

1998 Fiscal Summary



Office of Fiscal Policy Analysis

Minnesota Senate

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INTRODUCTION

Although the 1998 session was a non-budget year, there were significant changes in the budget adopted only 9 months earlier. The central reason for these changes was a much improved economy. For example, the total non-farm tax base for each of fiscal years 1998 and 1999 was nearly \$7 billion, or about 6%, higher than forecast a year ago. This increased economic activity has two positive impacts on the budget. It increases revenue from all sources. And it reduces expenditures in areas sensitive to economic variables, most notably the human service sector.

The purpose of this document is to summarize the changes in the budget for the 1998-99 biennium. The first part is a summary of general fund changes. Following that is a detailed analysis for each of the budget areas defined by standing budget divisions and the tax committee. Included here are changes for both the general and non general fund portion of the budget. The final part is a summary of the capital improvement bill also passed during the session. This was the largest capital improvement bill in the history of the state. The bill is also notably different from predecessors by the amount funded from the general fund instead of bond proceeds.

The design of the document is to show changes in appropriations from the levels adopted in the 1997 session. For each budget area, the general format is to show the original appropriation, adjustments in appropriation amounts caused by forecast changes, adjustments in appropriation amounts due to enactments by the Legislature, and the new level of appropriation. Planning estimates for the next biennium are included.

All numbers are based on end-of-session estimates.

This document was prepared by the Fiscal staff of the Senate and the Tax Committee staff. Please direct any questions to Mary Hennessy, Legislative Assistant at 296-5555.

GENERAL FUND SUMMARY

The Legislature enacted in the 1997 sessions (including the 3 special sessions) total general fund spending of \$20.924 billion for the 1998-99 biennium. The amount for the same period following the regular and special session was \$21.546 billion, a \$622 million increase. This compares to total spending in the previous biennium of \$18.629 billion. This is a \$3.1 billion increase, or about 17%.

The table below shows the beginning balance, revenue, expenditure, reserves and the ending balance for the 1998-99 biennium for the end of the 1997 period, the February forecast and the end of the 1998 sessions. Total expenditures actually decrease in the forecast by \$345 million from the end of the previous sessions.

For consistency with other published documents, this data reflects the manner the department of finance shows spending for the general fund. This means the revenue data includes the property tax rebates of nearly \$1 billion in the last two sessions as revenue reductions. This is appropriate since they are treated as income tax rebates. If the amounts were shown as open expenditures, total spending is \$22.537 billion, about a \$45.12 billion increase over the previous biennium, or about 22%.

Biennium Summary 1998-99 (millions)

	<i>End of 1997 Session</i>	<i>February 1998 Forecast</i>	<i>End of 1998 Session</i>
Beginning Balance	\$ 1,630	\$ 1,995	\$ 1,995
Total Revenue	20,316	21,471	20,978
Total Expenditures	20,924	20,579	21,546
Reserves	990	1,841	1,391
Ending Balance	32	1,046	36

During the session the focus of the budget decisions were on the projected surplus of \$1.9 billion. This amount is made up of two pieces. The first is the \$1.046 billion shown on the bottom line from the February forecast. The second piece is \$872 million that was in the property tax reserve account that is part of the Reserves in the February forecast.

The final allocation of the projected surplus is shown in the table below.

Of the \$1.9 billion projected surplus, \$826 million or about 43% was used for property tax rebate or reform. Another \$500 million was used for capital improvement projects with the remainder used as shown.

**Allocation of \$1.9 Billion Projected Surplus
1998 Sessions
(millions of dollars)**

Property Tax Rebate	\$ 495
Reserved for FY 2000-01 Property Tax	331
Other Tax Changes	54
Capital Improvement Bill	500
K-12 Education	125
Property Tax Shift	90
Higher Education	73
Other Spending	148
Budget Reserve	91
Total	1,907
Remaining Balance	10
Total Projected Surplus	1,917

COMMUNITY DEVELOPMENT APPROPRIATION SUMMARY

In the Community Development areas the legislature approved and funded two new programs which have statewide implications. The first of these new efforts is the Biomass Energy Project at Granite Falls, which is being developed to use alfalfa as an energy source to produce electricity. Success of this as an alternative fuel supply could have far reaching implications for Minnesota farmers and the country's rural economy.

The second new effort approved by the legislature is allowing equity take-out loans by owners of rental property. To receive this type of loan the owner must participate in federally assisted housing programs for low income, affordable housing units. \$10 million was appropriated in the Tax Bill for this purpose.

The other appropriations in the Community Development areas supplemented some of the base programs.

1998 Community Development Appropriation Summary (\$ thousands)

	<i>1998-99 Original Appropriation</i>	<i>Forecast Changes</i>	<i>1998 Enacted Changes</i>	<i>1998-99 Net Total Appropriation</i>	<i>FY 2000-01 Base Before Inflation</i>
Biomass Energy	\$ 0		\$ 500	\$ 500	
Vocational Rehab [Fed-change only]	13,040 62,580		1,000 4,000	14,040 66,580	\$ 15,040 70,580
Summer Youth	6,000	\$6,000	1,000	7,000	6,000
Housing Finance ¹	64,856		19,850	84,706	100,056
All Others	306,997		1,700	308,697	306,997
TOTALS					
General Fund	390,893	6,000	24,050	414,943	428,093
[Fed-change only]	62,580	0	4,000	66,580	70,580
All Funds	453,473	6,000	28,050	481,523	498,673

¹ In addition to the \$19,850 for housing in the Community Development area, there was \$700 in the Children Family and Learning bill for general housing programs, for a total increase of \$20,550 for housing.

² Laws 1998, First Special Session, Chapter 1

During the regular session the Governor vetoed the Community Development bill containing some \$38 million of state appropriations. This included \$6.5 million of economic development projects (such as \$3.3 million to assist in making films in Minnesota, and \$900 thousand for tourism marketing), \$9 million for activities which support employment opportunities, more than \$20 million for a variety of housing programs, and also a number of administrative initiatives.

CRIMINAL JUSTICE BUDGET APPROPRIATION SUMMARY

The 1998 Omnibus Criminal Justice Bill (MN Laws 1998, Chapter 367) appropriated an additional \$7.9 million from the General Fund, MN Laws 1998, Chapter 383 appropriated \$8.8 million for Tornado Disaster Relief, MN Laws 1998, Chapter 362 appropriated \$61,000 and MN Laws 1998 First Special Session, Chapter 1 appropriated \$100,000 for a total of \$16.9 million.

■ Courts

The bill included approximately \$1.4 million of supplemental money to the Supreme Court, including \$400,000 to establish community court pilot projects in Hennepin and Ramsey counties, a \$375,000 subsidy increase for Civil Legal Services, \$300,000 for a Criminal Justice System Collaboration Team, and \$120,000 for two additional court administrative positions and money for a Parental Cooperation Task Force and a misdemeanor crime data collection study. The bill appropriated \$90,000 to the Court of Appeals to establish a sixth appeals panel, and \$60,000 and \$57,000 respectively for a worker's comp deficiency and salary increases for appellate law clerks. The District Courts received \$360,000 for eight new law clerks and \$700,000 for salary increases for existing law clerks. Finally, the Board of Judicial Standards received \$30,000 for public hearing costs.

■ Public Defense

The bill appropriated \$1 million including \$30,000 for increased retirement costs, and \$970,000 is for salary increases for public defenders in the 2nd and 4th Judicial Districts (Ramsey and Hennepin counties).

■ Public Safety

The bill appropriated \$10.4 million of supplemental money including \$8.8 million Tornado Disaster Relief appropriation, \$148,000 for an Emergency Management Center and Coordinator, \$229,000 to fund the consolidation of crime victim service providers under Executive Order 180. The Bureau of Criminal Apprehension received \$233,000 for two additional forensic scientists, the creation of a conditional release database, and additional money for the crime victim and witness protection fund. The Fire Marshall received \$170,000 to create an arson investigative database. Finally, four grant programs under the Department of Public Safety: \$200,000 for Weed and Seed projects, \$450,000 to local law enforcement agencies for automatic external defibrillators, and \$50,000 each for a Crosswalk Safety Grant and a truancy center in Anoka County.

■ Corrections

The bill appropriated an additional \$2.1 million. Major initiatives include \$1.0 million for probation caseload reduction, \$765,000 for the electronic alcohol monitoring program, and \$700,000 for a prison industry project constructing low-income housing with inmate labor. Other appropriations included the state assumption

Criminal Justice Budget Appropriation Summary

of adult misdemeanor and juvenile probation services in Winona and Benton counties, \$222,000 to the City of St. Paul in Break the Cycle of Violence grants, \$150,000 for the Child Guide Program in Willmar, \$123,000 for juvenile mentoring programs, \$100,000 for restorative justice grants, and \$63,000 for a substance abuse intervention program in Minneapolis.

■ **Other Appropriations**

The bill appropriated \$200,000 to establish a law enforcement policy analysis capacity at Metro State University, \$148,000 to the Peace Officers Standards and Training Board for legal costs, \$100,000 to the Department of Administration to conduct a pre-trial release study, and \$75,000 to the Legislative Auditor to conduct a comprehensive cost of crime study.

■ **Revenues**

The bill restructured the criminal fine system (effective January 1, 1999), resulting in an estimated annual fine revenue increase of \$3 million. In addition, it raised DWI license plate reinstatement and surcharge fees by an estimated \$1.3 million annually. Finally, the state will receive \$525,000 from Benton and Winona counties for assuming their adult misdemeanor and juvenile probation services.

1998 Criminal Justice Appropriation Summary (\$ thousands)

	<i>1998-99 Original Appropriation¹</i>	<i>Forecast Changes²</i>	<i>1998 Enacted Changes³</i>	<i>1998-99 Net Total Appropriation</i>	<i>2000-01 Base Before Inflation</i>
Supreme Court	\$ 43,372	\$ (20)	\$ 1,370	\$ 44,722	\$ 43,824
Court of Appeals	12,268	(8)	207	12,467	12,646
District Courts	143,222	(36)	1,060	144,246	146,452
Board of Judicial Standards	531		30	561	456
Tax Court	1,619			1,619	1,290
Dept. of Public Safety	72,852	1,362	10,405	84,619	59,785
Special Revenue Fund	3,617			3,617	3,617
State Government Revenue	14			14	14
Fund	85			85	89
Environment Fund	3,144			3,144	3,294
Trunk Highway Fund	262			262	264
Private Detective Board			148	148	
POST Board	7,382			7,382	7,700
Special Revenue	3,734			3,734	3,757
Auto Theft Prevention Board	83,630	34	1,000	84,664	82,240
Board of Public Defense	7,553	(8)	100	7,645	7,604
Dept. of Human Rights					
Dept. of Corrections	369,788			369,788	
Correctional Institutions	34,860			34,860	
Juvenile Services	165,211		2,115	167,326	
Community Services	20,518			20,518	
Crime Victim and Prevention	18,730			18,730	
Management Services		1,604		1,604	
1997 CH233 Pensions			61	61	
1998 CH362 Claims		2,333		2,333	
Carryforwards	609,107	3,937	2,176	615,220	659,287
Total Dept. of Corrections	1,145	(2)	20	1,163	1,196
Ombudsman for Corrections	880			880	890
Sentencing Guidelines	71			71	72
Uniform Laws Commission	250			250	
Attorney General	1,300			1,300	
Economic Security	2,970			2,970	2,970
Judges Retirement (OPEN-TR)			75	75	
Legislative Audit Commission			200	200	
MN State Colleges and Univ.			100	100	
Department of Administration					
TOTALS	981,032	5,259	16,891	1,003,182	1,021,976
General Fund	14,733			14,733	15,074
Special Revenue Fund	14			14	14
State Government Revenue	85			85	89
Environment Fund	3,144			3,144	3,294
Trunk Highway Fund	999,008			1,021,158	1,040,447
TOTAL					

All appropriations are General Fund, unless otherwise noted.

¹ MN Laws 1997, Chapter 239

² Pension Uniformity Changes (MN Laws 1997, Chapter 233) and Carryforwards

³ MN Laws 1998, Chapters 362,367, 383 and 1st SS Chapter 1

**ENVIRONMENT AND AGRICULTURE
APPROPRIATION SUMMARY**

In 1998, \$29.7 million from the General Fund and \$450,000 from the Natural Resources Fund were added to the Environment and Agriculture budget.

The supplemental operations bill (Laws of 1998, Chapter 401, after Governor's vetoes of \$285,000) added \$16.9 million from the General Fund to the budget. Supplemental funding for the Pollution Control Agency of \$1.4 million accelerated the investigation of frog deformities in the state (\$375,000) and addressed feedlot issues with \$350,000 for county feedlot program grants and \$300,000 for increased feedlot permitting activities. The Board of Water and Soil Resources supplemental budget also focused on feedlots with \$1 million for feedlot water quality management activities. The Department of Natural Resources supplemental budget of \$10.6 million focused on habitat protection and restoration (\$3.7 million), flood hazard mitigation grants (\$1.5 million) and lake conservation programs (\$800,000). Other General Fund appropriations to the DNR included \$650,000 for various trail projects, \$600,000 for State Forest Recreation Area Improvements and \$465,000 to increase access to DNR information on the internet. Also, \$450,000 was appropriated from the Water Recreation Account for increased enforcement of laws regarding the use of personal watercraft. The Department of Agriculture supplemental budget added new programs to improve meat inspection and Minnesota Grown food distribution to low-income families (\$350,000 and \$267,000 respectively), and enhanced existing programs in dairy diagnostics (\$500,000) and gypsy moth response activities.

In addition to the items in the supplemental operations bill, the Department of Agriculture was appropriated \$8.8 million for crop disaster assistance and \$4 million for tornado disaster relief.

Items approved by the Legislature in 1998 but vetoed by the Governor included \$100,000 for a grant to Linwood Township for storm water management, \$125,000 for a newly-established state corporation for swine genetics and \$60,000 for increased legal assistance for local governments on feedlot issues.

1998 Environment and Agriculture Appropriation Summary (\$ thousands)

	<i>1998-99 Original Appropriation¹</i>	<i>Forecast Changes²</i>	<i>1998 Enacted Changes³</i>	<i>1998-99 Net Total Appropriation</i>	<i>2000-01 Base Before Inflation</i>
Pollution Control Agency					
General Fund	\$ 28,411	\$ (20)	\$ 1,390	\$ 29,781	\$ 27,122
Environmental Fund	42,964			42,964	44,384
Solid Waste Fund	57,729			57,729	57,788
Other Funds	68,053			68,053	61,090
	<u>197,157</u>			<u>198,527</u>	<u>190,384</u>
Environmental Assistance					
General Fund	38,488	(8)		38,480	38,546
Other Funds	5,048			5,048	5,008
	<u>43,536</u>			<u>43,528</u>	<u>43,554</u>
Minnesota Zoo					
General Fund	10,903	(10)	1,500	12,393	10,726
Other Funds	25,708			25,708	27,458
	<u>36,611</u>			<u>38,101</u>	<u>38,184</u>
Natural Resources Dept					
General Fund	239,425	6,951	10,141	256,517	244,808
Game & Fish Fund	112,452			112,452	117,864
Natural Resources Fund	46,973		450	47,423	49,114
Other Funds	37,551			37,551	37,664
	<u>436,401</u>			<u>453,943</u>	<u>449,450</u>
Board of Water & Soil					
General Fund	31,327	(8)	1,400	32,719	32,889
Other Funds	1,420			1,420	1,020
	<u>32,747</u>			<u>34,139</u>	<u>33,909</u>
Agriculture Dept					
General Fund	87,468	(30)	15,094	102,532	100,731
Special Revenue	38,788			38,788	38,284
Other Funds	26,028			26,028	25,250
	<u>152,284</u>			<u>167,348</u>	<u>164,265</u>
Small Agencies⁴					
General Fund	16,040	(6)	190	16,224	16,332
Other Funds	1,229			1,229	1,230
	<u>17,269</u>			<u>17,453</u>	<u>17,562</u>
TOTALS					
General Fund	452,062	6,869	29,715	488,646	471,154
Environmental Fund	42,964	0	0	42,964	44,384
Solid Waste Fund	57,729	0	0	57,729	57,788
Game & Fish Fund	112,452	0	0	112,452	117,864
Natural Resources Fund	46,973	0	450	47,423	49,114
Special Revenue	38,788	0	0	38,788	38,284
Other Funds	165,037	0	0	165,037	158,720
	<u>916,005</u>	<u>6,869</u>	<u>30,165</u>	<u>953,039</u>	<u>937,308</u>

¹ Laws of 1997, Chapters 216, 246, 2SS Chapter 2 and statutory appropriations.

² Pension uniformity changes (Laws of 1997, Ch 233) and DNR Open Appropriation forecast changes.

³ Supplemental operations, crop and tornado disaster relief (Laws of 1998, Chapters 401, 383 and 395).

⁴ Animal Health Board MN/WI Commission, Voyageurs National Park Commission, Science Museum, Academy of Science, Horticulture Society and Agricultural Utilization Research Institute.

**FAMILY AND EARLY CHILDHOOD EDUCATION
APPROPRIATION SUMMARY**

The appropriations contained in Chapter 1, the First Special Session supplemental budget bill for Family and Early Childhood programs totaled \$4.2 million for the 1998-1999 biennium. Of that, \$3.25 million was set aside for the Basic Sliding Fee (BSF) child care program to ensure that families transitioning from welfare to self-sufficiency will have the child care assistance available to enable them to work. Transitional housing services and emergency housing services programs received an additional \$300,000 each in supplemental funding for the biennium. The state's lead abatement efforts were supplemented by \$100,000 of additional money for swab team activities. Finally, \$250,000 was set-aside specifically for grants to Early Childhood Family Education (ECFE) and Head Start programs that will offer joint programming.

1998 Family and Early Childhood Education Appropriation Summary (\$ thousands)

	<i>1998-99 Original Appropriation²</i>	<i>Forecast Change</i>	<i>1998 Enacted Change³</i>	<i>1998-99 Net Total Appropriation</i>	<i>2000-01 Base Before Inflation</i>
Early Childhood Programs	\$ 93,740	\$ 0	\$ 0	\$ 93,740	\$ 89,380
Early Childhood Collaboration	0	0	250	250	0
Community and Prevention Programs	72,539	0	0	72,539	67,942
Lead Abatement	200	0	100	300	200
Self-Sufficiency Programs	22,960	0	0	20,694	19,482
Emergency Services ¹	0	0	300	300	0
Transitional Housing	3,284	0	300	3,584	3,584
Child Care	106,899	6,823	0	106,899	174,417
Basic Sliding Fee	92,502	0	3,250	95,752	101,502
TOTALS General Fund	388,840	6,823	4,200	393,040	458,007
Other Federal and State Funds	272,972	0	0	278,972	284,074

¹ Original 98/99 appropriation contained as a rider to transitional housing appropriation without specific amount earmarked.

² Chapter 162, Laws of MN 1997

³ Chapter 1, Laws of MN 1998, First Special Session

Family and Early Childhood Education Appropriation Summary

■ **S.F. 2532 -- Original Bill (This bill was vetoed)**

The original conference committee bill for Family and Early Childhood Education programs -- S.F. 2532 -- was vetoed by Governor Carlson. That bill appropriated \$22 million from the general fund and \$5 million from the federal Temporary Assistance for Needy Families (TANF) fund for early childhood, community and prevention, self-sufficiency and child care programs.

Included in that bill was:

- \$5 million for Basic Sliding Fee child care;
- \$6.8 million for MFIP (MN Family Investment Program) child care;
- \$1.9 million for transitional and emergency housing programs and services;
- \$1.9 million for Early Childhood Family Education and Head Start collaborative projects;
- \$500,000 for community and crime prevention projects;
- \$775,000 for Family Assets Accounts;
- \$4.9 million for the Dependent Care Tax Credit; and
- \$5 million in federal Temporary Assistance to Needy Families funds for computerization of the child care data management efforts in the Dept. Of Children Families and Learning (DCFL) as well as for child care capacity building and quality improvement efforts.

**GOVERNMENTAL OPERATIONS
APPROPRIATION SUMMARY**

In 1998, the budget for Governmental Operations was increased by \$35 million from the General Fund and \$878,000 from other funds.

The supplemental bill (Chapter 366) appropriated \$31.923 million from the General Fund. The major piece was the Attorney General's Office appropriation of \$23 million, after the Governor vetoed \$1.1 million due to continued concerns about the office's level of growth. Last year, the Governor vetoed the entire FY 1999 General Fund appropriation for the office. A task force is required to be convened by the Attorney General and Commissioner of Finance to evaluate issues relating to funding of legal services. Recommendations are due to the Legislature January 15, 1999.

The Year 2000 Project Office within the Department of Administration was appropriated \$4,371,000 to be added to the existing \$23 million budget. An additional \$300,000 was appropriated to the Project Office in the Environment and Agriculture Finance budget (Chapter 401) for Department of Natural Resources' projects.

An increase of \$408,000 to the Office of the State Auditor for tax increment financing (TIF) enforcement was made by statutorily increasing the deduction rate from .10 percent to .25 percent. This increase will allow an increase of six auditors and one clerical support person. The deduction rate increase will impose no additional cost on the state or local governments, although it will reduce slightly the amount of tax increment available to pay TIF districts' obligations.

The Department of Finance was appropriated \$2.7 million for tornado disaster relief (Chapter 383). This is a contingency appropriation to meet unanticipated needs of disaster victims.

1998 Government Operations Appropriation Summary (\$ thousands)

	1998-99 Original Appropriation ¹	Forecast Changes ²	1998 Enacted Changes ³	1998-99 Net Total Appropriation	2000-01 Base Before Inflation
Legislature	\$	\$	\$	\$	\$ 112,794
<i>other funds</i>	111,655	6,214	25	117,894	668
Governor	668			668	7,768
State Auditor	7,700			7,700	16,222
<i>other funds</i>	15,634	7	408	16,049	598
State Treasurer	598			598	4,266
Attorney General	4,204	500		4,704	47,752
<i>other funds</i>	27,008	(14)	23,000	49,994	7,400
Secretary of State	7,400			7,400	11,836
<i>other funds</i>	11,861	(8)	100	11,953	943
Public Disc. Campaign Finance Bd	943			943	38,806
<i>other funds</i>	17,520	21,687		39,207	4,520
State Board of Investment	4,520			4,520	4,494
<i>other funds</i>	4,410			4,410	83,820
Administrative Hearings <i>other funds</i>	83,820			83,820	8,390
MN Planning	16,407			16,407	10,536
<i>other funds</i>	10,980	(10)	1,300	12,270	1,435
Administration	1,658			1,658	61,726
<i>other funds</i>	98,681	(4,273)	4,900	99,308	60,973
Office of Technology	60,973			60,973	5,690
Capitol Area Arch Planning Bd	7,938			7,938	578
Finance	595	280		875	45,470
<i>Indirect Cost Receipts Offset (GF)</i>	45,271	3,477	3,007	51,755	(52,837)
<i>other funds</i>	(43,864)	(7,048)		(50,912)	623
Employee Relations			128	128	13,402
<i>other funds</i>	15,933	454	750	17,137	617,799
Revenue	617,799			617,799	164,014
<i>other funds</i>	161,387	(178)	751	161,960	4,378
Military Affairs	11,617			11,617	19,392
<i>other funds</i>	21,043	797		21,840	107,582
Veterans Affairs	81,664			81,664	8,144
<i>other funds</i>	25,918	799		26,717	3,294
Veterans of Foreign Wars	3,294			3,294	82
Military Order of Purple Heart	82			82	40
Disabled American Veterans	40			40	26
Minnesota Racing Commission	26			26	758
<i>other funds</i>	750			750	2,195
Lawful Gambling Control Board	2,195			2,195	4,242
<i>other funds</i>	4,454	(6)		4,448	8
Lottery Prize Fund (State Lottery) <i>other funds</i>	8			8	0
Amateur Sports Commission	2,450		750	3,200	2,698
Tort Claims	8,644		100	8,744	550
Contingent Accounts	550			550	200
<i>other funds</i>	200			200	1,000
MN State Retirement System	1,000			1,000	4,858
<i>other funds</i>	4,645	1,000	700	6,345	477,084
Public Employees Retirement System	477,084			477,084	0
<i>other funds</i>	0		10	10	1,000,526
Teachers Retirement Association	1,000,526			1,000,526	
<i>other funds</i>					1,010,932
Mpls Employees Retirement Fund	1,010,932			1,010,932	19,100
Local Police/Fire Amortization Aid	20,555			20,555	12,601
Mpls/St. Paul TRA	12,603	(880)		11,723	5,000
Pension Uniformity	6,676	(1,676)		5,000	
Duluth/Mpls/StPaul TRA (97, Ch233)	0	39,534		39,534	32,534
Gov't Innovation & Cooperation Bd	0				2,018
State Arts Board	2,321			2,321	26,070
<i>other funds</i>	26,054	(2)		26,052	494
Humanities Commission	494			494	1,772
<i>other funds</i>	1,772			1,772	
TOTALS	633,246	60,128	35,051	723,227	632,602
General Fund	3,386,050	0	878	3,383,728	3,394,662
Other Funds	4,019,296	60,128	35,929	4,106,955	4,027,264
All Funds					

All appropriations are General Fund, unless otherwise noted.

¹ MN Laws of 1997, Chapter 239; 1SS Chapter 2; 2SS Chapter 2; open and statutory appropriations.

² Pension Uniformity Changes (Laws of 1997, Chapter 233); carryforward and open appropriation forecasting change.

³ MN Laws of 1998, Chapters 362, 366 and 383.

HEALTH CARE AND FAMILY SERVICES APPROPRIATION SUMMARY

The Supplemental Health Care and Family Services Budget Bill decreased appropriations and forecast changes by \$318.759 million. Net of forecast adjustments, the conference report appropriated \$53.88 million in all funds. General Fund appropriations were increased by \$57.709 million and revenues were decreased by \$287,000, for a net affect on the General Fund of \$57.996. Health Care Access Fund appropriations were decreased by \$4.174 million, and State Government Special Revenue Funds were increased by \$344,000. The bill also authorizes the Department of Human Services to spend \$44.208 million in state Temporary Assistance to Needy Families (TANF) reserve and federal Temporary Assistance to Needy Families (TANF) funds, and \$340,000 in Lottery Prize fund money. The Governor vetoed \$125,000 of the General Fund appropriations, resulting in an actual General Fund appropriation of \$57.871 million.

Some major spending items include:

- A 3% COLA effective July 1, 1998 for community health care services and nursing home and Intermediate care facilities/mental retardation (ICF/MR) non-supervisory staff (\$22 million General Fund and Health Care Access Fund).
- One time Temporary Assistance to Needy Families (TANF) spending for a state food stamp program for legal non-citizens (\$9 million), delaying implementation of including the first \$100 of housing assistance in a Minnesota Family Investment Program-Statewide (MFIP-S) recipient's income (\$20 million), and expanding Child Welfare Prevention Activities (\$10 million).
- Increases income limits for Medical Assistance and General Assistance Medical Care recipients with a spend down (\$4.5 million).
- Increases for certain Health Department programs: Medical Education and Research Cost (\$10 million), Fetal Alcohol Syndrome (\$5 million), Food Safety (\$2.5 million) and Breast and Cervical Cancer (\$1.2 million).

Spending for the 2000-2001 biennium for this bill is estimated at \$130.142 million. The veto reduces this amount by \$200,000.

1998 Health Care and Family Services Appropriation Summary (\$ thousands)

	<i>1998-99 Original Appropriation¹</i>	<i>Forecast Changes</i>	<i>1998 Enacted Changes²</i>	<i>1998-99 Net Total Appropriation</i>	<i>2000-01 Base Before Inflation</i>
Department of Human Services	\$	\$	\$	\$	\$
GF Revenues (FFP)					
General Fund	5,141,188	(363,953)	37,851	4,815,086	5,340,759
Veto	0	0	(125)	(125)	(200)
Health Care Access Fund	257,201	(13,159)	(4,433)	239,609	311,558
State Government Special Revenue Fund	915	0	0	915	924
Federal Temporary Assistance to Needy Families	542,536	(54,047)	38,792	527,281	543,786
State Temporary Assistance to Needy Families	0	0	5,416	5,416	9,383
Lottery Prize Fund	0	0	340	340	680
Department of Health	100,399	0	19,780	120,179	127,196
General Fund	23,055	0	259	23,314	14,576
Health Care Access Fund	43,930	0	108	44,038	43,787
State Government Special Revenue Fund	386	0	0	386	386
Metro Land Fill Contingent Fund					
Veterans Homes	43,761	0	0	43,761	44,544
General Fund					
EMS Board	2,272	0	78	2,350	2,266
General Fund	3,330	0	0	3,330	3,356
Trunk Highway Fund					
Council on Disability	1,245	0	0	1,245	1,260
General Fund					
MH/MR Ombudsman	2,711	0	0	2,711	2,592
General Fund					
Ombudsman for Families	318	0	0	318	322
General Fund					
Department of Administration (Vets)	1,270	0	0	1,270	0
General Fund					
Medical Boards	19,216	0	236	19,452	19,482
State Government Special Revenue Fund		0	(287)	(287)	25,802
Other General Fund Revenue					
TOTALS	5,293,164	(363,953)	57,709	4,986,920	5,518,939
General Fund	0	0	(125)	(125)	(200)
Veto	0	0	(287)	(287)	25,802
Revenues	5,293,164	(363,953)	57,871	4,987,082	5,492,937
Net General Fund - post veto	280,256	(13,159)	(4,174)	262,923	326,143
Health Care Access Fund	64,061	0	344	64,405	64,193
State Government Special Revenue Fund	542,536	(54,047)	38,792	527,281	543,786
Federal Temporary Assistance to Needy Families	0	0	5,416	5,416	9,383
State Temporary Assistance to Needy Families	386	0	0	386	386
Lottery Prize Fund	3,330	0	0	3,330	3,356
Metro Land Fill Contingent Fund					
Trunk Highway Fund	6,183,733	(431,159)	98,589	5,851,163	6,440,855
Total All Funds					

1 Laws of 1997, Chapters 203, Article 1, 225 Article 7

2 Laws 1998, Chapter 407, Article 1

HIGHER EDUCATION APPROPRIATION SUMMARY

The major change for Higher Education Services Office (HESO) in the 1998 session is changing the student share calculation for the State Grant Program from 50% to 47%, which significantly increases the grants for eligible students. The other changes were for increasing the Workstudy program and helping students qualify for Child Care and for Workstudy programs, by reducing the number of credits needed for eligibility from 8 to 6 credits.

For the Minnesota State Colleges and Universities System (MNSCU), money was appropriated for equipment, initiatives to promote coordination with businesses, for improving the formula for distributing money to campuses, and for improving the training of teachers.

For the University of Minnesota (U of M), money was appropriated for equipment, agricultural research, academic initiatives, faculty pay plan, and for two purposes which the Governor vetoed, namely, the Law School Clinic, and Project Inform.

1998 Higher Education Summary (\$ thousands)

	<i>1998-99 Original Appropriation¹</i>	<i>Forecast Changes</i>	<i>1998 Enacted Changes²</i>	<i>1998 Gov Veto</i>	<i>1998-99 Net Total Approp</i>	<i>2000-01 Base Before Inflation</i>
HESO	\$ 277,508	\$0	\$ 1,000		\$ 278,508	\$ 281,092
MNSCU	1,015,636	0	36,000		1,051,636	1,039,560
U of M	1,076,048	0	36,000	(500)	1,111,548	1,085,369
MAYO	2,431	0	0		2,431	2,564
TOTALS	2,371,623	0	73,000	(500)	2,444,123	2,408,585

¹ Laws 1997, Chapter 183

² Laws 1998, Chapter 384

The above numbers do not reflect the adjustments which the Department of Finance does pursuant to Laws 1997, Chapter 233, for retirement payments.

K-12 EDUCATION APPROPRIATION SUMMARY

The Omnibus K-12 Education bill provided \$215 million in supplemental funding. Of that amount, nearly 40 percent (\$85.3 million) was designated to formula aid that was allocated to school districts. Forty-two percent (\$90.1 million) was appropriated to complete the buy-back of the property tax recognition shift. The bill also appropriated over \$10 million to assist last year's flood-damaged districts and \$12 million was appropriated for starting residential academies.

■ Graduation Rule Implementation Aid

Much of the K-12 supplemental appropriations debate during the 1998 session focused on the implementation of the graduation rule. To assist districts in implementing the rule, the 1998 bill creates a new formula that provides \$54.7 million in graduation rule implementation aid in the current biennium and \$84.9 million in the next biennium. Graduation rule implementation aid revenue is allocated to districts on a per pupil basis. In fiscal year 1999 districts that fully implement the graduation rule will receive a higher per pupil amount (\$66 per Weighted Average Daily Membership) than districts that opt for a slower, phased implementation of the rule (\$52 per WADM). In fiscal year 2000 and later all districts receive \$43 per pupil unit.

In fiscal year 1999 districts must allocate at least \$34 per pupil unit (\$20 for districts who adopt slower implementation of the graduation rule) of the graduation rule implementation aid to enhance graduation rule implementation through staff development. At least \$5 per pupil unit is allocated to gifted and talented programs. No more than \$27 per pupil unit is allocated for technology and class size reduction. In FY 2000 and later, when all districts receive \$43 per pupil unit, they will have discretion to use the money for staff development, technology, gifted and talented or class size reduction.

■ Graduation Rule Implementation Aid -- Equity Adjustment

The K-12 bill appropriated \$15.9 million in fiscal year 1999 and \$22 million in fiscal years 2000-2001 to districts that are subject to the referendum allowance reduction, but have referendums less than the cap. This aid provides additional revenue to those districts with referendums that have low property wealth. In 1999 districts that qualify receive \$34 per pupil unit. In 2000 and later, qualifying districts will receive \$25 per pupil unit. Because the number of districts that qualify for this aid will decline over time, the revenue stream will decline as well.

■ Compensatory Transition Aid

Beginning in 1998, compensatory revenue was allocated to school building sites rather than to the district. As a result of this change some school sites received less revenue. The K-12 conference committee recognized that some districts needed some additional transitional compensatory revenue to reduce this impact. As a result, the K-12 bill provided \$14.7 million in additional compensatory revenue.

Of this amount, \$7.4 million is awarded to districts on a formula basis. The formula provides revenue to school districts where a district's growth in compensatory revenue in fiscal year 1998 was less than 35 percent. Qualifying districts receive an additional \$216 per pupil unit. Because the revenue is allocated to the district rather than to the site, as in the permanent statutory formula, districts will have the flexibility to provide this additional revenue to sites that saw "shortfalls" as a result of the new site-based allocation formula. The remaining \$7.3 million is awarded to certain districts in the form of grants. These districts include Duluth, Osseo, Robbinsdale, St. Paul and Rochester.

■ **Elimination of Property Tax Shift**

The Omnibus K-12 bill appropriated \$90.1 million to eliminate the property tax recognition shift. This shift has been in place for many years and has allowed school districts to recognize a certain percentage of its revenue early. It was designed to prevent, during slow economic times, cuts in education revenues. Now that the economy is strong, conferees believed it prudent to eliminate the shift of revenue between fiscal years.

■ **Graduation Rule Resource Grants**

In fiscal year 1999 \$3.5 million was appropriated to school sites to implement the graduation rule. The bill lists eight purposes for which grants are available and permits the commissioner to require a match of private money. The bill earmarks \$930,000 to five specific grantees and it also specifies several potential grantees that the department of children, families and learning shall consider.

■ **Clearinghouse of Best Practices**

\$2 million is appropriated to establish a clearinghouse of best educational practices which is designed to improve the performance of at-risk students. The clearinghouse must gather information on best educational practices, train quality intervention teams to assist school staff to improve student performance, develop a model for school districts to improve school performance, develop student performance indicators, provide staff development opportunities and align all efforts with the graduation rule and shared decision-making.

■ **Flood Aid**

\$10.8 million was appropriated to districts that suffered flood damage in 1997. Many costs of the flood damage were not covered by federal money or insurance. This appropriation is designed to reduce the local impact of these unreimbursed costs. Of the \$10.8 million, \$1.4 million is for the Minneapolis school district, \$1.25 million is for the Ada-Borup school district, \$7.425 million is for East Grand Forks school district and \$650 is for the City of East Grand Forks.

■ **Residential Academies**

The bill appropriates \$12 million for construction of buildings for the residential academy program. This appropriation is for up to three academies for students in grades 4 through 12 who desire to attend

an academy. Enrollment preference shall be given to students who are at risk of performing below the academic achievement level or who have experienced homelessness or an unstable home environment.

■ **Other**

Of the remaining \$11.2 million appropriations contained in the bill, \$6.4 million is appropriated for other statewide programs, \$4.6 million is appropriated for local provisions and \$201,000 is appropriated to the department of children, families and learning and the Center for Arts Education for operating expenditures.

1998 K-12 Education Appropriation Summary (\$ thousands)

	<i>1998-99 Original Appropriation¹</i>	<i>Forecast Changes</i>	<i>1998 Enacted Changes²</i>	<i>1998-99 Net Total Appropriation</i>	<i>2000-01 Base Before Inflation</i>
Compensatory Transition Aid	\$ 0	\$ 0	\$ 14,700	\$ 14,700	\$ 0
One Time Formula	0	0	7,400	7,400	0
One Time Grants	0	0	7,300	7,300	0
Elimination of Property Tax Shift	18,700	0	90,100	108,800	0
Graduation Standards Implementation Revenue	10,000	0	54,735	64,735	84,988
Graduation Standards Implementation Revenue -- Equity Adjustment	0	0	15,969	15,969	22,055
Flood Aid	4,700	0	10,825	15,525	0
Clearinghouse of Best Practices	0	0	2,000	2,000	0
Graduation Rule Resource Grants	0	0	3,500	3,500	0
Residential Academies	0	0	12,000	12,000	2,100
Other statewide programs	6,576,766	1,397	6,413	6,584,576	6,958,069
Local provisions	24,823	(297)	4,641	29,167	10,804
Department of Children, Families and Learning	48,296	3,914	171	52,381	46,442
Faribault Academies	17,818	(49)	0	17,769	17,816
Center for Arts Education	11,595	(41)	30	11,584	12,168
TOTALS	6,712,698	4,924	215,084	6,932,706	7,154,442
General Fund	6,712,698	4,924	214,991	6,932,613	7,153,569
Other Funds	0	0	93	93	873

¹ Laws 1997, First Special Session, Chapter 4

² Laws 1998, Chapter 398

**TRANSPORTATION
APPROPRIATION SUMMARY**

The 1998 transportation supplemental appropriation bill (Laws of 1998, Chapter 372) and the graduated drivers' licensing bill (Laws of 1998, Chapter 388) provided an additional \$51.5 million for transportation purposes, bringing the biennial total appropriations for transportation to just under \$3.0 billion.

The Department of Transportation received the majority of the supplemental funding including \$40 million from the trunk highway fund for state road construction, \$6.8 million from the trunk highway fund for design and construction engineering and \$11,000 from the trunk highway fund and \$50,000 from the general fund aeronautics. The supplemental appropriation brought total state road construction spending for FY 1999 to just over \$485 million, the highest annual road construction program ever in the state.

The Department of Public Safety received \$4.67 million, including \$294,000 from the general fund for additional capitol complex security staff; \$2.697 million from the trunk highway fund for additional state troopers and support staff; \$200,000 from the trunk highway fund for additional state patrol helicopter time; \$694,000 from the trunk highway fund for replacement and maintenance of state patrol communications equipment; \$435,000 from the trunk highway fund for the increased costs of producing drivers' licenses; \$302,700 for implementation of the graduated drivers' licensing system and youth - oriented driver improvement clinics; and, \$50,000 from the highway users fund for a vehicle registration and insurance study.

1998 Transportation Appropriation Summary (\$ thousands)

	<i>1998-99 Original Appropriation¹</i>	<i>Forecast Changes²</i>	<i>1998 Enacted Changes³</i>	<i>1998-99 Net Total Appropriation</i>	<i>2000-01 Base Before Inflation</i>
Department of Transportation					
General Fund	\$ 31,381	(\$2)	\$ 50	\$ 31,429	\$ 28,972
Trunk Highway Fund	1,722,599		46,811	1,769,410	1,781,007
County State-Aid Highway Fund	645,801			645,801	672,811
Municipal State-Aid Highway Fund	195,844			195,844	203,890
Other Funds	<u>35,994</u>			<u>35,994</u>	<u>35,994</u>
	2,631,619			2,678,478	2,722,674
Metropolitan Council					
General Fund	100,702			100,702	98,702
Department of Public Safety					
General Fund	18,681	(14)	294	18,961	20,206
Trunk Highway Fund	149,325		4,329	153,654	155,668
Other Funds	<u>30,032</u>		50	<u>30,082</u>	<u>29,982</u>
	197,935			202,608	205,856
Minnesota Safety Council					
Trunk Highway Fund	134			134	134
Other Agencies					
Trunk Highway Fund	1,600			1,600	1600
Other Funds	<u>375</u>			<u>375</u>	<u>350</u>
	1,975			1,975	1,950
TOTALS					
General Fund	150,764	(16)	344	151,092	147,880
Trunk Highway Fund	1,873,658	0	51,146	1,924,798	1,938,409
County State-Aid Highway Fund	645,801	0	0	645,801	672,811
Municipal State-Aid Highway Fund	195,844	0	0	195,844	203,890
Other Funds	<u>66,401</u>	<u>0</u>	<u>50</u>	<u>66,451</u>	<u>66,326</u>
	2,932,365	(16)	51,534	2,983,986	3,029,316

¹ Omnibus Transportation Appropriations bill, Laws of Minnesota 1997, Chapter 159.

² Pension uniformity changes, Laws of Minnesota 1997, Chapter 233.

³ Transportation Supplemental Budget bill, Laws of Minnesota 1997, Chapter 372 and Laws of Minnesota 1997, Chapter 388.

TAX BILL SUMMARY

The tax bill built on actions taken in 1997 and enacted one of the largest tax relief packages in state history with a total cost of over \$1 billion. Included in the tax relief package were:

- a one year extension of the property tax rebate at a cost of \$494.5 million. The rebate previously applicable to property taxes payable in 1997 will now also apply to property taxes payable in 1998. For homeowners the rebate will be 20% of their homes' taxes up to a \$1,500 maximum. For renters, the rebate will effectively be 3.8% of their shelter rents up to a \$1,500 maximum. Taxpayers apply for the credit on their 1998 income tax return filed in 1999.
- a \$427 million property tax reform package that reduces the taxable values and taxes of commercial-industrial properties, public utilities and rental housing, increases state aids to K-12 education and social services and permanently increases the state's renters credit.
- increased money for the working family income tax credit that more effectively targets relief to former welfare recipients with children who are suffering the multiple, negative impacts of the loss of welfare benefits, increasing payroll taxes and increasing state and federal income taxes. At their worse -- before the credit's reconfiguration, these multiple, negative impacts had the effect of erasing any gain in disposable income for wage earners receiving as much as \$3 an hour increase in pay.
- elimination of the sales taxes on new farm machinery, and
- \$10 million in fiscal year 1999 for preservation of low income housing.

Much of the tax relief was paid for through the draw-down of the state's \$872 million *Property Tax Reform Account*.

In addition to the tax relief and spending measures, the tax bill establishes a priority for allocation of future surpluses. In 1998, after having allocated any money necessary to maintain a \$622 million budget reserve, the next \$200 million is allocated to a tax reduction and reform account and the next \$400 million to reduce the need to borrow money to finance state building projects.

A table showing a breakdown of the costs of the major measures enacted as part of the tax bill is shown on the next page.

1998 Tax Bill Summary (\$ thousands)

	<i>1998-99 Original Cost</i>	<i>Forecast Changes</i>	<i>1998 Enacted Changes</i>	<i>1998-99 Net Total Cost</i>	<i>2000-01 Base Before Inflation</i>
Property Tax Rebate					
Gen. Fund/Prop. Tax Reform Acct.	\$ 500,000	\$	\$ 469,300	\$ 969,300	\$ 25,200
Education Levy Reduction					
Gen. Fund/Prop. Tax Reform Acct.	108,810			108,810	350,000
Education Homestead Credit					
Gen. Fund/Prop. Tax Reform Acct.	142,644			142,644	602,066
Fiscal Disparities HACA					
Gen. Fund/Prop. Tax Reform Acct.	0			0	13,190
Family Preservation Aid					
Gen. Fund/Prop. Tax Reform Acct.	3,236			3,236	33,400
Renters Credit					
Gen. Fund/Prop. Tax Reform Acct.	198,700	(902)		197,798	248,611
Misc. Property Tax Reform (Reduced Property Tax Deduction, Etc.)					
Gen. Fund/Prop. Tax Reform Acct.	0			0	(50,352)
Update with Federal Tax Code					
Gen. Fund			14,624	14,624	29,004
Dividend Deduction For Shareholders of Subchapter S Financial Corporations					
Gen. Fund			5,300	5,300	13,100
Decouple Working Family Credit From Federal Earned Income Credit					
Gen. Fund			4,400	4,400	10,100
Misc. Individual & Corporate Income Tax Changes					
Gen. Fund			(1,127)	(1,127)	(3,060)
Treat Ready Mix Concrete Trucks as Exempt Capital Equipment & Eliminate Any Transportation Charge Deduction for Delivered Ready Mix					
Gen. Fund			(2,800)	(2,800)	(6,500)
Exempt Aquaculture & New Farm Equipment from Sales Tax					
Gen. Fund			1,740	1,740	14,960
Reduce Lawful Gambling Taxes 5%					
Gen. Fund			2,690	2,690	5,824
Misc. Sales and Excise Tax Changes					
Gen. Fund			7,714	7,714	13,251
Special Flood Aid					
Gen. Fund			10,000	10,000	8,200
MHFA Affordable Housing Investment Fund: low-income housing preservation					
Gen. Fund			10,000	10,000	20,000
Misc. Tax Reductions and Appropriations					
Gen. Fund			3,197	3,197	8,858
NET COST OF TAX BILL BEFORE FUND TRANSFERS					
Gen. Fund/Prop. Tax Reform Acct.	953,390	(902)	525,038	1,477,526	1,335,852
Transfers from Property Tax Reform Account to General Fund					
Gen. Fund			(512,027)		
Reschedule Temporary Insurance Gross Premiums Tax Cut					
Health Care Access Fund			16,991	16,991	(16,405)

CAPITAL IMPROVEMENTS APPROPRIATION SUMMARY

The capital improvements bill passed in 1998 was the largest in the history of the state. At an appropriation of just under \$1 billion, the 1998 bill exceeded the amount passed in 1996 of \$650 million by about \$350 million.

The bill focused on projects in three main areas, higher education, natural resources and economic development. The higher education portion was \$281 million, about 28% of the total. This included \$143 million for the Minnesota State Colleges and Universities (MNSCU) and \$138 million for the University of Minnesota. The amount for the University does not reflect an additional \$70 million the University has agreed to spend in lieu of the usual one-third debt service payment for state bonds. The appropriation for economic development includes money for a \$65 million loan for new hockey arena in St. Paul. There is also \$87 million to help Minneapolis expand the current convention center. This part of the bill also includes money for a number of civic centers around the state.

The one other unusual aspect of this year's capital improvements bill was the funding sources used. Unlike in previous bills where general fund money is only used for repair projects or for those where bonding cannot constitutionally be used, more than one-half of the projects will be funded through a general fund appropriation. This is about \$500 million, or more than one-quarter of the surplus.

The table shows the appropriation by major budget areas. These are areas defined in the capital improvements bill itself.

1998 Capital Improvements Bill Summary (\$ thousands)

	<i>Appropriation</i>
University of Minnesota	\$ 138,300
Minnesota State Colleges and Universities	143,080
Arts School	1,395
Children with Families and Learning	62,405
Faribault Academies	9,225
Public Service	130,251
Natural Resources	3,500
Office of Environmental Public Facilities Authority	44,050
Water and Soil Resource	19,800
Agriculture	500
Minnesota Zoo	1,750
Administration	46,250
Capital Area Arch. Board	9,544
Amateur Sports Commission	11,020
Military Affairs	1,230
Transportation	93,300
Human Services	19,975
Veterans Board	12,055
Corrections	14,185
Public Safety	2,230
Indian Affairs Council	1,700
Trade and Economic Development	225,680
Housing Finance Agency	6,000
Historical Society	13,110
	500
Bond Sale Expenses	(11,993)
Cancellations	
	999,042
Total	