twin Cities initiative, which offers metro residents the opportunity to help create neighborhoods that are more convenient, walkable, and transit-friendly, with green spaces and easy access to goods and services, and a variety of housing to meet the needs of people of all ages and incomes.

- **Agricultural Land Preservation:** $2 million is for a pilot program in the metropolitan area to purchase agricultural preservation easements from landowners to keep productive farmland in operation, preserve open space, and limit urban development in fringe areas.

- **Conservation Connections:** The Department of Natural Resources will reallocate $540 thousand for the biennium to support its Conservation Connections initiative, designed to increase collaboration with local governments and other partners to protect ecosystems and link separate blocks of important fish and wildlife habitat.

- **Metropolitan Parks:** $9 million is provided to support the operations and maintenance of the regional parks system through in-lieu of sales tax on state lottery proceeds.

Capital Budget Investments

The Governor's capital budget includes several initiatives that support smart growth principles:

- Conservation Reserve Enhancement Program (CREP) to purchase conservation easements on marginal ag land in the Minnesota River watershed, leveraging a total of $163 million in federal funds ($50 million).

- Water management infrastructure loans to local communities for drinking and wastewater treatment facility improvements ($10 million).

- Redevelopment grant funds to recycle polluted or abandoned land into new uses ($3 million).

Reforming Government

The Governor's 2002-03 budget proposes sweeping reforms of the tax system, the telecommunications system, and sharply limits spending increases. His budget calls on Minnesotans, private businesses, public organizations, local governments and legislators to think hard about choices and trade-offs, roles and responsibilities. The Governor believes that it is only fair that we give that same level of scrutiny to the business and practice of government, and he proposes two major reforms:

- One Session – One Budget
- Campaign Finance Reform

One Session – One Budget

The Governor is recommending that the Legislature meet only once each biennium in regular session. The legislature has met in session every year since 1973 as a result of a 1972 constitutional amendment allowing "flexible sessions" in order to allow more thoughtful consideration of important policy matters in the second year, avoid end-of-session logjams and allow a brief consideration of unfinished business. Many believed that flexible sessions would eliminate the need for costly special sessions and reduce the number of bills introduced and debated.

The result, unfortunately, has been just the opposite. Bill introductions have proliferated. The 2000 legislature, for example, passed more laws in the "off-budget" year than in the budget session. We still experience end-of-session chaos as conference committees meet round the clock to conclude business before the constitutional deadline.

The effects of the annual sessions reach far beyond the legislature. State agencies and local units of government must devote more and more of their staff time and resources to covering hearings, leaving less and less time to do the work the legislature and taxpayers expect them to do. The annual sessions have been a boon to lobbyists, however, with many seeing their work grow from a part-time job, to a full-time profession.

The Governor's proposal would move consideration of the capital budget from even-numbered years, as is current practice, to odd-numbered years, coinciding with adoption of the biennial budget. His $504 million 2001 Capital Budget is advanced in conjunction with the single session initiative.

If this recommendation were enacted, either voluntarily by the legislature or through a voter-approved constitutional amendment, the benefits would be considerable and far-reaching. The operational and capital budget could be considered together, ensuring comprehensive spending decisions. Business, advocacy groups and state and local government could spend less time at the Capitol and more time doing the jobs the legislature wants them to do. Legislators could spend more time in their districts, and could truly become part-time legislators again, opening up the job to candidates who can't afford to leave their jobs for 4-5 months a year. And not least, limiting the amount of time spent in session is likely to help control state spending, removing the temptation for lawmakers to add to the budget they passed just months before.

Campaign Finance Reform

Campaign finance reform is critical to maintaining the integrity of our election process and re-engaging citizens in their government. While Minnesota is doing a lot of things right, the Governor recommends a two-pronged proposal to increase accountability in the political system and limit the financial influence of special interests in campaigns.

First, he proposes prohibiting independent expenditures by political parties and party caucuses between the primary and general elections, and restricting parties', multi-candidate expenditures by limiting the categories that qualify as multi-party expenditures. Political parties and legislative caucuses will voluntarily agree to restrict independent expenditures in exchange for accepting public funds.

Second, his budget includes $4.6 million to double the political contribution refund (PCR) program, allowing individuals to contribute up to $100 to a state-level candidate, political party or legislative caucus and get a full refund from the state.

Together the two proposals offer the incentive of increased funding in exchange for greater accountability for campaign spending. Restricting these independent expenditures will also give candidates more control over their campaigns and limit the ability of parties and caucuses to spend large sums of money to turn a race in the final days of the election.

Education

The budget for Education includes funding for K-12 education, family and early childhood programs, the Department of Children, Families and Learning, the Residential Academies for the Deaf and the Blind in Faribault, and the Perpich Center for Arts Education.

General Fund education spending will increase by $489 million in FY 2002-03 compared to FY 2000-01. Of this increase, $123 million is in new initiatives recommended by the Governor. An additional $10 million to address teaching workforce issues is recommended from the Workforce Development Fund.

Over $1.46 billion of additional K-12 spending is reflected in the Governor's tax reform plan, including the elimination of the general education levy, and enhanced equalization of other levy programs. State spending on schools is only part of the K-12 funding picture.

K-12 Education and Family & Early Childhood Funding
($ in millions)

	FY 2000-01	FY 2002-03	Percent Change
General Fund	8,562	9,051	5.7%
All Operating Funds	9,662	10,222	5.8%

In FY 2002, the state will provide schools with 62 percent of their revenues, with the other 38 percent coming from property taxes. With the Governor's proposed state funding of the general education levy, the state's share of education funding will increase to over 80 percent of school district's total revenue in FY 2003. The proposals in the tax plan will free up resources at the local level, leaving districts with more capacity to fund local priorities, based on each community's individual needs.

Accountability for Education Spending

The Governor's FY 2002-03 education budget focuses on accountability and workforce development. Given significant increases in education funding in recent years - over 16 percent from the 1998-99 to the 2000-01 biennium - this budget instead focuses on targeted, strategic investments. In addition, several proposals address collaboration and consolidation, in order to provide better services to the public.

Child Care Consolidation

As a means of providing more efficient and effective service to the public, this budget proposes a consolidation of the existing child care programs. In addition to consolidating the existing Basic Sliding Fee and MFIP child care programs into a single system, resources will be transferred from the child care program formerly in the Higher Education Services Office and from the dependent care tax credit in the department of Revenue.

General Education Increase and Reform

This budget includes $65 million for an increase to the general education formula allowance that will allow districts to provide a cost of living increase to their instructional staff. In addition to the increase, a number of changes to the education funding system are proposed to help make the funding system more understandable, and, as a result, more accountable, to the people who fund it—the taxpayers.

Advance Achievement and Accountability

As we make schools more accountable, we want to make sure that those students and schools who need extra assistance aren't left behind. With this in mind, $10 million is recommended to fund additional assessment tests, school assistance teams, and staff at CFL to provide assistance to struggling districts. This initiative provides critical information to districts, parents, and other stakeholders.

High-Performing Teachers

Compensating teachers based only on years of experience and the number of classes they take does not provide the proper incentives to ensure that schools have what students really need—effective, well-trained teachers. The performance incentive pool proposal provides $15 million to fund $150 per pupil unit for districts and school sites that try alternative approaches to compensation, rather than the traditional "steps and lanes."

Maintaining School Facilities

Recently, CFL released a report that highlighted the deterioration of school facilities. The existing maximum effort loan program encourages winners and losers, forcing the Governor and legislature to pick and choose between school districts. The enhanced debt service equalization proposal in this budget ($7 million beginning in FY 2003) provides a more equitable means of assisting local communities in addressing their school building needs. An additional portion of this initiative (over $20 million annually) is funded in the Governor's tax plan.

Building on Success

Two programs proven to be effective in increasing student achievement receive additional funding. Currently, American Indian students have one of the highest dropout rates of students in Minnesota. The Governor's budget combines three existing programs into a new program called Success for the Future, and doubles the funding, to total $6.7 million.

The Fast Break to Learning school breakfast program funding level also is increased in this budget to expand services to ensure that all eligible schools receive funding. A recent study by the University of Minnesota found that students who have access to a nutritious breakfast through this program achieved at much higher levels than those who did not participate in a breakfast program.

Developing the Teacher Workforce

Teacher shortages, especially in specific areas, threaten to compromise the future of our children's education. This budget provides $10 million from the Workforce Development Fund for Teachers for the 21st Century, a new program designed to recruit, train and maintain high quality teachers in the workforce.

In addition, $1.5 million has been reallocated from other programs to address critical workforce needs, providing funding for a Minnesota chapter of the Jobs for America's Graduates program and to expand the existing ISEEK information system.

One specific complaint heard from potential teachers is that they are interested in teaching, but can't bear the thought of battling the state bureaucracy for licensure. In addition to several legislative proposals to encourage alternative paths to licensure, $2.6 million is provided to computerize the existing licensure system. The new information system will streamline record-keeping to consolidate education and security information on potential teacher applicants, as well as speeding up the time it takes to get a license from 12 weeks at peak times to 3 weeks or less.

Tax Reform

In addition to the state assumption of the general education levy and related changes, the Governor's tax plan recommends modifications to the education tax credit. These changes save $15.1 million in FY 2003, but are mainly aimed at improving compliance with and utilization of the credit.

Higher Education

The higher education budget includes the University of Minnesota, the Minnesota State Colleges and Universities (MnSCU), and the Higher Education Services Office (HESO). It also includes the Mayo Foundation and the Higher Education Facilities Authority.

Higher Education Funding
($ in millions)

	FY 2000-01	FY 2002-03	Percent Change
General Fund	2,642	2,768	4.8%
All Operating Funds	2,780	2,901	4.3%

The Governor's 2002-03 budget increases $126 million over FY 2000-01, an increase of 4.8 percent. This recommendation includes a net increase of $99.2 million in new initiatives from the General Fund and $7 million from the Workforce Development Fund, to support higher education in Minnesota. Highlights of this proposal are:

- $40 million to the University and $40 million to MnSCU to support inflation adjustments for faculty and staff compensation. Traditionally, state appropriations cover two-thirds of instructional costs with the remainder coming from tuition.
- $8 million from the General Fund in FY 2002 to stabilize core funding for the University's Medical School. The Governor also recommends that $8 million be appropriated in FY 2003 to the Department of Health, as a contingent appropriation, for the University Medical School. This would expand the Medical and Research Education fund established with one-time tobacco payments.
- $14 million to increase financial aid for low income independent, non-traditional, and part-time students. Many of these people are underemployed, and are part of the 40 percent of Minnesota's workforce earning less than $10.00 an hour. The assessment rates on independent students' income will be reduced 33 percent when calculating eligibility for a Minnesota State Grant.
- $11 million to increase the period a student is eligible to receive a State Grant. Current policy allows eligibility for four years of full-time enrollment. This proposal increases the eligibility until a student receives a baccalaureate degree, extending financial aid for an estimated 2,400 students.
- $5 million to allow the State Grant program to recognize individual tuition and fees when calculating the cost of attendance. This will allow the program to account for common practices such as banding of tuition schedules, special tuition or assessments for certain classes or programs, and technology fees.
- $4 million to increase grants to colleges to work with families and students that have low participation rates to develop the interest and capacity to participate in higher education.
- $20 million in savings is realized by capping the increase in Living and Miscellaneous Expenses (LME) at 2.5 percent per year, and reallocating the funds generated by the increase in the federal Pell Grant maximum. In the Governor's budget, these savings are used to partially offset the cost of the financial aid proposals.
- $7 million from the Workforce Development Fund to MnSCU to create Regional Programs of Excellence that address critical workforce needs in each region. This will allow MnSCU to create programs in high demand fields, while recognizing regional variation in those needs.
- $3.5 million to HESO for the MINITEX Library System to expand the electronic delivery of materials to more libraries and increase access to online resources.

Health and Human Services

The budget for health and human services includes the Department of Human Services, Department of Health, Veterans Homes, and related boards. These agencies provide or purchase services that benefit all Minnesotans. Programs in these agencies include health care (Medical Assistance, MinnesotaCare), public health, family support (MNFamily Investment Program), long term care supports, and regulatory activities. The overall effect of forecast changes and budget recommendations for these agencies is shown below.

Health and Human Services Funding
($ in millions)

	FY 2000-01	FY 2002-03	Percent Change
General Fund	5,433	6,441	18.5%
All Operating Funds	11,747	13,736	16.9%

Total General Fund spending for the next biennium is projected to increase by 18.5 percent over the current biennium. A large portion of this growth is due to current law obligations in state entitlement programs. Double-digit health inflation drives government spending just as it does for private employers. All projected spending increases and decreases to these programs that were reflected in the November forecast are built into the budget base. As a result, the starting point for the General Fund budget in the next biennium was already 14.6 percent higher than spending in the current biennium.

To achieve his objectives in this budget area, the Governor looked first to reallocate existing resources; his budget includes $160 million of General Fund reductions and reallocations. The budget recommendations include additional funding totaling $174 million from the General Fund, $94 million from the Temporary Assistance for Needy Families (TANF) block grant, and $18 million from the Health Care Access Fund (HCAF) for the biennium.

Building a Foundation for the Health System for the Next 50 Years

- **Expanding health coverage for children.** State health programs are so complex that children lose eligibility for services after they have enrolled or have difficulty signing up at all. This $13.8 million proposal will provide health coverage to more low-income children by simplifying health care programs in the General Fund and Health Care Access Fund.

- **Investing in safety-net providers.** Safety-net providers are a significant resource for the uninsured. This initiative will provide $30 million for community clinics and hospitals with excess charity care burdens, and for rural hospital capital improvement grants, to promote the financial viability of these providers and ensure continued access to services by populations that lack other means of accessing the health care system.

- **Stabilizing Health Care Funding.** Current law would increase the Provider Tax and the Gross Premium Tax so that yearly revenue would cover spending. By consolidating the financing of children's health coverage in the General Fund and redirecting cigarette tax receipts into the Health Care Access Fund, these health taxes will not have to be increased. Additional tax relief is provided by two year funding for the Minnesota Comprehensive Health Association (MCHA), the state's high-risk pool. These state funds will lower the MCHA deficit and will help to hold down health insurance costs.

Emphasizing Prevention and Health Disparities

- **Eliminating health disparities.** Minnesota is the healthiest state in the nation, but not all our citizens share in our good health. This needs to change. This $13.9 million initiative will provide funds at the local and community level to improve the health status of populations of color.

- **Investing in healthy kids.** Prevention needs to start early. Not only do kids need to start school healthy, but they also need to stay healthy while they're in school so they can learn to get ahead, and not fall behind. This initiative will use a portion of the remaining one-time tobacco payments to create a Healthy Kids endowment; the income, which starts in FY 2003 at $3 million and grows to $9 million per year, will support local partnerships to improve children's health status, particularly around immunizations, asthma, and autism.

- **Reducing teen pregnancies.** Starting a family when you're still a teenager is the quickest route to welfare dependency and poverty. A $10 million TANF initiative will provide a comprehensive strategy to reduce teen pregnancy rates, especially among teens of color. A second $1.7 million initiative will leverage significant federal funds to enhance Medical Assistance by including coverage for family planning services for an additional 30,000 Minnesotans.

- **Preparedness for emerging health threats.** Preparedness and rapid response are the keys to protecting the public's health from disease outbreaks resulting from floods and tornadoes, antibiotic resistant organisms, and terroristic threats. This $4.2 million initiative will ensure the public health laboratory's capacity to respond to an estimated 70 infectious disease emergencies each year.

Refocusing Resources on Community-Based Alternatives to Institutional Care

- **Balancing long-term care services to better match demand.** This proposal redirects $73 million from nursing homes into an $82 million initiative to expand community-based services and improve information for consumers. By creating incentives for nursing facility downsizing, more options will be available to help the elderly remain independent longer.

- **Expanding community-based mental health services.** By expanding Medical Assistance access for the mentally ill in community-based settings, institutionalization will be significantly reduced. This $4.3 million service expansion is funded through reallocating resources from State Operated Services to reflect changing demands on the state's mental health system.

Enhancing Family Self-Sufficiency and Independence

- **Extending time limit for MFIP.** This $36 million proposal provides TANF-funded extensions to the Minnesota Family Investment Program 60-month time limit for those participants that do all they can to become self-sufficient, pairing this with stronger consequences for noncompliance.

- **Allowing more options for education for MFIP participants.** This change would use $7.3 million to help individuals achieve true self-sufficiency by providing up to 24 months of education and training when certain specific criteria warrant this path to higher wages.

- **State payment of children's family foster care**. This proposal would redirect $67 million from undesignated county aid (HACA) toward performance-based payment for the non-federal share of foster care.

The Governor's self-sufficiency strategies in health and human services are bolstered by a significant expansion in the level of the Working Family Tax Credit, an increase in the supply of affordable housing, and consolidation of child care assistance to focus on the lowest income families.

Strengthening the Healthcare Workforce

- **Cost of living rate increase for the long-term care workforce.** This initiative will help the state's long-term care industry by funding a $23 million inflationary increase in FY 2003. Additional rate increases are available to facilities that downsize operations.

- **Strategies to impact the supply of health care professionals.** State investments in the health care workforce need to ensure that specific health care outcomes are addressed. A $4.4 million expansion of the loan forgiveness programs for health care professionals will help to direct workers to specific shortage areas in the state. A second initiative will increase the tobacco endowment for medical education and direct the $8 million of additional income to the University's Academic Health Center, provided they demonstrate a commitment to reexamine our training strategies to better address the state's workforce issues.

Improving the Efficiency and Accessibility of Government Services

- **Electronic Government Services**. This $7.1 million initiative will allow the Department of Human Services to design and implement an interactive, transaction-capable Internet site.

- **Health Data Security.** This $6.5 million proposal will ensure that appropriate security protections are in place to protect the privacy of individuals' health information.

- **The Center for Ombudsman Services.** This $250,000 initiative will centralize the location and administrative activities of the three governor-appointed state ombudsmans for Crime Victims, Corrections, and Mental Health and Mental Retardation.

Criminal Justice

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

Criminal Justice Funding
($ in millions)

	FY 2000-01	FY 2002-03	Percent Change
General Fund	1,174	1,326	13.0%
All Operating Funds	1,411	1,474	4.4%

The Governor's general fund budget for these agencies provides a 13 percent increase over the current biennium. The budget for all funds increases by 4.4 percent, the general fund increases partially offset by reduced federal funds. The budget recommendations address cost pressures in the criminal justice area due to caseload increases and provide for technology improvements for collecting and sharing criminal justice information.

Criminal Justice System Improvements

The Governor recommends $27 million to improve criminal justice information systems through the multi-agency CriMNet initiative. This funding will continue current statewide projects that meet criminal justice integration enterprise architecture standards and further planning efforts to determine the best approach and cost estimates for integrating information systems that now are primarily implemented at the local level. This section of the budget includes $8 million of those requests, including:

- $3 million to work with counties to develop cost estimates and recommendations on how best to integrate local criminal justice agency systems and data with state information.
- $2 million to alleviate the "suspense file" problem which occurs when criminal justice information is not collected, processed, or transmitted properly, resulting in incomplete criminal history files.
- $1.5 million to develop statewide systems for tracking offenders in jail or prison, or under community supervision.
- $1.5 million to maintain the CriMNet enterprise model for use in all criminal justice information systems implementation efforts, and to staff other CriMNet activities.

Department of Corrections

The Governor recommends funding of $730 million for the Department of Corrections, a reduction of nearly $4 million from the base. The Department will continue efforts initiated in the current biennium to reduce the daily operating costs per inmate in the state prison system and move Minnesota out of the top five states for such costs. This will be accomplished by pursuing cost-reduction initiatives that can be resonably undertaken while maintaining the safety and security of the institutions. The budget savings from these efforts will be $18.4 million.

A substantial portion of the savings, $13.7 million, is reallocated to maintain correctional services for offenders in the community, including:

- $2 million to reduce caseloads of probation officers.
- $1.5 million for additional probation officers assigned specifically for the intensive supervision of dangerous offenders.
- $1.4 million to expend performance accountability and technical assistance for community services programs around the state
- $2 million for sex offender treatment and transition.
- $3.8 million to maintain reimbursement of counties for 50 percent of probation officer costs

- $3 million to increase the Community Corrections Act subsidy for local correctional services.

Other Governor's initiatives include facility cost efficiency improvements, a CriMNet offender tracking system, and a one-time reduction in grants to counties for sending juveniles to residential treatment facilities.

The Department of Public Safety

The Governor's funding recommendations for the Department of Public Safety include:

- $7.5 million to match federal disaster assistance and $4.4 million for a deficiency to match disaster assistance received in the current biennium.

- $3.4 million to replace funding for BCA lab analysis in DWI cases that was removed from the budget in the 2000 session.

- Eliminates the auto theft surcharge on automobile insurance, which will save car owners nearly $4.6 million over the next biennium.

The Courts and the Public Defender

The Governor believes these functions are a core public responsibility and has therefore recommended funding at a rate higher than many other parts of the state budget.

Respecting the separate constitutional status of the courts and the Public Defender, the Governor reaffirms the past practice of not making specific recommendations on the budget requests for these offices, except those requiring coordination with other parts of the budget. The Governor's budget includes $27 million for caseload increases in the judicial branch, primarily reflecting changes in criminal penalties and sentencing laws.

The Governor's recommendations also include $18 million to cover the costs currently borne by counties for certain services that will transfer to the state on July 1, 2001. Those services are for providing guardians ad litem to juveniles to represent their interests in various proceedings, interpreters for increasing numbers of non-English-speakers in legal proceedings, psychological exams related to court commitments, and waiving of court costs for persons not able to pay. Those increased costs to the state courts will be offset by a reduction in HACA assistance to counties.

Funding of $15 million is also recommended in the budget of the Office of Technology to make available to the courts for the implementation of the Minnesota Court Information System (MNCIS), as part of the Governor's recommendations for CriMNet.

Environment and Natural Resources

The Environment and Natural Resources program area includes the Pollution Control Agency (PCA), the Department of Natural Resources (DNR), the Department of Agriculture (MDA), the Office of Environmental Assistance (OEA), the Board of Soil and Water Resources (BWSR) and others. Their mission is to protect and enhance the quality of the environment, working with communities, recreational and environmental organizations, and individual citizens to facilitate multiple uses of resources while guarding against resource degradation.

Environment & Natural Resource Funding
($ in millions)

	FY 2000-01	FY 2002-03	Percent Change
General Fund	555	544	(1.9)%
All Operating Funds	1,193	1,206	1.1%

The Governor's budget for these agencies shows little overall change from the current biennium. The recommendations reflect the reallocation of existing resources from lower to higher priority uses and limited increases in spending over the base.

PCA Environmental Tax Reform

Part of the Governor's larger tax reform plan, this initiative restructures and broadens the use of current environmental funding streams to provide greater flexibility in addressing the state's highest environmental priorities. Specifically, the initiative will:

- Consolidate separate funds and accounts for landfill cleanup, Superfund, and leaking underground storage tanks into a new Remediation fund
- Restructure the existing Environmental fund, depositing fee revenue from environmental regulatory activities as non-dedicated receipts and providing for direct appropriations based on the highest environmental priorities rather than on narrowly-defined dedicated accounts
- Rename the current Solid Waste Tax the "Environmental Tax" in recognition of the fact that solid waste generation and management causes air, water, and land pollution, and use these receipts within the Environmental Fund to support pollution control activities
- Provide $5 million per year in relief to businesses and communities by eliminating hazardous waste and water quality permitting fees

Feedlots

Assists livestock producers to make environmental improvements in their feedlots and provides more effective customer service from environmental agencies to feedlot owners. This is accomplished through a multi-agency effort that targets cost-share assistance and low-interest loans to operations between 300-500 animal units, enhances technical assistance available to operators, and shores up permit staffing at the county and state levels to ensure prompt processing of permit applications. This initiative is funded through a combination of reallocations ($4 million) and new spending ($2.4 million), and is intended to assist livestock producers understand and come into compliance with the recently-revised feedlot rules.

Lottery In-Lieu of Sales Tax

Adds $40.5 million in permanent spending increases from the In-Lieu of Sales Tax proceeds on Lottery ticket sales to improve fish and wildlife resources; state and metropolitan area parks; state, metro, and local government trails; and the Minnesota, Como, and Duluth Zoos. This funding becomes part of the DNR's base budget and will help restore and maintain the state's natural recreational systems and accommodate growing levels of use.

Other Initiatives

- Strives to make agriculture more competitive by establishing MN Certification--a third-party certification process for specialized agricultural products

Bill Summary

- Completes and provides on-going resources for technology initiatives funded last biennium
- Increases fees to cover operating costs of MDA's regulatory programs

Reallocations

Redirects $9.2 million of lower priority spending to higher priority uses, including the County Biological Survey, the Forest Resources Council, DNR Regional Operations, point source and stormwater activities, air toxics and mobile source pollution reduction efforts, upper Mississippi River basin monitoring, and improved information systems.

Economic Development

Agencies in the Economic Development area of the budget regulate companies doing business in Minnesota, promote the development of quality jobs, assist workers to locate and secure employment, provide access to housing, and preserve the culture of our community. Agencies included are Commerce, Economic Security, Housing Finance, Trade and Economic Development, and the Minnesota Historical Society as well as many small agencies and boards.

Economic Development Funding
($ in millions)

	FY 2000-01	FY 2002-03	Percent Change
General Fund	468	403	(13.8)%
All Operating Funds	1,502	1,837	22.3%

The General Fund spending decline is due to the removal of one-time appropriations. The growth in all funds spending in this area is primarily due to increased federal funding, projected spending from a new universal service fund for telecommunications reform, and expenditures from funds transferred from the Assigned Risk Plan to settle certain worker's compensation claims.

The Governor's recommendations for economic development provide for the commercialization of new technologies, support smart growth, reform telecommunications policy, and enhance the state's workforce development efforts.

- **Technology Commercialization:** $10 million in one-time funding is requested in the Department of Trade & Economic Development (DTED) for a Biomedical Innovation and Commercialization Initiative, the purpose of which is to ensure that new technologies developed in health sciences fields at the University of Minnesota reach their full commercial potential in Minnesota rather than elsewhere. Technical assistance and early seed capital would be provided to develop promising research ideas into marketable technologies.

- **Housing:** a one-time General Fund appropriation of $24 million to the Housing Finance Agency 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 support Smart Growth principles by requiring projects to be appropriately linked to transportation and transit.

- **Livable Communities:** $1 million is requested in DTED's budget for a supplement to the Metropolitan Council's efforts to support mixed-use compact development projects that link housing, transit, employment, and commercial opportunities. An additional $2 million is allocated for an agricultural land preservation pilot project in the metro area.

- **Telecommunications Reform**: the Administration's telecommunications reform strategy will replace existing hidden subsidies in telephone rates with direct assistance to link rates closer to actual economic costs and provide assistance in high-cost areas of the state. Key goals of the reforms (led by the Department of Commerce) are to provide universal service, increase competition to drive down consumer prices, and to provide incentives for companies to invest in high-speed telecommunications services statewide.

- **Workforce Development***:* workforce investments include a biennial increase of $5 million for the Jobs Skills Partnership, $3 million to provide outreach and pilot individual training accounts for students who would not otherwise pursue post-secondary education, and $2 million to expand workforce training and counseling services for the working poor.

- **Unemployment Insurance Technology improvements:** $30 million over four years from the UI trust fund to overhaul information systems to simplify access for employers and employees and reduce the administrative burdens of managing the UI program.

Transportation

The transportation budget includes funding for the construction, maintenance, and operations of the state's highway systems in the Department of Transportation. It also encompasses the Department of Public Safety and the operations of the metro area transit system by the Metropolitan Council.

Transportation Funding
($ in millions)

	FY 2000-01	FY 2002-03	Percent Change
General Fund	591*	227	(61.6)%
All Operating Funds	4,530	4,390	(3.1)%

* Includes one-time construction funding

The large apparent decrease in general fund spending shown in the table above is due to the significant one-time transportation project investment made in the 2000 session. This budget increases funding for road construction to preserve what currently exists, and for the removal of bottlenecks, corridor connections, and advantages for transit. It increases funding for county and municipal state aid roads, maintains the transit service growth that has been experienced in metropolitan and greater Minnesota, improves the safety and maintenance of municipal airports and puts more state troopers on Minnesota's highways.

Minnesota Department of Transportation (Mn/DOT)

- Invests over $1.1 billion in state roads to maintain the State's road and bridge infrastructure, improve the performance of interregional corridors, and remove bottlenecks in the metropolitan area, an increase of $95 million over base level funding.
- Allocates over $216 million for Municipal State Aid streets and over $823 million for County State Aid roads.
- Frees up $30.2 million of lower priority base level funding to reallocate to higher priority initiatives including increases for maintenance activities and improved information systems. These resources will be made available through improved agency workforce management, inventory control measures, careful management of consultant services, and elimination of sales tax expenditures through the Governor's tax reform proposal.
- Provides $33.1 million in state funds for public transit assistance in 64 Greater Minnesota counties including $3.1 million in new funding to ensure that the current level of transit services are maintained.

Metropolitan Transit Assistance Preserves the growth levels achieved in transit and paratransit ridership by appropriating $136.2 million for the 2002-03 biennium. The base funding is increased $30 million for the biennium recognizing that good public transit is a key component of smart growth and necessary to meet area travel needs.

Public Safety – Transportation

- Supports annual state trooper training academies and ongoing support for 30 to 35 new troopers per year with a $4.3 million initiative. This funding would allow trooper FTE's to grow to 566 by the end of the 2002-03 biennium.
- Replaces $11.7 million of highway funds that were refunded for the June 2000 motor vehicle registration renewals.
- Provide $3.6 million for improved customer service for driver and vehicle services through enhanced technology and communication systems.
- Provides $500 thousand to expand and improve driver exam station customer services, leading to decreased waiting time for road tests.
- Provides for a lifetime utility trailer registration that benefits owners of small trailers by eliminating the nuisance of biennial registration renewals.

State Government

The State Government program area provides basic policy and business operations for the state. It is composed of the legislature, constitutional offices, the departments of Administration, Revenue, Finance, Employee Relations, Minnesota Planning, and other medium and small agencies, and accounts for about 3 percent of the total General Fund budget. The 2002-03 budget increases 1.9 percent over the previous budget, largely due to major new investments in technology, aimed at making government more efficient and responsive.

State Government Funding
($ in millions)

	FY 2000-01	FY 2002-03	Percent Change
General Fund	777	791	1.9%
All Operating Funds	946	1,023	8.1%

The major changes in this area are:

- An increase in the General Fund Contingent Account from about $200,000 for the 2000-01 biennium to $10 million for the 2002-03 biennium, in order to prevent deficiency appropriations and allow for more efficient responses to urgent and emergency situations.
- An increase of $21.7 million in debt service, recognizing the additional debt service costs associated with the Governor's 2001 capital budget.
- $4.1 million for supplementing tuition reimbursement enlistment incentives for the Minnesota National Guard to improve military strength by keeping pace with rising tuition rates and staying competitive with similar programs in surrounding states.
- $19 million to fund part of the development of CriMNet, a technology system that will allow criminal and juvenile justice information to be shared with criminal justice organizations across the state.
- $5.4 million to complete Revenue's individual income tax reengineering project that will improve service to both policymakers and taxpayers.
- $2.7 million to fund technology improvements for small agencies and $4.5 million in technology improvements for constitutional officers.
- $3.5 million for several initiatives aimed at enhancing state government's ability to plan and manage technology projects and issues. Of this, $1.0 million is devoted to establishing a technology enterprise fund (TEF) that will pioneer a new way of funding technology.
- $4.6 million to double the political contribution refund program, encouraging greater political involvement from individuals.
- $20 million in savings due to a $2 million Department of Revenue initiative to identify and collect tax liabilities from individuals and businesses that owe taxes but do not file.

Debt Service, Capital Projects

The Governor's budget recommends a General Fund appropriation of $654.095 million in FY 2002-03 for debt service on bonds sold for existing authorizations, bonds authorized but not yet issued, and new bonds to fund the Governor's 2001 capital budget. This amount represents 2.4 percent of total General Fund spending.

Approval of a major capital budget in 2001 rather than 2002 will result in earlier bond sales and earlier debt service costs. Thus, $21.703 million of the total appropriation is for additional debt service costs associated with the Governor's 2001 capital budget. The capital budget also recommends a direct general fund appropriation of $2.036 million in FY 2001.

The Governor is proposing a 2001 capital budget in combination with a major legislative reform – namely, a recommendation that the Legislature meet in only a single legislative session each biennium. The Governor strongly believes that elimination of legislative sessions in even-numbered years will streamline the state's decision-making process and reduce the temptation for increased government spending. It will also properly distance the enactment of bonding bills from election years.

Adopted by a constitutional amendment in 1972, the flexibility to meet in two sessions per biennium was intended to allow more thoughtful consideration of important policy matters in the second year, and allow a brief consideration of unfinished business. Unfortunately, the practical effect has been a proliferation of bill introductions, more legislative days, longer sessions, continued end-of-session logjams, and more permanent growth in state spending.

In addition, the time commitment alone represents a threat to Minnesota's tradition of having a Citizen Legislature. The current system pressures legislators to transform their positions into full-time jobs.

The Governor believes that these results are not what were intended when the people passed the 1972 constitutional amendment allowing for flexible sessions, and believes it's time to move back to a single session format.

The ***one session – one budget*** initiative proposes the enactment of state bonding bills in odd-numbered years, rather than even-numbered years as is the current practice. Adoption of capital budgets would coincide with adoption of biennial budgets.

The Governor recommends $504 million in general obligation bonds for a variety of state capital projects. Preservation of the state's basic infrastructure and selective investment in strategic initiatives are the hallmarks of the Governor's 2001 capital budget.

Planning estimates include future bonding bills of $400 million in odd-numbered years, with no capital budgets in even-numbered years.

Fiscal Year 2001 Deficiencies

In addition to the $924 million proposed Sales tax rebate and $ 2 million recommended for capital projects the Governor recommends spending $6.5 million to fund funding four critical deficiency items in the current year:

- $4.4 million to the Department of Public safety as the state match required for Federal Disaster Assistance
- $2 million to the Department of Employee relations for payments required by the U.S. Department of Labor under the provisions Fair Labor Standards Act
- $75,000 to the Department of Administration for costs associated with the Luverne lawsuit
- $75,000 to the Campaign Finance and Public disclosure Board

Funding for these items in FY 2001 will not reduce the amount available for rebate. In part, funding for these FY 2001 budget items is provided by estimated revenue recapture of taxes owed the State through the Sales Tax rebate processing.

Financial Summaries

The following section provides additional detail on the historical and recommended level of revenue and spending for the FY 2002-03 budget. The graphics and tables are presented to provide commonly requested information and additional financial data.

Other tables present the current biennium and proposed budget for the FY 2002-03 biennium displayed by major legislative spending bills.

Complete detailed budget information on individual agency and program recommendations can be found in companion Detailed Budget Volumes prepared for each omnibus appropriations bill.

Additional information on the economic and revenue forecast can be found in the November 2000 Forecast report and the January 2001 Economic Update. All of these documents and other state finance materials can be viewed on the World Wide Web at: http://www.finance.state.mn.us. An update to the economic forecast and planning estimates for fiscal years 2001-2005 will be released on or about February 28, 2001.

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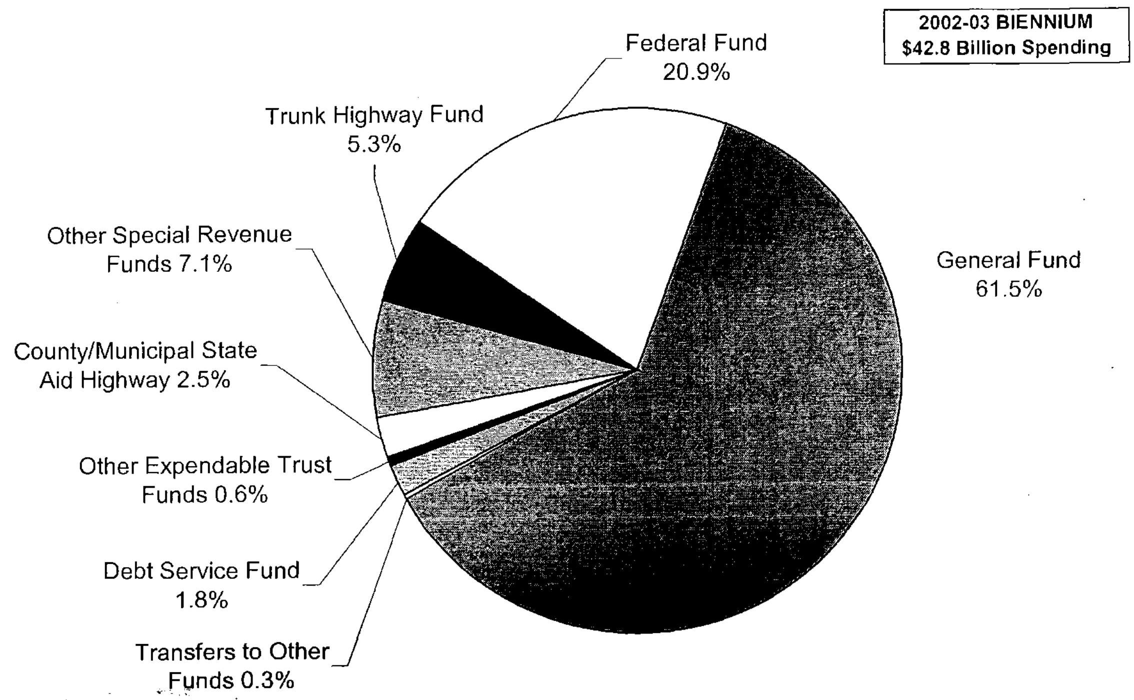
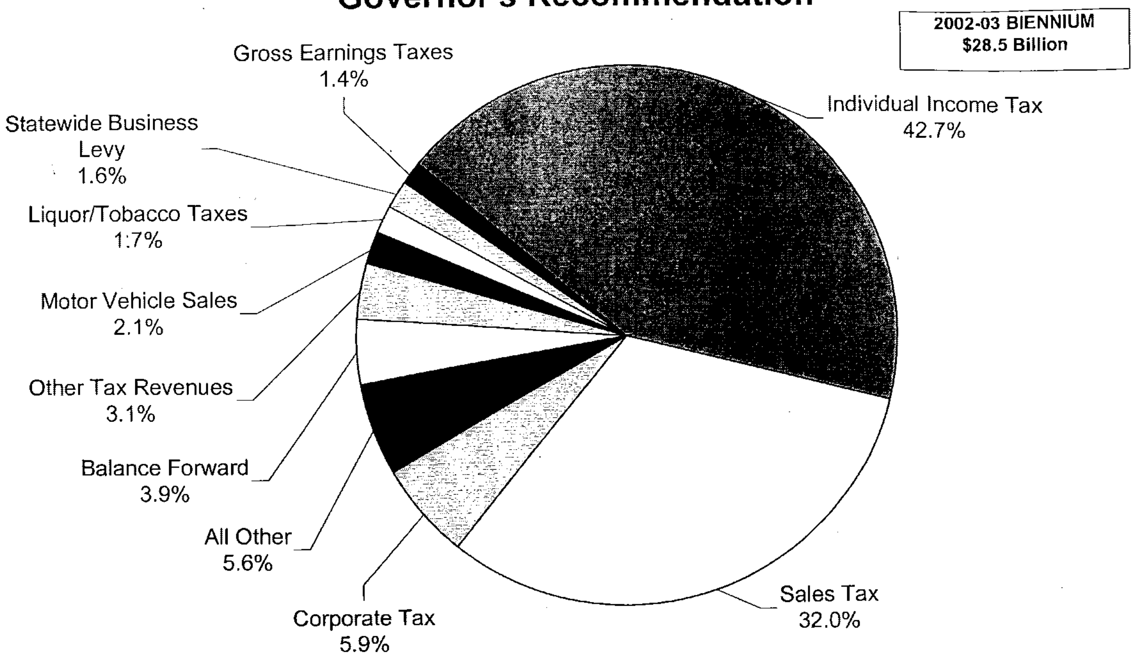
Total State 2002-03 Operating Budget
All Operating Funds



	2000-01 Forecast	2002-03 Budget
	---------- $ in Millions ----------	
Actual and Estimated Uses		
General Fund *	$ 23,127	$ 26,343
Special Revenue Funds:		
Federal Funds	7,959	8,968
Trunk Highway Fund	2,490	2,256
All Other Special Revenue Funds	2,613	3,033
Expendable Trust Funds:		
County/Municipal State Aid Highway	996	1,061
All Other Expendable Trust Funds	243	246
Debt Service Fund	689	775
Transfers to Other Funds	158	140
Total Expenditures	**$ 38,276**	**$ 42,822**

** Spending reported for the General Fund on a consolidated basis (all funds) is slightly lower than that reported for the General Fund alone elsewhere in this document. Interfund transfers are excluded when consolidating data for all funds reporting.*

2002-03 Biennium
Where the General Fund Dollars Come From
Governor's Recommendation

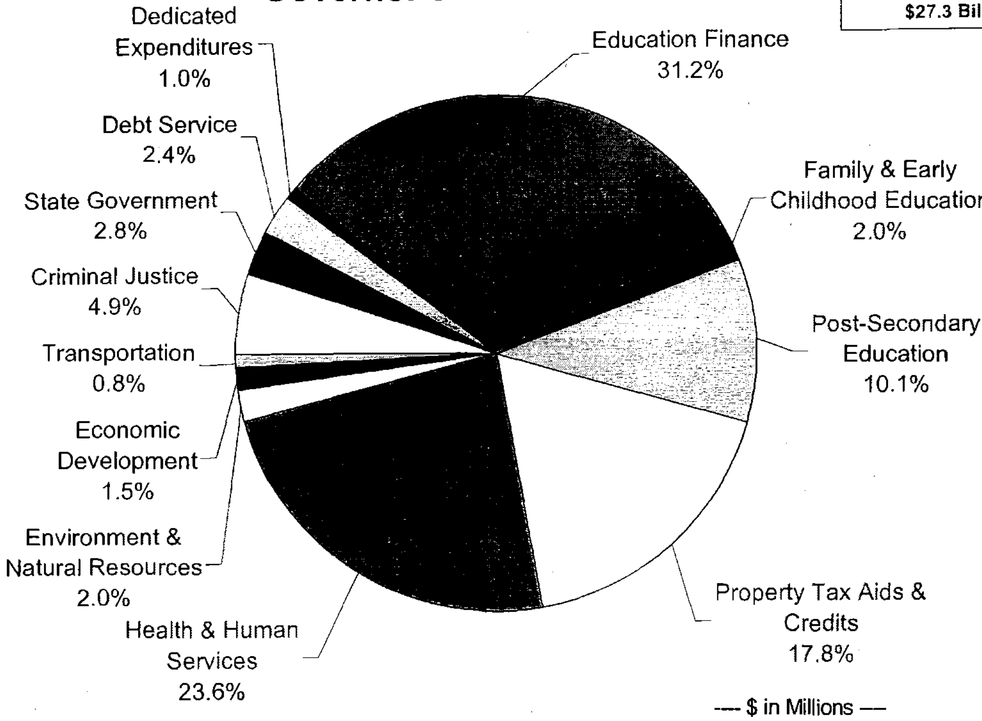


	$ in Millions
Balance Forward 6-30-01	$1,108
Non-Dedicated Revenues:	
Individual Income Tax	12,169
Sales Tax	9,144
Corporate Tax	1,695
Motor Vehicle Sales Tax	603
Gross Earnings Taxes	391
Liquor, Wine, Beer Taxes	118
Cigarette & Tobacco Taxes	355
Statewide Business Levy	470
Other Tax Revenues	875
All Other Revenues	1,216
Subtotal Non-Dedicated Revenues	27,036
Dedicated Revenue	283
Transfers From Other Funds	85
Prior Year Adjustments	20
SUBTOTAL CURRENT RESOURCES	27,423
TOTAL AVAILABLE RESOURCES, FY 2002-03	**$28,531**
Less: Estimated Expenditures	27,324
Cash Flow Account	350
Budget Reserve	700
Dedicated Reserves	111
Projected General Fund Balance 6-30-03	$47

January 2001 Governor's Recommendation

2002-03 Biennium
Where the General Fund Dollars Go
Governor's Recommendation

2002-03 BIENNIUM
$27.3 Billion

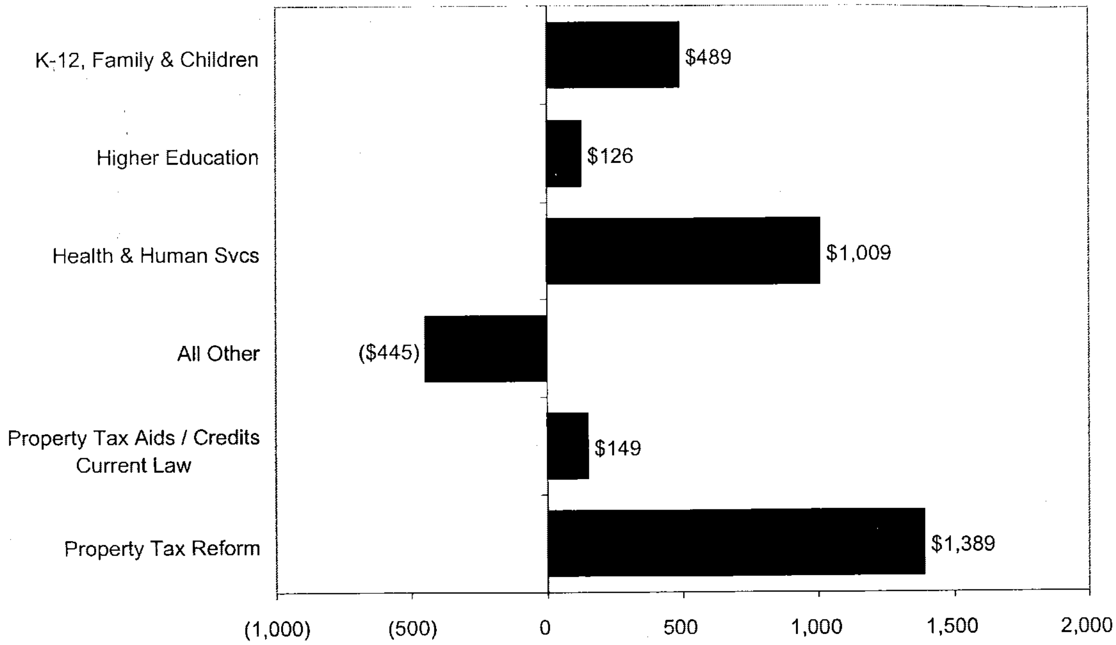


	— $ in Millions —
TOTAL AVAILABLE RESOURCES, FY 2002-03	**$28,531**
Major Spending Items:	
Education Finance	$8,512
Family & Early Childhood Education	538
Post-Secondary Education	2,768
Property Tax Aids & Credits	4,856
Health & Human Services	6,441
Environment & Natural Resources	545
Economic Development	403
Transportation	227
Criminal Justice	1,326
State Government	791
Debt Service	654
Estimated Cancellations	(20)
Subtotal-Major Spending Items	$27,041
Dedicated Expenditures	283
TOTAL ESTIMATED EXPENDITURES, FY 2002-03	**$27,324**
Cash Flow Account	350
Budget Reserve	700
Dedicated Reserves	111
Projected General Fund Balance 6-30-03	$47

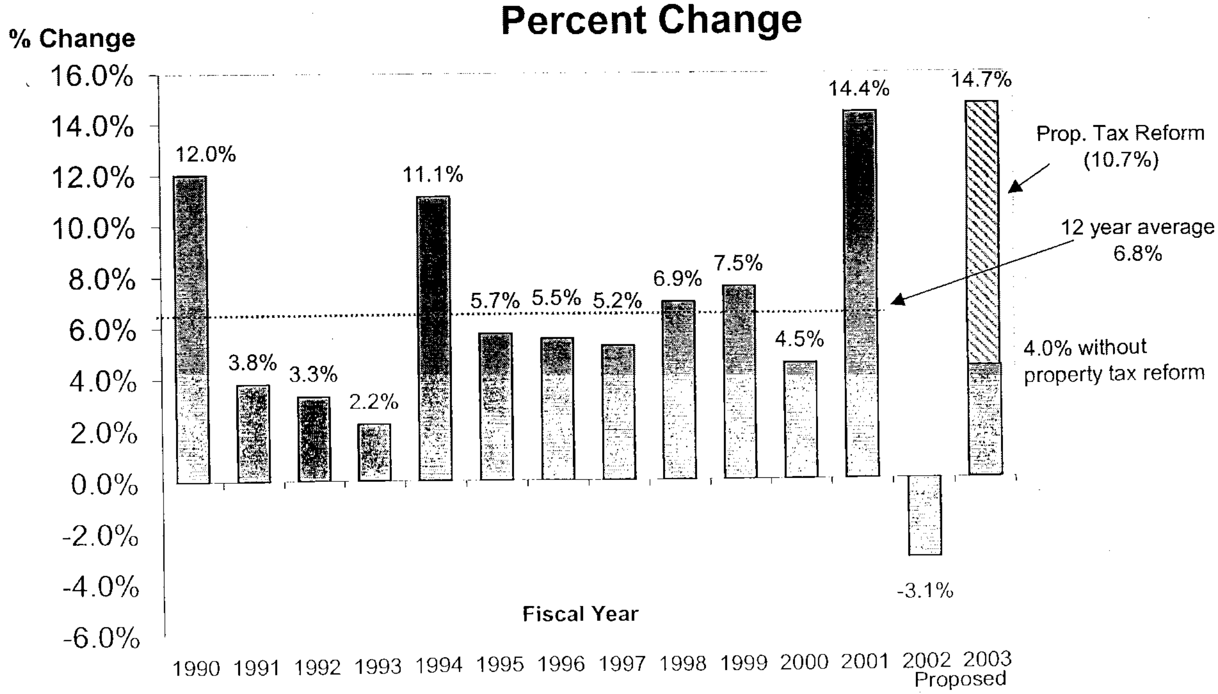
January 2001 Governor's Recommendation

Proposed Spending is $1.328 Billion (5.4%) Above Current Biennium; Property Tax Reform and Relief Adds $1.389 Billion

FY 2002-03 Budget Compared to FY 2000-01



General Fund Spending Percent Change



Governor's Proposed Budget Recommendations by Year

General Fund

($ in thousands)

	Gov's Rec FY 2002	Gov's Rec FY 2003	Biennial Total
Actual & Estimated Resources			
Balance Forward from Prior Year	1,108,011	1,138,504	1,108,011
Current Resources:			
Tax Revenues	12,769,181	13,563,246	26,332,427
Non-Tax Revenues	813,617	701,929	1,515,546
Dedicate Revenue	141,274	141,274	282,548
Transfers In	29,926	29,970	59,896
Prior Year Adjustments	10,100	10,100	20,200
Budget Changes:			
Taxes	(829,285)	316,356	(512,929)
Tobacco Settlements	(221,062)	(113,126)	(334,188)
Non-Taxes	41,740	18,143	59,883
Subtotal-Current Resources	12,755,491	14,667,892	27,423,383
Total Resources Available	**13,863,502**	**15,806,396**	**28,531,394**
Actual & Estimated Spending			
Education Finance	4,217,415	4,294,959	8,512,374
Family & Early Childhood Education	264,450	273,816	538,266
Property Tax Aids & Credits	1,740,634	3,114,956	4,855,590
Higher Education	1,363,218	1,404,455	2,767,673
Health & Human Services	3,048,530	3,392,060	6,440,590
Environment & Natural Resources	270,766	273,735	544,501
Economic Development	204,904	198,514	403,418
Transportation	128,701	98,258	226,959
Criminal Justice	649,439	677,028	1,326,467
State Government	392,928	398,497	791,425
Debt Service	307,739	346,356	654,095
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Subtotal-Major Spending Categories	12,583,724	14,457,634	27,041,358
Dedicated Expenditures	141,274	141,274	282,548
Total Expenditures & Transfers	**12,724,998**	**14,598,908**	**27,323,906**
Balance Before Reserves	**1,138,504**	**1,207,488**	**1,207,488**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	659,000	700,000	700,000
Dedicated Reserves	127,624	110,599	110,599
Budgetary Balance	**1,880**	**46,889**	**46,889**

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

	Gov's Rec FY 2001	Gov's Rec FY 2002	Percent Change	Gov's Rec FY 2003	Percent Change
Actual & Estimated Resources					
Balance Forward from Prior Year	2,125,409	1,108,011	-47.9%	1,138,504	2.8%
Current Resources:					
Tax Revenues	12,081,826	12,769,181	5.7%	13,563,246	6.2%
Non-Tax Revenues	557,828	813,617	45.9%	701,929	-13.7%
Dedicate Revenue	141,755	141,274	-0.3%	141,274	0.0%
Transfers In	237,767	29,926	-87.4%	29,970	0.1%
Prior Year Adjustments	10,100	10,100	0.0%	10,100	0.0%
Budget Changes:					
Taxes	(915,514)	(829,285)	na	316,356	na
Tobacco Settlements	0	(221,062)	na	(113,126)	na
Non-Taxes	0	41,740	na	18,143	na
Subtotal-Current Resources	12,113,762	12,755,491	5.3%	14,667,892	15.0%
Total Resources Available	**14,239,171**	**13,863,502**	**-2.6%**	**15,806,396**	**14.0%**
Actual & Estimated Spending					
Education Finance	4,261,158	4,217,415	-1.0%	4,294,959	1.8%
Family & Early Childhood Education	204,446	264,450	29.3%	273,816	3.5%
Property Tax Aids & Credits	1,736,466	1,740,634	0.2%	3,114,956	79.0%
Higher Education	1,362,192	1,363,218	0.1%	1,404,455	3.0%
Health & Human Services	2,894,319	3,048,530	5.3%	3,392,060	11.3%
Environment & Natural Resources	290,923	270,766	-6.9%	273,735	1.1%
Economic Development	215,847	204,904	-5.1%	198,514	-3.1%
Transportation	507,163	128,701	-74.6%	98,258	-23.7%
Criminal Justice	652,451	649,439	-0.5%	677,028	4.2%
State Government	416,049	392,928	-5.6%	398,497	1.4%
Debt Service	312,001	307,739	-1.4%	346,356	12.5%
Capital Projects	2,036	0	na	0	na
Motor Vehicle Tab Fee Reduction	149,804	0	na	0	na
Deficiencies	6,550	0	na	0	na
Estimated Cancellations	(22,000)	(5,000)	na	(15,000)	na
Subtotal-Major Spending Categories	12,989,405	12,583,724	-3.1%	14,457,634	14.9%
Dedicated Expenditures	141,755	141,274	-0.3%	141,274	0.0%
Total Expenditures & Transfers	**13,131,160**	**12,724,998**	**-3.1%**	**14,598,908**	**14.7%**
Balance Before Reserves	**1,108,011**	**1,138,504**		**1,207,488**	
Cash Flow Account	350,000	350,000		350,000	
Budget Reserve	622,000	659,000		700,000	
Dedicated Reserves	136,011	127,624		110,599	
Budgetary Balance	**0**	**1,880**		**46,889**	

Governor's Proposed Budget
Percent of Total
General Fund
($ in thousands)

	Gov's Rec FY 2000-01	Percent of Total	Gov's Rec FY 2002-03	Percent of Total
Actual & Estimated Resources				
Balance Forward from Prior Year	1,920,779	7.5%	1,108,011	3.9%
Current Resources:				
Tax Revenues	22,963,345	89.3%	26,332,427	92.3%
Non-Tax Revenues	934,503	3.6%	1,515,546	5.3%
Dedicate Revenue	313,170	1.2%	282,548	1.0%
Transfers In	472,803	1.8%	59,896	0.2%
Prior Year Adjustments	26,371	0.1%	20,200	0.1%
Budget Changes:				
Taxes	(915,514)	-3.6%	(512,929)	-1.8%
Tobacco Settlements	0	na	(334,188)	-1.2%
Non-Taxes	0	na	59,883	0.2%
Subtotal-Current Resources	23,794,678	92.5%	27,423,383	96.1%
Total Resources Available	**25,715,457**	**100.0%**	**28,531,394**	**100.0%**
Actual & Estimated Spending				
Education Finance	8,151,383	33.1%	8,512,374	31.2%
Family & Early Childhood Education	410,236	1.7%	538,266	2.0%
Property Tax Aids & Credits	3,318,394	13.5%	4,855,590	17.8%
[illegible]	2,641,776	10.7%	2,767,673	10.1%
Health & Human Services	5,432,856	22.1%	6,440,590	23.6%
Environment & Natural Resources	555,283	2.3%	544,501	2.0%
Economic Development	467,771	1.9%	403,418	1.5%
Transportation	591,305	2.4%	226,959	0.8%
Criminal Justice	1,174,197	4.8%	1,326,467	4.9%
State Government	776,596	3.2%	791,425	2.9%
Debt Service	567,191	2.3%	654,095	2.4%
Capital Projects	90,886	0.4%	0	0.0%
Motor Vehicle Tab Fee Reduction	149,804	0.6%	0	0.0%
Deficiencies/Unallotted	827	0.0%	0	0.0%
Estimated Cancellations	(22,000)	-0.1%	(20,000)	-0.1%
Subtotal-Major Spending Categories	24,306,505	98.8%	27,041,358	99.0%
Dedicated Expenditures	300,941	1.2%	282,548	1.0%
Total Expenditures & Transfers	**24,607,446**	**100.0%**	**27,323,906**	**100.0%**
Balance Before Reserves	**1,108,011**		**1,207,488**	
Cash Flow Account	350,000		350,000	
Budget Reserve	622,000		700,000	
Dedicated Reserves	136,011		110,599	
Budgetary Balance	**0**		**46,889**	

Governor's Proposed Budget
Increase Over Current Biennium
General Fund
($ in thousands)

	Gov's Rec FY 2000-01	Gov's Rec FY 2002-03	$ Difference	Percent Change
Actual & Estimated Resources				
Balance Forward from Prior Year	1,920,779	1,108,011	(812,768)	-42.3%
Current Resources:				
Tax Revenues	22,963,345	26,332,427	3,369,082	14.7%
Non-Tax Revenues	934,503	1,515,546	581,043	62.2%
Dedicate Revenue	313,170	282,548	(30,622)	-9.8%
Transfers In	472,803	59,896	(412,907)	-87.3%
Prior Year Adjustments	26,371	20,200	(6,171)	-23.4%
Budget Changes:				
Taxes	(915,514)	(512,929)	402,585	na
Tobacco Settlements	0	(334,188)	(334,188)	na
Non-Taxes	0	59,883	59,883	na
Subtotal-Current Resources	23,794,678	27,423,383	3,628,705	15.3%
Total Resources Available	**25,715,457**	**28,531,394**	**2,815,937**	**11.0%**
Actual & Estimated Spending				
Education Finance	8,151,383	8,512,374	360,991	4.4%
Family & Early Childhood Education	410,236	538,266	128,030	31.2%
Property Tax Aids & Credits	3,318,394	4,855,590	1,537,196	46.3%
Higher Education	2,641,776	2,767,673	125,897	4.8%
Health & Human Services	5,432,856	6,440,590	1,007,734	18.5%
Environment & Natural Resources	555,283	544,501	(10,782)	-1.9%
Economic Development	467,771	403,418	(64,353)	-13.8%
Transportation	591,305	226,959	(364,346)	-61.6%
Criminal Justice	1,174,197	1,326,467	152,270	13.0%
State Government	776,596	791,425	14,829	1.9%
Debt Service	567,191	654,095	86,904	15.3%
Capital Projects	90,886	0	(90,886)	na
Motor Vehicle Tab Fee Reduction	149,804	0	(149,804)	-100.0%
Deficiencies/Unallotted	827	0	(827)	na
Estimated Cancellations	(22,000)	(20,000)	2,000	na
Subtotal-Major Spending Categories	24,306,505	27,041,358	2,734,853	11.3%
Dedicated Expenditures	300,941	282,548	(18,393)	-6.1%
Total Expenditures & Transfers	**24,607,446**	**27,323,906**	**2,716,460**	**11.0%**
Balance Before Reserves	**1,108,011**	**1,207,488**	**99,477**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	622,000	700,000	78,000	
Dedicated Reserves	136,011	110,599	(25,412)	
Budgetary Balance	**0**	**46,889**	**46,889**	

Governor's Proposed Budget
FY 2000 - FY 2005 Planning Horizon
General Fund
($ in thousands)

	Gov's Rec FY 2000-01	Gov's Rec FY 2002-03	1-01 Plng Est FY 2004-05
Actual & Estimated Resources			
Balance Forward from Prior Year	1,920,779	1,108,011	1,207,488
Current Resources:			
Tax Revenues	22,963,345	26,332,427	29,631,293
Non-Tax Revenues	934,503	1,515,546	1,277,216
Dedicate Revenue	313,170	282,548	282,548
Transfers In	472,803	59,896	60,570
Prior Year Adjustments	26,371	20,200	20,200
Budget Changes:			
Taxes	(915,514)	(512,929)	(167,484)
Tobacco Settlements	0	(334,188)	0
Non-Taxes	0	59,883	22,535
Subtotal-Current Resources	23,794,678	27,423,383	31,126,878
Total Resources Available	**25,715,457**	**28,531,394**	**32,334,366**
Actual & Estimated Spending			
Education Finance	8,151,383	8,512,374	8,975,491
Family & Early Childhood Education	410,236	538,266	593,779
Property Tax Aids & Credits	3,318,394	4,855,590	6,340,198
Higher Education	2,641,776	2,767,673	2,942,933
Health & Human Services	5,432,856	6,440,590	7,669,770
Environment & Natural Resources	555,283	544,501	563,956
Economic Development	467,771	403,418	385,639
Transportation	591,305	226,959	212,352
Criminal Justice	1,174,197	1,326,467	1,419,514
State Government	776,596	791,425	806,139
Debt Service	567,191	654,095	707,256
Capital Projects	90,886	0	15,000
Motor Vehicle Tab Fee Reduction	149,804	0	0
Deficiencies/Unallotted	827	0	0
Estimated Cancellations	(22,000)	(20,000)	(20,000)
Subtotal-Major Spending Categories	24,306,505	27,041,358	30,612,026
Dedicated Expenditures	300,941	282,548	282,548
Total Expenditures & Transfers	**24,607,446**	**27,323,906**	**30,894,574**
Balance Before Reserves	**1,108,011**	**1,207,488**	**1,439,792**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	622,000	700,000	787,000
Dedicated Reserves	136,011	110,599	103,547
Budgetary Balance	**0**	**46,889**	**199,245**

CONSOLIDATED FUND STATEMENT

Summary - All State Operating Funds

($ in Thousands)

	Actual F.Y. 1999	Actual F.Y. 2000	Estimated F.Y. 2001	Gov Rec F.Y. 2002	Gov Rec F.Y. 2003
Actual & Estimated Resources					
Balance Forward	$4,473,451	$3,770,494	$4,241,718	$3,137,341	$3,105,778
Prior Year Adjustments	$64,258	$29,066	$10,889	$10,542	$10,100
Adjusted Balance Forward	$4,537,709	$3,799,560	$4,252,607	$3,147,883	$3,115,878
Net Receipts:					
Tax Receipts	10,939,674	12,360,837	12,524,550	13,482,709	15,468,033
Federal Grants	3,794,712	4,074,643	4,683,646	4,735,112	4,872,759
Departmental Earnings	471,427	524,857	526,250	774,274	800,243
Investment Income	299,439	259,352	280,598	219,903	208,500
All Other	864,760	889,919	1,516,684	977,945	923,544
Total Receipts	$16,370,012	$18,109,608	$19,531,728	$20,189,943	$22,273,079
Interfund Transfers/Transactions	(154,099)	(138,172)	99,664	114,252	134,921
Total Resources	**$20,753,622**	**$21,770,996**	**$23,883,999**	**$23,452,078**	**$25,523,878**
Actual & Estimated Uses					
Expenditures:					
Education Finance	3,968,945	4,295,031	4,715,001	4,709,508	4,780,797
Family & Early Childhood Education	336,019	324,449	327,587	360,257	371,512
Post-Secondary Education	1,319,698	1,340,712	1,439,495	1,429,429	1,470,749
Health & Human Services	5,194,693	5,500,380	6,246,441	6,616,834	7,119,188
Environment & Natural Resources	499,964	520,070	673,083	601,223	604,953
Economic Development	642,094	630,870	871,622	833,472	1,003,782
Transportation	1,753,718	1,790,266	2,739,522	2,240,530	2,149,695
Criminal Justice	612,669	641,759	769,530	726,895	747,001
State Government	460,691	426,770	518,793	508,293	514,358
Debt Service & Other	618,177	389,475	416,583	363,298	411,763
Property Tax Aids & Credits	1,405,885	1,552,223	1,706,771	1,740,939	3,115,261
Deficiencies	0	0	6,550	0	0
Dedicated/Unalloted/Other	108,871	155,745	141,426	141,374	141,404
Cancellation Adjustment	0	0	(22,415)	(5,000)	(15,415)
Subtotal by Appropriation Bill	16,921,424	17,567,750	20,549,989	20,267,052	22,415,048
Interfund Transfers/Transactions	61,704	(38,472)	196,669	79,248	60,411
Total Expenditures & Transfers	**$16,983,128**	**$17,529,278**	**$20,746,658**	**$20,346,300**	**$22,475,459**
Balance Before Reserves	**3,770,494**	**4,241,718**	**3,137,341**	**3,105,778**	**3,048,419**
Reserves	718,998	777,594	796,310	777,495	810,114
Cash Flow Account	350,000	350,000	350,000	350,000	350,000
Property Tax Reserve Account	327,961	0	0	0	0
Appropriations Carried Forward	644,473	814,207	572,052	576,209	574,442
Budgetary Balance	**$1,729,063**	**$2,299,918**	**$1,418,980**	**$1,402,075**	**$1,313,864**

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Governor's Recommendation
Price of Government
State & Local Revenues, C.Y. 1997-2004
as a Percent of Personal Income
($ in Thousands)

	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999	C.Y. 1999 F.Y. 2000	C.Y. 2000 F.Y. 2001	C.Y. 2001 F.Y. 2002	C.Y. 2002 F.Y. 2003	C.Y. 2003 F.Y. 2004	C.Y. 2004 F.Y. 2005
State Revenues								
Tax Revenues:								
Individual Income Tax	4,746,569	5,320,918	5,556,366	5,898,300	5,763,900	6,405,300	6,682,050	7,049,540
General Sales Tax	3,251,685	2,140,351	3,120,309	3,039,337	4,219,886	4,966,063	5,247,746	5,522,673
Corporate Income Tax	752,061	777,491	800,129	858,200	799,770	894,900	981,300	1,020,300
Gasoline & Special Fuels Taxes	529,211	555,187	581,431	578,425	601,957	609,266	611,249	619,307
Motor Vehicle License Tax	539,865	584,359	638,307	500,940	467,543	431,040	404,431	374,661
Motor Vehicle Sales Tax	444,976	487,041	540,961	536,400	524,700	559,200	575,900	593,200
Health Care Taxes	135,572	137,529	151,034	154,935	139,284	143,177	149,185	155,537
Statewide Business Levy	0	0	0	0	0	470,401	484,513	499,048
All Other Taxes	881,777	936,798	972,300	958,013	965,669	988,686	1,011,504	1,024,111
Subtotal - State Taxes	11,281,716	10,939,674	12,360,837	12,524,550	13,482,709	15,468,033	16,147,878	16,858,377
Non-Tax Revenues:								
Fees & Charges	481,655	471,427	524,857	526,250	774,274	800,243	825,201	850,209
Investment Earnings	255,243	299,439	259,352	280,598	219,903	208,500	203,664	199,149
Post-Secondary Tuition	463,147	479,621	509,774	530,575	536,859	542,687	542,687	542,687
Tobacco Settlements	297	0	104,926	114,829	151,065	154,263	193,766	197,870
All Other Resources	763,474	710,661	646,821	1,501,519	941,132	904,202	917,777	858,941
Subtotal - State Non-Tax Revenues	1,963,816	1,961,148	2,045,730	2,953,771	2,623,233	2,609,895	2,683,095	2,648,856
Subtotal - State Own Source Revenues	13,245,532	12,900,822	14,406,567	15,478,321	16,105,942	18,077,928	18,830,973	19,507,233
Federal Grants	3,684,064	3,794,712	4,074,643	4,683,646	4,735,112	4,872,759	5,067,716	5,248,435
TOTAL STATE REVENUES	16,929,596	16,695,534	18,481,210	20,161,967	20,841,054	22,950,687	23,898,689	24,755,668
Local Non-School Revenues								
Tax Revenues:								
Property Tax	2,561,031	2,670,768	2,778,424	2,906,889	3,107,347	3,117,255	3,264,068	3,427,574
Sales Tax	85,349	94,470	100,705	105,942	127,560	138,581	144,611	151,941
Other Taxes	123,116	125,676	128,253	133,444	139,047	144,940	151,139	157,661
Subtotal - Local Taxes	2,769,496	2,890,914	3,007,382	3,146,275	3,373,954	3,400,776	3,559,818	3,737,176
Non-Tax Revenues:								
Special Assessments	236,273	270,853	289,459	309,386	330,728	345,179	360,645	377,706
Licenses and Permits	105,568	122,067	136,880	153,527	172,239	179,754	187,797	196,669
Charges for Services	644,330	640,733	702,605	770,525	845,089	879,060	915,376	955,495
Investment Earnings	363,843	355,497	370,717	386,646	403,322	416,872	431,084	446,266
Selected Enterprise Revenues	1,963,385	2,049,239	2,129,133	2,213,610	2,302,937	2,400,154	2,504,146	2,618,937
Miscellaneous Revenues	416,599	398,050	415,601	434,256	454,088	472,957	493,135	515,417
Subtotal - Local Non-Tax Revenues	3,729,998	3,836,439	4,044,395	4,267,950	4,508,403	4,693,976	4,892,183	5,110,490
Subtotal - Local Own Source Revenues	6,499,494	6,727,353	7,051,777	7,414,225	7,882,357	8,094,752	8,452,001	8,847,666
Intergovernmental Revenue:								
State Aid	1,951,178	2,157,447	2,127,783	2,268,281	2,100,028	2,314,111	2,376,717	2,442,678
Local Aid	87,949	82,756	85,804	85,804	85,804	85,804	85,804	85,804
Federal Aid	538,262	486,020	532,000	532,000	532,000	532,000	532,000	532,000
Subtotal - Intergovernmental Revenue	2,577,389	2,726,223	2,745,587	2,886,085	2,717,832	2,931,915	2,994,521	3,060,482
TOTAL LOCAL NON-SCHOOL REVENUES	9,076,883	9,453,576	9,797,364	10,300,310	10,600,189	11,026,667	11,446,522	11,908,148

Governor's Recommendation
Price of Government
State & Local Revenues, C.Y. 1997-2004
as a Percent of Personal Income
($ in Thousands)

	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999	C.Y. 1999 F.Y. 2000	C.Y. 2000 F.Y. 2001	C.Y. 2001 F.Y. 2002	C.Y. 2002 F.Y. 2003	C.Y. 2003 F.Y. 2004	C.Y. 2004 F.Y. 2005
School District Revenues								
Tax Revenues:								
Property Tax	2,163,208	1,973,608	1,838,874	1,839,149	1,993,498	1,013,914	1,151,202	1,290,557
Taconite Production Tax	23,576	23,274	12,110	11,891	11,891	11,891	11,891	11,891
Subtotal - School District Tax Revenues	2,186,784	1,996,882	1,850,984	1,851,040	2,005,389	1,025,805	1,163,093	1,302,448
Non-Tax Revenues:								
Sales & Fee Revenue	151,682	165,450	175,212	185,549	196,496	208,090	220,367	233,369
Other Miscellaneous Revenue	378,101	403,241	437,516	474,705	515,055	558,835	606,336	657,875
Subtotal - School District Non Tax Revenues	529,783	568,691	612,728	660,254	711,551	766,925	826,703	891,244
Subtotal - School Dist Own Source Revenues	2,716,567	2,565,573	2,463,712	2,511,294	2,716,940	1,792,730	1,989,796	2,193,692
Intergovernmental Revenue:								
State Aid	3,267,620	3,564,226	3,960,041	4,282,881	4,245,260	5,800,001	5,830,426	5,865,909
State Paid Tax Credits	113,573	77,649	48,189	39,256	28,154	99,894	99,189	101,889
Education Homestead Credit	0	160,271	304,629	395,013	394,426	0	0	0
Education Agricultural Credit	0	0	0	45,979	55,705	0	0	0
Local Aid	32,998	30,023	28,558	30,551	30,348	30,148	29,950	29,756
Federal Aid	294,325	317,583	339,814	363,601	389,053	416,287	445,427	476,606
Subtotal - Intergovernmental Revenue	3,708,516	4,149,752	4,681,231	5,157,281	5,142,946	6,346,330	6,404,992	6,474,160
TOTAL SCHOOL DISTRICT REVENUES	**6,425,083**	**6,715,325**	**7,144,943**	**7,668,575**	**7,859,886**	**8,139,060**	**8,394,788**	**8,667,852**
Total State, Local & School District Revenues								
Tax Revenues	16,237,996	15,827,470	17,219,203	17,521,865	18,862,052	19,894,614	20,870,789	21,898,001
Non-Tax Revenues	6,223,597	6,366,278	6,702,853	7,881,975	7,843,187	8,070,796	8,401,981	8,650,590
Intergovernmental Revenue	9,969,969	10,670,687	11,501,461	12,727,012	12,595,890	14,151,004	14,467,229	14,783,077
TOTAL ALL REVENUES	**32,431,562**	**32,864,435**	**35,423,517**	**38,130,852**	**39,301,129**	**42,116,414**	**43,739,999**	**45,331,668**
Less: Intergovernmental Revenues	**(9,969,969)**	**(10,670,687)**	**(11,501,461)**	**(12,727,012)**	**(12,595,890)**	**(14,151,004)**	**14,467,229**	**(14,783,077)**
Total Own Source Revenues	**22,461,593**	**22,193,748**	**23,922,056**	**25,403,840**	**26,705,239**	**27,965,410**	**29,272,770**	**30,548,591**
Minnesota Personal Income	**129,136,000**	**139,441,750**	**147,050,250**	**156,012,500**	**165,498,000**	**175,058,000**	**185,968,250**	**196,345,500**
Revenue as Percent of Personal Income	**17.4%**	**15.9%**	**16.3%**	**16.3%**	**16.1%**	**16.0%**	**15.7%**	**15.6%**