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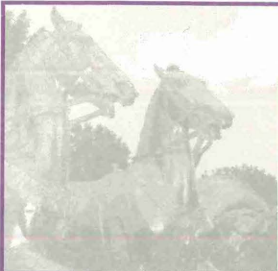
Minnesota Biennial Budget

Executive Budget Summary

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1996/97
Exec.
Budg.
Summ.

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Governor Arne H. Carlson



On the Cover

The Quadriga

("Golden Horses") is a copper statuary with gilded gold leaf which was installed on the Capitol roof in 1907.

It is an allegorical representation of "the Progress of the State." The man on the chariot holds a cornucopia in his right hand, a standard bearing the work "Minnesota" in his left. Female figures leading the horses are classical figures representing civilization, agriculture and industry.

Photo by

Cynthia N. Hackett



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ARNE H. CARLSON
GOVERNOR

To the People of Minnesota and Their 1995 Legislature:

Minnesota is at a crossroads as we and the nation face a fundamental transition in the size and role of all levels of government. Anticipated federal changes will present Minnesota's 3,700 governmental jurisdictions a tremendous opportunity. Federal changes will challenge each level of government to carefully examine its relationship to other levels of government. The opportunity is present to shrink government and expand services to our citizens. We must seize this opportunity and take full advantage of its potential for all Minnesotans.

Government must build flexibility, accountability and a results orientation into its services. In order for government to succeed, it must be able to change and improve itself. If we are to chart a course through the next decade, we must be prepared to think differently about our respective roles and responsibilities. We must focus investments wisely and make the tough choices necessary to balance the needs of today with the financial realities of tomorrow.

Our F.Y. 1996-97 budget continues to concentrate funding on priorities that are crucial to the future well-being of our state. We do so while targeting state spending and encouraging the removal of laws and regulations that restrict the way agencies and local governments can use their resources.

The 1996-97 budget invests in our state's highest priorities and takes the first major steps toward structural reform. Our goals remain the same as we continue efforts to achieve them with limited resources. My 1996-97 budget strives to:

- Make government accountable and affordable
- Support children and families
- Prepare young people for work
- Create jobs and sustain economic vitality
- Build stable communities

This budget also focuses on preventing problems and associated future costs by emphasizing the most cost-effective prevention efforts and methods to meet needs. The budget also constrains the cost of government and takes steps to curb future uncontrolled growth.



My budget proposal will not increase state or local taxes. Government spending need not increase faster than our ability to pay for it. Our objective must be to reduce the price of government as a percent of Minnesota personal income. The 1996-97 budget continues a course which reduces, over the four years, the percentage of Minnesota personal income devoted to government. We all must adjust to restrained resources.

Our challenge is real and the choices clear. We must decide together the new role of state and local government. We must act on the message of the people that state and federal government must get smarter and smaller.

We welcome your support.

Warmest regards,


ARNE H. CARLSON
Governor


JOANNE E. BENSON
Lt. Governor

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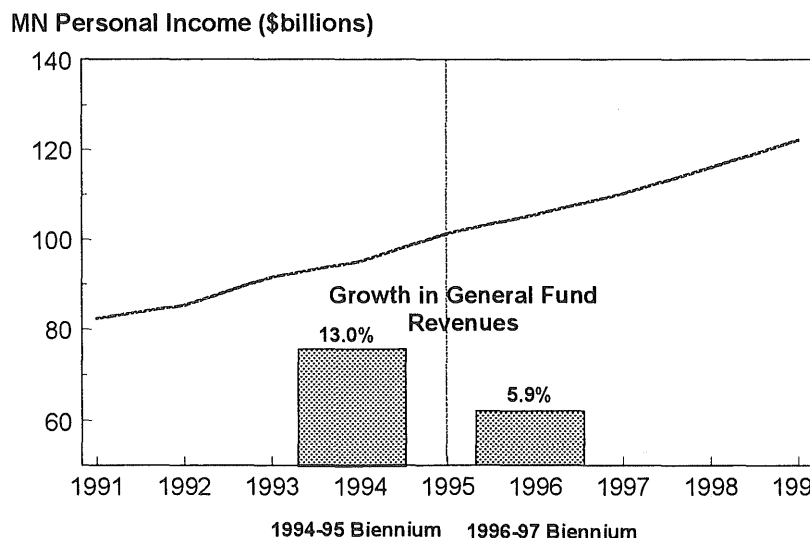
The Opportunity Ahead

Minnesota Economic Outlook

Minnesota's economy is expected to continue to grow throughout the four year budget planning period. Employment, average wage, total wages and salaries, and personal income are all expected to increase, leaving Minnesotans better off at the close of the 1996-97 biennium than they are today. DRI's Control forecast does not include a recession at any time during either the 1996-97 or the 1998-99 bienniums.

General Fund revenues for the 1996-97 biennium are forecast to increase by only 5.9 percent, well below both the current estimate of revenue growth in the 1994-95 biennium, and the average biennial growth rate in recent years. Economic factors and state policy changes—including the phase out of the sales tax on replacement capital equipment, the closure of regional treatment centers, and no tax increases or base broadening in 1996-97—all contribute to the slower growth in state revenues. Those institutional factors and an economy growing at more sustainable rates each explain roughly one-half the decline in biennial revenue growth rates. If the economy grows faster than DRI's forecast, additional revenues will be collected. But, in the absence of changes to state tax law, revenue growth in the 1996-97 biennium will be substantially below that observed in recent years.

Revenue Growth Slows in 1996-97



U.S. Economy Shifting Projected rates of economic growth for Minnesota and the nation are not as high as those observed during the past two years. State revenues will also increase more slowly than they have in some years in the past.

Slower growth in the economy, and in revenues, is not a sign of underlying weakness in Minnesota's economy. Rather, it reflects DRI's forecast of a slower U.S. economy in 1996.

The high U.S. economic growth rates observed during the past two years were possible only because relatively high levels of unemployment following the 1990 recession allowed firms to rapidly expand their work force as the demand for goods and services strengthened. Now, with national unemployment well below what economists consider to be full employment, hiring must slow to a rate which can be sustained by normal growth in the labor force. Recent Federal Reserve Board actions raising interest rates are designed to further hold down the rate of economic growth during the next two years.

State Labor Market Growth is Key Locally tight labor markets are also expected to keep the Minnesota economy from growing more rapidly than the national economy during much of the coming biennium. Because Minnesota has grown much more rapidly since the recession than much of the nation, Minnesota's growth will be limited by the rate at which the local labor force grows. With statewide unemployment at 3.5% at the close of 1994, nearly two full percentage points below the U.S. average, growth in economic activity in Minnesota is even more dependent on the rate at which the labor force grows than the national economy. The limited labor supply is particularly binding for firms seeking new, entry level workers.

In the past, Minnesota has benefited from the weaker economies in adjoining states. Individuals from those states have migrated to Minnesota in search of jobs, or better jobs than those locally available. Currently, unemployment rates are low throughout the region, so the likelihood that Minnesota's labor supply will be augmented with migrants from the Dakotas and Iowa is small. In the absence of a substantial influx of new workers to the state, economic growth rates elsewhere in the United States are likely to exceed those in Minnesota.

Federal Transition Planning

The bold budget and policy debate underway in Washington, D.C. has historic proportions. All Minnesotans have a vital interest in the effort to redefine the federal government's role. State and local government is faced with the opportunity to fundamentally reshape the federal, state and local public service delivery and financing structure that has built up over the past 50 years.

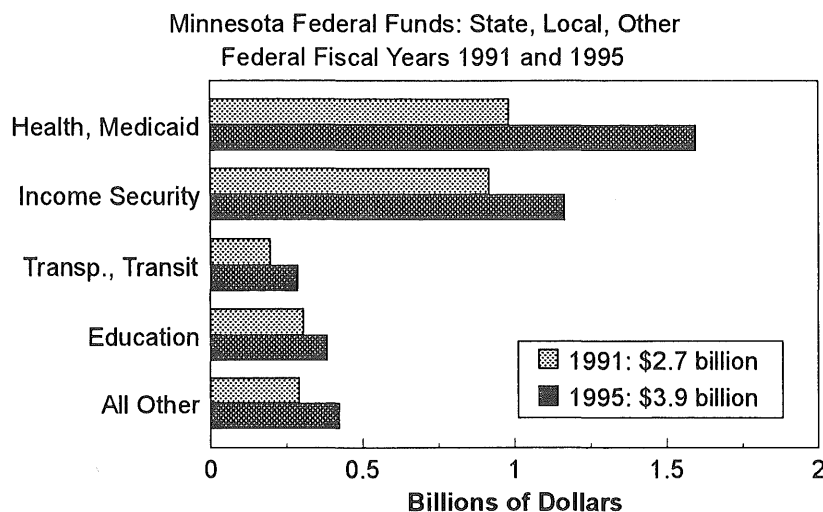
Executive and Legislative priorities must be established

The federal government should define its interests broadly and allow the states to apply

their own priorities within broad federal goals. Greater federal flexibility will enable states to target federal funds based on the specific circumstances present within a state. Federal and state governments should agree on outcomes, then allow states maximum discretion on the methods to achieve results. Minnesota state and local governments will also have to agree on responsibilities and priorities if the opportunity of change is to be realized.

Fiscal Impacts very uncertain

The tenor of the debate in Washington goes beyond the principles of a balanced budget amendment toward issues of what programs the federal government should fund. The state's budget is constructed on principles of current law and federal funding as approved by congress for the fiscal year beginning in October of 1994. Any sudden change in federal priority or funding level could impact Minnesota's own budget as early as the current state fiscal year ending June 30, 1995.



Financial Management Principles

Minnesota should welcome the opportunity to take over federal programs, if provided the resources and the true ability to control future costs. The state should seek the flexibility to apply state priorities to federal funds. The federal government should set broad goals and let the states get specific about outcomes that advance the federal goals. The eventual time lines and transition periods that make success possible will be perhaps the most important of the changes discussed by the federal government.

State Budget Principles

If there is a time to solve the state's fiscal problems, the time is now. Minnesota's economy is strong. The percentage of Minnesotans of working age is still growing, and will continue to grow for the next 15 years, before beginning a long-term decline.

Governor Carlson's 1996-97 budget puts the taxpayer first. It is based on the assumption that state government will live within its means, and that public officials are capable of making the tough choices that will be required to deal with the chronic, structural budget gap. It is a budget that recognizes that the best role for government is to support the needs of employers, communities and families so that they can succeed. Most important, it is a budget that responds to the public's call for accountability to the taxpayer for the tax dollar.

All of government is changing

State government must define the activities critical to the state's future and eliminate those which are not. It must build more flexibility into programs and focus on results, not rules. State and local government must aggressively identify cost-effective solutions and move resources toward them. Finally, government must examine itself, and lead efforts to streamline and focus operations for its customer, the citizen.

We must anticipate federal retrenchment occurring along with economic and demographic changes within the state. The present holds tremendous opportunity to change the role and the responsibility of Minnesota's state and local governments. That same opportunity carries the risk that long term planning will once again be sacrificed for a short term, less ambitious budget solution. The 1996-97 budget recognizes the opportunity, and repositions the state and local relationship.

A vision for the future

The state's 30-year plan, *Minnesota Milestones: A Report Card for the Future* outlines the citizen's priorities and should serve as a guide to making tough budget choices. Created with the help of more than 10,000 Minnesotans, *Minnesota Milestones* defines a shared vision for the future of the state and offers 20 goals with 79 milestones to measure progress over time. It is a tool to help create the kind of future wanted by Minnesotans for themselves and their children.

The structural gap

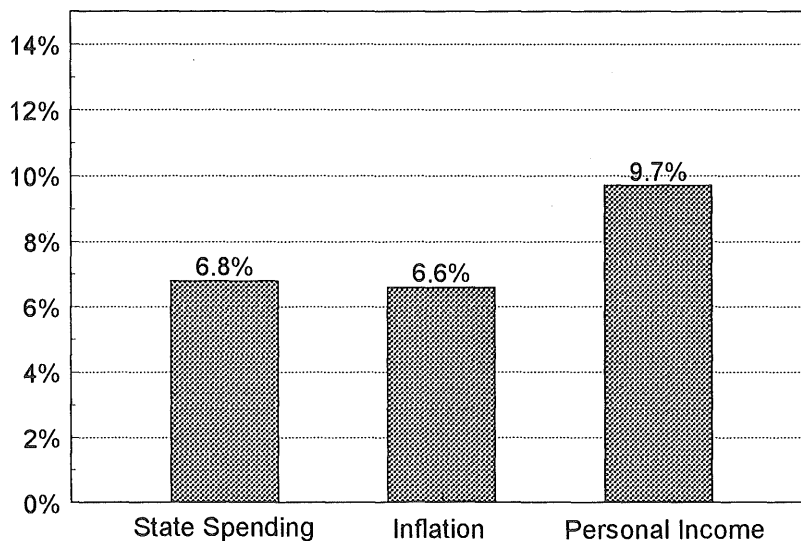
Minnesota state and local governments face a chronic and recurring gap between spending and revenues over the next 10 years and beyond. The Minnesota Planning Agency report, *Within Our Means: Tough Choices for Government Spending*, shows that the mismatch between revenues and expenditures is not a short-term cyclical problem that will evaporate during economic good times. Rather, it is a structural shortfall that will occur almost automatically -- unless action is taken now to start solving the state's fiscal problems.

The budget difficulties of the past four years were a painful illustration of the state's fiscal vulnerability. Caused only slightly by a downturn of economic conditions, most of the recent deficits were driven by double digit rate increases in spending commitments.

The cost of Minnesota's existing commitments will continually create planning deficits until the state reforms its fiscal relationships.

State spending for F.Y. 1996-97 will be held to one of the lowest rates of growth in the past two decades. This budget, like previous budgets, continues to rely upon spending controls as the solution to projected deficits, rather than tax increases.

Increases over current biennium



Long term financial management reforms have been adopted, including preservation of the Budget Reserve and Cash Flow account, performance and baseline budgeting, six year strategic capital budget planning, adoption of outcome-based management principles and truth in taxation requirements.

The continuing fiscal pressure is due to forces both inside and outside of government's reach. The cumulative effect of state, local and federal policy choices made over the past twenty years has combined with economic and demographic events. Upward pressure on spending is met with downward pressure on public revenues. After ten years of economic expansion and increasing revenues, the expansion is slowing, revenue growth is slowing and the public sector is challenged to target resources and set priorities within available resources.

The time is now

The Governor's 1996-97 budget recommendations are based on several key principles. Foremost is the pledge to not raise taxes but rather continue to set priorities and make the difficult choices among competing demands.

While budget choices must include a thoughtful reaction to emerging federal changes, we can not wait for the federal government to act. Any eventual federal actions will only complicate our choices, not solve our basic problem. Minnesota is faced with continuing high levels of service demand in high priority areas which will continue to exceed the state's ability to pay.

The 1996-97 budget proposal includes plans for continuing structural reform in several areas of the budget including executive branch reorganization, K-12 and higher education. Sweeping program flexibility and better leveraging of the state's relationship with local governments is introduced. The Governor's budget also recognizes that bi-partisan leadership is needed if Minnesota is to successfully reform education finance and local government aids, the largest areas of the state's budget.

Progress requires bi-partisan leadership

Schools, cities, counties and townships receive 51% of the Governor's 1996-97 budget. State resources represent 24% of the total revenues of cities, counties, and townships and 52% of total school district revenues. Of school districts' tax generated revenues, approximately 61% comes from state collected taxes, but roughly 85% comes from state established taxes. Fundamental reform of such significant relationships must occur and will only be possible with broad public and legislative commitment.



Flexibility - Accountability - Results

The 1996-97 budget is built on three principles: flexibility, accountability, and results. It is a budget that gives state and local government the flexibility and authority they need to manage resources in the way that works best for their communities. It is a budget that demands accountability from all levels of government. And it is a budget that emphasizes results.

Governor Carlson's 1996-97 budget concentrates funding on priorities that are crucial to the future well-being of the state. It targets state spending and recommends removing laws and regulations that restrict the way state and local governments can use their resources. The budget also focuses on preventing problems and future costs by emphasizing the most cost-effective prevention efforts and service delivery methods. And it contains the costs of government operations and takes steps to curb future uncontrolled growth.

The principles of flexibility, accountability and results were applied throughout the Governor's budget recommendations. They provide a framework for the 1996-97 budget and are central to each of the Governor's reform proposals. The 1996-97 budget takes several major steps to reposition the state by concentrating on five key goals:

- **Make government accountable and affordable**
- **Support children and families**
- **Prepare young people for work**
- **Create jobs and sustain economic vitality**
- **Build stable communities**

The Governor's 1996-97 biennial budget lives within the state taxpayer's means. No new taxes are proposed and substantial cost control is accomplished. The budget provides for \$18,348 billion in General Fund resources to support the state's highest priorities. Every state spending category receives additional funds, except state and local government itself. Overall, the Governor's budget recommendations provide for a 6.5% increase in state commitments without a tax increase.

Price of government recommendation

The state's "Price of Government" was forecast for the first time in November 1994.

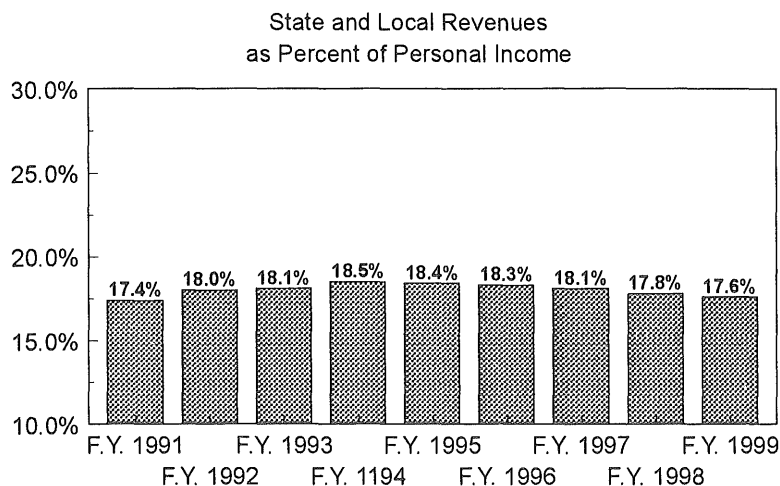
All state and local revenues were calculated for the period F.Y. 1991- F.Y. 1994 and forecast for the period F.Y. 1995 - F.Y. 1999.

Minnesota's aggregate Personal Income was also forecast. The "Price of Government" law requires that combined state and local revenues be compared to aggregate Personal Income and the resulting percentage reported as the "Price of Government."

The forecast provides the basis for both the Governor and the legislature to establish a planning goal for state and local revenue, based on current information, which can be compared over time. The planning goal, expressed as a percentage of Minnesota's aggregate Personal Income, is intended to serve as a sign post for the state's taxpayers and create a measure of accountability for elected officials.

It is the Governor's recommendation that the combined Planning Goal for state and local revenues decline over the next four years to a F.Y. 1999 target percentage of 17.6%. The Governor is committed to no general tax increases and asks local governments to likewise avoid property tax rate increases. If the state, as well as all local governments, can constrain revenue raising, the "Price" of Minnesota government will decline over the next four years.

The state's underlying economic growth will continue to provide increases in revenue to state and local units of government without tax increases. The Governor's recommendations on state and local revenues provide for adequate revenue increases if expenditure constraint and reforms continue.



Budget contains no tax or fee increases

The Governor's budget proposal contains no tax increases. There is a reduction in certain taxes due to the Cambridge Bank judgment and the tax credits and exemptions proposed by the Governor as part of the rural revitalization initiative. Net fee revenue is reduced due to the elimination of several fees.

The budget maintains the \$350 million cash flow account necessary to accommodate the timing of state revenue collections and major state aid payments. This will enable the state to avoid short-term borrowing to meet cash needs during the biennium.

1996-97 General Fund Budget
(\$ millions)

Beginning Balance		\$765
Current revenues	16,744	
Forecast Increase (5.9%)	1,024	
Cambridge Bank	(160)	
Other revenue changes	<u>(25)</u>	
Available resources		\$18,348
Current spending level	16,855	
Spending increase (6.8%)	<u>1,139</u>	
Total 1996-97 spending		17,996
Cash flow account		<u>350</u>
Unspent balance		\$2

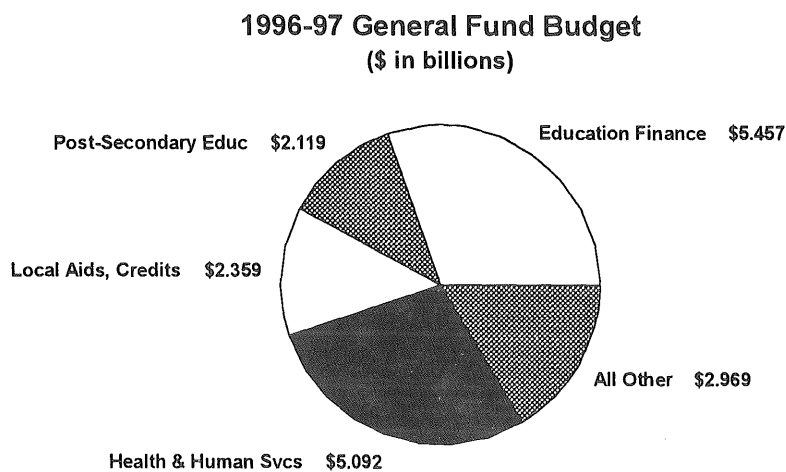
Cambridge Bank judgment paid from existing budgets

After the November forecast, the state was notified that the U.S. Supreme Court had declined to hear an appeal from a Minnesota Supreme Court decision. The Minnesota Supreme Court decision requires the state to provide tax refunds to certain banks and financial institutions totalling \$320 million over the next four years. For 1996-97, an estimated \$160 million will be paid. The Governor faced two choices, increase taxes or reduce spending to provide for this payment. The Governor's budget reflects a 1% reduction in overall 1996-97 spending to pay the Cambridge Bank judgment.

Four major areas account for 85% of budget

Education and local government aids and credits receive 56% of the state's total budget in the Governor's recommendations. Health and Human Services, including acute and long term health care, will receive 28% of the General Fund budget.

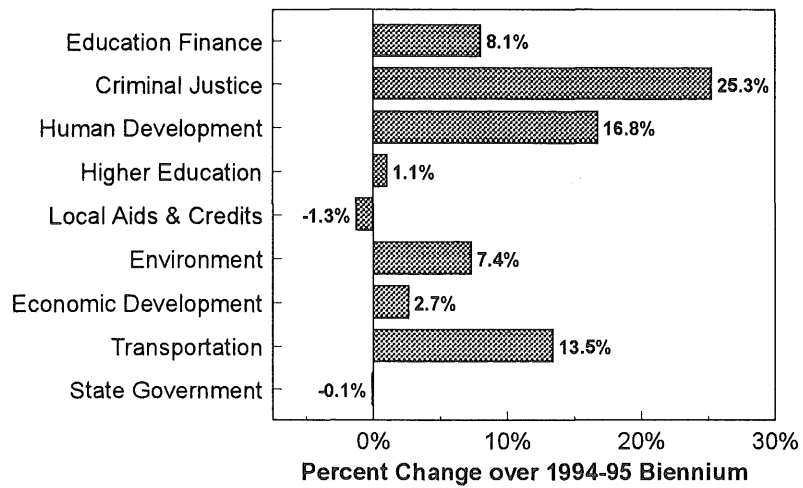
Higher education will receive 11.5% of the budget while state government itself receives less than 3% of the total.



2.1 Post-Sec
5.5 Ed Fin
2.4 Local Aids
3.0 HHS
5.1 HHS
18.1

(2.7-Transp)

The Governor's highest budget priority is education. Elementary, secondary and higher education, receive 42% of the total state budget and 32% of the available new resources, along with significant new flexibility. Health care and criminal justice, the state's two fastest growing programs, receive 23% of the total state budget. The Governor's budget strengthens these two programs with 53% of the available new resources.

1996-97 spending increases reflect state priorities



Make government accountable and affordable

The Governor's 1996-97 budget emphasizes accountable and affordable government. No new taxes are proposed, and no existing state tax is increased. In several areas, government systems are reformed to make them more directly accountable to the taxpayer. Most significantly, the Governor's budget presents a new vision of the role of state government for public consideration. Impending federal changes and a commitment to hold state revenues to the rate of growth in the November Forecast provide a substantial imperative for change.

Flexible Local and State Service Delivery encouraged

The 1996-97 biennial budget recommendations include radical recommendations for revamping the way state and local governments finance and deliver public services. Each of the recommendations is intended to strengthen the focus of public resources on outcomes and lessen the focus on inputs. With very limited new resources, the Governor is proposing a substantial increase in buying power by reducing state rules, lifting unfunded mandates, focusing state funds on the state's priorities and freeing cities, counties and schools to pursue local interests.

Local Government Reforms

Cities, counties and schools are an important part of the government fabric in Minnesota. A complex web of programs and financial support runs from the state to local governments. The potential handing off of federal programs affords a tremendous opportunity for Minnesota governments to similarly refocus responsibilities between state and local levels. The 1996-97 budget proposes expanding local input and local control of state resources.

City and County Incentives. The current system of local government aids to 3,700 individual units of government is streamlined and combined into county homestead block grants to 87 counties. State-imposed barriers that now channel aids within overlapping jurisdictions into separate programs are removed. Local flexibility and cooperation among units of government are greatly improved.

County Homestead Block Grants. The Governor's budget combines Homestead and Agricultural Credit Aid (HACA), Local Government Aid (LGA), Disparity Reduction Aid (DRA), and Attached Machinery Aid into a new County Homestead Block Grant program. Separate funding formulas are maintained at the state level but combined at the county level. The new program will encourage cooperation and collaboration among presently competing neighboring units of government.

Combined Governance Recommended. Minnesota's existing local government aid structure holds no incentives for neighboring or overlapping units of government to cooperate in the investment of state and local resources. The County Homestead Block Grant program changes that. The Governor proposes fundamental reform. A local process is created to determine the allocation of county block grants among jurisdictions. Cities, counties, and schools districts would share information, resources and priorities in an environment that encourages taxpayers and elected officials to choose the best way to deliver and pay for local services.

Children's Services Funding Incentives. Minnesota state government manages and funds a complex array of services for children and families. The federal government sponsors another large set of services targeted at children and families, a number of which are not directly linked to state programs. As these resources move from the state and federal levels to the local level, a maze of parallel funding streams, intergovernmental relationships, and service delivery corridors is formed.

Legislation will be introduced in the 1995 legislative session to enable local governments, *at their option*, to consolidate, for purposes of joint policy development and service delivery, funding currently received through a number of state and federal categorical grants.

This strategy will:

- facilitate cohesive state, local and intergovernmental policy development;
- provide local flexibility needed to shape and deliver appropriate holistic services with optimum cost effectiveness; and
- focus state and local government resources on service quality and outcomes management rather than grants processes.

Taxpayers provided local budget information

It is the obligation of government to be accessible and understandable to the citizens and the taxpayers. The Governor is proposing a "Truth in Budgeting " law intended to engage taxpayers earlier in local budget discussions and provide them with meaningful information. Uniform historical and proposed budgetary information along with notice of budget hearings would be provided to taxpayers. The Governor recommends that local officials include information on results achieved from spending in addition to the budgetary information. State government has already instituted Annual Performance reporting for 21 agencies to provide taxpayers information on government effectiveness.

State delivery simplified

Waiver Approval Process Introduced. The Governor recognizes that the state has to do its part to identify and eliminate rules and regulations if local governments are going to succeed. Much greater emphasis must be put upon state agency managers to reorient state programs toward outcomes and away from input control. Responsibility and accountability for streamlining processes belong in the Executive Branch. The state has to make substantial progress, quickly, if it wishes to take full advantage of the federal transition.

Role of Advocacy Groups Strengthened. The Governor's 1996-97 biennial budget also includes a substantial reform proposal for the state's numerous boards and commissions. Eight public advocacy programs will be converted from state agency status to grants and freed of the administrative burdens on small state agencies. No budgets are reduced in this change. Advocate groups will be better able to advocate on behalf of citizens when separated from the state agencies delivering the programs.

Professional Licensing Streamlined. There are presently seventeen professional licensing agencies with separate boards, statutory authority, and jurisdiction. Additionally, fourteen licenses are issued by individual state agencies. The Governor recommends that the licensing service be combined under a single organization with greatly increased customer service and fewer administrative redundancies. The Governor's proposal preserves all the existing professional boards until the new organization has an opportunity to review licensing jurisdictional overlap. Recommendations for statutory change will be presented to the 1996 legislature.

Reorganization Principles. Considerable interest has been expressed in reorganization of the Executive branch. The Governor has initiated several strategic planning processes which have reorganization principles that he would also apply to legislative proposals. Any reorganization plan should be focused on clear goals and objectives for improved outcomes. The proposal should improve management of state government and focus on long term organizational planning. Workforce planning with recognition of potential federal changes will also be required.

State Government Costs Contained

The Governor's budget recommendation for state government includes virtually no additional money over F.Y. 1994-95. State agencies absorbed both salary and operating cost inflation within existing budgets. The state government portion of the Governor's budget accounts for about 3% or \$530 million of the total \$18 billion General Fund budget.

Limited new resources were provided through reallocations for investments in technology and software development to improve customer service and extend the life of existing systems.

These initiatives include \$5 million to the Department of Administration to improve access to the state computer network for outstate schools, outstate campuses and state agencies. An additional \$2.1 million is provided to the Department of Revenue to improve the accuracy, decrease processing time and enable expansion of the electronic filing and funds transfer of tax processing systems.

Capital Budget Proposal very Limited

The legislature and the Governor have adopted a six-year capital planning process which limits capital budget requests this year to projects necessary for health and safety reasons or to take advantage of a special opportunity. The Governor recommends a capital budget authorizing \$20,585,000 for six capital projects in 1995 which cannot be delayed until the start of the 1996 legislative session.

The Governor's budget includes a recommendation for debt service of \$12.2 million for F.Y. 1996-97 to finance the costs of bonds sold for capital projects recommended in the 1995 session and for approximately \$485 million of capital projects expected to be recommended by the Governor in the 1996 session.

Property Tax System needs Bi-Partisan Review

It is unreasonable to expect budget reform and improvements in state and local governments' accountability to citizens without reform of the state's byzantine and inequitable property tax system. It is broadly recognized that any reform must start with class rate changes which improve accountability and equity. In the past four years, the Governor has proposed changes to improve the property tax system. Full reform of this complicated and obsolete system of aids and credits will only be possible with bi-partisan support and the involvement of every level of government. The Governor looks forward to working with the legislature and the public in shaping a solution which allows the state to assume a higher percentage of the costs of education.



Support children and families

Over the past four years, significant steps have been taken to restructure Minnesota's fragmented educational and children's service systems. Governor Carlson created a Children's Cabinet, composed of the heads of 11 state agencies with responsibility for children's programs, and approved funding for the Legislative Commission on Children, Youth and Their Families to assist the Legislature in looking at children's programs in a comprehensive way.

Communities have been encouraged to form joint efforts between schools, social services and public health to meet the needs of children and families. Instead of imposing new programs from the top down, these collaboratives are "bubbling up" innovative, creative approaches to meeting families needs -- and doing it more effectively and efficiently.

Governor Carlson's 1996-97 budget continues on the path begun in 1991 to focus on strategies of prevention and to reform services for Minnesota's children and families. Results will be enhanced through interagency family collaboration with \$15 million proposed for Family Collaborative projects. These investments will ensure that a more comprehensive approach can be crafted to meet the needs of children and families in our society.

Welfare Reform Proposal

The F.Y. 1996-97 budget includes \$27.8 million for the Governor's Welfare reform proposal. The program is paid for by the reallocation of existing welfare spending through the elimination of the Work Readiness program. No new funds are required. The goal of welfare reform is to strengthen families by making them self-sufficient. The results will include fewer families on public assistance for a shorter duration. Welfare reform will remove barriers to employment for welfare recipients and create financial incentives so working families can increase their income. Opportunity to establish a business will be a reality for some recipients.

Job support services such as transportation, child care, and injury protection will further encourage employment. Employment of non-custodial parents should increase child support payments. Fraud control and prevention efforts for cash assistance programs will be expanded and consistently applied to all applicants and recipients. Monthly payment of earned income and renters/property tax refunds will add cash to household income. Families will be strengthened and made more financially stable.

Family Services expanded

Provision of focused and adequate support services to families is a cornerstone of the Governor's budget recommendations.

The budget recommendations for the Department of Human services include \$21 million for the Child Care Basic Sliding Fee program. These funds, plus additional federal resources, will provide for 4,900 additional slots, an increase of 31%. In addition, \$15 million is recommended for continuation of the Family Services Collaboratives. With expansion, the collaborative program will reach 85% of the entire population of children in the state. \$2.5 million is recommended for the care of homeless children. The statewide Mental Health Adolescent Services program is expanded with the addition of \$7.5 million.

Children's Programs consolidated in Department of Children and Education Services

Co-location and transfer of policy direction and administrative control for a number of critical programs which address similar results for children and families will provide a new leadership focus and enhance policy coordination and collaboration within state government.

Children's programs from the Department of Education, Department of Health, Office of Strategic and Long-Range Planning, Department of Human Services, and Department of Economic Security are combined into Department of Children and Education Services. The Governor's budget eliminates the Department of Education, transferring that department's functions to the new department. The new agency will have policy and administrative authority over 33 grant programs which will also be moved from five different state agencies. The new agency will oversee \$184 million of program funds with an emphasis on *Minnesota Milestones* goals for children and fostering local flexibility.

The new organization will better serve Minnesota's children because it will:

- reduce existing service fragmentation;
- enhance the ability of state government to help local governments and communities design flexible services that will work best for their communities; and
- improve the capabilities of both state and local government to focus resources on measurable outcomes to improve the well-being of children and families.

K-12 Program and Finances focus on results

Significant reform in the state's relationship with the K-12 system will continue with restructuring of several state aid programs to provide greater school district flexibility, increasing emphasis on investments to raise student performance standards, and implementing tougher academic standards for teacher licensure. The state's obligation to K-12 education is focused while district flexibility is expanded.

Preservation of resources for the Education aids portion of the state's budget was one of the Governor's highest objectives. The budget provides \$5,482 billion, an increase of 8% over F.Y. 1994-95. Total revenues per pupil will increase 8.2%. No additional property tax increase is necessary.

The Governor's recommendations for the F.Y. 1996-97 Education Aids budget move the education finance system toward a focus on results, with increased flexibility at the local level to manage resources in the manner determined locally to best improve student achievement.

Districts accountable for results. Accountability will be increased at all levels, helping the public to better understand state and local roles in decision making and to hold state and local officials accountable for the decisions over which they have direct control. Local officials will be given the opportunity to better manage the costs of some of the largest and fastest growing items in school budgets.

Development and implementation of the Graduation Standards will be accelerated with \$15 million provided for statewide training and piloting programs. Teacher certification standards are strengthened with higher performance requirements.

Flexibility increased. The Governor's budget includes the repeal of some mandates controlling the use of school resources. Resources from 20 categorical programs are refocused into larger programs with greater flexibility and an emphasis on results. School districts will have greater flexibility to use both general education and categorical revenues in the ways that they determine will be most effective in improving student achievement.

Foundation formula focuses on results. Under this plan, discretionary spending in the general education formula will be increased. The general revenue formula allowance will increase from \$3,150 in F.Y. 1995 to \$3,220 in F.Y. 1996 and \$3,240 in F.Y. 1997. Additional flexibility is gained by repealing several mandates in current law.

A new program, "Funding for Results", will begin to move the state toward a performance based funding system. The Governor's budget provides \$10.5 million in F.Y. 1997 to districts to support demonstrated progress toward raising student achievement levels.

Statewide education levy identified on tax statement

The Governor's Education Aids budget recommendations also establish the framework for improved accountability to the taxpayer.

In addition to the "Truth in Budgeting" program outlined above, changes are proposed to the local property tax statement to focus on how funds are spent for education.

Beginning in F.Y. 1997 a "statewide uniform education levy" will be identified on the tax statement. In this manner, taxpayers will recognize which property taxes are set by the state and which involve local spending decisions. The statewide uniform education levy will be the sum of the general education, basic transportation and capital expenditure levies.

Improved District Accountability requires PELRA Reforms

The Governor's budget significantly expands the tools available to districts to accomplish results in the classroom. Program flexibility, formula simplification and improved accountability to the taxpayer remove many of the present barriers to district management. The current Public Employment Labor Relations Act needs modifications in order to give school districts greater local control.

This primary interest must guide both the arbitration process and the labor management relationship. The state has no interest in the management of that relationship. However, as the principle funding source for K-12 education, the state has a legitimate interest in the equity of the bargaining environment.



Prepare young people for work

In the 21st century, Minnesotans will need advanced education and training if the state is to be a leader in the global economy. Increasingly, students will need vocational training or education beyond high school in order to get high-skill, high-wage jobs. The state's workforce will need more qualified workers who are able to function effectively within increasingly sophisticated work environments.

The Governor's 1996-97 budget provides \$2.19 billion for the two higher education systems and the student financial aid programs. This represents a \$79.4 million increase over the limits set in 1993 statutes. The Governor's budget, as a part of the Price of Government, also recommends that the higher education systems be provided with capacity to raise tuition and other income sources by 3% per year. Additional state resources, along with tuition income, will fund a 4.8% increase in higher education institutional budgets, and 3.7% increase overall.

Minnesota Education - to - Work Transitions Initiative

The Governor's budget includes \$5 million for a workforce readiness proposal designed to establish closer ties between business, education and the student. The program will expand youth apprenticeship options and assure better information on jobs for the future and the skills they will require.

The initiative will create regional governance structures to plan, implement and assess education and employment transition programs in each of the state's economic development regions. It also recommends continuing current youth apprenticeship demonstration efforts and developing regional expansion capacity. In order to succeed, the state must develop a statewide system of labor market information that is built on the current and future needs of business and meets the needs of learners for accurate and timely information about the availability of work and the skills necessary to obtain employment.

Role and Responsibility of Higher Education

The higher education system has been in a state of change for several years. The merger of the State Universities and the Technical and Community College Systems has presented a singular opportunity to prepare for the future. Work by the University Regents in formulation of U2000 recognizes the importance of the University to Minnesota and begins the strategic planning process to secure and strengthen that importance.

The largest single new investment in this budget supports the state's higher education system.

The budget recommendation includes a challenge to all the systems to continue internal priority setting and to concentrate on delivering high value, market sensitive educational experiences. The budget increases investments in student financial aids and challenges the systems to not raise tuition more than the rate of inflation.

Focused and targeted higher education services are key to the continued prosperity of our citizens and the state. The state's higher education systems must abandon the 19th century model of degree and curricula design. Dynamic workforce changes and international competition require a reexamination of the learning process. The Governor's budget calls for the creation of a Task Force on Higher Education and the Economy to define the needed changes in relationships between the business community's needs and the programs provided by our higher education systems.



Create jobs and sustain economic vitality

Minnesota and its citizens are on the verge of the twenty-first century. The changes of the past ten years will accelerate as technology brings the global marketplace to the main streets and classrooms across the state. Every sector of Minnesota life will be impacted as new businesses develop, jobs change and population centers across the state change in size and focus.

The state's business and government leaders must actively plan for the changes of the next twenty years. State and local governments must prepare in order to help capture the greatest benefit for the state and its residents. Minnesota's Workers' Compensation System must be modified so that our state's costs are no higher than the national average. The state's residents and businesses must be assured that public services are focused on broadly shared goals, delivered effectively and efficiently and produce measurable outcomes.

Economic Strategic Plan

After extensive input from experts and public meetings around the state, the Department of Trade and Economic Development published the *Economic Blueprint for Minnesota* in October 1992. Seven goals, each with a measurable indicator, were identified. Together the goals constitute a plan for a vibrant Minnesota economy - a growing economy that must be adaptive, innovative and internationally competitive if it is to provide meaningful economic opportunity for all our citizens.

The Governor, with the assistance of people from across the state, will develop competitive strategies to accomplish the goals outlined in the *Economic Blueprint*. The resulting Economic Strategies will be presented to the 1996 legislature. The Governor recommends that existing jobs and commerce programs be refocused based on the Economic Strategies to implement targeted programs in the 1998-99 biennium. Executive branch agencies will be organized around program delivery tied to specific strategies and outcomes.

The strategies will include examination of the following current activities:

- Business licensing and regulation
- Job opportunity and workforce competence
- Marketing and incentives
- Applied technology support to strategic industries
- Infrastructure support to regions and communities for economic planning, affordable housing, commercial transportation, water treatment and telecommunications

Environmental opportunities

The state's role has been growing for the past thirty years in the environment and natural resources area. Federal and local government have also increased their roles. Many programs with laudable goals have been created. But together they form a labyrinth so complex that public support for environmental protection and natural resource conservation is undermined. At the root are four major issues:

- **Duplication of effort** For example, the state has two major flood mitigation programs, one in DNR and another in BWSR, and they are implemented inconsistently.
- **Fragmented authority** State groundwater protection involves five agencies: PCA, Health, Agriculture, BWSR, and DNR. Three levels of government regulate wetlands. Is it any wonder that citizens don't know what agency to work with on water problems?
- **Program overlap** If a lake or a stream is having trouble with nutrient loading from surrounding land, the local lake district, a joint powers board, the local soil and water conservation district and the township may each have a role in the solution. None has it all.
- **Factual inconsistencies** Both the federal and state government place a high priority on wetland preservation, yet they can't agree on a definition of wetlands or how to delineate them.

All objective assessments of our state programs, from *Minnesota Milestones*, to the Commission on Reform and Efficiency, to the Sustainable Development Congress identified these issues and called for change. The Governor intends to engage all federal, state, and local government officials, together with the legislative branch in a challenge to resolve these issues.

Any proposal for change will be examined to ascertain that it does away with duplication, achieves consistency in management, contributes to unifying a fragmented system, and eliminates overlap. Any plan should also be consistent with four principles:

Improve our capacity to manage our environment and natural resources in a fashion that sustains related development; Maintain a customer focus and improve service to the public; Emphasize accountability, a vital aspect of good government; and Enhance cost effectiveness.

Workers' compensation reform

Minnesota business interests cite the high cost of workers' compensation premiums as the major obstacle to the viability and expansion of their operations. While progress has been made, workers' compensation costs are still lower in all of our neighboring states. The Governor expects action to be taken to lower costs and improve competitiveness this session.

Transportation plan

The Governor's budget provides increased funding for highways and transit without tax increases. The construction program will increase \$85 million over last biennium. Metropolitan and rural transit programs receive an increase of \$23 million to preserve and expand service.

Statewide housing strategy proposed

Housing is a key component of economic development. In Greater Minnesota, business expansion is stymied by a lack of affordable housing for workers in growing industries. In suburban communities, successful economic development efforts have created jobs in places where there is no affordable housing for the employees. This impacts both employers needing workers and people needing jobs. In the core central cities, preserving and expanding the economic base depends on stabilizing neighborhoods and expanding homeownership.

The Governor's budget provides \$15 million to assist communities throughout the state to address the particular housing conditions associated with the economic development activity in their area.

These funds will be combined with new and existing initiatives, using other resources to create incentives for developers to construct new rental units, provide equity participation loans and entry cost assistance. The goal is to encourage private investment from private lenders and mortgage insurers, and to help neighborhoods and communities revitalize their housing stock.

Legislative Commission on Minnesota Resources

The Governor will propose legislation abolishing the Legislative Commission on Minnesota Resources (LCMR) and integrating the Future Resources Fund and Environmental Trust Fund into the statewide budget process. The LCMR process represents the last "off-budget" state financial resource.

We can no longer afford the luxury of allocating significant revenues for environmental programs independent of the statewide operating and capital budget process. Integration into the state's unified budget process will enable the Governor and Legislature to leverage all available resources for statewide environmental goals.



Build Stable Communities

The Governor's budget continues the commitment to provide Minnesotan's a caring and secure community. The state has a clear interest in aiding efforts to maintain public safety, assist rural stability, and aid the economic self-sufficiency of its citizens.

Family support programs

The Governor's 1996-97 budget recommendations include concentration on three priority areas in the Department of Human Services that will improve the quality of life and stability of communities across the state. Access, along with sufficient personal resources are key measures of success for delivery of health and family support activities statewide.

The Governor's budget includes \$17 million for preservation and enrichment of community based mental health services throughout the state. In addition, the budget adds \$2.1 million for Community Support Grants to provide more choice and flexibility in long-term care and social services.

A major child support initiative is continued in F.Y. 1996-97 with reform of income guidelines, expanded adjudication procedures and concentrated child support payment and collections.

Health care programs

Health and Human Services programs cost roughly \$5.1 billion and account for over 28% of the state's General Fund budget. Of this total, 70%, or \$3.6 billion is used to provide Minnesota's neediest citizens with health care services. Minnesota has become a national model for its approach to providing access to appropriate medical benefits to needy citizens in an accountable and affordable manner. Reform will continue over the next biennium as the state reorganizes the health care delivery system. A major part of this reform includes seeking a federal waiver to expand access to quality care for low income Minnesotans.

Criminal justice programs receive largest increase in Governor's budget

Recent statutory changes in the criminal justice area result in significant cost pressures. The Governor's budget recommends a 25% increase in funds over 1994-95, the largest percentage increase in the budget. Increases for the Department of Corrections for additional beds and programming total \$89 million, a 30% increase. Tougher criminal penalties will increase inmate populations 25% in the F.Y. 1996-97 biennium, to a historical high of 5,500.

Tougher sentencing also adds costs to the courts and public defender system which are provided for in the Governor's budget. The Public Defender's budget and the budget for the courts are increased \$24.7 million to support additional judges, staff and public defenders. Items vetoed last session due to overall budget limitations, are paid for in the Governor's biennial budget recommendations.

Recommended biennial funding for community corrections and other local corrections programs will increase \$37 million, or nearly 60% over F.Y. 1994-95 spending. These additional funds will be used for providing additional probation officers and financing a new partnership with correctional authorities aimed at dealing with the most serious and violent juvenile offenders.

Rural Revitalization

The Governor includes \$15.1 million in his budget which builds upon agriculture and agri-business successes over the past four years. These initiatives emphasize improving the agricultural economy through value-added product development and making Minnesota farmers and agri-businesses competitive. They will continue the evolution towards stabilizing our rural economy and adding value to agriculturally dependent communities.



Education Finance

Education finance remains the largest single expenditure in the state's budget, accounting for 30.3% of the state's budget in F.Y. 1996-97. The Governor's recommended budget for K-12 education provides an 8.1% increase in state funding over the 1994-95 biennium.

State Appropriations for K-12 Education

(\$ 000s)

1994/95 Biennium	1996-97 Biennium	Percent Change
\$5,221.6	\$5,622.4	8.1% ¹

These increases in state funding, in combination with forecast growth in levies, will provide an 8.4% increase in school spending over the F.Y. 1994-95 biennium.

The Governor's budget does not propose any additional property tax increases. Actions taken by the 1993 and 1994 legislature will result in average annual property tax increases of 4% in F.Y. 1997 and 2.4% in F.Y. 1998 (C.Y. 1996 and C.Y. 1997). The Governor's budget assumes that levies will not exceed that level.

Elementary & Secondary Education Funding

All Funds (\$ in millions)

	1994-95 Biennium	1996-97 Biennium	Percent Change
Fund Source			
State Aid Entitlements	5,347.7	5,706.1	6.7%
Property Tax Levies	4,030.7	4,440.4	10.2%
Total	9,378.4	10,146.5	8.4%

The Governor's recommendations for the Education Aids budget for F.Y. 1996-97 moves the education finance system toward a focus on results, with increased flexibility at the local level to manage resources in the manner determined locally to best improve student achievement. Accountability will be increased at all levels, helping the public to better understand state and local roles in decision making and to hold state and local officials accountable for the decisions over which they have direct control.

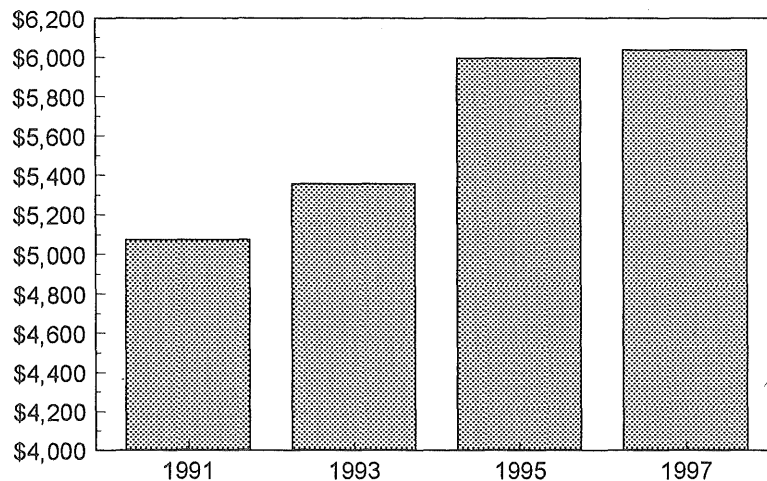
¹Percentage adjusted for comparability to reflect funding transferred to the Department of Children and Education Services.

Local officials will be provided an opportunity to better manage the costs of some of the largest and fastest growing items in school budgets. These reforms will make Minnesota's education system one which ensures and expects success for all students and insures taxpayers of the value of each dollar they contribute to the operations of that system.

Under the Governor's proposed plan, total revenue will continue increasing through F.Y. 1997 and revenue per student will increase over the F.Y. 1995 level. The proposed budget also recommends increasing the spring property tax revenue recognition rate to 48%.

	Students	State Aid Entitlement (millions)	Gross Levies (millions)	Total Revenue (millions)	Revenue per Student
F.Y. 1991	750,865	2,265.6	1,544.6	3,810.2	\$5,074
F.Y. 1993	785,072	2,395.0	1,808.7	4,203.7	\$5,355
F.Y. 1995	817,105	2,866.6	2,030.9	4,897.5	\$5,994
F.Y. 1997	845,893	2,821.2	2,285.4	5,106.6	\$6,037

Total K-12 Revenues Per Student



Flexibility

School districts will have greater flexibility to use both general education and categorical revenues in ways that they determine will be most effective in improving student achievement. Under this plan, discretionary spending in the general education formula will be increased by repealing several mandates in current law. Major components of the plan include:

- increasing the general education revenue formula allowance from \$3,150 in F.Y. 1995 to \$3,220 in F.Y. 1996 and \$3,240 in F.Y. 1997;
- repealing the set aside for class size reduction;
- repealing the set aside for staff development and parental involvement;
- repealing the requirement that school districts transfer a portion of the general education revenue to the community service fund for retirement benefits for licensed community education teachers; and
- eliminating the penalty for excessive fund balances, allowing districts more discretion on financial management practices.

The following changes are also proposed for several areas of categorical funding so that districts, again, may determine the most effective strategy for using their resources:

- combining the compensatory, Assurance of Mastery (AOM) and Limited English Proficiency (LEP) revenues, together with federal Chapter/Title 1 funds, into a new compensatory education block grant, beginning in F.Y. 1997. This revenue will be targeted to districts with the greatest needs and will provide more flexibility in using these funds to close the learning gap without regard to specific program restrictions and requirements.
- improving access to funds for technology improvements at the district level by allowing transfers from the general fund to the equipment account in the capital expenditure fund and by broadening the use of interactive television revenue for more general purpose technology improvements.
- replacing district cooperation revenue with learner improvement revenue, to be used for a variety of purposes aimed directly at improving student achievement;

- investigating obtaining federal waivers for exemptions from various administrative requirements, particularly in special education and encouraging districts to fully utilize the flexibility that does exist under current law.

Accountability

Accountability within the education finance system will be increased at all levels by clarifying state and local responsibilities. With these changes, the focus of the discussion can move from a debate on how funds are raised for education to how funds are spent in education:

- beginning in F.Y. 1997, a "statewide uniform education levy" will be identified which will be the sum of the general education, basic transportation, capital expenditure facilities, and capital expenditure equipment levies;
- also, in F.Y. 1997 property tax notices will identify this statewide uniform education levy on a separate line, allowing taxpayers to identify which property taxes are set by the state, and which involve local spending decisions; and
- school districts will also be required to hold at least one public hearing each spring to discuss student performance and the district's current and proposed budgets.

Results

With increased local control over each district's financial resources, districts will also be charged with demonstrating effective and efficient use of those resources through improved student performance. Development and implementation of the graduation standards will be accelerated, with a total of \$15 million supporting these efforts. A new program of "Funding for Results" will begin the move toward a performance based funding system, with \$10.5 million over the biennium to be distributed on a per pupil basis to districts that demonstrate progress towards raising student achievement levels. In addition to requiring students to meet high standards, teacher certification requirements will also be strengthened, with higher performance requirements overall and increased requirements for achievement in subject specific coursework. Successfully implementing the graduation standards will also require districts to continue and increase their commitment to staff development activities for already-licensed teachers. While the mandate regarding the level of local effort required for staff development has been eliminated, districts will still need to devote sufficient resources to ensure that students can succeed under the new graduation standards.

Cost Containment

Providing increased flexibility and demanding increased accountability require that districts have the leverage they need to control costs. The following changes are proposed:

- eliminating the January 15 deadline for reaching settlement without loss of funds;
- retaining the right of teachers to strike, as provided in PELRA, but restricting that right if teachers refuse to go to arbitration to settle a contract and the school board has agreed to arbitration;
- requiring that the arbitrator give primary consideration to the ability of employers to manage their operations and maintain the quality of service within existing funding levels when choosing between the employer and employee proposals;
- developing a timeline for the negotiations process that eliminates the negative impact of the bargaining process on students.

Spiraling special education costs have also created difficulties for districts in managing their resources equitably and efficiently. In addition to the increased flexibility that districts will be encouraged to explore, this proposal would replace the current formula's tie to special education teacher salaries with a formula tied to statewide pupil unit growth, with the state share of special education funding changed to a flat 60 percent of formula revenue. The excess cost program, which provides a safety net ensuring that no district be required to contribute more than a specified amount, is increased.

Finally, analyses by the actuary for the Legislative Commission on Pensions and Retirement suggests that school districts' contributions to the Teacher's Retirement Association are higher than necessary to fund current benefit programs. Reducing the rate to that needed to fund the current benefit package would save schools roughly \$16 million per year.



Children & Family Services

The Governor recommends three strategies to strengthen Minnesota's families and ensure successful development of the state's youngest children and youth.

- establishment of a Department of Children and Education Services;
- consolidation of funding at the local level for a number of existing categorical programs; and
- development of an education and employment transition program.

The Department of Children and Education Services (DCES) will incorporate the **basic education** functions of the existing Department of Education (MDE), which will be eliminated. In addition, it will include a **career preparation** function and a **family and community services** function.

By joining critical and closely related existing programs in state government, DCES organizational strategies will improve the well-being of the children of Minnesota and enhance the delivery of services to children and families. When completely operational, the agency will bring together programs that attempt to ensure that:

- all children come to school ready to learn;
- Minnesotans will excel in basic academic skills;
- children will be healthy;
- communities will be safe, friendly, and caring;
- families will provide a stable environment for their children; and
- Minnesotans will have advanced education and training to make the state a leader in the global economy.

In F.Y. 1997 all programs currently operated by the MDE are recommended to be transferred to the DCES. In addition, \$130,845,000 in state, federal, and special revenue funding, and 34 positions from four other state agencies (Department of Human Services, Department of Health, Economic Security, and Minnesota Planning) would also transfer to DCES in F.Y. 1997. Transfer of two other programs from the Department of Health, the Supplemental Food Program and the Maternal and Child Health Program (MCH), will be conditioned on federal government action.

Implementation of both the new agency strategy and the funding consolidation strategy will be deliberate and systematic. As state government attempts to navigate new and turbulent waters, expectations must be measured and priorities carefully established. It is anticipated that the major organizational, funding, and delivery system changes embraced by these strategies will take at least four to six years to achieve.

The education and employment transitions strategy will be supported with an additional biennial appropriation of \$5 million to continue youth apprenticeship programs and other regionally delivered options, and begin development of an information system to aid young adults in understanding what future job possibilities might exist and the kind of training needed to secure them.

New funding of \$1 million is also recommended for development of an integrated children's information system to enable local service providers and the state to measure Minnesota's success in meeting children's needs. Total funding for DCES operations and programs in F.Y. 1997 is shown in the table below.

F.Y. 1997
(thousands)

From Faribault Academies	
General Fund	\$7,803
Federal Funds	231
Other Funds	953
From Department of Education	
General Fund	\$14,833
Federal Funds	16,724
Other Funds	4,061
From Education Aids	
General Fund	\$2,814,757
Federal Funds	275,333
Other Funds	33,014
From Other Agency Operations Transferred In	
General Fund	\$1,350
Federal Funds	1,424
Other Funds	468
From Other Agency Grants Transferred In	
General Fund	\$68,094
Federal Funds	59,509
Other Funds	-0-
From New Operations Funds Recommended In This Budget	
General Fund	\$600
From New Grant Funds Recommended In This Budget	
General Fund	\$1,900
Total Operations and Grants	\$3,301,054



Higher Education

The Governor's proposed 1996-1997 budget provides \$79.4 million for higher education above the 1993 statutory limits. This is the only area of the budget where the Governor's recommendations exceed the spending limitations adopted by the 1993 legislature.

	F.Y. 1994-95	F.Y. 1996-97	Percent Change
University of Minnesota			
Appropriation	907,705	968,984	6.6%
Tuition, Other Revenue	373,771	398,388	6.6%
Total	1,281,476	1,367,372	6.7%
MnSCU			
Appropriation	892,593	905,043	1.4%
Tuition, Other Revenue	546,420	578,235	5.8%
Total	1,439,013	1,483,278	3.1%
Higher Education Coordinating Board			
Student Financial Aids	220,273	227,181	3.1%
Learning Network, MINITEX	8,926	10,316	15.6%
Other	5,547	6,212	12.0%
Total	241,746	243,709	3.8%
Mayo Medical	1,648	1,650	0.1%
Total	2,043,692	2,199,386	3.7%
<p>NOTES: MnSCU appropriations for 1994-95 exclude \$24 million in F.Y. 1995 to retire the technical college accounting shift.</p> <p>MnSCU other revenue for 1996-97 excludes \$17.3 million of technical college revenue currently held in local accounts that will be deposited into the state treasury after the merger.</p>			

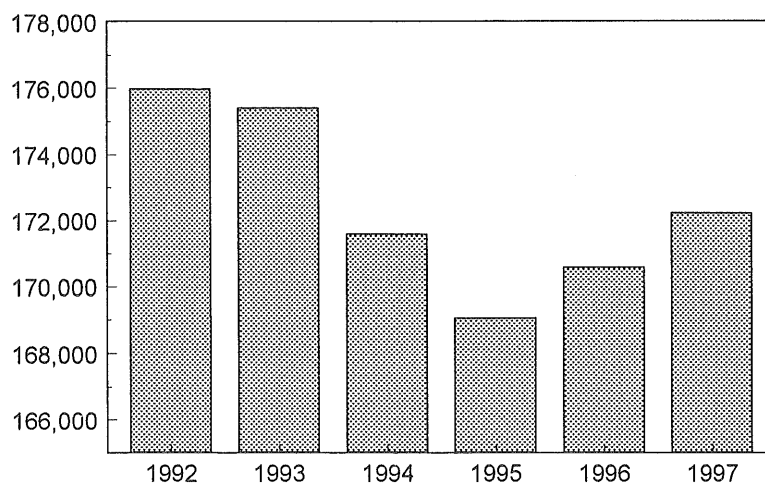
Highlights of the Governor's recommendations include:

- \$60.8 million for the University of Minnesota, including a \$53.8 million strategic investment pool of one-time appropriations to assist the University in achieving the goals of University 2000.
- \$10.4 million for the sixty-two State University, Technical College and Community College campuses that will be merged on July 1 under the governance of the Higher Education Board into a new system, the Minnesota State Colleges and Universities (MnSCU).

- \$7.9 million to ensure that need-based state grants to students attending Minnesota public colleges and universities keep pace with anticipated tuition increases of three percent.
- \$685,000 to fund initiatives to strengthen participation in post-secondary education among students of color and students from low income families.
- \$90,000 to fund increased demand by colleges and universities for the services of the MINITEX inter-library loan program.

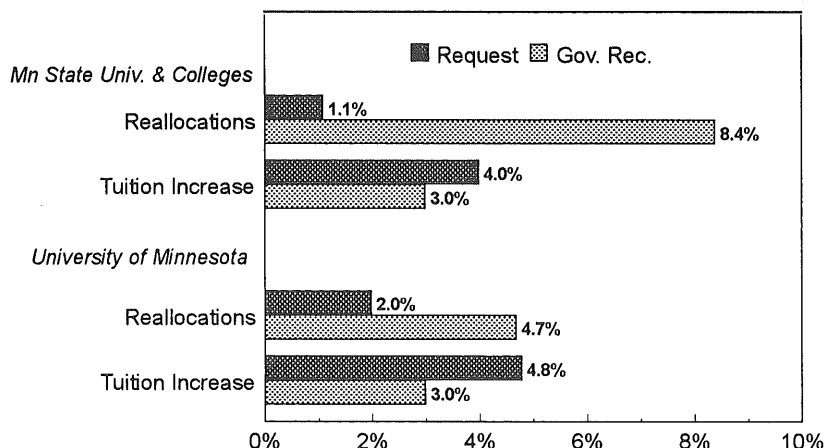
The Governor's budget challenges the public higher education systems to limit annual tuition and fee increases for resident undergraduate students to the projected three percent annual rate of inflation. It proposes that the state's public higher education systems pay for any additional costs to the state grant program that result from tuition and fee increases that exceed the rate of inflation.

Post-Secondary Enrollments



Declining enrollments, which have reduced tuition revenue yields over the past two years for both the University of Minnesota and state colleges and universities, are forecast to increase slightly during the 1996-1997 biennium. Controlling tuition rate increases will place rigorous demands on both public systems of higher education to focus their missions and more aggressively pursue cost-containment and reallocation. The Governor recognizes that limited state appropriations may require the University to make reallocations in order to meet the budget set by the University Regents for the 1996-1997 biennium and beyond.

Budget requires additional reallocations to reduce tuition



University 2000

To assist the University of Minnesota in meeting the goals and priorities of University 2000, the Governor's budget proposes increasing ongoing state appropriations above the cap, and providing additional one-time appropriations of \$53.8 million. These appropriations include \$500,000 in each year to support continued research on wheat and barley scab, a plant disease that has caused Minnesota farmers substantial losses in the past two years. The Governor further recommends increasing the University's management flexibility by eliminating the strings tied to its "special appropriations." Granting greater flexibility would substantially facilitate the University's restructuring efforts.

Merger cost control

The Governor's budget increases biennial appropriations to the Minnesota State Colleges and Universities by \$10.36 million above the current statutory cap.

The Governor requests that MnSCU first exhaust all possibilities for reallocating resources within its own budget before asking state taxpayers and students to pay more. Beyond consolidating the three central office staffs, MnSCU can eliminate unnecessary program and course duplication, consolidate administrative staffs at co-located campuses, and close programs with low student enrollment and low job placement rates. The aging of the workforce will also present opportunities for increased efficiency, as senior staff retire.

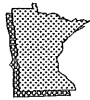
To aid MnSCU in its restructuring efforts, the Governor recommends that it be permitted to employ a "Rule-of-85" early retirement option to facilitate early retirements of faculty and staff. The Governor recommends that the MnSCU Board be given authority to manage the award of early retirement incentives and that MnSCU be responsible for all resulting costs.

Task force on higher education and the economy

The key to Minnesota's future economic prosperity is a system of higher education that will prepare citizens to be productive workers in a competitive, international marketplace. Just as business and industry have had to adapt to meet the demands of a dynamic economy, so, too, must Minnesota's higher education systems re-examine whether the young people they graduate are equipped with the knowledge and skills that the modern economy requires. The Governor recommends creation of a special group of advisors to advise Minnesota's higher education systems on the labor force needs of business and industry and how the higher education community can better meet them.

Higher Education Coordinating Board

In addition to increased appropriations for the State Grant Program and MINITEX, the Governor's budget provides funds for two programs of the Higher Education Coordinating Board aimed at increasing participation in post-secondary education among students from low income families and communities of color. The Governor proposes \$485,000 to continue and expand the Summer Scholarships for Academic Enrichment program for junior and senior high school students, and \$200,000 to expand HECB's campaign to inform students and parents about planning for education beyond high school, including financial planning and the importance of savings.



Health and Human Services

Health and Human Services programs account for over one-fourth of the state's General Fund expenditures. This area includes Minnesota's General Fund health care programs and does not include MinnesotaCare. For the F.Y. 1996-97 biennium, the Governor recommends an increase of \$863 million over F.Y. 1994-95 General Fund appropriations, for a total of \$5.1 billion.

Health and Human Services Funding All Funds (\$ in millions)

Agency or Program	1994-95 Biennium		1996-97 Biennium		Percent Change	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
Human Services						
Life Skills Self Sufficiency	40	140	192	242	380	73
Children's Program	33	33	43	43	30	30
Economic Self-Sufficiency	632	633	652	653	3	3
Acute & Managed Health Care	918	1,027	1,769	2,006	93	95
Long-term Health Care	1,952	1,951	1,775	1,778	(9)	(9)
Community Mental Health	78	78	101	101	30	30
State Residential Services	443	443	413	413	(7)	(7)
All Other Programs & Services	42	45	51	54	21	20
Subtotal:	4,138	4,351	4,997	5,291	21	22
Health Department						
Community Health Services	28	28	28	28	0	0
Other Health Services	48	175	48	161	1	(8)
Veterans Homes	33	62	37	70	4	9
						443
Total	4,247	4,775	5,110	5,746	20	20

Department of Human Services (DHS)

The 1996-97 budget recommends health and human service proposals that closely tie state spending to the goals set forth in *Minnesota Milestones*, a summary of state priorities. This new approach aided the DHS in re-evaluating existing services and preparing for the future. The result is a plan that generates more flexible programming and helps contain state expenditures.

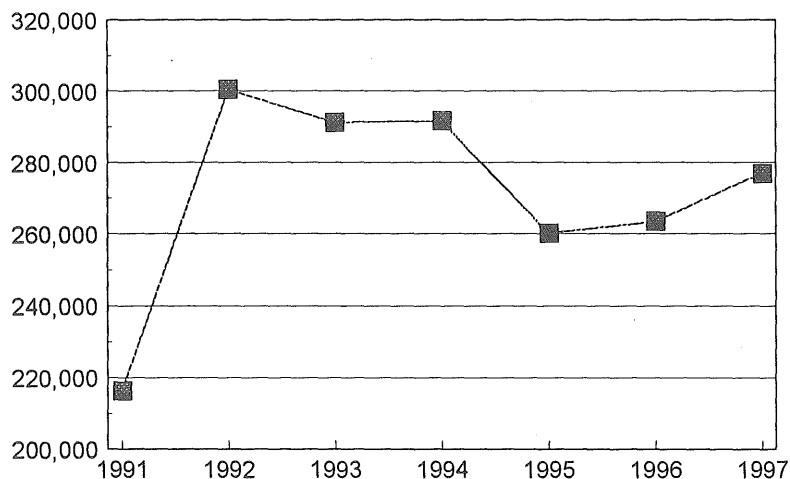
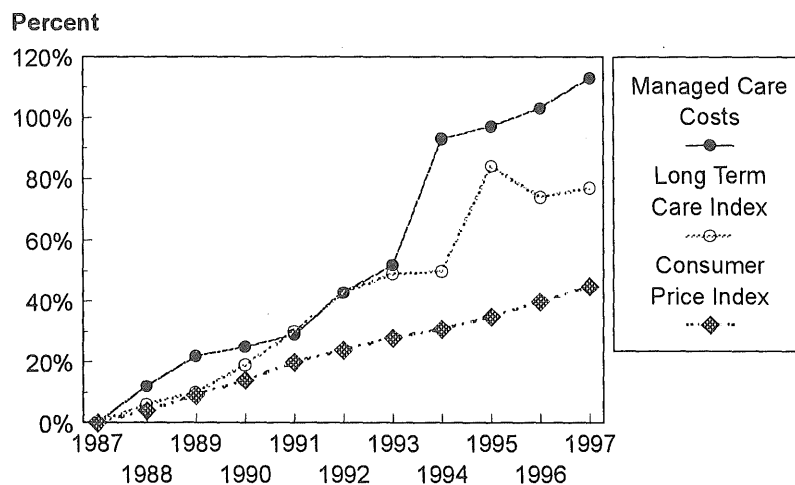
The Governor's proposed \$5.0 billion DHS budget features improved services for children and families. New funding is recommended for critical children and family programs. Additional changes are proposed to make existing DHS programs more responsive to families' changing needs. Government operations are revamped to improve performance with the creation of the Department of Children and Education Services.

Budget highlights include:

- *Welfare Reform* initiatives that emphasize employment opportunities and create new financial incentives for working families. The proposal reallocates \$27.5 million of existing welfare spending to create a cost neutral package. In addition, the Governor's budget proposes to simplify the state's child support system so that non-custodial parents fulfill financial obligations, and ultimately, improve the lives of children.
- *Children's Program* initiatives include:
 - an additional \$18.8 million in Basic Sliding Fee Child Care funding to improve access to quality child care services for working families;
 - \$7.5 million to support Family Services Collaboratives;
 - \$5.3 million for adoption assistance for families adopting special needs children;
 - \$2.3 million in increased funding to ensure a continuum of care for youths who are homeless or at risk of becoming homeless; and
 - \$11.4 million in increased funding for mental health services for children and their families.
- *Life Skills Self-Sufficiency* initiatives that respond to citizens, who have said they want more choice and flexibility in long term care and social services, and want to live as independently as possible. A primary goal of these initiatives is to provide services to people based on functional need and income rather than on age or category of diagnosis. The \$2.1 million Consumer Support Grants proposal is a first step in this new direction. The Homesharing program is an example of providing assistance to people to help themselves to stay in their own homes as long as possible.
- *Community Mental Health* services will be increased \$17.0 million so that adults and children with serious and persistent mental illness will be able to obtain the services that meet their needs in their communities.

- *State Residential Services* changes continue the ongoing downsizing and closure of large residential facilities and the creation of small, community based service facilities. Developmentally disabled and mentally ill clients will be able to receive the care they require in less restrictive and more homelike settings. In addition, the department budget provides for the operational phase-up of a new psychopathic personality facility on the campus of the existing Moose Lake regional treatment center as that campus transitions into a state correctional facility.
- *Acute and Managed Health Care* proposals presume a broad-reaching federal waiver to expand access to quality health care for low income Minnesotans. This proposal would simplify the three major publicly funded health care programs, increase program flexibility so that these programs can adapt to a changing marketplace, and serve consumers better. This initiative has a net savings to the health care access fund of \$31,905,000.
- *Long-term Health Care* recommendations include changes in institutional and in home- and community-based care. Institutional care changes include designing long-term care facility reimbursement to focus on the outcomes of care and to provide better incentives for cost-efficient care provision. Criteria for nursing home admission will target intensive institutional care to those who most need it. In-home and community-care services will offer more of the options that consumers most desire, while contributing to cost-effectiveness.

This budget represents a balanced approach to competing needs. Critical items such as providing inflation increases for health care providers and eliminating hospital peer grouping rate policies are accomplished within the budget target. Strategic investments are also made to improve program delivery. Innovative policy initiatives are largely financed through the department's willingness to make inter-program reallocations, rather than rely upon an infusion of additional tax dollars.

Family support costs continue below 1994 levels**Long-term and managed care costs increases since 1987****Minnesota Department of Health (MDH)**

There is a major opportunity within the Health Department to increase efficiency, allow better customer service, and support health reform activities through the development of computer network systems for vital statistics. The Governor's budget includes \$590,000 to upgrade systems that will allow over 90% of the state's hospitals to electronically transmit birth information.

The Governor also recommends \$600,000 to establish a women's health center to promote and improve the health status of women of all ages and to provide a focal point for women's health advocacy, research, and dissemination of information.

In addition, the Governor's budget will decrease the facility and provider compliance fee charged to hospitals and nursing homes by \$6,513,000 during the biennium.

Veteran's Homes

The Minnesota Veterans Homes located in Minneapolis, Hastings, Luverne, and Silver Bay offer specialized nursing home and domiciliary home care services designed to meet the needs of a predominantly male population. This budget includes \$3,000,000 of additional General Fund financing to provide for the full operation of nursing home services at Luverne and to reopen seventy domiciliary care beds at Hastings in order to provide service to homeless veterans.



Criminal Justice

The Governor recommends a 25% funding increase over 1994-95 for criminal justice spending, the largest percentage increase in the budget. These recommendations address cost pressures in the areas of public defense (32% increase), correctional institutions (30% increase), and several forms of financial assistance to counties (60% increase) for probation services and other community corrections activities.

The criminal justice system in Minnesota is a highly complex web of state and local agencies working together to investigate crimes, apprehend suspects, adjudicate criminal cases, and sanction offenders in such a manner as to restore victims and reduce future risk of additional crime. In some cases, a single governmental entity may have sole responsibility for a specific aspect of the system. However, in most cases responsibilities are shared among various governmental entities in a fluid state-local relationship.

In order to meet the state's obligations regarding the criminal justice system, the Governor proposes several increases. Nearly all of the proposed increases occur as a result of decisions made in crime bills of prior legislative sessions. These bills responded to the public demand for a greater level of protection from offenders and a demand that offenders be held more accountable for their actions. As such, the number of offenders dealt with by state and local correctional authorities has increased, as have the numbers of public defenders, prison guards, and probation officers. The tax dollars committed to paying associated costs have, therefore, continued to rise and are reflected in the table below.

Criminal Justice Funding General Fund (\$ in millions)

Program Area or Agency	1994-95 Biennium	1996-97 Budget	Amount Change	Percent Change
Supreme Court	37,171	37,428	257	1%
Court of Appeals	11,430	11,646	216	2%
District Courts	124,497	131,046	6,549	5%
Public Defender	56,185	74,402	18,217	32%
Corrections				
Institutions	295,297	384,323	89,026	30%
County Criminal Justice Asst. & CCA	61,650	98,564	36,914	60%
All Other Corrections Programs	74,413	89,010	14,597	20%
All Other	6,243	6,646	403	6%
Total	666,928	835,674	168,746	25%

In the public defense budget, the Governor proposes to manage our obligations and escalating costs in a planned manner. At the end of the 1994 session, the Governor vetoed several provisions of the Juvenile Justice Act, not because he disagreed with its entire substance, but because the bill had long term fiscal implications that should have been addressed in the biennial funding cycle. The 1996-97 budget provides funds for these provisions. The budget increases the funding for the Public Defender by over \$18 million, increasing the total by almost one-third over the 1994-95 level. In addition, it maintains flexibility within the biennium so that funding can be adapted in line with the experience in providing new juvenile services.

The state's share of the obligations for the criminal justice system has expanded at a rate that should cause concern. In developing the criminal justice budget bill for this biennium, the Governor recognizes that an increase of 25% is unmanageable growth, particularly if carried out at that rate over future biennia. Planning and legislation in this area must be formulated in a manner to control the future spending commitments.

Courts

The proposed budget annualizes 1994 session District Court commitments for 4 judge units, 35 staff, and jury per diems by adding \$1.5 million to the base in F.Y. 1996, with an increase of \$6.5 million in total funding over the previous biennium. A lump sum of \$2.6 million is also reserved in the fund balance for staff and program requests transmitted to the legislature for consideration for the Supreme Court, Court of Appeals, and District Courts.

Public Defender

The Public Defense system continues to grow due to state assumption of county services and increased program requirements. The \$18.2 million increase is comprised of 3 components: a base adjustment for rent and relocation costs of \$.5 million, program annualization costs, and funding for the 1994 Juvenile Justice Bill. Annualization of the takeover of the county districts adds \$4.4 million to the base in F.Y. 1996, and increases total expenditures \$13.1 million over the previous biennium; these increases are partially funded by reducing the county H.A.C.A. aid payments by \$2.7 million in F.Y. 1996 and by \$8.1 million in total from the previous biennium. The Governor is also recommending a \$4.6 million increase to fund costs of juvenile justice, transcripts and appeals, and to supplement the takeover. A deficiency of \$1.5 million for costs related to F.Y. 1995 is also included.

These recommendations do not totally restore the items vetoed in 1994 because these are new programs in which the costs to equalize the former county service levels and to provide new juvenile services cannot be readily determined.

Although the state completed the takeover of five districts in previous years, the case mix and needs in the last five districts assumed this January may differ. With experience in the coming months, the requirements for the new five districts and the juvenile mandates can be planned for more carefully for the following biennium.

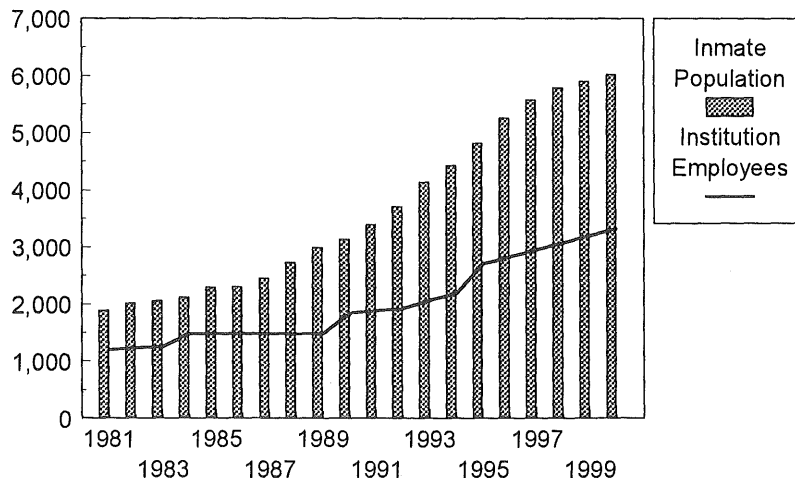
Peace Officers Standards and Training Board

The budget proposes maintaining a law enforcement grant to higher education at \$2 million for the biennium from the POST board special revenue account, and not replacing the grant with a new general fund appropriation as per current law.

Corrections

Although Minnesota has one of the lowest rates of incarceration in the country, it has not been immune from the national trends of incarcerating more offenders, and for longer periods of time. As seen in the chart below, the number of adult inmates held in state institutions has grown rapidly. Prison populations began to grow most rapidly in 1986, when sentences for the most serious crimes were doubled, making Minnesota's prison sentences for crimes such as murder, rape, and assault among the toughest in the country. Within the last five years alone, inmate population has grown by 1,400.

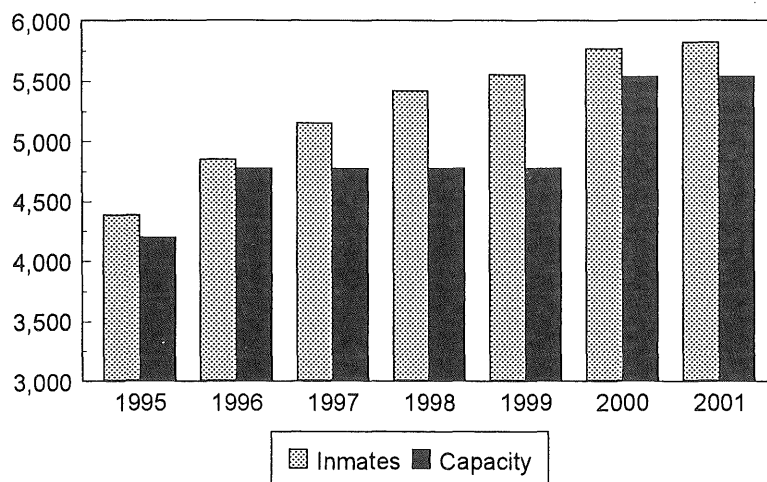
While managing this surge in prison population is a difficult task, the operating efficiency of the system has improved. In 1985 the ratio of inmates to staff was 1.56 to 1. In 1997 the inmate-to-staff ratio is estimated to be 1.89 to 1.



As a result of tough criminal penalties, inmate populations under existing law are expected to increase to more than 5,500 by the end of 1997, and to over 6,000 by the end of 2000. With the public decision to incarcerate more criminal offenders comes the unavoidable responsibility to staff prisons and provide rehabilitation services, all of which come at significant financial costs.

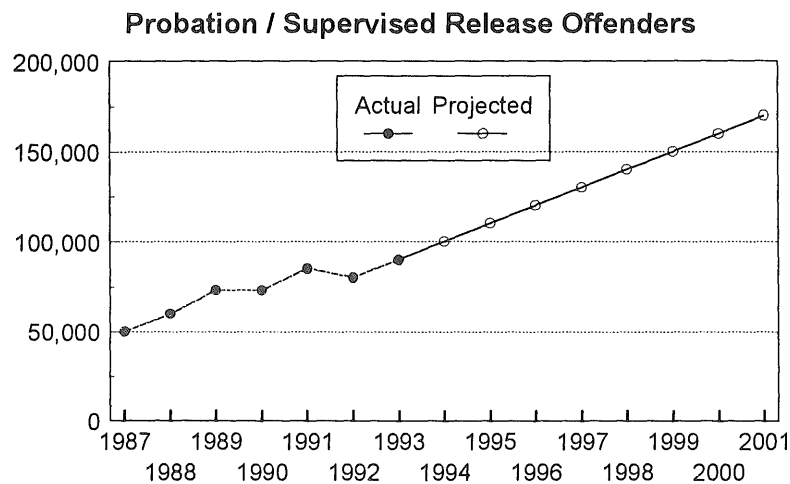
In addition to funding the Department of Corrections sufficiently to manage this population, limitations of physical capacity is also an issue. More than 2,000 beds have been added to the state prison system since 1985 by new construction, conversion of regional treatment centers, and by overcrowding inmates in existing institutions. Funding the development and ongoing operation of this additional prison capacity has consumed and will continue to consume a greater share of the state budget. Even with the capacity increases currently underway and with the addition of a new 800 bed prison currently being planned, demands on the system will exceed prison capacity through the year 2001. The Department of Corrections continues to explore all known alternatives for dealing with these capacity limitations.

Prison Population versus Capacity



Despite the fact that prison populations continue to grow rapidly, most criminal offenders do not go to prison; instead, they are sentenced to alternative forms of public sanctions at the local level, and the majority of those sanctions involve some form of supervision by corrections authorities. Many judges now make use of a wide variety of intermediate sanctions that are stricter than probation, but less severe than incarceration.

Using these alternatives permits expensive jail and prison beds to be reserved for the most serious, violent offenders from which the public needs a higher level of protection. All misdemeanor offenders and over 80% of all felons are sentenced to some form of supervised release in their local community. Furthermore, the majority of those that are committed to prison are ultimately released to local corrections agencies for supervision after serving their prison sentence. According to Department of Corrections survey data, over 90,000 individuals were on correctional supervision caseloads throughout the state on December 31, 1993.



As the number of offenders under supervision has risen, so has the public expectation that supervision will be meaningful and the public will be safe from those offenders serving sentences in the community. The number of agents employed at both state and local levels of government has not kept pace with the growth in offenders on supervision, and individual caseloads now range from 55 to 400 clients per probation officer. With such high caseloads, real supervision for many offenders cannot be achieved. The Governor's budget includes an additional \$15 million to counties to reduce these probation caseloads, and an additional \$13.5 million to counties to effectively deal with a new class of serious juvenile offender, the Extended Jurisdiction Juvenile.

Managing the complex criminal justice system requires continued state and local cooperation and funding to be successful. In order to effectively address the ongoing growth in offender populations, hold offenders more accountable for their behavior in the local community, treat underlying causes, and restore victims of crime, the Governor makes the following recommendations for additional funding:

- \$65,800,000 to annualize the cost of additional adult prison capacity,
- \$6,500,000 to address prison caseload beyond existing state capacity,
- \$3,500,000 to provide additional state capacity to deal with juvenile offenders,
- \$3,000,000 to provide additional state probation supervision for offenders serving community sanctions,
- \$18,000,000 to increase Community Corrections Act funding and reduce county probation and supervised release caseloads,
- \$13,500,000 to begin a new partnership with local correctional authorities aimed at dealing with the most serious and violent juvenile offenders (EJJ),
- \$5,300,000 additional funding for Community Corrections and County probation services,
- \$5,000,000 for additional services to crime victims and sex offender treatment.

Through these major funding increases, the Governor seeks to provide both state and county corrections departments the means to insure that those individuals who break the law are held responsible for their behavior and thereby provide a more safe secure community for all citizens.



Environment and Natural Resources

The Governor's Environment and Natural Resources Budget Bill recommends appropriation of \$784 million from all funds, net of estimated receipts from the federal government. This represents a growth of 7% over the 1994-95 biennium. The 1996-97 budget continues the evolution towards an ever larger proportion of the environmental programs financed outside of the General Fund. The current budget includes two major program initiatives: agricultural revitalization and alternative LCMR allocations.

Environment and Natural Resources Funding All Funds (\$ in millions)

Agency or Program	1994-95 Biennium		1996-97 Biennium		Percent Change	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
Pollution Control Agency	19,271	126,525	20,723	159,060	8%	26%
Office of Envir Assistance	38,365	42,600	38,292	44,662	0%	5%
Dept. of Natural Resources	190,209	382,969	198,116	374,644	5%	(2%)
Dept. of Agriculture	31,142	84,702	29,732	96,857	(5%)	14%
Ethanol Production Subsidy	12,159	12,159	28,000	28,000	130%	130%
Bd. of Soil & Water	25,419	26,312	26,734	30,926	5%	18%
Minn Zoological Garden	10,383	30,235	10,348	33,565	0%	11%
Other Agencies, Items	14,858	15,577	15,167	16,749	2%	8%
Total	341,806	721,079	367,112	784,406	7%	9%

Environmental Reorganization

Several objective assessments of environmental programs have cited duplication, fragmentation, overlap, and inconsistencies that add up to a labyrinth that is confusing to the public. The Governor intends to engage federal, state, and local levels of government and the Legislature in an effort to solve these problems. Any reorganization plan must focus on clear goals and objectives for improved outcomes. It needs to improve management of state government, recognize potential federal changes and consider the long term impact.

Agricultural Revitalization

The Governor recommends an agricultural General Fund package of \$15.1 million which builds upon agriculture and agribusiness successes over the past four years.

The emphasis is on improving the agricultural economy through value-added development and making Minnesota's farmers and agribusiness competitive with their national counterparts. These initiatives will continue to move towards stabilizing our rural economy and adding value to agriculturally dependent communities.

- \$8.0 million for Ethanol Producer Payments bringing the total payments for the 1996-97 biennium to \$28 million. This incentive program will continue to provide payments to five existing plants and an additional four that are in the development phase.
- \$250,000 to increase funds for the ethanol Production Facility Loan Program to provide capital for additional ethanol production facilities.
- \$250,000 to increase funds for the value-added Production Loan Program. The funds are for loan participation that will assist young farmers purchase stock in cooperatives engaged in value-added processing.
- \$200,000 to conduct policy analysis on the impact of the federal milk marketing orders on Minnesota and to support legal challenges to the current milk marketing order.
- \$192,000 for the Livestock Expansion Loan Program debt service. This initiative will allow the State to increase the amount of loan participation from \$100,000 per loan to \$250,000.
- \$2,000,000 will provide an environmental tax credit for equipment to upgrade feedlots and conservation tillage implements equal to 5% of the cost.
- \$3,200,000 to permanently exclude used farm machinery from Minnesota sales tax.
- \$1,000,000 in the University's budget for wheat and barley scab research to continue the research for the development of varieties of wheat and barley that are resistant to scab.

Alternative LCMR Allocations

The Governor's alternative recommendations total \$14.3 million. The LCMR allocated \$12.4 million of its estimated revenues for projects that have been and can continue to be addressed in the capital budget. For example, the 1994 bonding bill appropriated over \$30 million for the same capital programs as those recommended for funds from the Future Resources or Environmental Trust Funds. It is the Governor's recommendation that the LCMR projects compete in the capital budget process. The consequence is better targeting of operating funds on high statewide priority environmental projects.

The table displays the Governor's recommendations. They have been synchronized with agency operating budgets and past and projected capital budgets.

Category	Agency	Amount	Project
Aquatic	PCA	\$2,225	Clean Water Partnership Grants
Ecosystems	PCA	1,120	Minnesota River Project
	OEA	90	Minnesota River MNTAP
	BWSR	1,500	SWCD Funding for Tech Assistance
	BWSR	390	Metro Water Planning
	BWSR	187	Wetland Conservation Act
	DNR	2,030	Sustainable Ecosystems
	Agric	640	Non-point Source Pollution
Subtotal		\$8,182	
Forestry	DNR	\$1,875	Forestry GEIS
Prairie	Agric	300	CRP Assessment
Ecosystems	Agric	880	Biological Control Program
	BWSR	1,000	Soil Conservation Cost Share Program
	BWSR	40	Extension Cooperative Education
Subtotal		\$2,470	
Monitoring	PCA	200	Water Quality Statistical Project
and	PCA	120	Mercury Coordination
Assessment	DNR	1,200	Statewide GIS
	BWSR	150	Data Management
	EQB	120	Sustainable Development Roundtable
Subtotal		\$1,790	
TOTAL		\$14,317	

Pollution Control Agency

In addition to the alternative LCMR recommendations above, the budget's focus is primarily on landfill cleanup legislation. Initiatives of \$1.4 million for improved assessment and monitoring are earmarked for funding from the Landfill Cleanup Fund. Another \$1.8 million is recommended to establish a Petroleum Tank Lead Prevention Program. These initiatives have a common purpose, to improve water quality for the citizens.

PCA will complete its cleanup of known waste tire dumps by the end of this biennium. This activity will end on June 30, 1995, resulting in a savings of over \$4 million to the Motor Vehicle Transfer Account. The Governor supports the sunset of the fee on December 31, 1996 as stipulated in current law.

Department of Natural Resources

The Governor recommends spending \$2.4 million over the next two years from the General Fund to act on the recommendations of the Generic Environmental Impact Statement (GEIS) on timber harvesting and forest management. The recommendations were endorsed by a cross section of government and private sector interests who play key roles in the sustainable use and long term management of the state's forests.

The Governor recommends spending \$1.6 million over the next two years from the General Fund for the upkeep of our state parks. The increase in spending is matched by park gate receipts which are deposited in the General Fund. The number of park visitors is up by over 13%. The additional money will be spent on the higher costs of operating our state parks as a result of more visitors.

The Governor's budget does not include any fee increases for hunting and fishing licenses or for watercraft registration. The Game and Fish Fund and the Natural Resources Fund will remain solvent through June 30, 1999 without raising fees.

Minnesota Zoological Garden.

The Governor supports the Zoo's budget plan which continues the evolution towards a higher proportion of operating expenses covered by operating receipts. The Governor's budget does include an initiative of \$200,000 as a challenge grant to the Zoo to upgrade its technology capabilities and computing resources.



Economic Development

The Economic Development area is very diverse. There are several large agencies, including Commerce, Economic Security, Housing Finance, Labor and Industry and Trade and Economic Development as well as several mid-sized agencies and numerous small boards, commissions, and councils. Together they constitute less than 2% of the total General Fund budget. The 1996-97 budget of \$329 million represents an increase of 3% over the 1994-95 biennium when adjusted for the transfer of several programs to the new Department of Children and Education Services .

Economic Development Funding General Fund (\$ in millions)

Agency or Program	1994-95 Biennium	1996-97 Biennium	Amount Change	Percent Change
Dept. of Economic Security	98,880	80,197	(18,683)	(4%)
Housing Finance Agency	36,814	49,164	12,350	34%
Trade & Economic Dev.	65,461	63,487	(1,974)	(3%)
Other Agencies, Items	137,628	152,202	14,574	11%
Total	335,283	329,213	(6,070)	3% ¹
¹ The percentage change has been adjusted to what it would have been without the transfer of \$15,187,000 from the Department of Economic Security to the new Department of Children and Education Services.				

Economic Strategic Plan

The Governor intends to submit proposals to the 1996 Legislature that constitute an economic strategy designed to advance the goals identified in the *Economic Blueprint for Minnesota*. This strategy will realign agency economic programs around program delivery tied to specific strategies and outcomes. Changes adopted in 1996 will be effective on July 1, 1997 and incorporated in the 1998-99 biennial budget.

Department of Economic Security

The Governor is recommending the creation of a Department of Children and Education Services with an effective date of July 1, 1996. The 1996-97 budget transfers the Head Start, Youth Violence Prevention, and Youth Employment and Training programs to the new agency. This results in a budget reduction of \$15.2 million in the department's F.Y. 1997 budget.

Housing Finance Agency

There is a gap between what many workers can afford and the cost of acquiring, constructing or rehabilitating housing. This affordability gap is a constraint to economic development in many areas of the state. The 1996-97 budget addresses this gap with a total of \$15 million to leverage other money that will create incentives for housing construction and rehabilitation and mortgage lending.

- \$7.8 million to be combined with other sources to create incentives for private developers to construct new affordable rental units in Greater Minnesota; especially in areas where lack of housing is an impediment to creation and retention of jobs.
- \$4 million for equity participation loans of up to 15% of construction cost to fill the gap between construction costs and market value, and thus encourage investment from private lenders and mortgage insurers. Assistance with up to one-half of the entry costs will be provided to help overcome the final barrier to home-ownership. This is a 67% increase in the Homeownership Assistance Program, and it will focus on economically vital areas of Minnesota;
- \$3 million to be appropriated to help neighborhoods and communities revitalize their housing. This initiative will be used in conjunction with a community rehabilitation loan pool. It seeks to preserve the employment base in cities or areas threatened with erosion of their housing stock.
- \$200,000 for local units of government and organizations to work together to develop the capacity and expertise needed to fund creative solutions to the complex problems of producing housing in their area.

Department of Trade and Economic Development

The 1996-97 budget includes \$14.5 million in various initiatives designed to create jobs and improve information technology in this area.

- The Economic Recovery Grant Program is expanded by \$6 million. It is the flagship program to stimulate new private investment in business and economic development projects. The increased funding will reduce a large backlog of projects which qualify for funding. When added to base funding of \$11 million, it is estimated that \$40 million of private investment and 1,500 new jobs will be leveraged.

- The Job Skills Partnership Program is increased by \$600,000 to help reduce a backlog of projects eligible for funding. Many of them are in high priority categories with businesses poised for growth. This program provides grants to higher education in partnership with businesses to provide value-added skills for existing and new employees.
- The 1996-97 budget expands the Advantage Minnesota Program from \$200,000 per year to \$500,000. In combination with an equal amount of private funds, the program will expand marketing to six additional target industries.
- The budget includes a \$2 million increase for the Tourism Marketing Program. This industry plays a growing role in the state's economy, employment of its citizens, and in generating increased sales tax revenues from the growth of the industry.
- The Small Business Development Centers Program receives an additional \$1 million in funds matched equally by the federal government. This initiative will enable SBDCs to increase the number of counseling hours and kinds of services they provide to small business throughout Minnesota.
- A major technology initiative of \$1.7 million is included in the budget to develop a one-stop computer database. The proposed database will convert hard copy information on the requirements of the licenses and permits of state agencies to electronic form as well as add new information on statutes and rules so businesses can reduce the cost and time required to obtain this information.
- The budget provides \$455,000 for a Pathfinder interactive information system to give tourism customers the information they want, when they want it, and in the format they want it. This system will give customers detailed, specific information electronically twenty-four hours a day, seven days a week.
- A network administration initiative of \$1 million is included in the budget. The other technology initiatives and a growing need for network services and support are creating demands the current infrastructure is unable to meet.

Department of Labor and Industry

The agency's budget plan includes \$5 million to complete the DAEDALUS imaging project. This investment, which began with an initial \$5 million in the current biennium, is a prerequisite to enable them to accomplish the improvements in agency operations documented in the 1994 Annual Performance Report.



Transportation

The main program components in the transportation area are the state, county, municipal roads, metro and outstate transit, and the various programs in the Department of Public Safety. On an all funds basis, net of dedicated federal receipts, the 1996-97 budget amounts to nearly \$2.7 billion, an increase of \$144 million over the 1994-95 budget.

Transportation Funding

All Funds (\$ in millions)

Agency or Program	1994-95 Biennium		1996-97 Biennium		Percent Change	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
Dept. of Transportation						
Greater MN Transit	21,636	23,035	24,444		13%	11%
State Road Const	0	702,312		748,226	NA	7%
Const Support	0	212,714	0	216,612	NA	2%
County State Aid	0	567,172	0	581,662	NA	3%
Municipal State Aid	0	165,327	0	177,217	NA	7%
State Airports	0	33,952	0	35,420	NA	4%
Other MnDOT Activities	1,476	497,359	848	568,452	(43%)	7%
Met Council Transit	69,083	69,083	89,084	89,084	29%	29%
Public Safety	69,138	236,423	68,694	241,403	(1%)	2%
Trans Regulation Bd	0	1,410	0	621	NA	(57%)
Safety Council	0	134	0	134	NA	0%
Total	161,333	2,508,921	183,070	2,684,497	13%	7%

State Road Construction

A combination of increased federal highway dollars, normal growth in revenues, and internal reallocations account for a \$85 million increase for road construction in the 1996-97 budget. This increases the annual road construction budget from approximately \$335 million annually at the current spending level to a little over \$375 million for F.Y. 1996 and F.Y. 1997. Growth in highway fund revenues also provides additional state aids for county and municipal systems. This increased funding will help maintain the high quality and safety of the road systems.

Greater Minnesota Transit

The budget includes increased General Fund support of \$3 million for the biennium to provide operating and capital assistance for implementation of transit service commitments that have been made. This increased funding will continue the progress in meeting the diverse mobility needs of Greater Minnesota.

Metro Transit

The Metropolitan Council intends to undertake a comprehensive review of the metro transit system. It is seeking opportunities for restructuring operations, coordinating activities, and sharing resources. The goal is a redesigned system that is more cost effective than the current one. The 1996-97 budget offsets losses in non-state revenue sources, especially from stagnant property tax receipts. It provides a General Fund increase of \$20 million to fund Metro Mobility and to sustain regular route service pending completion of this review.

Department of Public Safety

The 1996-97 budget includes three initiatives for the agency: \$3.9 million to upgrade information systems in the department and to provide enhanced services to the criminal justice community via the Criminal Justice Data Communications Network; \$1.8 million to upgrade the forensic laboratory to improve the BCA's DNA testing capability and improve laboratory turnaround time; and \$719,000 to match remaining federal funds for 1993 flood mitigation projects in connection with the Presidential disaster declarations involving Minnesota. The agency plan also includes \$1 million in trunk highway funds to replace intoxilyzers used in DWI testing and \$1.5 million in trunk highway funds to maintain the full staffing level of state patrol troopers at the 535 strength for the biennium and to provide inspectors at the new Moorhead weigh scale.

Transportation Regulation Board

Congress preempted the state regulatory authority for most motor carriers effective January 1, 1995. The 1996-97 budget provides reduced funding for F.Y. 1996 and eliminates funding for F.Y. 1997. The Board will prepare a report with recommendations for legislative action required to modify regulation of the transportation industry.



State Government

The State Government program area is composed of the legislature, constitutional offices, the staff departments of Administration, Revenue, Finance, Employee Relations, Minnesota Planning and other medium sized and small agencies. It accounts from about 3% of the total General Fund budget. The 1996-97 budget of \$530 million provides no net increase in total funding from that provided in the 1994-95 biennium.

State Government Funding General Fund (\$ in millions)

Program Area or Agency	1994-95 Biennium	1996-97 Budget	Amount Change	Percent Change
Legislature	108,703	107,632	(1,071)	(1%)
Constitutional Offices	78,365	80,015	1,650	2%
Dept of Revenue	150,082	151,448	1,366	1%
Dept of Administration	30,714	36,022	5,308	17%
Dept of Finance	48,018	42,134	(5,884)	(12%)
Dept of Employee Relations	16,209	17,734	1,525	9%
Lawful Gambling Control Bd.	3,924	5,310	1,386	35%
Racing Commission	567	740	173	31%
Board of Innovation & Cooperation	(3,400)	0	(3,400)	(100%)
All Other Agencies, Items	91,062	90,009	(1,053)	1%
Total	531,044	529,865	(1,179)	(0%)

Legislature and Constitutional Officers

The Governor's Budget includes requests for additional funding forwarded by the legislature and constitutional officers. Respecting the constitutional status of these agencies, the Governor has not made recommendations on these change requests individually. The Governor recommends current level funding and that the legislature consider funding these requests from unallocated balances left in the General Fund.

Department of Administration

A technology investment of \$5 million is recommended in appropriations and sales tax exemption to improve access to the state's computer network, various mainframe data bases, and the Internet for a wide variety of schools, campuses, and state agencies, particularly those in Greater Minnesota.

An additional investment of \$2.3 million is included to provide citizens and businesses electronic access to state government information and services.

Department of Revenue

A further technology investment of \$2.1 million is recommended to replace outdated manual tax processing systems that will increase accuracy, decrease processing time, and enable expansion of electronic filing and funds transfer.

Department of Finance

This agency's budget reflects the continuing impact of the Statewide Systems project (SSP) and Accounts Receivable Projects begun during the 1994-95 biennium. After base adjustments, the overall budget is 13% lower in the 1996-97 biennium. The agency plan also includes \$2.1 million to support service and system requirements and enhance the collections system in the Department of Revenue.

Department of Employee Relations

The budget includes \$1.3 million to continue reform of the state's outdated and inefficient systems for hiring, classifying, evaluating, and retraining state employees. An additional \$600,000 is recommended to expand recruitment and training of protected group members as well as to coordinate state agency compliance with employment-related provisions of ADA. Finally, \$500,000 is earmarked for total quality management training to improve the skills of state employees and the services they deliver to the citizens of the state.

Lawful Gambling Control Board

The budget includes a technology investment of \$1.2 million to improve the agency's service to the lawful gambling industry and to increase its effectiveness in regulating the industry.

Minnesota Racing Commission

The Governor's Deficiency Bill includes \$77,000 in F.Y. 1995 so the commission can gear back up for the resumption of live racing. The 1996-97 Biennial Budget includes an increase of \$173,000 for the same reason. These increased expenditures will be more than offset by the parimutuel taxes generated by the racing activity.

Board of Innovation and Cooperation

The Governor recommends the elimination of the board in favor of a more comprehensive approach to providing relief to local government from state rules and regulations. Elimination of the Board saves \$3.4 million for the biennium.

Funding Price and Salary Increases

The Governor's budget does not provide separate funding to state agencies for any potential increases in the cost of labor, goods or services. During the budget period, the general rate of inflation is forecast to be 3.0% per year. The November 1994 forecast estimated the General Fund cost of inflation for all programs not under statutory spending limits at \$92 million for the biennium. Agencies will be required to absorb these costs within the recommended level of funding provided in the Governor's budget.

Small Agencies

The Department of Finance allowed agencies with fewer than 20 employees to build in non-salary inflation increases of 3% per year. The Governor's budget reserves \$600,000 in the General Fund for a small agency salary supplement. These recommendations reflect a policy of simplifying budget submissions for small agencies and recognizing that these agencies do not have the flexibility to reallocate funds to cover unfunded obligations.



State and Local Finance Summary

Price of Government Targets

The Governor has long advocated significant changes in the way the legislature acts on the state budget. The budget process has been criticized for ignoring the cumulative cost of state government to taxpayers. The Governor has repeatedly recommended reversing the order in which the two sides of the budget are set. First, publicly debate and decide an appropriate level of taxes and revenues, then deliver spending bills within an agreed upon level of revenues.

A new state law reflects these changes. It is often referred to as the "Price of Government" legislation. Before spending bills are passed, the Governor must first propose a "target" percentage of total state aggregate personal income that total state and local revenues should not exceed.

In a similar fashion, the legislature must, by March 15, adopt by concurrent resolution either the Governor's or its own revenue targets for the same budget periods. This is good news for state taxpayers because, once the revenue targets are set, taxpayers will have greater protection against the pressure of special interest groups to increase spending and the historical mechanism of adjusting taxes once spending increases have been decided.

The Governor recommends the following targets for state and local revenues:

Governor's 1995 Price of Government Recommendation (\$ in Millions)

	C.Y. 1995 F.Y. 1996	C.Y. 1996 F.Y. 1997	C.Y. 95-96 F.Y. 96-97	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999	C.Y. 97-98 F.Y. 98-99
State Tax Revenues	\$9,358	\$9,703	\$19,061	\$10,137	\$10,555	\$20,692
as % of personal income	8.9%	8.8%	8.8%	8.7%	8.6%	8.7%
State Non-Tax Revenues	1,545	1,548	3,093	1,516	1,503	3,020
as % of personal income	1.5%	1.4%	1.4%	1.3%	1.2%	1.3%
Local Tax Revenues	4,454	4,623	9,077	4,768	4,962	9,730
as % of personal income	4.2%	4.2%	4.2%	4.1%	4.1%	4.1%
Local Non-Tax Revenues	3,938	4,095	8,033	4,256	4,458	8,714
as % of personal income	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
TOTAL REVENUES	\$19,295	\$19,969	\$39,264	\$20,677	\$21,478	\$42,156
as % of personal income	18.3%	18.1%	18.2%	17.8%	17.6%	17.7%
Minnesota Personal Income	\$105,430	\$110,160	\$215,590	\$116,000	\$122,070	\$238,070

Budget reflects a decline in the price of government

The Governor recommends a gradual decrease in the price of government over the next several years. In 1995, a total of 18.4% of the state's aggregate personal income will be collected in taxes and fees at the state, school district, county, city, and town levels. The Governor's budget recommends adopting state and local revenue levels over the next four years which will reduce this percentage to 17.6% by 1999.

These budget targets reflect adjustments to the revenues forecast in November for the effect of the Cambridge bank refunds, additional pressures on local governments, and revised estimates of certified education levies. In our judgement, these targets provide sufficient financing for state and local governments.

State Revenue Changes

The Governor's budget contains several changes which impact state revenues, based on two principles:

No Tax Increases: The Governor's budget proposes no new taxes on Minnesota citizens.

No Fee Increases: The Governor's budget proposes no net increases in fees on Minnesota citizens.

Governor's Budget Provides for Cambridge Bank Settlement

Perhaps the most significant revenue issue addressed in the Governor's budget is the impact of the Cambridge Bank judgment. This lawsuit was filed in 1984 by financial institutions against the state of Minnesota, protesting the legality of the state's taxation on interest earned on federal bonds during the 1980s. Recently, the U.S. Supreme Court refused to hear the case, returning it to Minnesota courts for judgment and resolution. Current estimates place the cost of this judgment at approximately \$160 million over the 1996-97 biennium and \$160 million in F.Y. 1998-99.

The Governor's budget has made provision for the judgment out of existing resources. No taxes or fees will be increased to pay for Cambridge Bank. None of the state's bonding capacity will be used. Cambridge Bank will be paid for with cash. A general reduction has been applied to all areas of the state budget, with adjustments for high priority areas like primary and secondary education. The Governor remains committed to helping the state live within its means, even when faced with a financial impact this size.

Governor's Initiative Affecting Revenues

Governor's Tax Initiatives	F.Y. 1996	F.Y. 1997	F.Y. 1996-97
Permanent Exemption of Used Farm Machinery	(\$1,600)	(\$1,600)	(\$3,200)
Environmental Credit	(1,000)	(1,000)	(2,000)
Exemption of MNET Equipment Purchase	(250)	(250)	(500)
Prepayment of Tax Credits	(2,200)	(120)	(2,320)
Eliminate Political Contribution Credit	1,250	3,400	4,650
TOTAL	(6,800)	250	(6,550)

Governor's Other Revenue Initiatives	F.Y. 1996	F.Y. 1997	F.Y. 1996-97
Transfers from Other Funds	\$8,082	\$3,082	\$11,164
DHS A/R Consolidation	1,499	1,499	2,998
DHS Reg. Treatment Center Collections	(15,886)	(22,239)	(38,125)
Corrections Dept. Juv. Justice Cty Reimburse.	1,750	1,750	3,500
Miscellaneous Agency Fee Adjustments	1,742	1,553	3,295
TOTAL	(\$2,813)	(\$14,355)	(\$17,168)

TOTAL TAX AND NON-TAX REVENUE	(\$9,737)	(\$14,105)	(\$23,842)
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Tax Reductions

- *Permanent Exemption of Used Farm Machinery* will extend the sales tax exemption granted farmers during the 1994 legislative session. Under current law, the exemption was scheduled to sunset at the end of F.Y. 1995.
- The *Environmental Credit*, part of the Governor's agriculture package, will provide \$2 million in tax credits over the biennium for expenses incurred by farmers in improving the environmental impact of their operations.
- *Exemption of MNET Equipment Purchases*, part of the Governor's technology package, will grant a sales tax exemption on the purchase of supplies and equipment related to the upgrade of the MNET telecommunications infrastructure. The exemption is necessary to make MNET access charges paid by state agencies competitive with private industry. Currently, state agencies are exempt from paying sales tax on telecommunications access purchases from private industry.

- *Prepayment of Tax Credits*, part of the Governor's children and family package, is a pilot program designed to provide the state's Working Family Credit, Dependent Care Child Credit, and property tax credits to eligible families on a monthly basis. Currently, the tax credits are provided through the eligible individual's tax return. The loss in revenues is associated with the cost of shifting payments into earlier fiscal years. In addition to the \$2.3 million loss on revenue noted above, there will also be an increase in expenditures of \$3.18 million in F.Y. 1996-97 for prepayment of property tax credits.
- *Elimination of Political Contribution Credit* - This refund program, effective since 1990, was designed to encourage candidates to finance their campaigns with small contributions from many donors. There is little evidence that the credit is achieving its stated purpose of encouraging more small contributions, and it remains expensive to administer and audit. The Governor recommends the program be eliminated for contributions made after June 30, 1995.

Other Revenue Changes

- *Transfer from Other Funds to General Fund* - Excess balances in several funds -- the Conservation Fund, the Dislocated Workers Fund, the State Government Special Revenue Fund, and the Public Employee Insurance Plan Fund -- will be transferred to the General Fund. These balances are well in excess of the amount of funding necessary for the operation of associated programs.
- *DHS Accounts Receivable Consolidation* - Additional information on collectibles from the Accounts Receivable Project will permit DHS to make additional recoveries of debt.
- *DHS Regional Treatment Center Collections* - Due to the transfer of clients from regional treatment centers to group living environments, collection of fees and charges are expected to decrease.
- *Corrections Department Juvenile Justice County Reimbursement* - Under the Governor's Extended Jurisdiction Juvenile Partnership Program initiative, counties will be required to reimburse the state when juvenile offenders are transferred to state correctional facilities.
- *Miscellaneous Revenue Changes* - Small fee changes are proposed for a number of agencies.

Local Aids and Credits

The Governor proposes a local aids and credits reform package designed to make more efficient use of the state's aid resources. Currently, most local aids and credits are distributed through formulas that have little relationship to the demand upon local governments for services or their ability to pay for those services, and provide little incentive for local units of government to cooperate in providing services.

County Homestead Block Grant Programs

The Governor proposes to combine several non-school aid programs -- City/Township Local Government Aid (LGA), Homestead Agricultural Credit Aid (HACA), Disparity Reduction Aid (DRA), and Attached Machinery Aid -- into one County Homestead Block Grant program. While the County Homestead Block Grants would initially consolidate the existing levels of funding for governments within a county, new distribution formulas will be developed that will better target aid on the basis of need and capacity. The block grants would be distributed to local governments throughout the county by an Aid Distribution Council (ADC), comprised of an equal number of representatives from the governing bodies of county government, cities, and school district taxing districts within the county.

By increasing incentives for local service sharing and cooperative agreements, the Governor's proposal will help provide better local services for less money.

The Governor also proposes reductions in the growth of aids to local governments, in order to help pay for the cost of the Cambridge bank settlement.

The Governor proposes that, over the 1996-97 biennium, Local Government Aid (LGA) be funded at \$640.2 million and non-school Homestead and Agricultural Credit Aid (HACA) be funded at \$872.3 million.

These aid levels are \$57 million less in F.Y. 1996 and \$20 million less in F.Y. 1997 than the aid amounts forecast in November. The recommended level of funding included a 1% reduction for the Cambridge Bank judgment, removal of the automatic inflation increases in statute for F.Y. 1996-97 and repayment of the net General Fund dollars loaned to the Local Government Trust Fund that would have been lost when the Trust Fund activities are returned to the General Fund in F.Y. 1997. Depending on the outcome of the February forecast, the Governor is committed to reexamining the F.Y. 1997 reductions in the growth in aid.

Local Finance Summary

The Governor's budget will provide reasonable increases in funding for local governments. The table below, which uses Price of Government forecast data adjusted for the Governor budget proposals, illustrates the effect of the Governor's proposed reductions in the growth of local aids upon local non-school governments.

Local Government Funding Under Governor's Budget
Cities, Towns, Counties, Special Districts
(\$ 000s)

	F.Y. 1992-93	F.Y. 1994-95	F.Y. 1996-97
Local Tax Revenues	\$4,264,942	\$4,613,242	\$4,960,110
Local Non-Tax Revenues	5,465,190	6,226,193	7,049,647
General State Aids	1,516,668	1,692,589	1,708,205
Other State Aids	1,931,133	1,966,987	2,033,056
Federal Aid	911,835	892,172	850,796
TOTAL	\$14,089,768	\$15,391,183	\$16,601,814
Average Yearly Growth		4.5%	3.9%

Even with the reductions in aid growth, which amount to less than 1% of total biennial revenues, local revenues are expected to increase an average of almost 4% per year in F.Y. 1996 and F.Y. 1997. Local tax revenues, which assume no property tax rate increases, grow steadily. Local non-tax revenues, which are adjusted for population growth and price inflation, also increase. General state aids, after the Governor's proposed reductions, shall increase by 2.2% over the current biennium.



Capital Budget

The Governor recommends a capital budget authorizing \$20,585,000 for six capital projects in the 1995 session. The six recommended projects are for emergencies and one-time market opportunities which cannot be delayed until the start of the 1996 legislative session.

The number of recommended projects could have been much larger. However, the Governor is committed to an understanding with the legislature whereby major bonding bills be considered in sessions of even-numbered years, with action in odd-numbered years limited to emergency capital requests only. This approach is necessary to preserve adequate bonding capacity in future years.

The six projects include: \$1.5 million for predesign and purchase option funds for acquisition of Bethesda Hospital in the capitol complex area; \$225,000 to complete construction of the East Grand Forks Potato Inspection Facility; \$421,000 for renovation at the Sauk Centre correctional facility to add space for 24 juvenile males; \$228,000 for building demolition to complete conversion of the Moose Lake Regional Treatment Facility into a 620 bed medium security correctional facility; \$9.2 million for Safe Drinking Water Capitalization Grants; and \$9 million for acquisition of the Waters Edge office building in Roseville for use by the Minnesota Department of Transportation as a metro division headquarters.

Debt service costs for the Seed Potato Inspection Facility are recommended to be user-financed from receipts in the seed potato inspection fund. Acquisition costs of the MnDOT facility are recommended as a direct appropriation from the Trunk Highway Fund. Estimated bond authorizations for the four remaining 1995 capital projects is \$11,360,000, including bond sale expenses.

The Governor's budget includes a recommendation for debt service of \$12,190,000 for F.Y. 1996-97 to finance the costs of bonds sold for \$11.4 million of capital projects recommended in the 1995 session and for approximately \$485 million of capital projects expected to be recommended by the Governor in the 1996 session.

Financial Summaries

The following section provides additional detail on the historical and recommended level of revenue and spending for the F.Y. 1996-97 budget. The graphics and tables are presented to provide commonly requested information and additional financial data.

■	Total 1996-97 Operating Budget (All Funds)	A-1
■	Where the General Fund Dollars Come From	A-2
■	Where the General Fund Dollars Go	A-3
■	General Fund Spending, F.Y. 1994-95 to 1996-97	A-4
■	Full-Time Equivalent Employees, F.Y. 1997	A-4

Other tables present the current biennium and proposed General Fund budget for the F.Y. 1996-97 biennium displayed by major legislative spending bills.

■	Recommendations by Year	A-5
■	Increase over Current Biennium	A-6
■	Annual Percent Change	A-7
■	Percent of Total	A-8
■	Comparison: November 1994 Forecast - Proposed 1996-97 Budget	A-9
■	F.Y. 1998-99 Planning Estimates	A-10/11

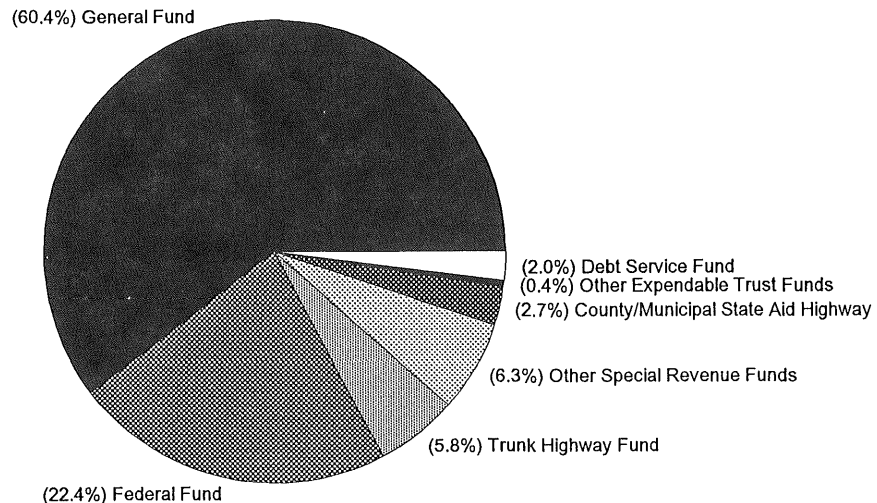
The General Fund statement details recommended General Fund spending by agency in omnibus bill format beginning on page A-12.

Complete detailed budget information on individual 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 1994 Forecast report. An update to the economic forecast and planning estimates for 1996-99 will be released in February 1994.

Total State 1996-97 Operating Budget All Operating Funds

**1996-97 Budget
\$28,751 Million Spending**



	1994-95 Biennium	1996-97 Budget
<u>Actual and Estimated Uses</u>		
General Fund *	\$16,247	\$17,354
Special Revenue Funds:		
Federal Fund	5,902	6,439
Trunk Highway Fund	1,558	1,666
All Other Special Revenue Funds	1,679	1,818
Expendable Trust Funds:		
County/Municipal State Aid Highway	732	770
All Other Expendable Trust Funds	162	128
Debt Service Fund	514	577
Total Expenditures	\$26,794	\$28,751

(\$ in Millions)

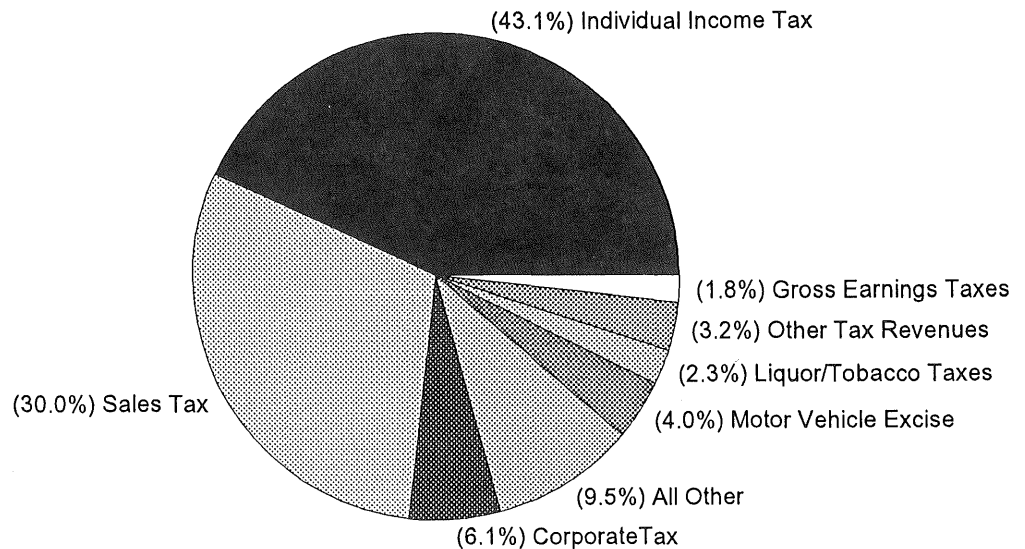
* Spending reported for the General Fund on a consolidated basis (all funds) is slightly lower than that reported for the General Fund alone elsewhere in this document. Interfund transfers are excluded when consolidating data for all funds reporting.

Where the General Fund Dollars Come From

Governor's Recommendation

(\$ in Millions)

1996-97 BIENNIUM
\$18,348 Million



Balance Forward 6-30-95	\$765
Non-Dedicated Revenues:	
Individual Income Tax	7,911
Sales Tax	5,513
Corporate Tax	1,113
Motor Vehicle Excise Tax	733
Gross Earnings Taxes	322
Liquor, Wine, Beer Taxes	109
Cigarette & Tobacco Taxes	319
Other Tax Revenues	581
All Other Revenues	672
Subtotal Non-Dedicated Revenues	17,272
Dedicated Revenue	188
Transfers From Other Funds	83
Prior Year Adjustments	41
SUBTOTAL CURRENT RESOURCES	17,583
TOTAL AVAILABLE RESOURCES, F.Y. 1996-97	\$18,348
Less: Estimated Expenditures	(17,996)
Cash Flow Account	(350)
Projected General Fund Balance 6-30-97	
January 24, 1995 Governor's Recommendation	\$2

Where the General Fund Dollars Go

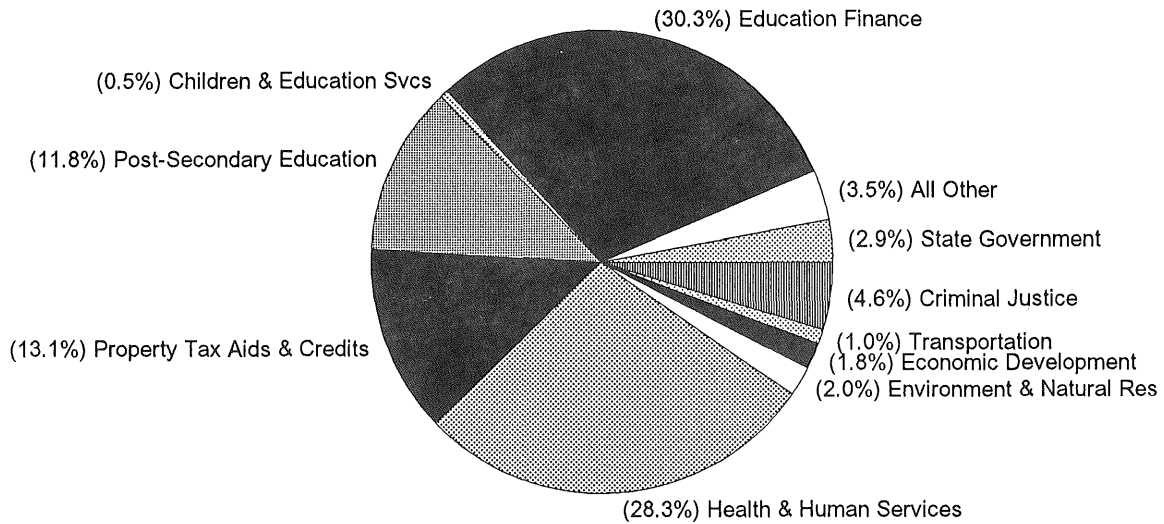
Governor's Recommendation

(\$ in Millions)

1996-97 BIENNIUM

\$17,996 Million Spending

\$350 Million Cash Flow Account



TOTAL AVAILABLE RESOURCES, F.Y. 1996-97

\$18,348

Major Spending Items:

Education Finance	\$5,622
Property Tax Recognition	(166)
Children & Education Services	97
Post-Secondary Education	2,119
Property Tax Aids & Credits	2,359
Health & Human Services	5,092
Environment & Natural Resources	367
Economic Development	329
Transportation	183
Criminal Justice	836
State Government	530
Debt Service	459
Estimated Cancellations	(20)

Subtotal-Major Spending Items

\$17,808

Dedicated Expenditures

188

TOTAL ESTIMATED EXPENDITURES, F.Y. 1996-97

\$17,996

Cash Flow Account

350

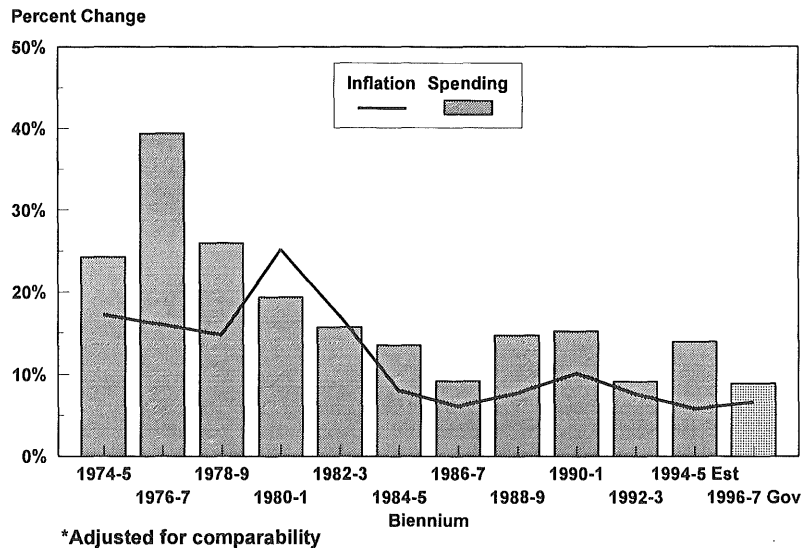
Projected General Fund Balance 6-30-97

January 24, 1995 Governor's Recommendation

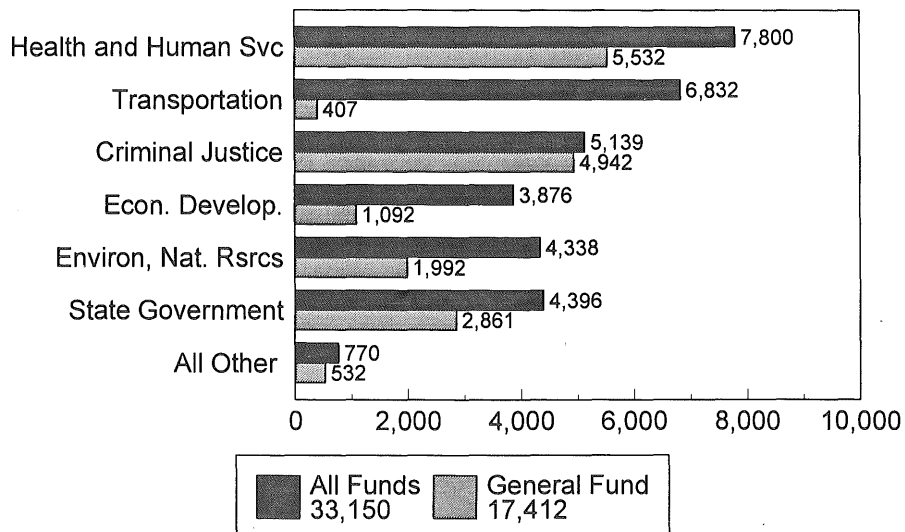
\$2

General fund spending growth

Percent Change*



Budgeted full-time equivalent employment, F.Y. 1997



Governor's Proposed Budget Recommendations by Year

F.Y. 1996-97 General Fund
(\$ in Thousands)

	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Biennial Total
Actual & Estimated Resources:			
Balance Forward From Prior Year	764,970	652,909	764,970
Current Resources:			
Tax Revenues	8,240,791	8,527,670	16,768,461
Non-Tax Revenues	352,448	347,469	699,917
Dedicated Revenue	93,643	93,343	186,986
Transfers In	34,280	37,213	71,493
Prior Year Adjustments	20,450	20,450	40,900
 Budget Changes - Taxes	 (85,050)	 (82,970)	 (168,020)
Budget Changes - Non-Taxes	(2,813)	(14,355)	(17,168)
Budget Changes - Dedicated	65	455	520
 Subtotal - Current Resources	 8,653,814	 8,929,275	 17,583,089
 Total Resources Available	 9,418,784	 9,582,184	 18,348,059
Actual & Estimated Spending:			
Education Finance	2,830,771	2,791,677	5,622,448
Property Tax Recognition	(165,900)	0	(165,900)
Children & Education Services	2,650	94,742	97,392
Property Tax Aids & Credits	1,150,454	1,208,908	2,359,362
Higher Education	1,050,226	1,069,160	2,119,386
 Health & Human Services	 2,469,192	 2,622,353	 5,091,545
Environment & Natural Resources	183,122	183,990	367,112
Economic Development	172,866	156,347	329,213
 Transportation	 92,144	 90,926	 183,070
Criminal Justice	410,243	425,431	835,674
State Government	266,928	262,937	529,865
 Debt Service & Borrowing	 214,471	 244,619	 459,090
Cancellation Adjustment	(5,000)	(15,000)	(20,000)
 Subtotal Expenditures & Transfers	 8,672,167	 9,136,090	 17,808,257
Dedicated Expenditures	93,708	93,798	187,506
 Total Expenditures & Transfers	 8,765,875	 9,229,888	 17,995,763
 Balance Before Reserves	 652,909	 352,296	 352,296
Cash Flow Account	350,000	350,000	350,000
 Budgetary Balance	 302,909	 2,296	 2,296

Governor's Proposed Budget Increase Over Current Biennium

1996-97 General Fund
(\$ in Thousands)

	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996-97	\$ Difference	% Change
<u>Actual & Estimated Resources:</u>				
Balance Forward From Prior Year	876,435	764,970	(111,465)	-12.7%
Current Resources:				
Tax Revenues	15,712,290	16,768,461	1,056,171	6.7%
Non-Tax Revenues	748,904	699,917	(48,987)	-6.5%
Dedicated Revenue	133,177	186,986	53,809	40.4%
Transfers In	99,143	71,493	(27,650)	-27.9%
Prior Year Adjustments	50,130	40,900	(9,230)	-18.4%
Budget Changes - Taxes	0	(168,020)	(168,020)	na
Budget Changes - Non-Taxes	0	(17,168)	(17,168)	na
Budget Changes - Dedicated	0	520	520	na
Subtotal - Current Resources	16,743,644	17,583,089	839,445	5.0%
Total Resources Available	17,620,079	18,348,059	727,980	4.1%
<u>Actual & Estimated Spending:</u>				
Education Finance	5,221,566	5,622,448	400,882	8.1%*
Property Tax Recognition	172,000	(165,900)	(337,900)	na
Children & Education Services	0	97,392	97,392	na
Property Tax Aids & Credits	2,389,231	2,359,362	(29,869)	-1.3%
Higher Education	2,095,355	2,119,386	24,031	1.1%
Health & Human Services	4,404,398	5,091,545	687,147	16.8%*
Environment & Natural Resources	341,806	367,112	25,306	7.4%
Economic Development	335,283	329,213	(6,070)	2.7%*
Transportation	161,333	183,070	21,737	13.5%
Criminal Justice	666,928	835,674	168,746	25.3%
State Government	531,044	529,865	(1,179)	-0.1%*
Debt Service & Borrowing	404,570	459,090	54,520	13.5%
Deficiencies/Unallotted	13,418	0	(13,418)	na
Cancellation Adjustment	(15,000)	(20,000)	(5,000)	33.3%
Subtotal Expenditures & Transfers	16,721,932	17,808,257	1,086,325	6.5%
Dedicated Expenditures	133,177	187,506	54,329	40.8%
Total Expenditures & Transfers	16,855,109	17,995,763	1,140,654	6.8%
Balance Before Reserves	764,970	352,296	(412,674)	
Budget Reserve and Cash Flow Account	500,000	350,000	(150,000)	
Budgetary Balance	264,970	2,296	(262,674)	

* Percentages adjusted for comparability to reflect funding transferred to Department of Children and Education Services.

Governor's Proposed Budget Annual Percent Change

1996-97 General Fund
(\$ in Thousands)

	Gov's Rec F.Y. 1995	Gov's Rec F.Y. 1996	Percent Change	Gov's Rec F.Y. 1997	Percent Change
<u>Actual & Estimated Resources:</u>					
Balance Forward From Prior Year	903,534	764,970	-15.3%	652,909	-14.6%
Current Resources:					
Tax Revenues	8,078,770	8,240,791	2.0%	8,527,670	3.5%
Non-Tax Revenues	352,275	352,448	0.0%	347,469	-1.4%
Dedicated Revenue	72,196	93,643	29.7%	93,343	-0.3%
Transfers In	56,372	34,280	-39.2%	37,213	8.6%
Prior Year Adjustments	20,450	20,450	0.0%	20,450	0.0%
Budget Changes - Taxes	0	(85,050)	na	(82,970)	na
Budget Changes - Non-Taxes	0	(2,813)	na	(14,355)	na
Budget Changes - Dedicated	0	65	na	455	na
Subtotal - Current Resources	8,580,063	8,653,814	0.9%	8,929,275	3.2%
Total Resources Available	9,483,597	9,418,784	-0.7%	9,582,187	1.7%
<u>Actual & Estimated Spending:</u>					
Education Finance	2,778,743	2,830,771	1.9%	2,791,677	-0.6%*
Property Tax Recognition	710	(165,900)	na	0	na
Children & Education Services	0	2,650	na	94,742	-5.7%*
Property Tax Aids & Credits	1,192,774	1,150,454	-3.5%	1,208,908	5.1%
Higher Education	1,079,457	1,050,226	-2.7%	1,069,160	1.8%
Health & Human Services	2,323,331	2,469,192	6.3%	2,622,353	8.4%*
Environment & Natural Resources	180,911	183,122	1.2%	183,990	0.5%
Economic Development	163,085	172,866	6.0%	156,347	-0.8%*
Transportation	86,627	92,144	6.4%	90,926	-1.3%
Criminal Justice	364,866	410,243	12.4%	425,431	3.7%
State Government	290,114	266,928	-8.0%	262,937	-1.3%*
Debt Service & Borrowing	197,570	214,471	8.6%	244,619	14.1%
Deficiencies/Unallotted	3,243	0	na	0	na
Cancellation Adjustment	(15,000)	(5,000)	-66.7%	(15,000)	200.0%
Subtotal Expenditures & Transfers	8,646,431	8,672,167	0.3%	9,136,090	5.3%
Dedicated Expenditures	72,196	93,708	29.8%	93,798	0.1%
Total Expenditures & Transfers	8,718,627	8,765,875	0.5%	9,229,888	5.3%
Balance Before Reserves	764,970	652,909		352,296	
Budget Reserve and Cash Flow Account	500,000	350,000		350,000	
Budgetary Balance	264,970	302,909		2,296	

* Percentages adjusted for comparability to reflect funding transferred to Department of Children and Education Services.

Governor's Proposed Budget
Percent of Total
1996-97 General Fund
(\$ in Thousands)

	Forecast F.Y. 1994-95	Percent of Total	Gov's Rec F.Y. 1996-97	Percent of Total
<u>Actual & Estimated Resources:</u>				
Balance Forward From Prior Year	876,435	5.0%	764,970	4.2%
Current Resources:				
Tax Revenues	15,712,290	89.2%	16,768,461	91.4%
Non-Tax Revenues	748,904	4.3%	699,917	3.8%
Dedicated Revenue	133,177	0.8%	186,986	1.0%
Transfers In	99,143	0.6%	71,493	0.4%
Prior Year Adjustments	50,130	0.3%	40,900	0.2%
Budget Changes - Taxes	0	0.0%	(168,020)	-0.9%
Budget Changes - Non-Taxes	0	0.0%	(17,168)	-0.1%
Budget Changes - Dedicated	0	0.0%	520	0.0%
Subtotal - Current Resources	16,743,644	95.0%	17,583,089	95.8%
Total Resources Available	17,620,079	100.0%	18,348,059	100.0%
<u>Actual & Estimated Spending:</u>				
Education Finance	5,221,566	31.0%	5,622,448	31.2%
Property Tax Recognition	172,000	1.0%	(165,900)	-0.9%
Children & Education Services	0	0.0%	97,392	0.5%
Property Tax Aids & Credits	2,389,231	14.2%	2,359,362	13.1%
Higher Education	2,095,355	12.4%	2,119,386	11.8%
Health & Human Services	4,404,398	26.1%	5,091,545	28.3%
Environment & Natural Resources	341,806	2.0%	367,112	2.0%
Economic Development	335,283	2.0%	329,213	1.8%
Transportation	161,333	1.0%	183,070	1.0%
Criminal Justice	666,928	4.0%	835,674	4.6%
State Government	531,044	3.2%	529,865	2.9%
Debt Service & Borrowing	404,570	2.4%	459,090	2.6%
Deficiencies/Unallotted	13,418	0.1%	0	0.0%
Cancellation Adjustment	(15,000)	-0.1%	(20,000)	-0.1%
Subtotal Expenditures & Transfers	16,721,932	99.2%	17,808,257	99.0%
Dedicated Expenditures	133,177	0.8%	187,506	1.0%
Total Expenditures & Transfers	16,855,109	100.0%	17,995,763	100.0%
Balance Before Reserves	764,970		352,296	
Budget Reserve and Cash Flow Account	500,000		350,000	
Budgetary Balance	264,970		2,296	

Governor's Proposed Budget

November, 1994 Forecast - Proposed 1996-97 Budget

1996-97 General Fund
(\$ in Thousands)

	Nov '94 Fcst F.Y. 1996-97	Gov's Rec F.Y. 1996-97	\$ Diff	% Change
Actual & Estimated Resources:				
Balance Forward From Prior Year	768,626	764,970	(3,656)	-0.5%
Current Resources:				
Tax Revenues	16,768,461	16,768,461	0	0.0%
Non-Tax Revenues	665,221	699,917	34,696	5.2%
Dedicated Revenue	186,986	186,986	0	0.0%
Transfers In	71,493	71,493	0	0.0%
Prior Year Adjustments	40,900	40,900	0	0.0%
Budget Changes - Taxes	0	(168,020)	(168,020)	na
Budget Changes - Non-Taxes	0	(17,168)	(17,168)	na
Budget Changes - Dedicated	0	520	520	na
Subtotal - Current Resources	17,733,061	17,583,089	(149,972)	-0.8%
Total Resources Available	18,501,687	18,348,059	(153,628)	-0.8%
Actual & Estimated Spending:				
Education Finance	5,670,842	5,622,448	(48,394)	-0.5%*
Property Tax Recognition	(165,900)	(165,900)	0	0.0%
Children & Education Services	0	97,392	97,392	na
Property Tax Aids & Credits	2,433,300	2,359,362	(73,938)	-3.0%
Higher Education	2,040,000	2,119,386	79,386	3.9%
Health & Human Services	5,150,957	5,091,545	(59,412)	-0.1%*
Environment & Natural Resources	367,267	367,112	(155)	0.0%
Economic Development	327,400	329,213	1,813	5.2%*
Transportation	154,847	183,070	28,223	18.2%
Criminal Justice	807,175	835,674	28,499	3.5%
State Government	537,172	529,865	(7,307)	-1.3%*
Debt Service & Borrowing	471,900	459,090	(12,810)	-2.7%
Cancellation Adjustment	(20,000)	(20,000)	0	0.0%
Subtotal Expenditures & Transfers	17,774,961	17,808,257	33,296	0.2%
Dedicated Expenditures	186,986	187,506	520	0.3%
Total Expenditures & Transfers	17,961,947	17,995,763	33,816	0.2%
Balance Before Reserves	539,740	352,296	(187,444)	
Cash Flow Account	350,000	350,000	0	
Budgetary Balance	189,740	2,296	(187,444)	

* Percentages adjusted for comparability to reflect funding transferred to Department of Children and Education Services.

F.Y. 1998-99 Planning Estimates

Planning Framework

The Governor's proposed budget for F.Y. 1996-97 uses the six-year planning horizon based on the November 1994 forecast. This discipline considers the current biennium, the F.Y. 1996-97 budget, and the following biennium.

The F.Y. 1998-99 baseline planning estimates provide a framework within which proposed changes in spending and revenue can be analyzed. The key to using this planning tool is to remember that under Minnesota's Constitution the state budget cannot show a deficit at the end of a biennium. That is, ending balances cannot be negative. Any projected deficits require adjustments in spending or revenues in budgets enacted by future legislatures. The table below highlights that difficult choices will be required in 1998-99 to fund the second \$160 million installment of the Cambridge Bank judgment as well as the potential impact of discretionary inflation estimated at 3.5% per year.

The Minnesota Planning Agency report, *Within Our Means*, highlights the fact that Minnesota state and local governments will face deficits averaging \$625 million every two years through at least the year 2005. This "structural" gap between revenues and expenditures is not a cyclical problem that will disappear during economic good times. It is structural and will recur, unless corrected, due to demographic changes and a slowing growth in personal income, slowing state and local government revenue growth and increasing numbers of people served by government programs and services.

1998-99 Planning Estimates

The planning estimates for the 1998-99 budget period indicates a \$91 million positive balance based on baseline current law revenues and expenditures adjusted only for expected economic changes and enrollments and caseload growth. The planning estimates assume revenue growth based on Data Resources' (DRI) November 1994 Trendlong and Summer 1994 Cyclelong forecasts.

	1996-97 Biennium	1998-99 Biennium	Percent Change
Beginning Balance	\$765	\$352	
Revenues	17,583	19,158	9.0%
Expenditures	17,996	19,419	7.9%
Cash Flow Account	350	0	
Balance	2	91	
<i>Cambridge Bank Judgment (2nd Biennium)</i>		160	
<i>Discretionary Inflation (3.5% per year)</i>		778	
Balance After Funding Inflation and Cambridge		(847)	

Detailed estimates by program area, including discretionary inflation, are shown on the following page.

Governor's Proposed Budget
F.Y. 1994 - F.Y. 1999 Planning Horizon
(\$ in Thousands)

	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996-97	1-95 Plng Est F.Y. 1998-99
<u>Actual & Estimated Resources:</u>			
Balance Forward From Prior Year	876,435	764,970	352,296
Current Resources:			
Tax Revenues	15,712,290	16,768,461	18,237,462
Non-Tax Revenues	748,904	699,917	660,242
Dedicated Revenue	133,177	186,986	186,686
Transfers In	99,143	71,493	74,426
Prior Year Adjustments	50,130	40,900	40,900
Budget Changes - Taxes	0	(168,020)	(172,570)
Budget Changes - Non-Taxes	0	(17,168)	(30,023)
Budget Changes - Dedicated	0	520	910
Subtotal - Current Resources	16,743,644	17,583,089	18,998,033
Total Resources Available	17,620,079	18,348,059	19,350,329
<u>Actual & Estimated Spending:</u>			
Education Finance	5,221,566	5,622,448	5,983,164
Property Tax Recognition	172,000	(165,900)	0
Children & Education Services	0	97,392	199,548
Property Tax Aids & Credits	2,389,231	2,359,362	2,468,463
Higher Education	2,095,355	2,119,386	2,176,552
Health & Human Services	4,404,398	5,091,545	6,243,261
Environment & Natural Resources	341,806	367,112	393,590
Economic Development	335,283	329,213	328,689
Transportation	161,333	183,070	184,760
Criminal Justice	666,928	835,674	957,900
State Government	531,044	529,865	540,115
Debt Service & Borrowing	404,570	459,090	553,433
Deficiencies/Unallotted	13,418	0	0
Cancellation Adjustment	(15,000)	(20,000)	(20,000)
Subtotal Expenditures & Transfers	16,721,932	17,808,257	20,009,473
Dedicated Expenditures	133,177	187,506	187,596
Total Expenditures & Transfers	16,855,109	17,995,763	20,197,069
Balance Before Reserves	764,970	352,296	(846,740)
Budget Reserve and Cash Flow Account	500,000	350,000	0
Budgetary Balance	264,970	2,296	(846,740)

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
<i>Omnibus Summary</i>						
<u>Actual & Estimated Resources</u>						
Balance Forward From Prior Year	876,435	903,534	876,435	764,970	652,909	764,970
Current Resources:						
Tax Revenues	7,633,520	8,078,770	15,712,290	8,240,791	8,527,670	16,768,461
Non-Tax Revenues	396,629	352,275	748,904	352,448	347,469	699,917
Dedicated Revenue	60,981	72,196	133,177	93,643	93,343	186,986
Transfers In	42,771	56,372	99,143	34,280	37,213	71,493
Prior Year Adjustments	29,680	20,450	50,130	20,450	20,450	40,900
Budget Changes - Taxes	0	0	0	(85,050)	(82,970)	(168,020)
Budget Changes - Non-Taxes	0	0	0	(2,813)	(14,355)	(17,168)
Budget Changes - Dedicated	0	0	0	65	455	520
Subtotal-Current Resources	8,163,581	8,580,063	16,743,644	8,653,814	8,929,275	17,583,089
Total Resources Available	9,040,016	9,483,597	17,620,079	9,418,784	9,582,184	18,348,059
<u>Actual & Estimated Spending</u>						
Education Finance	2,442,823	2,778,743	5,221,566	2,830,771	2,791,677	5,622,448
Property Tax Recognition	171,290	710	172,000	(165,900)	0	(165,900)
Children & Education Services	0	0	0	2,650	94,742	97,392
Property Tax Aids & Credits	1,196,457	1,192,774	2,389,231	1,150,454	1,208,908	2,359,362
Higher Education	1,015,898	1,079,457	2,095,355	1,050,226	1,069,160	2,119,386
Health & Human Services	2,081,067	2,323,331	4,404,398	2,469,192	2,622,353	5,091,545
Environment & Natural Resources	160,895	180,911	341,806	183,122	183,990	367,112
Economic Development	172,198	163,085	335,283	172,866	156,347	329,213
Transportation	74,706	86,627	161,333	92,144	90,926	183,070
Criminal Justice	302,062	364,866	666,928	410,243	425,431	835,674
State Government	240,930	290,114	531,044	266,928	262,937	529,865
Debt Service & Borrowing	207,000	197,570	404,570	214,471	244,619	459,090
Deficiencies/Unallotted	10,175	3,243	13,418	0	0	0
Cancellation Adjustment	0	(15,000)	(15,000)	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	8,075,501	8,646,431	16,721,932	8,672,167	9,136,090	17,808,257
Dedicated Expenditures	60,981	72,196	133,177	93,708	93,798	187,506
Total Expenditures & Transfers	8,136,482	8,718,627	16,855,109	8,765,875	9,229,888	17,995,763
Balance Before Reserves	903,534	764,970	764,970	652,909	352,296	352,296
Budget Reserve and Cash Flow Account	500,000	500,000	500,000	350,000	350,000	350,000
Appropriations Carried Forward	186,960	0	0	0	0	0
Budgetary Balance	216,574	264,970	264,970	302,909	2,296	2,296

(\$ in Thousands)

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
<u>Net Non-Dedicated Revenue</u>						
Tax Revenues:						
Individual Income	3,539,994	3,724,000	7,263,994	3,864,900	4,050,100	7,915,000
Corporate Income	551,822	662,800	1,214,622	638,600	634,300	1,272,900
Sales Tax-General	2,522,271	2,667,300	5,189,571	2,714,400	2,802,300	5,516,700
Motor Vehicle Excise	332,994	362,600	695,594	361,100	371,500	732,600
Inheritance, Estate, Gift	43,732	30,003	73,735	28,003	28,003	56,006
Liquor, Wine, Beer	56,146	54,827	110,973	54,531	54,579	109,110
Cigarette & Tobacco Products	151,018	159,806	310,824	159,492	159,825	319,317
Iron Ore Occupation	659	30	689	30	25	55
Taconite Occupation	2,006	3,000	5,006	3,000	3,000	6,000
Taconite Production Taxes	55	55	110	55	55	110
Deed & Mortgage Registration	102,152	70,200	172,352	66,700	66,700	133,400
Insurance Gross Earnings	150,069	154,000	304,069	158,600	163,400	322,000
Telephone & Telegraph Gross Earnings	269	0	269	0	0	0
Controlled Substance Tax	214	150	364	150	150	300
Other Gross Earnings	519	52	571	53	55	108
Lawful Gambling Taxes	57,614	58,050	115,664	58,117	57,976	116,093
Health Care Surcharge	110,411	121,631	232,042	122,585	124,665	247,250
Income Tax Reciprocity	26,893	26,926	53,819	27,962	28,697	56,659
Illegal Sports Bookmaking Tax	1	425	426	430	440	870
Contamination Tax-DTED	0	58	58	583	583	1,166
All Other Tax Refunds	(15,319)	(17,143)	(32,462)	(18,500)	(18,683)	(37,183)
Subtotal-Tax Revenues	7,633,520	8,078,770	15,712,290	8,240,791	8,527,670	16,768,461
Non-Tax Revenues:						
Investment Income	30,655	15,000	45,655	20,000	15,000	35,000
DHS RTC Collections	151,659	134,672	286,331	133,237	133,237	266,474
Lottery Revenue	35,622	31,442	67,064	31,442	31,442	62,884
Departmental Earnings	89,672	96,000	185,672	97,000	97,000	194,000
Other Non-Dedicated Revenue	96,841	83,961	180,802	79,569	79,590	159,159
All Other Refunds	(7,820)	(8,800)	(16,620)	(8,800)	(8,800)	(17,600)
Subtotal-Non-Tax Revenues	396,629	352,275	748,904	352,448	347,469	699,917
Total Net-Non-Dedic Revenue	8,030,149	8,431,045	16,461,194	8,593,239	8,875,139	17,468,378
<u>Dedicated Revenues</u>						
Tuition & Fees:						
University of Minnesota	[183,244]	[190,527]	[373,771]	[196,249]	[202,139]	[398,388]
MN State Colleges & Universities	[231,891]	[247,479]	[479,370]	[231,689]	[241,355]	[473,044]
Subtotal-Tuition & Fees	[415,135]	[438,006]	[853,141]	[427,938]	[443,494]	[871,432]
All Other Dedicated Revenue	60,981	72,196	133,177	93,643	93,343	186,986
Total Dedicated Revenues	60,981	72,196	133,177	93,643	93,343	186,986

(\$ in Thousands)

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
<u>Transfers From Other Funds</u>						
Special Revenue Funds	7,666	4,881	12,547	4,530	4,689	9,219
All Other Transfers	12,585	12,296	24,881	13,293	13,258	26,551
Repay of Revolving Fund Loans	3,997	4,842	8,839	4,026	3,015	7,041
Laws 1992, Transfers In	4,868	5,467	10,335	5,467	5,467	10,934
Laws 1993, Transfers In	13,183	23,753	36,936	4,493	8,289	12,782
Laws 1994, Transfers In	472	5,133	5,605	2,471	2,495	4,966
Total Transfers Fr Other Funds	42,771	56,372	99,143	34,280	37,213	71,493
Prior Year Adjustments	29,680	20,450	50,130	20,450	20,450	40,900
<u>New Legislation Revenues</u>						
Tax Revenues:						
Cambridge Bank Judgment	0	0	0	(80,000)	(80,000)	(160,000)
Tax Credit Prepayments	0	0	0	(2,200)	(120)	(2,320)
Agric. Environmental Tax Credit	0	0	0	(1,000)	(1,000)	(2,000)
Used Farm Machinery Exemption	0	0	0	(1,600)	(1,600)	(3,200)
Telecomm Revenue - Sales Tax	0	0	0	(250)	(250)	(500)
Subtotal-Tax Revenues	0	0	0	(85,050)	(82,970)	(168,020)
Non-Tax Revenues:						
DHS A/R Consolidation	0	0	0	1,499	1,499	2,998
DHS RTC Collections	0	0	0	(15,886)	(22,239)	(38,125)
Agric-Food Inspection	0	0	0	700	700	1,400
Public Service	0	0	0	375	375	750
Public Utilities Comm	0	0	0	234	198	432
Accountancy Board	0	0	0	10	22	32
Arch/Eng Board	0	0	0	200	0	200
Commerce Dept	0	0	0	(143)	(143)	(286)
Labor & Industry	0	0	0	(14)	(14)	(28)
Trade & Econ Development	0	0	0	450	515	965
Transportation Dept	0	0	0	(100)	(100)	(200)
Corrections Dept-Juv Justice County Reimb	0	0	0	1,750	1,750	3,500
State Planning -Power Plant Siting Assessment	0	0	0	30	0	30
Conservation Fund Balance (TR IN)	0	0	0	3,000	0	3,000
Dislocated Workers Fund Balance (TR IN)	0	0	0	3,000	3,000	6,000
Public Safety from SG Spec Rev Fund (TR IN)	0	0	0	82	82	164
Employee Relations, Dept of-PEIP (TR IN)	0	0	0	2,000	0	2,000
Subtotal-Non-Tax Revenues	0	0	0	(2,813)	(14,355)	(17,168)
Dedicated Revenues:						
Vets Homes-Re-open 80 Dom to Capacity-Hastings	0	0	0	65	455	520
Total New Legislation Revenues	0	0	0	(87,798)	(96,870)	(184,668)

(\$ in Thousands)

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
<u>Education Finance</u>						
General Education	1,779,074	2,004,267	3,783,341	2,098,736	2,109,272	4,208,008
Property Tax Recognition	171,290	710	172,000	(165,900)	0	(165,900)
Public Transportation	128,022	146,468	274,490	146,450	153,692	300,142
Special Programs	252,018	272,473	524,491	261,200	244,449	505,649
Community & Family Education	39,477	42,480	81,957	44,156	43,123	87,279
Education Facilities/Equipment	137,742	160,120	297,862	155,165	155,182	310,347
Educ Organization/Cooperation	3,770	17,749	21,519	16,900	4,872	21,772
Access To Excellence	6,712	17,790	24,502	15,366	24,958	40,324
Other Educational Programs	49,084	55,053	104,137	57,428	44,274	101,702
Public Libraries	8,346	8,451	16,797	7,602	6,852	14,454
Discontinued Programs	12,211	24,454	36,665	0	0	0
Subtotal - Education Aids	2,587,746	2,750,015	5,337,761	2,637,103	2,786,674	5,423,777
Children & Education Services, Dept of						
Education, Dept of	13,618	15,600	29,218	14,690	0	14,690
93, CH367 Agriculture Education	35	35	70	0	0	0
Faribault Academies	7,540	8,441	15,981	8,075	0	8,075
Arts School & Resource Center	5,174	5,362	10,536	5,003	5,003	10,006
Total Education Finance	2,614,113	2,779,453	5,393,566	2,664,871	2,791,677	5,456,548
Children & Education Services, Dept of	0	0	0	2,650	94,742	97,392
<u>Higher Education</u>						
Higher Educ Coord Board	113,765	121,628	235,393	120,927	122,782	243,709
University of Minnesota	445,041	462,664	907,705	475,682	493,302	968,984
MN State Colleges & Universities	0	0	0	452,792	452,251	905,043
Higher Education Bd	712	1,240	1,952	0	0	0
Community College Board	107,951	106,621	214,572	0	0	0
State University Board	181,871	191,008	372,879	0	0	0
Technical Colleges	165,755	195,451	361,206	0	0	0
Subtotal - MN State Colleges & Universities	456,289	494,320	950,609	452,792	452,251	905,043
Mayo Medical School	803	845	1,648	825	825	1,650
Total Higher Education	1,015,898	1,079,457	2,095,355	1,050,226	1,069,160	2,119,386

(\$ in Thousands)

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
<u>Health & Human Services</u>						
Human Services, Dept of						
Economic Self-Sufficiency:						
Aid to Families with Dep Children	153,156	141,029	294,185	142,688	146,433	289,121
MN Family Investment Plan	505	17,319	17,824	21,127	21,410	42,537
General Assistance	56,347	49,512	105,859	54,543	57,563	112,106
Work Readiness	17,562	14,059	31,621	1,701	0	1,701
MN Supplemental Aid	51,039	23,987	75,026	24,608	27,619	52,227
Child Care Entitlements	13,108	14,168	27,276	17,560	19	17,579
Health Care:						
Medical Assistance	1,082,399	1,244,827	2,327,226	1,352,551	1,489,642	2,842,193
General Assistance Medical Care	185,948	211,755	397,703	220,248	237,062	457,310
Chem. Dependency Entitlements	30,181	35,774	65,955	42,426	48,769	91,195
Alternative Care Program	24,172	35,505	59,677	37,154	39,750	76,904
Group Residential Housing Grants	0	37,433	37,433	47,227	53,300	100,527
Community Social Services Act	50,762	50,676	101,438	51,676	53,432	105,108
All Other Major Local Assistance	92,929	107,802	200,731	106,470	95,072	201,542
State Residential Facilities	219,682	223,816	443,498	207,660	205,362	413,022
Other Human Services, Dept of	80,369	90,906	171,275	119,140	125,234	244,374
Subtotal - DHS Appropriations	2,058,159	2,298,568	4,356,727	2,446,779	2,600,667	5,047,446
Federal Reimbursement	(30,242)	(34,195)	(64,437)	(36,233)	(37,190)	(73,423)
Total - Human Services, Dept of (Net)	2,027,917	2,264,373	4,292,290	2,410,546	2,563,477	4,974,023
Health, Dept of						
Community Health Services Act	14,112	14,112	28,224	14,112	14,112	28,224
Other Health, Dept of	23,459	24,231	47,690	24,410	23,810	48,220
Subtotal - Health, Dept of	37,571	38,343	75,914	38,522	37,922	76,444
Veterans Affairs-Nursing Homes	14,151	19,033	33,184	18,284	19,139	37,423
Cncl on Disability	557	578	1,135	575	581	1,156
MH/MR Ombudsman	871	898	1,769	1,132	1,097	2,229
Ombudsperson for Families	0	106	106	133	137	270
Total Health & Human Services	2,081,067	2,323,331	4,404,398	2,469,192	2,622,353	5,091,545
<u>Environment & Natural Resources</u>						
Pollution Control Agency	8,802	10,469	19,271	11,362	9,361	20,723
Office of Environmental Assistance	17,859	20,506	38,365	19,146	19,146	38,292
Zoological Garden	5,146	5,237	10,383	5,274	5,074	10,348
Natural Resources, Dept of	76,753	85,679	162,432	84,865	84,452	169,317
Natural Resources, Dept of (OPENS)	13,069	14,708	27,777	14,367	14,432	28,799
Water & Soil Resources Bd	11,443	13,976	25,419	13,367	13,367	26,734
Agriculture, Dept of	15,870	15,272	31,142	15,203	14,529	29,732
Agriculture, Dept of-Ethanol Subsidy (OPEN)	4,799	7,360	12,159	12,000	16,000	28,000
Animal Health Board	1,789	2,361	4,150	2,165	2,217	4,382

(\$ in Thousands)

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
Mn/Wisc Boundary Area Comm	128	130	258	134	138	272
Voyageurs Natl Park Adv Comm	63	67	130	60	62	122
Science Museum of Minnesota	1,108	1,108	2,216	1,141	1,174	2,315
Academy of Science	36	36	72	36	36	72
Horticulture Society	72	72	144	72	72	144
Agric Util Research Inst	3,958	3,930	7,888	3,930	3,930	7,860
Total Env & Natural Resources	160,895	180,911	341,806	183,122	183,990	367,112
<i>Community Development</i>						
Trade & Economic Development	38,323	27,138	65,461	32,069	31,418	63,487
Minnesota Technology, Inc (TR OUT)	7,872	8,074	15,946	7,834	7,834	15,668
World Trade Center (TR OUT)	278	111	389	0	0	0
Economic Security, Dept of	48,184	50,696	98,880	48,057	32,140	80,197
Housing Finance (TR OUT)	21,282	15,532	36,814	24,682	24,482	49,164
Commerce, Dept of	13,095	15,123	28,218	14,063	14,129	28,192
Accountancy, Bd of	458	483	941	537	558	1,095
Architectural/Eng, Bd of	551	611	1,162	625	635	1,260
Barbers Examiners, Bd of	109	133	242	128	129	257
Boxing, Bd of	62	66	128	65	65	130
Labor & Industry	3,771	3,934	7,705	3,874	3,899	7,773
Mediation Services	1,761	1,912	3,673	1,820	1,823	3,643
Labor Interpr Center	16	169	185	163	226	389
Public Utilities Comm	2,769	3,843	6,612	3,244	3,219	6,463
Public Service, Dept of	7,780	8,039	15,819	8,857	8,903	17,760
Historical Society	17,639	18,700	36,339	18,205	18,241	36,446
Humanities Commission	261	261	522	541	541	1,082
State Arts Board	6,197	6,288	12,485	6,262	6,266	12,528
MN Municipal Board	293	308	601	300	287	587
Uniform Laws Comm	27	25	52	29	29	58
Cncl on Black Minnesotans	231	235	466	229	232	461
Cncl For Spanish Speaking People	254	299	553	246	248	494
Cncl Asian-Pacific Minnesotans	184	223	407	198	200	398
Cncl on Indian Affairs	406	515	921	458	463	921
Subtotal - Direct Appropriations	171,803	162,718	334,521	172,486	155,967	328,453
Region 3 - Occupation Tax (OPEN)(TR OUT)	395	367	762	380	380	760
Total Community Development	172,198	163,085	335,283	172,866	156,347	329,213

(\$ in Thousands)

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
<u>Transportation</u>						
Transportation, Dept of						
Public Transportation Assistance	8,783	11,829	20,612	11,819	11,819	23,638
All Other Transportation, Dept of	774	1,726	2,500	827	827	1,654
Subtotal - Transportation, Dept of	9,557	13,555	23,112	12,646	12,646	25,292
Metropolitan Council Transit	32,792	36,291	69,083	44,542	44,542	89,084
Public Safety, Dept of	31,124	35,585	66,709	33,643	32,429	66,072
Public Safety, Dept of (TR OUT)	1,233	1,196	2,429	1,313	1,309	2,622
Total Transportation	74,706	86,627	161,333	92,144	90,926	183,070
<u>Criminal Justice</u>						
Supreme Court	17,660	19,511	37,171	18,733	18,695	37,428
Court of Appeals	5,645	5,785	11,430	5,814	5,832	11,646
District Courts	59,184	65,313	124,497	65,523	65,523	131,046
Judicial Stnds, Bd on	192	247	439	210	212	422
Judges Retirement (OPEN)(TR OUT)	1,457	1,447	2,904	1,447	1,447	2,894
Tax Court of Appeals	499	536	1,035	592	592	1,184
Private Detective Board	62	72	134	102	115	217
Peace Officers Stnd Tmg Bd	0	25	25	0	0	0
Bd of Public Defense	25,224	30,961	56,185	37,218	37,184	74,402
Corrections, Dept of						
Correctional Institutions	130,436	164,861	295,297	186,702	197,621	384,323
CCA & Other Local Assistance	28,897	32,753	61,650	47,569	50,995	98,564
All Other Corrections, Dept of	32,044	42,369	74,413	44,509	44,501	89,010
Subtotal - Corrections, Dept of	191,377	239,983	431,360	278,780	293,117	571,897
Ombudsman for Corrections	431	562	993	596	599	1,195
Sentencing Guidelines Commission	331	424	755	367	367	734
Additional Courts Funding	0	0	0	861	1,748	2,609
Total Criminal Justice	302,062	364,866	666,928	410,243	425,431	835,674
<u>State Government</u>						
Legislature	44,155	55,579	99,734	48,950	48,950	97,900
Legislative Rent	4,485	4,484	8,969	4,850	4,882	9,732
Governor/Lt Gov Office	3,199	3,757	6,956	3,507	3,504	7,011
Secretary of State	4,785	5,799	10,584	8,262	5,240	13,502
State Auditor Office	6,699	7,479	14,178	7,136	7,144	14,280
State Treasurer Office	1,962	3,006	4,968	2,477	2,478	4,955
Attorney General Office	20,004	21,675	41,679	20,089	20,178	40,267
Ethical Practices Board	415	473	888	445	466	911
Campaign Financing (OPEN)(TR OUT)	93	4,744	4,837	130	4,745	4,875
Political Contribution Refunds (OPEN)	2,642	3,400	6,042	1,250	0	1,250

(\$ in Thousands)

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
Investment Board	1,975	2,079	4,054	2,052	2,053	4,105
Office of Strategic Planning	3,736	4,731	8,467	4,579	4,028	8,607
Administration, Dept of	13,780	16,934	30,714	18,018	18,004	36,022
Administration, Dept of (OPEN) (TR OUT)	3,706	4,000	7,706	4,000	3,835	7,835
Intergovernmental Info System (IISAC)	132	1,437	1,569	186	187	373
Capitol Area Arch Planning Bd	253	347	600	258	262	520
Public Broadcasting	2,997	2,088	5,085	2,541	2,541	5,082
Finance, Dept of	18,827	29,191	48,018	20,853	21,176	42,029
Indirect Cost Receipts Offset	(9,702)	(10,200)	(19,902)	(11,956)	(14,556)	(26,512)
Finance Non-Operating (OPEN)	6	863	869	497	497	994
Employee Relations, Dept of	7,581	8,628	16,209	8,862	8,872	17,734
Revenue, Dept of	71,765	78,317	150,082	75,716	74,706	150,422
Revenue, Dept of (OPENS)	150	150	300	150	150	300
Amateur Sports Commission	443	470	913	556	544	1,100
Human Rights, Dept of	3,209	3,474	6,683	3,496	3,313	6,809
Military Affairs, Dept of	9,550	10,120	19,670	9,552	9,537	19,089
Veterans Affairs, Dept of	3,052	3,373	6,425	3,826	3,855	7,681
Vets of Foreign Wars	31	31	62	31	31	62
Military Order of Purple Hearts	10	10	20	10	10	20
Disabled American Vets	12	12	24	12	12	24
Lawful Gambling Control Bd	1,842	2,082	3,924	2,925	2,385	5,310
Minn Racing Commission	283	284	567	370	370	740
Small Agency Supplement	0	0	0	180	420	600
Contingent Accounts	0	398	398	200	200	400
Tort Claims	16	584	600	300	300	600
Legislators Retirement	1,706	1,993	3,699	1,993	1,993	3,986
Constitutional Officers Retirement	164	165	329	165	165	330
Mpls/St Paul TRA (OPEN)	1,724	3,000	4,724	3,000	3,000	6,000
Local Pension Funds:						
Pre-1973 Retirees (MERF)	550	550	1,100	550	550	1,100
Mpls Pension Reimbursement	10,455	10,455	20,910	10,455	10,455	20,910
Local Police/Fire Amortization	4,238	4,152	8,390	6,455	6,455	12,910
SUBTOTAL-Local Pension Funds	15,243	15,157	30,400	17,460	17,460	34,920
Total State Government	240,930	290,114	531,044	266,928	262,937	529,865
<u>Debt Service & Short-Term Borrowing</u>						
Debt Service	204,798	195,560	400,358	214,444	244,592	459,036
Arbitrage Rebate (OPEN)	2,202	2,010	4,212	27	27	54
Total Debt Svc & Borrowing	207,000	197,570	404,570	214,471	244,619	459,090

(\$ in Thousands)

Property Tax Aids & Credits

Property Tax Refunds:

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
Regular Homeowners	57,993	62,300	120,293	75,400	82,380	157,780
Regular Renters	90,699	90,200	180,899	83,800	85,400	169,200
Targeting	15,605	7,900	23,505	7,700	5,500	13,200
SUBTOTAL-Property Tax Refunds	164,297	160,400	324,697	166,900	173,280	340,180
Aid To Local Government	291,173	333,071	624,244	311,934	328,287	640,221
Equalization Aid	20,011	0	20,011	0	0	0
Disparity Reduction Aid						
School	12,804	12,648	25,452	12,629	12,631	25,260
Non-School	29,672	15,761	45,433	15,815	15,815	31,630
Border City Disparity Aid						
School	1,373	1,593	2,966	1,765	1,960	3,725
Non-School	2,543	2,832	5,375	3,148	3,494	6,642
Attached Machinery Aid						
School	836	836	1,672	836	836	1,672
Non-School	2,382	2,382	4,764	2,382	2,382	4,764
HACA-Basic						
School	186,180	148,505	334,685	142,374	142,565	284,939
Non-School	420,005	445,714	865,719	419,982	452,350	872,332
HACA-Mobile Home						
School	3,173	3,193	6,366	3,192	3,192	6,384
Non-School	3,129	3,161	6,290	3,194	3,227	6,421
HACA-Prior Year Adjustment						
School	25	17	42	18	18	36
Non-School	9	32	41	0	0	0
TIF HACA	24	24	48	24	24	48
Taconite Reimbursement	561	561	1,122	561	561	1,122
Supplemental Homestead	402	427	829	434	434	868
Transition Credit Aid						
School	23	3	26	0	0	0
Non-School	26	0	26	0	0	0
Aid To Police And Fire	44,917	47,876	92,793	50,445	53,157	103,602
Regional Transit Bd Levy Reduction	3,503	2,025	5,528	2,158	2,158	4,316
Disaster Credit	34	3	37	0	0	0
Enterprise Zone Credit	24	24	48	49	49	98
Mortgage Certificate Aid	0	0	0	100	100	200
Criminal Justice Aid	8,064	8,064	16,128	9,600	9,854	19,454
Criminal Justice Aid Admin	138	336	474	400	411	811
Family Preservation Aid	0	0	0	1,500	1,540	3,040
Bd of Govt Innov & Coop	804	2,596	3,400	0	0	0
DOER-Govt Training Svc	35	35	70	0	0	0
Trust Fund Administration:						
Dept of Finance	41	169	210	105	0	105
Dept of Revenue	249	403	652	326	0	326
ACIR	0	25	25	0	0	0
DTED-Contaminated Waste Site Clnup	0	58	58	583	583	1,166

Total Property Tax Aids & Credits	1,196,457	1,192,774	2,389,231	1,150,454	1,208,908	2,359,362
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(\$ in Thousands)

	Actual F.Y. 1994	Forecast F.Y. 1995	Forecast F.Y. 1994-95	Gov's Rec F.Y. 1996	Gov's Rec F.Y. 1997	Gov's Rec F.Y. 1996-97
<i><u>Deficiencies</u></i>						
Public Def Bd-Fund Juv Justice Mandates	0	1,500	1,500	0	0	0
Attny Gen-Mille Lacs Treaty	0	790	790	0	0	0
Arch Eng Bd-Legal Fees	0	200	200	0	0	0
Public Safety-Emerg Mgmt Flood Relief	0	30	30	0	0	0
Racing Commission	0	77	77	0	0	0
Military Affairs-Armory Assessments	0	46	46	0	0	0
Vets Affairs-Emergency Asst	0	600	600	0	0	0
Total Deficiencies	0	3,243	3,243	0	0	0
Unallotted/Other	10,175	0	10,175	0	0	0
Cancellation Adjustments	0	(15,000)	(15,000)	(5,000)	(15,000)	(20,000)
<i><u>Reserve/Appr Carried Forward</u></i>						
Budget Reserve and Cash Flow Account	500,000	500,000	500,000	350,000	350,000	350,000
Appropriations Carried Forward	186,960	NA	NA	NA	NA	NA
Total Reserve/Appr Carried Fwd	686,960	500,000	500,000	350,000	350,000	350,000

(\$ in Thousands)